

REPORT

BEGARDING THE POSSIBILITY OF INTRODUCING

LAND AND AGRICULTURAL BANKS

INTO THE

MADRAS PRESIDENCY.

VOLUME I.

MADRAS :
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1895.

PROCEEDINGS OF THE MADRAS GOVERNMENT.

PUBLIC DEPARTMENT.

ORDER—15th March 1892, No. 173, Public.

His Excellency the Governor in Council is pleased, under the provisions of section 98 (a) of the Civil Service Regulations, to place Mr. Frederick Augustus Nicholson on special duty for the purpose of enquiring into the possibility of introducing into this Presidency a system of Agricultural or other Land banks.

(True Extract.)

(Signed) J. F. PRICE,
Chief Secretary.

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ERRATA.

- Page 26, line 24, from bottom—
For "officers or banks", read "officers of banks".
- Page 38, line 12, from bottom—
For "peasants, own improvidence", read "peasants' own improvidence".
- Page 45, line 16, from top—
For "his report", read "this report".
- Page 67, line 8, from bottom—
For "foncurrent", read "concurrent".
- Page 110, last line—
For "2092 and 2113", read "2002 to 2113".
- Page 113, line 24, from bottom—
For "arranging from", read "averaging from".
- Page 118, line 12, from top—
Strike out the words "who all" at the end of the line.
- Page 121, line 37, from top—
For "amortixetted", read "amortized".
- Page 133, line 14, from bottom—
For "if it all", read "if at all".
- Page 260, line 2, from top—
For "liequidation", read "liquidation".
- Line 11, from top—
For "ocorce", read "coerce".
- Page 264, line 34, from bottom—
For "supply, though trained", read "supply, through trained".
- Page 280, line 26, from bottom—
For "a period not excoeding", read "a period exceeding".
- Page 288, line 25, from bottom—
For "leases", read "losses".
- Page 345, line 15, from top—
For "if frequently", read "It frequently".

PREFACE.

THE following report has been written to the order of the Madras Government as conveyed in G.O. dated 15th March 1892, His Excellency Lord Wenlock being desirous of assisting the organization of rural credit through Land and Agricultural banks in this Presidency, in view to the replacement of the individual money-lender and to the development of the economic condition of the country.

The delay in submitting the report is due to many causes, principally to the immensity and complexity of the subject, to the difficulty of ascertaining and then of obtaining sources of information, to the discontinuity thereby imposed when a half finished study had to be broken off till the receipt of further information, to the extreme difficulty arising from the incessant demands of a Collector's work, notwithstanding two periods of special duty. Until 1894 there was, practically, no English work even on the one subject of Popular banks, while the sources of detailed information are, even now, only in foreign languages; and it is believed that there is no existing work in English on the Land and Savings banks systems, or upon the credit systems and indebtedness of the landed proprietor, of the European continent. For the Madras Presidency statistics and information did not exist, and it is only through much enquiry and by the courtesy of numerous correspondents that information has been obtained. A list of the questions originally issued and of the correspondents to whom they were sent, will be found in the appendix.

Some explanation of the contents and method of this report is needed.

The report, with its appendices, is, of course, a compilation from numerous works and reports of Europe and America. A Madras civilian could hardly obtain a working knowledge of the variety of banks herein described, especially under the difficulties of distance, diversity of language, and the like. Hence it professes to be no more than a compilation so far as European matters are concerned. For this country, facts and opinions have been supplied by numerous correspondents and informants especially in the matter of the Nidhis, by the courtesy of the Courts and by the statistics of the Registration department which have been consulted through the aid of the present Inspector-General the Hon'ble Mr. S. Srinivasa Raghava Iyengar, C.I.E. But in so complicated a matter as the rural banking systems of Europe, a matter moreover on which no English treatises exist, save only a few blue books and Commercial reports and, in 1894, the work of Mr. Wolff on Popular banks, it would have been impossible for the writer to have obtained the necessary material, had not the first start been given him by the works and by the assistance of those already versed in the subject; they are too numerous to mention, but it is impossible for the writer to omit his thanks to M. Tisserand, Director of Agriculture for France, to Dr. Thiel in the same department in Berlin, to M. Louis Durand for the assistance afforded by his standard work on 'Le Crédit Agricole,' to M. Josseau, the learned author of the manual of the 'Crédit Foncier,' and to the numerous other gentlemen who have given their assistance both in this country and in Europe. Had the acknowledgments due to all authors

It was necessary to know what had been done in Europe, why it was done, and why any system had succeeded or failed. The result is the series of studies represented by the several chapters of Appendix I on European indebtedness and credit systems. Other appendices will follow; Appendix II will contain a translation of or excerpts from the banking and society legislation of Europe and America, and will, it is hoped, form a fairly complete English compendium of those laws; it will also embody translations of the model articles of the several classes of institutions and an index which the writer has not yet been able to prepare; a third appendix will, it is hoped, present manuals for the several classes of popular and savings banks, together with a much more detailed study of Madras systems of credit and indebtedness, though it would seem preferable that such manuals and enquiries should be undertaken by the Agricultural Department.

Appendix II will be issued very shortly, but it has been thought well not to delay further the main report merely in order to present the matter complete. It is, however, a matter of much regret to the writer that the model articles of the various European banks and the laws which govern them, could not be presented at the same time as the accompanying set of studies.

Those studies represent mainly the notes made during the progress of each study; they may contain much that may be thought unnecessary, but it has been judged advisable to print them as they stand, since the labour of compiling them was very considerable, and since it is possible that what now seems irrelevant may prove to be important. The chapters are consequently left as they are for the perusal of those who wish to know the general characteristics of the chief European systems, while the 'Bibliography' will assist those who desire further information. It is impossible to predict what systems and what forms of organized credit may obtain favour or take shape in Madras; hence the mass of material is left from which experts may select what seems likely to assist their endeavours. For instance, the suggestions of this report are chiefly concerned with the introduction of banking credit for the mass of small proprietors, since men of large or considerable properties can usually obtain credit on fair terms with existing banks, or should have sufficient business capacity to unite in capitalizing credit banks of their own without calling upon the State for aid. In fact at this moment (January 1895) a proposal has been made for the establishment of a Zemindars' Bank, and should this proposal be seriously taken up by the Landholders' Association, they will find in the chapters on Real Credit a fairly complete sketch of the methods of Europe, especially of the Mutual Land Banks of Prussia, and in Appendix II a translation of the laws affecting those and other banks. The proposals indeed of this report for banks in general will suit both large and small banks; see chapter on Joint Stock Banks in the draft bill.

The studies themselves are, of course, only sketches; they are in no sense manuals. The hand-book of the French 'Crédit Foncier,'—the institution which bears that name, not 'Crédit Foncier' or Real credit in the abstract—by M. Josseau, is a treatise in two thick volumes, and, even with the imperfect information at the writer's disposal, it is obvious that a treatise merely on Real Credit in Europe would be the work of years and require volumes; hence a study which is required to range over not merely Land banks, but over all those classes of rural thrift and credit included under the head of Agricultural banks, cannot but treat the subject less closely than is desirable. It is hoped to provide, gradually,

manuals with model forms and accounts for each class of banks; that is, to expand each study into a manual, and to provide with each, suggestions for this country; but that will be a work of years. The manual for the Italian Popular banks is a volume of above 550 closely printed octavo pages; a similar manual for this Presidency would be a work of great labour and should be of much value, but could, perhaps, only be written after some years of practical work.

The scheme of Appendix I—the real report—is as follows: a chapter on credit in general forms the first study, since a perusal of the Indian literature on the subject and the voluminous replies to questions framed for this report, show that the conditions and functions of rural credit have not been altogether appreciated. The postulates of credit, its applications and limitations are therefore briefly dealt with; the absolute necessity for ‘proximity’ is insisted on; only local banks can deal with small folk; the necessity that lenders shall be secure of the full and punctual return of their loans, and that the borrowers shall be safeguarded in their dealings with lenders, is equally maintained. But in this and in the following chapter on ‘indebtedness,’ it is especially sought to bring out the fact that the establishment of banks, great or small, is, *per se*, no remedy at all for rural indebtedness, and may indeed, seriously aggravate the difficulty; it is not mere facility or cheapness of credit that is desirable, but a safeguarded, educative credit; a credit, moreover, based not upon subventions from the State or upon any system not thoroughly businesslike in its principles, but based upon the thrift and prudence of associated members, whose savings and character attract, in the ordinary way of business, abundant deposits from the saving public; it is thrift and prudence, not charity or State aid, which must be the basis of all true credit, such as will benefit and develop, and not enervate and paralyze a nation. This credit is that which is being sought, and to a great extent successfully, in Europe.

The chapter on the indebtedness of the European peasant is introduced to show not merely that indebtedness is the common lot of agriculturists, especially of the smaller folk, but to prove that such indebtedness is not in itself the work of the usurer, though its mass may be increased, its miseries may be exacerbated, and its evil effect upon independence developed by his action, but of social conditions and characteristics, and even of the actual benefits and modes of progress which during the century have gradually developed in or been introduced into Europe; indebtedness cannot be got rid of—it may be increased—by substituting banks for money-lenders; no mere change in the machinery of credit can eliminate the difficulty. The countries where rural debt is most marked are those where cheap banking is almost universal, as in Switzerland and Norway, and this has been brought about not merely by seasonal stress, and by misfortune, but by the actual facility for credit, by the introduction of seemingly just laws as to inheritance, by the removal of feudal disabilities, by the wonderful development in communications of which this century has seen the introduction and of which it is justly proud.

Passing then to the methods and institutions by which Europe has endeavoured to solve the problem of indebtedness, credit has been displayed under the several heads of Real, Châtel and Personal. The first class of credit, viz., Land Banks, is dealt with in one chapter by countries, special prominence being given to the mutual system as exemplified in the German *Landschaften*, and to the *Crédit Foncier* of France as a Joint Stock Company of a quasi-public character. The next chapter deals with the same matter not by countries but by subjects. It will

be apparent from those chapters that the Land Banks of Europe are not organized for dealing or cannot succeed in dealing with the small folk; loans required by such people are too small, expenses are too great, and the profits too inconsiderable, to make the business possible. State Banks especially, are, except in the case of petty principalities or States, a failure as regards small land credit. Speaking generally, the only institutions which deal in very small mortgage credit are the Swiss Banks, all local, and the Building Societies of Great Britain and the United States of America. On this latter class of society, now beginning to be called Co-operative banks, a separate section is entered, not merely because of their ability to provide small mortgage credit upon the terms required by the postulates above mentioned, but because they are the prototypes of the Madras Nidhis or Loan Funds, which, in their way, have already achieved some success in this Presidency as Popular Banks.

The next chapter deals with what is called in Europe 'Le Crédit Agricole,' that is, all classes of credit for agriculturists other than real credit, including pawubroking and advances upon crops, bonds or bills on personal security, and the like. It will be seen that attempts have been made to supply this credit by special institutions and special laws, but that such have been a general failure; it does not seem possible to specialize agricultural credit and to treat it as a thing by itself; what is wanted is simply rural banking.

The subsequent chapter is one of the most important, as it deals with 'Popular Banks' under their several systems. These are generally co-operative, that is, the whole of the bank operations are conducted by the members and for the members; the society does not consist of a fixed number of transferable shares which may be transferred to and held by any one soever, but of a congeries of men all personally selected for admission to membership; the holding of a share does not make a man a member as in a joint stock society, but membership gives a right to and requires the holding of a share; the society is an aggregation of members not of shares. Moreover the borrowers are the members and the members only; the interests of the bank are bound up with its members, that is with its borrowers, and the result is not merely safety to the borrower, but great facility and cheapness of loans—since all profits return to members—coupled with a very distinct moral influence by the society over its individual components. These societies are described in some detail as they provide credit even for the smallest folk, but usually upon what in banking is technically termed 'character,' *i.e.*, on security based upon the general status, position and character of a borrower and his sureties; mortgages are little used by these societies which are specially adapted for what is known generally as 'agricultural credit,' that is the loans for the current needs of the agriculturist and for his working capital.

It is in this chapter that the Building Societies of England and the United States are noticed; the section on this subject should have been particularly full, since the Nidhis of this Presidency are obviously developments of the same system, while the methods of the Western Societies provide much useful matter for consideration in the East. Unfortunately the writer has not had time to re-write the first imperfect draft, especially as a brand-new law has just (1894) been passed on the subject in England. It has, however, been thought advisable not further to delay this first instalment of the report, but to present a revised chapter on the subject in the forthcoming Appendix II.

Following this chapter are studies on various special classes such as *Monts de Piété*, *Positos*, Agricultural Associations and the like. The *Positos* and *Monti Frumentarii* of Spain and Italy respectively, are especially worth study, as providing grain credit for the poorer cultivators. The Agricultural Associations are not only important in themselves, but are, in France, developing agricultural credit by means of special annexes; as at Poligny.

A further chapter deals with Savings Banks; this is entered not merely because a leading suggestion of this report is that personal thrift must be the basis of true credit, but because the Savings Banks of Europe and America are amongst the greatest Land Mortgage banks in the world. In England, France, and India the Savings Bank is one which accepts the petty deposits of the small folk, and, for the purpose of absolute safety, invests the whole of the deposits in the State Treasury. But in Germany, Austria, Italy and the United States, the Savings Banks have, within certain limits laid down by law, the free disposal of their funds; one of the permitted investments is first mortgages, and it is found by long experience that these are perfectly safe. In Prussia, for instance, above half of the deposits are invested in mortgages; this means above £90,000,000, and half of this immense sum is invested in rural mortgages. The study of these banks is most interesting, especially when, as in Italy, they are almost entirely worked gratuitously either through trustees (as in the English Trustee Savings Banks) or by public bodies, or by public or quasi-public institutions such as *Monti di Pietà*; the section on the great Milan Savings Bank is especially interesting.

It was intended to discuss somewhat fully the question of the registration of title, but it was found impossible, in a chapter of a report upon banks, to deal adequately with a subject of great intricacy and difficulty, which requires of itself years of study and research. Moreover, since it is believed that the desideratum for this Presidency is local village banks and not central banks, the importance of a complete system of registration is, in this connection, inconsiderable, since local banks are sufficiently acquainted with borrowers to dispense with searches in registration offices, and are usually able to prevent any fraud by local influence and knowledge. As regards encumbrances, a recent Government order has provided a system of indexes which will enable any bank to ascertain prior encumbrances with the minimum of difficulty and maximum of certainty. The question requires and deserves separate study.

From this sketch of European institutions and methods, the appendix proceeds to a review of Madras systems of credit and Madras indebtedness. The chief point for remark is that, with one exception, Madras rural credit is entirely provided by the individual money-lender; this money-lender, though essential in the absence of banks, as shown in the first chapter, is expensive and dangerous; not always dangerous, but always possibly dangerous. While fulfilling the condition of proximity he is not a safe source of credit, nor can he, dealing as he does with his own capital only with some borrowed additions, supply capital to any amount at any time for any period, nor can he usually receive it back by convenient instalments. Nor, since he is an individual, can he be trusted with personal powers of summary recovery, so that he does not enjoy the 'security,' which is a postulate of cheap and ready credit. Hence the money-lender régime must, as in all countries, be gradually replaced by that of the banks.

But indebtedness, while serious, must not be exaggerated. Observers, looking only at the worst cases, often in towns where the worst usury is practised, and perhaps knowing only local facts, are apt to take very gloomy views, whereas a larger induction from Presidency facts, and a comparative view of European facts, show that the Madras ryot is in no way in a hopeless condition. Many of the poorer or labourer-ryot class are in great and chronic embarrassment; so also the numerous class of labourers, servants, and the small-salaried classes generally; but the mass of ryots is not deeply indebted.* The mortgage debt especially is moderate, and does not, as it exists in any given year, *aggregate* one-half of the value of the annual crops. It is also certain that there is a considerable amount of actual coined wealth, in addition to the value of the soil, stock, crops and buildings, which a judicious banking system would bring into fruitful use, while it is equally certain that there is a great number of intelligent men, who habitually deal with communal and other matters involving many complications and requiring considerable ability, and with Government operations and calculations demanding considerable intelligence and knowledge; these with a large number of officials, retired and otherwise, are available for local banking operations.

That small banking associations are possible is shown by the one exception to the régime of the money-lender, viz., the 140 Loan Funds or Nidhis. Many of these are situated in the mofussil, and are entirely managed and financed by the people themselves, not merely in spite of the absence of State or other extraneous assistance, but notwithstanding positive legal difficulties, and notwithstanding the disability of officials, till of late, to take an active part in the administration of these societies. A chapter is entirely devoted to a description of these societies and their methods.

It follows, then, that if the principles of rural banking are made widely known, and are accepted by the more intelligent classes, and if the law and the executive will assist the development of societies by suggestion, by the removal of disabilities and obstacles, and by the grant of various privileges, there is every hope of a rapid and wide development of small local societies, chiefly co-operative, thoroughly in touch with their clientèle, independent of State aid, gathering in idle hoards and petty savings, providing facile, cheap, and above all safe and educative credit to their members, secure in the repayment of their loans, and exciting, in a high degree, those great national qualities of thrift, prudence, self and mutual help not merely in credit but in other directions, without which no nation can obtain a healthy and vigorous development.

The following chapter on 'Law,' therefore, deals largely with the necessary development of the law of societies or company law, in this country. Based upon a comparative study of those laws of Europe and America which deal with thrift, providence and credit especially as regards the poorer classes, it suggests various reforms in, and additions to, the laws of this country, showing that while the general company law of Europe is extremely thorough and complete, there is in every country a body of law outside the general company law, which deals solely with institutions of the above nature, such as Co-operative Societies and Banks, Building Societies or Co-operative Banks, Savings Banks, Benefit Societies, Loan Societies, Agricultural Associations and the like. This country alone is devoid of even the semblance of such a law, the only company law being that of 1882 and 1887, based upon the English law of trading companies, which, even in England, is not applicable

to institutions for thrift, providence and co-operation. Most of the suggestions of this chapter are compiled into a draft bill, not indeed intended as a bill for legal purposes, but to throw into crisp and definite shape the several suggestions and recommendations derived from, and made in, the course of the previous studies. The bill provides a separate chapter for ordinary Joint Stock Banks for rural credit; this contains certain general administrative provisions, suggests special methods of financing the banks, and grants various privileges, and, as a corollary and in imitation of the universal provisions of European and American systems, provides a certain amount of State and other supervision, chiefly by means of a Commissioner for rural credit who should combine the duties and powers of the English Registrar of Friendly, &c., Societies, of an American Commissioner of Savings and other banks, and of the Italian Director of Agriculture, Trade, and Industry, who, in Italy, is expressly charged with the supervision of thrift, credit, and popular beneficent and prudential association. It is believed that not a single provision is novel or wholly so; there is a parallel for every item throughout the bill. The next chapter of the bill deals especially with Co-operative societies and banks, and while applying most of the provisions of the previous chapter, grants additional and important privileges with the avowed object of promoting co-operative societies of the German and Italian type. The subsequent chapters of the bill deal with Savings Banks, Agricultural Associations, and Land Improvement Banks.

It is to be expressly noted that in all countries where matters of popular thrift, credit and self-help are in consideration, State supervision is invariable; nowhere more so than in England and America. In this latter country, indeed, the laws of every State provide extraordinary supervision over every class of bank, including all trading banks. It is not, then, a matter of surprise that some such provision should be entered as one of the main suggestions of this report.

Still less—the contents of the appendix being considered—is it a matter of surprise that Co-operative Banks should be especially suggested as the desideratum of this country; the studies of this report will have been written in vain if this idea does not obtain general acceptance; several years of study given to this subject, without previous predilections, have at least forced this idea upon the writer. Nevertheless it is not one system that is to be sought; there is room for all the various classes of bank; only it is believed that in no class save the co-operative, will be found united the several desiderata of a safe and sanative rural credit.

¶ The pith of the whole report is, in fact, contained in the following propositions.

All farmers, especially small proprietors, must of necessity and will borrow at one time or other; the mass borrow habitually.

Such borrowings are seldom for land improvements, but are the result of laws, customs, surroundings, social characteristics, seasonal difficulties, isolation from open markets, and the like.

Hence the radical remedy for indebtedness is not in the organization of credit, but in the removal from the farmer of all unnecessary disabilities, and in the promotion of all possible improvements whether in customs, in social characteristics, in executive demands and systems, in the opening of markets, in the spread of sound education, in the development of agricultural and industrial methods, and so forth.

Nevertheless the organization of credit, which is the subject of the present enquiry, is, in itself, an important palliative, since the cost of the necessary capital can thereby be largely reduced, so that the farmer may borrow without hopeless and life-long embarrassment. Particular modes of organization not only effect this object, but are introductory of other essential developments.

Generally speaking, banks are not available for small farmers, and the private money-lender is the only available source of credit. This source is rudimentary and defective in method and in its supply of credit, while it is open to many serious objections, amongst which is undue dearness of credit; in this Presidency from 9 to 18 per cent. are ordinary rates, 12 per cent. being 'dharma vatti' or equitable interest.

When interest on borrowed money is at 12 to 18 per cent., the profits, even of land improvements, must be swallowed up by the interest; *à fortiori*, credit at 12 to 18 per cent. for purposes other than improvements must reduce the farmer to poverty and keep him a dependent pauper.

If interest can be reduced to, say, 6 per cent., the burden of indebtedness would be halved, improvements would be profitable, and debt no longer mean pauperization.

But the mere reduction of interest to 6 per cent. would not mean necessarily or generally a reduction of indebtedness; rather, as rural economic history teaches, would it mean a greater mass of debt; borrowings would be larger because of the cheapness of money; the annual cost would remain the same, but the volume would be doubled.

It is, then, essential to discover methods of credit which, while supplying capital at half of present rates, will equally tend to keep the borrowing down; it is believed and urged that Co-operative Credit societies or Village banks will not only achieve or tend to achieve these objects, but will equally develop many desirable and even essential characteristics such as those of thrift, prudence, self and mutual help, will initiate those forms of co-operation which tend to assure to each man the full value of his labour, and those stimulating ideas of progress so greatly needed by a conservative and isolated peasantry; such societies will, as in Germany and Italy, "everywhere form centres of economic and moral progress (*De Lavelleye*)."

It may be asked why, since report was required regarding both land and agricultural banks, direct suggestion has only been made for village banks. It is replied, that land banks, *i.e.*, banks devoted solely or chiefly to land mortgage credit, do not appear to be either suited to or needed by the ryots of the Presidency. The clientèle of the banks will consist of very small folk requiring very small loans; no land bank can deal in such small business, for the cost of enquiries, the risk of bad business, the worthlessness of petty parcels of land to a central bank, prevent a land bank from dealing with such folk, as the experience of Europe amply shows. It is true that there are numerous mortgages in this country, but half of these average only Rs. 44 apiece, and most of these would be wholly unnecessary if ordinary credit were properly organized through village banks; a mortgage deed with its stamp duty, registration charges, witnesses batta, &c., for a loan of Rs. 25 to Rs. 50 for six months or a year, is an absurdity, yet is an absurd fact for more than 50,000 registered mortgages annually. The vast bulk of agricultural and rural credit can and should be granted by village banks.

[It may be argued that the land requires improvements, that the ryots want capital to sink in such improvements, and that land banks are necessary for that purpose. It is replied that though the land may need permanent improvements, that is not the primary aim or desire of the ryots; his first desire and his first need are to get rid of debt and to keep out of debt, to borrow cheaply for current needs and to repay conveniently. That is the work of village banks, and it is only when this vast business is fairly in hand and in a fair way of success, that the ryot will turn towards permanent improvements, which are but a burden to him if he cannot keep their proceeds for himself. Land improvement is slowest and last in development; the land improvement banks do scarcely any business in Germany where the mortgage and other debt is enormous. The improvements in agriculture at which the ryot first aims are those which he can effect by a better general condition of his finances, and this is the work of village banks as shown by the operations of the Raiffeisen and Wollemborg banks.]

The final chapter deals with such recommendations as the writer has been able to make in addition to or in explanation of the entries in the chapter on "Law" and in the draft bill. Certain special items in the development of banks having been dealt with, proposals are made regarding the management of village banks, their organization, functions and methods; this part of the chapter is, in fact, an explanation of the reasons for the various rules of the model articles which are contained in its final section. These articles are merely tentative; it is impossible to predict the exact form which they will take; they are mere suggestions based upon the experience of the European systems. No attempt has been made to propound articles for larger banks; the business men who may desire to start such banks, will do so with facility when it has been decided whether the privileges and methods proposed in the draft bill are or are not practicable. Model articles and recommendations for Savings banks proper, and for Agricultural Associations will follow in another appendix.

It is, indeed, difficult to work out in detail in advance any distinct scheme; it is impossible to say what methods will best suit the genius of the people. But if it is difficult to propose in advance the full working details of a single system, it is absolutely impossible to propose a complete scheme for the general establishment of banks throughout the Presidency. Correspondents and others appear to expect some all-embracing scheme by which banks would be made to spring up throughout the land.

That is precisely what seems impossible; no such thing has ever succeeded in Europe or elsewhere; hundreds of cut and dry schemes have been proposed, but not one has ever succeeded, except perhaps the Land bank system of Prussia, which with extraordinary prescience, Frederick the Great founded by simple fiat. Yet even these grew but slowly; they were not for the masses but only for a class, that of the nobles; they were very few in number and slow of growth, and they required a great deal of attention and modification in practical working. Every one of the systems which have dealt successfully with popular savings, help, and credit, has grown out of the smallest beginnings by a slow and painful development; the Schulze-Delitzsch, quickest of growth, took many years of solid, incessant work,—not merely writing or talking—before its principles were fully developed or finally accepted; the Raiffeisen system, dealing with the rustics, was of far slower growth; the Savings Banks system and the great Benefit, Friendly, Co-operative

and Building Societies systems of England and the United States of America, began in the smallest of ways and slowly worked out their problems in actual practice; the problem seemed insoluble, yet—*solvitur ambulando*. No man could, especially in a country where banking credit is a thing absolutely unknown, fashion out a general scheme; even if worked out, it could only be imposed and would not of itself grow into fact; a report can describe and suggest, but it is for the people themselves to work the suggestions into practical shape by experiment, since it is not expected that the State will interfere directly either in initiating or administering such institutions. Hence this report has described existing facts and methods both in Europe and in this Presidency, and in the chapter of recommendations, in that on "Law," and in the draft bill will be found the general proposals for a variety of banking systems. It is impossible to foresee the system or systems of the future, but the recommendations made provide everything which has suggested itself to the writer for the development of banks. There is no real obstacle even at this moment to such development; the law and the executive if not favouring, are not in any way hostile; quite otherwise; but if the suggestions of the draft bill are accepted and properly drafted, with all necessary amendments and modifications, into a working law, they will suggest and assist the development of banks in a very marked degree. This country is essentially imitative and adoptive; so far as has been possible, the facts of other countries have been given, and suggestions made; it remains for those who believe in banks, and in the reform of rural credit, who are seriously interested in the economic and moral advancement of the ryots, and who dwell amongst and are of the people, to obtain the passing of some such law as has been sketched, and to sit down and develop by actual practice the system or systems of the future. Possibly one of such systems will be found in a modification of the existing Nidhi, which at present is not quite suitable for agricultural needs, but can be easily adapted; indeed it cannot be doubted but that had a favourable law and due supervision been in existence during the last twenty years, these Nidhis would have already attained a tenfold development. The future of rural credit lies with those who being of the people, live among the people, and yet by their intelligence, prescience and energy, are above the people; such were the reformers of Germany and Italy who have introduced the great systems of popular credit in those countries, and, taking the word 'Raiffeisen' not as indicative of a particular person or system, but of the zeal, energy, patience and continuous devotion so thoroughly exemplified in that great reformer, and of the spirit of co-operation, thrift, self and mutual help so thoroughly developed in the above and similar systems, the whole of this report might be summed up in the two words 'Find Raiffeisen.'

ANANTAPUR,
1895.

F. A. NICHOLSON.

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REPORT.

REPORT is required regarding the possibility of introducing Land and Agricultural Banks in the Madras Presidency.

2. The problem requires to be stated exactly, the words 'possibility,' 'introducing,' 'Land bank,' 'Agricultural bank' needing explanation. It is also to be noted that the problem is for the Madras Presidency alone.

(a) The word used is *possibility*, not advisability or necessity; it is assumed in the Order that banks are necessary; the question propounded is simply whether their establishment is feasible. Hence this study similarly assumes the desirability of, and even necessity for banks.

(b) It is the possibility 'of introducing' banks on which report is required. The words have been generally taken by correspondents and the public as meaning or connoting the idea of a State foundation. That is evidently not the true meaning. The order contemplates an inquiry as to whether the establishment of banks is practicable; the words are used impersonally (*peut on établir, &c.*). Hence this study is not confined to the narrow question of State or even State aided banks, but extends to all classes of banks falling within the required limits; it will consider whether the State can or should establish, aid, or merely encourage banks, and principally, whether such banks cannot be established by the people, whether by individuals, by companies or societies, or by public bodies.

(c) What are those limits? What in other words is a 'Land bank,' and an 'Agricultural bank'?

A Land bank is one which lends on land or immoveables, *i.e.*, on mortgage, not necessarily for land; it is expressed more precisely in European languages as Banque Foncier or Hypothécaire, Boden-kredit Institute. The proceeds of mortgages may be used as the borrower pleases, *e.g.*, in paying off heirs, in portioning younger sons, &c. There are, however, special Land banks intended for Land improvement only, such as the Landeskulturrentenbanken of Germany; these are rare and exceptional. But a Land bank proper seldom lends except upon immovable property, and for lengthy terms, and therefore does not meet the general wants of agriculturists. A loan from a Land bank is generally a serious matter undertaken for a serious purpose, and not for the minor and ordinary transactions of rural life; for these purposes a different class of banks is required commonly known as Agricultural banks.

An 'Agricultural' bank is difficult to define, but definition is necessary to correct mistaken ideas. It is not necessarily a bank for the development of agriculture, except indirectly by the development of agriculturists; it is rather an Agriculturists bank, *i.e.*, a bank intended for the cultivating classes, from which they can borrow for all their various needs, whether for the improvement of land, the erection of a house or farm buildings, the purchase of stock, the paying off of prior debts, the maintenance of the family, &c. But banks which can do this can also lend for corresponding purposes to non-agriculturists, such as the village or town artisans, shopkeepers, small contractors, &c. The establishment of rural industries is very important, and if a bank can serve both cultivating and other industrial classes without difficulty, it should do so. The word agricultural is therefore unnecessarily restricted and even incorrect. There is in fact no such thing in the world as an Agricultural bank, pure and simple; even the Raiffeisen and Wollemborg banks which approach most nearly to the definition, are as open to all industrials, shopkeepers, &c., as to cultivators; it is not the *status*, but the character of the individual which determines membership and loans.

Again, it is obvious that the Government order does not concern itself with urban or commercial credit; it is the credit required by persons owning land and practising or connected with agriculture and other rural industries. The only town where such rural industries are of little or no importance, and where Commercial banking is supreme, is the Presidency town, to which consequently this report will not apply. All mofussil towns, however, are intimately connected with agriculture and are largely rural.

What is really wanted then is the organization of credit outside the Presidency town; for such organization it is not certain sharply defined or carefully restricted banks that are needed, but banks of various classes, each one of which may serve the agricultural classes in their several needs, and yet include other industries as well. For the purpose then, of this study 'Land and Agricultural banks' will be taken to mean (Mofussil banks or Rural credit,) and the banks to be considered will fall under several necessary heads, viz., Land Mortgage banks, Land Improvement banks, Building societies (so called), Monts de Piété, Popular banks, Loan societies.

3. In Europe the several classes of Rural credit bank fall under the several classes of credit, which throughout Europe is divided into Real Credit (Crédit Foncier or immobilier) and Crédit agricole, the latter being a term technically used to mean all credit not real, and includes chattel credit or pledge of moveables, and personal credit, or credit based on status, character, general position and means, suretyship, &c. Under this definition the first three classes of bank fall under Real credit, the fourth under Chattel credit, and the others mainly under Personal credit. The Madras Nidhi or Loan Fund, is however an institution which by its rules grants every class of credit; but in practice, each bank according to locality, deals principally in either the first or third class of credit, the second class being equally common to all. To the above must be added Savings banks, which, in Continental Europe and in the United States, are banks which place their funds to enormous amounts in first mortgages, in loans and credit banks proper, and in other credit transactions.

The primary object then of this report is to consider whether it is possible for mofussil credit to develop in an organized form, i.e., in any or all of the various classes of banks above mentioned; if so, upon what principles, by what methods, and under what auspices.

4. It is, however, obvious that as all capital is derived from savings, and as all credit should be based on thrift and prudence, the stimulation of thrift and prudence is a necessary antecedent to the grant of credit. It is emphatically *not* the mere outpouring of cheap capital that is required, *not* the mere grant of cheap and facile credit to classes unprepared for the boon: what is wanted is the promotion of facilities for saving, the encouragement of banking deposits, the inculcation of the true objects, uses, and limits of credit; in other words the development of the essential national virtues of thrift, foresight, and self-help, through institutions organized for those ends. Hence the object of this study is, necessarily, not mere rural credit-banking, but the promotion and development of all institutions which, while furthering useful credit, base that credit largely, perhaps chiefly, on previous thrift, and are thus able to exercise over their members a beneficent influence in the direction of self-help; still more specially those which, being based on the principles of co-operation, bring the isolated units of society into association, and, by association, teach the benefit and virtue of mutual assistance in thrift and in credit, in combating improvidence within and usury without, in developing industry and in assuring to men the full results of their industry, in stimulating men to new ideas of life whether economic, social or moral.

5. *Credit—Universal necessity for Rural credit.*—The history of rural economy, alike in Europe, America and India, has no lesson more distinct than this, that agriculturists must and will borrow. This necessity is due to the fact that an agriculturist's capital is locked up in his land and stock, and must be temporarily mobilized; hence credit is not necessarily objectionable, nor is borrowing necessarily a sign of weakness. But such borrowing may be abused, and indebtedness may be a symptom and a cause of danger, if the conditions of credit are unsound or defective, if borrowing is not a mere temporary, productive mobilization of capital, but the result of ignorance, improvidence, recklessness, misgovernment, social defects, or even social arrangements such as the laws and customs of inheritance. Credit is a necessity, and borrowing and indebtedness are useful or dangerous in proportion not merely to the use made of the sums borrowed, but in proportion as they are the result of a prudential foresight, or of necessity extraneous to the demands of agriculture.

As a matter of fact the agricultural classes all over the world are in a state of extreme indebtedness, due very largely to causes outside of the demands of agriculture, such as to poverty, ignorance, carelessness, the laws of inheritance, foreign competition, seasonal disasters and epidemic diseases, and the demands of usury; this indebtedness is recognized in Europe as a position of danger, and every country is seeking its remedy, usually in the direction of organized credit. While recognizing, however, the necessity for organizing and cheapening credit, it is obvious that, since indebtedness is not due merely to the action of the usurer, no mere change in the machinery of credit can of itself effect a radical cure; it can, *per se*, only palliate the symptoms, or retard the catastrophe.

6. *The conditions of credit.*—The conditions of credit may be summed up as follows: absolute *proximity* of lender and borrower; complete *security* to the lender as regards the title of the property offered, its freedom from prior encumbrances, the recovery of his capital and interest at due date, in convenient amounts, with facilities for enforcing such recovery in case of arrears; thorough *safety* and *facility* to the borrower, in his ability to obtain cheap loans, at any time, to an amount proportionate to the security he can offer, and upon terms which will be so equitable in themselves, so convenient as regards repayment, so free from all risk of deliberate entanglement, so based upon published rule, so devoid of any tendency to discount necessity or urgency otherwise than by an equitable insurance, that he can calculate on reaping the full fruits of his prudence, and find, in credit, a powerful auxiliary to his productive powers and stability. In particular, the terms of repayment must be such that he can replace the loan from the profits of the transaction for which it was obtained; an improvement to land must be repayable by instalments over a long series of years; a purchase of stock must be similarly repayable over a shorter series; advances upon crops or for maintenance may be repayable in lump or by instalments according to convenience. It is axiomatic that loans sunk in improvements or enterprises in which the returns are gradual, shall not be repayable except by instalments over a period proportionate to the nature of the enterprise.

Judged by these postulates the régime of the individual money lender is wholly defective; he satisfies, indeed, the condition of proximity, but it is impossible for him, trading as he does upon his private capital supplemented merely by occasional borrowings, to satisfy the demands for loans at any time and to any amount; he has no rules save those of his own conscience, and they are variable at pleasure; he is but too prone—it is the imperfection of human nature—to exact terms high in proportion to the urgency of the borrower's need, and not in proportion to the security offered; his accounts, if kept at all, are just what he chooses to write and no others, and are subject to no check or audit: he is apt to be swayed by greed whether of money, land or power; he cannot consent to lock up his capital for a lengthy series of years, or to receive it back in infinitesimal dribbles, indistinguishable from the interest with which they are paid. On the other hand, since it is impossible to trust the individual money lender with the powers of distraint or other summary recovery, he is put to considerable expense, delay, loss and fraud in the recovery of his loans, a loss which he recoups with a handsome increment from his clients, so that the punctual and honorable borrower pays for the offences of the defaulter.

It is, then, certain that the substitution of organized credit for that of the money lender is a necessary development of civilization; the individual system is only an elementary stage which must be eventually passed as general wealth, order, business confidence, and habits of association develop. The questions for consideration are the direction in which such credit shall develop, the means by which it can be encouraged, the modes in which it will work, and the effects which it can be made to produce upon the nation.

7. *The functions of true credit.*—In the present study it would be out of place to discuss the remedies for the ill plight of agriculture other than that of the organization of credit; it is permissible merely to point to the lessons of history as teaching the unexpected and indeterminable difficulties of the social problem, even as regards agriculture. Liberty was granted to the feudal *quasi-serf* by the admirable legislation of Von Stein and Hardenberg, with liberty of action as

regards the land; the unforeseen result is the existing mortgage debt of about £500,000,000 in Prussia alone. Equality was the revolutionary demand, and equal rights of inheritance a natural and just corollary; again the result has been the overwhelming indebtedness of the peasant and the infinite *morcellement* of the land even in industrial Europe. The problems threatening Indian agriculture are precisely the same in nature, though not yet in degree. Human nature is everywhere the same, and an uneducated nation largely composed of isolated, ignorant units, suddenly endowed with new rights and new values, suddenly placed under the régime of complete individual liberty of action, will invariably pledge those rights and those values, till it is found that it is only the form and not the fact of servitude and dependence, that has been altered.)

When, therefore, we are considering the poverty and indebtedness of the ryot and suggestions for his relief, it is idle, even mischievous, to fasten attention on one cause or set of causes, and equally idle to insist each upon his own special remedy as the one panacea for rural difficulties. The eradication not of indebtedness but of undue indebtedness, can only be effected by the slow, persistent, simultaneous action of a diversity of active remedies, the nature of which is partly indicated above, but necessarily differs for each community.)

But the present study is expressly confined to the remedy found in the organization of credit, a remedy, however, of almost unbounded potentialities provided that it is so prepared as to contain the alterative and tonic elements of national vigour. The mere supply of cheap capital *ab extra* is no sufficient remedy; it would probably intensify the difficulty by increasing the load of debt; even the supply of such capital by the 'organization of credit,' *i.e.*, by the establishment of banks, is inadequate as a radical means of relief.

It is not merely cheap and facile credit that is required; it is a credit which must indeed be cheap, and facile in that it shall be ever at hand, but it must be credit which shall only be so obtainable that the act and effort of obtaining it shall educate, discipline and guide the borrower; it should be granted only to those who have learned to think, to plan, to save; the method of providing it must teach the lessons of self and mutual help, and suggest the extension of those lessons to matters outside of mere credit; it must be safe not merely in eliminating the dangers of usury, but in being controlled, heedful, and productive.)

Hence, while studying credit and preparing for its organization, the object to be borne in mind is not the introduction merely of cheap capital or of banking credit, but of that system which shall most readily and thoroughly develop essential national qualities; those systems of banking are to be preferred which tend in themselves to this result, and the efforts of the State whether in its legislative or in its executive capacity, should be directed towards the promotion of such systems. Not joint stock banks merely, still less State banks, or banks financed by the State for the mere issue of capital, but Mutual Credit Unions, are the desideratum; co-operative societies where the isolated learn the value and powers of association, where the ignorant are taught the lessons of business, the reckless learn heedfulness, thrift and prudence, the idle and intemperate return to industry and sobriety; where the prudent, the sober, the skilful, the well-to-do unite with the poorer and weaker brethren in an association of mutual help and insensible self-development.

Poverty and indebtedness may not disappear even when such systems attain full vigour and extension, but the student not of mere economics, but of national character and development cannot but believe that a nation in which such institutions are matters of course in every village, will be in the way of development as a nation of temperate, self-reliant, independent yet united men. This is no dream of Utopia, for systems, still in their infancy even though their societies are numbered by thousands, are working on these lines, with the results which may be studied under the head of 'Popular banks' and 'Credit unions' in the first appendix.

It is unnecessary to dwell here in detail on the need for thrift; it is self-evident, especially in these days of provident institutions. The subject will necessarily find place in various parts of this report, and its power and institutions are discussed *passim* in the several appended studies, especially in the chapter on 'Popular banks,' as being associations which develop not merely thrift, but other essential national qualities; these will also come into prominence later on in this report.

{There is, however, room in India as in the West, for many classes of banks.} the joint stock bank is of value in its command of resources, and in its skilled management; the co-operative union is a desideratum for every village; the Mont de Piété, probably as a branch of some other institution, is particularly needed in a country where savings are invested in jewellery; the Savings bank whether as a separate entity, primarily for the receipt of deposits, and secondarily as an investor of those deposits in safe loans, the Agricultural Association with a credit annex, the Land and Land Improvement bank for the larger estates and enterprises, the village clubs for the purchase and supply of stock, the village granary or Posito, storing surplus grain at harvest and lending it out in the cultivation season, will all find place and work in a duly organized system of credit; it is not co-operative unions alone that are suggested; every class of institution affording facile, cheap, and safe credit is to be encouraged. But it is believed and urged that in the co-operative system lies the larger hope for the development of rural society and industry.

EUROPE.

8. A study of the conditions and systems of Europe will clear ideas and facilitate proposals for Madras, since the problems of rural credit in the countries of the West are not dissimilar from those of the East, while their solution has been laboured at in theory, but above all in practice, for more than fifty years.

9. *Condition of the people.*—{The people to be dealt with in the matter of rural credit are the landholding, artisan, small trading, and labouring classes; not the urban folk, the merchants, professional men, manufacturers and other skilled industrials.} Now the conditions of the rural classes, especially 50 years ago when rural banking was first attempted for the masses, were not and even now are not of that advanced character which is associated with the European nations in their commercial, industrial, educational, literary and political aspects. {The masses of French, German and Italian peasantry were, and to a great extent still are, ignorant, suspicious, conservative, isolated and poor; holding land in small and diffused patches; exploited by usurers; hide-bound by custom; incapable of associated effort; unable to comprehend and unwilling to adopt new methods however useful, new improvements however obvious; the testimony of the reporters on this point is unanimous.} The description of the peasantry of the Rhine Provinces, of Italy, of the interior of France as given by their own, as well as by foreign observers, shows that, as regards rural banking, the prospects of the masses in the countries named were little if at all better than in this Presidency at the present day. For English readers, the pages of Mr. H. W. Wolff ('People's Banks') are available, as well as various works written in a less impartial spirit.

At the same time there is a large number of landholders of a totally different type, viz., the nobles or squirearchy whether of Germany or Italy or the large landholders of France. These latter classes, holding wide estates, dwelling largely in the towns, liberally educated, and sharing in the demands and tastes of modern civilized life whether social or political, demanded and were able to obtain a cheaper credit than the struggling masses; they were able to combine and did combine in forming mutual land associations (Prussia) or through their persistent clamour for cheap mortgage credit induced the formation or encouragement of Land banks such as the Crédit Foncier of France and the Land Banks of Italy, or the Bodenkredit Anstalt of Hungary; they alone with the medium landholders, form the clientèle of these banks, and it is they alone who have profited by them. But the masses of the small holders and tenants, the backbone it may be, but not the brain of the nation, had no such resort; they were unaware of the power of association, unknown to and ignorant of the banks, while their petty farms or leases gave no desirable security to the urban or Land banks which served the higher ranks.

But for all classes, at least in the middle of the century, the conditions affecting association and credit were by no means favourable, except for the 'noble' landholders of Prussia for whom Land banks had long existed; communications were but moderate, education poor and even backward as in France and Italy, liberty of association was to a great extent denied or shackled; the press, especially for the masses and for rural matters, had attained no great development; the

money lender and usurious loans were the only resource of the masses of landholders, artisans and small tradespeople. It is necessary to understand this clearly, and to dismiss the supposition that the rural banking idea found at once a suitable *nidus* and a favourable environment in Europe, in which, of late years, it has so wonderfully developed; on the contrary, the idea long lay dormant, and it was due to the persistent and enthusiastic effort of individuals in cultivating the environment and in ameliorating its conditions, that success was finally won.

The indebtedness of the rural population of continental Europe is too large and difficult a subject for incidental treatment, and has been merely touched upon in a chapter in the first Appendix. Suffice it here to say that not only is the amount of rural indebtedness enormous, but that its conditions are, for the greater portion, excessively onerous. The mere *mortgage* debt of rural Prussia is said (Commercial 3 of 1894) to be £500,000,000 for a population of 30,000,000; of canton Berne £16,000,000, for a population of 536,000; of Norway £38,000,000 for a population of 2,000,000: in the case of Berne and Norway the debt includes urban debt. To these sums must be added an enormous amount of non-mortgage debts and of advances against crops. The rates of interest are from heavy to usurious; M. Durand (France) found 10 per cent., the usual rate in his neighbourhood for the medium and better class of borrowers; in Italy it is far higher for the mass of the cultivators; even in the United States the recent census shows 7·6 per cent. as the average rate on mortgages in certain great states: in Germany rural usury is considered one of the most serious of social dangers.

10. *Clientèle*.—No general statistics are available for the non-agricultural classes who largely join the 'Popular banks' and 'Building societies' of Europe; they are generally the wage-earning classes, the small salaried officials, and the small trading classes, all without special capital and dependent upon 'character' for their credit, which, as shown in the reports, was previously granted only on the most usurious terms. As regards the landowning classes the following facts are noteworthy, France and Germany being taken as instances, though not as types, of European land holding.

In France about 85 per cent. of the cultivators hold in farms below 25 acres exactly 25 per cent. of the cultivated area; in Germany 87 per cent. hold, in farms below 25 acres, 28 per cent. of the area. It will be seen, then, that in France and Germany there is a considerable percentage, viz., 15 and 13 per cent., respectively, who hold in medium and large farms about three-fourths of the area.

It results then that while a considerable number of landholders with a very large share of the land are probably able to obtain credit without much difficulty, the mass of landholders are wholly unable to obtain the aid of the ordinary banks; on the one hand they are ignorant and suspicious of the methods of banks, on the other the banks refuse the individually small business which alone could be offered them, since the expenses and risks of such business are not worth the trouble. Hence, while the large and medium landholders have founded or resort to the land and other banks, the small folk have universally found themselves without banking credit, and it is only of late years, viz., since 1850, or rather, to any appreciable extent, since 1860-70, that special banks have been founded in Germany, Austria, and Italy, for and by these classes; in France such banks do not even yet exist. Hence, in considering the subject of credit in Europe, it is necessary to remember that the *clientèle* of the several banks is sharply divided; the Land banks are for the large and most of the medium holders, but not for the small folk holding below 25 acres: on the other hand the popular banks and loan societies are for the small folk and not for the well-to-do in general; practically, mortgage credit for the Continental small holders is only obtained from the private lender or from the Savings banks. Similarly, the Land Improvement and Land Mortgage Companies of England deal with the large owners, while the Building societies are the mortgage banks of the small folk. The importance of this will be seen when proposals for Madras are considered; it will then be seen that in this Presidency nearly all landholders are of the small or lower middle class, and that there is no squirearchy, no groups of great landholders, except the zemindars and mittadars, who would form the *clientèle* of land banks proper, or whose individual dealings would be of such importance that large banks could afford to deal with them; the Madras business will be that of petty landholders.

11. *Classification of Credit.*—Credit is classified under three heads : Real, Chattel and Personal, corresponding to the three divisions of capital, viz., land, goods and 'character.' The chief institutions for these three classes are respectively : (1) the Land Banks of Germany, Austria and France, with the Building Societies of England and America ; (2) the Monts de Piété of Europe ; and (3) the Popular Banks and Credit Unions of Germany and Italy. In the West it is generally found that banks are established for and largely confine themselves to a single class of credit ; the *Landschaften* and 'Crédit Foncier' deal solely in Real credit ; the Mont de Piété is a mere pawn-broking institution, the bill of sale or pledge without delivery being almost unknown in Latin Europe, owing to the state of the law ; the Popular Bank or Union which is entirely co-operative, deals chiefly in credit based on 'character,' i.e., on personal bonds with personal sureties. The English Building Society, which is the original of the Madras Nidhi, almost confines itself to Real credit, while the Madras institution deals or attempts to deal with every class. Each class of bank has been dealt with in detail in the first appendix, to which readers are referred for the history, management and results of the several institutions. The lessons to be learnt from each class will be briefly summarized, some of them having already been indicated in the preceding paragraphs. The following are the banks to be mentioned : (1) Land banks proper ; (2) special Land banks such as the Rent charge banks of Prussia and the Peasants' bank of Russia ; (3) Land Improvement banks ; (4) Building Societies ; (5) Agricultural banks (*Sociétés du Crédit agricole*) ; (6) Monts de Piété ; (7) *Positos* or *Monti Frumentarii* ; (8) Popular banks of various types ; (9) Savings banks ; and (10) Agricultural Associations with Credit annexes.

12. *Land Banks.*—Land banks proper established as such, may be State, Mutual or Joint Stock. State banks are of no importance or success, except in petty principalities (Germany) where the administration is conducted by the ordinary officers of Government and the area and population are insignificant, or where the bank is able to use the communal organization (Switzerland) ; in all cases success is due to proximity, the areas being often less than that of a Madras taluk, and to the ability to utilize existing machinery without cost to the bank. No great State has found it possible, or has even attempted to supply ordinary mortgage credit to its peasantry ; the financial difficulties, the cost of inquiry and supervision, the risks of loss, the elaborate and rigid rules requisite to minimize loss, the gigantic nature of the task and of the establishment required, have entirely ruled out this mode of real credit.

Mutual Land banks are typified by the Prussian *Landschaften* or the *Bodenkredit Anstalt* of Hungary. The Prussian banks are of ancient origin, dating from 1770, and have neither capital, shares nor dividends ; all members share in the liability which is unlimited, but there is, practically, no risk. They are to some extent privileged, since they were erected by the fiat of authority ; the privileges are chiefly those relating to their debentures and to the recovery of their loans. All members are bound, under heavy penalty, to share whenever called upon, in the duties of the bank, even of the most difficult and delicate nature, while the honoraria are of the slightest. These banks are solely financed by debentures ; they have no share capital and accept no deposits ; their debentures are issued only in correspondence with loans, and they are paid off every half-year to the full value of the aggregate of the sinking fund instalments. Their debentures are placed to the amount of about £81,000,000 on the public market, bear interest at 3½ or 4 per cent., are for very small amounts and are absolutely safe ; hence the difficulty of financing the banks disappears, since the debentures are eagerly taken up by the public. There being neither share capital nor dividends, the whole profits go to the borrowers by the reduction of the cost of loans, nor is there the slightest object in taking risky business for the sake of gain, or in demanding—if it were possible—high rates of interest. The interests of the borrower are the sole interests of the bank. All loans are for long periods and are repayable solely by half-yearly instalments which include with the interest a portion of the principal. The old banks do not deal with the peasantry, but those founded subsequent to 1850 accept them as members. But neither the old nor the new are able to grant loans to the small folk, i.e., to those holding below 18 or

20 acres, who form by far the greater number of proprietors; though each bank possesses several branches and operates only over an area less than twice as large as a Madras District by means of an agency almost unpaid except as to travelling expenses, the costs of inquiry and the risk of the business are such as to rule out all loans to farms below or even in the lower ranks of the team-owning class; the minimum loan grantable by the rules is not approached in practice. The Minister of Agriculture in his report of 1887 expressly states that "for the small folk a mere Land credit institute is particularly ill suited."

It will be observed that the sole absent condition is that of 'proximity;' the banks are the cheapest and safest in the world; cheapest in their management, cheapest in their loans, most accommodating in their terms of repayment, privileged in their methods of recovery, but because they are not close down to the masses of would-be borrowers, they cannot help those masses.

Joint Stock banks in general need no description; they attract deposits by virtue of their share capital and reserves, but in general may not issue land mortgage debentures without the express authorization of Government. But the *Crédit Foncier* of France needs special mention, since it is not only gigantic in its operations, but is a bank which, though of private foundation, owes its origin to a special law, is specially privileged, and is *quasi-public* in its management. The chief points to be noted are that its share capital is subscribed by shareholders, that its loanable capital is derived almost entirely from the issue of land mortgage debentures, that these debentures are privileged fiscally and legally; that a special method—a modified 'purge'—is granted to secure the bank against other unknown claims; that special facilities for recovery of its dues are also given; that the governor and sub-governor, as well as several of the directors are appointed by the State by which a strict supervision is maintained over the operations of the bank; there are also minor privileges. But this splendid institution which has at this time about £80,000,000 outstanding in land mortgages alone, has not during its 42 years of operation, so much as touched the peasantry proper, but only urban property and the larger and middle class of estates; very few small loans are given, probably none so low as £100 in rural tracts, and the smallest class is annually decreasing in number. The average size of the loans granted since its foundation in 1852 is £1,793; those granted in 1890 average £1,130. This failure to give small loans may be compared with that of the Egyptian *Crédit Foncier*, founded to assist landed property in Egypt where the fellahin require credit even more than their Indian confrères; this land bank has definitively decided, after some years experience, not to attempt loans below £300; up to 1891 it had granted 2,268 loans averaging £1,800, and in 1891 only 127 loans, each averaging £2,480.

Joint stock banks in general deal more largely with urban than with rural property, since it is far easier and more profitable to deal with insured house property at the doors of the bank than with landed estates of fluctuating and uninsurable value at a distance by paid agency.

All banks whether mutual or joint stock are under Government supervision; the officials of the Mutual banks are *quasi-public* servants; a State Commissioner watches over the management of the banks, including especially the issue of debentures. For further details, see appendix I.

The special Land banks need no description; they have no lessons for India since they work for a special purpose, viz., the redemption of commuted fenda or other charges; the well known rent charge banks of Prussia are merely offices issuing debentures against sums which have been previously and laboriously determined by a special standing commission; the sums are fixed and determinate and are in no way matters of general credit with its fluctuating demands and values.

The Russian Peasants' Land bank established by Government in 1883 to enable the freed peasants to purchase their land outright, is a State bank of this latter class; its obligations are guaranteed by the State. It deals with the peasants not directly so much as through the corporate *Mirs* (communes) and thus avoids the insuperable difficulty of individual inquiries regarding loans which must not exceed 125 roubles each. In 1891 this bank had loans outstanding for 49,000,000 roubles, but it had already been obliged to attach properties for 6,000,000 roubles or $12\frac{1}{2}$ per cent. of the loans: in 1894 a Foreign office report

states that the bank is yearly narrowing its operations owing to the growing inability of the peasantry to fulfil the pecuniary obligations contracted by them towards the bank. The bank is hardly an example for India.

Continental Land Improvement banks are, with one exception, very recent creations; they are merely Land banks the operations of which are confined to loans for improvements, such as drainage, irrigation, plantations and the like. It is of course an absolute rule that these loans shall be repayable only by small instalments over a very long series of years. It is a noteworthy fact that in Germany, the original home of Land banks, these land Improvement banks (*Landeskulturrentenbanken*) are of the most recent foundation and of little present development; the German peasant does not yet demand much money for land improvement pure and simple; what he wants is money for general purposes; this point is obvious from the facts, and is expressly noted by Dr. Mayet in his proposals for Japan. The point is of importance in considering the needs and probable requirements of the Madras ryot.

The English Land improvement Societies work on similar lines, and are successful; the size of the loans given, owing to the landlord system of Great Britain the enterprise of the landlords, and the demands of the large tenant farmers, account for this.

The Building Societies of England and America are the Real credit institutions of the poorer classes. Owing to the landlord system of England, they deal very little in that country with mere landed property, but are the means by which artisans and others either obtain houses of their own through the society, or loans upon houses already in their possession. In America they serve the same purposes, but their ability to satisfy the demands of their members for loans for general purposes upon mortgages of real property and by advances upon their subscribed amounts, is shown by the fact that they are beginning to be called 'Co-operative banks,' as in the State law of Massachusetts. These are strictly Mutual or Co-operative societies, with no share capital proper, but only a capital derived from continuous (monthly) subscriptions, which mature periodically into shares of a given value; these shares are either modes of thrift and investment if the holders have not taken loans, or they are the means by which borrowing members repay, by the continuous periodical subscription, the loans which they have obtained upon mortgages. It is these banks which are now attaining in their aggregate, such vast importance in the above two countries; they are admirable as instruments of thrift, since the rules of the society compel regular and habitual subscriptions of fixed amount, whereas in the Savings banks the amount and period of in-payments are wholly optional; as credit societies, they are local, accessible, cheap in management—in many societies, especially in America, almost gratuitous—and most convenient in their terms and methods of repayment for the classes who mostly belong to them, viz., the artisans and small professional and trading classes. They are defective as regards agriculture, for they are mostly to be found in cities and towns, they are not organized for valuing landed property, and the rigid mode of repayment by frequent periodical payments, is not convenient to farmers. But there is nothing to prevent an adaptation of the system to the needs of agriculture.

These societies are the prototypes of the Madras Nilhis which have, however, developed through the needs of their clientèle into banks of more general credit, pawnbroking and advances upon bonds with sureties, being very general.

13. *Agricultural banks.*—These banks, solely intended to supply credit without mortgage to agriculturists, are rare as independent institutions and of no account. It is obvious that since 'Agricultural credit' as distinguished from 'Real credit,' deals with the continuous and fluctuating demands of the peasantry in the daily affairs of life, the loans which it connotes are petty, short term loans, very often of the nature of accounts current; it comprises the loans contemplated by the Indian Agriculturists' Loans Act, and an infinite additional class of petty credit transactions. Since, then, no State bank and no Central bank has yet found itself able to advance real credit loans to the peasantry in general, though such loans are comparatively large, well secured on tangible property and simple in operation, it is clear that, *a fortiori*, no State bank and no Central bank has ever provided Agricultural credit. There is no such system, no such bank in existence, and those

that have started or been proposed have absolutely failed. The great French Society (Le Crédit Agricole) was a disastrous failure; the cause of its ruin was speculation in Egyptian and other bonds of which it held immense amounts, but this was merely the proximate cause. The real cause, viz., that which led to speculation, was that the society found itself unable to fulfil its intended function of supplying short term loans of small value to agriculture proper. In so far as it issued loans, it issued them chiefly to industries only remotely connected with agriculture, and in fact acted as a mere commercial bank by discounting bills. Its agents and intermediaries, moreover, proved unsuccessful, some being wanting in ability and judgment, some in business probity. The mere statement of the problem, viz., the supply by a single society of small, continuous, and fluctuating credit to many millions of agriculturists over the vast area of France, almost supplies its own answer. †

The well known Belgian attempt by which the national savings bank deposits were to fructify agriculture through the agency of numerous agricultural offices (comptoirs) paid by a small commission, has absolutely failed.

The Italian attempt by a special law, as in Belgium, has been an equal failure.

The Agricultural Bank of Segovia (Spain) appears to be successful, but it is entirely local in its dealings and most honourably and skilfully managed; it is these qualities which make it a success: almost any bank will be successful if it proceeds on the lines of proximity, prudence, capacity, honesty.

14. *Monts de Piété*.—These are pawnbroking establishments, and are most useful adjuncts to credit but need no special description here. †

The Monti Frumentarii of Italy and the Positos of Spain are ancient and remarkable institutions for the grant of 'takkâvi,' in the form once common in India as State advances for the immediate needs of the cultivation season, which are now supplied solely by the village money-lender. These are communal or local granaries, managed locally under the supervision of the district authorities, possessed of endowments chiefly in stocks of grain, and lending out these funds, as grain, to the peasantry, whether for seed or for maintenance. They have been successful for centuries and are still prominent features of rural economy, especially in Spain, where they are numbered by thousands. † With the usual 19th century zeal for scientific, or supposed scientific improvement, it has been sought to convert them into agricultural banks, just as the Indian takkâvi has bifurcated and developed into the Land Improvement Loans and Agriculturists' Loans Acts. It does not appear that the attempt has been carried out, or that it would be an improvement; cash is more easily embezzled by petty communal officers than grain.

It is curious that these institutions have never had any counterpart in India. † The proposals of members of the Famine Commission, to establish granaries as store-houses against famine, were absolutely novel, and so entirely against custom that the idea has never been seriously considered. Such granaries would serve admirably as Positos or, conversely, the Positos as relief granaries. †

15. *Popular banks*.—These are of three great classes, viz., those following the system of Schulze-Delitzsch, of Luzzatti and of Raiffeisen. All are based on the grand common principle of mutuality or co-operation; they are not joint stock banks, but co-operative societies; the units of association are men, not shares.

16. *Schulze-Delitzsch Societies*.—The first class are the well known German 'Vorschussvereine;' these were principally started for the artisan, small trading and professional classes, and their clientèle is largely, though not solely, urban. The foundation principles are those of solidarity or unlimited liability, thrift, and the productivity of the loans granted; the area of operation is indeterminate, and the clientèle all who will subscribe a share, subject however to the decision of an entrance committee. Thrift is compulsory, the subscription to a share being a condition of membership; *without thrift no credit*. Funds are obtained chiefly by deposits attracted by the principle of solidarity; loans are granted chiefly on three months' bills, Schulze-Delitzsch believing that money withdrawable on short notice could only be lent on similarly short terms.

Beginning in 1850 with a single petty tentative society, established solely by the unwearied efforts of Schulze-Delitzsch, a man of very moderate means and position, but of unbounded zeal, energy and enthusiasm, this class is now numbered by thousands; these are grouped in various unions, and these again

are linked to a central agency: each bank, however, is wholly autonomous and independent, the unions having only advisory and inspecting powers. A congress meets annually, and there is a periodical devoted solely to the interests of the societies. Audit is provided within the societies by the usual committee of supervision, but by the law of 1889, special external audit is now compulsory, the unions of societies being generally expected to supply such audit.

These societies deal in the aggregate in millions sterling; the 1,076 societies which sent in their accounts in 1892 to the Central Union showed an own capital of £7,197,927 including a reserve of £1,473,702, deposits and borrowed funds of £21,951,159, and transactions in advances of £73,080,526 during 1891-92; they had 514,524 members, or 478 per society, of whom about three-tenths were agricultural. Their defect is in the shortness of their loans; even for the current needs of agriculturists three months is insufficient; with however the necessary prolongations of one or two further periods, current needs may be successfully supplied, but for all such purposes as the provision or replacement of stock, for improvements, plantations, buildings and the like, they are obviously unsuited. It is, however, perfectly possible to adopt these banks to all rural needs; loans of longer term can safely be granted even under the present system of deposits, and by adopting a system either of long term deposits or of debentures or both, loans of any term may readily be granted.

It is said that these banks frequently lose their mutual character, and become mere general banks, seeking high profits. In order to develop thrift Schulze-Delitzsch offered the attraction of profits as large as could be made; the societies have been very successful in earning profits, and the investing members, as distinguished from the borrowers, naturally look more to this function than to that of supplying cheap and safe credit. Moreover the Directors have been stimulated by substantial honoraria for their services, until this feature of the banks has become unduly prominent. † A co-operative bank which looks chiefly to dividends and directors' salaries is only co-operative in name. ‡ A similar tendency is observable even in Madras, whenever societies admit dividends and directors' salaries as prominent attractions.

It is believed that loans are chiefly granted for productive purposes; that at least is a foundation principle, since Schulze-Delitzsch desired the material advancement of the people by the development of thrift and productivity.

Members can, of course, withdraw at will, with certain formalities and notice, taking their share values, but not a share of the reserve, with them; this is common to all co-operative societies.

† Self-help is the motto of these societies which have neither received nor needed any help of any sort from Government, save only that of a law which was based upon their own experience. ‡

17. *Luzzatti Popular Banks*.—The second class of popular banks is the Italian adaptation of the above. Luzzatti, then a young Professor of Political Economy and recently Minister of Finance, is the founder of this system which has firmly established itself within 30 years, the number of these banks being now (1894) about 900. In 1887 there were 641 banks, of which 541 reported their statistics, viz., members 318,979, of whom about one-third were agricultural, own capital and reserve £4,160,000, deposits, &c., £17,280,000, bills discounted, loans, &c., £57,000,000.

The Italian banks chiefly differ from their prototypes—(1) in rejecting the principle of unlimited liability, a share capital subscribed by members only, and a heavy reserve, serving as a guarantee; (2) in keeping dividends and honoraria as low as possible; † Luzzatti in fact, considers that the great danger to co-operative banks is not that of failure, but of a success which leads members and directors towards the race for high profits and snug incomes, and he is consequently endeavouring, and with success, to obtain gratuitous or almost gratuitous administration. ‡ In this he is assisted partly by the newness of the banks, partly by the Italian habit of gratuitous public administration as seen in the matter of savings banks, Monti and other benefit societies. Loans are also granted for longer terms than in Germany, but the method is still by three months' bills, periodically renewed, since this method gives the bank considerable control over the utilization of the loans and over the borrowers' punctuality in repayment.

The societies have, of course, a newspaper organ of their own.

The popular banks, both of Germany and Italy, are able to reach the small folk and grant quite small loans; with the Raiffeisen societies they form what will eventually be an almost complete banking organization for the smaller folk of the countries through which they are ramified.

18. *Raiffeisen Credit Unions and Wollemborg Casse Rurali*.—The Raiffeisen system, also adopted of late years into Italy, is entirely rural and co-operative. It is again of German origin, of the humblest beginning, and is due entirely to the philanthropic devotion and energy of a simple burgomeister (village head), 'Father' Raiffeisen. These societies are based on the following principles, which are considered absolute; (1) limitation of area, usually to a single village, so that the bank may know and be known of all; (2) unlimited liability; (3) reduction of the share capital—now compulsory by law—to the lowest possible minimum; this principle is expressly intended to arrest any tendency to the seeking after dividends; (4) absolute gratuitousness of administration, only the actual clerical work being paid for, and that on a most economical scale; (5) the utilization of the loans only for productive purposes, the word 'productive' being, of course, interpreted widely, as, for instance, for the maintenance of the farmer pending his crop, the paying off of usurious loans and the like; (6) a considerable duration of loans, extending ordinarily up to 10, and occasionally to 20 years; (7) repayment by instalments; (8) entire absence of increasing dividends, the shares, of an almost nominal amount, bearing only a moderate interest fixed by the articles, all other profits being credited to a reserve which is not the property of members save in their corporate capacity; hence it can only be spent in works of public utility.

These small and weak societies early found the advisability of grouping themselves for mutual advice and moral support; there are now several groups, and these again are linked to a central agency. There is also a Central bank for equalizing funds by lending the surplus of some to meet the needs of others. The loans granted by these societies go down to sums that would be considered small even in India, where money is so much more valuable, showing that these societies are, as indeed their constitution and membership indicate, the banks of the small rural folk.

Raiffeisen desired the moral even more than the material development of the rural classes, and endeavoured, therefore, to eliminate the desire for profits, foreseeing that such a desire would infallibly lead to an opposition between borrowing and non-borrowing members, and to the loss of the guiding principle of brotherhood and mutual help, which was the central idea of his system.

His efforts were but slowly crowned with success; beginning in 1849 there were only four by 1868; since that time they have established their reputation and are now developing at the rate of several per day; in September 1893 the original Neuwied group itself completed the number of 1,000, and it is calculated that there are already several thousands in existence.

Their group organization is not so successfully carried out as is desirable, and statistics are very defective; it is stated, however, that not a single society has ever become bankrupt, while the vast increase in numbers amidst a poor and conservative clientèle, argues their extreme suitability to rural needs. In Italy the work of these societies has been very particularly described by their founder, Signor Wollemborg, and the results as depicted by himself and other reporters are encouraging and stimulative in the highest degree. Both in Germany and Italy these societies have their organ which is devoted to co-operative news.

19. *Savings banks*.—These, though not primarily organised as credit banks, are not only important adjuncts to credit, but themselves engage in credit operations for the investment of their funds. In Germany, Austria, Italy, Switzerland and the United States, the saving banks have, within the law, the free disposal of their funds; they are not State banks, but either private or quasi-public under the management of public bodies or institutions, and are allowed to place their funds in first-class securities, often expressly mentioned in the law, in first mortgages, in personal credit and the like. Their investments in mortgages amount to from 20 to 65 per cent. of the deposits, and as these are counted by hundreds of millions sterling, the part played by savings banks in both rural and urban credit is considerable. It is found that the banks are generally prudent in the disposal of their funds, and the supervision exercised over them by law through the State authorities, tends strongly to keep them within the limits of safe business.

Moreover they not only engage in credit directly, but indirectly in granting loans to popular banks. It is, indeed, in this way that Luzzatti considers they will serve a most important function, namely, in collecting funds in driblets from the masses and granting them in lump to those banks which are expressly organized for distribution.

20. *Agricultural Associations*.—These in themselves do not fall within the scope of this study, but in France, which has hitherto not succeeded in developing organized agricultural credit, they are beginning to play a notable part. France, always original, has struck out an entirely new line in developing credit annexes to these associations. Even here, as in Germany, the idea originated in the smallest of ways—at Poligny—where a small credit branch was attached to an association working under the law of 1884, only members of the association being admissible, and then only by selection, to the credit annex. Loans are only granted for the current needs of farmers, especially in the purchase of stock, manure, &c., but the method is capable of development. The loans are granted by the discount of bills executed by the borrower and backed by two other members; these bills, when endorsed by the society, are re-discounted by the local branch of the Bank of France, since the original signatures are known to be those of selected persons, both debtor and sureties, while the signature of the society gives the third signature required by the Bank of France. In this way the society is a mere intermediary, and, with very moderate funds of its own, does a very considerable credit business. Beginning in the smallest of ways with the gratuitous assistance of several leading men, the credit branch is now very successful, and is being elsewhere imitated.

The importance, indeed, of this society lies in the fact that its leading idea is the basis of the new French law of 1894 by which it is hoped to extend *le crédit agricole, i.e.*, credit to agriculture otherwise than on mortgage, to the peasantry in general. The new law is intended to favour the development of credit annexes by the twelve hundred agricultural associations which sprang up to fill an actual but wholly unknown need, immediately on the passing of the law of 1884; it appears that the credit associations will re-discount their bills with a central agricultural bank to be formed and subsidized for the purpose; in fact it is the old "Société Agricole" re-established but with intermediaries in the shape of mutual credit societies attached to existing agricultural associations, instead of being, as before, mere paid agents or brokers. The idea seems likely to develop successfully.

The above paragraphs briefly sketch the chief of the several classes of credit societies which exist in Europe and America for rural needs.*

21. Several points may be prominently noticed—

(1) It is not any particular class of banks that is found, but banks in general; central and provincial land banks for the large and medium holders, savings banks and building societies for the smaller folk; popular banks for current credit; savings banks for thrift and real credit, and for the assistance of popular banks; agricultural associations with credit annexes; land improvement banks and societies; loan associations for the small needs of the very poor, or for specific purposes, such as the purchase of cattle; *Monts de Piété* for the pledge of goods, and *Positos* for the supply of seed-grain and maintenance during the crop season.

(2) No State bank has been successful, even for land mortgages, where continuous credit—not merely the commutation of certain charges—is to be given to small folk; only such State banks as deal over petty areas with a petty population by means of the State's necessarily large executive staff whom it can employ *gratis*, have succeeded in small credit operations.

(3) No central or large bank has succeeded in giving credit, even on mortgage, to small folk; the expenses of inquiry and chances of loss are too great.

(4) Privileges and subventions have been useful for the establishment of great central banks, but have never enabled those banks to reach the small folk. Moreover privileges and subventions have been granted (a) because the banks were the result of authoritative fiat, (b) because the general law required

* For all details, see Appendix I. The above paragraphs are merely intended as an index.

modification on account of fiscal severity or of too rigid and exacting methods or required additions from the absence of the necessary provisions for the establishment of such banks, (c) because State supervision in one form or other was felt to be a necessity, and privileges and State interference connote one another. Hence it is that the establishment of central banks, whether the *Landschaften* of Germany, the *Crédit Foncier* of France, the *Bodenkredit Anstalt* of Austro-Hungary, the land banks of Italy, has been aided by special laws with special privileges.

¶(5) No privileges or subventions have been granted to the small local banks or credit societies of the people, nor have any special laws or modifications of the general law been passed *anterior* to their formation with the view of favouring or facilitating their introduction. Being absolutely local it is found that such banks can work successfully without any privileges.]

But so soon as it was recognized that the societies, whether the popular banks of every class in continental Europe, the Building, Friendly, or co-operative societies of England and America, and the savings banks of the whole western world, were factors of inestimable value in the social and economic problem, special laws were passed for the furtherance and good management of such societies, or special provision was made in the general commercial codes of those countries; it was at once recognized that without the assistance of the law, and without public recognition and support, the nascent organization might fail both of its true extension and of its full development; great ideas had been born, but the infant systems required support and sustenance. In India, which has similar conceptions maturing for birth, it is necessary to assist the struggling organisms by favourable and simultaneous legislation.]

¶(6) The banks, that have been successful in bringing credit to the smaller folk, are those local banks which have recognized personal thrift, self-control and effort as the conditions of credit; and those banks which have most thoroughly developed not only these cognate ideas, but have added the inestimable factor of mutual help and the power of mutual association, have been the co-operative banks by whatever name they may be called, which are the work of the members acting for, through, and upon the members.] Mere credit, however, may be granted to such folk by any class of bank provided it satisfies the postulate of absolute proximity; such banks may be the joint stock or *quasi*-partnership banks of Switzerland, the co-operative banks of Germany, Austria and Italy, the Building societies, &c., of Great Britain and the United States, or the savings banks of Central Europe and of America.

(7) But it is a condition of their success that they should have grown; they cannot, for general and popular purposes, be established by the fiat of authority.] Growth, however, may be fostered by authority which, as by the legislature, may not only insure favourable conditions, but may sow the seed of suggestive ideas, or, by the executive, may prompt and assist formation in a particular locality, or, in the persons of the prudent and intelligent, may initiate and guide the less advanced in the fruitful paths of association, thrift and self-help.

But it is noteworthy that the great popular movements in thrift, self and mutual help have invariably emanated from individuals and not from authority; as usually understood; Schulze-Delitzsch laboured and the German popular banks came into being; Raiffeisen toiled through long years—at first with slow success,—till thousands of societies call him 'Father' Raiffeisen; Luzzatti and Wollemborg in Italy have equal claims as pioneers of the Italian movement; the savings banks and Building societies of Great Britain and the United States are the outcome of individual effort.]

(8) The environment of the successful banks was not originally suited to the development of these banks; on the contrary, nothing would seem more unfavourable than the original *entourage* of the Raiffeisen and Wollemborg societies; the peasants of the Westerwald in 1850, and those of the Venetian villages in 1883 were cruelly exploited by usury; they were starving, ignorant, poor, and—in Italy—largely a mere tenant class; nothing more unpromising could have been found as a field for banking enterprise. But by patient, plodding, individual labour the soil was tilled, the seed sown, the seedling nourished, till the grain of mustard seed has become a vigorous tree, of which no man can foresee the ultimate growth.]

(9) No liquidation of debts is ever found necessary as a preliminary to the establishment of a bank; the bank accepts the security offered and pays off the prior debt with the loan or part of it, or it hands over the money to the borrower on production of the receipts of the original lender. Possibly, especially in the co-operative forms, the bank authorities act as arbitrators in compounding with the original creditor, but this is not mentioned as part of the bank's functions, even where the relief from prior debt is one of the distinct objects of the bank's existence.

THE MADRAS PRESIDENCY.

[22. It remains to consider the position of the Madras Presidency, and the recommendations to be made for it.]

[23. *Preliminary.*—Before proceeding to discuss the conditions of, or make proposals for, this Presidency, it will be convenient to state, in advance, certain conclusions:

(1) Above 90 per cent of the ryots of this Presidency correspond in status to the "small folk" of Europe, viz., those holding below 25 acres.

(2) The credit primarily needed by the ryots of this Presidency is continuous, small, loans for current needs, including maintenance, cultivation expenses, purchase of stock, payment of revenue, rent, and the like; secondarily, long term loans for permanent improvements. Whatever may be the necessity for additional capital for improvements, a more pressing and instant need is that for cheap and safe credit in current transactions.]

(3) Most ryots borrow for such transactions at one time or other, while a large proportion live habitually in advance of their income, and pay dear for the habit; money is still naturally dear, while custom, descended from more unsettled times, monopoly, greed, and insurance against risks, enhance the price of credit.

(4) The private lender is, practically, the only source of credit in this Presidency outside of Madras. That lender is not, in general, the professional money-lender, usually known as a Marwari, Chetty or Sowcar, but the ryot. Nine loans out of ten—far more in hundreds of villages—are granted by ryots.

(5) Irrespective of the dearness of credit, much of which is directly due to this individual system, other considerations demand the organization of credit by the introduction of banking: banks are a necessity in a developing community. The question is, what forms of bank are most suitable to the community of small rural folk in this Presidency.

(6) Land banks are not suitable for supplying the current needs of ryots, and in Europe, where they have existed for many years, they cannot and do not even reach the small folk; they are, by the highest authorities, declared to be "pre-eminently ill-suited" [überhaupt wenig geeignet] by themselves to the needs of such folk.

(7) Agricultural banks, in the sense of banks expressly for agricultural credit, do not, in general, exist any where in the world, and most attempts to found such banks have failed; the Raiffeisen societies alone may be called Agricultural banks.

(8) The only banks that have reached the small folk of Europe, whether agricultural, industrial, trading, or professional, are the Popular banks, including in these the Schulze-Delitzsch, Raiffeisen, Luzzatti and Wollemborg societies, the small joint stock banks of Switzerland, the Building societies of England and the United States, and some others, including certain classes of savings banks.

(9) The common feature of all these institutions is *proximity*; whatever their differences in principle, method, and object, they have this condition in common. It is in fact a postulate of small rural credit that the bank shall be in immediate contact with its clients; *without proximity no credit.* If banks are established in proximity to the borrowers, facile credit is assured.

(10) But facile credit, even when granted by banks, is not a cure for rural indebtedness; it may be not even a palliative; it may in fact aggravate the difficulty. The history of small rural credit in Europe teaches that the nations with the most facile banking credit for the peasants are the most heavily indebted. The money-lender is not the real cause of indebtedness; he may increase its burden,

exacerbate and prolong its difficulties, but he is not the primary cause of it. Indebtedness, speaking generally, has a complex origin; it is due largely to national and personal characteristics, coupled with causes exterior to the individual such as laws, social customs, modes of inheritance, seasonal difficulties, and the like. Hence it is a grave error to suppose that the problem of indebtedness can be solved by the mere substitution of a new distributing agency; to replace the money-lender by banks is not to replace indebtedness by solvency; on the contrary, unless the causes of indebtedness are removed, the load of debt may easily be increased by the facility and easy terms of borrowing; the specific gravity of the debt may be reduced, but the mass more than proportionately increased.]

If the amiable opinion—based upon an enlightened perception of the needs of agriculture rather than upon fact—that the ryots thirst for cheap capital in order to pour it out upon the soil, were true, if in other words, land improvement banks were the *desiderium* of the ryot, if cheap capital were merely sought for actively productive outlay, banks of any sort that would bring cheap capital would satisfy the need, and the greater the indebtedness, the greater the productivity and prosperity of the borrowers. But it is not so; the Indian ryot is not more heedful or eager for agricultural development than his European confrère, and direct land and agricultural improvement is the last thing for which credit is sought in Europe. Hence in facile credit lies the danger of an increased mass of burdensome, unproductive indebtedness.]

It is a mere dream to suppose that the peasants' difficulty will be solved as soon as cheap credit is introduced through banks; it is not removable by mere cheap credit or facile credit, but by the promotion, almost enforcement, of thrift, providence and heedfulness in borrowing; there should be alleviation of the terms, but limitation of the habit of borrowing.]

[(11) The main advantages of a bank over a money-lender are not that it will, in itself, eliminate indebtedness, but that (1) it encourages thrift and productivity by the gathering in of large and small savings otherwise idle; (2) that its principles are fixed, its methods public, and the results of borrowing from it calculable; (3) that it will, ordinarily, lend on such terms that, when distress comes, as it must frequently come, to small farmers, they can borrow from it with the hope of extrication at no great interval, whereas with the money-lender, there is little hope, so that debt means continuous debt. While, then, the idea that the establishment of agricultural banks is to prove a panacea for indebtedness is a delusion, it is perfectly true that they are essential factors in national progress; it is, however, equally true that the amount and character of indebtedness and the results to national character, depend very largely upon the foundation principles and methods of the banks.]

(12) Credit, to be safe and sanative, must be preceded by thrift; not merely in the sense that the capital to be lent must first be saved, but that it is the man who saves, who is the man that ought to get and can use credit. One great cause of individual unthrift is the absence of facilities for thrift, of places for the due and productive custody of savings; if these are provided at each man's door, saving will take the place of expenditure, productive deposit that of idle hoarding. Hence the village savings bank is the primary desideratum of Indian rural banking, and every effort must be made to place facilities for saving in every village.]

(13) But savings banks must invest their funds, and the second function of banks is therefore credit. In England and India only one class of savings banks proper is found, viz., those which, whether Trustee or Government, invest their funds solely with Government. But the savings banks of Germany, Italy, Austria and the United States have the power of almost free investment of their funds, and consequently lend money on mortgages and in other ways, as far as possible *in situ*. Still, savings banks are not credit banks proper, and, however near to the people, are especially ill-suited to grant continuous petty credit for current needs. Hence they do not fill the rôle of rural credit banks.]

(14) But there are classes of banks which fulfil at once the requirements of thrift and credit, while promoting in a high degree those qualities which are essential to high national character. These are the village banks commonly known as popular banks or credit unions; they are not formed by capitalists seeking investments for their funds with the hope of earning dividends thereon,

and therefore widening business regardless of the results to the borrower, but are small groups of men, all of the same neighbourhood, who unite their savings, attract capital by their thrift and prudence, and lend the proceeds to themselves on equitable terms for productive use. The leading principles are thrift, self and mutual help; the thrifty, prudent and thoughtful unite with the less careful and heedful, and by the influence of association induce in them ideas and habits of thrift and heedfulness; money is carefully saved and still more carefully spent; the bank is an association of *men* each influencing the other in the direction of prudence and productivity, so that the bank satisfies not merely the postulates of proximity and facility, but, pre-eminently, that of safety.]

(15) Hence [the central recommendation of this report is not the mere establishment of credit banks, as though banking credit, as opposed to that of the money-lender, were, *per se*, a relief from and preventive of indebtedness; it recommends rather the promotion by every possible means of facilities for rural thrift and providence; in the establishment and in the encouragement of village banks of the co-operative type, similar to those known in Europe and America as Popular banks, Credit unions, Building societies or Co-operative banks.]

(16) Such banks are not contemplated by the existing law, although they require special consideration and treatment in the matters of promotion and encouragement, management, finance, and supervision. Hence it is necessary to devise and pass a new law expressly directed towards the development and guidance of such banks, and, further, to grant such executive privileges as will stimulate their formation and strengthen their position.

(17) It is believed that such banks will be capable of granting every sort of credit that may be required; if their funds are small, so are their loans and their clientèle; all short term loans, that is, those repayable within three or five years, can readily be granted by them, as is proved by the Raiffeisen societies of Europe and the Nidhis of this Presidency, and the securities accepted may be land, movables or persons. Long term loans for improvements may, even if of comparatively large size, *e.g.*, Rs. 500, be financed by the issue of debentures, to which Government may properly subscribe, since land improvements are already the object of direct State loans; the banks will thus serve as intermediaries for the relief of Government from burdensome individual enquiries, while the security for the loans will be not merely each separate mortgage, but the mass of mortgages, coupled with the bank's own credit. But the main work of the village banks for many years will be the provision of short term credit, facile in attainment, equitable in conditions, safe and sanative in methods, beneficial and restrictive in influence.

24. *Present position of the Presidency in the matter of credit.*—This may be summarized as follows; it is almost entirely under the *régime* of the private money-lender, and has no mofussil banking organization. [Certain Madras banks have lent money upon considerable estates, but a few large loans do not constitute an organization. There are no mofussil banks for general trade and commerce, except, perhaps, one in Coimbatore; there are no land mortgage banks or ordinary joint stock banks; no savings banks, except those of the post office, which are of little use to the people generally, while they possess the radical disadvantage from the point of view of a productive credit, of drawing away all savings to the treasury; no agricultural associations, and with certain exceptions no popular banks. Almost everything has yet to be done; the field, with one exception, is perfectly clear for the statesman, legislator, reformer, and philanthropist; Madras awaits its Schulze-Delitzsch and its Raiffeisen, its Luzzatti and its Wollemborg.]

There is, however, a very promising exception; the Madras Presidency stands alone in India in possessing in its Nidhis a development through the methods of the English Building Societies, of an indigenous and almost universal village Fund system; favourable legislation and stimulation by the executive may develop these beginnings into a system of popular banks which shall solve the question of rural credit, shall promote national thrift, prudence and self-control, arouse new ideas in the general population of self and mutual help, remove the isolation, the suspicious exclusiveness of the agriculturist by the benefits of association, and suggest new departures in his hitherto conservative methods of cultivation.

25. *Credit systems.*—In this Presidency the chief lender is the ryot, as he is also the chief borrower. [Taking the Presidency as a whole, just two-thirds of all

mortgage loans are granted by ryot lenders, and a slightly larger proportion of loans on ordinary registered bonds. The percentage differs greatly, however, in different districts; in Tinnevelly 84 per cent. of the mortgages are lent by ryots; in Anantapur only 35 per cent. These figures are for registered loans only (83,000 tabulated cases); the percentage is, probably, much higher for the mass of petty loans which make up the real indebtedness of the country; in many districts, *e.g.*, Anantapur, practically all village grain-loans are due to ryot lenders, as also a large proportion of the small cash loans; in districts where even mortgage loans are granted by ryots chiefly, it is certain, *a fortiori*, that small current credit outside of the towns is mainly granted by them. This point is of the highest importance not only as an economic fact, but in considering the future of village banks.

The mortgage loan is much resorted to, nearly 400,000 being now annually registered: of these, half are above, and half below Rs. 100: nearly one-third are "with possession," and average something over five years in term; above two-thirds are "simple," and average between two and three years in period; the annual value will be about 7 crores, and the aggregate existing value in any one year, about 21 crores.

An unknown and not calculable amount is annually lent in small cash loans; these are not necessarily shorter in term than mortgage loans which they frequently precede: they are often of the nature of standing debts on running accounts, money being occasionally borrowed, and instalments occasionally paid up. From certain statistics it is probable that not less than 10 crores, and probably a good deal more, are due on these loans.

[A large mass of village credit is granted in grain: in many villages the bulk of the small ryots anticipate their crops, borrowing grain for seed and maintenance in the cultivation season, and repaying the advance out of the crop at harvest. It is impossible to calculate the mass of debt in this form. The indebtedness under this head and much of that under the first and second heads is not necessarily embarrassment or debt in the sense of living beyond income; it is an anticipation of income, which is, however, objectionable as a habit, and liable to prove an embarrassment if the terms of borrowing are inequitable.]

[The rates of interest are high, but, speaking generally, though embarrassing are not ruinous.] Of the mortgage loans above Rs. 100, 65 per cent. pay 12 per cent. or less; 42 per cent. of those below Rs. 100 pay the same interest. In Tinnevelly, where the chief lenders are the ryots, only 60 per cent. of the mortgages above Rs. 100, and 35 per cent. of those below Rs. 100, pay 12 per cent. and less, while in Anantapur, where two-thirds of the lenders on mortgage are non-ryots, the percentage of loans, paying the same interest, is somewhat higher than in Tinnevelly; in Cuddapah, where only half the lenders are ryots, the proportion of loans paying not above 12 per cent. is much above the Presidency average. The general bulk of mortgage loans pays between 9 and 18 per cent. per annum.

There is no great difference between the general rates payable on mortgages and those on ordinary loans; the tabulated results of above 3,000 suits below Rs. 50 show this conclusively.

For grain loans the universal rule, when the loan is between ryot and ryot, is an addition of 25 per cent. to the amount borrowed. But when the advance is made by a merchant, broker or other middleman, the rate may be anything, especially when repayment is made or calculated in rupees.

[The purposes of the loans are very various, but, very generally, are for maintenance and cultivation expenses.] mortgages are usually incurred, except perhaps in Tinnevelly, on a settlement of a running account or to pay off some other creditor; only 1.3 per cent. even of the registered mortgages are for land improvements.

[Loans, generally, are very small, even minute; half the mortgage loans, viz. those below Rs. 100, average only Rs. 44 apiece, and 15 per cent. of those below Rs. 100 are for sums not exceeding Rs. 25;] in the villages, a score or two of people will owe in cash loans an aggregate of only a few hundred rupees, while the grain loans, which probably form by far the most numerous class, seldom exceed Rs. 20 or 30 in value during the season. [Every year above 50,000 suits below Rs. 20 in value are disposed of in the village courts, besides an immense number by village arbitration; above 60 per cent. of all suits in this Presidency do not exceed Rs. 20 in value.] Nearly all rural loans are below Rs. 50, an immense

number below Rs. 20; only a moderate number exceed Rs. 50, and these have frequently begun as small loans; comparatively few exceed Rs. 500.

It is usually considered that loans between ryots are less objectionable than those between the professional and his client: on the whole this seems true; interest may not be less, and the ryot-lender may be even keener than the professional in his desire to obtain local influence and wider lands, but, *per contra*, his loans are frequently friendly and purely helpful, while it is better for land to pass, if necessary, from a borrower to another ryot of the village rather than to an outside professional.

The methods and profits of middlemen and brokers are well known, and have been often described; it is probably in these transactions that the ryot is most seriously fleeced, and that he can be most profitably aided; village banks or associations may advance money or grain, and thus obviate the need for advances from the broker, or they may receive the produce of their members and place it at advantageous terms upon the market. The provision of numerous weekly markets is also a most important means of assistance, for the ryot very soon learns both the true market rates, and the value to him of the competition of the market for his produce.

Shopkeepers also lend; not merely do they sell on credit, but they advance against a promise of so much of the crop at harvest time; frequently the object of the loan is to obtain the crops of the borrower, either for retail sale, or for the external market through merchants for whom the shopkeepers are mere agents or brokers. The interest in these cases is probably only part of the burden, since the sole accounts are in the lender's own books.

In the south mortgages are far more frequent than in the north of the Presidency, probably because the land generally is far more valuable. It is curious that in Tinnevely, and elsewhere to some extent, the terms of mortgage loans are of the shortest, very many being below six months and the larger number below one year in duration. Considering the expenses of documents, witnesses, stamps and registration, this is very remarkable, and would seem unnecessary, considering the great value of much of the land and the consequent general *status* of the borrower, which should promote personal credit.

In the Ceded Districts and probably elsewhere, the purchase of good cattle is effected on the instalment system; young cattle are sold at high credit prices, the purchaser taking all risks. The price paid and the chance of loss make this interest very costly to the borrower.

It is easy to exaggerate and easy to minimize the results of the above systems. In judging of the terms of a loan it is often forgotten that the security is often *nil* or almost worthless, so that the insurance element is heavy; a servant or a poor labourer must pay extremely high if he wishes to borrow. A small original loan charged at high interest for want of security, and unpaid at maturity, rapidly doubles and decuples in amount, especially since the security decreases in proportion as the loan amount reduplicates itself. A few such cases as known to most inquirers, especially to Europeans whose servants, or dependants,—very often poor Native Christians,—are persons of the poorest classes, may easily lead to the idea that all private money-lending is extortionate and iniquitous, whereas it is certain, from the results of myriads of tabulated cases, that interest is fairly moderate where the security is good.

On the other hand, the money-lender, though useful and even essential, at present, in rural economy, is not merely the beneficent friend he is sometimes depicted; he is essential because a ryot must have credit, but he is expensive because he trades chiefly with his own or perhaps a borrowed capital, and cannot draw upon the general savings of the public. Apart from the unfortunate element of greed, which, however, must be taken count of as practically universal, especially where opportunity is favourable to its development, he is naturally anxious to get the very most he can for his loans, and in an immense number of cases undoubtedly uses his power from a position of undue advantage and exacts most exorbitant sums; custom and monopoly are also important items in the current price of credit.

Assuming the aggregate value of all existing rural mortgages as 20 crores, of existing cash debts as 15 crores, and of grain debts as 10 crores, the total debt

of the rural population at the beginning of harvest will be about 45 crores in an ordinary year. This means an average indebtedness of about Rs. 13 per head of the rural population. This is heavy, but in no way overwhelming; the total aggregates about three-fourths of the annual rural produce taken as 60 crores. If it be multiplied by five to compensate for the difference in money value, and if the product—225 crores—be supposed equal to £225,000,000 sterling which is not the case, the amount of debt compares favourably with that owed by the rural populations of continental Europe.

But the rate of interest and the consequent burden on the people, are excessive. Taking mortgages, cash debts, and grain debts together, the general rate of interest cannot be below 15 per cent.; on 45 crores this means 6 $\frac{3}{4}$ crores, to which must be added another one or two crores for incidental expenses, stamps, registration, costs in suits, and the like. Probably 8 crores is the lowest annual burden to the rural population on account of its borrowings; while, if 18 per cent. be taken as the average interest, the total annual burden will, all charges included, approximate to 10 crores; the mean of 9 crores represents 15 per cent. of the gross annual rural produce taken as 60 crores. What is wanted is (1) to cheapen the terms of credit so that the mass of debt may weigh less heavily on the borrowers; (2) to render credit safe both to borrower and lender; (3) to organize credit in such a way that while safe and beneficial in its conditions, its use may be restricted to cases of necessity and of productivity, using these words in a liberal sense.

26. *The clientèle.*—It has been shown above that in France and Germany 85 and 87 per cent. of the landholders possess or cultivate only 25 and 28 per cent. of the land in farms below 25 acres; there is, therefore, a numerous body of rich landholders whose status, politically and socially, is wholly different from that of the small folk; but in Madras matters are very different. In the first place 94 per cent. of the ryots hold land in farms for which they pay below Rs. 50 as assessment; as the average of fully assessed land pays about Rs. 2 per acre, wet and dry together, this represents 25 acres; when a ryot holds only dry or poor land the area is increased but not the productive capacity or value of his farm. This class then corresponds with the small folk of Europe. But this 94 per cent. holds not 30 or 35 per cent. of the land as would be the case in Europe but 60 per cent.; hence the average size of these small farms is considerably above that of the average holding of the European small folk, a fact due to the immense number of very small holdings—below 2 $\frac{1}{2}$ acres—in Europe. While however the general individual average is large, the greater number of the holders and the larger area held by them, diminishes the possibility of a mass of large landholders. In fact the 148,783 landholders holding above 25 acres form less than 6 per cent. of the total, holding 40 per cent. of the area, while those holding above 125 are only 8,869 in number, form only 0.3 per cent. of the whole, and hold 9 per cent. of the area. It follows, then, that there is comparatively speaking, no great difference in level between the great masses of the landholders of this Presidency, and that the larger holders are neither very numerous nor do they hold individually very large areas.

But secondly, even though there is a certain number of large and medium holders, there is no sharp distinction as in Europe between the several classes; they hold different areas, but their methods, habits, capacity, intelligence and education are not, in general, very dissimilar; all that can be said is that one class has larger lands and greater expenses than the other. There is no aristocratic or wealthy class which would form, as in Europe, the clientèle of Land banks proper.

Generally speaking then, the mass of the ryots of this Presidency, while enjoying a larger individual area than their confrères in Europe, are unlikely to provide a clientèle for central banks, but will, in their capacity as borrowers, come within the sphere though not under the actual designation of small folk. In other words, the credit to be provided for the vast majority of agricultural borrowers in this Presidency must be that provided by the small local societies of Europe. Similarly, the industrial, trading and professional classes, are, in the mofussil, of a generally low level; petty capital for petty trade and petty industries is, in general, the demand, as indeed is shown, both for ryots and others, by the petty size of the loans both mortgage and simple.

27. *Class of banks.**—Hence, for the several classes of rural borrowers, it is not Land banks or great institutions that are required, but small local societies corresponding to the popular banks and credit societies of Germany, Austria and Italy and to the Building societies of England and the United States; small societies giving small credit to small folk are the desideratum for this Presidency. It will be well to lay down as an axiom that for this Presidency the general class of credit required is that which may be supplied by 'Village Banks,' using this term to mean those banks which are capable of development in and should be limited to operations over small towns, single villages, or small groups of villages, such as the 'Unions' of the Local Boards Act. These banks may, as in Switzerland, be joint stock banks with a very small share capital; they may be popular banks or credit societies as in Germany, Austria and Italy; they may be Nidhis more or less modified from their existing methods to suit wider needs; they may be co-operative or Agricultural Associations to supply cattle, stock, implements, seed, manure, food, &c., of good quality and at cost price, with perhaps a credit annex and a savings branch; they may be Savings banks, enjoying, as in Germany, Italy and the United States, the free disposal of their funds within certain limits laid down by the law; they may be Positos or village granaries, storing the surplus grain of the village, and lending it out for maintenance and seed during the cultivation season, as in Spain and Italy. Every one of these institutions is desirable, and every one may assume the form of a purely local village bank. Of all these classes of banks those established on co-operative and possibly communal principles, are most strongly recommended, in that they promote not merely cheap and facile but safe credit, that they admit of grouping the banks into unions for support and mutual assistance, that they develop thrift, temperance and foresight beyond all other forms of bank, that they are consonant with the ideas of village life and associated village effort, that they tend to prevent the too rapid or complete disintegration of the village into individual units, that they develop joint action in matters even more essential than credit, that they tend to substitute helpful co-operation for the struggle of competition, and that they teach unselfishness, mutual assistance, and self-help as principles of life in a way that no other credit societies can accomplish.

28. *Nidhis.*—These are a first attempt to deal with the problem. They were started in Madras town by Hindu officials about 1850—just when Schulze-Delitzsch and Raiffeisen were beginning their grandly successful experiments in Germany—with the object of relieving a few friends from the ruinous terms of the usurer. A very ancient and universal system of periodically pooling small sums and balloting the pool, exists throughout the Presidency; perhaps 50 people will subscribe monthly one rupee each, the pool being handed to each subscriber in turn according to the fall of the lot; in this way saving is promoted and every one in turn obtains the use of a considerable sum. This crude system is the result of the absence of savings and other banks. One step further developed this rudimentary system into the more advanced method of the English Building Societies, in which the members subscribe monthly a fixed sum per share, and receive the amount of their shares at the close of a given period; the accumulations each week or other period are lent to borrowing members by ballot or other method, the loans being secured by mortgages upon house or other real property, and repaid by the usual periodical subscription. In Madras this system was adopted, but there were added rules for pawnbroking and personal credit. Their similarity to, and probable development from the 'chit' fund system, is seen by the fact that some so-called Nidhis are neither more nor less than 'chit' funds, though posing as loan companies, 'limited,' under the Companies Act.

The Nidhis rapidly developed in Madras town; one of the best of these societies has now about 3,000 members with about 17,000 shares. Subsequently they extended to the mofussil, and an immense number sprang up in the decade ending 1890 and perished as quickly as they arose; they were started both ignorantly and fraudulently; men without the slightest knowledge of business or even of commercial arithmetic, and men bent only on duping the public, opened these funds,

* See chapter on 'Recommendations' in Appendix I.

attracted public money by impossible promises, and lent the subscriptions carelessly or fraudulently, with the natural result of bankruptcy. Without a proper law, without proper rules of business, without the slightest supervision, nothing else could be expected, and the result has been a great loss of public confidence in the localities where these losses or frauds occurred.

There are now about 140 of these Nidhis, most of them well established; in large towns such as Bellary and Trichinopoly, there will be a considerable number; in smaller towns or large villages perhaps one or two. At present their *clientèle* is chiefly official, professional and commercial; only slightly agricultural; their rules, which require regular monthly subscriptions, are not very suitable for agriculturists or for agricultural loans, while it is natural that the first development should be urban and amongst the more educated and enterprising classes.

The Nidhis grant (1) simple loans, *i.e.*, mere advances of actually paid up subscriptions, (2) regular loans, *i.e.*, loans upon mortgage of real property, jewellery and other securities, and upon personal security, repayable by the regular monthly subscription; (3) temporary loans, that is loans upon any of the above classes of security, but repayable in lump in three or six months; (4) small lot loans, that is sums of Rs. 5 or 10 also repayable at short dates. Some societies, especially in the Madras Town, lend mostly upon mortgage; others, as in some mofussil Nidhis, mainly upon personal security; the growth of this latter method in the mofussil is a most promising fact.

The method of repayment by periodical subscription is worth mentioning; the Fund even when 'Permanent,' divides its shares into series, each of which matures after a fixed number of months, *e.g.*, 45 or 84; the monthly subscription is usually one rupee; the aggregate, *viz.*, 45 or 84 rupees with accumulated profits, amounts exactly to Rs. 50 or 100 at the end of the term. Hence a non-borrower obtains Rs. 50 or 100 for each share at maturity. If, however, he has borrowed a sum equal perhaps to the matured value of his shares, he repays his loan not in lump, but by regular, periodical subscription, so that at the maturity of his shares he has paid up and is credited with their full value which exactly balances his debt. This method provides a safe and easy mode of borrowing and repaying debts, the borrower insensibly reducing his debt by a comparatively long series of petty payments. A very slight development, *e.g.*, by making the terms longer, and by requiring only three or four instalments per annum (see Nidhi A, Agricultural Branch, *s.v.* 'Madras Nidhis'), would make the loans suitable for all classes of agricultural needs.

These Nidhis are already doing good work, especially considering that their introduction and their development in the mofussil have been absolutely unassisted by the legislature, by the countenance of the executive, or by public notice of any description. They are about 140 in number, have about 35,000 members, and lend annually above 20 lakhs of rupees, mostly however to townspeople on urban property and for needs apart from those of agriculture; petty trade is, in some towns, much benefited by them.

Some Nidhis are, however, indistinguishable in their terms from ordinary sowcars; in 100 recent suits taken in consecutive order from the file of a District Munsiff's Court in a Mofussil town, 35 had been filed by Funds, and in these the original interest ranged in 21 cases from 30 to 42 per cent., the rates of money-lenders in the same list of suits, being similar in average, but in a few cases higher. It is evident that Funds which lend on such terms are not the banks which should replace the private money-lender; they are instances in India of the experience of Luzzatti in Italy and of Schulze-Delitzsch in Germany that Popular banks which do not rigidly adhere to the co-operative principle and to *fixed* dividends, are rapidly seduced by the greed for dividends and profits till they become mere usury shops albeit with high sounding co-operative titles and articles to match. It should be added, however, that the size of the loans shows that they were "small lot" loans usually lent to non-members—this merely proves that the Funds indulge in risky business for the sake of high interest.

Their constitutional defects are (1) the fact that they operate almost entirely with their subscribed and paid in capital; (2) their inability to attract deposits, since there is no sufficient security for them and a difficulty in repaying them; this largely reduces their importance as Credit societies; (3) their inability to give loans

at any time to any amount; only a member who happens to win the ballot or to be first on the register, can get loans, these being limited to the amount of the subscriptions for the month; (4) their inability to give loans of very long term; (5) the necessity for repayment by regular monthly instalments, a plan not suited to agricultural incomes; (6) the tendency of the societies, which in their origin and idea are co-operative, to become mere joint stock institutions, in which the interest of members as users of credit, is made subservient to that of investors in the race for dividends, and of directors as the holders of offices more and more highly paid as profits are forced up.

Defects in practice are generally due to negligence, slackness in carrying out the rules which are usually fairly good; audit by competent men, thorough business management by the directors, due attention and supervision by the shareholders, are often seriously lacking. There is absolutely no law properly applicable to these societies, which are necessarily variable in capital, and with shares either non-transferable or restrictedly so, while the Companies' Act contemplates companies with fixed capital only, and with transferable shares. Nor is there the slightest legislative assistance to such societies in the matter of restriction and guidance of their operations, as in England and the United States, nor is any help granted in the way of that supervision and advice which is provided by the most recent legislation in the same countries. Nor are any other privileges granted as in other laws, such as fiscal in the laws of England and the United States, legal as in the way of ready recovery of debts, in the provision of a degree of priority when the funds of the society are held by deceased trustees or a bank in liquidation, in the grant of exemption from court attachment for debt of a certain amount of deposits in or subscriptions to the society as in the United States, and in the provision of testamentary facilities in the matter of succession, as in the Provident Nominations and Small Intestacies Act, applicable to these and other societies in England.

It is absolutely necessary if these societies are to become the sources of organized general credit to the small folk in general and to the agriculturists in particular, that there should be a law dealing expressly with these and similar societies, and favouring their institution, management and development.

Probably the one change essentially necessary is that which would enable the Nidhis to attract deposits, or outside capital as by debentures. For this purpose it would suffice for any society to provide by its articles that its subscribed capital should not be used as working capital, but solely as guarantee capital, and should accordingly be invested, as it was paid up, in Government paper in the name of a State commissioner; so also its general reserve. With this guarantee a society might be permitted to issue land mortgage debentures or to receive deposits as provided in the draft bill. As the societies are at present constituted there is no material guarantee for deposits or other extraneous capital.

29. *Promotion of banks.*—Finally, then, it is to be considered in what way the establishment of institutions of organized credit can be promoted.

30. *State banks.*—The establishment of State banks is out of the question; it is impossible and would, if possible, be inadvisable. *Impossible* since, under the postulates of credit—proximity, security of the lender, facility and safety to the borrower—there must be a bank in every village, or minor group of villages; such a ramification would demand an establishment and find work equal to that of the existing Land Revenue department; it is far more difficult for a great central agency to lend annually to millions of people, with the hundred inquiries necessary on each occasion, and on the fluctuating security available, than to deal with ordinary land revenue duties. No such organization has anywhere except in India been even dreamed of; not even in France with her centralizing tendencies. Nor, indeed, has the State funds for general dealing in ordinary credit. *Inadvisable*, for if possible, it would render the whole population dependent upon the State; it would enormously develop bureaucratic interference in the everyday affairs of life; it would be an unheard of experiment in State socialism, and would absolutely confirm the already overwhelming tendency of this country to look to the State not only in all emergencies but in the ordinary affairs of life, to consider it as answerable for or bound to relieve its misfortunes and to accept the burden of all its debts

and poverty; it would develop, in a high degree, the habit of attempting to over-reach and defraud that entity vaguely known as 'Government' which is usually credited with unlimited means and with the ability to overlook individual debts; it would add the odium of the bailiff to that of the tax-collector—*odio vectigali odium fenestre*—; it would choke all private enterprise and, still worse, the development of those habits of providence, thrift, self and mutual help which are among the highest qualities of a nation.

31. *Functions of the State.*—But the State must assist the development of organized credit. The functions of the State in the matter of rural credit are considerable; it must remove all disabilities and obstacles which prevent lender and borrower from meeting on fairly equal terms; it must stimulate competition with the money-lender by suggesting and favouring the establishment of credit associations of various classes; it must legislate for the due formation and management of such associations, with a special leaning to co-operative associations as stimulative of essential national qualities; it should grant certain privileges, which cannot be safely entrusted to private individuals; it should provide for efficient supervision, and it may grant some moderate subventions, either as working or as mere starting funds.

(The State cannot do much by direct means to place lenders and borrowers on equal terms; education is a chief means, but one of very slow growth. A usury law is generally a mistake, but the modern German form, though perhaps too drastic in its penalties, is a great advance upon those ancient laws which lay down an arbitrary rate for interest, as to this day in the United States. The German law gives the courts discretion to decide in each particular case whether there has or has not been usury, the circumstances of each contract being considered, and especially any undue advantage which the lender may have enjoyed. A usury law on similar lines may be wholly though temporarily useful. Similarly it is advisable to insist that all persons habitually dealing in credit as a business, shall keep a fixed set of accounts entered clearly and distinctly in proper books; the lack of such registers is daily felt.)

(The real method, however, of bridling the money-lender is by stimulating competition with him.) In Switzerland thirty years ago the complaints against the usurer were as elsewhere; banks sprang up in obedience to the demand and in consonance with favourable laws of mortgage, registration and other stimulating circumstances; the result now is that the money-lender is authoritatively declared to be of no account as a factor in general credit, there being about 900 credit banks of various classes to less than 3,000,000 people. If it is found possible in Madras to promote new classes of banks and to foster and develop the existing system of Nidhis, the difficulty of credit, so far as it arises from the monopoly and imperfections of the private money-lending system, will disappear.

While it is desirable to develop the suggestive and educative functions of the law and of the executive in the matter of thrift and credit institutions, and to give, by law, certain privileges to societies established to promote national thrift, providence, and productivity, it is to be remembered that neither the existing law, nor the Government, nor the state of society, offers any actual obstacles to the establishment of any class of bank or benefit association; if the law does not suggest it does not prevent; if the executive does not help neither does it hinder; if the conditions of society are not all that can be desired neither are they specially unfavourable. Compared, in fact, with the conditions of Europe, especially in the middle of the century when banks for the people first arose, the conditions of the Presidency must be regarded as distinctly favourable. (The right of association for any purpose, political, social, or economic, is absolutely free; fiscal burdens are light; communications, by rail, post and telegraph, are good; justice is accessible, pure, and fairly prompt, while, in the village courts, this Presidency has at hand an unequalled instrument for the enforcement of small claims and contracts; education, though popularly backward, has produced a large class of men who are well acquainted with Western ideas and methods, while sufficiently in touch with the people to be able to carry those ideas into effect: the ryots themselves are generally shrewd, while the village leaders are accustomed to combine effort and system, as in the difficult task of water distribution from great tanks compared with which the labour and organization required for managing wells

thrift and credit societies, are but small. The success of the Nidhis, even in villages, proves that there is absolutely no necessary hindrance to the successful working of association either in the law or in the conditions of society, although it is most desirable in the interests of further action, that certain positive improvements shall be introduced and privileges granted. What is really wanted is the advent of men of zeal, enthusiasm, devotion and perseverance who will take up the Western ideas and methods, and, by personal labour, solve the difficulties of the problem not on paper but in actual practice; the philanthropic reformers of the East must sit down in the villages as did their prototypes of the West, and must there establish the petty societies which, as in Europe, shall contain the germ and promise of infinite potentialities. There can be no higher honour for any man than to achieve the rôle of the Schulze-Delitzsch or the Raiffeisen of India, and the possibility of filling that rôle is within the power of hundreds of men in this Presidency.

32. *Legislation.* There is room in the Presidency for the development of many classes of banks: it is not merely the introduction of land banks, or popular banks of a Western type, or savings banks, or even the development of the system of Nidhis, that is needed: all classes of banks, joint-stock, co-operative, savings, land improvement and the like, are called for. But the present Company law contemplates only joint stock trading companies; hence legislation is required to favour the introduction of new classes. The present Company law is defective exactly because it is the law of commercial joint stock companies only; it is adopted from the English Company law alone, and takes no thought for the numerous other kinds of societies for which England and the rest of the world provide special laws with special privileges and conditions. One, and a very important ill result of this defective law, is the turning of society methods and ideas into a mere trading groove; the ideas and management of the directors* and share-holders are based upon pecuniary profit through dividends and honoraria, whereas that side of society administration should at least be equally presented which is based upon co-operative ideas and methods. In fact, if the lessons of the several studies presented in Appendix I are correct, it is the co-operative classes of banks which, above all, are desirable for rural conditions, for it is they which teach prudence, thrift, temperance, the productive use of capital, unselfishness and mutual help, above all other forms of banking organization.

The law,* then, must provide for each class of banking society as noted above, since the provisions, privileges, subventions suitable to the one are not necessarily suited to the others. It is needful, however, to insure for all societies that their promotion and formation shall be *bonâ fide* and that they shall not be bogus companies started by a swindler or group of swindlers for their own benefit, or even by ignorant well-meaning men without the slightest knowledge or business capacity. Their articles must be subject to such scrutiny as shall ensure their being legal and equitable; the word 'limited' may be so developed as to permit of a liability equal to a multiple of the share value or to an additional fraction: societies with variable capital and non-transferable shares must be legalized. Reserves must be made compulsory, a minimum being prescribed in terms of a proportion of the capital or deposits, the funds being obtained from a definite proportion of the profits and such other sources as the articles may permit, and invested only in particular classes of securities.

It is necessary to define more particularly the duties and responsibilities of directors, to insist upon their having an inalienable stake in the welfare of the business, and to restrict their powers of borrowing the society's funds.

Provision should be made for an internal standing committee of supervision, wholly outside of the directorate, which shall have powers of continuous audit and surveillance.

The efficiency and completeness of periodical audit by persons outside of the society should be provided for, and in such audit, as well as in general meetings, the interest of depositors, debenture holders and other creditors should be safeguarded by convenient means, such as their representation by a separate co-auditor or by delegates.

* For a complete statement of the proposed law, see Appendix I, Chapter on 'Law,' and the 'Draft Bill.'

Societies, which receive deposits beyond the amount of one year's subscriptions to the shares, or beyond the amount of the reserve capital and reserve, should be compelled to invest their paid-up capital, or at least a portion thereof, in Government securities, in order to provide a material guarantee for the depositors. A similar provision is required before debentures can be issued. In no case should the aggregate of such deposits or debentures exceed ten or twenty times the amount of the capital, or the total actual value of all outstanding loans.

Debentures should form a principal means of financing the societies, especially those that deal in mortgages. Provision should be made for their issue against the mass of mortgages or other bonds held by the society, the aggregate outstanding value of which must be the outside limit of the aggregate value of the debentures. They should be of long term, of very small individual value, and repayable only by periodical drawings, or at the will of the bank. Since the banks will be village or very local banks without the reputation which ensures cheap credit, the debentures issued by them should be accepted, if necessary, by a central bank, such as the Bank of Madras, which being acquainted with the affairs and solvency of the local banks, would issue its own debentures in representation of the local bank's debentures, and thus provide cheap capital: the local banks would satisfy the postulate of proximity, while the central bank's debentures would command a good market; the central bank would thus issue capital to the rural borrowers through the local banks as intermediaries.

33. *Privileges.*—Various privileges should be granted, fiscal, legal and executive.

Fiscal may take the shape of reduced stamp duties on the memorandum and articles of association, on mortgage and other bonds between the societies and borrowers, upon the issue and transfer of debentures; of reduced charges for registering the societies, and of reduced registration charges on documents. There seems no necessity to exempt banks from income-tax, for if they are joint stock banks they should pay like other trading concerns; if co-operative, large profits are against their principles, and if derived should be taxed, seeing that it is within their power to reduce their profits to a minimum by reducing the terms of their loans.

Legal privileges are those granted for the recovery of loans, such as distraint, sale without the intervention of a court, provision that registration of a bond shall have the effect of a confession of judgment thereon; the privilege of the 'purge' giving the bank priority, for itself only, over all unregistered claims not made after due notice; priority of the bank's claims (savings banks only) in case of the death or bankruptcy of trustees or officers or banks holding any of the bank's funds; priority of the claims of all loans granted for land improvement; the privilege, in the case of co-operative societies and savings banks, of determining in a simple way, on the decease of a member or depositor, the succession to a given value whether in shares, deposits or other shape; the privilege that in similar societies or banks the shares and deposits of a member to a given amount shall not be attachable by any process of court. It will also be advisable to recast the registration system, so that it may become a registry of titles and not only of deeds.

Executive privileges are those of using the Government treasuries for the deposit of strong boxes and funds, of opening accounts with Postal Savings banks which shall be treated as 'Public Accounts' under the Savings banks' rules, of obtaining subventions or guarantees, of free postage in correspondence with officials and of Government supervision. Subventions may take the form of small advances for first working expenses; it will probably be found that these will suffice such loans may be made free of interest for a term not exceeding two or three years; it is frequently the difficulty or expense of the start which prevents the establishment of societies; free registration of the society, the removal of stamp duties on the memorandum and articles of association, and Rs. 100 for first working expenses would often suffice. There appears no serious objection to such small assistance at first start, and till the country has adopted the habit of organizing its credit; while careless individual charity begets beggars and paupers, a small loan to a deserving but struggling man will often give him precisely that impulse that start in life, which makes a thriving citizen out of a sinking pauper. Sub-

ventions in the larger sense of the word, *i.e.*, loans of considerable sums of money at favourable rates of interest or without interest, are seldom useful, and are absolutely rejected by the co-operative societies of Europe. If used simply as a reserve, they induce a tendency to reckless business, since the reserve bears all losses; while, if used as working capital, they will be lent without that scrupulous regard to security which is ordinarily found when capital is the result of personal saving. If subvention goes still further, and is more than a mere *supplement* to the general funds of the society, it destroys the main principles which must underlie the true organization of credit, *viz.*, prior and continuous thrift, self-help, steady foresight, incessant self-restraint; it strengthens the idea that a people is to be supported by State crutches, that its misfortunes, however they may arise, are to be relieved *ab extra* and usually at public, *i.e.*, at other tax-payers' expense. Still less is it advisable,—it is indeed a grave economic and national error,—to provide a society with all the funds it needs at State, *i.e.*, at the tax-payers' expense.]

It is otherwise, to a great extent, with subventions which are merely business loans paid for at market rates, and based on business principles. It is notorious that these societies cannot trade successfully or develop their full value if they use only their own capital; the subscribed capital and reserve should be used rather as a guarantee capital securing the deposits, debentures or other loans attracted from the public. The foundation principles of such societies should be an own capital used to secure borrowed capital; the own capital may be either a subscribed capital, since such subscriptions initiate and enforce the habits of thrift, or the general property of the members duly charged for the security of the loans. From the society's point of view the borrowed capital may, in this case, be just as readily accepted from the State as from the public; the State must however demand (1) full market interest, *viz.*, that at which it can itself borrow; (2) an insurance element as cover against losses; (3) wages of supervision and other costs of borrowing and lending; (4) a charge sufficient to recoup any depreciation of its own credit caused by large borrowings; (5) a charge for profit. If all these items are not included, the loans will, *pro tanto*, be at the expense of the tax-payers, private savings and deposits in banks will be checked, the free play of competition will be stifled, and the public will be taught that rural banking is merely a form of State charity.]

There are not many examples in Europe of Governments issuing public money for general or even for mortgage credit purposes; when State money, except in certain small States, has been used, it has been for some such purpose as the Russian loans to ex-serfs for the purchase of land, or the loans from the Treasury to Irish tenants for purchases by tenants under the several Irish Land Acts, or loans for specific land improvements, such as drainage, as in England, France and Germany. Still it is recognized that if the public necessity is urgent, State funds may be advanced. It may be that in this Presidency though the mortgage and other debts may not be grievous, the necessity for establishing or encouraging banks is so imperative, as to justify the partial and temporary use of State funds, but always on a business footing.

[It is, however, from a national point of view, a serious objection to large State subventions even at full market rates, that if the banks look to Government for funds, they will the less bestir themselves to attract private savings, so that national thrift will be the less stimulated. It is far easier to borrow twenty or thirty thousand rupees in a lump from the State as creditor, than to receive the same in thousands of petty accounts with their continual in- and out-payments. Yet it is precisely by the stimulation of these petty accounts that the banks will fulfil a chief function of their existence; they are not intended merely as sources of credit, but as provocative of thrift, as the depositories of savings, as the developers of capital, and, finally, as instruments of credit.]

[From another point of view large State subventions are inadvisable; it is not only impossible for a State to provide the crores of rupees necessary, but it is politically objectionable that the State should be a general creditor.]

But it is suggested that moderate Government advances are not only permissible but desirable. [It is found by experience that small State advances for initial expenses go very far in promoting the establishment of Village banks; many inchoate banks have been stopped in the initial stage by the cost of the preliminary

expenses which necessarily fall on the promoters ; small grants of money coupled with reduced fees would not only remove this difficulty, but would stimulate the formation of banks by evincing the interest and opinion of the authorities. The interest shown in the Raiffeisen Village banks by the Emperors of Germany coupled with very moderate grants of funds—in all only £2,500—has assisted their development, and in Austria the Provincial Governments are similarly favouring these societies and making small advances for initial expenses, so that 245 societies were formed in about five years. These small advances should be for short terms, say three years, at 3 per cent. interest, and be payable by the Commissioner.

More substantial aid may, however, be given in providing a moderate share of the early working capital. Such assistance should be moderate and temporary, not exceeding one or two thousand rupees for each bank and repayable by annuities within, say, ten years. The principle of State advances for land improvements and even for loans to agriculturists has been deliberately recognized by law ; in making advances to banks for *productive* loans generally, the principle is but slightly if at all widened. It would, indeed, be easy to provide that State advances should be used only in certain classes of loans, and the Commissioner's inspections would insure adherence to this condition. The result would be that the State would grant loans to associations instead of, as at present, to individuals, a method by which burdensome individual enquiries would be eliminated and security increased. The State advances might be given as direct loans, by subscribing for founders' shares, or, preferably, by purchasing debentures ; the State would thus, especially in the last-named case, be secured not by a petty individual property for each loan, but by the whole mass of securities held by the bank, as well as by the credit and reserves of the bank itself.

The aggregate amount to be provided by the State would be extremely moderate. If the average grant per bank be Rs. 2,000, the term of gradual repayment by annuities ten years, and the number of banks started 1,000 per annum, the aggregate required would be only 100 lakhs. Since this sum could be borrowed at $3\frac{1}{2}$ per cent. and lent to the banks at 6 per cent., the profits to the State would be $2\frac{1}{2}$ lakhs annually, a sum amply sufficient to provide for supervision, costs, insurance and the like.

It should be a condition of the grant that shares should be under subscription for an amount equal to at least three times the amount of the grant.

Government subventions, if granted at favourable interest, should by law take precedence of all other debts of the bank ; if granted only as business loans, they should not be so privileged, since the terms include a charge for insurance.

Subventions may often be usefully given by the purchase of the society's debentures or founders' shares ; such purchase in open market has none of the bad effects of a direct loan, while it is a certificate of the interest which Government has in the enterprise, and of its confidence in the society's stability. In such case Government would rank with other debenture creditors.

A State guarantee is an alternative form of subvention, and has the advantage of not requiring State funds. But it is obviously dangerous if the guarantee covers the whole amount of the bank's transactions, and would lead to the most reckless trading. A State guarantee might be confined to the amount of interest only and would cease upon the liquidation of the bank ; any losses to Government in any one year by the guarantee should be recouped in succeeding years by a first charge upon the general profits or a guarantee might be given up to a proportion of the capital.

Power should be given by law to the Government to enforce the formation of a Public Reserve or Insurance fund to which every bank registered under the law should be compelled to contribute ; such reserve to be used solely as a guarantee for the repayment of sums due by banks in liquidation, whether due to Government on account of subventions or guaranteed payments, or to the public in general as depositors or other creditors. This Public fund should be entirely independent of any reserves held by individual banks, and should be held in trust by the Accountant-General and invested in Government securities.

Subventions whether by loan or guarantee, connote corresponding supervision, apart from the general supervision to be exercised by the State over banking.

concerns. This may be effected by a right to appoint directors proportionately to the interest involved. ↓

34. *Supervision.*—This is absolutely necessary, and is found in every country of the world without exception, where banking, and especially the banking of the poorer classes, is involved; still more when national thrift, providence and self-help are concerned. Such supervision is as marked in England and America as it is in the countries of Continental Europe, as shown in detail in Appendix I (*see* the several classes of banks, and the chapter on 'Law'); the United States in their several banking laws, provide complete instances of this supervision. ↓

It is recommended that this supervision be exercised by a Commissioner who may, as in Italy, be the Director of Agriculture, Trade, and Industry. The Commissioner should be the general registrar, referee, and adviser for all such societies, should collect useful information, promote and stimulate the formation of societies, preside in person or by delegate at the general meeting preliminary to formation, and report annually to Government upon the general condition of societies. The law should provide for him powers of inspection through proper examiners and auditors, of demanding returns in forms and on subjects to be settled by him, of deciding disputes, of compelling proper audit, of refusing the continuance of a certificate to an unsound society, and of compelling liquidation by application to court. The Commissioner should have power to grant minor subventions for the starting of banks and societies, and all recommendations for the larger class of subventions should be made by him.

The law should also provide permissively for local Boards of control and supervision to be appointed by the Commissioner under rules to be approved by Government; such Boards should undertake the local duties of the Commissioner especially in the matters of promoting and advising societies, of recommending them for subventions, and of arbitrating, but should have no control over the examiners or auditors appointed by the Commissioner for the due inspection of the societies' affairs and accounts. Members of such Boards might be paid travelling allowances and moderate honoraria from a fund to be contributed *pro rata* by the several societies. The Boards would, however, be useless as soon as the societies organized themselves into groups, as is invariably the case with the German and Italian co-operative banks for the purpose of stimulating the starting, development and due management of societies.

The stimulative functions of the Commissioner and of the Boards would be of the highest importance; they would exercise a continuous stimulus upon the dull conservatism of the villages by the provision of information, by the visits of inspectors and members of the Boards, by inviting influential ryots to be present at the meetings of successful banks, by the establishment of a special 'Moniteur,' and by other like methods. The Commissioner and the Boards would encourage and stimulate at least as usefully as they would supervise.

35. *Liquidation of debts.*—The prior liquidation of debts by a Government staff has been demanded as a necessary preliminary to the establishment of banks. Whatever its necessity elsewhere it is not needed in Madras; debt in general is in no way overwhelming among the ryots, who are fairly solvent, with of course many exceptions. ↓ Banks will find a sufficient clientèle among the solvent ryots to begin with, and can adapt themselves to the poorer or more involved as they attain experience, a settled position, and surplus funds. The state of the peasantry in Europe is not one whit less involved than in Madras; probably indebtedness is in Europe, more pressing in general than in Madras, yet no attempt has ever been made to liquidate prior debts. For one thing it is impossible; the Prussian Government expressly admitted in the law of 1807 that it passes the power of Government to succour individuals and that it would be inadvisable to attempt it; the enormous difficulty attending the commutation of fixed feudal charges, a mere trifle which required bank advances for only £13,000,000 for the whole kingdom, shows the impossibility of liquidating the private debts of a nation. Nor does the history of the European Popular Banks or of the Madras Nidhis show any such necessity; whatever the poverty or indebtedness of the clientèle of the banks, whatever the demands of the usurer, or his power over the peasants, the mere action of the banks themselves, started, be it remembered in the humblest and smallest way amongst the poorest of men, has sufficed; the bank lends the money at favourable rates and

the borrower therewith pays off his usurious debts; in fact, one chief object of the Nidhis is the removal of such debts by their loans. To this, however, might probably be added the action of banks as arbitrators in reducing the claims of creditors.

One great argument for the absolute restriction of banks to a small area is the very fact that in this way no liquidation is necessary; liquidation is only sought for to provide banks with a ready-whitewashed and solvent clientèle, so that the bank, without effort of its own, may begin work as a fully going concern. A large central bank requires such a clientèle to be provided for it when it proposes to deal, off hand, with a mass of petty cultivators, none of whom has ever dealt with a bank before; liquidation in fact is a mere means of handing over a clientèle not only ready made, but bound by contract to the bank. That is not the true principle of action.

But though a general liquidation is unnecessary, provision may be made for arbitration, so that either the commissioner, or his delegates, or the local boards, or the officers or delegates of a union of societies, or of any particular society, or, finally, the Village or other Courts, might arbitrate between a member of a society and his creditors. Such arbitration may be declared compulsory upon the application of the debtor up to the amount of Rs. 20 before a Village Court, or Rs. 50 before any other Court, but optional or dependent upon the consent of both parties in all other cases. By this means the redemption of prior debts through loans from the banks will be facilitated.

36. *Registration.*—The development of the Registration law, from one of mere assurances to one of title, is a very wide subject. That it is a necessity, probably of the near future, cannot be doubted; there must be some legal and absolute record of title. Its introduction is perfectly feasible, especially now that the cadastral survey of the ryotwari tracts of this presidency is practically complete, the primary condition of a complete system of registration of title being thus fulfilled. A discussion in this report of the methods of such a system, is, however, impossible; a complete prior study, both of the various systems and of the conditions of the Indian problem, would be required; only a slight sketch will be found in Appendix I.

There can be no doubt that if the land registers of the Revenue offices showed not merely the names of the Government ryots and their holdings, but were actual estate registers showing occupancy, title, and encumbrances, so that any sharer, occupier, or encumbrancer must find place on the estate folio, land banks could safely lend so far as these facts are concerned. What, however prevents land banks from lending to small folk is not so much difficulties of title, as the chance of prior encumbrances, the difficulty and cost of valuation as compared with the size of the loan, and the worthlessness, to a distant bank, of the petty parcels offered as security. As regards prior encumbrances, the new form of indexes will remove all difficulty in ascertaining them, but no change in registration methods can obviate the necessity for valuations, or render small isolated patches of land a desirable security to a central bank.

Fortunately, the difficulty is almost entirely obviated by the establishment of village banks as against central banks; small local banks, like the local money-lenders, require no registers of title to make perfectly sure that the lands offered in security belong in fact and in law to the borrower, while they have other means of preventing any fraud either in title or by concealed prior encumbrances; they are on the spot and can value the lands without difficulty, while the security even of small patches of land, is perfectly good, since they can prevent those collusive sales for arrears which would be the danger of the central bank. The ability of the Mofussil Nidhis to grant mortgage loans freely without recourse to the Registration offices and without loss, and the fact that not a single suit regarding title or prior encumbrance can be found on their records, shows that, however desirable, a system of registration of title is not essential to the establishment of village or local banks.

37. *Other amendments.*—Certain amendments of the general and of special laws are needed, for which the chapter on 'Law' in Appendix I must be consulted. Such are the amendment of the Usury Law of 1855, so that Courts may have discretion to modify the interest in a transaction where the circumstances disclose *real* usury: the legal recognition of the Bill of Sale, with provision for its registration

certain amendments of the Companies Act, the Transfer of Property Act and the Stamp and Registration Acts.

38. *Summary.*—Starting from the postulates of credit, viz., proximity, security to the lender, facility and safety to the borrower, the quality of proximity being essential in rural credit, it has been shown that practically the only institutions which have succeeded in bringing to the peasant that continuous ever-fluctuating credit which he needs, are, except in Switzerland, the popular co-operative banks of the several classes known as Schulze-Delitzsch and Raiffeisen banks with their congeners and followers on the continent of Europe; other classes give credit on mortgage such as the Building Societies of England and America, and these societies are the mortgage banks of the small folk; saving banks also succeed to a considerable extent in assisting such folk with credit, chiefly on mortgage. But the great land and other banks, whether privileged or not, are able to assist only large and medium cultivators.

All the successful systems have been the work of single philanthropic individuals who have conceived the ideas and have personally and patiently laboured,—it may be without success for even tens of years,—until their ideas have become established and successful facts; it is not the State but the individual who has originated and developed the ideas of thrift and popular credit in Europe. Nevertheless had it been possible to foresee the methods and the difficulties of the several institutions, it would have been advisable to assist their development by favourable laws and otherwise, as has been done when their scope and limitations, their defects and their successes, became apparent.

In Madras banks in general are wholly wanting and the individual money-lender is universal and supreme. He is expensive and dangerous even when a ryot; it is difficult to control or bridle him save by wholesome competition, which must be provided by banks of all classes other than State banks, but with a decided leaning towards the co-operative system, as promoting not merely facile credit but safe credit, and not merely facile and safe credit but the fundamental virtues of thrift, providence, self and mutual help. A beginning is already found in the Nidhis which are the development, on Building society lines, of the indigenous 'Kattu-chit' system of this Presidency; these Nidhis are endeavouring, and with some success so far as they have gone, to grant credit of various classes to their clients. They are however defective in many ways, in spite of their being developments of an indigenous idea; they number only 140, though their original was started in Madras in the middle of the century, just when Schulze-Delitzsch and Raiffeisen conceived the ideas which have resulted in the many thousand credit societies or banks of those types, and they are apt to diverge not merely from the co-operative principle, but from sound business. It is clear that the movement requires recognition and assistance by the legislature, by the executive, and by the sagacious and prudent of all classes.

Finality, however, is not to be found in this or any other particular system; it is in the adoption of the general principles of banking, of organized and popular thrift, and of popular distribution, that success lies; these principles must take various shapes as in the numerous institutions of the West: it is in the general ramification of organized thrift and credit, especially in their co-operative forms, that success is to be sought.

Banks, whether Nidhis or other, should be promoted by a law which shall favour their formation and management, shall grant fiscal, legal and executive privileges, and shall provide a considerable degree of supervision over them, but shall not require direct State interference in their management. State funds on favourable rates may be granted only in small sums for first expenses; if in large sums, then only as thoroughly business transactions upon business terms. In general, however, the banks should rely upon the public for their funds, through the attraction of deposits and the issue of debentures. All rural credit should be under the supervision of a commissioner who should be preferably the Director of Agriculture.

But the chief development of every class of institution for the promotion of thrift, prudence, temperance, self and mutual help,—institutions so sorely needed

and so conspicuously absent in this country,—rests with the men in whom enthusiasm and philanthropic fervour for reform are mingled with knowledge and practical skill, and with the perseverance which knows not the word ‘*impossible*.’

There is nothing in the existing law, nothing in the action of the State, which hinders the establishment of thrift and credit societies whensoever and wheresoever they are demanded; the law and the executive may not, as yet, have granted privileges or even issued suggestions, but neither have they placed obstacles; the conditions of society, so far as they depend upon the law and upon Government are not unfavourable to the establishment of societies: fiscal burdens are moderate, the power of association absolutely unfettered, communications easy, justice pure and fairly prompt and accessible, the press developing, and public and individual enterprise unhampered. The obstacles in Europe, at least in 1850 and for decades thereafter, were much more considerable, yet societies originated and prospered exceedingly. Even in this Presidency the success of the Nidhis is a proof that, given personal zeal, intelligence and honesty, there is nothing to prevent the complete financial success of societies even under the present law and conditions. What is wanted is the individual initiative and continuous devotion of those who by their position and education, by the wisdom of an educated philanthropy, should lead the country in the path of rural reform.

There are in every considerable village men fully the equal in intelligence and status, of the men who in Europe locally administer the movement and direct the institutions; it remains only to find the men of apostolic fervour who will pioneer and champion the idea, and will labour in person in the villages, not merely or so much in lecturing and writing, good though these may be, but in the actual establishment and administration of humble societies. It is not in great schemes or institutions, not in reports or circulars or Government orders, not even in specially granted privileges, that success lies, but in the unassuming labours which, starting with simple ideas, simple aims, and simple facts overcome each difficulty as it arises, and perfect, *ambulando*, the systems which shall be found suitable to the needs of the country. It is beyond the power of any brain however fertile, of any man however fully informed, to conceive in advance a method, *confectus ad unguem*, of banking for the people, least of all in a country where the conditions are so novel, the banking idea so absolutely unknown, as in this country. Success can only arise from the long-continued, practical efforts of zealous men, who while informed in the details of every method yet tried, can yet live among the people, vivify them with their own spirit and intelligence, energize them with some of their own enthusiasm, and, with them, work out in actual fact, even though on the humblest lines, the system or systems of the future. Success may not come in a year or in a decade, but if there are in this Presidency men of the character and energy of those pioneers of popular banking whose names have been so prominently mentioned in this report, it cannot be long delayed.

APPENDIX I.

PART I.—EUROPE.

CHAPTER I.—CREDIT.

Necessity for credit.—The lesson of universal agrarian history from Rome to Scotland is that an essential of agriculture is credit. Neither the condition of the country nor the nature of the land tenures, nor the position of agriculture, affects the one great fact that agriculturists must borrow. If the country is undeveloped as were the plains of ancient Italy, the wastes of Scotland, the prairies of America, the early settlers harassed by the uncertainty of season acting upon defective methods, are forced to borrow; if the country is highly civilized and populous, its farmers are driven to intensive agriculture for which their own capital is seldom sufficient; even when the actual farmer is a considerable tenant, as in England, and is therefore not only in command of considerable capital, but holds his land without the need for sinking his capital in the purchase of land, he is frequently compelled to borrow either by way of advances against crops or in order to purchase stock; in fact his mere enjoyment of the land in which his landlord has invested an immense capital is a practical enjoyment, *i.e.*, borrowing of that landlord's capital, and that at low interest. Still more, then, is the small farmer of Europe under the necessity of borrowing; for centuries harassed by war, feudal disabilities, misrule, holding petty areas of often unimproved land; compelled by his tenure as proprietor to expend his capital in the purchase of land usually at competition rates; forced by the laws of inheritance to mortgage his land on behalf of co-heirs for whom the little farm cannot provide a further sub-division; obliged therefore to borrow further capital for working capital, for maintenance, for taxes, &c.; harassed by seasonal disasters hardly exceeded even in India, such as drought (as in 1893), floods and excessive rain, hail, cattle disease, insect pests and blights from the ordinary plagues to the phylloxera which swept away vineyards to the value of many millions sterling; with these embarrassments, the necessity of the European agriculturist for credit and for cheap credit, is intelligible. It is, then, wholly unlikely that the Indian peasant, especially the small ryot of Madras and Bombay, will escape this necessity; in fact he has not done so, and his position as a borrower, and the defective methods of credit alone open to him are amongst the subjects which most persistently force themselves upon the attention of students of rural economy. This study assumes as axiomatic that the peasantry of India must, by the very conditions of their existence and tenure, borrow, and borrow freely, annually and continuously.

It must be remembered, however, that agricultural borrowing or even indebtedness, is not necessarily, perhaps not generally, parallel with that of the ordinary tradesman or professional; in agriculture, especially where the farmer is also proprietor, credit almost entirely represents not merely an actual business transaction but a product either actual or potential; it is generally either an advance to provide for the growth of a crop, an advance upon an existing crop, or an advance upon the land and stock of the farmer. In other words, not only is the credit a safe transaction for the lender, being based upon actual production or productive property, but it is safe, in its essence, for the borrower, since it is merely the anticipation of a crop, actual or potential, or it is the temporary mobilization of part of the capital possessed by the peasant in his land and stock. When therefore a peasantry with land worth 200 crores, and annual produce worth 50 crores, has annual borrowings of 20 or even 30 crores, it does not necessarily follow that such peasantry is at all seriously embarrassed; it may and often does mean temporary mobilization of existing capital. It may indeed and often does mean a true development of wealth; if a man with land worth Rs. 500, mortgages that land for Rs. 300, and sinks the proceeds in a well, he merely mobilizes temporarily a portion of his own actual capital, not that of a third person, and when the loan is paid off from the plus-value of the improvement, he has increased his own and the country's wealth by Rs. 300.

Unfortunately agricultural credit, safe and cheap though it *should* be, being based upon facts and things, is precisely the credit which is the dearest and most productive of cruel wrong to the borrower; the ignorance and isolation of the peasant, the contempt with which urban banks would view the application by an unknown peasant for a petty loan, or for a cash credit dealing in tens or even in single rupees, the uselessness of the security offered, *viz.*, the little farm, or the poor stock, to an urban bank or even urban lender, or in fact to any lender outside of the borrower's immediate neighbourhood, account for much of the difficulty; on the other hand the monopoly possessed by the small local capitalist, his desire for gain, for land, for local influence, the history of custom, and an actual scarcity of loanable capital—*i.e.*, surplus capital seeking investment,—in the rural tracts, account for much of the remainder. When to these difficulties are added those of seasonal stress, the uncertainties attending any particular crop, and the results of the peasants' own improvidence and extravagance, often induced moreover by a sudden access of mortgagable wealth, the difficulties of agricultural credit and the dangers to the borrower are sufficiently accounted for. It will be seen then that since credit is essential to agriculture, it is equally essential that credit should be cheap but above all safe, and it is assumed in this study that it is one of the duties of the State, especially of an agricultural State, to take precautions that rural credit shall be both accessible, cheap, safe and productive, not necessarily or even probably by any serious direct provision of credit, but by the provision of laws which shall favour the development of such credit.

The right use and modes of credit.—It is then beyond dispute that agriculturists, especially small ones must, in the present state of society and industry use credit. But the use of credit as distinguished from its abuse, the directions in which it may be properly employed and the methods by which such use may be safeguarded are not so clearly determined; this is shown by the fact that the whole Indian

discussions on the subject turn upon the question of facile and cheap credit, as though the Indian ryot were capable, if supplied with such credit, of distinguishing between use and abuse; as if he would be able, untaught, untrained in calculated thrift and prudence, to restrain himself from mortgaging his credit to its full value whenever there arose what might seem to him, to his family or to his neighbours a necessary opportunity for so doing. No nation in the world, not even the German peasant, has refrained from using to the full the mortgage credit made available to him by social and political events such as, in Prussia, the change from feudalism to independence, in India the evolution of order and the establishment of general peace, in America the development of values by the introduction of railways and the accumulation of wealth. Much indeed of this indebtedness is due to causes outside of the farmer's control, but it is none the less true that the abuse of credit, even among the more intelligent and wealthy class, is general.

¶ Credit is a weapon that may destroy the unskilful wielder; it is helpful or destructive according as it is used or abused. The abuse of credit may be seen in millions of cases where the power of mortgaging a sudden and unearned increment of value has beguiled the ryot or the European peasant into an indebtedness which finds no counterbalance in an improved estate. Its use and power in those wonderful and stirring pictures of revived peasant life which are to be found in the reports of the Raiffeisen and Wollemborg Associations of Germany and Italy, in which the ignorant, starving, usury-ridden Bauer or Contadino—the latter often a mere tenant—finds new powers, new hopes, and new prosperity through the agency of associated credit. It is not credit alone that has done this; isolated credit means, as heretofore, isolated and therefore ignorant ideas of the use of credit; it is in the addition of mutually helpful association that credit assumes that ability to stimulate, strengthen, and raise the peasant even when a drunkard, an idler or a pauper, of which the Raiffeisen and Wollemborg societies present such striking object lessons to the Indian world. Free and unrestricted credit to agriculturists in isolation is a positive danger; credit in association, guided and influenced in its use by the wiser counsels, by the increased self-respect and self-restraint which association with the wiser and more prudent in a mutual self-developed, self-managed association, produces, is a powerful restorative, an educative and disciplinary agent, a national necessity.

¶ Hence it is not merely cheap and facile credit that is needed; it is not money lent on easy terms without regard to the use made of the money; it is guarded, guided and productive credit that is the necessity of the times; the form which organized credit must take must in itself be a safeguard, a guide and a restraint, so that credit may be used not for mere extravagance or even without intelligent foresight, but only in such manner as will conduce to prosperity and production. Credit which takes no heed of the borrower, no care for his well-being, is not the credit that this study contemplates; only that credit is sought which develops the man and the nation; it is the development of men, not of banks, of banks only as developing men, that this study desires to facilitate.

¶ *Need for organized credit.*—It is well to enquire why the establishment of banks is considered advisable; whether in fact the present system—so called—of private money lending is not or may not be made safe and sufficient. It might be sufficient to point to the economic history of every modern nation which proves that the individual money lender has everywhere given place to organized credit, just in proportion as society advanced in complexity, in general wealth, in trade, in the development of the middle classes, in the reign of law, order and confidence, and in all that the 19th century terms civilization; developed institutions connote organized credit. This, however, is no sufficient answer: the true reason why it is desirable to replace individual by organized credit is to be found in the results of banking credit, and in the requirements of industry, especially of agriculture.

The promotion of thrift, the utilization of petty and idle hoards in productive industry, the necessity for drawing from larger sources of capital, the ability to grant long-term loans and to receive loans back in small instalments; the public and open methods of business; the general absence of fraud and chicanery in dealing with borrowers; the absence of desire to possess themselves of the land of their debtors, or to acquire undue influence over them for selfish ends; the tendency to grant loans chiefly for productive purposes for the sake, however, not of the borrower, but of their own security; such are advantages common to all institutions of organized credit. But the greatest of all advantages is found in that class of banks called co-operative, where the advancement of the members, i.e., the borrowers, is the principal object of the banks, and not the mere earning of dividends on capital, still less the exploitation of the borrower. The moral and material effect of association in a really co-operative bank is marvellous; the new power obtained by the members, the educative influence exerted by the bank in promoting improvements and discouraging extravagance, the continuous impulse towards further developments, not merely in credit, but in all manner of social and industrial improvements, which the principle of association develops, proclaim the co-operative societies of Europe and America as factors of incalculable value in social development. It is this reason above all others that is of weight in determining whether credit should remain a monopoly of the private lender, or should develop by organized association. It is not every organized credit that has all these merits; joint stock credit is good, but it lacks the weightiest of all reasons, that of the effect of mutual help in co-operative associations. Joint stock credit has the interests of lender and borrower in a manner opposed, while in many such organizations, it is the special interests and often object of a body of men to exploit borrowers and depositors for the sake of private gain. Joint stock credit attains its real development only when its own interests are absolutely bound up with the interests of the community, when the community is at the same time the promoting body and the clientèle; in other words, when it is co-operative.

It is assumed, then, as axiomatic, that the establishment of an organized system of banking especially co-operative, is desirable and even necessary, to promote the useful accumulation of capital to develop the qualities of thrift and prudence, to assist industries and especially agriculture by long term loans, to turn credit into productive channels, and to stimulate into activity the great virtues of self and mutual help. ✓

¶ *The applications of credit.*—These are generally (1) the purchase and improvement of land, including the development of irrigation and drainage, the planting of orchards, &c.; (2) relief from private debt; (3) the purchase of cattle, manure, seed, implements, stock in trade including raw material for artisans; (4) house-building and furnishing; (5) advances in anticipation of the sale of produce; (6)

maintenance; (7) advances for undertaking contracts or business enterprises; (8) payment of revenue or rent; (9) education; (10) legal expenses; (11) manufacture and purchase of ornaments and other tangible luxuries; (12) mere unproductive and wasteful outlay. Of the above applications it will probably be conceded that banking credit as intended by this study will take no heed of class 12, and will discourage classes 10 and 11, the minimization of expense under class 10 being, indeed, one of the chief functions of rural associations by the provision of methods of conciliation and arbitration and the discouragement of resort to the courts except in case of necessity.

Classification of credit.—This, following the divisions of capital in its widest sense, is divided into three heads, real, chattel and personal; the first is that based on land and immovables, and should ordinarily be used only for long-term improvement loans, secured by mortgage; the second is that based on movables whether by actual pledge as in pawnbroking or deposit of valuables, or without delivery as by bills of sale; the third is that indeterminate credit based on what is technically called "character," but which really includes a man's status, property, character, power of obtaining sureties, and prospects; such is the ordinary cash credit of Scotland, the general credit of the Popular Banks of Europe, the common loans to agriculturists by money lenders in this and every country, shop credit, and the personal loans of the Madras Nidhis. Each class of credit has its own appropriate institutions; it is rarely that all or even several of the classes are combined in one bank; even the Madras Nidhis, while granting all classes are usually found to deal chiefly in one or other class.

The conditions of rural credit.—Recognizing the above as a statement of the chief uses for which rural credit is required, it remains to examine the postulates of such credit. These fall into various classes; (1) those which are demanded by credit in general and by both lender and borrower; (2) those demanded by the lender; (3) those needed by the borrower; (4) those demanded by the particular applications of credit. While thus classifying them for convenience sake, it must be noted that the absence of those demanded by the lender, eventually affects the borrower; what is unsafe for the lender, must cost the borrower dear.

Proximity.—That which is required jointly by both lender and borrower may be summed up in the word "proximity." The great lesson of European credit is that without absolute proximity there is no such thing as credit on any reasonable terms for the small folk; hardly indeed is there credit at all. Until of late only one form of credit satisfied this postulate, viz., that of the private money lender; his credit satisfies the postulate of proximity, but not necessarily any other postulate.

The borrowers contemplated by this study are the men of the villages, and the loans those required by small and obscure folk; no bank of any ordinary type can get down to the villages, ascertain the status of the small farmer and the security he can offer; the expenses of the enquiry and the risks of the loan would render the necessary cost of any loan far higher than that of the local and proximate money lender, who, probably a villager himself, certainly with a life-long connection with the village clientèle, knows his men and their position better than they themselves. Moreover the peasant is at least as ignorant of town banks, at least as distrustful of their strange methods, and rigid rules, as the bank is ignorant and distrustful of him, with the result that bank and customer cannot get on terms one with the other.

The German Land Banks, the French Crédit Foncier, the Hungarian Boden-kredit Institut have nowhere attempted to deal with the masses of peasants; till of late only the Scotch Banks with their peculiar history and thousand agencies, and an occasional State bank in some petty German State, have succeeded in giving to the peasant that *continuous* credit, mortgage and personal, which he requires; as elsewhere pointed out, the rent charge Banks of Germany and the Peasants' Land Banks of Russia are not cases in point. But of late, say from 1850, banks have become increasingly available to the peasant even of the smallest type; such are the Swiss Banks, the Savings Banks of Prussia, the Popular Banks and Credit Societies of Germany, Austria and Italy, the Building Societies of England and America, the National Banks of the United States. In every one of these cases the first reason of their success is their absolute proximity to the clientèle, so that that knowledge which is the first basis of all credit, becomes a fact. The successful Societies (Nidhis) of this Presidency are successful and prosperous just in so far as they deal with a purely local clientèle; the invariable answer to questions as to the security of loans, is, on the part of the borrowers and members, that they know the directors and trust them and their management, on the part of the bank that their directors are intimately acquainted with the candidates for loans. Proximity involving knowledge, mutual confidence, ease and cheapness of enquiry is an essential; *without proximity no credit.*

Postulates demanded by the lender.—These may be summed up in the word *security*. If a lender is secure that his loan will be eventually repaid, that the dues will be punctually met, that arrears shall be easily recoverable, that his contract will be faithfully observed, that evasion, fraud and delay by debtors will be minimized or eliminated, capital will flow readily to the borrower on terms which will be cheap and equitable provided that the borrower's postulates are also satisfied by the elimination from the contract of the results of monopoly, custom and personal greed on the part of the lender.

Hence an important consideration in credit is the sanctity of contract, always provided that such contract has been made under conditions in which the borrower if not on equal terms with the lender, is yet an intelligent and free agent. That is not always the case where the borrower is an ignorant peasant who, though aware of the terms of his first contract, is incapable of understanding the results of the contract, or of the methods which may be adopted to entangle him yet deeper in the toils of the lender. But in probably the bulk of the credit transactions of this Presidency, there is no deliberate attempt to ruin the borrower; the terms may be hard, but not necessarily iniquitous, and the ryot proper perfectly capable of intelligently dealing with the lender; it would therefore be an error to inflict on the Presidency, a Usury Law of any hard and fast nature; the Courts should have the power of adjusting contracts not only where the conditions of the existing Contract Act had been infringed, but where the lender had possessed an undue advantage over the borrower, the terms of the contract being, in such cases, an important class of evidence; in all other cases contracts, however hard, should be enforced. To this extent the Usury Law of 1855 should be modified.

But by far the most important elements are ease and certainty in the recovery of dues. Whatever may be said of the greed and tyranny of the lender, there is at least a *per contra* in the delays, evasions, and artifices of the borrower; concealed or antedated encumbrances, claims by minors and others, unpunctuality, concealment or fraudulent transfer of property, violence or threats of violence to the lender or his agents, are so common as to lend a large degree of risk and uncertainty to rural lending.

At present the Courts are the only instruments by which the lender can recover, and however pure and prompt these Courts may be, there are always costs, delays, the chances of error, loss of time, bad debts and other difficulties which cannot appear in the costs allowed for by the Court even when judgment has been obtained; these the lender most certainly will not forego, and they are accordingly charged for as "insurance" in the item of interest to be paid for by good and bad client alike. It is true that in this Presidency, the Village Courts are open to the money lender, but they are comparatively little availed of because the sums at issue, not being as a rule mere interest or instalments of debt, but the principal itself, are beyond the jurisdiction of such Courts. Under the system of co-operative or other banks, it will be probable that the Village Courts will be far more largely utilized owing to the difference in the system of repayment.

Putting aside these Courts, the question is whether the creditor should obtain further facilities for the recovery of his dues, such as the power of distraint, the power to sell mortgaged property without the intervention of Court, the recognition of a bond or bill of sale if specially registered, as carrying a confession of judgment and as equivalent therefore to a decree of Court. Not one of these privileges is at present granted by the law, although in England the holder of a bill of sale can proceed to distraint as though a landlord, in Scotland the holder of a registered bond can proceed to execution as though on a decree of Court, and the English mortgagee can, if the bond so provide, sell the property without proceeding to Court, in addition to any power, e.g., of distraint, which he may possess under the not uncommon attornment clause in his deed. In India the question is whether increased facilities given to the lender, and the consequent cheapening of credit would not be more than counterbalanced by the increase of power given to the creditor to expropriate the debtor or to bring such pressure to bear upon him that the money lender, whether co-ryot or sowcar, would obtain an influence which would ruin the independence of the ryot. In the conditions of Indian rural society these powers should not be given to individuals, and this very fact is an additional argument against the money lender system of credit. But the same arguments do not apply to institutions operating in public, guided by distinct and published rules, incapable of acquiring property or personal influence, and seeking merely their due returns; still less to institutions such as co-operative banks, in which the interests of the bank are those of its members, and the bank stands or falls with the prosperity or ruin of its individual borrowers; to such institutions increased powers may be safely given, under a law providing for the due exercise of such powers and under proper supervision.

A further item of security is in the ease and certainty with which validity of title or freedom from encumbrances can be ascertained. The present registration system provides the means by which prior encumbrances can be discovered, but there is yet much to be done in the way of facilitating and cheapening searches; this is now being provided for by a new system of indexing. But the registration of title is still a *desideratum* entirely unprovided for by the existing system. The difficulty is not felt by money lenders who, by their complete local knowledge, by the information at their command through debtors acting as unpaid agents, and by personal influence, can generally guard against any loans on insufficient or imperfect security, but the cost of enquiry as to encumbrances and the dangers of defective title are insuperable obstacles to Central banks whose only information would be by searches in the registration offices and by paid and often venal agents. Purely local credit societies find no difficulties in this matter; the several Nidhis have in no case been damaged by this cause, nor do they ordinarily refuse loans by reason of such uncertainty; their proximity to their borrowers and the intimate local knowledge of the directors have obviated the dangers of an imperfect registration system so long as the societies have adhered to the system of strict territorial limitation.

A further item affecting security is found in that provision of the Revenue law by which lands sold for State arrears, are sold free of all encumbrances. This is a standing difficulty, which local money lenders minimize by their local knowledge, and discount by an addition to insurance. It can however be obviated in the case of banks by simple precautions elsewhere suggested.

Postulates demanded by the borrower.—These may be summed up in the words *facility* and *safety*. "Facility" means the proximity of a source of credit which upon proper security being tendered, will at any time, and to any amount grant a loan upon equitable interest and upon easy terms of repayment. "Safety" means the assurance that the loan will not only be equitable in itself, but will not involve the debtor in undue and unforeseen risks and entanglements; that the loan will assist and not endanger the borrower's stability, productive power, or independence.

The importance of proximity has already been dealt with; the points now to be noticed are the ability to obtain money at any time, to any amount and upon equitable interest and to repay it upon reasonable terms. While it is true that the private money lender is always at hand, it is equally true that he cannot supply all demands; the demand is greater than the supply, since the lender has only his own capital from which to draw, supplemented by such loans as he himself can obtain from his business friends; the borrower has therefore to pay either a competition interest, or the interest required by at least two sets of capitalists, or both. Moreover, suppose a borrower requires a large sum; the village capitalist cannot himself supply the full loan; hence the borrower must either reduce his demand or seek loans from other capitalists, some perhaps ignorant of his status; of these loans the first one alone takes the priority, the others ranking only as second or third mortgages, and demanding therefore increasingly high interest.

It is, however, in the repayment of the loan that the borrower not only enjoys no facility, but very seriously hampered. This point has too much escaped attention; stress has been laid upon the willingness of the lender to give the borrower time, and to accept part payment in bad seasons; this is true, though there is an overwhelming *per contra*, that though the debtor thus gains a temporary respite, it has to be heavily paid for, in interest upon interest, or in fresh bonds with new conditions. But it is in the fact that loans are usually of short term or on demand, and are repayable generally in

lump, that the most serious injury arises.) Except for advances upon crops repayable at harvest, loans are generally for a given number of months or years, and are repayable—except under the 'Kanthu' system—in lump, or in very few instalments or, still worse, are repayable on demand. No private lender can stand out of his capital for many years except when the original loan is small and is allowed to roll up at compound interest with incessantly renewed bonds, as in loans to impoverished estates. Still less can he afford to receive his capital back in petty dribblets spread, as under the sinking fund principle, over a long series of years. Yet it will be shown in this study that agricultural credit, especially when devoted to the development of land, must be of very long term and that the repayment must be in small dribblets, solely from the profits or plus-value which the land or farm yields by reason of the outlay; it is an axiom as old as Adam Smith, that capital sunk in land cannot be recovered, but can only be gradually replaced by fresh savings out of profits. Hence the régime of the private money lender is defective in that very class of credit which is the principal object of the demand for organized credit. It is however precisely organized credit, that is banks, which can give the ryot the facilities which he seeks; having access to larger funds, drawn from the continually inflowing funds of members, shareholders, depositors, debenture holders, a bank can usually grant funds at any season and to any reasonable extent; interest is regulated not by the need of the borrower or by the competition for loans but by the published rules of business; most important of all, dealing as a bank does with hundreds or thousands of clients, it can receive from each his petty instalment by which is incessantly recomposed the mass of its loanable funds, and can thus satisfy the demands of the borrower for repayment through the process of slow amortization. It may be added that since the instalments will usually be below Rs. 20, arrears can be enforced by means of the Village Courts, an improvement which will not only place cheap and prompt recovery at the lender's doors, and thus cheapen credit to the borrower, but will develop the importance and therefore the power of work of the Courts themselves.

The borrower finds "safety" only when the lender has no interest in his entanglement. The history of private money lending throughout Europe declares that such entanglement, whether intentional or otherwise, is general, and it is absolutely certain that, in myriads of cases, such entanglement is deliberately promoted for the purposes of private greed, whether such greed be for money, for land or for power. Such is equally the lesson of Indian money-lending. Apart however from deliberate entanglement or fraud it is certain that the embarrassment of the borrower is habitual when the lender is an individual; the rates of interest are so high, the terms of repayment so unsuitable, that the borrower who once enters the net of the money lender seldom extricates himself save at serious loss. But in the case of banks, the borrower has the advantage of absolutely fixed terms; the original contract is probably equitable and the conditions as to interest and repayment as suitable as they can be made; these are rigidly adhered to, so that the borrower knows precisely, so far as his dealings with the bank are concerned, what engagements he has to meet, what payments to make; the bank has no interest in exploiting its client. Still more is this the case when the bank is of the co-operative class, in which men and not money are the objects of association; the interest of the individual borrower is the interest of the bank, since the mass of borrowers is also the mass of members, while the main principle of co-operative association is the promotion of production, thrift and mutual help among members. Hence it is clear that the safety of the borrower is promoted by banks of all classes, but chiefly by those of the co-operative type. Not only so, but since the bank desires simply a larger extension of its loan business, and not the acquirement of the property of a few people, and since a range of operations is necessarily wider than that of the individual lender, it looks to the use made of the loans as an important item in its security; hence the promotion of a productive use of loans rather than mere wasteful outlay. This is still more the case with the co-operative form of bank, for none the increasing welfare of its members is its particular *raison d'être*, the productive use of its loans is in all cases urged upon members, who are deliberately dissuaded by precept, by example, by the occult as well as by the direct influence of associations of mutual help formed by the better and more prudent use of industrials, from borrowings which tend to embarrassment instead of to development.

Postulates of particular classes of credit.—Agricultural credit in general is long term credit; amongst the shortest needs are those for seed or for maintenance during the growth and sale of a crop; these needs can hardly be satisfied by a term of less than six months. Should the loan be for the acquirement of stock, for the purchase of expensive implements, a term of three years is none too long, since the loan can only be replaced from the profits of the stock. These profits being those on the working capital, are usually larger than on the fixed capital, while the loan is usually comparatively small; hence the replacement of the loan amount is possible in a moderate period. If, however, the loan is for the purchase or improvement of land, the whole loan capital is permanently sunk in the soil, and can only be recouped from the annual profits which in all countries are known to be but moderate; so also if the loan is to be employed in the building of a house, or in the education of a son. In such cases it is hardly possible to restore the borrowed capital by petty instalments spread over a long series of years; it is an absolute impossibility to repay the loan in lump and within the period of two, three, or even five years such as is usually allowed by the private money lender. But the special features of the banks which deal with agricultural credit are the length of their credit, and the method of amortization, features which are entirely wanting in the credit usually granted by money lenders to agriculturists.

Resumé.—Credit then, such as is the subject of this study, is not mere credit or merely cheap and facile credit, but safe and productive credit. It is divisible into three great classes, Real, Chattel and Personal, and is applicable to a considerable variety of objects from a mere advance upon an existing crop, to the execution of a permanent improvement of the soil. For the due provision of such credit there are demanded as postulates, proximity of lender and borrower, security to the lender that his loans are soundly and safely based on unencumbered property actually owned by the borrower, that they will be repaid with punctuality and strictness, that dues and arrears shall be readily recoverable; facility and security to the borrower so that on the one hand he may be able to borrow freely, promptly and cheaply and to repay conveniently, and that on the other he may not only be free from the risk of unforeseen entanglements, accidental or deliberately promoted, but may be influenced and even guided towards the safe and productive use of the credit granted. These postulates can seldom if at all be realized for the present money lending system; the money lender is indeed in close proximity to his clientèle,

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but his relations are not sympathetic though necessary; his loans are expensive since, altogether apart from greed, fraud, custom and monopoly, he can only draw from limited funds, and in the recovery of his loans he cannot be trusted with summary and extended powers; the borrower obtains credit at his doors, but it is neither cheap nor sufficient nor altogether safe, nor can it be granted for sufficiently long terms nor repaid at convenient intervals; still less is there any attempt to direct the borrower in the safe and productive use of credit. On the other hand these postulates are satisfied by banks which draw in idle hoards from large areas, and thus while developing thrift and providence, exercise an extended credit, which, for its own sake, is usually based on the productive use of its loans, and, in its co-operative form, is deliberately and intentionally directed towards that end and towards the development of its clientèle in thrift, prudence, productivity and mutual help.]

The province of the State in credit.—It is believed by some economists that the State should interfere directly and fully in matters of credit, especially in the provision of organized credit; its importance is such that, it is argued, the State should intervene as in a matter of primary national welfare, and the argument is pointed by allusion to State action in the matter of communications, such as railways, roads and the Post office, of the currency, and the like; the State in fact, especially in Europe is daily intervening more and more, as for instance, even in England, where the Post office deals directly with matters of national thrift in all its branches, savings, insurance, investments, &c., while in Germany yet further advances are made in the matter of compulsory thrift and providence, and in other directions which savour strongly of a tendency to State socialism.

The argument is unsound; in the first place communications are not necessarily or generally of State provision; railways, for instance, are usually of private (joint stock) promotion and management; while roads are usually under local boards. Secondly, the currency and the Post office must obviously be the care of the State, for neither Societies nor private persons could regulate the one or carry out the functions of the other. Thirdly, it may be doubted whether the developed action of the Post office in matters of thrift, insurance and the like is a universal benefit, as will be shown, *v. c.*, 'Savings banks'; [the habit of leaning on the State is a growing tendency, the maxim being forgotten that, "no State can subsist where the people have once learned to hold it answerable for their prosperity,"] while the drawing up of all funds to the State treasury as in England, and the competition with excellent and long existing Trustee Savings Banks and Benefit and Insurance Societies belonging to, and founded by, the people themselves, tend to weaken the habit of self-help which has been the peculiar virtue on which Englishmen have prided themselves. Fourthly, the history of rural banking shows that no State Bank has ever yet succeeded, except in very petty States, where the administrative staff is out of all proportion—relatively to large States—to the work to be done and the area to be covered by it, or where the communes are linked to the central organization by peculiar arrangements, or where the banks are not credit banks at all, but mere offices of issue of loans either upon the results of the enquiries of special commissions as in the case of the German rent charge banks, or upon the security of communal organizations which deal with all details, as in the case of the Russian peasants' land bank, founded to enable the ex-serfs to buy out the land settled upon them. There are no State banks in great States dealing with the continuous yet fluctuating credit required by a cultivating peasantry. Fifthly, it is impossible for the State to deal in credit; the problem only requires to be stated to bring its own answer. There would be in the Madras Presidency alone at least 5,000,000 annual borrowers requiring probably 20 or 30 crores of rupees per annum on loan, including half a million mortgages, and several million running accounts. The State could neither advance such sums, nor could it manage the enormous business, which would be far greater than that now managed with much difficulty by its whole land revenue establishment; far larger because each loan means an enquiry into status and security, and risky to a degree, because it would be impossible to enquire without immense cost and loss of time whether the security offered were sufficient or were otherwise pledged. Yet it must be remembered that this is what the establishment of State banks means; an enormous State-organized and bureaucratically managed ramification of credit agencies throughout the country, involving not merely an immense addition to the army of State officials and dependants, but a risk to the State revenues which no State other than an autocracy, responsible to no one for the use of its revenues, could possibly undertake. Even Prussia, in the days when imperial absolutism was far stronger than at present, has never attempted State banking; the action of Frederick the Great in 1763 was merely to order his nobles to create mutual land banks with unlimited responsibility, State assistance being confined to a very moderate initiatory subvention and to general supervision; the Prussian Government masterful as it is, and anxious for the development of its peasantry, has never attempted to bring credit to them; it has never attempted in any way to relieve them from debt or to supply them with capital, although since the beginning of the century the prosperity of the farmer and the development of agriculture have been its professed aim; indeed in the preamble to the great Act of 1807, it is wisely stated that "it would surpass our means to relieve each person individually, and even if we could, the objects we have at heart would not be fulfilled."

[The province of the State, at least in the present century, is not that of providing credit; its duty is to favour the establishment by the people themselves of a system or systems which shall provide facile and safe credit for the rural classes. The true office of the State is to remove all obstacles which stand in the way of organizing such credit, whether they are popular obstacles such as those of ignorance, isolation and improvidence, or fiscal, legal, or executive obstacles; to impose all necessary restrictions upon recklessness, fraud, speculation, incapacity and negligence in the management of such credit, by due methods of supervision; to lay down the principles which should guide rural credit by means of a special law suggesting, promoting and governing the institutions which are to afford it, a law which shall not only guide the formation and inculcate the methods of the institutions, but shall impose duties in return for privileges. Such has been the work of the State to some degree in nearly every civilized country; in Germany the Commercial Code provides a very excellent law of societies, while special laws regulate Co-operative societies and land improvement banks; in Italy the law expressly favours Co-operative societies, land, agricultural and Savings banks; in France the 'Crédit Foncier' is based upon a special law intended expressly to promote the formation of and banks; in England Building societies of various classes, Saving banks and land improvement societies are the subject of express and favouring legislation, and the United States provide, in the laws of the several States

suggestive and regulative legislation. Not only so, but in several countries there is executive assistance; in England the Registrar of Friendly Societies is the supervising authority for such societies and for Co-operative and Building societies; in Italy the Department of Agriculture, Commerce and Trade, is especially charged with the supervision of rural credit and thrift; in the United States there is usually a Commissioner or Board in every State for similar purposes, while all countries provide encouragement or assistance in one form or other, even if it be only, as in the case of the Savings banks of Prussia, by charging the Collectors (Presidents of districts) to encourage and aid the establishment of such institutions by all the means in their power. It is the duty of the State in all matters affecting the credit, thrift, providence and property of the poorer classes to take special precautions by legislative and executive supervision that such classes shall not only maintain their stability and independence, but shall be expressly stimulated and encouraged to take steps to provide, through self and mutual help, the institutions which shall furnish credit, promote thrift, develop habits of providence, safe-guard property; "*aider à faire*" not "*laisser faire*" is the true method; true freedom of action depends not upon the abstention of Government from interference, but upon such interference as shall secure freedom of action, and the certainty that each man shall be able to reap and secure the fruits of his own industry.

CHAPTER II.—INDEBTEDNESS.*

The farmer's need for credit has already been discussed; it is desirable to examine the result on the farmer of this need. Probably nowhere in the world, except among the richer farmers of England, is sufficient capital owned by the farmer himself; even the English farmer, with the advantage of renting land largely developed by his landlord's capital and finding therefore only the working capital, is accustomed to borrow freely from his banker, whether for advances at seed time, for purchase of manure, for extra wages at harvest, &c.; this he usually does by a short bill, or, in Scotland, by a cash credit. But in Europe where small and medium cultivation is the rule and where the farmer so frequently owns the land he tills, the bulk of the farmers are in debt and that heavily; the necessary complement, in fact, of the peasant proprietor is the money lender. There is little or no waste land, so that all land has to be bought or inherited; the purchase price, owing to severe competition and love for the land is extremely high, returning only a small percentage to the most diligent labour †; succession duties ‡ are very severe, amounting often to 11 per cent. Under the law of equal partition among heirs, it is necessary, since many estates are too small to subdivide, for one of the heirs to take the property and pay the value of the shares to the co-sharers: this money he raises by a mortgage at heavy interest. Hence the land itself is a very costly article and absorbs in its mere acquisition, often far more than the peasant's available capital, which is supplemented therefore by heavy mortgages at high interest. Again, owing to the pressure of population, intensive cultivation with its expensive implements, manures and methods is necessary; this demands a large working capital (capital d'exploitation) while the incessantly increasing taxes, imperial, provincial, and communal, whether on the land itself, on the houses, or on succession, registration, &c., continually involve greater expenditure. Losses moreover are very frequent; abnormally bad years are known in Europe as in India, while the diseases of the vine and silk-worm, the ravages of drought, excessive rain and hail, have caused incredible loss, § only to be counted in hundreds of millions sterling, all of which, together with the loss of produce and heavy fall of prices for many years, has to be borne by the farmer-proprietor. Cattle again are very generally bought on credit and one of the most devouring forms of usury is that of cattle merchants and of those who lease out cattle to the farmer for breeding and fattening; the trade in cattle and the "*bail à cheptel*" are said to be more productive of usury (Viehwucher or cattle usury) than money dealing itself.

The heavy indebtedness of proprietors in Europe is not due to any great extent to improvements and developments; it is of long standing and originated long before the modern development of farming, which indeed has hardly reached the peasant farmer; e.g., in France the mortgage debt in 1840 was £480,000,000 (12 milliards); in Germany and elsewhere, it was similarly very heavy, Dr. Mascher's estimate for Prussia alone in 1869 being above £337,000,000 and below £375,000,000, while in 1894 it is calculated at £500,000,000. The debt is chiefly the result of the laws of inheritance, and of the fact that the country is split up into an immense number of small farms, which are subject to heavy losses in bad years and to consequent borrowing at very high interest. The increase may be judged by the fact that in Prussia alone, with but 28,000,000 people, the mere increase to the mortgage debt in seven years (1886-1893) was £45,000,000 sterling (Commercial No. 3 of 1894) attributed entirely to the bad harvests and to divisions of inheritance. The passion and necessity for the purchase of land in Europe is a general cause of indebtedness, and the inferior condition of the small farmer,—otherwise the '*crise agricole*',—has been for many years a subject of grave anxiety in all countries of Europe.

The above remarks are based upon the allegations of scores of economists and agriculturists not of England but of the countries themselves, and give only a very general idea of the position of the European farmer. It may be well to give a few details.

* The present chapter deals chiefly with indebtedness in Europe, with a mere reference to Madras; there is, however, a brief discussion at the close of the chapter upon possible safeguards against indebtedness, whether in Europe or Madras. The question of indebtedness in Madras is dealt with in a later chapter.

† See text and foot-note, p. 41 *infra*.

‡ The State taxes on the transfer of property in Europe are very high. In France an ordinary sale pays 6½ per cent. duty or 265 on a sale price of £1,000, a gift at marriage is taxed at about 3½ per cent. of the value if to a son, at about 7 per cent. if to a nephew and at 11½ per cent. if to a more distant relative or stranger; an inheritance is charged with succession duty of 1½ per cent. if to a son and at rates up to 11½ per cent. in other cases; the capital is arrived at in cases other than sale by multiplying the rent or real income of the estate by 25. The above are simply the transfer duties, and are exclusive of other fees, whether notarial or State.

§ For instance, it is stated that in France alone in the two years of 1879 and 1880, no less than 2,147,500 acres of vineyards were entirely destroyed by the phylloxera and frost. In Prussia in the three years ending 1880, 37 per cent. of the villages were, on an average, damaged, in many cases seriously, by natural disasters not capable of prevention, such as frost, drought, floods and wet, plant diseases, vermin, &c.

In France the total mortgage debt, wholly irrespective of all debts based upon personal and chattel credit, purchases upon credit of cattle, stock and farm necessaries or for family maintenance, &c., known to be about £660,000,000 sterling, viz., 1½ milliards, plus the mortgage loans (2 milliards) of the Crédit Foncier. The above estimate is made by most careful economists and financiers after allowing no less than £180,000,000 (4¼ milliards) for mortgages discharged but not struck off the registratic records from which the gross total of 21 milliards (£840,000,000) is derived. It includes, however, urban mortgages and not rural only. In the department of the Garonne, a vine-growing tract, which particulars are given in an American Consular Report, the *annual* mortgages were stated at 1 per cent. of the total value of the land; as mortgages are only given to one-half the estimated value it follows that each year about 9 per cent. of the land is mortgaged, while, since the mortgages are for a considerable term, it follows that the bulk of the land is under mortgage. As a matter of fact, the actually existing mortgages amount in that department to about one-third the estimated value and therefore to about two-thirds of the mortgage value of the land.

For Austria no complete data are available, but in only a portion of Austria—a comparative country with only 160 persons to the square mile—the mortgage debts in 1888 were £160,000,000 sterling on peasants' holdings only, and the increase between 1867 and 1888 was 42 per cent. Of the "number of cases due to the issue of warrants of execution" was 15.76 per cent. in 1868, 15.76 per cent. in 1888, while the value of such cases was 4.34 in 1868 and 7.23 in 1888 showing a large increase in the Court-sales of small properties. About one-fifth of the cases and one-fourth of the amount of the debts were due to the purchase and inheritance of land even in this sparsely inhabited country.

For Germany statistics are not available, but the burden is considered to be heavier relatively to values than even in France; in Prussia the debt of all the large estates together is put down at twenty-eight times the land tax and that of medium estates at eighteen times; for small estates the figures are not given. These are merely the registered mortgage debts, which in Prussia only, on landed property alone, were, in 1894 placed at about £500,000,000, and actually increased by £45,000,000 sterling in the seven years ending 1893. This increase is put down to bad harvests and other losses and the law of inheritance. In Prussia in 1886-87 the mortgages newly registered in that year alone were £31,200,000, while those paid off were £21,440,000; this gives at once an idea of the amount and of the rate of increase of mortgage debt (Mayet) it being remembered that, in Europe, most mortgages are of long term, those given by the Land Mortgage Banks being of thirty, or forty or more years.

In Sweden the indebtedness of peasant proprietors "has increased considerably within the last twenty years;" and also but in a less degree during the preceding twenty years; the increase is put down to the necessity for intensive cultivation, and to the increase in facilities for borrowing, and to the law of equal inheritance necessitating mortgages for paying off shares.

In 1893 a discussion in the Storting (House of Representatives) of Norway gave a most instructive account of Norwegian peasant indebtedness. The mover of the debate, representing the richest agricultural district in Norway, declared that the landowners were falling deeper and deeper into debt; that their mortgage debts had risen from £9,000,000 in 1865 to £27,800,000 in 1893, exclusive of similar debts to Savings Banks and merchants; that altogether the mortgage debt was at least £36,000,000, while the landed property was worth (according to a correction by the Home minister) about £44,000,000; hence that the proprietors only had an interest of about two-elevenths in the total value of the soil; that the bare interest on the debt, even at only 4 per cent. was equal to one-sixth of the value of the gross agricultural produce, so that the farmers, especially with falling prices and increasing taxes were in a desperate position. The causes of debt appeared to be the fall in prices, the rise in taxation, the want of practical agricultural teaching (*quære*, instruction in rural economy), the right or necessity of the eldest son to buy out all co-heirs on succession, and the "exigencies of more civilized life," apparently a euphemism. Practically the whole of the above debt was held by the Bank of Norway, the Land Mortgage Bank, and the Savings Banks—a striking commentary on the idea that banking credit will cure indebtedness. While the Minister of the Home Department considered the statistics "somewhat exaggerated," they were not seriously combated or denied, and there was "a unanimous agreement as to the present impoverished condition of the peasant proprietors of Norway." (Foreign Office, No. 282 of 1893.)

In Switzerland "the indebtedness of the peasant proprietors has increased to a very large extent during the last twenty years," due partly to a great rise in land values, giving the opportunity of making fresh charges (mortgages) on the land, partly to the laws of inheritance; it is extremely important to note the former reason, since it shows that even in countries of good education the peasant cannot refrain from pledging any additional value which the land may acquire. In Berne "the indebtedness of the peasant proprietor has been steadily increasing for the last thirty years, the sales of their holdings have been becoming more frequent, and there has been a growing tendency among the agricultural population to migrate to towns or to emigrate beyond the seas." The increase of debt in this Canton is "enormous"; the capital value of the land in 1889 was £40,735,084 and the debts thereon £15,952,492 or 39 per cent.; the value of the land increased from 1856 by 65 per cent. and the debts by 128 per cent. In one division of the Canton the debts were 55 per cent. of the capital value, that is, practically the whole area was pledged to nearly its full mortgage value, since two-thirds of the estimated value is, generally, the mortgage value.

For Italy the figures are very heavy. On 1st January 1888, the registered mortgage debt bearing interest, was above £328,000,000, in addition to registered charges (*hypothèques légales*) of above £71,000,000; these latter are claims upon property not susceptible of interest, such as the dues for construction, supply of material, &c. The interest on mortgages proper is very heavy; "it has been contracted under peculiarly onerous conditions and so heavily burdens the soil, as to form one of the chief evils from which agriculture suffers" (M. Claudio Jannet); "often the interest on a loan representing only half the value of the land, absorbs the profit of the whole" (*Inchiesta Agraria della Venetia*). The pages of Mr. Beauclerk ('Rural Italy') are full of the accounts of rural usury and indebtedness; so also M. E. De Laveleye in 'Letters from Italy'; and numerous others.

In Denmark the indebtedness has steadily increased for the last forty years, the increase being chiefly due to the "cost of purchase and the laws of inheritance." Indebtedness to the amount of 40 per cent. of the capital value is called normal, but it is now about 50 per cent. This is the value relative to the

capital value, but the absolute amount is said to have increased six or even tenfold in the last forty years; hence, as in Switzerland, a greatly increased value of the land has been followed by a still greater burdening of that value. The similarity in the proportion, viz., 40 per cent. is also noteworthy. Now, since money-lenders and banks in Europe seldom advance money to more than half of the estimated value of the land, it follows that nearly the whole land is under mortgage when the mortgage amount is 40 or 50 per cent. of the value; this is a significant fact.

In Belgium the peasants are said to have grown poorer, the exceptions being those who are temperate, active, and thrifty to an unusual degree,—the figures are not however available.

It is to be remembered, *per contra*, that in certain cases this increase of indebtedness is due to better cultivation and to a pledging of the value of the land for improvements and for the mobilization of the capital sunk in the soil; it is not always an unproductive charge. Also that whereas the loans in former years were at usurious or at least heavy interest, the loans, at least in Switzerland, are now often at lower interest and are not necessarily, therefore, in all cases, a heavier *annual* burden. Moreover, while all mortgages are registered, releases from mortgage are not necessarily registered, while partial repayments are necessarily not shown. This, though allowed for in the French statistics, somewhat reduces the total burden. Again in Switzerland and in Prussia, it is a rule that the State land tax is reduced in proportion to the burdens (mortgages) that the land has to bear; hence it is not uncommon deliberately to keep an estate burdened in order to escape the tax, the proceeds of the mortgage being placed out at interest.

But for Europe, in general, it is certain that mortgage indebtedness has immensely increased during the last 20 to 40 years; that besides registered mortgage debts there is a great mass of charges in the form of "Hypothèques légales et occultes," i.e., charges not bearing interest and arising from claims of various sorts and also unregistered debts; that there is also a very great amount of unknown and personal debt; that the debts are largely due to the fall in prices, to the law of inheritance, to heavy succession duties, to great losses in the matter of crops, vineyards, cattle, &c., and to the peasant obtaining possession of his holding at too great cost and exhausting the greater part of his credit in the process. He thus has to commence farming without a sufficient working capital, and with no reserve fund on which to fall back in bad years." It is only in exceptional cases that holdings, purchased and worked on credit, can clear off their indebtedness by what they produce.* In exceptional places the peasant proprietor may hold his own without difficulty, but "when his resources are limited to the uncertain produce of a small holding, his position, at best a precarious one, must become untenable when exposed to the stress of bad times." He must then part with his land and emigrate either to the town or to other countries. These latter remarks are quoted from a report upon Switzerland, but equally apply to Europe generally, and go far to explain the enormous emigration from Germany, Italy, &c.

The above is taken largely from Parliamentary Paper, Commercial, No. 5 of 1891, a paper drawn up from reports from the British embassies in Europe, which again are based chiefly upon local official information and are sometimes mere translations of official communications from the respective European Governments. Hence they have the stamp of authority.

A body of reports on the trade and credit systems of Europe, drawn up by the American consuls, state similarly that mortgages are general and very heavy upon landed property, e.g., in the Silesian Province of Prussia, where the first land bank was started in 1769, it is said that "at least seven-eighths of all farms, large and small, are mortgaged to a greater or less extent"; in Denmark "the greatest part of the landed property is mortgaged to an extent varying from one-third to two-thirds of its estimated value;" for Switzerland particularly, it is stated that credit is abused by reason of the facility with which it is obtainable. Precisely the same evidence is afforded by the various authorities who have written on the subject of Agricultural Credit (see 'Bibliography'). In few of them, unfortunately, does agricultural improvement find any place as a cause of indebtedness, except in so far as the pressure of population and foreign competition are forcing intensive cultivation, and, by consequence, the purchase of manures, machinery, &c. The European peasant is, as admitted even by his admirers and advocates, the most bigoted of conservatives; "routine" and his father's customs guide him as they do the Indian peasant, and it is a grave error to suppose that he, any more than his Indian confrère, is thirsting after credit with a view to "Land improvements." The matter is of grave importance, for if credit institutions are started in India in its present condition merely to grant cheap credit, with the idea that the ryot is sighing for capital in order to sink it in wells and permanent improvements, and higher cultivation, and decent cattle sheds and home steads, the error will lead simply to further unprofitable indebtedness. Even the European improvement in agriculture of late years is due much more to the teaching and example of the powerful agricultural departments of the State and to the admirable Agricultural Associations than to facilities for credit. By the example and instruction † of the one, and by the co-operative efforts of the other, the peasant is

* In his novel 'Les Faysans,' Balzac points out the evil effects on the French peasants of the passion for land, leading to unduly high prices; also to the miseries effected by the wiles and charges of the money-lender to whom the peasant resorts either for the price of the land or for a mortgage upon inheritance. One incident is worth quoting; a peasant and his wife have bought a piece of land, paying only part from savings and the rest by a loan; "His wife went about collecting manure; early and late they laboured in their garden, forcing it, by heavy manuring, to bear various crops, but without managing to do more than pay off the interest due on the balance of the cost of the land. Their daughter, in service at Auxerre, sent them her wages, but, despite of their toil and her aid they found themselves on settling day without a red cent of the price." They gradually knock off all their little luxuries, and, like all peasants seized by the mania for property, their labours increased while even their necessities decreased. The tricks of the money-lender are also described in the usual well-known fashion. The novelist, in other words, exactly corroborates the sober official reports. In fact, though the pictures are often coloured, and an exaggerated impression produced by crowding into one story and one locality all the evils and miseries that the writer knows of, the novelist, realistic or otherwise, English or Continental provides a useful, because often unintentional, corroboration of the economist or statistician.

† In France M. Tissot, Director of Agriculture, has given fresh life to the State department as well as to agricultural education; as a single instance it may be mentioned that there are 20,000 demonstration and experimental plots (champs de démonstration et d'expérience) in France, scattered throughout the country in addition to the numerous agricultural stations, schools, farms, &c. the total cost of the 20,000 fields is £6,400 per annum.

learning to appreciate and is now beginning to buy new implements, better seed, manure and so forth. What the European peasant, left to himself, requires in credit, is the means of buying land at a price, of paying off usurious debts, of finding cheap capital to pay off his co-heirs, of combating, by cheaper capital, the terrible fall in the prices of produce, and the continuous rise of expenses, rather than capital to be sunk in permanent improvements or invested in the higher agriculture.

No statistics and little information are obtainable regarding the debts under personal and chattel credit; these must be enormous, since the "Jews" of Europe play to the full the part of the India money-lender in making advances on crops and on general status, in selling to the peasants cattle and goods at credit prices, while the poor, as everywhere, purchase all necessaries upon credit at very high rates. Further notice of this matter will be found below, in considering the action of the money-lender upon indebtedness.

To resume, the landed proprietors and tenants of Europe are deeply mortgaged, especially the small folk, who moreover, have large debts on personal credit which are not easily calculable. These debts have increased in a greater degree than the value of the property, which, on the other hand, is fast above that of fifty years ago. The causes of these debts which have long existed, though not in the same proportion, and to nothing like the same amount, are (1) the purchase of land on credit, (2) the operation of the laws of inheritance, by which a property is either split up amongst the heirs, or—as is usual in the case of small proprietors—taken by one heir who pays his co-heirs the value of their shares, raising the sum by a mortgage on the estate; (3) great losses by season and disease; (4) a lowering of prices due to foreign competition in produce; (5) the weight of taxes, succession duties, previous debt, &c., (6) the action of money-lenders, (7) facility of borrowing, (8) the necessity—due to the increasing pressure of population—for intensive agriculture with its attendant need for a larger working capital, (9) the social and individual defects of the people, e.g., in matters of education, temperance, thrift, foresight.

Of the causes of indebtedness mentioned above, only those of the action of money-lenders and of the facility of borrowing, need further discussion for the purposes of this study. The first it is useful to discuss to show that the small proprietor everywhere, in his universal need for capital, is the prey of the money-lender and that while human nature is as it is, the money-lender cannot—if he wishes it—avoid entangling the peasant. The danger and the difficulty of the ryot in India is not singular; it is common to the small holder all over the world; and it is necessary to recognize this in analyzing Indian conditions and miseries, and in planning out remedies; we have in India no abnormal and unheard-of misfortunes or conditions, but exactly the same difficulties, generally in a far less intense degree, as in Europe and even in America. If, however, we have the example of the European peasant's difficulties, we have also the history of the efforts made to help him, and in these, whether in success or failure, lies the lesson for us in India. The succeeding remarks are drawn direct from standard or authoritative European works or reports on rural economy, credit and statistics.

In France the great mass of the agricultural mortgage debt is held by private lenders, and probably the whole of the personal credit rural debt. Now the money lenders are said to be frequently mere usurers; "very often they avail themselves of the misfortune of the borrower; they trade upon his misery and ignorance; from the moral point of view their actions are criminal," "they are frequently the ruin of the agriculturist." The details of the transactions are well known; beginning with a simple note or bond, all the tricks of the trade are habitually and purposely resorted to, until the patrimony of the peasant is in the usurer's hands; in good seasons when the debt might be paid off, the debtor is not pressed for payment, but rather avoided; in bad seasons or on inconvenient occasions, the money-lender suddenly requires his money till the wretched peasant signs away his whole property.

The pages of M. Durand in 'Le Crédit Agricole' may usefully be studied in this matter, and in an admirable article on 'Le Crédit Agricole in 1893' ('Le Correspondant,' June 1893), he says, "L'usure dans les campagnes françaises est infiniment plus répandue qu'on ne le suppose." His own original impression was otherwise, but "en cherchant bien, en nous informant soigneusement, nous avons fini par apprendre que les meilleurs de nos fermiers, et les plus riches cultivateurs de notre commune, empruntaient chaque année des sommes plus ou moins importantes au taux de 10 pour 100." If the richer classes of farmer are compelled every year to borrow at 10 per cent., what must be the rates ordinarily paid by the small folk, to say nothing of bad years, and unfortunate folk.

As for usury in cattle, it is equally common and wasteful to the ryot, and one great object of the new agricultural associations is to enable a peasant to buy good cattle on decent terms, instead of any sort of cattle at prices 50 per cent. above their value; it is common for a man to pay 700 francs for a pair of cattle which would cost only 500 for cash. "Too often" says one authority, "the peasant works not for himself but solely for the profit of the usurer who has made him an advance; his cattle are bred and fattened not for himself but for his creditor, so that the French peasant's motto might be 'Virgil's 'sic vos non vobis, fertis aratra boves.'"

In Germany the picture is even more detailed and pitiful. For want of credit institutions over the greater part of the country, usury is almost universal and "from its pitiless exploitation of the smaller agriculturists it is considered as a menacing social danger." The peasant is "unable to take count of his pecuniary situation; he keeps no books and cannot judge of the pecuniary result of a transaction, whether of a venture in cultivation, or of a loan from a money-lender; the result is that the rural classes fall into the clutches of men, who under colour of helping them, desire nothing save their ruin for the profit of the lender himself; these are represented as lying-in-wait for misfortune, and are as eager as vultures when there is a chance of prey. The story of their action, whether in loans of money, cattle or goods is everywhere the same, and similar to that of France; temptations, false accounts, the law courts, miserable cattle and bad goods at maximum prices; all these are general. It was the terrible misery of the peasants as regards usury and the "frightful and shameless" action of the usurers, that led Schulze Delitzsch and Raiffeisen to the idea of Popular Banks or Credit Unions, the latter in fact regarding the usury question as the most important of the then social problems. The latter, in his first burgomastership, found his charge (Flammersfeld) a scene of poverty and usury; the

"cultivators" seldom had cattle of their own, but borrowed them from dealers whose terms they were forced to accept on penalty of losing the cattle, and the dealer was thus able to extort "the whole value of the worth of the cattle, while the misery of the peasant increased yet more and more"; (see chapter on 'Popular Banks') elsewhere the money-lender was so powerful that the produce was often handed over bodily to him on his own terms; he then—again on his own terms—supplied food and seed, often of bad quality. A year of excessive rain or drought is the money-lender's opportunity, and very pitiful tales reached the writer of this study of the action of the "Jews" in parts of Würtemberg in the drought of 1893. The societies of social economy and of agriculture, the State Assembly, the public journals and individual statesmen, lawyers and economists, have made special enquiries and studies of this subject, which is described and discussed, in much detail in a recent Congress of the Society for Social Economy (1888) (*Verein für social politik*), and in a debate in the German Parliament of the same year. In fact, in 1880, Germany enacted a most severe law against usury, and Austria has followed that example in 1881—a fact which in these days is remarkable and significant, seeing that the law was passed upon careful enquiries and reports. This law provides that judges shall examine all cases where usurious interest or transactions are brought to their notice, and shall determine upon a consideration of the facts and circumstances in each case, whether usury has been practised, their judgment carrying with it a fine and imprisonment. This law has been amended by a law of July 1887.

In Italy usury is still more rife and the accounts given by Italian, English, and French economists and observers, by the great report of the "Agricultural Commission" and by numerous writers, are very harrowing. The pages of De Laveleye and Beauclerk are open to the English reader; in French and Italian writers most extraordinary usury is mentioned in detail. 5 per cent. per month for usury is common; in one village where M. Wollenborg established a credit institution, interest varied from 20 to 200 per cent.; in another the little bank started by the same philanthropist, successfully lent money at 6 per cent. to pay off debts with the usurers on which 30 to 100 per cent. was being paid, the successful action of the bank showing that the peasants were paying usury and not interest. Signor Levi mentions rural usury up to 730 per cent., i.e., 2 per cent. per diem. Maize for food to the cash value of 12 francs was in one village supplied to the wretched peasant by the usurer on consideration of his paying 24 francs in three months or at the rate of 800 per cent. and the maize was often of bad quality such as causes the Italian scourge known as the "pellagra"; in this village the mayor alleged that the peasants "often had to pay the fabulous interest of 1,200 per cent." Small wonder that, as it is said, a man who has 2,000 lire (£80) of ready money (and a hard heart) can live on its proceeds. In fact, in Italy generally, the peasant population and small farmers are the prey "of the most frightful and shameless usury," to the cash terms of which gratuitous labour (*corvée*) and a dinner on Sundays, presents of fruits and vegetables, and other services, are not infrequent though unexpressed additions.

As it is not intended to describe the condition of Europe except in so far as to draw lessons for India, it is needless to go further in this description, which might however for the countries mentioned, be indefinitely extended with the most precise details. Is it likely, however, that the Indian money-lender and peasant farmer are on very different terms? Now, on this point, there are two opinions, one of which regards the money-lender as, on the whole, rather beneficent and kindly; a sort of partner with the ryot, supplying the needs of the latter, and maintaining him in times of misfortune. Others again regard him rather as a beast of prey, seeking everywhere whom he may devour. The truth, as usual, probably lies near the middle; as society and credit are at present constituted he fills an absolute gap and is a rural necessity; on the other hand, he is most undoubtedly an expensive and dangerous necessity. He has been found in India from time immemorial, and Munro in Madras and Mountstuart Elphinstone in Bombay, give pictures of the rapacious and enslaving action of the usurer, the misery and bondage of the ryot, at the beginning of the century, precisely similar to those of Europe and of Southern India at the present day, except that land mortgage was then unusual, since land had little or no value. He is still a useful person, without whom, until replaced, the ryot cannot get on; all that is now to be said is that it is time to replace him by a more developed system.

The other cause of indebtedness requiring special discussion is that of facility in borrowing, in which will be considered the effect of facile banking credit. Cheap and ready credit without due safeguards in the prudence of the peasant, is expressly mentioned in the reports, &c., as a cause of indebtedness in Europe; debt has increased more rapidly than the value of the land; easy credit has meant reckless borrowing; an "unearned increment" due to a general rise of prices, to a greater demand for land, &c., has usually been discounted by the owner, whether large or small proprietor. A few proofs will be given, those countries being selected where the action of banks is particularly well marked, amongst which will be specially noted Switzerland, a country often quoted as an example both in the organization of its credit, the industry, education and prudence of its people, its methods, of local Government, &c.

Switzerland, for about 3,000,000 of people, has about 900 banks of all sorts; it may be said that there is a bank for every village, and the Federal Department for the Interior expressly states that private "capitalists are no longer of any importance as lending agents, the Mortgage and Savings Banks being now (1891) almost the only sources from which the landed proprietor can borrow." (*Commercial 9 of 1891*). The result is that "borrowing has now been rendered easy for him; too easy indeed perhaps, for the indebtedness of the land cannot go on increasing without seriously endangering his position; it is only in exceptional cases that holdings purchased and worked on credit can clear off their indebtedness by what they produce." (*Commercial 5 of 1891*). "Credit is here (Berne) carried on to such an extent that general prosperity is already injured thereby and will probably be still more injured in future; the real estate is so heavily mortgaged that in consequence of several years of partial failure of the crops the state of agriculture is in a precarious position, the proceeds thereof being scarcely sufficient to support the parties and enable them to pay the interest on their debts"; "credit is too frequently demanded and too easily granted" (*St Gall*). with the results of trade disturbances. (*Reports of U.S.A. Consuls on the credit and trade systems of Europe, 1884.*)

From these reports the following table is prepared comparing bankruptcies in this Swiss Canton, of no special importance, with those of other countries; statistics for the whole of Switzerland are unfortunately not available:—

State.	Population, 1881.	Number of bankruptcies, 1880 or 1881.	Population per bankruptcy.	Remarks.
France	38,000,000	6,966	5,450	} Population is in round figures, that of 1880-81 not being exactly known.
Germany	45,000,000	4,828	9,320	
Netherlands	4,000,000	747	5,350	
Italy	28,000,000	739	37,330	
St. Gall	228,000	636	369	

Ordinary (non-preference) creditors lost 90 per cent. of their dues by the St. Gall bankruptcies. The disproportion is extraordinary; doubtless the different bankruptcy laws account for a good deal, but not for such disproportion; every Court in Germany is a Bankruptcy Court, so that there is no initial difficulty in filing petitions.

The report further states that in the Civil Court of St. Gall in the three years ending 1881, an annual average of 48,324 claims were made; the great bulk was on unsecured debts, probably tradesmen's accounts; 34,620 or 71 per cent. were for claims below £4. If the report is correct it can hardly be thought that this is a satisfactory result of credit amongst 228,000 people.

In Norway, where nearly the whole land mortgage debt is held by *banke*, it is estimated that only from one-sixteenth to one-fifth of the value of the lands remains to the proprietors.

In Sweden, where peasants are notoriously thrifty, the second of the three chief causes to which the great increase of indebtedness is attributed, is the increase in the number of country banks and the greater facilities thereby afforded for borrowing.

In Germany it has already been shown that the landed debt is increasing at enormous rates, to a great extent no doubt on urban property, but also largely on farms. In Silesia, the original home of Land Banks, the American Consul considers that at least seven-eighths of all farms, large or small, are mortgaged to a greater or less extent; the Consul at Dresden (Saxony) the head-quarters of a very successful Land Bank, says that "it is rare to find a piece of property, house or landed, free of mortgage." At Aix the Consul says that a very large majority of the real estate is burdened with mortgages, and judgments are in no way conspicuous by their absence. In Bavaria, where money is chiefly advanced by banks, "rural estates are often very much encumbered, and eventually are sold by auction." This latter result has been touched upon in the section under German Land Banks [*q.v.*] in Bavaria with 681,521 farms, no less than 6,686 were subject to forced sale by Courts in 1880.

Here then may be seen the results not of usury but of its equally dangerous opposite, facile credit. Usury provided a moderate amount of capital at burdensome rates; banking credit has substituted, in the same countries, capital at cheap rates, but has increased the mass of the burden. So far from banking, even on the most honourable and careful lines,—*e.g.*, those of State Banks as in Norway and Savings Banks,—being found a panacea for rural indebtedness, it has merely increased the gross burden; the specific gravity of the mass may be less but the volume is more than proportionately greater.

What that burden is may be judged by the following remarks: in Prussia the mortgage debt is £500,000,000 on 30,000,000 people or nearly £17 per head; in Norway it is £36,000,000 on 2,000,000 people or £18 per head; in Switzerland, Canton Berne has a mortgage debt of £16,000,000 on 538,000 people or £29 per head, this last country being, amongst countries of small proprietors, more completely provided with banks than any in the world, insomuch that the individual money-lender is of no account. The statistics given above for Canton St. Gall are still more startling, if correct—and they are from a responsible publication—in their picture of the results of unduly facile credit.

A comparison may be made: the population of this Presidency is one-fifth greater than that of Prussia; hence, at the same rate of indebtedness, this Presidency would owe in land mortgages alone, £600,000,000. Assuming that money is five times dearer than in Prussia, the true equivalent would be £120,000,000. As a matter of fact this Presidency owes about £20,000,000 (really 20 crores 200,000,000) of rupees; hence Prussia is six times more heavily indebted by way of mortgages alone than this Presidency. If Berne be taken as the gauge, this Presidency would owe £1,056,000,000 or £211,000,000 after reducing money to equal values—or ten times the actual debt. This comparison is made not to minimize the weight of debt in this Presidency, but to give an idea of the indebtedness of European agriculturists in countries of small proprietors. Making various allowances on both sides, the rural debt of Europe cannot be less than several times the corresponding debt of this Presidency.

It is true that much of the mortgage debt of Europe is borrowed on far easier terms than the corresponding debt in Madras; not always so, for land banks do not reach the small proprietors in Prussia and France. That, however, is not the point under notice, which is, that in a certain state of education and civilization, cheap facile credit, though it may lessen the rates invariably increases the volume.

In Bombay this cause of debt is expressly mentioned by the Dekkan Riots Commission, and the idea has been frequently expressed by others that to give the Indian ryot class, with their present characteristics the power of ready borrowing is simply to involve them deeper in debt; that is, that if money is available they will borrow as much as they can without thought of the day of reckoning. There is unfortunately much truth in this allegation, especially under the only available method of borrowing, viz., the temptations of the local money-lender, who has capital seeking employment and will not

willingly leave it idle. What more easy for the ryot than to have an extra grand marriage or other ceremony, or to fight his neighbour about a field, when the money is ready to hand by the mere signing of a bond, perhaps a simple debt bond or the mortgage of one of his fields. How easy to avoid dunning notices from the Tahsildar or landlord for the assessment or rent, and thus save his public credit, by simply letting the cotton broker or other intermediary, pay it for him on his mere signature to a chit agreeing to deliver so much cotton or wheat at harvest. How creditable to give one's sons a University education when their bills can be paid by an occasional loan from the money-lender, and the ancestral estate can be transmuted, by a mere mortgage, into a degree. There is grave danger in facility of borrowing, especially in the ignorant condition of the Indian ryot, and with his present characteristics. The highest praise that an intelligent Tahsildar could find for the Nidhis of this Presidency was that one could borrow Rs. 1,500 for a marriage at lower terms than Rs. 1,000 from a money-lender, and that it could be repaid by comfortable and easy instalments; what more certain, then, that even men in that position and, *a fortiori* those of less education and intelligence, will borrow the Rs. 1,500 rather than the Rs. 1,000. Great as are the benefits of the Nidhis, it is certain from the enquiries made for his report, that men, in straits for money, have taken to crime and fraud, because they have so easily engaged in too large loans from the Nidhis without sufficiently counting their ability to repay. Lord Vernon has in the 'Nineteenth Century' recently pointed out the dangers of long term land improvement loans repayable by annuity, in that the ease of borrowing and of repayment has led, even for such loans, to the careless and improvident charging of estates; if this is so for such purposes, what danger must lie in easy borrowing for unproductive objects. The weight of the American farm mortgages, so readily obtainable from the numerous societies, is notorious. Hence facile credit is not an unmixed good; surfeit and starvation are equally dangerous.

Nevertheless, under the reign of modern ideas as to property, contract and law, there has arisen, necessarily, a facility in borrowing; property in land and its rights, individual freedom of action, equal status before the law, have been established for all, and facility in borrowing is a necessary sequence of them. Add that the habit of borrowing is immemorial, that the burden of debt is ancestral; that increasing communications and new conditions are opening up new sources of expenditure, begetting new necessities or ideas as to what is necessary; that population is enormously increasing; that property is consequently being more and more subdivided; that seasons are as precarious now as they ever were, and it will be seen that whether he likes it or not, the ryot is certain to borrow at one time or other. Hence the question is whether borrowing can be so facilitated that money will be cheap, and at the same time so safeguarded that ryots in general will not borrow except upon real necessity and to the extent of such necessity. There can be no doubt that if on the one hand ryots can get cheap money, and, on the other hand, can be prevented from using that credit recklessly and uselessly, a very great economic and social advance will have been made. It being then granted that facility in borrowing, *i.e.*, cheap credit, is in itself a good thing, it remains to consider the safeguards. Hence the question is (1) whether this safeguard can be provided by law, (2) whether there is any other method.

(1) *The legal safeguard.*—If the law declared land unsaleable it would most effectually safeguard the ryot from abusing credit by taking away real credit altogether and immensely increasing interest in all other cases. But a discussion of the saleability of land, *i.e.*, whether land should or should not be saleable for debt, would be in Madras at this day purely academic; whatever the practice in old India, or in independent States, a vast property in land has been bestowed upon the people, and with it complete transferability, on the faith of which immense transactions are daily taking place and are in vigour. It may be assumed that no change will take place in this direction, and there is, therefore, no legal safeguard available in this form.

It is possible that certain limitations might be put upon transfer, mortgage or sub-division, which would safeguard the ryot by limiting his credit, that is, his power of pledging his land. It is believed that elsewhere in India some such limitation is now being sought, but the discussion would pass the limits of this study, since many more considerations are involved than those of credit and its abuse. Nevertheless, it may briefly be mentioned that the subject is receiving growing attention from economists and agrarian students by reason of the extraordinary development of the mortgage habit both in Europe and America. Take Prussia for example: before the well-known legislation associated with the name of Von Stein, the peasants had no mortgagable interest in the land; they occupied but did not own it, and the object of that legislation was, in fact, the substitution of allodial for feudal tenure; that was eventually accomplished successfully, and the Prussian peasant became absolute owner of his lands while the noble held his lands free of any peasant liens thereon. But the power of mortgage was granted from the beginning; in fact, the method adopted for freeing the peasant was that of commuting his dues into a rent charge or annuity, which might be capitalized at eighteen or twenty years purchase, this amount being advanced by a rent charge bank which took a mortgage on the land as its security. Add to this, that the Land Banks of Prussia established for nobles had, since 1770, set an example of the mortgage habit, so that the German peasant, hard pressed for working capital, for taxes, and for maintenance, readily adopted the same, with the result that Prussia which, at the beginning of the century, had but an infinitesimal mortgage debt, had in 1893 a mortgage debt on "landed estates and peasant holdings" of about £500,000,000 sterling, the debt having "increased by £45,000,000 since 1886" (Commercial 3 of 1894), while the statement of objects and reasons to a Bill of 1894 for the establishment of Chambers of Agriculture, states that one object of the new Chambers is to assist Government in initiating legislation intended to relieve the oppressive indebtedness of agricultural land in the kingdom, and to organize rural credit. It is obvious then that while the abolition of serfage and feudal dependence resulted in a free peasantry, the ability to mortgage the land without let or hindrance has resulted in the re-imposition of dependence in a much more objectionable form, *viz.*, the dependence of the peasant on the Jew usurer, with the further result that the great agrarian problem now is not the liberation of the serf but the freeing of the freed peasant from the bondage of usury, to which end statesmen, publicists, economists and agriculturists are recommending protection, subsidies, land banks and other infallible panaceas.

In France the mortgage indebtedness is so great and the rate of interest so high that the French peasant can, in general, only live by a frugality and parsimony, and by certain family restrictions, which do not usually commend themselves to general imitation.

In the United States the statistics of the census of 1890 show that in many, even of the largest States, about half of the farms are mortgaged to their full mortgage value, that is one-half of their supposed market value, and that the rate of interest is nearly 8 per cent.

It is then clear that free mortgage is not without its dangers, and the example of Prussia is peculiarly interesting for Indian students, for it is exactly paralleled in this country where, on a sudden, an ignorant peasantry not only obtained absolute ownership of the soil, subject only to State dues, but, equally suddenly, found that land attain an enormous relative money value, owing to the fall in money, to foreign trade, to the development of communications and the like; a great development of the mortgage habit at once resulted, to be followed, as in Europe, by the cry for State aid, for the establishment of Land Banks, and the like.

It is easy to be wise after the event, and it is herein that the study of European facts is so important to Indian reformers and administrators, that it helps to give that wisdom which may come from national object lessons. It teaches at least that the agrarian problem is common to all countries and that it is not to be treated by any single panacea; what seems to be the cause of the disease is often only a symptom, and no radical cure can be effected by its removal; it may disappear only to break out in unexpected form and place. Abolish feudalism or even the landlord, and the money-lender appears; establish equal rights and, as a consequence, equal inheritance, and the mortgage becomes a necessity or the estate a mere farmlet; reduce overwhelming State demands and the resulting surplus is taken by the money-lender, or the small proprietor becomes the petty landlord with a pauper tenantry establish banks and facile credit, and indebtedness may be far more than doubled, or the individual money-lender be replaced by syndicates of land-grabbers and dividend-hunters. The agrarian problem like the national or rather the human problem, is full of unknown or undervalued factors; it passes the wisdom of man to foresee and to provide against the difficulties produced by ignorance, by want of forethought, by imperfect legislative and administrative measures, nay, even by what seemed and still seem, measures of justice, civilization and political progress, such as equal inheritance, the abolition of feudal services and inordinate State demands, the introduction of cheap communications, &c., through which the present agricultural crisis has arrived for Europe, and is beginning in India. Hence it does not necessarily follow that a limitation of the power to transfer or mortgage lands is necessarily an error in all conditions of society. Where a peasantry has learnt the full lessons of thought and prudence, the full use of credit and capital applied productively, where the conditions of society and the demands of the State are such as not to compel resort to the money-lender, the power to mortgage to the full can hardly be an error; in other conditions, it is possible that such power may only lead to undue indebtedness and to a degradation of the agriculturist and his art. At present, however, this Presidency enjoys to the full and largely uses the power to mortgage and to transfer at pleasure, and the privilege is not at present likely to be wholly withdrawn, although the ryots are still in a state of comparative ignorance, although many of their characteristics are those of an infant stage of civilization, and although agriculture itself is comparatively unimproved and requires capital and additional knowledge; hence it is necessary to ascertain whether the banks to be established cannot, while providing credit, provide also safeguards against too facile credit, too careless a use of it, and still further, whether they cannot themselves be made powerful educative agents in stimulating the dormant powers of the individual and of the race. An attempt will be made in this study to solve this question in the light of European experience.

There is a method which safeguards the ryot from the abuse of credit, by limiting the power of Courts to sell the property of debtors; under the Homestead Exemption Laws of most States of the U.S.A., the Courts are debarred from attaching or selling for debt the property of a debtor up to a certain area or value. This property, land, house, or movables, may be sold at pleasure by the owner, and may also be mortgaged, but the Courts are debarred from executing any process thereon, and in Louisiana the Supreme Court has recently decided that a mortgage is invalid, and that a private purchaser of such exempted homestead, takes it without encumbrances. Obviously mortgages on such areas are of little use, since they cannot be enforced by law, and it is said that the interpretation of these laws is extremely wide. This may partly account for the comparatively high rate of interest on mortgages in a country where capital, banks, and loan companies abound; the average rate in many States is, according to the recent census reports, between 7 and 8 per cent.* Such laws are doubtless of great social importance in protecting small folk from absolute pauperization; they prevent farmers and householders from coming on the State, provided they are industrious or provident in the least degree. But they obviously check credit and raise its price, and consequently, if it be necessary that a farmer should have cheap credit, owing to his lack of means, and the pressure of competition, they are apt to throw him out in the race, and to prevent the development of the land and of agriculture by condemning large masses to slovenly and miserable cultivation. Should such restrictive laws be introduced into this Presidency it would be advisable to confine the exempted area to very small proportions, such as a cottage and garden, or field or sub-division of a field not exceeding 2 acres of dry land, and half an acre of wet land. In China every family owns a small *inalienable* homestead.

In some countries, however, the law, perhaps unwittingly, imposes restrictions upon borrowing, or, at all events, increases the cost of borrowing, in creating a certain legal disability for the peasant. In France, for instance, the peasant is, to a great extent, disabled from credit by certain restrictions; the chief of them is that he is not a "commerçant" or trader, and, as such, his bills do not come under the commercial law of procedure; the Code Napoléon attempted to safeguard the peasant from embarrassing himself by making his debts recoverable by creditors only at common law in the ordinary Civil Courts. This is, as elsewhere, a very lengthy, costly and somewhat uncertain proceeding, and the result has been that the peasant has been not only safeguarded but fettered; loans are so difficult to recover that they are only granted on much higher interest than similar loans to "commerçants"; hence,

* It is curious to note the high rates of interest on rural loans in countries like France and the U.S.A., where capital is generally abundant and cheap. M. Durand says 10 per cent. for fairly well-to-do proprietors in France: the census reports show nearly 8 per cent. in some of the richest of the Eastern States in the U.S.A. Both these countries have strict usury laws, by which the highest legal rate of interest is 6 per cent.; comment is needless on the inefficiency of that class of usury law in fixing interest.

as he was bound to borrow, his debts are an unnecessarily heavy burden. One of the most persistent agitations in France is to obtain the modification of this law, so that agriculturists may be placed on a common level with commercial or artisan borrowers. In Italy a recent law forbids agricultural banks to discount the paper of agriculturists of less than ninety days, *échéance*, a restriction obviously intended to limit easy borrowing. In the Madras Presidency the power of the ryot to borrow and of the lender to recover, is governed by the ordinary civil law; it is a simple question of contract as regards the bargain and of a suit under the ordinary conditions and procedure as regards recovery. The question, then, in Madras as regards the borrower, is not the removal of any disability on his part, but whether the law should invent some legal restriction as in the U.S.A. and in Italy; on the part of the lender whether he should have any difficulties placed in the way of recovering his dues. The discussion of these points would hardly have place in this study; but on the first point the example of France is a sufficient warning that restrictions may make credit dear, but will not prevent borrowing; on the second it is clear that the sole effect would be a corresponding increase of expenses. In will, in fact, be seen that the true legal remedy is the grant of additional facilities for recovery, such facilities, however, being limited to credit institutions of a character recognized by Government as deserving the privilege.

¶ (2) *Other safeguards.*—But whether law can or cannot be successfully invoked to safeguard the ryot, is there no other method? Can a mode be devised of giving him cheap and easy credit, and yet of placing him under such conditions that he will be far less likely than at present to abuse it? The chief object of this study is to suggest that there is such a method; one which will have all the merits of a proper system of credit, in its honesty, cheapness, proximity and elasticity, while it will be a real education to him in self-help, in self-control, and in business-arithmetic and methods. This method is that of Popular or Peoples Banks or Saving and Credit Associations. The several systems, which are not theories or paper proposals, but practical working systems of a most successful character, will be described in detail further on; suffice it here to say that in Germany, Austria and Italy, they are receiving deposits and distributing loans by hundreds of millions sterling per annum; that they are small, essentially local, mutual, autonomous institutions; that being cheaply administered and thoroughly solvent, they command and distribute cheap credit; that this being so, the local public are most anxious to become and to remain members who alone can borrow; that all members being borrowers *in esse* or *in posse*, a low rate of interest is more sought after than high dividends; that, being mutual, not only does all net profit return to the members, but they are united in common interests, and form a mutual check one upon the other; that being local, not only are they accessible to borrowers, but they command a complete knowledge of the *status* and credit of the borrower, while they are also able to enquire the purpose of a loan, to advise upon its desirability, to refuse it if the object is deemed unwise, to supervise the expenditure of it, and to prevent misapplication of it through the fact that each member is perfectly well known to his co-members who are all of the same locality and can punish not merely by expulsion from the association, but by other social methods, any dereliction on the part of a member. These banks avowedly look as much to the use to be made of the loan as to the security tendered by the borrower; they consequently differ radically from those proposed agricultural banks which care nothing for the purpose of the loan and, therefore, for the effect on the borrower, but only for the security given. This seems to be the highest form of rural banking and the only safe method of granting agricultural credit; such credit can only be safely given for expenditure in certain directions, and it is not only legitimate for, but obligatory upon, an agricultural bank to see that loans are raised for and used only in such directions. The facts regarding indebtedness mentioned above, and the details contained in numerous European authorities, tend to show that cheap credit *per se* is likely to be abused and that cheap money at will, may end, does end, in the mortgage value of the land being charged to its utmost extent, without sufficiently corresponding results in agricultural improvement, and even to the serious entanglement and depression of the farmer and of the industry; it is a grave economic and social error to allow a ryot to borrow at will for any purpose whatsoever provided only that he gives good security; on the stability of the ryot depends not merely the prosperity but the vitality of the country, and his stability depends upon his power to obtain and use credit, not for extravagance but towards production. Restrictions, however, must not, in general, be either legal or executive, but social; they must proceed from the people themselves through associations, which, imbued with a true economic and mutually helpful spirit by their best members, will gradually develop not only throughout the associations but in their individual members, the habits of prudence, foresight, thrift and productive outlay. It is because banks have hitherto been regarded merely from the point of view of capitalists and shareholders seeking for profitable placement of their capital, that the security of the loans advanced and the stability of the bank have been the points primarily aimed at; the present proposals aim at establishing and safeguarding the security of the ryot first and of the loans afterwards; men are of more account than money and, after all, loans are safe just in proportion as the borrowers are prudent. Hence in the proposals to be made, the action and influence of the banks on men, and the controlled use of credit, will be discussed along with the usual consideration of cheap and facile credit to the borrowers and of the security possible to the lender.

There is, then, a possible remedy for the evils of indebtedness, reckless borrowing and usury; there is no single remedy, any more than there is one cause; there is no panacea, no universal or simple cure for the evil of debt. But there is one of value and of comparatively easy application, viz., the development of credit associations, the advance from confusion to system, from money lending to banking, from individual to co-operative responsibility.

To use a Belgian description of the case—

Plus de capital sans banques;
Plus de richesse sans crédit;
Plus de force sans mutualité.

¶ The development of the income and produce of agriculture is one remedy, but there is the converse remedy of assuring to the ryot the fruit of his labour, of liberating him from unnecessary exploitation, and of educating him through association in the use of thrift, foresight and credit.

CHAPTER III.—REAL CREDIT.

Following the divisions of capital and credit—real credit, chattel credit and personal credit—the first class of credit institutions are land banks.

Before discussing projects for India, it is advisable to examine real credit as elsewhere found; the errors, failures, successes of Europe, where the subject has been exhaustively debated and real credit institutions in operation for the last forty years, and for much longer in Germany, will assist proposals for India.

The original form of real credit in Europe as in India was the private money-lender system, in which the capitalist lent money direct to the borrower, usually at very high interest, on comparatively short terms and repayable in lump; the scarcity of money and the absence of all credit institutions enabled monopoly prices to be asked, especially as the needs of the proprietors, then chiefly the nobles, were pressing.

GERMANY.—The first advance was made in Germany (Prussia) in which country real credit is perhaps more developed than elsewhere in Europe. There are numerous types of land credit banks, but they fall generally under three classes: (1) the *Landschaften* or Provincial land banks; (2) the new joint stock land mortgage banks modelled after the French *Crédit Foncier*; (3) institutions founded and guaranteed by the State, district or commune. Altogether there are at least 25 of the first species, 31 of the second, and 11 of the third. In addition to these there are the ordinary banks, the Savings banks and the Rent charge banks, which will be briefly mentioned at the close of this sketch; the life insurance societies also place an immense amount out on mortgage.

History and Description.—The first class, or Old *Landschaften*, are the result of the indebtedness of the nobility; the needs of this class were so urgent that Frederick the Great at first ordered, by a simple administrative decree, the suspension (moratorium) of all interest on estate debts for three years, a decree subsequently extended for a further period. This, of course, led to the withdrawal of capital from agriculture and the rise of interest to a ruinous height; the consequence was such distress that the Government was forced to take further steps, the chief of which was the establishment of a land credit bank under the suggestion of a Berlin business man named Bühring. The first was established in Silesia in 1769 by the simple fiat of the King, and was an association in which all the nobles who held land in the province were obliged to join, whether they wish to borrow or not, all their lands being held eventually liable for all loans guaranteed by the association for its members. This extraordinary and forced security was but little dangerous, since no loan was guaranteed except with the consent of its elected directorate—a consent which was only granted if the borrower's property amply secured the loan; on the other hand, the mutual guarantee gave an immense credit to the association. Altogether five of these associations were formed, and existed almost alone from 1769 to the middle of this century; they were strictly provincial, each occupying a province in area from about 8,000 to 15,000 square miles, or that of one or two of the larger Madras districts. The forced guarantee of all estates has now been relaxed and only the estates of borrowers are now considered responsible in most, if not all the Old *Landschaften*. At first the association merely played the part of intermediary, and found a lender for each loan; a specific property was pledged to a specific lender for a specific sum, and the association simply added its guarantee that the property amply covered the loan, and that the interest and principal would be paid according to contract; the lender and borrower dealt with one another, and were responsible to one another, but through the mediation of the association. The practice was for the borrower after satisfying the association of his security, to execute a mortgage deed to the association, which then issued its own debentures (*Pfandbriefe*); these, however, recited this particular property as their primary security, to which was added the tacit guarantee of the association. These bonds—payable to bearer—were then transmitted to the borrower, who cashed them in the money market probably a good deal below their par value; it was not cash that he received, but paper of varying value. The chief defect of this advance on private lending was that there could be no amortization of the debt; the annual payments were made direct to the bearer by the debtor, and since the creditor would not accept payment of the capital in dribbles, the payments were for the interest only. The debt was usually for an indeterminate period, and the principal, which was repayable in lump, could be called in by the holders of the debentures on a few months' notice.

Another grave defect was that the borrower was still limited to a narrow circle of lenders; no one who lived far from the borrower cared to take up the loan, for though the association was ultimately responsible, it required that in case of default or delay, the lender should address the borrower first, and this led to much delay and expense unless lender and borrower lived close together.

Further developments consequently took place. The first was that the association undertook to receive the interest on the loans and to pay it to the respective creditors, viz., the holders of the bank's debentures, which were still issued against the respective properties; in case of default the bank paid the interest due, and then proceeded at once against the defaulter by the special and summary procedure which the law had provided for it.

A second development was the formation of a reserve fund in cash; up to that time there had been neither capital, nor shares, nor reserve, nor dividend; a guarantee reserve was now formed from an additional charge made to borrowers.

A third development was the extension of aid to landed proprietors other than nobles, either by the direct action of these associations, or by subsidiary associations founded by the original land banks. The East Prussia *Landschaft* admits all rural properties of a certain minimum value; that of Silesia issues a special series of debentures, secured on mortgages of peasants' estates, and guaranteed not by the general credit of the society, but by a special guarantee fund accumulated from the contributions of the borrowers. The other three have founded branches separately administered and of the nature of the New *Landschaften*.

The fourth and chief development was the passage from the position of mere intermediary between persons lending and borrowing directly and on a specified property, to that of a mortgage bank, borrowing from the public in general by debentures secured on the mass of its mortgages, and not upon particular estates, distributing this amount in loans, repayable not in lump, but by annuities, receiving from its debtors the interest and amortization amounts, and themselves repaying the creditors, that is the debenture-holders. Hitherto a lender had simply lent to a borrower upon a specified property, the association merely acting as intermediary, and adding its guarantee; henceforward the association became the actual creditor of the borrower and actual debtor to the public, from which, by means of its debentures, it drew capital, which in turn it distributed to borrowers. Hence the borrower now had for his creditor the association now become a land bank; the bank had for its creditors the public in general who held its bonds; the creditors of the bank had as their security the credit of the bank, which was based primarily upon the whole mass of mortgages which they held, and secondarily, upon the reserve of the bank and upon the whole property of all the members of the bank. In other words the regime of the individual loan upon a specific pledge had passed into that of joint stock operations and securities. This is the present position of these *Landschaften*.

The *modus operandi* is as follows; the land owner presents his demand for a loan, his title-deeds are inspected, his property valued, a loan, repayable by annuity, agreed upon to one-half or two-thirds of the estimated value, and a mortgage deed executed and registered; the bank then issues its debentures, either handing them to the borrower for sale, or selling them itself and paying the proceeds to the borrower; the face value of the debentures exactly represents the loan,—any premium due to a good market (*Kursgewinn*) being credited to the reserve,—so that the mass of bonds issued to the public represents simply the value at any time existing of the mass of mortgage loans granted. The mortgagor at the specified period pays into the bank the interest and amortization amount due on these loans; the bank carries the payments separately to the heads of interest and amortization, and with the accumulated masses of the latter, received from its hundreds or thousands of debtors, it pays off forthwith an equivalent amount of its debentures. Thus, if a thousand loans are granted for a total of a crore of rupees for an average of forty years, the debentures—of all sorts of amounts including many of very small value—issued to the public, will also be for a crore, and may be held by 10,000 or more persons varying in number as the paper changes hands; every six months the fixed dues which include sinking fund and interest, are paid in, the sinking fund beginning perhaps at $\frac{1}{4}$ per cent. or Rs. 12,500 and gradually increasing each half year as the principal is paid off, and as the charge for interest therefore decreases; this sum will be used by the bank in redeeming its debentures to that value, the particular debentures to be redeemed being determined by lot, or by purchasing them in open market should they fall below par. The interest paid in by the 10,000 borrowers is, of course, carried to the interest account and the cost of administration is met by an addition of about 0.5 per cent. to the annuity, any profit being credited to the reserve.

Loans.—Every proprietor has a right to a loan according to the value of his property which should be free from mortgages, unless the loan is expressly intended to pay off old mortgages. The maximum loan granted is two-thirds the estimated value of the estate. The loan is paid to the borrower either in cash or in the bank's debentures. Interest varies from 3 to $4\frac{1}{4}$ per cent., to which is added $\frac{1}{4}$ per cent. for sinking fund and a contribution for expenses of administration, the whole forming an annuity generally below 5 per cent., by which the debt is paid off in forty years or upwards. All charges for enquiries and valuation, stamps, registration, copying fees, &c., are paid by the borrower. The debtor has the right of re-paying the loan at any moment on six months' notice, in whole or in part; the bank cannot demand such re-payment, but may attach the estate if it is deteriorating through mismanagement, or if the borrower is acting contrary to the agreement.

A sketch of the formalities which the experience of the *Landschaften* finds necessary before loans can be granted, will be instructive; it will serve to explain the reason why small loans cannot be or are not granted by such institutions, to remind the projectors of similar institutions of the difficulties in the way of granting small and cheap loans, and to show that the formalities and rigidity of rules complained of under the Indian Land Improvement Act are at least equalled, probably far surpassed by those of land banks, even by those which have no dividend to earn, or capital to lose. The picture of the wealthy land bank readily pouring out millions in cheap loans is most attractive, and one if possible to be realized, but the dry details attending *sach* such loan, the numerous precautions, formalities and expenses absolutely necessary to secure the bank, the disappointments of small holders, the rejected applications, the delays, are among the things which are forgotten because not seen. For this sketch the methods of the Pomeranian Old *Landschaft*, and the New West Prussian *Landschaft* will be chiefly drawn upon.

When a loan is required the candidate must present to the District Executive Board of the bank application with all necessary documents, viz., an extract from the land register (*Grundbuch*) of titles, a certified copy of the land tax register (*puttah*), a certified statement of the local cesses and charges, tithes, &c., on the land, and a sum for costs. These are examined by the *Syndic* (legal adviser), and if his opinion is favourable, a valuation is ordered. For this purpose a member of the District Board with the Deputy of the circle (*taluk*) and at least one agricultural expert, visit the estate; if small, only one Commissioner and an expert are sent; for each circle three such experts are elected by the District Council, and hold office for six years without the option of refusal; they must be practical agriculturists, since the farm management is one of the chief items to be considered. The *Syndic* or other officer may also be sent with the Commission. All members of the valuation Commission are paid daily *batta* or travelling allowance. Arrived at the estate, the Commission proceeds to inspect every item and method, to appraise the land, buildings, and farm stock, to ascertain if there is any boundary or other dispute, and to take any necessary evidence; the candidate is also examined and cross-examined in case of doubt, with extreme minuteness, and all is reduced to writing. For this examination a list of fifty-nine heads of enquiry is entered in the rules of the New West Prussian *Landschaft*; it is applicable to proprietor and witnesses, who are sworn and liable to punishment for perjury in case of falsehood; among the personal questions the examinee is asked whether he has ever talked with his neighbours on the subject of his evidence, whether he is in possession of his civil rights, or whether he has ever

been punished for perjury, while the other fifty-one heads relate to the estate itself including every possible enquiry as to management, outturn, cost of labour, taxes, price of fuel, &c.

The fields, meadows, grass lands, woods, &c., are all valued upon a fixed scale varying according to zones mentioned in the rules. In West Prussia all arable land is entered in eight classes valued at from £1 to £12 per acre plus a percentage of from 0 to 40 per cent. according to locality; only the finest wheat lands are entered in the first class; in Posen the rates are approximately the same. Hay-fields are valued in five classes from £4-10 to £14; ordinary grass lands from £6 to £4 per acre. From these gross valuations are deducted percentages for distance from markets, main roads or railways ($\frac{1}{2}$ or 3 per cent. per (German mile), a further percentage if a field is below half an acre (West Prussia), and all tithes, charges, local taxes and other cesses, not including State or district taxes, capitalized at twenty times; hence, if the average valuation of all lands in West Prussia and Posen be as high as £8 or even £10, the amount lent per acre at one-half the valuation cannot exceed £4 or £5. In Pomerania the lands are valued at about double the above rates. Buildings are valued, but are not allowed to exceed one-fourth of the value of the whole estate; in Posen buildings on "small estates not exceeding £3,000. (20,000 thalers) in value, are not taken into consideration unless pucka (massiv in Kalk gebaut").

The Commissioners are responsible to the bank if their facts are incorrect, or their valuation too high, or based on a wrong application of the valuation principles. It is presumable, therefore, and it is a fact, that the valuations are generally well below market value. Their report is drawn up in detail and sent to the District Board Chairman, who appoints two Councillors to examine, each separately, the report with its data; they are always selected from the neighbourhood of the estate and are responsible for the correctness of their revision. The Board subsequently decides regarding the amount which may be lent and sends the papers to the General Committee, which, if necessary, calls for further information, and gives a final decision. The candidate has an appeal to the Special Committee against any of the proceedings of the lower officers.

When the amount of the loan has been settled, the candidate petitions the District Board, adding a statement of his ability to assure first rank to the mortgage; if no objection is found, the District Council (Board plus certain other Councillors) at their next meeting settle the amount of the loan in consultation with the Syndic. The candidate then enters into a written mortgage agreement to be drawn up judicially, or by a notary, or by the Syndic; in case prior private mortgages are to be redeemed by the loan, the documents of such mortgages must be produced to the bank with the new mortgage deed, and on cancelment the deed to the bank will be executed. Thereupon the District Board signs and issues debentures which may be of various specified values from £3-15 to £150 each (the smallest denominations find the best market, showing that they are bought by persons with very small savings), and bear interest coupons for several years; these are issued to the borrower without regard to their price in the market, but the bank may, under certain circumstances, pay the full value in cash and appropriate any surplus (premium) to the reserve.

Under certain circumstances loans may be granted without special valuation, as where it does not exceed twenty times the *net* annual income assessed to the land tax (Grundsteuerreinertrag); this valuation was made many years ago, and is a species of settlement by which all lands were entered in classes of various productiveness, the cultivation expenses deducted, and the remainder taken as the assessable income. It is believed to be now much below the real net income.*

Such, omitting an immense number of details, are the steps found necessary in Germany before lending even on considerable properties. Since the risks attending a large series of small loans are greater than those attending a small number of large loans, since the enquiries must be equally careful and detailed, and since therefore the expenses per loan must be equal, and consequently disproportionate to the amount of the loan, it is easily intelligible that the Landschaften cannot ordinarily lend on really small estates, i.e., on estates of less appraised value than several hundred pounds; exceptions can only be where the lands are close to the banks or their branch offices.

Results of Loans.—Some results of the loans given by the banks are somewhat surprising. Notwithstanding the extremely cheap and easy terms of credit—possibly the result of such terms—it appears by the reports that a very considerable number of estates are annually attached and brought to sale. In the East Prussian Landschaft, where interest is $3\frac{1}{2}$ per cent., the total loans existing in 1891, 9,588 and the loans granted in 1891, 490, the number of forced Court-sales of mortgaged property was 50; of these 27 were on the motion of the bank and 23 on the motion of other creditors. When loans average as they do in this bank considerably below 500 per annum (for the 9,588 existing loans were contracted for periods up to fifty-five years, the sinking fund rate being $\frac{1}{2}$ per cent.) forced sales of 50 estates in one ordinary year shows that cheap credit does not prevent most serious embarrassments. Besides this, there were in 1891 no less than 22 estates under management, of which 10 remained under attachment at the close of the year. In Pomerania 10 estates out of 1,521 under loan were taken under management in 1892; the number sold is not stated. In West Prussia, with interest at $3\frac{1}{2}$ per cent. there were 94 forced sales; in 12 cases the bank had to buy in the estates, and lost by the re-sales £20,598; the estates under attachment are not mentioned, but the advances made in 1892 for costs of managing attached estates were £7,686. In Kur and Neumark where the average number of loans per annum is below 50, there were five estates under attachment in 1892, and two were sold in 1891, resulting in a loss. In Posen with interest at $3\frac{1}{2}$ or 4 per cent., the number of loans is not stated, but estates with 14,330 acres were under attachment, and estates of 9,621 acres were sold in the interests of the bank.

* According to the Prussian Agricultural Report for 1881-83, the cultivable area of Prussia is 63,171,196 acres, with 20,067,566 acres of forest. These are assessed to the land tax upon a net taxable income (Grundsteuerreinertrag) of £20,715,755, so that by this settlement the net income of 83,000,000 acres averages less than 5 shillings per acre! This, of course, in no way represents the average net income per acre, any more than the Madras Settlement assessments represent anything more than a conventional "half of the net." The point is of importance both in gauging the areas which can obtain loans, and the amount of loan obtainable; e.g., a bank which may not lend on estates of less than £5 net taxable income can evidently not lend on an estate below 20 acres; if a bank lends without valuation at fifteen or twenty times the net taxable income, it cannot lend more than £3-15 to £5 per acre.

The figures are imperfect, but enough is stated to show that even under the arrangements of the *Landschaften*, where all properties are most rigidly scrutinized before being accepted for mortgages, where loans are only given to about one-half to two-thirds the *estimated* value, and where the interest and other terms of the loan are exceedingly easy, organized credit is not *per se* a panacea against total embarrassment.

Funds.—These, as will have been seen, are chiefly derived from debentures issued to the public, and secured upon the whole mass of mortgages held by the bank, and on the solidarity of the members. They can only be issued to the value of the loans granted, and after registration of the mortgage; with this restriction, the amount which may be issued is unlimited. The bank has the right of calling in its debentures on six months' notice, but the holders of the debentures cannot demand repayment at will. Debentures are periodically (half-yearly) repaid at par to the amount of the aggregate payments to the sinking fund, the debentures to be repaid being determined by lot.

The bank has the right of buying up its debentures in the open market. The power given to the bank to recall or buy up its debentures enables it to dispose promptly of sums paid in in advance, &c., and, as the market permit, to exchange debentures at high interest for those at a lower rate. This matter of operation has been frequently resorted to with much benefit to the borrowers, who, as sole members, absorb all the profits. The debentures are issued at from £2-10-0 to £200 each, and are provided with coupons for several years' interest.

Other Funds.—These are (1) the working capital, (2) the sinking fund, (3), in some cases, a special fund for the guarantee of debentures issued against loans on peasants' estates.

(1) *Working Capital*.—This is now chiefly needed for the payment of interest due on debentures in cases where the bank's debtors are in arrears. This fund has as its nucleus the State subvention or loan, where such has been granted, but is chiefly due to the accumulation of the special contribution paid by borrowers for the expenses of administration. It is now generally so considerable that this contribution is no longer levied, the interest upon it sufficing for all expenses. It is usually invested in short term loans or well secured paper, and forms practically a substantial guarantee fund.

(2) *Sinking Fund*.—There are as many divisions of the sinking fund as there are series of debentures, and each division is sub-divided into as many accounts as there are loans. Each instalment on a loan is posted to its proper account and accumulates at interest to the credit of the debtor, the aggregate amount being utilized in a half-yearly cancellation of debentures belonging to the series. It is permissible for the debtor, as soon as the amount at his credit has reached a definite proportion of his debt—from one-tenth to one-fourth—to demand that his mortgage debt be reduced by that amount, and property freed in due proportion.

(3) *Special Fund*.—Only such banks as lend direct on peasants' estates require this fund, which is necessary, since the association, which, strictly speaking, exists for "noble" property only, does not guarantee such loans by the solidarity of its members.

Administration.—For the purpose of this section, the Pomeranian statutes of 1891 will be taken as a specimen; those of other banks will be simply alluded to. It is, however, impossible to give more than a rough outline, as the rules are very lengthy and detailed.

Under the State Commissioner, who has the general supervision and is the real head of the administration, are several Councils or Committees, viz., (1) the General Assembly, (2) the Select Committee, (3) the General Committee, (4) the District Committee, (5) the Circle (Taluk) Committee; all except the latter are considered as corporate bodies.

The *General Assembly* seldom meets, unless specially summoned by the State Commissioner or by the Select Committee; once in five or six years is usual. It is not, however, a meeting of all members, but only of the General and District Committees (Pomerania) and of a Deputy from each Circle (West Prussia). It is presided over by the State Commissioner, and is the final extraordinary Court of Appeal; it considers all matters of importance relating to the credit system, and reports its resolutions regarding changes in the statutes, for Royal confirmation. It is usual for the General Committee to draw up a special report for the General Assembly of the condition and management of the bank since the previous assembly.

The *Select Committee* (*engere Ausschuss*) represents the General Assembly, and performs the duties of the Council of Supervision, which will be found practically universal in the societies and companies of Europe; it meets once a year regularly, and as often as it may be summoned by the General Committee acting with the State Commissioner. It is composed of Deputies elected for the purpose, one by each District Committee from its own body, together with an Assistant Deputy and the Chairman of each Committee; these Deputies are instructed by their committees, but are not bound to follow such dictates. The Committee also includes the Syndic or legal and financial adviser of each Committee in turn. This Committee is the controlling authority both of the General and of the District Committees, and is the ordinary final Court of appeal in case of complaints; it interprets but cannot alter the statutes or impose fresh charges on the members. It is presided over by the State Commissioner who has only a casting vote. All accounts must be placed before it, duly examined and certified by the several Committees, and it has power to call for all papers, &c., which it may desire to see. The annual budget must also be placed before it for approval. The Minutes of its proceedings are drawn up by the Syndic of the General Committee and submitted to the Minister; on approval they are issued to the districts for communication to members, and such part as is necessary is published. The members of the Committee draw daily allowance and the costs of travelling.

The *General Committee* is the executive authority or directorate of the bank; it consists of a Chairman, two Councillors and a Syndic; it appoints its staff, but cannot increase it without permission from the Select Committee. The Chairman and Councillors are elected by the District Deputies subject to Royal confirmation. The Syndic must be a lawyer, who has passed the examination for Assessor in the Courts, and is appointed by the General Committee in consultation with the District Committees; he holds office for life, and can only be removed as in the case of a Government servant under the Disciplinary Act (21st July 1852), or by forced superannuation under the Public Pension Rules. The

Chairman and Councillors hold office only for six years. The paid staff are also appointed for life and are only removable as in the case of the Syndic.

The General Committee has authority over the District Committees, and its decisions are binding on them; it also hears appeals from members against their orders, and objections made against them or their individual members as regards administrative matters; a further appeal lies from the General Committee to the Select Committee, but no suit lies against any such decision made in accordance with the statute. They also superintend all money transactions and accounts, and arrange for periodical and unexpected audits and inspections.

The Syndic is the legal adviser of the Committee; his special duty is to examine from a legal point of view all matters relating to the security of the debentures, especially the titles and rights of borrowers and the correctness of all documents; in all the affairs of the bank the agreements and proceedings, such as mortgage deeds, releases, &c., which he draws up, have the validity and scope of those drawn by a Notary Public; if he is a High Court Notary he is entitled to retain the fees due to him as such, otherwise the fees are credited to the bank.

The *District Committees* are four in number, one for each district, within the bank's area of operations; as Councils (Kollegium) they consist of Deputies elected by the Circles and of the Executive Board; the Executive Board, which is part of the Committee consists of a Chairman, two Councillors and a Syndic, with the necessary staff.

The District Board Chairman is subject to Royal confirmation, elected by all the proprietors of the District, who hold estates capable of being borrowed upon, and cannot refuse office, unless for reasons which, by the general law, would permit him to refuse a guardianship, or unless he has for six years held some office under the bank. Full rules are provided for election, and for the qualifications of the Chairman, who serves six years. His duties need no description, but he is especially responsible for verifying the cash balances by means of frequent inspection. He receives a fixed salary, with batta and travelling allowance when necessary; he must vacate office if he becomes bankrupt.

The District Councillors are elected similarly to the Chairman; they perform all duties assigned to them by the latter and receive a small salary, as well as batta, &c., for rural work. As members of the Committee they are present at all meetings; as Deputies (of the Chairman) they make valuations, institute attachments, &c., and as Controlling officers they look after the cash.

The District Executive Boards hold meetings whenever necessary and at least once a month; the detailed work of the bank is largely done by these boards which receive and decide applications for admission, examine the cash balances and accounts, arrange for valuations and transmit them to the Central office, issue coercive process against defaulters; generally speaking they do all the work which is not expressly reserved to other bodies, and represent the bank in the districts; in matters of importance, especially those not expressly governed by the statutes, they must consult the District Council. One of their chief duties is to watch the agricultural management of the estates of borrowers, and to prevent changes or disorders which might endanger the security held by the bank; the proprietor must inform them of any proposed change in his methods, and every member of the association and especially every District Deputy, is bound to report to the bank any observable deterioration due to bad management. If, after due enquiry, the Board issues orders to such proprietor without result, or if the security of the bank is threatened, the Board are entitled to take steps to call in the loan or to attach the property, without the necessity of recourse to the Courts. Any person aggrieved by such order can appeal to the General Committee, which can dispose of the matter or order a fresh enquiry by other Deputies. A second appeal lies to the Special Committee, but, as in most cases under this statute, the order of the General Committee can be executed pending the appeal.

The District or rather Circle Deputies form part of the District Committee or Council, and are elected one for each circle by the proprietors within the circle; every member so elected is bound to accept office. The Deputies assist at the District Council (not at the Board) watch over the interests of the bank in the estates under loan, make valuations, attachments, warn the District Boards of all deteriorations likely to endanger the interests of the bank, taking, in case of urgency, any necessary steps on their own responsibility, and perform all duties assigned to them by the District Board. One of their number is annually elected to the Select Committee, and the General Committee is also elected by them. They hold office for six years, and are paid a fixed salary of £7-10-0 per annum, with moderate daily batta, and travelling allowance when travelling for the bank.

The District Council is partly deliberative, partly supervisory; it discusses matters relating to the interests of the bank and of the credit system, but it also examines the accounts and affairs of the district, confirms valuations and loans, releases, attachments, &c., deals with the election of members and the appointment of employes, and generally decides all matters which the Executive Board refers to it. It meets by rule twice a year, and as often as may be necessary.

The *Circle (Taluk) Committee* consists of all members within the circle and meets at least once a year, and as often as necessary. The Deputy of the Circle lays before the members the accounts, the decisions of the Select Committee, and all important matters, general and individual, that have happened since last meeting; consults their opinion and invites resolutions in all matters requiring discussion and reports to the District Council. Elections are also held for the post of Deputy. In voting at these meetings only proprietors can vote, (1) who are of full business capacity (*i.e.*, not incapable), (2) who hold estates entered on the land register, (3) who are of unblemished reputation (*unbescholtener Ruf*); it is noteworthy that these qualifications are not mentioned in the statutes in 1850, so that their entry is evidently the result of experienced necessity. Nor may any one vote or even appear at meetings who is in receipt of public relief or who is a bankrupt. Each proprietor has at elections only one vote in each circle, however many estates he may hold in the circle; in other cases he has two or three at most.

Status of the Landschaften.—Although associations of proprietors, they are quasi-public, each being regulated by a special law of its own, and supervised by the State: their office holders are under the disciplinary law which governs public functionaries. For instance, in the Pomeranian and East Prussian banks the four chief Committees are expressly established as public Corporations or Councils (*öffentliche Kollegien*) with the rights attached to such corporations by the general law; the

documents issued by them within their area of operations have the status and validity of public documents; and decisions (presumably against members only) issued within the limits of their statutory authority, are not amenable to legal question, and no suit lies against such decisions (*finst der Rechtsweg nicht statt*); any objection to the decision of the lower Councils goes to the superior and from the superior a final appeal to the Select Committee, or to the General Assembly which only meets once in several years. These provisions are comparable with those of the English Industrial and Provident Societies Act, 1893, section 49, which provides that disputes within the society shall be decided "in manner directed by the rules of the society," and that such decision shall be binding and conclusive "without appeal," and "shall not be removable into any Court of law or be restrainable by injunction."

The officers of the bank are also quasi-public (*sind mittelbare Staats Beamte*), and cannot be ousted from office except under the conditions and with the forms prescribed in the law of 1852 (public servants), by the other provisions of which they are also governed.

Privileges.—Except for the grant of a moderate subvention to the earliest banks, a grant due to the necessity for providing for the first expenses of an association formed compulsorily by the mere fiat of authority, and even against the will of the obligatory associates (Pomerania), and for the special procedure in matters of recovering dues, there are no considerable privileges granted to the land banks, while weighty responsibilities and duties are thrown upon the members. One land bank had the right of sending its letters post free, but this privilege has disappeared. They do not appear to enjoy any freedom from stamp duties or Registration fees; income tax is not levied because the banks are mutual societies and have no real income, or dividends, having no shares or share capital. In the case of one bank the sale-deed for land bought in at a sale for arrears, is exempt from stamp duty if sold again within one year; if not sold within three years one-twelfth is charged; at the end of three years the whole duty is levied.

The banks, however, have one noteworthy privilege; every member must undertake any duty that may be imposed on him by the Directors, who have the power of fining for disobedience and enforcing their fines by distraint and other coercive process. In this way all the important and delicate work of a land bank is done promptly, cheaply and yet carefully; e.g., the valuation of property, the attachment of estates, and the supervision of their management.* It is usual to remunerate such delegates, but at a very moderate rate; e.g., the person who is appointed by the Pomeranian bank to attach and manage as Supervisor (Curator) an attached estate, is paid annually two marks per thousand of the value of the property up to 75,000 marks, and one mark per thousand beyond that sum; £7-10-0 per annum and travelling allowance, for supervising the affairs of a property worth £3,750 is hardly excessive. So in Posen also, all members within a Circle are bound to attend the Circle meetings, and failure to do so without good cause on three successive occasions entails the loss of certain rights (cf. Italian popular banks). In Pomerania the District Deputies are appointed by the Circles (*taluka*), and no one may refuse the duty unless on such excuse as would be his warrant for refusing a guardianship of a minor; their duties are heavy; as deliberative officers they must take part in the meetings, and as Executive officers they make the valuations, initiate attachments of estates, and "carry out all duties entrusted to them"; for their Council duties they received lump sum of £7-10-0 annually and travelling allowance, and for their executive duties they draw when on duty a daily allowance and travelling charges, both on an economical scale considering their position. In the West Prussian *Landschaft* the following rules are found on this point; "every owner of a property within the area of its operations" is bound to take up the post of Director, Councillor or Deputy, if duly appointed thereto, nor can he decline the post unless he has already filled one of the offices for six full years, or is above the age of 60, or holds a Government post, or has to administer, as guardian, a three-fold property. The *Landschaft* authorities can completely enforce the taking up of office, for every member is bound to obey the behests of the authorities in every matter relating to the maintenance of the institution, under penalty of fine or other suitable means of constraint, which may be enforced by the attachment of the recalcitrant's property; if this is of no effect they may proceed to call in his loan, if any, on six months' notice, or to sell his estate in default. (The defendant has the right of appeal up to the General Assembly, the decision of which is absolutely final, and the District Committee must always report in full to the General Committee, which is bound to make further enquiry and to call on the member for his defence. It will be remembered that from the decisions of the Bank Committees no suit lies.

The Pomeranian bank has similar powers of coercing its members should they refuse office or other duties, but the sentences of the bank are to be carried out by the Court having local jurisdiction (*solche hat das betreffende Gericht einzuleiten*).

The provisions of the East Prussian bank are similar to those of West Prussia, and provide that every lawful commission or duty imposed upon any member must be obeyed by them, especially those with reference to enquiry into a deteriorating property and the undertaking of valuations in the absence of a Deputy; fines for disobedience are imposed by the bank, and may be collected by the Bank officers without any application to a Court; and any other means of coercion that seem good to them may be used (*oder durch andere ihnen geeignet erscheinende Zwangsmittel und selbst durch Zwangsverwaltung zu erzwingen*): every Court, moreover, is bound freely to assist them when so desired; in the last resort the bank may sell the mortgaged property, but only through a Court, which however is not allowed to make any enquiry, but is simply to carry out the sale.

* Certain money-lenders in this Presidency avoid the cost of agencies and the risk attending mere paid agents by utilizing local knowledge as follows: a loan is granted to (say) a money-lender, kurum or other person of position in a village; this is allowed to run on till hopelessly heavy; the unfortunate debtor is then obliged to furnish trustworthy information *gratis* regarding all other would-be borrowers, and even to attest their documents, under penalty of being proceeded against; it will be understood that such agents are careful and, in a measure willing, while costing absolutely nothing. The necessity for trustworthy but cheap local agents is absolute in the case of non-local money-lenders; the German *Landschaften*, certain Swiss Land Banks (e.g., Berne), the Russian Peasants' Land Bank, the Scotch banks and some Madras money-lenders seem to be alone in finding a successful method.

It must be remembered that gratuitous public services are expected from all men in England and Europe; in the communes of Germany, *e.g.*, in Hesse, every resident, peasant or otherwise is liable to be appointed to communal posts and duties which he is not at liberty to refuse or avoid, however irksome or inconvenient; there are also many communal duties and services which the inhabitants collectively may be called on to perform. These are generally or largely gratuitous. Hence it is not surprising that in the case of members of a land association in receipt of the valuable privilege of cheap loans, this duty is accentuated; in view, however, of the difficult and constant nature of the services demanded a moderate honorarium is now allowed.

The chief privileges, however, are those for the recovery of dues. The bank binds itself to the most absolute punctuality and certainty in the payment to its creditors of the interest on its debentures; this is in the interest of the borrowers, for debentures on which the dues are paid absolutely to date will command public confidence and consequently a ready market. To ensure this punctuality similar punctuality is required in the payment of dues by its debtors. Dues are payable on two fixed dates; on the expiry of those dates a list of arrears is drawn up, extracts sent to the local bank delegates, and these proceed at once against the defaulters. The general rule is that of preliminary distraint of movables, nor can the defaulter demand in preference the attachment of his estate. In West Prussia when the arrears are below £30, distraint of movables is obligatory; this may be made by the bank's own agent, or by demand of process from the local Court through its bailiff, and the Court is bound to issue process accordingly. When the arrears are above £30 it is necessary to attach the estate. In East Prussia and Silesia it is expressly provided that the bank may collect its dues on mortgages by any coercive process open to them, "without any proceedings in Court" (*ohne jedes gerichtliche Verfahren*), and these coercive methods are distraint of movables, including any debt owed to the defaulter by third parties, attachment and management of the estate; the sale of an estate must always be through the Court. In Posen the local delegates must take with them a Court bailiff when attaching movables. In Pomerania a notice is first sent to the defaulter, followed in case of continued default, by distraint through a bailiff. In all cases it is strictly provided that no movables shall be attached which would hinder the working of the farm; cattle and stock, for instance, may not be attached if necessary to such working, but a milch-cow or an additional yoke of oxen might be taken; this corresponds fairly with the Indian Civil Procedure Code and the executive orders of the Madras Government in revenue matters. The sale of the distrained goods takes place by auction through the distraining bailiff (Pomerania).

When such distraint is insufficient or useless, the estate may be attached by the bank, and managers put in; in such case the owner is not allowed to interfere in the working of the estate, but all matters, including those of ordinary cultivation, or the leasing of land, are conducted by the bank's nominee; for the management of such estates most elaborate rules are laid down. In Pomerania the attachment is made by a Councillor of the bank or by a Deputy assisted by the manager, or in case of any hindrance to the same, by a Court officer (*Gerichtsperson*), and a similar person or an ordinary member is at the same time appointed as administrator or supervisor (*Guts-Kurator*).

In Pomerania should it become necessary to sell the estate, the Directors, after taking the opinion of the District Committee, apply to the local Court which is bound to comply with the application, nor can it make any enquiry as to the merits of the application, which is sufficiently justified by an extract from the books of the bank showing the arrears claimed. The bank is recouped by the Court from the proceeds of the sale and no opposition can be made by third parties, unless when the bank has exceeded its powers or when the correctness of the claim is denied. The bank may bid at the sale so as to avoid collusive transactions, but if it buys, it must sell again as soon as possible (West Prussia). Other *Landschaften* have similar powers.

The bank is allowed to grant some delay, usually for six or twelve months, where the arrears are due to some cause beyond the debtor's control and not to his bad management; at the end of that time, all dues must be rigorously collected. In the Posen bank a condition is entered that the sinking fund amount shall be paid on due date, delay being granted only for the interest due.

The bank may, in all cases, pay up any arrears due by a defaulter, either from its reserve fund or by borrowing from a bank at the defaulter's charge; all costs, penal interest, &c., are, of course, debited to the defaulter.

Such are the main outlines of the powers of recovery given to the Old German *Landschaften*. The banks have also the privilege of demanding instant repayment of the loan in certain cases; in the New West Prussian *Landschaft* these are as follows:—

- (a) when the estate deteriorates, so that its value falls below the minimum sum for which a loan may be granted;
- (b) when the borrower does not pay his dues at the proper time; in this case the privilege ceases as soon as the defaulter pays up;
- (c) when the borrower does not pay the public taxes and cesses;
- (d) when the estate is attached or sold by Court;
- (e) when the owner manages his estate so badly that, on examination by two experts, such deterioration is found as endangers the security of the bank's mortgage, and the owner fails to remedy the defects within a given time;
- (f) when the owner does not fulfil his obligation to insure his buildings, stock and produce against fire;
- (g) when the borrower does not fulfil the conditions of his contract;
- (h) when he refuses to take up the duty of a *Landschaft* Commissioner, to which he has been regularly appointed and has not previously held the office. This last provision shows the importance attached to the undertaking of the bank's business by its members.

In the New Posen *Landschaft* the parallel provision is "where a member does not submit to the lawful instructions (or appointments) of the Directors." Though these conditions are from the statutes of New *Landschaften*, they are equally applicable to the Old.

Supervision.—One of the chief privileges is the supervision exercised by the authorities. The *Landschaften* had, as has been seen, a quasi-Government foundation; the King gave the order

which was based upon a perception of the political and social dangers arising from an impoverished upper class, and the proprietors were formed, even against their will, into a mutually responsible credit association. This origin, together with the ideas of the time and of the environment, and with the difficulties attending a new economic departure, implied State supervision, which was accordingly, and still is, a very marked feature in the German *Landschaften*.

The Pomeranian *Landschaft* is a fair example. *Firstly*, it is based upon a law framed by the State, which serves instead of articles of Association, being very lengthy, and giving full details on all points, supplemented only by special sets of rules for particular operations, such as the methods of valuation. Consequently any alterations of the methods of the *Landschaften* can only take effect after submission through the Minister of Agriculture to the Sovereign for approval.

Secondly, the bank is considered as quasi-public, and its officers come, therefore, under the law relating to the discipline of public officials.

Thirdly, the bank is placed under the general supervision of the Minister of Agriculture for all matters regarding the maintenance of the system as contained in the statute. The immediate supervision is with a Royal Commissioner, the appointment of whom is reserved to the King; in the German *Landschaften* this Commissioner is usually the Ober-präsident of the province (Prefect, or Collector of the district).

This Commissioner is the head of the administration, and is especially bound to watch over the due observance of the rules and law; he presides at all general meetings, and at the annual meetings of the Special Committee, on which, however, he has only a casting vote. He is bound to see that justice is always done, and to arrange for and, if necessary, assist at audits and inspections. One of his special duties is to ensure an equilibrium between the mass of debentures and of mortgages. He has also, apparently, the power of veto where there is a departure from the rules; this is the case in the West Prussian *Landschaft*.

Fourthly, the Chairman and the two chief Councillors of the bank are elected by the Deputies of the four districts, but the election is subject to Royal confirmation. The election of the Chairman of each District Committee is also similarly confirmed. This is also the case in other banks, as in that of West Prussia.

The above sketch completes the history and general description of the Old *Landschaften*, five in number. It should be noted that they were not started either for the help of 'Peasant holders' or for the development of agriculture, but solely for the relief of the 'Nobles,' who, next to the king, were regarded as the State, from the burden of their mortgages. Subsequently a few 'New *Landschaften*,' based upon the later principles of the original five, were started but, up to 1850, there were only fifteen old and new together. All were associations of borrowers and not of lenders, with two exceptions in Bavaria and Hesse Darmstadt, where the associations were formed by capitalists. The chief difference between Old and New was that the latter lent on property other than 'Noble' of a certain minimum value, which, however, was high enough to exclude small properties. Moreover, membership in the new Societies is voluntary, though all borrowers must be members, and the liability may be limited or unlimited. Some, like the old societies, disburse in debentures the loans they grant; some pay the loans over in cash.

Up to 1850, however, in spite of the anxiety of Government, no more banks were started, chiefly, it is said, because Government limited the operations to those of land credit only. In September 1825 Government passed a law permitting the formation of real credit associations for peasants, giving them, with the sanction of the State, the right to issue debentures to bearer; this law contains the minutest regulations, but has been hardly put into operation. Government, moreover, started State or Provincial institutions for granting real credit, of which more hereafter.

But, in 1850, the question came more prominently to the front; in that year the Rent charge banks—hereafter mentioned—were founded. Government, moreover, entered upon enquiries which lasted for many years; congresses were assembled for discussion, and the literature became copious; projects were presented and failed, such as that of 1857, which was to favour the starting of land banks (of the French *Crédit Foncier*), issuing debentures and enjoying certain fiscal and financial privileges, as also special facilities for the recovery of loans, and the aid of the executive in obtaining information as to the security offered for loans. This was rejected by general consent, and a little later the Minister of Agriculture called another conference of officials, economists and business men, which ended in the usual recognition of the need for credit, and in the approval of the formation of associations of proprietors. The next discussion was by the Society of Rural Economy (*Landes-Oekonomie-Kollegium*); after much consideration this assembly formulated proposals in 1861, which added to the previous proposals that of subventions or guarantees by the State or province. Again, Government resumed its enquiries, and, in 1863, a fresh congress suggested tentative but abortive regulations, followed by proposals from various sources. In 1868 the North German Parliament issued a commission to examine afresh the subject of real credit, and the needs of agriculture, and to propose a scheme, which finally resulted in a Bill to favour the foundation both of associations of proprietors and of joint stock banks, which should carry on various classes of credit operations, including that of the pledge of movables, crops, &c. This was rejected as inferior to the Regulations of 1863, which were said to have arrested the development of land credit. Hence the Minister of Agriculture again moved the *Landes-Oekonomie-Kollegium* to formulate and tender their opinions, especially upon the subject of a State Central land bank after the pattern of the French *Crédit Foncier*. The *Kollegium* was so distracted by the various opinions which prevailed, that it suspended its sittings, apparently without offering any proposals. Finally, a fresh special commission was appointed by Government, which declared in favour of associations of proprietors, to be regulated by a new law, and against the proposal for a single and privileged State bank; they also recognized the utility of the new joint stock banks. The result was *nil*, save that the authorities veered round in favour of the usefulness of joint stock banks alongside of the *Landschaften*.

The numerous enquiries, congresses and commissions which had thus taken up the subject were the result of the increasing pressure of the demand for capital by agriculture. The competition of

foreign countries, the pressure of population, the demand for higher class produce, required an influx of cheap capital; hence these studies and enquiries; hence also the attempts to supply the demand, which resulted in the establishment by private means of numerous banks of the two rival patterns—associations of proprietors and joint stock companies—between 1861 and 1880. Up to 1861 there were 16 *Landschaften*, 10 State or provincial institutions, and 4 joint stock banks; in the two next decades these increased to 28, 12 and 35 respectively.

New Landschaften.—These institutions are of different patterns; several are annexes to the old societies, but most are independent and approximate to ordinary mortgage banks, except in this essential point that they have no share capital earning dividends; they are, like the old societies, simply institutions formed for the benefit of borrowers, to supply proprietors with capital on the lowest possible terms and repayable in the easiest possible manner; they are gratuitous intermediaries between the outside capitalists, and the borrowers, and, while performing services of the highest importance in testing the security offered by the borrowers, and in guaranteeing to the public the safety of the capital lent by them, they charge absolutely nothing for their services beyond a small commission, perhaps $\frac{1}{4}$ or even $\frac{1}{10}$ per cent., to cover actual expenses.

It is usual for each association to be restricted to a particular area of operation, within which every proprietor, whether noble or peasant, may obtain a loan if he can offer sufficient security; there is always a minimum limit either to loans or to the value of property on which loans will be given; this is usually low, *e.g.*, in the New Brandenburg *Landschaft* affiliated to the Old Kur-und-Neumark *Landschaft*, loans may be granted on property having a net income assessed to the land tax of only £5 (*see* sketch of this *Landschaft*); the minimum limit is seldom even approached.

Members are those who borrow from the bank; they are generally responsible in all their property not merely for their own borrowings, but for the debts of the society to the outside public; but in some cases only the property pledged to the society is responsible; in others they are bound, in case of need, to pay a sum proportionate to the amount of their own borrowing. There are no shares to be paid up except in two societies; these two resemble co-operative societies, for the shares are personal and non-transferable, are of unlimited number varying with the number of members, and their value is claimable by a withdrawing member; the share seems to be demanded simply to provide a first working capital, and the nucleus of a reserve; the amount of the share is frequently a certain percentage of the amount of the loan required. Some societies demand an entrance fee of a few shillings, which goes to the reserve; this reserve will be dealt with below.

Societies in general then, have no share capital; they do not lend their own funds; the candidate for a loan asks that debentures may be issued against a mortgage of his property; this is then examined, and, if the security is approved, the candidate executes a mortgage-deed to the society, which thereupon issues debentures which are placed on the market, and provide the funds for the loan. In the old banks the debentures are simply handed to the borrower, who sells them for himself; in the new land banks either this is done, or the bank sells them and pays the borrower the value if below par, or if they sell above par, then the face value, the surplus (*Kursgewinn*) going to the reserve; or they simply issue debentures on the market and pay the borrower the amount of the loan as settled. It will be seen then that the banks have no capital and no need for it.

The debentures are of the usual class, secured not by the particular mortgage on which they are issued, but by the whole mass of mortgages held by the bank, and by all its other forms of security, *viz.*, the property of the members, the reserve or guarantee fund, and even the sinking fund; in some banks a debenture-holder has the right—never needed however—of requiring a Court to assign a particular mortgage as the specific security for his debenture, should the bank fail to pay him his interest or capital due. A debenture-holder cannot demand payment of his debenture, except when it is drawn for payment; *per contra* the bank can call in any at six months' notice, besides withdrawing them by lot in the usual way. These debentures enjoy an excellent position, the 4 per cents. being usually at or above par, and since cheapness of loans is the sole object of the bank, it is customary to call in debentures selling at a premium and issue a fresh series at a lower rate; a few years ago $4\frac{1}{2}$ per cent. was general, it is now $3\frac{1}{2}$ per cent.

Loans are usually applied for to the District Committee with a statement of the property, the loans required and all documents necessary to prove title and freedom from encumbrance. Properties may be valued by a special valuation, or a multiple of the net income, as assessed to the land tax (*Grundsteuerreinertrag*) may be taken; in both cases, however, an inspection of the property is necessary unless under a special rule (*see* 'New Brandenburg *Landschaft*'). Half to two-thirds of the estimated value is allowable as a loan.

The interest paid by the borrower on the loans is that paid by the bank on the debentures, the bank being merely an intermediary between the borrower and the actual lending public. But where the bank pays the loan in cash, it charges such interest as it thinks proper, in order to make up any loss should the debentures sell below par. Loans are repayable almost entirely by amortization, usually in about fifty-three years, but some few term loans are granted with corresponding debentures.

The bank cannot demand repayment of a loan except under circumstances already mentioned under 'Old *Landschaften*'; *per contra* the borrower is at liberty to repay in whole or in part whenever he pleases, but must pay the whole interest for the half-year in which he repays.

The loan is repaid by an annuity consisting of the interest, sinking fund—usually beginning at $\frac{1}{4}$ per cent.—a contribution to the reserve or guarantee fund, and another for the expenses of administration. In 1882 the annuities totalled from $4\frac{1}{2}$ to 6 per cent.—the latter in four cases only—*e.g.*, interest 4 per cent., sinking fund $\frac{1}{2}$, guarantee fund $\frac{1}{4}$, and expenses $\frac{1}{4}$; some of the banks also required a lump payment on the grant of the loan at 1 or 2 per cent., to be credited either to the working or to the guarantee fund. The rate of interest is now universally lower, $3\frac{1}{2}$ per cent. being usual; the New Brandenburg *Landschaft* will serve (*see* below) as a specimen.

The working fund is formed by the contribution made for the expenses of management and any special sources; it requires no further notice.

The reserve or guarantee fund consists of the contributions made *ad hoc*, of the penal interest paid on arrears, any fines, &c. It is usual to credit all such contributions to the sinking fund when

the guarantee fund equals 5 per cent. of the debenture debt. In many banks, moreover, the contribution by a borrower ceases or is reduced after a certain number of years. Further, in some banks the reserve belongs to the members; the bank's risks are solely those which arise from its debtors, and it is therefore deemed equitable that when a debtor has paid off his debt he should be credited with what he has paid as a guarantee against any risks arising from his debt; it is usual in such cases to credit him with the amount for his last instalment.

The sinking fund needs little explanation. It of course comprises as many divisions as there are series of debentures; these again are sub-divided into as many separate accounts as there are loans financed by that series, and to each account are credited the payments made for its loan, accumulating at compound interest. In case of arrears, some of the new *Landschaften* enjoy, in common with the old, the privilege of attaching and selling the goods (only movables may be sold) by means of their own agents without the intervention of a Court, according to rules laid down in the statutes which govern them; in general, however, they follow the rules of the ordinary law and act through the Courts according to the provisions of the 'Civil Procedure Act.'

The methods of administration do not require any special mention, even when they may differ from those of the old banks.

In those new banks which are affiliated to old *Landschaften* the Royal Commissioner, who supervises the latter, has similar powers as regards the former. In the New *Landschaften* of an independent foundation the Royal Commissioner is an equally important functionary; e.g., in that of Schleswig-Holstein he has general supervision, presides at the meetings of the Directors and of the General Assembly, and can inspect at any time the offices, books, accounts, securities and other documents, and the cash of the bank. That of Posen is placed under the general supervision of the Minister of the Interior, who exercises his functions by a Commissioner, who presides at general meetings and at those of the Directors and of the Committee of Supervision (*engere Ausschuss*), with power to suspend any resolution, which, in his opinion, may prejudice the interests of the State or of the bank. It appears usual to charge the Ober-präsident of the province (Prefect, Collector) with these functions, but the rule is not absolute. The Chairman of the bank is appointed by the King; the chief Councillors and the Syndic (Counsel) by the Minister.

The '*Central Landschaft*' merits particular notice. It is obvious that a great central society will, other things being equal, command a wider and cheaper market than banks of purely local operation; on the other hand, it cannot, as in the case of a local bank, command that local, detailed knowledge which, in a credit bank, is so absolutely necessary, if its loans and position are to be thoroughly safe; branches and agents are very expensive and difficult to control, and no mere paid agent can always be trusted; his interests are not always identical with those of the bank, and are very often apt to be swayed by fear or friendship or otherwise, in such way as to endanger the bank's securities. Hence, while a Central bank enjoys cheap credit, a local bank enjoys good security through personal knowledge. The *Landschaften* in order to secure the best possible terms for their borrowers, i.e., for themselves as associations of borrowers, endeavoured to combine the advantages of the central and of the local bank by uniting to found a Central *Landschaft*, with its head-quarters at Berlin, and with a market for its debentures in London, Paris, &c. In 1873 nine *Landschaften* united and founded the '*Central Landschaft for Prussia*,' administered by a Committee composed of members elected from the directorates of each affiliated *Landschaft*. This Central bank does not lend directly, except short term loans, from any funds in hand, but operations are as follows: the local banks receive applications as usual, and grant loans under their rules, but, when the applicant so desires, they issue to him not their own but Central bank debentures; in such case the local bank sends its own debentures together with the mortgage deed and other documents of the borrower to the Central bank, which retains them in its safe and forwards to the local bank a corresponding amount in its own debentures. These are therefore guaranteed (1) by the whole credit and property of the Central *Landschaft* which might be, but is not, a joint stock company like the corresponding Central bank for the Prussian Mortgage banks; (2) by the whole credit of the various *Landschaften* which are affiliated to the Central bank, this credit including the whole mass of mortgages held by such *Landschaften*, their guarantee funds, their sinking funds, their various property and finally the whole property of all their members, or, as in some of the old *Landschaften*, of all the landed proprietors within their area of operation. This perfect security—no *Landschaft* has ever yet been known to fail in any way in the payment of its dues—gives the Central *Landschaft* debentures, issued in German, French and English, an ample and cheap market. In 1882 its 4 per cents. were above par, and in 1891 the general rate was 3½ per cent., while 3 per cents. were largely issued. It 1886 it had already issued debentures for £9,884,075, distributed, but very unequally, among the several affiliated banks; in 1886 the New Brandenburg *Landschaft* had issued Central bank debentures for £2,448,320, while in 1891 its issue was £3,947,200; for Pomerania the figures are £141,290 and £261,335, respectively, while in Kur-und-Neumark the amount had risen from £5,191,312 in 1886 to £7,340,252 in 1891, of which £1,808,160 were at 3 per cent., and the remainder at 3½ per cent. The total of the Central *Landschaft* outstanding debentures in 1892 was probably £14,753,935.

New Brandenburg Landschaft.—A brief notice of some of the facts of this bank, which may be taken as typical of the New *Landschaften*, will be useful. It was founded in 1870 expressly to lend upon all land within the province, whether noble or peasant, which had a net annual income assessable to the land tax (*Grundsteuerreinertrag*) of £7-10-0. It is administered by the Directorate of the Kur-und-Neumark Old *Landschaft*, and in general follows the regulations of that bank, and is similarly supervised by the Royal Commissioner. It now issues only Central *Landschaft* debentures, all the borrowers even in the case of loans already granted having taken advantage of the condition enabling them to demand such debentures instead of those of the bank itself, evidently because of their cheaper rates of interest. In 1882 these Central 4 per cent. debentures reached 101, so that the local bank paid the par value to the borrower, and credited 1 per cent. to the reserve. In 1891 the debentures were at 3 and 3½ per cent. for about £350,000 and £3,580,020, respectively.

Loans are granted in the following fashion: the demand must be made to the District Committee on printed forms and be accompanied by all title and other deeds mentioned in the form; a valuation

then takes place, which must, as a rule, be preceded by an inspection and enquiry into the position, outturn, stock, management, &c., of the estate. This is conducted by the Commissioner of the Circle (taluk). In properties of considerable value the proprietor may require a special valuation, but in ordinary cases this bank values estates at so many times the net income assessed to the land tax, as settled and registered very many years ago by the State. The present rules (1890) allow up to fifty times this amount to be taken as the capital value including that of all buildings, and to this may be added from 5 to 15 per cent. under very favourable circumstances such as those of great fertility, proximity to markets, good agricultural condition, permanent buildings, specially good pastures, permanent facilities for obtaining manure, pukka drainage, and any special agricultural development undertaken since the assessment of the land tax. From this capitalized sum is deducted twenty times the amount of all taxes and cesses (land tax, building tax, ecclesiastical, school, &c., charges or cesses); the balance is the estimated value, of which two-thirds may be granted as a loan. But if a speedy and cheap loan is required, the estate may be valued summarily at fifteen times the net income above mentioned; in this case no local inspection is necessary, nor are the capitalized taxes deducted. Only first mortgages are allowed, and if prior mortgages have been registered, the borrower must himself pay them off and bring the acquittances before the loan will be granted. This seems a defect; the French Crédit Foncier plan is better, viz., that the bank pays them off on account of the borrower after the execution of the conditional deed.

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The banks take advantage of the fluctuations of the money market to issue their debentures at a favourable time, and thus to obtain gain for themselves and eventual profit for the borrowers, for since the latter have the right of repayment at will, they can force the bank to give them the benefit of a permanent fall in interest, by borrowing from another bank at the market rates and loading the original bank with a mass of repaid loans, to avoid which the original bank voluntarily reduces its terms, even those of existing contracts.

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Loans are granted at such rates of interest as may be agreed upon, there being no connection between the debentures and loans; the bank places its debentures at as low interest as possible, and its loans at as high a rate as it can obtain.

The loans are granted up to half or two-thirds the estimated value of the property, and are usually repayable by annuity for any agreed upon number of years or at the will of the borrower at any time after notice. A large number however are repayable in lump at the end of a term. Similarly debentures are generally repayable by periodical drawings or at the will of the bank, but some are for a fixed term, or for an indefinite period.

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The provisions above noted, except as to the use and powers of a public meeting, are very similar to those of the English Land Mortgage Debenture Act (*see* below).

It is doubtful whether without express legislative provision the mere deposit of securities with a third person constitutes a legal assignment of them in such wise as to secure them as a guarantee solely for the debentures, and it is believed that a Bill was prepared to prevent any doubt, and to provide further rules for the representation of debenture-holders in the affairs of the banks; the fate of the Bill is not known.

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The grant of mortgages and issue of debentures are not so closely correlated as in the *Landschaften*, where a loan when granted is issued in debentures. In the mortgage banks the debentures are indeed secured by the mass of mortgages, and may, on no account, exceed the amount of such mortgages, but in most banks there is no immediate connection between each loan and each debenture; a loan is granted, generally in cash, which is provided from the working capital (share capital, deposits, &c.) of the bank; the bank recoups its finances by an issue of debentures at such time and to such amount

and at such rate of interest, as may be required; repaid loans do not necessarily imply withdrawn debentures, as they may be re-invested in further loans at once; the only condition is that the mortgages existing at any one time shall always exceed the amount of debentures outstanding.

The banks take advantage of the fluctuations of the money market to issue their debentures at a favourable time, and thus to obtain gain for themselves and eventual profit for the borrowers, for since the latter have the right of repayment at will, they can force the bank to give them the benefit of a permanent fall in interest, by borrowing from another bank at the market rates and loading the original bank with a mass of repaid loans, to avoid which the original bank voluntarily reduces its terms, even those of existing contracts.

The debentures are also limited to a certain multiple of the capital, frequently twenty times, but usually ten times the amount. Landed property is subject to fluctuations, and, as at present, to heavy falls; hence mortgages, especially when of fifty years' term, are not absolute securities. Now in the *Landschaften* the debentures are secured not only by the mass of mortgages, but subsidiarily by the unlimited liability of the members; this latter guarantee finds no place in the mortgage banks, its place being taken by the capital. In the *Landschaften* the security increases with the number of debentures since each issue means a fresh member; in the mortgage banks the capital is fixed, and this subsidiary security consequently diminishes relatively to the mass of debentures, and might amount to so small a ratio as to be negligible. Hence the limitation to ten or twenty times the amount of capital, the latter being a maximum.

Loans are granted at such rates of interest as may be agreed upon, there being no connection between the debentures and loans; the bank places its debentures at as low interest as possible, and its loans at as high a rate as it can obtain.

The loans are granted up to half or two-thirds the estimated value of the property, and are usually repayable by annuity for any agreed upon number of years or at the will of the borrower at any time after notice. A large number however are repayable in lump at the end of a term. Similarly debentures are generally repayable by periodical drawings or at the will of the bank, but some are for a fixed term, or for an indefinite period.

The banks are also Commercial banks; they receive deposits whether savings or on account current, discount bills, make advances on securities, lend to public bodies and agricultural associations &c. This causes a certain difficulty; in order that land debentures may be of absolute security they must have, and are always granted the first charge on the mass of mortgages held by the bank: in the *Landschaften* they are, of course, the only charge. But in banks doing general business, debentures not specifically secured would, in case of liquidation, rank only with the other liabilities, and might, therefore, obtain only partial repayment: the mere chance of this would ruin their market, comparatively, at least, with those of the *Landschaften*. To obviate this difficulty some banks expressly charge the mortgages with the debenture values, by depositing with a public official called the Conservator of Mortgages, who represents the debenture holders, as many mortgages as represent the amount of debentures issued; debentures cannot be issued without his knowledge since his countersignature is required to the resolution to issue, and this is not accorded until a corresponding quantity of mortgages is deposited with him; these again are not returned to the bank except upon production of an equal value in other mortgages or in debentures which are to be destroyed in his presence. The Conservator has the right of accepting or rejecting specific mortgages if not satisfactory; he also supervises the repayment of debts, and, for that purpose, has the right of periodical (monthly) inspection of all books, ledgers, &c., and prepares, in consultation with the Directors, the register of repayments to capital, and requires either a corresponding extinction of debentures or a deposit of further debt bonds. He keeps a register in which are ledgored against each bank the mortgages in his custody, together with their value and other details. He also summons annually a meeting of debenture-holders for each bank, and reports results. The meeting elects two auditors to assist him in his duties, and at the same time supervises the operations of the bank. This practice is of considerable value, as it establishes a wholly independent check over bad management, while the mere existence or possibility of such check must tend to prevent mal-administration.

The provisions above noted, except as to the use and powers of a public meeting, are very similar to those of the English Land Mortgage Debenture Act (*see* below).

It is doubtful whether without express legislative provision the mere deposit of securities with a third person constitutes a legal assignment of them in such wise as to secure them as a guarantee solely for the debentures, and it is believed that a Bill was prepared to prevent any doubt, and to provide further rules for the representation of debenture-holders in the affairs of the banks; the fate of the Bill is not known.

Comparison with the Landschaften.—The mortgage banks have attained a vast development; in 1881 the *Landschaften* had debentures outstanding for £69,863,050, while the mortgage banks had issued for above £80,000,000; in 1886 the debentures were, respectively, £82,519,350 and £103,120,250; in 1890 the mortgage banks had issued for £154,000,000, with mortgages for £163,540,000.

This success is not due to any privileges, for none are granted; on the contrary the banks have to compete with the privileged and long established *Landschaften*. It is true, however, that these banks turn their chief attention to urban property which, of late, has enormously developed in value; every bank is located in a city, and naturally works first and chiefly in its vicinity, especially as the *Landschaften* do not lend upon urban property or upon buildings except as appanages of estates and farms. Some, however, as in the case of the Bavarian mortgage and discount bank, do a very great rural business, even in small loans (*see* below), but this is exceptional and is entered as noteworthy in the report of the above bank. It appears probable that the *Landschaften* are more suited for countries with large farms than for those where small culture predominates; they are chiefly found in the northern provinces of Prussia, while the mortgage banks prevail in the southern provinces. The reasons seem to be, as shown previously, (1) that the construction of the *Landschaften* is complicated and ill-adapted to large numbers of members; (2) that they were started for nobles only and are somewhat conservative; (3) but chiefly that small holdings cannot bear the expense of loans by

central banks which require costly inspections and enquiries, and that the banks cannot burden themselves with the risks attending small estates, in which a slight fall in values might destroy their security, which it is impossible to keep under supervision as regards their agricultural methods, and which, if default occurred, might be found unsaleable, and yet too small to take under management.

The mortgage banks, however, dealing chiefly with urban property in their immediate vicinity—a property moreover steadily rising in value—can invest immense sums easily and safely even in small loans; but when they do lend, as in Bavaria, small rural loans, it appears that they resort to coercive measures and forced sales in a very large proportion.

The attractiveness of the *Landschaften* lies largely in their co-operative character; they are associations of proprietors, mutually bound together, rendering one another the service of credit based on solidarity, and performing the duties of the bank to a large extent gratuitously and always cheaply; they have no aim but the benefit of the borrowers, that is of the members; there is no share dividend to swallow up profit, no shareholders demanding large and still larger dividends, and measuring the value of the work done and even, strangely enough, the security of the bank, by the largeness of the dividends, and no temptation therefore to indulge in risky business to please shareholders and to oust competitors: dealing, moreover, solely in loans upon land they do not run the risks attending Commercial banks. The absolute safety of their business gives their debentures a splendid market, so that 3½ per cent. is now the general interest paid by the *Landschaften* to the public.

On the other hand, although the mortgage banks are more expensively administered by highly paid officers and devote the bulk of their profits to dividends, yet these disadvantages (from a borrower's point of view) are perhaps compensated by the increased keenness and capacity which is obtained from well-paid men of business, whose sole object is the financial success and development of the bank, by the profits obtained from the other banking business, especially that of bill discounting and advances at good interest upon securities, and by the fact that their share capital, though receiving dividends, is at the disposal of the Directors for banking purposes. Moreover, the presence of this capital—with the reserves—as a subsidiary guarantee for the debentures, evidently gives their debentures, as demonstrated by their market quotations, at least as good a position as that of the *Landschaft* debentures. It must also be remembered that the strict Government supervision exercised over banks which issue debentures, and especially that of the Conservator of Mortgages, and the debenture-holders' meeting provides an almost absolute guarantee for these securities and prevents any large development of risky business.

The mortgage banks are also more elastic in certain of their methods; they pay their loans in cash, and the interest is arranged according to the market, and according to the borrower's status and security. They seem also to provide for improvements—especially buildings—whereby a comparatively valueless property may be developed; a loan is granted payable only in instalments, each payment being subject to proof that the improvement has been carried out to an equivalent value; this operation is not undertaken by *Landschaften*, but is restricted to a totally separate class of Land Improvement banks (*q.v.*).

The mortgage banks then are on a level with the *Landschaften* in the cheapness of their loans, but the latter enjoy the advantage, supreme where the clientèle is purely agricultural, of greater freedom and elasticity in dealing with their debtors in case of misfortune or seasonal disaster. The statutes of the *Landschaften* expressly provide that in case of such misfortune not due to the debtor's own negligence or mismanagement, delays up to one year or even longer may be granted for the payment of interest due, the sinking fund amount being, however, generally required at due date. This concession is possible because no one has anything to lose by it; there are no shareholders who live by or are dependent on their dividends; the members of the association are themselves all actual or possible borrowers, and, under the method of reserves, general and special, it is possible to meet temporarily the interest due on the debentures; hence the *Landschaft's* debtors are not harassed nor its creditors embarrassed. In this way, in case of loss by cattle disease, hail or fire, &c., the unfortunate get at least a breathing time which frequently enables them to recover, it being added that the *Landschaften* usually require their borrowers to insure cattle, crops and buildings in the societies specially devoted to insuring against disease, hail, or fire, and, in many cases, have started such societies of their own, in which debtors are required to insure.

But the joint stock banks seldom grant this indulgence; dividends must be earned, and, if a bank is to maintain its financial position, to keep its shares at a premium, they must be regular and sufficient even in years of agricultural difficulty. This at least is said to be the experience of the German mortgage banks, and it is confirmed by the large number of forced sales already noticed. Now to an agriculturist, while delay means recovery, eviction means ruin, and even the sale of movables, unless carefully safe-guarded as in the case of the *Landschaften* (necessaries for the working of the farm may not be taken in execution) causes embarrassment which may lead to ruin.

Possibly some middle plan may be found which may combine the advantages of both classes of institution; local associations of owners with a foundation or guarantee capital subscribed either by the members in shares or by foundation non-borrowing members, but bearing only a fixed interest, little if at all, above that paid by the State for its funds, utilizing all profits, after paying such interest, solely in filling the reserves, in repaying the foundation capital, and, subsequently, in reducing the cost of loans, and financed by debentures through a central institution, would be able to obtain cheap capital and consequently grant cheap loans, while its reserves and the absence of a real dividend would enable it to be considerate to its borrowers in time of absolute necessity. The Hungarian *Boden Credit Anstalt* (*see below*) is based on these lines, and might well serve as a model. But no great credit association, even of the *Landschaft* class, can fully perform the highest functions of credit, *viz.*, those of education and discipline, foresight and calculation in the use of capital; the cheap credit of the *Landschaften* led undisciplined borrowers into extravagance, and the cheap credit of the modern mortgage banks has assisted in developing indebtedness, or at least does not prevent both indebtedness and reckless borrowing (*see chapter on 'Credit'*).

Central Bank.—The mortgage banks found in 1870 the necessity for establishing a Central bank for the issue of central debentures; this is a joint stock company and may issue debentures up to twenty times the amount of its capital and without reference to the value of the mortgages held by it; the mortgage securities which it holds are expressly and solely charged with the debentures issued against them, for which purpose they are deposited with a notary. The Government confirms the appointment of the Chairman and other Directors, and supervises the administration by means of a Royal Commissioner, who countersigns the debentures and is held thereby to certify that they are issued according to the rules. Late statistics are not available, but by its twelfth year it had issued £8,500,000 in debentures; its capital was £1,800,000, of which £720,000 was paid up, and it had reserves of £74,000; its $4\frac{1}{2}$ per cent. debentures were then at $2\frac{1}{2}$ per cent. premium and those repayable with 10 per cent. premium by the usual drawings, were at 8 per cent. premium.

State Banks.—The origin of the various State and Provincial institutions was in general the necessity for applying the provisions of the several laws relative to the emancipation of the land and its possessors, whether nobles or peasants, from the trammels of feudalism, and to the development of agriculture by the possibilities thus opened to cultivators. The nobles required working capital to replace the feudal services and dues which the peasants had, up to that time, compulsorily rendered; the peasants required capital to redeem their lands from the rent charges into which their services and dues had been commuted, while the needs of a developing population upon a—generally speaking—unimproved soil, and the laws which made associations for development by way of drainage, irrigation, embankments, &c., compulsory, equally demanded institutions for the supply of capital. The nobles were already provided for in great measure by the *Landschaften* and by the ordinary banks; for the rest the rent charge banks, the borrowing powers given to associations, and finally, the land improvement banks were necessarily founded.

The only German State banks not started with such ideas are, so far as is known, the two credit and mortgage banks of Saxony. The other banks have occasionally developed their operations into those of ordinary credit banks. But there is little in the history of credit banks founded by the State, to assist or encourage similar foundations in India. The rent charge and land improvement banks, however, will be sketched.

Rent Charge Banks.—These require special notice, as they have undoubtedly been successful in providing even the small peasant with the means to pay off the redemption money due to the landlord in commutation of the *corvées*, feudal dues, &c., which burdened all peasant properties. They have also been especially mentioned in suggestions for the re-organization of credit in India, and it is well, therefore, to study their history to see whether their example has anything in it for India. For, if the Prussian State could devise and carry out a system for emancipating property from the complicated rights and dues which hampered both noble and peasant, the State in India, it is argued, can do the same in the (supposed) comparatively simple matter of relieving its peasantry from usurious debt. The argument seems at first sight correct, but examination shows that the question of Indian credit is altogether more difficult than appears by the above statement; it is not simple, but insuperably complicated and elusive.

The peasant (*Bauer*), *i.e.*, the non-noble, is not necessarily in Germany a small cultivator; he may and often does hold many hundred acres, and, in fact, the very small holders of from $2\frac{1}{2}$ to 10 acres are, in many parts, not called *Bauer*, but *Halb-Bauer* or *Hufner* (holder of a hide of land or such as may be ploughed in one day) or even *Halb-Hufner* or *Kuh-Bauer* (cow-peasant), &c., or generally the "*kleine Leute*" (small folk) as expressly so called in the law of 1850, which established the rent charge banks. The history of the emancipation of peasant, *i.e.*, simply non-noble, lands from the grievous feudal charges, *corvées*, and disabilities which prevented full property in the land, and the opening to all classes of the power to obtain full and unhampered property in land, needs no detailed description; in 1807 the well-known law abolishing villeinage, and permitting the free acquisition of land and the free choice of occupation with other minor rights, substituted a comparatively free peasantry for a mass of serfs; in 1811 this was necessarily supplemented by another law, seeing that the peasant was still encumbered with servitudes, *corvées* and all sorts of feudal restrictions and dues, so that, though no longer a serf, he had no full property in his land; the noble owned the peasant's land, but did not possess it; the peasant possessed the land but was not master of it, or even of his own labour. Hence the new law sought to substitute allodial for feudal tenure, establishing all hereditary tenants as proprietors subject to a commutation of the landlord's claims which were to be commuted, but, so as in no case to exceed one-third of the income from the land; such commutation to be made by the tenant in land when the tenant held more than 35 acres, but as a corn or money rent when it was below that area. There were many details and conditions, but these were the main ideas. In this way the peasant got two-thirds of his land as his own property free of all feudal charges, instead of holding the whole as a tenant subject to such charges, or he retained the whole of his land subject to a commutation rent charge. Another edict was also passed in the same year for the "better cultivation of the land" which made provision for the free transfer of land, so that the soil might be in the hands best fitted to cultivate it without encumbrances, and for the commutation of services into rent charges redeemable by a capital payment; it dealt partially with the rights of common, &c., and also suggested local agricultural societies with a central office at the capital, in addition to official agricultural boards.

This legislation seems to have been to a certain extent permissive as regards the commutation and redemption of feudal and other charges, and as the peasants had no capital with which to pay the redemption amount and banks were not then open to him, it seems that the law had but little effect in practice in the way of effecting its objects; it was further restricted by the law of 1816 to certain classes of peasant holding, and, later on, 18 acres was fixed as the minimum farm to be dealt with. But in 1845, all peasant farms, however small, were granted the right of commutation, and certain rent charges were declared commutable at twenty-five years' purchase, for the redemption of which sinking fund societies were established. Then followed the troubles of 1848, out of which arose the laws of March 2nd, 1850, which (1) abolished certain manorial rights without compensation; (2) ordered the commutation of other customary rights and services into fixed money rents; (3) made

such money rents redeemable—compulsorily as regards the lord—either by the immediate payment of eighteen years' purchase in cash or by an annuity calculated to redeem the capitalized value at twenty years' purchase in from forty-one to fifty-six years; (4) provided rent charge banks to assist the redemption of these charges.

Very complete rules are laid down in the law for the principles on which commutation is to proceed, and these principles were to be applied by the Special Procedure Commissions which had been already appointed, in 1817, for similar purposes. The Minister of the Interior, succeeded in 1848 by the Minister of Agriculture, was the supervising authority; under him were (1, General Commissions, (2) Appellate Commissions. The General Commissions were the lower Courts, to whom claims were presented; these claims they referred to a Special Commissioner, who had extensive powers of local enquiry and survey through experts, arbitrators, &c., all the formalities of ordinary judicial procedure being observed; the parties bore the costs, but certain fees and stamp duties were remitted. The Special Commissioner reported to the General Commission which issued its award, subject to appeal to the Appellate Commission, of which there were at first five.

When charges, &c., had been thus ascertained, valued and commuted, the peasant had the right of payment or redemption as above. As already stated, the old law had had little practical effect, for the peasant, except the class of richer men, had no capital wherewith to pay the redemption money; hence several States had established rent charge banks, Saxony leading the way in 1832; the Prussian law of 1850 finally followed on similar lines. These banks were placed under the Minister of Agriculture and the Minister of Finance, and were administered by the district authorities in conjunction with the Special Procedure Commissions above mentioned. Whenever a claim had been commuted and settled by the Commissioners, the bank undertook the redemption of the charge by handing over to the payee debentures to the value of twenty times the charge, and debiting the peasant with the value on the security of the lands in question, on which the loans formed a first charge which followed the land and not the person. These debentures were placed in the open market, and as the banks enjoyed a Government guarantee, and were, in fact, State banks with, moreover, complete cover for the debentures in the mass of specially privileged mortgages which formed the security for the debentures, their paper was readily accepted. The interest coupons on the debentures formed a sort of currency which were legal tender in all Government offices, and payment by the debtor of his dues to the bank was accepted from him each month with the ordinary taxes, by the collector, who credited them to the debtor's account with the bank. For the rest there is nothing in the methods of the banks requiring notice; they were mere offices of issue, the persons and amounts of each issue being determined for them by the Special Commissioners; the method of debentures has already been described under 'Landschaften.' The law required that the whole work should be finished within a certain time and in 1859 the 31st December was declared to be the latest date for effecting redemption through the banks. The banks are, therefore, temporary institutions, and the loans issued by them should have reached their maximum by the end of 1859; this, however, was apparently not strictly adhered to, for in 1865, the seven Prussian banks had paid out about £12,000,000 and by 1870 about 13½ millions. Presumably the banks will be closed by about the end of this century.

It will be seen then that what was dealt with was a mass of customary services, dues and rights which might diminish but could never increase; they were, in fact, annually decreasing after 1807, as the better class of peasant agreed with their overlords to commute services, and as the independence of the peasants and power of the nobles respectively waxed and waned. Hence though the question was complicated, its terms were either fixed or, still better, were under gradual simplification, and for the solution of the problem numerous and expert Special Commissioners were engaged from 1817 to 1859 in settling claims; even in a little State, such as Hesse, the Special Commissioners were at work apparently from 1811 and certainly from 1836, till 1848 settling these claims. The work, then, of the rent charge banks was absolutely nothing but the issue of debentures; they had no enquiries to make as to solvency, title, &c.; all that they had to do was to issue debentures for the amount settled, once for all, on previous enquiry by the Special Procedure Commissioner, and this finally resulted in the very modest amount of £13,000,000. When, therefore, it is pointed out, and correctly, that rent charge banks got down to the small peasant, it is to be remembered that they were not credit banks forced to verify the fluctuating solvency, status, title and character of each applicant for a loan, and the varying value of his land, or to arbitrate between him and his creditor, but mere offices of issue, carrying out in money, or rather in debentures, the previous and fixed decisions of the Commissioners. The State, in this case, did not count the expense; the legislation and its consequent operations were the result of the political necessity to form a free and prosperous nation of independent proprietors out of a mass of quasi-serfs; to build up prosperity in a nation broken by war, enfeebled by the burdens of feudalism, and restrained from agricultural development by the shackles of customary charges and feudal tenures; heroic measures were needed and were adopted, but the action of the banks was merely a subsidiary trifle; the real work was done in the law and by the Commissioners. Moreover the mortgage of the bank, so far from being an embarrassment to the land, was that which gave it its market value; without the mortgage it was weighted by heavy and at first uncertain charges; it could not be sold or mortgaged, for it did not belong to the peasant; only after the bank had paid off these charges did the land become in any degree marketable, and the constantly diminishing mortgage debt to the bank did not prevent its ready sale or transfer.

In the Madras Presidency there is no question involved such as that heroically solved in Germany; it is a question of credit difficulties with an uncertain amount of shackling disability consequent thereon. The question, in fact, is *infinitely* more difficult than the German question, for the terms of the problem are evasive, shifting and uncertain to a degree; they change and possibly increase from year to year; they depend on national character, on season, on the unascertained needs of a developing society; the factors are moral, mental, economic and industrial; there could be nothing final in any award of liquidation or settlement, no certainty that, once liquidated, the absolute needs of the peasantry would not demand fresh indebtedness. The steps corresponding to the German procedure would be (1) a special enquiry into all existing debts, and a liquidation if necessary with creditors; (2) the establishment of banks to pay off the settled debts, and to take over the obligations of the debtors; (3) the raising of the funds and the effectuation of the operations. These, in fact, are

precisely the proposals of Poona and Bombay Syndicates, and will be dealt with hereafter; suffice it to say here, that such liquidation would be, even with an extensive special staff, the costly work of decades; that the enquiry could never be final, for fresh debts would constantly be incurred; that when liquidation was effected it would be useless if not instantly followed by payment; that when payment was effected, the bank would have to be prepared to meet all its debtor's requirements for further aid during the term of the original loan of perhaps forty years, such requirements being certain, on account of seasonal vicissitudes, family needs and so forth; that consequently the bank would have to be organized and financed at once to meet all such demands, and hence, that to start banks for the liquidation of debt without providing a complete banking organization would be simply to throw the debtor again upon the usurer, whose terms, seeing that the bank had already the first charge upon his property, and one which, unlike the charge of the rent charge banks, would be a genuine encumbrance, would be all the more onerous. The educative and disciplinary requirements of credit, as postulated in the chapter on credit, would also be lacking in such a bank. The credit question then is not to be solved by mere banks on the analogy of the rent charge banks of Germany, which are only here mentioned to show their real character, to take an opportunity of mentioning the decisive steps taken by the Prussian Government when occasion required it, and to point out that ready as the masterful Prussian Government was to take such steps in the interest of the freedom of the Peasantry, and to carry out its plan through special establishments, and during forty years of consecutive action, it has never attempted the problem of bringing credit to that peasantry; it has not attempted to relieve them from debt, to provide them with working capital, or even to establish credit institutions, although the debt of Prussia alone was in 1865 estimated at £375,000,000, and is now far more, though the development of agriculture was the leading principle of much of the heroic legislation of 1807, 1811 and 1850, and though capital was and is the crying need of the German as of the Indian peasant. Whether this arose from the enormous if not insuperable difficulties in the way of the State dealing with individual credit, or from the perception that the nation itself should deal with such questions for itself, is not clear; the preamble to the Act of 1807 expressly recites that "owing to the universal character of the prevailing misery, it would surpass our means to relieve each person individually, and even if we could, the objects we have at heart would not be fulfilled," and goes on to provide for the removal of hindrances and existing restrictions. Whatever the restricting cause, the Prussian State has not, except in the smallest of ways, attempted to provide credit; certain petty States have done so, but even in such cases, there has been no attempt at prior liquidation; this was left to the individual either through the bank or direct with his creditor, and this, though the small German peasant even now, and especially a few years ago, is little, if at all, better than the true Indian ryot in his art, in sobriety, in general character or in business habits; the German peasant may be the backbone, but he is not the brain of the German people.

If the resources of the German Government are unequal to the task of relieving the peasantry from debt, let alone of providing continuous general credit, the Indian Governments can hardly hope to face the task with the prospect of success, nor, if they could, is it probable that "the objects which they have at heart," and the best interests of the people, would be fulfilled.

Land Improvement Banks.—A sketch of the law and facts preceding the formation of these banks is desirable as showing the progress of land improvement ideas in the mind of the successive Governments and their influence on the people; the sketch will also explain the origin and status of the banks themselves.

In 1811 a law for the promotion of agriculture was passed in which agricultural societies were recommended to be scattered broadcast over the country; agricultural improvements were also suggested, and the necessity for State interference both for the direct carrying out of improvements and for the compulsory execution of them by individuals, was also recognized. Other laws followed, establishing the procedure where lands were to be drained or reclaimed, for the irrigational use of streams, the latter including a provision barring objections to a scheme, where such scheme had been duly published for three months after communication to the proper department. In these laws it was recognized that the welfare of agriculture demanded, under proper conditions of compensation, &c., the over-riding of private rights in certain cases. The most noticeable provision, however, of the law of 1843, is that the State can at will *compel* the formation of associations for making improvements, such as irrigation and drainage works, where such appear to be of public advantage; in that case land-owners must unite for the purpose. In 1846 the law made the reclamation of land, including sub-soil drainage, an object of compulsory association; in 1848 the building of dykes for the prevention of flooding was added, and, in 1854, the notable addition was made of the compulsory plantation in bare places of woods and forests by compulsory associations.

In the later period of this legislation the State added what is a necessary corollary to compulsion, *viz.*, subvention: funds are lent to the poorer associations, and as the loans are repaid, the funds are again lent out; interest is usually 3 per cent., and a free period of two or three years is allowed. The several associations are also allowed to issue debentures secured upon the general undertaking, and, as usual, in the case of land improvement, creditors, *i.e.*, debenture-holders have priority over all other creditors, or encumbrancers, even though earlier in point of time, seeing that the improvement adds to the value of the land the full amount spent on the improvement, so that prior loans are in reality more secure than before, especially as the improvement charge decreases by amortization.

The results have been considerable; the richer classes of associations have readily found funds by the issue of debentures and have not required State advances except to begin work; poorer societies have borrowed considerably from State funds; altogether in 1870 the State had lent 17·4 per cent. of the expenditure. In 1869 the number of compulsory drainage and irrigation associations was 95; of voluntary 170; many of these were very small, affecting only 46 acres each on the average; a few large, averaging nearly 4,000 acres; in Saxony there were eight compulsory irrigation, &c., societies affecting in all 166,242 acres. Altogether in 1869, 1,951,280 acres had been affected at a cost of £2,392,082; out of this over 60 per cent. was spent in protection by dykes, and less than 10 per cent. in drainage and irrigation.

The planting of woods was carried on in eleven years up to 1866 to the extent of 29,174 acres; the communes found the labour, the State providing the surveys, plans and supervision.

The above is taken from the report on the land tenures of Europe (1869), but is not intended to give an account of their operations, which will be found in the triennial reports of the Agricultural Department under which the whole matter is placed. The object is merely to explain the Government position in Germany with reference to land improvements, the national, but especially the State perception of the need for agricultural development, the compulsory nature of many of the operations and the consequent necessity for State aid, the methods of financing the associations, and the natural development which ensued in 1879 in the legalization of land improvement banks, to supply the growing requirements of the country for money for agricultural improvement. Germany had found that, by the aid of banks issuing privileged land debentures, private capital could be obtained at cheap rates to any extent, so that State-financed aid was not only unnecessary, but an undue burden on the State and on the tax-payers; the Provincial land banks, the Hypotheken banks, the rent charge banks, the irrigation associations were all financed by their means. Under the pressure of population, and the competition of other countries, intensive and scientific agriculture was called for, and a notable paper in 1868 on 'Drainage versus Famine' pointing out that at least 35,000,000 morgen of land required to be drained at a cost of at least £70,000,000 and with a probable annual gain of perhaps £26,000,000—seeing that the great cause of agricultural loss in Prussia was the wetness and coldness of the land—aroused public attention, and was followed by numerous petitions from agricultural associations pointing out the examples of England and France, and even of Saxony in its land improvement bank (for drainage and irrigation loans only). In 1875 the House of Representatives resolved that a suitable Bill for the establishment of land improvement banks should be introduced; the Agricultural Department were ready, having long studied the question, and after consultation with various authorities, including credit banks, a Bill of 32 sections was produced in three years which became law in 1879.

This law provides the conditions under which it is ready to grant certain rights and privileges to certain persons and corporations, and specially charges provincial or communal administrations with the duty or faculty of establishing land improvement banks with the objects—

- (a) of the development of agriculture especially;
- (b) of the making, &c., of roads;
- (c) of planting and reclaiming land;
- (d) of establishing land societies;
- (e) of embanking rivers;
- (f) of making, strengthening and maintaining dykes;
- (g) of managing and regulating streams and water-ways.

The funds of the banks are to be obtained entirely from the investments of private capital, and are not to be drawn either from State or Provincial funds; this provision is due to the proved success of all associations and banks in placing debentures.

The privileges of the banks are simply (1) the right to collect their dues by executive methods instead of through the Courts; the method is not stated, but is apparently similar to that of the land banks, and is less summary than that of the English method of distress for rent; (2) certain exemptions from stamp duties, apparently, as in the case of land banks, those on debentures and their transfer; (3) the free registration in the land registers of mortgages and various other documents; (4) the right to issue debentures. The first three rights necessarily follow from the *status* of the banks as State or public institutions; the rent charge banks have similar privileges.

Loans are granted on mortgages up to half the value of arable or forest lands, calculated at twenty-five times the net income as assessed to the land tax (much below the present value) or ascertained by special valuation. On the conclusion of the work the borrower may obtain a further loan up to the value of the cost of the work if the prior loan is insufficient to cover such cost. Mortgage security for a loan is not required when the borrower is a town or commune, a public co-operative society in the meaning of the law for the establishment of irrigation societies, an incorporated dyke association governed by royal decree, or an association for planting woods; this provision is important.

The conditions for the grant of loans and issue of debentures are similar to those of the land banks; also those for the immediate recovery of the principal money when the debtor fails in his duties, such as those for the proper upkeep of the improvement during the continuance of the loan, after due notice from the bank, when the estate is attached or sold by Court, or the mortgage is otherwise endangered, or when the debtor becomes bankrupt, or when at his death his heir declines to take up his responsibilities. The bank's mortgage for loans takes priority of all existing charges, but only up to the amount of the necessary cost of the improvement and upon such part of the estate as is directly affected by the improvement. Loans are repayable solely by amortization, the only safe and proper method when capital is sunk in permanent improvements. On the repayment of a loan the mortgage entry in the land registers must be cancelled, the bank being required to apply for the purpose.

The banks may not charge more than 4½ per cent. as interest and 0·2 per cent. for expenses; hence the annuity, paid in two instalments, consists of 4·7 per cent. *plus* the sinking fund, which latter may, if the Articles so permit, be omitted for the first year of the loan.

Debentures are of the usual classes; if, when drawn for repayment, they are not presented within ten years, the holder's claim is barred; interest is barred after four years.

The reserve must be 5 per cent. of the amount out on loan.

The articles are subject to a resolution of the Provincial Council and require royal confirmation.

The Provincial Executive Board has the general supervision of its bank, and has especially—

- (a) to decide complaints brought against the directors;
- (b) to report annually to the Provincial Council on the working of the bank;
- (c) to select the members of the Commission for advising on proposals for drainage;
- (d) to control the issue of debentures, so that they shall not exceed the outstanding loans;
- (e) to see to the carrying out of the Articles generally.

The Provincial Council has the supreme supervision in matters relating—

- (a) to the alteration of the Articles;
- (b) to the choice of Deputies for certain special duties;
- (c) to the closing of the bank.

The results do not seem very considerable. The original bank in Saxony only lent £534,124 in 1,531 loans in the twenty-three years ending 1885, of which £346,296 were spent in draining 58,420 acres: the average loan was £348. The Silesian bank was established in 1881 and in ten years had only lent about £90,000; in 1891-92 it only granted nine loans for £14,930; of these four were granted to associations for £11,500. The periods of repayment varied from seventeen to twenty-eight years. The debentures (4½ per cent.) were quoted at 101 in 1891-92.

It seems clear that these banks do not, unless *through associations*, affect the smaller class of proprietors, and that the loans are chiefly granted for drainage and irrigation projects. That is good so far as it goes, but there seems little in them to help the small owner; it is indeed questionable whether the small owner is alive to the improvements required by intensive and scientific agriculture; credit is sought for land improvements only in the later phases of development, and the small German peasant, as elsewhere, has hardly attained that development.

There are other institutions which distribute real credit in Germany, such as the ordinary banks, insurance societies, corporations and pious foundations, and above all the Savings banks. The former require no special notice; the last named will be dealt with hereafter in a separate chapter. Suffice it here to say that the Savings banks in Germany as in Austria and Italy do not place their funds with Government, but are free to dispose of them as they please; in 1881 the Prussian Savings banks had £91,000,000 sterling in deposits, of which, nearly 28 per cent. were in town mortgages and 28 per cent. in rural mortgages; in 1891 the amounts were far higher, but the ratios were similar.

Resumé.—There are three classes of land banks in Germany (1) mutual, viz., the *Landschaften*, formed solely for the purpose of getting cheap credit; all the members are jointly liable in all their property, but sustain no losses owing to their very careful management by elected representatives, coupled with Government supervision. They have no capital, no shares, and no dividends; they derive their resources solely from the issue of debentures in representation of the mortgages they accept, the debentures and their interest being secured by the total mass of mortgages, by the whole property of all the members, and by the reserve, which should accumulate till it reaches 5 per cent. of the total amount owed upon debentures. All mortgages are repaid by annuities or instalments extending over forty or fifty years, each instalment comprising interest, expenses, and amortization. The debentures are repaid gradually—usually by drawings by lot—as the debtors of the bank pay in their instalments. The interest and charges are low, being usually about 4 to 4½ per cent. not including sinking fund. In brief, the leading ideas of these banks are mutuality, loans for long terms against the issue of long-term debentures, and repayment by annuities including a sinking fund. Their administration is gratuitous or economical and is closely supervised and controlled by the State; they deal only with rural estates.

The second class are mortgage banks having a share capital, subscribed by capitalists seeking a profitable investment of funds and good dividends. These are financed for lending purposes either by the issue of debentures as in the *Landschaften* or by deposits. They engage in all classes of banking operations, but accept mortgages, chiefly on urban property.

The third class is that of State or Provincial banks, founded with special objects and of no great general importance or development.

Results.—These banks, however suitable for the better class of landowners, have been able to do nothing for the smaller class of owners, viz., those who hold less than 20 or 25 acres. Up to 1849, "peasants," i.e., non-nobles holding estates of any size, were not admitted, except in one or two cases, to the benefits of the *Landschaften*; since that date they have been partially admitted, and of recent years, especially since 1879, the minimum value of estates on which loans could be granted has been greatly diminished; e.g., in East Prussia the minimum value is £75; in West Prussia £150; in Posen £200; in the other provinces the estates admissible to loans must be assessed to the land tax on a net income (*Grundsteuerreinertrag*) of from £1-10-0 to £12, this net income being an old Government valuation of seemingly little modern value. It is to be here noticed that the "value" is not the market value, but the appraised value (*Taxwerth*) which is in all cases "much below the actual value in the market." It is stated in the Government Agricultural Reports of 1883-1887 that these *Landschaften*, though good for fairly well-to-do persons, have helped the small folk to a very limited extent; that in general they do not reach the peasantry below farmers who own "team-requiring estates"; these are defined as those not falling below 18 acres and they average from 34 to 61 acres. As a matter of fact, the loans actually granted do not reach the lower rank even of the team-owning farms, as shown by the size of the loans granted. "For still smaller properties, a mere real credit institution is particularly little suited—überhaupt wenig geeignet—" (Government Agricultural Report, 1887). Now these *Landschaften* are not great Central banks, but operate each in a province averaging 10,000 square miles, i.e., little larger than a large Madras district, and though operating over this moderate area for a hundred years, and for at least the last forty with a view to help the peasants, they have been unable, even in Prussia, to assist the bulk of the peasantry.

The following statistics as to loans are available for the *Landschaften*. In Silesia, where the oldest *Landschaft* exists (from 1769) and four-fifths of the whole number of owners hold below 19 acres, it was stated in 1870 that nothing had been done to assist that class, that they were in practice debarred—as stated generally by Government in 1887—from access to that institution, and had no resort but the private money-lenders including usurers: in 1883 only £1,750,000 were on mortgage to non-nobles, though the bank had been open for thirty-four years to that class; this represents loans to only about one case in 100 of the non-noble estates, though the bank had nine branches in the province: in 1870 its loans to such estates averaged £520 in value. In 1892 the report of this bank states that the existing loans to noble estates were valued at £15,613,845 in 2,087 loans, averaging therefore about £7,480, while those to non-noble estates were £3,921,730 in 6,472 loans, the average value being £716: this moreover represents existing values, though, under the sinking fund method, the loans

must have been in all stages of amortization down almost to extinction; hence the average loan, as granted, must have been much above £716 even to "peasant" estates. It must be remembered that this bank is permitted by its statutes to grant loans as low as £5 and on properties producing a net taxable income of £1-10-0:— the difference between practice and possibility is well marked. The 4 per cent. debentures were at a premium. A good number of the larger estates were under attachment for arrears.

In the report for 1892 of the West Prussian Landschaft, the important information is given that in the past seven years no less than 94 noble estates were sold by the bank for arrears, of which 12 were bought in, as the arrears were not covered by the sales: by the subsequent resales the bank lost £20,598. The New West Prussian Landschaft, established for peasant as well as other borrowers, had loans in 1870 averaging £920: later figures are not known.

The Westphalian Landschaft in 1890 granted 49 loans for £108,500 or £2,216 per loan: in this Landschaft loans may be granted on property bringing in a net taxable income of £3-10-0.

The Kur-und-Neumark bank had in 1892 a total of 1,010 loans in existence for £9,281,728, an average value of no less than £9,189: its business, but all in large loans, had doubled since 1875: out of 1,465 noble estates in the province no less than 878 or 60 per cent. were under mortgage to the bank to an existing value of £8,300,000. Debentures were at a premium.

The New Brandenburg Landschaft, expressly established for "peasant" proprietors, and ready to lend on properties producing annually £5 of net taxable income, had in 1892 an existing total of 4,566 loans, then valued at £3,947,200, and averaging £864 in present value; in 1882 the average value of each loan granted in the previous ten years to "peasants" was £1,370.

The East Prussian Landschaft is ready to lend on estates having a sale value of £75: in 1892 it had 9,558 loans for £13,970,155, averaging £1,460 in existing value; its 490 loans for the year averaged about £524; of these loans only 113 were granted on estates below 250 acres.

The Landschaft of Pomerania had in 1891 a total of 1,521 mortgages, averaging £7,449 each. The New Posen Landschaft admits all properties valued at £200: in 1891 it had loans to the value of (apparently) above £17,000,000, but its loans for the year were only 41, averaging £1,662 each.

A small Landschaft in the district of Lusatia in Silesia opened its doors to peasants in 1849, but up to 1860 only 19 peasants obtained loans, with, however, the low average of £210 (due probably to the smallness of the bank and its very limited area), while fifty-four times as much was granted in the same period to non-peasant property. Later figures are not known.

In Schleswig-Holstein a new Landschaft was founded in 1882; in 1892, there were in existence 398 loans, averaging £1,091 each.

It is to be remembered that loans, especially upon small estates, can hardly exceed on an average £5 or £6 per acre (see 'loans'), so that a loan, even of only £150, could hardly be granted to an estate of less than 30 acres. It appears, then, from reports taken at random, that the Landschaften, whether old or new, whether for the nobles only or for all classes, are unable to grant small mortgages, notwithstanding their limited area of operations, their numerous agencies, their cheap administration and absence of dividends, their various privileges and the perfection of the Prussian land registration system; in other words, the direct statement of the German Minister of Agriculture and of others that land banks, pure and simple, cannot supply funds to the "small folk," is absolutely correct.

The significance of this will be judged by the following figures: in 1882 the Prussian soil other than urban, was occupied in 3,040,196 farms; of these, no less than 2,635,349 or 86 per cent. were below 25 acres, while 1,456,724 or 48 per cent. were below 2½ acres: few of the farmers of either of these classes could hope to borrow from the Landschaften, notwithstanding the low minimum value fixed by the statutes of the banks as the basis of loans. The figures are not unlike Madras figures, and it is fair to draw the inference that what the Prussian land banks with all their skill, intelligence, facilities and experience, exercised through many years, have been unable to effect, is hardly likely to be possible in the Madras Presidency. It is not in mere land banks that the bulk of the Madras ryots can hope to find organized credit.

Some statistics for 1890 and 1891 for some of the chief Joint Stock Hypotheken banks are as follows; the reports do not, of course, distinguish between noble and peasant estates; most of the properties are urban. It will be remembered that many mortgages are of very long term repayable by annuities, so that the mass of business must be divided by ten or more years to arrive at the annual business; also that the average of outstanding loan values is necessarily much lower than that of the value of loans granted, since all loans are under process of repayment by amortization, and therefore vary from full value to nearly zero.

In Nuremberg the bank, which has no power to issue debentures, had outstanding on 31st December 1891, 3,303 mortgages for £7,500,150, averaging about £2,300 each; of these only 866 for £227,160 or £262 apiece, were lent upon land. This bank had to sell up thirty of its debtors' properties for £107,146 during the year.

The Meiningen bank in 1890 granted 444 loans, of which only three were below £50 (urban or rural not known) and 53 below £250, while 157 were between £500 and £2,000. The total outstanding loans of all sorts were 10,618 for £12,923,980. Of these 7,392 were mortgages for £8,848,050 or above £1,200 each; of these 2,162 were rural mortgages averaging in existing value £411 each. Of the 7,392 mortgages, the bank brought 51 to forced sale during the year; this number equals 11 per cent. of the number of loans granted in the year.

The Mortgage bank of Bavaria granted in 1891 3,244 mortgage loans for £1,806,910, of which 2,359 or 72 per cent. of the number for £660,550 or 36 per cent. of the amount were rural: these latter averaged £280 and amongst them were no less than 154 or 6.5 per cent. below £25 and averaging £21-10-0, and 339 or 14.8 per cent. between £25 and £50 averaging £46; just half the loans were small rural loans below £250 and on these were lent about one-seventh of the total amount. The bank had in 1891 no less than 67,550 mortgage loans in existence for £29,676,080, averaging £439 which, however, did not contain the same percentage of small loans as above, for the report mentions the great development of this class. About two-thirds of the debentures were issued at 3½ per cent. and the rate of interest on the loans was just 4 per cent. There is, however, something *per contra* in this agreeable picture; though the report mentions that there has been a considerable diminution (eine

Meträchtliche Abnahme) in the number of forced sales (Zwangsversteigungen), yet these numbered not less than 347 in the year under report, of which 122 were at the instance of the bank. Now the average number of mortgage loans granted in a year is less than 3,244, since this was an increase over previous years, while the forced sales were much below those of previous years; if the average loans be taken as 3,000 and that of forced sales by the bank at 150, it follows that in twenty years, which is about the average duration of the loans, there will have been 60,000 mortgages and 3,000 forced sales or 5 per cent. Considering that banks do not lend except where prospects are favourable, that is not a satisfactory state of affairs, and argues either loose lending or reckless borrowing, or both.

Moreover the total of forced sales was 347; as there was a considerable reduction from previous years, it follows that perhaps 400 such sales per annum are not infrequent. But forced sales are mostly due to the debts and embarrassments of the owners, so that, if the average number of loans is 3,000 and of forced sales 400 per annum, it follows that, in spite of the help of the bank, lending, be it remembered, at 4 per cent. per annum, and mostly on the system of repayment by annuity, not less than 13 per cent. of the bank's borrowers are annually expropriated either by the bank or by reason of private debts. This shows an alarming amount of embarrassment which even the bank cannot prevent.* The question also suggests itself whether the more summary procedure allowed to land banks in the matter of sale and expropriation is altogether an unmixed benefit.

It is curious that M. Josseau, writing in 1883 of another Joint Stock bank in Bavaria, stated that borrowers from that bank had frequently found themselves unable to pay their debts and had recourse to disgraceful expedients; "these defaulters, whose number among the rural classes had considerably augmented since 1880, exhaust (dévastent) the mortgaged lands before completely abandoning them," so that the bank found itself with a worthless security; he adds that the peasants collude in the matter.

It seems clear that, while the bank does lend very cheaply to very small rural folk, it is obliged to proceed to extreme measures against a large proportion, and that there are heavy risks to be run by a bank which deals with small rural folk.

In the Pomeranian bank only 22.8 per cent. of the mortgages were rural, 18.2 per cent. being in a single one of the seven provinces over which it lent money.

The Frankfort Mortgage bank had 1,090 mortgages outstanding at the end of 1891 for nearly £2,500,000; the loans averaged £2,290; 15 properties were sold by the bank during the year.

The Prussian Mortgage bank had mortgages out for about £8,750,000, of which only £144,540 were on land.

The Bank of Alsace Lorraine, founded in 1872, and permitted by its Articles to grant loans as low as £15, had only 174 mortgages in existence in 1882, the average existing value, i.e., after deducting all payments to the sinking fund, being no less than £3,376.

It will be seen that, except in Bavaria, the loans for all classes of land were not very numerous, and that while the total amount was not great, the loans averaged an amount much above that which small estates could borrow.

Among the State banks started by the small German States the following may be mentioned. The Bank of Hanover is a royal foundation dating from 1840, when it was started in order to assist landholders in redeeming the feudal charges, tithes, &c., with which they were burdened; in 1842 the duty of granting land credit was added. It is affiliated for purposes of credit to the royal treasury which guarantees it to the extent of £75,000, and it is also allowed to draw upon the treasury to the amount of £15,000 for current needs, if its own resources are insufficient. It borrows by means of debentures at 3½ per cent. interest, repayable every six months on one month's notice. It now lends to all landholders on property valued for taxation purposes at £9 per annum at least as against a former minimum of £45. The ordinary rate paid by borrowers is 5½ per cent., viz., 3½ interest, ½ for expenses (calculated only on the amount remaining due) and 1½ for amortization. Borrowers can remit their dues free of postage; they are considered to be in arrears after seven days, and are then liable to interest, a fine, and costs. The bank is under the Home Department, which appoints the staff and directorate. Public notice is given of any proposed loan so as to ascertain if there is any previous mortgage or claim; if none is brought forward within the date fixed, the bank's mortgage takes precedence, even if any should really be in existence; this is the "purge" of the French Crédit Foncier; the bank's correspondence is free of postage except as regards remittances of money. Its claims against a bankrupt take precedence of all except those of the State. Losses are practically nil, and the results of the bank's work on rural interests are good.

The Bank of Hesse Cassel (now part of the Prussian Province of Hesse-Nassau) is amongst the most successful of these small State banks. The province had, in 1885, 822,951 inhabitants on an area about the size of Tanjore. In 1832 the Government established a bank "for the relief of its subjects from ancient debts, and for the improvement of their business position, especially in the redemption of various burdens on landed property and the supply of capital at cheap rates without the costly middlemen, and at the same time for providing good security for those who wish to invest their capital for long or short periods." The bank was in fact necessitated both by the demand for credit and for the carrying out of the law for the redemption of various feudal and other ancient burdens, and it was expressly declared that after these latter needs were satisfied, preference should be given to the smaller class of loans, which, however, were not to fall below £15, a minimum subsequently reduced to £5.

The bank was placed under the supervision of the Ministers of the Interior and of Finance with the concurrent control of the Assembly of State which appointed one of three directors. The bank might obtain funds at interest not exceeding 3½ per cent. from the Savings banks, Corporations, &c., and from the treasury, but its principal dependence was on debentures which differed from the usual type in being repayable at short notice by either party; the State guaranteed all the engagements

* In Bavaria in 1882 there were 681,521 separate farms, of which 55 per cent. were below 25 acres. Of the total number of farms about 1 per cent. (6,686) were forcibly sold during 1880, of which one-tenth or 675 cases were due to recklessness in charging the farms with annuities, i.e., probably with loans from banks; another 865 were sold at the suit of usurers and money-lenders.

of the bank, and thereby ensured a cheap and unlimited supply of funds. The loans granted by the bank were usually at 4 per cent. on first mortgage only.

The principality was merged into Prussia after the war with Austria, and the position of the bank was then modified, especially as to its relations with the State, in the adoption of the usual form of debentures, and in the raising of the interest all round by $\frac{1}{2}$ per cent. It remains, however, a State institution under the guarantee of the provincial authorities, and as such enjoys privilege in collection, &c., which only State banks obtain: for instance, all the Revenue officers are quasi-Agents of the bank; they receive and prepare applications for loans, pass their opinion on applications sent to them, by the Central office, pay over the loans granted, receive interest and instalments of debts, manage properties taken over by the bank, &c., receiving apparently a commission on their operations; as there are 52 of these offices in the above small area, the bank has large opportunities for the development of a safe business. The bank has also the privilege of proceeding against defaulters through the Revenue officers, as though for arrears of State dues; its position as a State institution explains these privileges.

As stated above, the bank laid itself out from the beginning to lend to small borrowers; in this it has been eminently successful, and its operations bring to mind those of similar banks in other petty States such as Nassau and the Swiss Cantons; proximity and the use either of the State officers or of the communal organizations explain the fact, which is peculiar to these banks, and to the rent charge banks, (*q.v.*) The general average of loans as outstanding in 1883 was £72; this, however, included many of the petty redemption loans, and was the average value, not of loans granted but of outstandings. But the loans granted were, in fact, very small; up to the end of 1867, 32,209 mortgage loans had been granted, of which 2,806 were below £15, and 13,024 between £15 or £45. In 1883, 1,050 mortgage loans were granted, of which 49 were below £15, averaging £13, and 131 between £15 and £30 averaging £26; just half were below £75 and the average of all was about £214; in 1890, 895 mortgage loans were granted averaging £290, and in 1891, 1,070 averaging £225, so that the proportion of small loans was probably similar. On separating urban from rural loans, the smallness of the latter is more apparent; in 1883 the average of the 989 rural loans granted was only £174, so that the proportion of very small loans must have been very considerable. It is, then, clear that a bank *com.*, under certain circumstances, grant mortgages in large numbers for sums so low as £13 equal to, say, Rs. 50 in Madras, allowing for the difference in the value of money. But it is admitted that the small loans are "burdensome and costly" to the administration, and it is probably impossible for a bank to do such business if it is designed to earn profits, unless it is a small bank right down among the people, or a State bank with unusual privileges, and using its regular officers as Agents.*

The loans due to the bank in 1891 were £4,278,590, giving an average per head of population of above £5. In addition however to the bank there are the loans due to a number of Joint Stock Mortgage banks in or near the province, and which lend at 4½ per cent.; to the Insurance offices which seek investment for their funds, and one of which has lent £36,000 at 4 per cent. in a single town of the province; to the pious foundations, private business houses, church funds, loan offices, &c., two of which are mentioned as having lent £320,000 on mortgage; above to all the 53 Savings banks of the towns, boroughs, taluks and districts, which in 1883 had lent £505,300 in urban and £671,000 in rural mortgages. To these again must be added the Co-operative Associations of the Schulze-Delitzsch pattern, which, so far back as 1883, were at least 22 in number, half being in small localities; six of these latter had 3,743 members, of whom more than one-third were agricultural. Besides these there were, in 1884, 43 Raiffeisen Associations, 15 of which had 1,232 members. When to these are added the loans from private capital, it will be seen not only how great are the facilities in Hesse Cassel for obtaining loans on mortgage, but how enormously the people are indebted. (*See* below *s.v.* 'Switzerland' and the remarks on European indebtedness.)

The bank of Nassau is another flourishing State bank, established in a late Duchy (now part of the Prussian province by Hesse Nassau), which is (was) about 1,800 square miles in area with a population of about half a million. Started with the intention of supplying capital for redeeming feudal and other charges, it became a credit bank, and in 1892 had outstanding on mortgage £2,936,245; in 1892 it granted 1,517 loans averaging £241 each, of which 685 were for sums between £7-10-0 and £75, beside considerable loans to communes and unions; it had 29 agencies, apparently the Revenue officers, as in Hesse Cassel. The bank also does a large business in personal loans; in 1892 it granted 1,194 such loans, averaging £72 each, many being quite small. Attached to the bank is a Savings bank which had £901,275 or 58 per cent. of its deposits in 1,978 mortgages; the mortgages granted in 1892 were 63 averaging £16 each. As a rule Savings banks proper cannot do *small* mortgage business.

The bank is merely mentioned to show that State banks can do most excellent business, provided (1) that they work in a very small area and are thus close to their clients; (2) that they have the free use of the Revenue or other State officers as their agents and collectors; (3) that they enjoy privileges of collection and freedom from certain charges.

FRANCE.—For some years prior to 1852, the French Government, not only by its own knowledge of what was necessary, but by the insistence of private persons, of Agricultural Associations and Congresses, &c., had devoted great attention to the demands for rural credit; commissions were sent to enquire into the German methods, discussions took place in the Legislative Assembly, and systems without number were proposed only to drop. Much delay was caused by the impracticability of the

* The State Land banks of these small States are probably not expected to pay their way, let alone make profits. They pay their way, in that they make no losses, but they are not debited with the whole cost of administration; they are practically worked, so far as the most difficult and costly part is concerned—*vis.*, the enquiry into security, the issue and recovery of the loans, &c.—by the regular officers of the State who are made to do the work as part of their ordinary duties; sometimes a partial remuneration by means of a petty commission is given. The banks were started to meet political needs, and, since the number of officials in small States is usually excessive in proportion to the work to be done—for even these tiny principalities must have their full complement of Departments, Ministers, and the like without the imperial, manifold and weighty duties of great States—the banks can readily be operated. A parallel case, though in a great State, is found in the Land Improvement Loan System of this country, in which the *whole* work is done by the ordinary Revenue officers, without a single additional hand except a few clerks, while the borrowers pay absolutely nothing but the bare interest and sinking fund, without one pie for the charges of administration, insurance and the like. The State does not look for profit or even for its expenses, but only to the benefit of the borrower. But it is not banking business.

proposals which were generally based on a forced paper currency, or demanded the direct intervention of Government in matters of interest and credit, and the establishment of State banks, together with preliminary reforms as regards the law of mortgage, the privileges of landlords, and other amendments of the law. The proposals based upon a paper currency were clearly, if not avowedly, formulated on a study of the Scotch banks, and are a good illustration of the fallacy of formulating proposals based on the consideration of only one, though a salient point in a case rather than upon a survey of the whole conditions. Noting the wonderful success of the Scotch banks and that they were almost alone in their general use of a paper currency, it was supposed that success lay in the "paper" rather than in the prudence and adaptability of the institutions, and upon the fact that they had been developed by natural growth to suit the conditions of the people and of the country, and the demand for capital and credit as it arose. But not only were many schemes visionary and impracticable, but men seemed more concerned to discuss and find flaws in the rival theories and propositions, and to treat the subjects to academic discussion, than to take the initiative and start credit institutions on the lines of the already successful foreign banks. Heedless of the lessons of actual practice and success in conditions at least equally difficult, the philanthropists and rural economists of France dwelt in hopes—each for his own scheme—of impossible success, while subjecting schemes of rivals to destructive criticism, at the same time demanding, as essential preliminaries, various changes in the law and in the economic conditions of the country. The discussions are full of meaning for this country, not in the matters discussed, so much as in the fact that theoretic discussion delayed practice, and that eventually the most successful credit institution of modern times was founded *uno actu* without the main reforms or aids that had long been declared essential, not merely to success but even to establishment. It is curious, too, to read the appeals made at that period on behalf of economic and social reform, deprecating a too exclusive attention to political matters, which, of whatever importance, ought not to divert attention from others at least equally affecting progress and happiness, and not less worthy of national attention.

The 'Crédit Foncier of France.'—The results obtained in Germany by the *Landschaften* already described were little known in France; the system, that is, of long-term credit rendered possible only by the principle of association under the guidance or at least the supervision of Government. In 1835, M. Wolowski, one of the greatest of French financiers and economists, described the German theory and practice in a luminous exposition which gradually attracted the serious attention of economists and Government alike. Ten years afterwards (1845) the French Government directed M. Royer, an officer holding the post of Inspector of Agriculture, to repair to Germany to study the system of the land banks (*Landschaften*) then in operation, and to report on their working. This officer's able report was the foundation of real work; it described minutely the mechanism and operations of the chief *Landschaften*, including, especially, the system of *Pfandbriefe* or debentures, which were the financial centre of the German system.

The immediate result was a discussion more or less practical, of the means whereby to found similar institutions in France; among the projects discussed, even in the National Assembly itself, were proposals: (1) to issue national debentures for £24,000,000 by means of inconvertible paper to that amount, (2) to issue similar debentures payable indeed, on demand, but based upon a forced reduction of rural interest to 4 per cent.

A further study of German institutions was made in 1851, following on which came a discussion of the whole question by an association founded *ad hoc*, which framed distinct proposals for the establishment of a land bank. At this time Government took the matter up, and an elaborate enquiry was held including the examination of economists, financiers, officials, lawyers and projects. The result of these enquiries and discussions was the issue by Government of the law of 28th February 1852, a law which did not actually establish but which favored the establishment of land credit societies. The objects of this law are the redemption of the mortgage debt of France and the development of agriculture, under the method of issuing loans upon mortgages for lengthy terms repayable by annuities, the loans being financed by debentures secured upon the mortgages and bearing interest; the above work to be done by an association which should accept mortgages and issue its own debentures based upon its own credit and upon the mass of its mortgages; such association to be either an association of lenders (capitalists) having dividends as their principal object, or of borrowers having in view solely cheap credit. Such were the general principles of the law, societies being left to establish themselves, but under the general control of the Government.

Crédit Foncier Society—General History.—In March 1852, a powerful society was formed to work within the limits of the Appellate Court of Paris, and two others immediately afterwards in Marseilles and Nevers, all the societies, after authorization by a Government Commission who revised their statutes and their demands, being placed under the supervision of a special branch of the administration. It was, however, believed that a single society for the whole of France, having branches or agencies in various centres, would command better credit for its debentures than a number of small societies, and before work was fairly begun, the three societies were merged in one called the 'Crédit Foncier de France' and received a monopoly, for twenty-five years, of transactions based upon the Act.

Various errors were committed at first, and new decrees were required, but in 1854 the society was fairly established and certain restrictions which prevented its financial liberty of action were removed; amongst other things its administration was freed from the direct control of a Government Department, and was entrusted to a Governor and Sub-Governor nominated by the Emperor. The society, moreover, re-organized its methods, withdrew its local branches which cost much and produced little, and established relations with the Treasury officers of the departments (districts); it also accepted deposits in account current. Gradually by means of great prudence in administration, of strictness in its examination of proposals for loans, of steady payment of its dues to debenture-holders even in years of war and famine, of moderate dividends based upon genuine profits, and, doubtless, of its connection with, and supervision by, Government; it obtained the confidence of the public, and its first heavy loan—by the issue of debentures—for 8 millions sterling was gradually taken up by the public: in 1859 its transactions for the year were above £1,000,000 in long term loans, about £300,000 in those of short term, more than £2,000,000 had been received as deposits, while its

4 per cent. debentures were quoted but little below par. By this time, the *Crédit Foncier* was fairly founded and the success of its operations had silenced those, even of high authority, who had predicted that such societies would be a failure; that they were not suited to French ideas, and to the minute division of the soil (a true and subsisting objection), that the Act would be a mere dead letter, and that no society could be formed on such a basis; that societies, operating over the whole of France, must be a failure seeing that in Germany societies were strictly limited in area of action, &c.

The society now entered upon the stage of development. In 1858, at the instance of Government, it assumed the duty of issuing, upon a Government credit for £4,000,000, loans for drainage, hitherto unsuccessfully attempted by Government itself. Again, at the instance of Government, it proceeded to the establishment of an affiliated society for '*Crédit Agricole*' (*q.v.*), that is for the grant of short term loans without mortgage to farmers, and in 1860 a new law authorized this development and granted the society a special guarantee. In the same year another law authorized it to grant loans to departments, communes and Agricultural Associations. The same year its privileges were extended to Algeria, while another law gave it the control of a great business society. All these extensions were at the instance of Government, and to meet its new liabilities, its share capital was raised to £3,600,000 in 1870. Meanwhile it had distributed good dividends and had formed a reserve of £750,000. The terrible war of 1870-71 had no effect upon its credit, and its whole losses due to the depreciation of property at that time were only £160,000; it steadily progressed in success in spite of public losses and the greatly increased taxes which told heavily upon its own and all classes of business transactions.

A period of danger and loss now supervened, due not to its own operations but to those of the '*Crédit Agricole*,' with which it was connected. This latter society abandoned its true rôle, and had lent nearly £7,000,000 to the Khedive of Egypt; on suspension of payment by the Egyptian Government it was discovered on a Government audit, that beside the Egyptian losses, the society's liabilities exceeded its assets by nearly £1,000,000. Owing, however, to the ability with which affairs were conducted by its able Governor, the *Crédit Foncier* came out of the trouble with little loss, and its credit, though temporarily lowered, again recovered, so that its shares were soon quoted at a premium.

Its credit being thus established, it proceeded to improve the terms on which it lent. In 1879 it issued an enormous loan for £36,000,000 in mortgage debentures of £20 bearing interest at 3 per cent. with numerous and heavy lottery premia at the periodic drawings; this loan was covered several times over at an average price of £19-11-8, so that the interest payable thereon *plus* the cost of the lottery prizes, amounts to about 3.85 per cent. The proceeds of the loan were devoted to paying off debentures bearing higher interest, and this enabled better terms to be given to borrowers—thenceforward the interest to borrowers was reduced to 4.45 per cent. and the fixed commission of 0.60 per cent. done away with, so that loans were now issued at 4.80 per 100 including sinking fund.

Up to this time (1879) the *Crédit Foncier* had not greatly extended its operations to rural tracts; its loans were chiefly on urban properties and principally within Paris itself. It now proceeded to re-establish those agencies in the districts, which at the beginning—some twenty-five years before—it was obliged to withdraw as expensive and useless. In 1879 the first country agents were appointed in ten or more centres, with the immediate result that the demands for loans exceeded the powers of the agents to examine them; it was, therefore, resolved to increase the number of agencies and place one in each district (department); about 73 are now at work. The agencies have little power, but act as instructors and intermediaries only: they are not "branches," but agencies, and are paid by a fixed salary and commission. It is under consideration to assist the agents by local committees composed of the chief men of each neighbourhood.

Under the influence of these agencies small loans (below £ 200) rose in number in 1882 to about one-fifth of the total number of loans granted, the proportion previously having only been about one-twenty-fifth.

About this time (1880-81) the *Crédit Foncier* took a further development in the formation, under its patronage, of the *Crédit Foncier* of Algeria, and the *Compagnie Foncière* of France and Algeria. The former was designed to do for Algeria what the parent society was doing for France: the latter had a different aim which it is important to note. Its object was to facilitate works of improvement and construction, which, when completed, would serve as objects of mortgage with the *Crédit Foncier*; for instance, it would advance money on proper security to dig a well or make other permanent improvement on waste ground; the property, thus improved or created, would then form a security on which the *Crédit Foncier* would, if required, advance money to enable the owners to work the property. The *Crédit Foncier* thus endeavoured to become, not merely a land credit but a Land Improvement Society.

The last noteworthy act of the society that needs mention was the absorption of a rival which arose in 1879 under the name of '*The Mortgage Bank of France*;' by this absorption it retained and still retains a practical though not legalized monopoly of the privileged system of loans for long terms financed by debentures, and repayable by annuities, a monopoly which, however, thanks to the prudence of its administration, and to the control exercised by Government, has not hitherto been abused.

The success of the *Crédit Foncier* was due to its intrinsic merits. It was a wholly novel experiment in France, and the idea was extremely mistrusted by many; it was considered not to be consonant with the ideas and manners and customs of France, or with its social or economic condition; it would be a mere name; it required local influence and knowledge; it would find no lenders, and would prove for its borrowers a mere eviction society. Its success, however, was predicted by the cooler heads, who not only saw its success in Germany, but believed that a society which gave capitalists the security not merely of its share capital, but of a mass of mortgages of property worth at least twice the value of the loans, which borrowed by debentures payable to bearer and therefore transferable and saleable without cost, which enjoyed considerable privileges and was controlled by the power of Government, would readily find lenders; while borrowers would be attracted by the grand idea of the sinking fund system and by the substitution of a society as a creditor, less greedy than the individual, and requiring nothing but the regular payment of very moderate instalments, comprising

both interest and sinking fund. Errors and mistakes did, of course, occur, but the great principles of the sinking fund and the land mortgage debenture won their way to success. The plainest proof of its success is the immediate imitation which it found, not merely in Russia, Austria and Italy, but in Germany itself which had furnished the original generating ideas.

The *Crédit Foncier* differs from its original exemplars (*Landschaften*) in several principal points. *First*, it is a society formed by capitalists, who sought a profit on their shares, by loans granted to others, while the German banks were formed of or by all the chief proprietors of a province who sought profit by obtaining cheap loans for themselves, and had neither share capital nor dividends. *Secondly*, the German banks were of unlimited liability, having no share capital; the *Crédit Foncier* is a limited joint stock company and its share capital serves as a guarantee; in both cases, the funds from which loans are granted are funds obtained on the issue of the bank's debentures against the mortgages which they had accepted, but while, in the German banks, debentures are secured (1) by the mass of mortgages held by the bank, (2) by the unlimited liability of all the members, the French society's second security is the share capital and reserve. *Thirdly*, the loans of the *Crédit Foncier* are granted solely in cash, whereas that of the old *Landschaften* and some of the new are granted in debentures, which precisely represent the loans and are issued to the borrower as his loan: the debentures of the *Crédit Foncier*, though not allowed to exceed the mass of loans, are issued as required, and not in representation of each loan; this is rendered possible by the possession of a working capital and of deposits. *Fourthly*, the *Crédit Foncier* had, for twenty-five years, a monopoly of privileges under the Act, for the whole of France, while the German banks have no monopoly even in the provinces where they are established. *Fifthly*, the *Landschaften* mortgage banks are comparatively local, operating only in moderate areas about the size of one or two Madras districts, whereas the *Crédit Foncier* is a vast centralized institution extending over the whole of France by means of agencies, which are, however, only 73 in number; this is a fact of the highest practical importance. *Sixthly*, the *Crédit Foncier* is entitled to act to some extent as a bank, in that it may receive deposits; and it employs part of these in short-term loans. In other matters the *Crédit Foncier* largely resembles the *Landschaften* as described above, and found ready imitators in the later German land mortgage banks.

Objects, Methods and Administration.—The *Crédit Foncier*, then, was founded under State auspices and encouragement by a joint stock company in 1852; it was placed at once under a rather complicated system of triple State supervision in the departments of the Interior (Home), of Agriculture and Commerce, and of Finance. In 1854 this supervision was exchanged for a more direct but simpler form of control in the appointment of the Governor and Sub-Governor direct by the Emperor, while three of its Directors were chosen by the society from the chief officers of finance. It thus became a quasi-public institution, like the Bank of France, but retains its position as a joint stock company (limited). It is financed wholly by the public, partly by a large share capital, which is bound to increase up to a certain maximum in proportion to the mass of credit operations; this is chiefly for the purpose of guarantee, but is also partly used for short term loans, an appropriation of the capital which seems of doubtful advisability, and, in fact, the Minister of Finance considers that the capital and reserves should be solely available as a liquid guarantee fund and not locked up in loans.

The society also receives money on current account up to a maximum of £4,000,000, of which one-fourth must be deposited in account current with the treasury, and the remainder invested either in Government paper or Treasury bills, in advances on paper approved by the Bank of France and in discounting ordinary commercial bills. But its *raison d'être* and its real method of operations are found in its system of long-term loans on real property, repayable gradually by the system of amortization or sinking fund; these loans are financed by means of interest-bearing debentures, the proceeds being lent in cash at interest slightly above that paid by the society to those who can give good security in lands or house property. It borrows generally at something below 4 per cent., its bonds being readily taken and forming a mass of paper current at about par, and maintaining its value even in bad times; this paper is secured by the whole share capital and reserve of the society, and by the mass of mortgages accepted by the society. These mortgages are accepted only up to half the value of the property, estimated under very strict rules, and in themselves form ample security, especially under the system of gradual repayment. The borrowers pay the society (1) 4.45 per cent., which provides not only for interest but for all expenses and profits; (2) a small extra amount for amortization or sinking fund, varying according to the number of years desired by the borrower as the term of the loan; *e.g.*, if he desires to pay it off in fifty years about $\frac{1}{2}$ per cent. is added for amortization, so that his whole annual payment (annuity) for interest, expenses, and sinking fund is only 5 (5.05) per cent.; if he prefers ten years he pays 12 $\frac{1}{2}$ per cent. all told; if thirty years will suit him better, 6 per cent. (6.1) will cover every due. This admirable method of lending and borrowing enables every person who has property to develop it or his business by means of cheap capital repayable on easy terms, and with no possibility of untimely demands or foreclosure, except in case of the default of the borrower himself. Moreover he can, if he prefers it, extinguish the whole or part of his debt at any time by a lump payment instead of by annuities. In fact the debt only exists so long as the borrower chooses.

The above are the chief objects and methods of the society, but it is at liberty to adopt, with the sanction of Government, any other system to facilitate loans on real property, the improvement of the soil, the progress of agriculture, and the extirpation of the existing mass of debt on real property. It is not allowed to enter into any banking operations, such as advances other than those relating to its own paper and loans on securities accepted by the Bank of France as guarantees for advances.

Privileges.—These are various and important: (1) it enjoyed at starting a Government subvention of £400,000 as a guarantee fund; Government also, as evidence of belief in the society's stability, bought a quantity of its debentures and permitted the Departments to do the same; (2) it is under the immediate supervision of Government in the Finance Department; its Governor and the Sub-Governor are appointed by Government, though paid for by the *Crédit Foncier*; and three of its Directors must be high Government officers of finance; (3) it has the privilege of using the Government treasuries for the receipt of its dues and the deposit of its surplus funds; (4) it enjoys a reduction of duties in registration, stamps and the transfer of its debentures; (5) its debentures are payable to the holder,

and the Courts cannot take cognizance of any claim by a third party, unless the bond have been lost or stolen; (6) trust monies and public funds may be invested in the debentures of the society; (7) its mortgages are exempt from the general obligation of decennial re-registration and consequent charges; (8) it has a special and comparatively speedy and cheap method of placing itself in a secure position as first mortgagee free of all possible claims or privileges of third parties; this is called the "purge," which is a provision of the general law, but under the special law of the *Crédit Foncier* is cheaper, speedier, simpler, and restricted in its scope; (9) it has privileges for the recovery of the loan; the Courts cannot grant the defaulter any delay; the annuity of repayment cannot be attached by order of any Court for the claim of a third party; the mortgaged property can be speedily attached by order summarily obtained from the local Civil Court; during attachment the society has an indefeasible right to all returns from the estate, its privileges ranking after those of the State, and of those of the charges, &c., expended on the estate; in case of any dispute due to attachment, it is decided summarily by the Court; the society can proceed without attachment to sell the property after due notice given and published, if its dues are not paid, or if the property deteriorates, the sale to be by auction at the Civil Court or—by permission of the Court—at a public Notary's office: the proceeds of the sale to be handed over to the society up to the amount of its dues, no adverse claims being allowed.

Such are the general privileges granted to all societies established under the law of 1852. The *Crédit Foncier* of France having been established, the Government deemed it desirable to grant it a monopoly over the whole of France for twenty-five years from 1852, that is, no other society was allowed under this special law till after 1877. The monopoly has not been renewed.

M. Josseau observes that one of the chief obstacles to the introduction into France of land banks was the state of legislation, which gives neither sufficient security to loans nor sufficiently speedy means of recovery; hence it was necessary to give the *Crédit Foncier* special privileges to remove them from the difficulties of the common law. This point has to be borne in mind; what is a privilege in one country is not needed in another where the common law provides all that is necessary.

Its head-quarters are in Paris, and it has seventy-three agencies in the districts; these latter examine applications for loans and report to the chief office which accepts or refuses the application. All loans are now paid to the borrower in cash and not in the society's debentures.

Capital.—Its capital may rise to £8,000,000 sterling in 400,000 shares of £20 each. The share capital is bound to one-twentieth of the total value of debentures in circulation; the shares are either personal or to bearer, and in the former case are transferred only by an entry in the society's registers.

Reserves.—There are several classes of reserves, of which one is ordinary and obligatory, and must accumulate to a maximum of one-half of the share capital; others are special and optional, and are intended to provide funds for special payments, *e.g.*, for the prizes and bonuses given on the repayment of debentures, and for equalizing the varying returns from their issue.

Organs of Administration.—The Governor and Sub-Governor are appointed by Government, and are well paid by the bank; the former has very great power and responsibility, and is the executive head of the society. The Council of Administration (Board of Directors) are nominated by the general assembly, but three (out of twenty-three) must be public officers of finance (*Trésoriers payeurs généraux des Finances*). The Directors are not salaried, but receive honoraria for each meeting. Their duties are those of the general administration of the society, its development, and its transactions of all kinds, but none of its decisions is valid or can be executed if not approved of and signed by the Governor. The Directors incur no personal responsibility for acts done by them as a council.

The Auditors or Committee of Control (*Censeurs*) are three in number, and form part of the Board of Directors; they are elected by the general assembly, hold office for three years, one going out each year, but are eligible for re-election. Their duties are not those of mere audit; they form, rather, a committee of supervision watching over the strict observance of the statutes, the issue of debentures and their relation to loans issued, &c.; they audit all the accounts, verify the cash and securities in hand, and can demand a general extraordinary meeting. Their services are not salaried, but, like the Directors, they obtain honoraria.

The Governor must hold 200 shares of the society, the Sub-Governors, Directors and Auditors (*Censeurs*) 100 each. Their shares are inalienable during the term of office, are stamped with a special seal to show this fact, and are deposited in the society's safe.

The general meeting represents and binds the whole body of shareholders, but consists only of the 200 largest shareholders; 40 form a quorum, provided they hold one-tenth of all existing shares. It is held once a year, but may be otherwise convoked; it deals with the annual report, passes or rejects the accounts and fixes the dividend; it elects the Directors and Auditors, and decides upon questions of increasing the capital, modifying the statutes, &c. Such propositions are only made by the Governor, usually after discussion by the Board of Directors, and are subject to the confirmation of Government.

Loans.—Loans are made generally only as a first charge upon property, but may obtain this position by redeeming prior charges. No loans are made on theatres and mines, or on any undivided properties, unless the whole property is pledged with the consent of all co-sharers, or on properties in which the usufruct and ownership are not united, unless all persons interested join, or on properties which have no certain income. Loans can only be given to one-half the estimated value of general property, and one-third in case of vineyards, woods and plantations. The rate of interest on loans must not exceed by more than 0.60 per cent. that paid on the society's debentures issuing at the time of the loan. The annuity payable by the borrower includes the interest and the sinking fund, and is payable every half year on 1st January and 1st July; interest at 5 per cent. is charged upon arrears, and after a month's delay the society may demand the repayment of the debt in full. Borrowers may repay their loans in advance, either in part or in full, either in cash or in debentures of the society of the series in which the loan was granted, which are accepted at par whatever their market value. On receipt of such repayment in advance, the society must withdraw from circulation a corresponding amount of its debentures, since the total of its issues must not exceed that of its outstanding loans; to cover any probable loss on this withdrawal and any delay in re-investment, a payment of $\frac{1}{2}$ per cent. on the amount repaid in advance is demanded.

A borrower is bound to inform the society of any alienations of his property in whole or in part, or of any deteriorations, decrease of value or other possible causes of loss; in default, the whole debt may be demanded as well as an indemnity as above. Concealment of any mortgages or other charges produces the same liability. The usual provisions are made as regards insurance of properties liable to fire, &c. All properties are valued upon the deeds, produced by the proprietor, but the society may order a local valuation. All costs are charged to the borrower whether a loan is effected or not.

Debentures.—The society's debentures are either personal or to bearer; the former are usually transferable by endorsement. The capital resulting from the issue of debentures must not exceed the total of the loans granted by the society; pending employment the funds must be placed in certain specified classes of stock. The debentures must not be below £4 and are issued from counter-foil registers, each being stamped, signed by a Director and countersigned by the Governor. They are repayable by periodic drawings, determined by lot, the total value redeemed being equal to the amount paid in by borrowers on account of the sinking fund, so that the remaining debentures may not exceed the amount remaining due by the borrowers. Drawings are effected by the Board of Directors in presence of the Auditors (Censeurs) and the numbers drawn are duly published; the bonds drawn are at once cancelled and destroyed in the Governor's presence, and the fact recorded.

Profits.—Profits are divided as follows: 5 per cent. as fixed dividend to the shareholders; from 5 to 20 per cent. of the remainder to the ordinary reserve; part, if necessary, to any special reserves, and the remainder is divided amongst the shareholders. If the fixed dividend of 5 per cent. cannot be provided from the net profits, the regular reserve is drawn upon.

Statistics. *—In December 1890, the society's capital was £6,820,000, divided into 341,000, shares among £26,642 shareholders, and paying a dividend of 12½ per cent. Its ordinary reserve was £685,000 and its special reserves £5,440,000. The net profit was £888,000; its expenses of administration £165,000, and the amount of taxes (income tax, license fee (patente) as a merchant, taxes on debentures, &c.) no less than £462,000 (11,555,544 francs), part finally payable by the society, part recoverable from the holders of its shares and debentures. Its mortgage loans for the year were £3,310,000, of which only £37,000 were from the capital and reserves. Communal loans were also granted for £3,081,000. The value of the mortgage loans in actual existence in December 1890 was a little over £80,000,000, while the actual value of the society's debentures representing such loans was about the same amount; the loans, however, included about £2,400,000 from capital and reserve. The communal loans and debentures similarly in existence were £46,540,000 and £40,000,000, respectively. Deposits in account current received interest at ½ per cent. per annum and amounted to something over £3,000,000, the receipts and disbursements of the year under this head being nearly £22,000,000. The society also received for safe custody bonds of the society and other paper for £35,000,000 on which they acted as agents for drawing the interest.

Repayments in advance were made by borrowers to the amount of £4,500,000, and operations generally were so slack that interest was reduced in order to bring in business. Arrears on 31st December 1890 were due on mortgage loans for £901,152 or 16 per cent. of the total interest due; of this about one-sixth was due from before 1890.

Since 1853, the society has granted 77,536 mortgage loans for about £139,000,000 sterling, each averaging £1,793; out of these 77,536 loans, 39,388 or above half were for a term of sixty to seventy-five years, the other loans being for all periods from ten to sixty years. Again, 31,952 of these loans, value 87½ millions sterling, were in Paris and the department of the Seine only, leaving only 45,584, value £51½ millions, for the whole of the rest of France. Still more noteworthy is it, that 55,034 loans for £110½ millions were on solely urban property only, 22,161 alone for nearly £28 millions being solely rural, and 341 mixed. Again, all loans seem to be on the decrease; in 1882 the number of loans was 7,398 for £13,208,528; in 1883 there were 6,771 for £10,155,120; in 1886 4,322 for £6,752,384; in 1890 2,925 for £3,309,632, and each intermediate year has shown a decrease. Moreover in 1882, 1,581 loans were for sums below £200, the average of such being £132 per loan; in 1890 there were only 829 averaging £131, each successive year showing a decrease. The total number of loans below £200 is only 18,059 out of 77,536 and average £130; 16,577 communal loans have been granted since 1860 for £78,720,000; these have greatly developed since 1884; as usual the department of the Seine heads the list with 353 loans for nearly £28 millions, leaving only about £50 millions for the remaining 16,224 loans. It may be said that Paris and its environs followed, at long intervals, by the other towns have absorbed the great bulk of mortgage and communal loans.

Loans have, it is thought, been granted of late years too freely from the capital and reserve, and though fully guaranteed on the whole, yet land has been valued in some cases in excess, so that the security was insufficient; moreover some district agents are said not to have been as careful or honest as the principal authorities ('Times' of 30th June 1890). But the bulk of its operations have been well carried out, and its position seems perfectly secure.

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By a law of 1860 (appendix) the Crédit Foncier was empowered to lend to departments, communes, associations, and other public bodies. Modern administration compels Local Boards or other administrative units, to meet the public demand for roads, sanitation, school buildings, education, and the like; these requirements cannot be properly provided from current funds; the treasury could not supply loans in sufficient amount, nor are the terms of private lenders suitable. If the various boards and councils could not get long term loans at moderate interest and on easy terms of repayment, they could not carry out the needed and even obligatory improvements. The Crédit Foncier was, therefore, empowered to issue loans, with or without mortgage, to the various public bodies above mentioned, the result being that in thirty years no less than £60,665,000 have been lent in 15,330 loans to the communes (of which there are 36,139 in France), about £7,750,000 to the departments, about £4,350,000 to associations, about £5,250,000 to Chambers of Commerce, and so forth, the aggregate being £78,723,000. These loans are granted at 4·8 and 4·4 per cent. for terms of from five to fifty years, the amortization varying according to the term. The loans are financed by communal debentures issued by the society in the usual way. A similar institution for India will soon be a necessity.

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The objects of the society are the same as those of the Crédit Foncier of France, but there are additional operations, such as the opening of cash credits upon mortgage in cases where the society accepts mortgages on property which would not be accepted as security in France, *provided* that the loan is laid out on the improvement or clearance of the soil, construction of buildings, &c. By this method, a farmer can raise a loan upon a piece of ground in itself worth little, but capable of development, say by digging a well, into a valuable garden; this is mortgaged to the society, not for half its actual value which would be trifling, but for half its potential expected value, and the amount is then placed at the disposal of the borrower by a species of cash credit, against which he can draw; each drawing is subject to proof that the work is under construction. The rules resemble the special rules for the construction of wells in Madras. These cash credits for improvements are also opened on a simple bond with sureties, and then resemble the Scotch cash credits. This new operation is peculiarly suited to an unimproved country.

The Algerian society has also the right to lend on crop and on warrants for goods deposited in its warehouses; to aid in founding societies and associations for various industrial enterprises, by supplying funds "en commandite"; to lend to communes, &c.

Up to 31st December 1890, *i.e.*, in thirty years it had granted 4,944 loans from funds supplied by the Crédit Foncier of France, and from its own funds; the average of the loans was £675; 1,984 were below £200, and averaged £142.

The dealings of the society with land improvements (drainage, &c.) will be dealt with *s.v.* 'Land Improvements' (*q.v.*).

AUSTRIA.—In Austria up to 1848 the peasants in general labored under many feudal difficulties, and could not raise a loan on mortgage without the consent of the lord; the result, however, was that the land they held was not encumbered by much debt. After that date corvées were abolished with other feudal burdens and disabilities, for which, however, the peasants had to pay heavy commutation charges, while the taxes became weightier, and prices, of late years, have fallen seriously. These causes, coupled with other influences, such as the law of equal inheritance, the increase of the population, the great rise in the price of labour, &c., have everywhere caused a demand for capital, the burdening of the land, and, in the absence of organized credit accessible to small and middle folk, a general resort by such classes to the usurer. For instance, according to official returns, the registered mortgage debt on "small holdings" increased between 1867 and 1888 for nine out of 18 provinces, from £114,106,330 to £161,987,507 or nearly 42 per cent. These figures are for nine provinces containing two-thirds of the inhabitants of the empire, so that the total mortgage debt of the empire, including urban debt and that on large properties, must be immensely greater.

For the larger properties there are certain mortgage banks, but for the middle and small holders, these are not available; the requirements of the banks are so rigorous, the risks attending small mortgages so great, the expenses attending small loans so disproportionate, that small folk have been, till lately, thrown back upon the local source of capital, namely, the usurer, who "devours" them; they are described as everywhere dependent on the Jew usurer, and subject "to the rapacity of the vampires

A borrower is bound to inform the society of any alienations of his property in whole or in part, or of any deteriorations, decrease of value or other possible causes of loss; in default, the whole debt may be demanded as well as an indemnity as above. Concealment of any mortgages or other charges produces the same liability. The usual provisions are made as regards insurance of properties liable to fire, &c. All properties are valued upon the deeds, produced by the proprietor, but the society may order a local valuation. All costs are charged to the borrower whether a loan is effected or not.

Debentures.—The society's debentures are either personal or to bearer; the former are usually transferable by endorsement. The capital resulting from the issue of debentures must not exceed the total of the loans granted by the society; pending employment the funds must be placed in certain specified classes of stock. The debentures must not be below £4 and are issued from counter-foil registers, each being stamped, signed by a Director and countersigned by the Governor. They are repayable by periodic drawings, determined by lot, the total value redeemed being equal to the amount paid in by borrowers on account of the sinking fund, so that the remaining debentures may not exceed the amount remaining due by the borrowers. Drawings are effected by the Board of Directors in presence of the Auditors (Censeurs) and the numbers drawn are duly published; the bonds drawn are at once cancelled and destroyed in the Governor's presence, and the fact recorded.

Profits.—Profits are divided as follows: 5 per cent. as fixed dividend to the shareholders; from 5 to 20 per cent. of the remainder to the ordinary reserve; part, if necessary, to any special reserves, and the remainder is divided amongst the shareholders. If the fixed dividend of 5 per cent. cannot be provided from the net profits, the regular reserve is drawn upon.

*Statistics.**—In December 1890, the society's capital was £6,820,000, divided into 341,000 shares among £26,642 shareholders, and paying a dividend of 12½ per cent. Its ordinary reserve was £685,000 and its special reserves £5,440,000. The net profit was £888,000; its expenses of administration £165,000, and the amount of taxes (income tax, license fee (patente) as a merchant, taxes on debentures, &c.) no less than £462,000 (11,555,544 francs), part finally payable by the society, part recoverable from the holders of its shares and debentures. Its mortgage loans for the year were £3,310,000, of which only £37,000 were from the capital and reserves. Communal loans were also granted for £3,081,000. The value of the mortgage loans in actual existence in December 1890 was a little over £80,000,000, while the actual value of the society's debentures representing such loans was about the same amount; the loans, however, included about £2,400,000 from capital and reserve. The communal loans and debentures similarly in existence were £46,540,000 and £40,000,000, respectively. Deposits in account current received interest at ¼ per cent. per annum and amounted to something over £3,000,000, the receipts and disbursements of the year under this head being nearly £22,000,000. The society also received for safe custody bonds of the society and other paper for £35,000,000 on which they acted as agents for drawing the interest.

Repayments in advance were made by borrowers to the amount of £4,500,000, and operations generally were so slack that interest was reduced in order to bring in business. Arrears on 31st December 1890 were due on mortgage loans for £901,152 or 16 per cent. of the total interest due; of this about one-sixth was due from before 1890.

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"which, while sucking their blood, evade the clutches of the most stringent laws." The problem of supplying cheap credit to the smaller folk is consequently engaging the earnest attention of "ministers, noblemen, members of Parliament, great land-owners, economists and professors," not without some success, though not from the side of land banks proper, but from that of Savings banks and co-operative societies; on the one side through the demand of the Savings banks, under the system of a free employment of funds, for safe local investments, and on the other through the devotion of practical reformers, who, hearing of the German co-operative credit system, have sat down in the towns and villages and worked out for themselves and for their neighbours a local solution of the problem. (See 'Co-operative banks' and 'Savings banks.')

The land bank system, however, affords suggestions which may prove useful in India. There are four classes of land bank proper—

- (1) Associations of proprietors;
- (2) Ordinary joint stock mortgage banks, which need no detailed notice;
- (3) Savings banks;
- (4) Provincial land banks.

There appear now to be only two of the first category, one having failed in 1884. The second class are much more numerous, but lend chiefly on large and urban properties. All Savings banks, which are quasi-public, and are established by the communes, taluks and districts, invest a large portion of their funds in mortgages; in 1881 about £42,000,000 had been thus lent out, being about five-eighths of the deposits; figures are not available to show to what extent they grant very small loans, but as there were, in 1889, 414 in Austria proper, one for every 57,719 persons, they may have done a good deal; the prevailing interest on these loans is from 5 to 5½ per cent., at which rate they averaged about 1 per cent. profit. The fourth class are six in number, and are practically State banks. In addition to these banks, there are the ordinary banks of the country which, with other classes of business, also grant loans on mortgage; these are about 41 in number, and are headed by the Austro-Hungarian National bank, a quasi-public institution, in which the land mortgage department is kept distinct from the other business of the bank, with a special committee, and a Government Commissioner, who has powers of veto in case of any irregular proceeding. In virtue of its quasi-public status, it enjoys certain moderate privileges; the State intervenes considerably in its affairs, and partakes of its profits; the Governor and two Sub-Governors, as well as two Commissioners and Sub-Commissioners, are appointed by the Emperor, the latter for the purpose of supervision and audit.

Capital and Reserve.—The Bank of Galicia, belonging to the first category and founded in 1841, has no capital but only a guarantee fund provided by the Provincial Government. The Rustical-Credit Anstalt of the same class has a share capital, to which all members must subscribe in the proportion of one-twentieth of the loans they receive; hence it is a varying capital, intended merely as a guarantee fund. In the banks of this class liability is limited; in the first named to one-twentieth of the value of the mass of mortgages, in the second to five times the value of their shares. The reserve is formed in the first of these two banks by crediting the whole of the profits to it; in the second by the entrance fees, part of the profits, &c. The mortgage banks have the usual share capital and reserve, needing no remark. The Provincial banks have no capital, but are guaranteed by the Provincial Governments.

The land credit branches attached specially to certain Savings banks have a special reserve fund formed from the profits of the operations, as well as a considerable guarantee fund granted by the Savings banks, which have, however, the right of withdrawing the guarantee fund as the reserve proper accumulates.

State Guarantees.—This is found only in the public or quasi-public institutions of the first and fourth categories; details will be found in the sketches of these banks given below.

Mortgage Debentures.—These are similar to those of Germany with one or two peculiarities. Some banks issue their loans in cash as well as in debentures; hence, in order to finance such loans, they must, in the absence of other capital, issue and sell debentures in advance, and the mass of debentures may, therefore, exceed the mass of mortgages. This is not allowed in Germany, and it is only permissible where there is a sufficient guarantee fund; a very moderate limit is also fixed for such excess.

Debentures must not be issued by joint stock banks beyond a certain varying multiple of the capital and reserve, usually twenty times the paid up capital, but occasionally as low as five times. Apart from the chief guarantee of these debentures, viz., the mass of mortgages, it is found that the capital and reserves specially set apart as additional security are equal to about one-eleventh of the mass of debentures in existence; this was in 1882, and the proportion is probably not very different now.

Since most of the banks carry on all classes of banking business, the debentures in such banks lack the complete and special guarantee possessed by the debentures in land banks proper, viz., the whole capital, reserves, &c., of the bank, and the mass of mortgages; the holders rank only with the other creditors. This defect is remedied by a special law (1874), which enables banks to determine and declare particular parts of their capital and business as special securities for the debentures; these items must be expressly mentioned in their Articles, and where so mentioned, such portion of their assets cannot be otherwise charged or disposed of without the special consent of the Government Commissioner for banks, who can refuse his consent if necessary. In case of bankruptcy, this portion of the assets forms a separate fund for the payment of debenture-holders. The Austro-Hungarian bank provides that half the mass of mortgages, and all the movables and immovables of the bank shall be the security for the debentures, and, if necessary, so much of the capital as corresponds to one-tenth of the debentures. These provisions give the debenture-holders a privilege which ranks them above all other creditors of the bank.

The rate of interest on the debentures is usually 4 to 5 per cent.; 4 per cent. scrip of the National bank was in 1890 quoted at par, and 4 per cents. of Provincial land banks at about 98, while Austrian State Paper at 4½ was quoted at 88.

Loans.—There is nothing here of special note, except that loans are frequently granted in cash, so that the interest is of varying rate as agreed upon from time to time. This interest is generally between 5 and 6 per cent. In 1889 the outstanding mortgage loans by the 51 banks—exclusive of Savings banks—which granted real credit, were valued at £47,385,467 as against £48,831,264, the pound sterling being taken as 12 florins. The similar loans by Savings banks are not known, but in 1881 they were above £41,000,000, or five-eighths of the deposits.

Profits.—It is noteworthy that the ten regular land mortgage banks, six being State (Provincial) banks, three annexed to Savings banks, and one quasi-State, obtained very small profits, though doing a large mortgage business; in 1889 their net profits, after deducting all expenses and taxes, were only £42,860 upon a mass of mortgages of not less than £16,000,000 (exact amount not known), and most of this went to the reserves. In other words, the mortgage banks of this class have only the interests of borrowers in view and reduce the cost of loans to a minimum while strengthening their own position and safety; they have no dividend, and therefore no reason for an interest higher than necessary.

Taxation.—This is heavy; for all banks together, including all mortgage banks, the taxes in 1889 amounted to close upon one-fourth (24 per cent.) of all expenses. They are not precisely specified for the land banks, but for the National quasi-State bank the taxes are (1) those on its dividends (a sort of income tax), in addition to the stamp duties on the interest coupons; (2) tax on loans on pledge; (3) tax on interest coupons of securities owned by the banks; (4) direct taxes on all its immovables. These are general taxes and not peculiar to the National bank.

Government supervision.—In Austria all banks are supervised by the State; their Articles "must be approved by and their balance sheets submitted to officials appointed to examine them." But it varies from this amount of supervision to actual administration according to the nature of the bank. That exercised by the State in the case of the National bank with its Land Credit department has been mentioned above; that in the three chief classes of regular mortgage bank will be gathered from the three sketches which follow.

Privileges.—Land banks enjoy no fixed privileges except that of freedom from stamp duties and taxes on the issue and transfer of their debentures; the interest coupons thereon must be stamped. They enjoy by a decree of 28th October 1865, certain privileges of judicial procedure, with a view to moderate the ordinary delay and charges, but they are not very considerable, and certainly would not be greater than those granted for Indian Small Cause Courts. Certain banks obtain particular privileges, whether of State guarantee or as shown in the typical sketches below; the quasi-State National bank in its land branch is alone permitted to collect arrears of annuities by the procedure adopted in collecting arrears of direct taxes. The debentures of the land banks are also expressly declared eligible for the investment of trust funds.

Typical banks.—The three sketches following give a general idea of the establishment and working of a bank of each of the three principal classes, viz., (1) Associations of proprietors; (2) Provincial land banks; (3) Joint stock banks.

Boden (Land) Credit Association of Galicia.—This was founded in 1841 jointly by the several districts of the province, under Imperial patronage and by the special exertions of Prince Leon Sapieha. Galicia is almost entirely a province of large proprietors who form the members of the bank, and the association therefore resembles the Old Landschaften of Prussia. It was granted for the expenses of first establishment, and as a reserve, an endowment from the surplus of a sum voted for a regiment of lancers, and from funds voted for an abandoned project for establishing communal granaries; this fund is kept as a reserve. The districts of the province also guaranteed the engagements of the bank with all their property and income, but are entitled, in their turn, to recover all payments on such account with interest and expenses from the debtors of the bank. This guarantee, though but a form, is considered dangerous in large States; an endowment is usually considered preferable to a guarantee, except in small States where their operations can be duly supervised by the guarantor. The Directors are partly chosen by the Provincial Diet, which also appoints the President and Vice-President subject to the Emperor's confirmation. The States-Council also acts as a committee of supervision with all the usual powers. The Articles and any alterations are subject to the approval of the Diet. The area of operation is also divided into circles, each with a special local committee of administration under the central committee, to which all decisions must be reported. A Royal Commissioner is also nominated to each local committee and to the central committee, with the power of veto in case of irregularities, but not of vote. The reserve is formed from the above endowment fund, and from all the odd sources of gain not assignable directly to the repayment of debentures. In case of dissolution of the bank, the State reserve is paid over to the State which must devote it to some work of public utility. The funds of the reserve must be invested in purchasing the bank's debentures, or in advances for three months upon them.

Loans are granted for not less than £83 (1,000 florins) and are paid to the borrower in debentures of from 100 to 10,000 florins each, to which are attached twenty half-yearly interest coupons. These coupons are payable each at maturity, and form a species of currency by the following device; when a debenture is repaid or bought in, the bank withholds from the price the value of any unpaid interest coupons not returned with the debenture; thenceforward it pays such coupons whenever presented, even though the principal of the debenture has long been repaid. Debentures bear interest at 4 and 5 per cent., and in 1882 were quoted at 90 and 98 per cent., respectively, but are now probably higher as all land bank scrip has risen. The loans are repaid by annuity composed of interest either at 4 or 5 per cent. corresponding to that of the debentures, 0.25 per cent. for the expenses of administration and the sinking fund; the borrower must pay a lump sum of 3 per cent. of the loan to go to the reserve, and must pay the first half-year's instalment of the annuity in advance.

The bank can proceed either by executive or by judicial means against all the movables of a borrower in arrears; the exact methods are not stated in the decree, and must therefore follow the general law. But whenever a borrower is in arrears he is liable to pay six months' interest upon the

amount in arrears. Any dispute as to the accounts is to be submitted to arbitration, and the States Council is named as the arbitrating authority in this and all other cases of dispute; from its decisions in all cases an appeal lies to the Appeal Court at Lemberg, and thence to the Supreme Court at Vienna, but the decree of each authority can be provisionally executed notwithstanding an appeal.

The bank may also call in its loan if the property is seriously mismanaged, or if within two years the borrower has been thrice threatened with distraint.

The debenture-holders are secured by the mortgages and reserves of the bank and by the rigorous punctuality with which the bank demands payments from its debtors; in case of non-payment of interest a debenture-holder has summary powers against the bank or against the property of the States which guarantee the bank.

Various privileges have been mentioned to which must be added that of freedom from stamp duty on the debentures and their transfer.

The association is doing good work, and in 1882 had loans existing for £4,000,000.

The Provincial Land Bank of Moravia.—This is a State bank and was established in 1880 by the Diet of Moravia, to lend to local proprietors capital obtained by the issue of debentures to the amount of the mortgage loans. The bank is endowed with a sum of £1,000 (50,000 florins) and its engagements are guaranteed by the State. It has no capital, but is bound to form a reserve of £41,000 (half a million florins) from the whole of its net profits after deducting expenses; such reserve to be invested in first-class securities only. Any surplus after the reserve is full is to be expended by the Diet in some work of public utility.

Debentures are of the usual class; in case the bank falls into arrears, its creditors can either petition the Provincial Assembly or file a suit.

Loans are granted on the usual terms, the interest being equal to that paid by the bank on its debentures; the borrower must pay, in addition to interest and sinking fund, a charge of 1½ per cent. per annum upon the *unpaid* amount of the principal, and a sum, once for all, of 0·25 per cent. of the loan on receipt; these two charges are for the expenses of administration.

When a borrower is in arrears the bank must give him written notice, non-receipt of which, however, does not shield the defaulter from process; no special powers seem to be granted. The bank can proceed for the recovery of the whole loan if the property is seriously mismanaged, or if three consecutive half-years' dues are in arrears; the methods are by judicial proceedings.

Loans may not be granted below £50 or beyond two-thirds of the value of the property mortgaged; such value is calculated at twenty times the net taxable income, which is usually much below the real value.

The bank is granted "the same immunities from taxes and imposts, and the same facilities in judicial procedure as are granted by the existing law to similar institutions." As stated above, the fiscal exemptions are those from all duties on the issue and transfer of debentures, and the legal facilities would not, in India, be considered remarkable. The bank may not purchase properties save in exceptional cases, and then only with the sanction of the provincial assembly and from a reserve kept for current expenses.

The bank is managed by the usual board, the members of which are elected by the Diet; of these the Manager and Secretary alone are paid.

The Provincial assembly has large powers of supervision; it must provide for periodical returns on all the affairs and accounts of the bank, especially regarding the debts and debentures; the returns must be based on inspections which must be at least twice a year; it also considers alterations in the articles, proposals to draw from the reserve, the remuneration of office-holders, the repayments of debentures, &c., and, in its executive capacity, it sends delegates to attend to the issue of debentures and to any special valuations for loans. As noted above, it also receives and adjudicates on petitions regarding any failure of the bank in its engagements (cf. the duties of the "fourth section" in Italy).

The Provincial Diet has the superior right of supervision; it appoints the *personnel* of the bank and fixes its remuneration. The Provincial Assembly must report annually to the Diet upon the position, loans and debentures, and current affairs of the bank.

The Imperial Government has, in addition, the supreme supervision of the bank according to the general Austrian law.

The Austrian Boden Credit Anstalt.—This is a land mortgage bank of the type of the French Crédit Foncier; it has a nominal share capital of 24 million florins in 120,000 shares, of which 9,600,000 florins are paid up; its reserves, general and special, are of nearly equal amount. It pays high dividends which reached 15 per cent. in 1890, and its 4 per cent. debentures, so long ago as 1881, were quoted at 94, and are doubtless much higher now; its 3 per cent. debentures, payable with a premium, were then quoted at 99 to 102.

The bank grants loans not below £50 on mortgage and to public bodies, but the total must not exceed thirty times the paid-up capital. The debentures issued must not ordinarily exceed the amount of the loans granted, but up to £200,000 the bank may issue debentures in excess upon setting apart securities specially charged as guarantees.

The administration is conducted by a board of directors; this is presided over by a Governor with two managers, who are nominated by the board, but appointed the Governor by the Emperor, and the managers by the minister under whose supervision the bank is placed. The supervisors are elected annually by the general meeting.

There is also a Government Commissioner, who specially controls the issue of debentures which he must countersign, and who watches over the regularity and legality of business, for which purpose he can oppose any Act or resolution which seems contrary to law or to articles, and can refer the matter for the orders of Government.

This bank had about 12 millions sterling (150,000,000 florins) in mortgages in 1890.

HUNGARY.—The Land (Boden) Credit Institution of Hungary is a well-known quasi-public mutual institution founded by a number of great proprietors and intended solely for the benefit of land proprietors; it has no share capital and no dividends, all profits going to the benefit of borrowers; it has a "foundation" capital of about £140,000 in cash and security bonds furnished as a philanthropic

venture, and bearing a very moderate fixed interest, by 209 wealthy men; it has a Government subvention of £41,666, is under Government control, and enjoys certain privileges. It is organized, worked, and financed after the now usual European fashion, lending in sums not less than £83. Its so-called privileges are freedom from income-tax and from stamp-fees on its debentures, with summary procedure through the Commercial Court in the recovery of arrears. There are also joint stock institutions—non-privileged—of the usual character. The Boden credit institution has been mentioned by writers as likely to serve as a model for India, and the privileges granted by Government are quoted as precedents; it must not, however, be left out of sight that it is not a joint stock but a mutual or co-operative society; its promoters started it with a patriotic view, and are even losers by it since they get no dividends, and the interest on their foundation shares—intended as a first working and guarantee capital—is, or originally was, below Hungarian market rates. The Government privileges of the exceptional nature of those in Hungary are warranted by corresponding self-denial in the grantees; “neither the founders nor any members of the institution have any claim to dividends, the officials do not receive a tantième (proportion) of the profits, and the board of directors give their services free of remuneration”; “there was no intention of making it in any way a paying concern to those who had founded it” (Commercial No. 9-1891); “it was an act of national sacrifice, a philanthropic institution, founded by the munificence of the aristocracy and clergy (M. L. de Wagner; Enquête sur le Crédit Agricole, 1884-85).” Moreover the price of Government aid is very strict Government control; “it is alone among Hungarian Mortgage Loan associations in being under such direct Government control.” The privileges, moreover, are not so considerable as supposed; the relief from income tax is indeed considerable, but this is allowed, as in the case of the German *Landschaften*, because the association is a mutual loan society, established not for dividends but for mutual aid, and, in fact, deriving no direct income from its operations; the Government subvention of £41,166 goes straight to the reserve and is not to be touched; its general operations with borrowers are not exempt from stamp duty, but only the interest coupons of the debentures issued by it; the necessary stamp duties on loans are expressly mentioned on page 15 of Commercial No. 9-1891, para. 7 a, b, d, and are rather heavy. Nor is it clear what privileges it has of recovery; instead of having to use the ordinary Civil Courts, it acts, indeed, through the Commercial Court, by which it obtains summary and cheap execution not only upon the mortgaged property, but on any of the debtor's movables or immovables; but even this, for Hungary, cheap and summary procedure is said to be “rather complicated” (Commercial No. 9-1891, as will have been seen in the case of the German *Landschaften*. It is further to be remembered that all banks in banking matters enjoy in Europe the use of the Commercial Courts with their cheap and summary procedure; this privilege does not belong to this bank alone, but to all banks and business firms and to “commerçants” (business persons or entities, duly licensed) in general. As for its loans, they are practically confined to the larger and medium cultivators, for whom the bank was started; it does not help the small folk (M. L. de Wagner, *op. cit.*); in fact its statutory minimum loan of £83 postulates a property of 50 acres; and this minimum is, in practice, never even approached. In twenty-six years up to 1889 £13,953,981 had been granted in 11,329 loans or about £1,230 per loan: only half of these were below £260, and, therefore, absorbed probably less than £1,000,000 of the amount.

Beyond the privileges accorded to this society, to the Austro-Hungarian bank, and to the society for small proprietors, started in 1880, Government gives no privileges or assistance in the way of credit to agriculturists. It may be added that, according to a French consular report of 1884, the proprietors in Hungary are notoriously unpunctual in payment and require the “severe and summary methods” granted by law to these special institutions.

There is, however since 1879, a special institution for the relief of small proprietors also due to the munificence of the richer proprietors, clergy, &c., and equally aided by Government, in which the minimum loan is £25; State supervision and privileges are similar, and the business got through not very great, being only 9,726 loans for £925,750 in ten years; above one-third of the loans averaged £33; the interest including charges and amortization is now only 5½ per cent., which, for Hungary, is very cheap. As the average of loans is below £1-10-0 per acre, no one with less than about 18 acres can hope for a loan of even £25; as a matter of fact, seven-eighths of the money is given, even in this special bank, in loans above £42 and averaging £132, and it is significant that whereas the bank started with a maximum of £500 for its loans, that maximum has now been increased to £1,666, showing that the bank is tending to large business rather than to small, just as in the case of the ‘Crédit Foncier Egyptien.’ It should also be noted, in evidence of the recognized difficulties in the matter of small properties, that loans were granted only up to 42 per cent. of the value of the property mortgaged, as against above 66 per cent. in the larger institution (Boden credit institution) in the same country.

In addition to the above, a law was passed in 1889, to enable the land credit institutions, &c., to open credits for the improvement of land apparently after the plan of ‘La Compagnie Foncière’ attached to the Crédit Foncier of France, or to the Land Improvement banks of Germany.

Agricultural loan societies, especially those founded by the various communes, are also favoured; these latter seem to have the germ of a great and useful development in them; the communes form loan societies jointly guaranteed by the members of the communes (cf. Switzerland), and these are in communication with a larger institution founded by the district. This plan was only devised in 1887, and by 1889, 47 had been started. Nothing is known of their working, but they are evidently a class of co-operative society, being called ‘Genossenschaften.’

ITALY—*Preliminary*.—Rural credit in Italy is peculiarly interesting to the Indian student, and that branch of it which deals with land has lessons which may not be neglected. The Italian farmer tills the soil “as his fathers have done before him,” and it is not too much to say that a reader of the *Georgics* might be reading a poetical sketch of modern Italian agriculture. But economic conditions seem to have terribly changed, and the “fortunati nimium,” are now spoken of as “the unfortunate farmer,” the “wretched agriculturist,” the “usury-ridden contadino” by the reports and economists. Much of the prevailing misery is in fact due to usurious debt “contracted, too often, to supply the pressing necessities of the moment,” and the farmer, who knows credit only as usurious and who could barely find enough to live upon, was not the man to dream of land improvements, still less of borrowing money to make such improvements. Moreover, capital seldom turns readily to rural credit and

demands high interest for so doing; hence the small proprietor, even when anxious to borrow for an improvement, finds that the interest and other charges "amount to more than he can make from his land and live, or the margin it leaves him is so small that the slightest variation in the season or the market, suffices to destroy it, and he finds his rash engagement a burden that crushes him instead of a succour that relieves." (U.S.A. Consular Report); "credit which has for its base and guarantee property in land, rarely turns out to be profitable—the interest which the borrower must pay is out of all proportion with his forces, or with the possible gains of a cultivator; the commonest experience proves it; often the interest on a loan representing only half the value of the land absorbs the profit of the whole." (Inchiesta Agraria.) Yet again, even if the small proprietor were anxious to borrow, the banks are practically not open to him; on the one hand the expenses of an enquiry compared with the size of the loan are prohibitive, on the other, the profits to the bank on such small business are so small as compared with the expenses of branches or agents, and the risks of loss so great that neither borrowing peasant nor lending bank can come together: even the great Savings bank of Milan, which even in its Land Credit Branch, is as cheap and "popular" (in the sense of dealing with the masses) as is possible, finds that an estate of 75 acres (30 hectares) is the lowest area on which it can lend in Venetia (U.S.A. Consular Report); "here as elsewhere the small loan is either denied or devoured by the expenses" (*idem*).

History.—In Italy the history of land banks is peculiar. After an abortive attempt in 1861 by a joint stock company to form such a bank at Milan, the Government nominated a commission to study the whole question, but not accepting its proposals, entered into a convention direct through its Ministry of agriculture with a French Company, which was to have a monopoly for twenty-five years, Government also granting a subvention proportional to the amount of loans up to £8,000,000. This again came to nothing. In 1865 Government agreed with eight existing banks that they should deal specially with land mortgages, each having a monopoly of privileges over a certain area, the operations of this nature being managed by a separate department of each bank. The law of 14th June 1866 settled the conditions upon which the banks should operate.

The banks in question are either charitable foundations formed by the consolidation or development of ancient Monti de Pietà (*e.g.*, Naples, compounded from seven old banks or monti, and with neither shareholders nor dividends), or are Savings banks, *viz.*, those of Milan and Bologna, established as such in 1823 and 1836 respectively (for an account of these latter, see 'Savings banks'). By the law of 1866 each of these banks operated only within certain limits.

The law was found ineffectual; up to the end of 1882 they had only granted 7,857 loans for £14,227,320, each loan averaging £1,809, whilst in 1882, the interest-bearing mortgage debt of Italy was estimated at £286,000,000 (£360,000,000 in 1889); moreover, only about two-thirds of the amount was granted outside of the towns, and only 29 per cent. was for sums below £400, each such loan averaging £242.

The result was the law of 22nd February 1885, which permits these banks to operate throughout the country, and, in addition, permits, subject to special authorization and under particular conditions, the exercise of land credit by any banks or societies with a paid-up capital of £400,000, and by associations of proprietors whose aggregate property is £200,000 in value; not one of this latter class has been started up to date. The operations to be undertaken by the banks are similar to those of the Crédit Foncier, *plus* that of opening cash credits secured by mortgages.

Administration.—The land credit administration of each bank is wholly separated from that of the original institution; it is managed by the usual board of directors, and by a committee of supervision usually consisting of six members, one from the Founding institution, one from the Provincial council, one from the Communal council, one from the local Chamber of Commerce, and two auditors appointed by the directorate of the Founding institution.

Funds.—The old societies do not work with their own capital, but solely with that provided by the issue of land mortgage debentures (*cartelle fondiariae*). They must possess by law an endowment, but this is used solely as a guarantee fund. Joint stock societies can also issue their debentures up to the amount of ten times their paid-up capital, provided that they possess already mortgages to the value of half of such capital; against these mortgages debentures must not be issued, but they, or as they are paid off, others of a like value or *cartelle* to the same amount, must be kept in reserve in the bank's safe as a guarantee fund; each half-year the value of these mortgages or charged debentures (*cartelle vincolati*) must be verified and must equal half the amount of the paid-up capital.

The formation of a reserve is compulsory; the law requires that one-fourth of the annual profits shall be credited to this head until it has reached at least one-fifth of the paid-up capital in the case of banks where the issue of *cartelle* is limited (joint stock); in the case of other banks the reserve must accumulate till, with the paid-up capital, it equals one-tenth of the amount of the debentures issued. The reserve must be invested in paper issued or guaranteed by the State or in the *cartelle fondiariae* of other banks.

The debentures (*cartelle*) are the real source of funds to these banks as in Germany and France. The system is that of the German *Landschaften*, *viz.*, they bear only the rates of interest (5, 4½ and 4) fixed by law; they are issued direct to the borrower who has to place them upon the market, unless the bank undertakes this duty for him, so that he gets not a fixed sum in cash, but the market value of the debentures, the nominal value of which equals the amount of his loan; the interest paid by him to the bank is that which the debentures bear; the actual capital which finances each loan is obtained by the issue of debentures at the time each loan is granted. (The French system is different; a loan is granted in cash from money in hand at the interest which rules for loans at the time, and the bank subsequently issues debentures in order to replace the funds lent.) The Italian system thus preserves an exact equilibrium between the value and charges on the loans and debentures issued; a loan is granted for £200 in debentures of that face value; the borrower or the bank on his behalf sells the debentures for £180; the bank has to pay 5 per cent. interest on the face value of the debentures for £200 and the full principal of £200 at maturity, but equally receives interest on the amount and the full value of the principal of £200.

The face value of debentures must not be less than £4; it is usual to issue them for £20, divisible into five coupures of £4 each, so that they may be bought by quite poor people; one-sixth of the debentures are personal, and five-sixths to bearer, transferable without expense or formality.

The debentures of each rate of interest form a separate series, but all are equally guaranteed by the total mass of mortgages, *plus* any special guarantee fund; the holder of a debenture has no claim against any specific mortgage, but only against the bank. They are repaid by half-yearly drawings, in which the full value of the debentures withdrawn must equal the aggregate of the sinking fund amounts *due* from the mass of debtors, *plus* the amount of any repayments made in advance.

The market rate of these debentures has, in Italy, generally been below par for the lower rates of interest, but in this they are not peculiar, for all securities of those rates are equally low or lower; even Government paper of the same rates is generally lower. In 1875 when State paper was at 75, the land bank debentures were quoted, according to the bank, from 75 to 99, the lowest being that of the Cagliari bank, which failed in 1889, the highest that of the Savings bank of Milan; in 1880 State paper was quoted at 92 (maximum) and Land bank debentures from 91 to 103, Cagliari being again lowest; in 1889 State paper was 96, while the best land bank debentures were at a premium; in 1891 the 5 per cent. debentures were at 101½ and 102 for the bank of Sicily and the Savings bank of Bologna to 95 for the Bank of Naples and another, while the 4 and 4½ per cents. were quoted from 88 to 99 according to rate and bank. It is thus clear that land bank debentures enjoy a very high reputation and are greatly in demand, the 5 per cents. being generally at or above par, even when State paper is considerably below it; the reason evidently being that the finances of the banks are splendidly managed, and that the security is always in land and much above double the value of the loans which the debentures represent. For instance, in 1891, the loans represented a value of £30,000,000, while the property mortgaged as security was worth, even at the bank's valuations, £65,000,000. As in Germany and France, so in Italy, those who have money, even in small sums, can lay it out in the safest of all methods, *viz.*, land mortgage, without the trouble of finding a borrower or testing the security, with the certainty that the mass of original security is good, and that to this there is superadded the guarantee of the bank, and with the comfortable assurance that the lender can, at any moment, recover his money in full and without expense by simply selling his debentures in the open market. (*See further s.v. 'Privileges.'*)

Loans.—It has been seen above that the banks grant loans not with their own money, but with public money, they themselves acting simply as intermediaries and guarantees; they enable the general public to lend on mortgage and add their own guarantee, charging a small percentage (0·45 per cent.) as commission for their services and as insurance.

The loans must be of long term, *viz.*, from ten to fifty years, are repayable solely by amortization through half-yearly payments, and are secured only upon first mortgage to the amount of half the estimated value of the property pledged; loans payable in lump at maturity are not permitted to these banks, since the fundamental principle is the incessant recomposition of the loan amounts by a continuous accession of repayments, to which principle the immobilization of funds is diametrically opposed; the interests of the bank and of the borrowers are at one in this matter.

It is unnecessary to detail the methods of applying for and granting loans; suffice it to say that the valuation is very strictly conducted by Inspectors and examined by a special committee. All expenses must be deposited in advance by the candidate, and are very considerable; the minimum inquiry fee required by the National bank is £4 for rural loans. In proof of title all necessary documents must be presented, including an extract from the Land register (*certificato censuario*) for thirty years, giving the history of the parcel for that period. When it is decided to grant a loan, a conditional agreement is drawn up, and this is made final as soon as the document is definitively registered as a first mortgage; the two documents are treated as one for registration and stamp purposes. No loan can be for less than £40, and in practice the average is above £1,800; none ever approach the minimum. Loans for the maximum period of fifty years form 61 per cent. of the whole; those up to twenty-five years only 13 per cent. The necessity for very long terms is proved by similar results found in Germany and France.

Loans may be granted up to three-fifths of the value of the property if the object of the loan is to clear off a balance of the price paid for a property, or a fine upon renewal of a permanent lease (*onere enfiteutico*). A first mortgage is one in which the bank takes the first rank, either directly or by buying out former encumbrances; it is easy to effect this without danger by means of the conditional agreement above noticed.

Loans are repaid by fixed annuity on half-yearly instalments. The annuity consists of the interest which may be 5, 4½ or 4 per cent. at the borrower's pleasure, since the debentures issued in representation of his loan, bear the same interest and bring him in only their market value, a charge of 0·45 per cent. for commission, of 0·15 per cent. as a composition for all registration and stamp duties, exclusive, however, of other taxes except those on the circulation of debentures (*see 'Taxation'*), and the sinking fund charge, which necessarily varies according to the term of the loan and the rate of interest selected. The true rate of interest is of course higher than the nominal if the debentures are below par. All loans can be repaid in advance, either partially or wholly; if partially, the borrower must pay 0·45 per cent. of the sum repaid in advance, as a compensation to the bank for a sudden repayment, involving a fresh loan elsewhere, a possible temporary unproductiveness of the money, and a withdrawal after some months, of the corresponding debentures; he must also pay the 0·15 per cent. due to the State in full for the whole term, since this is a composition for registration and stamp duties; if, however, the *whole* sum is repaid, the 0·15 per cent. is reducible to one-fourth of that percentage calculated on the number of years remaining, such sum to be paid up with the principal repaid. All repayments of the principal may be made in debentures of the same rate of interest as the loan and at their face value.

Certain loans are made in cash, and even without amortization, *viz.*, those issued by joint stock banks in representation of half of their capital. These are the only exception.

Privileges.—These are numerous but small, and arise partly from the nature of the ordinary administration.

The *first* is that no opposition can be made in Court or otherwise to the claim of the bank for the payment of its dues or the repayment of the principal; once the loan is granted under the conditions above laid down, neither the borrower nor any third party can object to the payments due. This provision is taken from the French law on the subject.

Secondly, dues in arrear are subject, *de jure*, to interest from the date of arrear.

Thirdly, if even a single instalment is in arrears, the bank can at once demand payment of the whole of its dues. In practice it is customary to allow two instalments to fall due before taking advantage of this stringent provision.

Fourthly, for arrears of the annuity the bank can proceed against its debtor's movables by the same processes (a species of distraint) that the State uses against movables for collecting arrears of direct taxes.

Fifthly, in proceeding to sale of the land the Court grants an attachment by an order not subject to appeal; the necessary intervals are somewhat shortened, and the bank can require payment of itself of the full amount of the Court sale-proceeds within twenty days. The Italian law of procedure gives opportunity for considerable delay and expenses which the shortened procedure is intended to meet; it does not appear that the privilege amounts to much.

Sixthly, trust property may be invested in debentures of the banks.

Seventhly, neither the debentures, nor the interest thereon, nor cash credits can be the subject of attachment. The object of this is to give debentures a ready market, for it is obvious that, if the holder must be paid his interest without fear of attachment, they will be readily bought. This privilege probably accounts for the high market rates for these debentures when compared even with State paper.

Supervision.—All land banks, or banks operating in land credit, are largely under Government supervision. The eight original land banks are subject to supervision in the first place as *Opere Pie* and as Savings banks; in their Land Department, their articles have been approved by Government, which also requires them to provide a guarantee fund. Other banks can only operate in land credit on obtaining a royal decree to that effect; so also mutual societies of proprietors.

The banks are all placed under the supervision of the Minister of Agriculture, Commerce and Industry, who exercises powers as fixed by rules issued under section 28 of the law. All banks intending to grant real credit must apply to the minister who examines their status, articles, &c., and, in case of approval, moves the Government in their favour. His subsequent action is chiefly that of inspection and the receipt of returns. These returns are very detailed and somewhat onerous; the first is a copy of the minutes of the Directors' meetings to be sent within eight days of each meeting; if the minister considers any of them illegal, he can declare their nullity. The second is a copy of the financial position of the bank, sent every two months; the third is the annual balance sheet; the fourth is a statement at the end of the year of all loans in arrears or in dispute. The fifth is very important, and is intended to enable the minister to see whether the bank is strictly keeping to the absolute rule that debentures shall represent only the existing value of loans; this statement is half-yearly and must show for each existing loan in serial number, (1) its original amount, (2) its date, (3) the date when it will expire, (4) the amount of each instalment, (5) the amount paid in advance, if any, whether paid in cash or debentures, (6) the losses paid off in the half-year. The minister can verify by inspection the correctness of this return. Possibly this return is unnecessarily cumbersome; an abstract coupled with the right of verification by Inspectors would suffice.

The Minister employs Inspectors chiefly to examine (1) whether, in the case of joint stock banks, the mortgages or debentures representing half the paid-up capital are duly maintained and kept in custody; (2) to test the equilibrium between debentures and mortgages; (3) to verify the statements put in by the banks; (4) to assist in the drawings and destruction of debentures, on which occasions another public officer selected by the Prefect (Collector) is usually ordered to be present.

The Government also sanctions the opening of branches and agencies, especially when Savings banks or *Opere Pie* undertake such work.

It will be seen that the Minister has very large powers of supervision and inspection, but he does not interfere in the actual working of a bank; he exercises a "*vigilanza*" as distinguished from an "*ingerenza governativa*."

Taxation.—This is heavy. There is no exemption from any of the regular taxes, but the composition of registration and stamp duties on mortgage transactions is useful.

The income-tax (*sopra la ricchezza mobile*) is serious; the bank itself pays this tax on the interest derived from its mortgage loans, so that its profits are decreased by the amount of the tax; it also retains the amount payable by debenture-holders on the interest due to them, and pays it to Government, which thus obtains a heavy tax on both in-comings and out-goings. In some cases the bank pays the full interest to the debenture-holders, and recoups itself from the borrowers who thus pay the income-tax as an additional charge. The amount paid is not clear, but the tax amounted in 1893 to 13.20 per cent. on the taxable amount.

Government also demands a considerable annual payment from each bank on account of supervision charges.

The above law with the Government Regulations will be found translated in an appendix to which readers are referred for details.

Only two joint stock societies took up land credit under the law of 1866 and only one of them actually operated; no mutual society was formed. The total on loan in 1889, after twenty-three years under the special law, was only £27,240,000, of which five-ninths was on purely rural property, while the total interest bearing registered mortgage debt of the country had increased to £360,000,000 (9 milliards), and while agriculture and rural property were languishing for funds in a crisis of finance and production; at the Congress of 1881 it had been expressly pointed out that land credit had not been "*democratized*"; that the loans averaged above £1,600; that only 10 per cent. had been granted in small loans, *i.e.*, those below £800, while it was precisely the small folk who were by far the most

numerous and who had by far the greatest needs. This complaint had not been answered by the operations of the law of 1885; in fact the average loan between 1885 and 1889 was considerably above £2,000, and the average of all loans existing in 1889 was £2,016. Government therefore sought how a National Land bank, such as the *Crédit Foncier* of France, with credit and ability to draw funds even from outside of Italy, might be established, and a Bill was accordingly drawn up and submitted to a special committee, the report of which is extremely interesting, but lengthy.

The new law was passed on 17th July 1890 and was completed by the usual administrative set of rules on 1st February 1891, both of which will be found in an appendix. By this law the State is authorized on the proposal of the Minister of Agriculture to grant to a single joint stock company the right of supplying real credit throughout the country, under the provisions of the Act of 1885 as modified by the new law. The society is to be privileged in its operations, but not to have a monopoly; the eight existing land banks are, however, to confine themselves to the circles to which they were limited prior to 1885, or they may merge themselves or their land credit departments in the new bank. The new society must have a capital of £1,000,000, and the privileges are to last for fifteen years. The Minister of Agriculture must examine the claims of any company to found such a bank, and its articles, rules of business for the grant of loans, &c., must be confirmed by Government. The capital and reserve must be invested solely in mortgages not represented by debentures, in cash, in securities of State, or in land and agricultural debentures. Loans may be granted in cash or in debentures, the usual commission being paid by the borrower. Profits are to be distributed as follows: 5 per cent. to the reserve till it shall have reached at least one-fifth of the paid-up capital; a dividend to the shareholders not exceeding 6 per cent. on the amount paid up; of the remainder, 25 per cent. goes to the State, another 25 per cent. to the reserve, if not already full; the remaining 50 per cent. is at the disposal of the general meeting.

The Government Order establishing the bank shall also fix the rules for Government supervision, those already existing under the law and rules of 1885 being also maintained. A commissioner shall be appointed by the Minister of Agriculture, whose duty shall be that of exercising the supervision provided by the law and rules of 1885 and by the present law; his expenses are paid by the bank to Government. In case the manager or the directors contravene the law, &c., the Minister of Agriculture shall impeach them before the fourth section of the council of State—a section of the council appointed "per la giustizia amministrativa," viz., to decide in a judicial manner on administrative shortcomings, officers, disputes, &c. This section hears the parties, and can dismiss the directors or any of them on sufficient cause shown, and appoint a royal commissioner as a temporary manager. The Minister can also take similar steps, should the holders of 5 per cent. of the debentures in circulation lay information of facts which might endanger the bank.

When a borrower delays payment of his instalments, the bank can claim possession of his estate through the Court, and, if placed in possession, applies the produce after paying the estate charges and taxes, in payment of its dues, notwithstanding the claims of third parties. This possession ends when the arrears are satisfied, or where a regular judicial receiver is appointed by a Court in a suit.

Debentures may be issued at 5, 4½, 4 and 3½ per cent., and the bank may pay the income tax thereon, recouping itself from the mortgagor, so that the debenture-holders will get their interest free of all deduction. This does not apply to the 5 per cent. debentures. Debentures may be called in and converted at a lower rate of interest, any profit from the transaction going solely to the bank's borrowers by a reduction of the interest paid by them.

A bank has recently (1891) been formed in accordance with this law.

SWEDEN.—The Royal Mortgage bank of Sweden was founded by Government patronage under the law of 26th April 1861, in order to furnish the Provincial mortgage associations which existed since 1836, with the funds necessary for loans on immovable property. Each association pays at least 3½ per cent. for the sums it receives.

The State has granted the bank an endowment of £444,000 in Government 5 per cent. paper; it is financed by the exclusive privilege of issuing debentures representative of its mortgage loans; it has neither shareholders nor share capital, and makes no profits beyond the bare expenses of administration and for a reserve, which latter reaches its maximum at £60,000, all profits thereafter going to reduce the cost of loans. The State further grants a guarantee capital of £332,000 in paper inconvertible, but bearing at least 5 per cent. interest; these bonds cannot be alienated except in case of emergency.

The administration is of the usual class, and the Governor has always the power of inspecting the accounts.

The associations which the bank finances are formed of groups of proprietors whose lands in the aggregate represent at least £225,000 in value; each member must own lands worth at least £225 free of all charges; each association is subject to royal authority. An association can only lend to its members, and on first mortgage, or with cession or purchase of priority if there are prior charges. The interest on loans must not exceed 6 per cent. plus 0.25 for expenses; arrears are charged with penal interest at 12 per cent. Repayments in advance are only admitted if the amount can be usefully re-allotted.

The bank issued its debentures in 1879 in France through the Bank of Paris, somewhat below par. At Hamburg its 4½ per cent. bonds were quoted above par. Up to 1883 its mortgage loans, in so small and comparatively poor a country as Sweden, had reached £16,602,528, and its debentures reached nearly the same sum.

It will be observed that this bank does not lend direct to proprietors, but to associations of proprietors, who themselves distribute the individual loans. Unfortunately no further information is at present available regarding the bank and the work of its affiliated societies; but it is probable that the bank and its associations are similar in method to the Central Landschaft and the affiliated Landschaften in Prussia; the local banks or associations make the loans and take the mortgages, but forward the documents to the Central bank, which then issues its own debentures against the mortgagor. Possibly, however, the bank lends money direct to the associations on the security of the properties held by the members.

RUSSIA.—In Russia there appear to be many Government banks, and more than 100 were in existence before 1852, the oldest dating back to the middle of last century. No statistics however are available for this study. They are divided into four classes: (1) that managed by the Finance Minister for the profit of the State, viz., the State Loan bank; (2) Provincial banks directed by the Minister of the Interior (Home Department); (3) establishments founded by the communes; (4) establishments by societies, including the two great Savings banks of St. Petersburg and Moscow. To these must be added the 'Nobles' land bank,' and the 'Peasants' land bank' started in 1882 to enable the *serfs* freed in 1864, to become outright owners of their land by lending them the capitalized value of the redemption charges due to the landlord and late owner of the serfs and land. As regards the old establishments, it is stated that borrowers prefer private lenders who, though charging higher interest, readily grant delays and other facilities in the matter of repayment.

It may be well to describe the newer institutions, viz. (1) the 'Nobles' land bank,' (2) the 'Peasants' land bank.'

The former was founded to help the nobles who had been impoverished by the indirect results of the emancipation of the serfs in 1861; in a recent official publication it is stated that about 40 per cent. of all private "noble" lands are under mortgage. The bank was to take mortgages, financing the loans by the issue of the usual debentures, against which the State bank was instructed to make large advances. It is stated however that these loans have not benefited the nobles, who have not sunk the money in improvements, but unproductively, so that arrears have accrued, and very many estates have been sold, while land has become frequently unsaleable. Moreover the State bank itself, with a quantity of depreciated paper from the unsound investments, has been compromised, the land bank owing it about £7,000,000, and but for a recent successful issue by the land bank of an internal loan of £9,000,000 on the "lottery" principle, might have been endangered. More than 177,000,000 roubles had been lent by the bank up to 1892.

This supports the view that land banks must watch over the object and expenditure of loans, and not be content with merely looking to the security. For, merely from the point of view of the bank's safety, it is clear that property in great masses may, by neglect and exhaustion, become largely unsaleable, so that a security originally sufficient may be depreciated beyond the margin of safety to the bank.

The Peasants' State land bank is, however, that which most appeals to Indian study. Its object is to facilitate the outright purchase of land from the owners by peasants or rather by communes, in order that the peasants may acquire as a freehold that land, which, under the conditions of the Emancipation Act, and the then opinions of the peasantry, they at first refused to secure; for one reason or another, the peasants failed to redeem from the landlord's redemption charges the land offered to them, and were rapidly becoming mere tenants at a rack rent. To remedy this the Government established a State land bank, from which money should be advanced for the purchase of land. Only peasants are aided, merchants, shopkeepers, small town dwellers and Jews being excluded. The advances are made (a) to the commune (*mir*), (b) to an association of not less than three peasants who are jointly responsible, (c) to individual peasants; money is, however, usually lent to communes, as will be seen from the statistics and size of the loans; there is, in fact, a feeling against lending to associations for fear that the richer peasants would combine and borrow and thus buy up the best land to the exclusion of the more needy. The method of lending to communes seems successful, the communal assembly, in the cases investigated, dividing the lands fairly enough.

The following is a statement of the organization of the bank from Commercial No. 11 of 1885 (Parliamentary Paper):—

"The Peasant bank was established by the Government in the Finance Department, under the direction of a Government employé in May 1882. It commenced operations in April 1883 with 11 branch establishments, which, in February 1885, had increased to twenty-three. The treasury is authorized to advance yearly the sum of 5,000,000 roubles (about 500,000*l.*). The operations of the bank extend over all European Russia, exclusive of Poland and the Baltic provinces. The chief business is transacted by the affiliated rural banks, of which 23 have now been opened in the chief agricultural districts, namely, in the black earth zone and the steppes. These rural banks advance the money to the peasants and also afford them information and advice. The peasants obtain loans of ready money for 24½ or 34½ years at a rate of 7½ to 8½ per cent., including amortization,* and they give as security, until complete repayment, the land just purchased.

"The Central bank sells mortgage bonds especially issued by the Finance Minister, and which bear 5½ per cent. interest. These bonds, which were issued at par, now stand at 102½. Should the amount of these mortgage bonds exceed the sum of 5,000,000 roubles in one year, a special application must be made to the Emperor for his sanction.

"The question of the success of this Peasant bank is already much discussed. Many persons are of opinion that whilst the land-owners and the peasants will derive much benefit, that the State treasury will suffer through inability of peasants in bad years to pay the interest of the loans. In the event of the payments being more than one year in arrear, the bank can seize and sell the allotment. But difficulties as to its sale may arise, and the probabilities are that evictions will be impossible, owing to the deep-rooted conviction of the peasant that misfortune cannot cancel his right to the soil; or the allotment may be bought by the richer peasants to the exclusion of the poorer ones of the same commune, and the latter becoming paupers without interest in the communal land may form a dangerous class.

"Another point which may affect the success of the scheme is the presence in almost every village of the 'kabak,' or gin-shop—that only resource and curse of the Russian peasant, which accounts for arrears of taxes far more than bad crops or cattle disease. It may be hoped that the Government, being so greatly interested in the success of the bank, may find means to suppress the 'kabak,' or at all events to restrict the sale of spirits to the peasants without too seriously affecting the Excise returns.

* 24½ years = 5½ interest + 2 amortisation + 1 expenses = 8½.
34½ " = 5½ " + 1 " + 1 " = 7½.

"On the other hand, the great majority of opinions pronounces in favour of the success of the Peasant bank, and so far statistics and impartial evidence testify to the undoubted success of the experiment."

Later statistics are as follows:—

"Statistics appearing in the *Viestnik Financoff* of the 30th August last, the official organ of the Russian Minister of Finance, show that the total number of loans issued by the Peasants' land bank since it commenced operations in 1883 has been 7,367, representing advances to the value of 56,140,439 roubles; if to this be added 12,581,782 r. contributed by the land purchasers themselves we have a sum amounting to 68,722,221 r., and representing the total purchase money with which 225,486 householders, the male members of whose families, including themselves, amounted to 728,231, obtained 1,579,391 dessiatines of land (the dessiatine = 2·7 acres).

"The average price paid per dessiatine was 43 r. 51 cop., of which 35 r. 55 cop. was advanced by the bank.

"The highest prices paid were in the Governments of Kielce and Lomza in Poland, being respectively 356 and 125 r. per dessiatine and the lowest in the Governments of Novgorod and Kostroma, being in each case only about 10 r. per dessiatine. The governments which availed themselves most largely of the Peasants' land bank loans since its establishment in 1883 are those of Ekaterinoslav and Poltava, although since 1884 the amounts advanced have decreased nearly every year; for instance, the loans issued in the Government of Ekaterinoslav in 1885 amounted to 2,830 r., and in 1890 to only 56 r., while in Poltava they have fallen from 2,738 r. advanced in 1884 to 104 in 1889, and 243 in 1890.

"Concurrently with a decrease in the number of applications for loans towards the purchase of land, there appears an increase in the accumulation of arrears, which has its origin in a variety of circumstances, one of the chief and most wide-spread causes being a succession of bad harvests and the fall in the price of agricultural produce. The northern, north-western, and south-western governments are not so readily affected by bad harvests owing to the greater variety of crops which they grow, as well as to the fact that the inhabitants occupy themselves with domestic industries, or have other sources of income besides that of agriculture, enabling them to make the payments entailed by the loan. The number of allotments offered for sale by public auction for failure to pay accumulated arrears in each of the four years—1887, 1888, 1889 and 1890—were 56, 41, 75, and 61 respectively, but owing to the difficulty of finding purchasers of land which belonged to peasants, none of them were purchased in 1887, and only 3, 2, and 4 were purchased in each of the years 1888, 1888, and 1890 respectively." ('Board of Trade Journal,' September 1891.)

"Up to 1st January 1893 this bank had made 9,896 loans to village communities, associations, and individuals representing an aggregate of 268,499 householders. They bought 4,704,107 acres valued at 82,729,146 roubles, of which 65,171,629 roubles were lent by the bank, and 17,557,517 roubles paid by the buyers." (Statesman's Year Book 1894.) The silver rouble is worth a little over 3 shillings, but the paper rouble which is chiefly current, is now worth less than two-thirds of the silver rouble.

It is clear that this is not a general credit bank, but a bank similar to the rent charge banks of Germany, Austria and Hungary, founded to enable the peasants to redeem their land from feudal and other charges. These have been very successful and, from the peasant's point of view, the Russian bank may be equally so, but opinions have been expressed that this bank has advanced on poor security owing to an over valuation of the lands under mortgage, and it will be noticed that arrears are accumulating concurrently with bad harvests and a heavy fall in prices.

Later information (Foreign Office Report of 16th August 1894) confirms the view that this bank is hardly in a sound condition or altogether satisfactory in its results to the borrowers. It is stated that the bank is yearly narrowing its operations owing to the growing inability of the peasantry to fulfil the pecuniary obligations contracted by them towards the bank; e.g., in 1885 it assisted the peasants to buy 795,005 acres, in 1892 only 375,045, the intermediate figures showing steady decline. In 10 years the bank had advanced £6,500,000 to buy 4,725,572 acres for 866,698 adult males, but in 1893, that is in only 10 years, the value of the lands which had already reverted to the bank by reason of non-payment of the advances made, aggregated £642,039 or just 10 per cent. of the whole amount lent.

Government gives a general guarantee for the operations of the bank, a fact which confirms the view that reckless lending is likely to follow general guarantees or subventions by a State, and suggests that State subventions and State guarantees unless very moderate and carefully safe-guarded are dangerous alike to the State, to the bank, and, probably, to the borrower.

In 1873, a joint stock society was founded in Russia, with Government approval, in order to centralize and unify the bonds of various types issued by the various Land societies of Russia. It was found that the paper of a comparatively small local society enjoyed little general credit; the public were naturally suspicious of obscure paper of varying face and market value and of no particular status. This was the case also in Italy, and is partly the cause of the new law of 1890, authorizing a National land bank for the whole territory. In Russia however, instead of superseding existing banks as in Italy, the Central bank takes the local bank's paper, and issues to the public against these purchases a corresponding quantity of its own debentures; its business position gives it complete knowledge of the value of the local banks' paper, while its own enables it to bear any accidental losses. The bank also undertakes to buy the paper of the local banks for individual purchasers.

It can only issue its debentures with the authority of the Minister of Finance, and for such issue it must have obtained on deposit an equivalent mass of the local banks' paper; nor may its total issues exceed ten times its paid-up capital and reserve. Its bonds are accepted by the Government as security from its various servants. It has the usual council and directors, all appointed by the general assembly; each councillor must possess at least 75 shares, which must be deposited in the bank's safe, and each director must hold 50 shares similarly deposited. An annual report must be sent to the Ministry of Finance.

One-third of the shares of this bank were held by Government: in 1887 the State had to come to its aid, and not only fully paid up its own shares, but made good £340,080 of losses. But in 1894 it was obliged to go into liquidation; it had paid no dividends on its shares since 1876. It is said that the Russian "Government will take control of all its assets with the expectation of realizing "perhaps only 25 per cent. for the shareholders" (Professor Frederiksen in the "Annals of the "American Academy of Political and Social Science," September 1894). This is not a cheering result of quasi-State management.

SWITZERLAND.—Before describing the Banks of Switzerland, it is well to point out that in many respects it is the most advanced of all countries, not merely in the intelligence, education, and industry of its inhabitants, but in the development of communal life and organization and in the prevalence of the co-operative instinct which leads them to unite for all sorts of purposes, productive, financial, commercial and political. Its rural economics are largely and anciently based on co-operation, as in the management of common pastures (allmends), dairies, drainage works, &c., while in its later form, it is immensely developed, so that—to take one mode only—there are, for less than three millions of people, above 100 agricultural societies and credit associations, purchasing seed, manure, &c., for their members and otherwise helping to develop agriculture. It is not surprising then that credit, whether agricultural or urban, is also largely co-operative in the general sense of the word, and it is stated that in this little country there are nearly 900 credit institutions of all kinds; these are chiefly small joint stock banks, often with a trifling capital and with a sphere of operation limited, in practice, to a single village; they are mere groups of small capitalists seeking a good investment for their funds. Hence they are not always models for imitation; their promoters may allege philanthropic motives, and the object of combating the "cruel usurer," but the result is often that that usurer is simply replaced by a petty society of petty capitalists, all bent on getting dividends as high as possible on their little contributions; just as the peasant is the hardest of landlords, so the petty capitalist is the hardest of lenders. Hence, while it is true that the individual capitalist is no longer of importance, as a lending agent, he has only given place in many ways, to equally exacting "banks." Moreover these joint stock banks, being simply associations of lenders seeking to place their capital profitably, have no interest in controlling either the power or habit of borrowing or the use made of the capital; on the contrary, they are anxious for as much borrowing as possible so long as the security is sufficient. But this is precisely the danger of cheap credit indiscriminately granted; credit, like fire, destroys as well as comforts, and must be equally kept under control, if the borrower is not to find himself the worse for his power of borrowing. It is even a question whether this power has not been already abused in Switzerland, owing to a too facile credit; the exact amount of existing mortgages is not known, but in 1889 the Canton of Berne with less than one-fifth of the total population and without any special industries—except watches and cheese—or large towns except Berne, had a mortgage debt of £15,952,452 or about £30 per head of population under mortgages alone. It is considered that the Swiss have too easily run into debt which has greatly increased of late years; all the American Consuls have reported to this effect, the Consul General of Berne expressly stating that the "giving and taking of credit is carried on to such an extent that general prosperity is already "injured thereby, and will probably be injured still more in future;" also that large parts of the real estate are so heavily mortgaged that the parties can hardly pay the interest on the debt and support themselves.

There appear to be at least twelve mortgage banks, in which land mortgage is the principal object of business, besides the ordinary Cantonal banks established by the Cantons for general banking purposes, the numerous private banks, and the equally numerous Savings banks. Two or more of these mortgage banks are State (Cantonal) banks; others are private, but more or less favoured by the State financially or otherwise. None however enjoys any privileges either of the fisc or of procedure, legal or executive; all are subject to the general law. The sole exception is the Cantonal bank of Fribourg, the dobetures of which require no stamp and are not subject to income tax.

The Cantonal Hypothekarkasse (Mortgage bank) of Berne—not to be confounded with the Bernese Boden Credit Institution mentioned hereafter—is a very successful State institution, which will be described in detail both because of its success in granting small loans to landholders, and because of the peculiar if not unique organization which renders such loans facile, or perhaps possible.

It was founded in 1846, but remodelled by a special law of 1875, of which the chief provisions follow (see also appendix). The bank is a Cantonal bank, financed to begin with by the State, which finds a foundation capital which may not fall below £280,000, to which are added various sources of income. The objects of the bank are mortgage loans, advances on certain securities (from surplus funds only), and the receipt of deposits, but the State council may direct it to undertake other operations. It administers the State debt and the State domains, receives all State funds specially transferred to it, the securities of public officers, and supervises the financial administration.

The mortgage loans may be granted up to two-thirds and exceptionally up to three-fourths of the value as estimated by the Settlement Department; properties must be free of prior encumbrances, and preference is to be given "to small landholders, to small loans, and to persons who borrow in order "to use the loans to extinguish prior debt." No loan can be granted for more than £2,000; no minimum is stated. A borrower must provide himself with an exact account of himself and of his property; regarding the latter he must describe it in detail mentioning the nature of the cultivation, any encumbrances and charges of any sort, the insured value of the buildings, the mode by which he acquired it and the price he paid; the settlement valuation of each field, the privileges held over it by females of the family, &c. This description is presented not to the bank, but to the *Communal council*, and is accompanied by the request for a loan. The Communal council must add a certificate that the candidate is adult and not incapacitated (or giving the name, &c., of his guardian); that the property is correctly described; if not correct, the council must enter a true description; it must also state whether it is liable to deteriorations or accidents; that the property is not encumbered except by family claims; that the candidate is, by common report, the proprietor; that the settlement valuation is correct and that the property has not deteriorated since the last settlement; if it has so

deteriorated, the nature of such loss. The commune itself is held responsible for any loss caused to the bank by any fraud or negligence on the part of the Communal council in the above.

The above papers are then sent by the candidate to the Conservator of mortgages, who adds a certificate from the Land register (Grundbuch) showing the candidate's title and date of its confirmation and must carefully verify the papers with his registers; he adds also a statement, if any, of mortgages not cancelled, of any rights or claims of third parties, with all necessary details; he is responsible in the same way as the Communal council for any fraud or negligence. The papers are then sent by the Conservator to the bank. The Conservator is also the authority who draws up the necessary documents if a loan is granted, and the loan is also paid to the borrower through him; he must at once enter the mortgage in the Land registers, and note thereon that all previous mortgages have been wiped off (i.e., apparently, when the borrower takes a loan to extinguish prior debts he does so before the Conservator with the proceeds of the loan); he then sends the debt bond with all necessary certificates to the bank. The Conservator is held responsible for all damages arising from delay or negligence in any of the above acts, or from any deviation from the conditions of the loan. Deeds for debt due to the bank are not subject to the ordinary decennial renewal of registration, but preserve their rank till cancellation.

Interest on loans must exceed by at least $\frac{1}{2}$ per cent. the highest paid on deposits; a commission paid in lump is also required for the expenses of enquiry.

All mortgages are repayable by annuity only, which must be at least 6 per cent. interest and sinking fund included; but the debtor may always pay off the whole or part of his debt. The bank however can only recall its loan in full (1) when a borrower is in arrears with any instalment for three clear months after being notified that the first step towards recovery has been taken; (2) when the property has been alienated without the bank's consent; (3) when the property as so deteriorated as to seriously lessen the security and the borrower has failed, though ordered, to provide additional security; (4) when the property falls under liquidation: three months' notice is required in each case.

The Communal council is responsible up to the amount of the settlement valuation of the property, or of its own, if less; but it cannot be called on to pay more than any balance still due on the debt, together with any unpaid instalments of interest, and the costs of all proceedings. Nor is the commune liable if the loss is due to a subsequent accidental deterioration or to a general fall in the value of immovable property, but it is responsible if it does not report to the bank any deterioration that may happen. By the word "commune" is to be understood the whole communal body, i.e., all the inhabitants of a village, so that they are bound individually and collectively to watch over the bank's interests, and to report correctly. The commune has the right of proceeding against the members of the Communal council if they have shown fraud or negligence.

The State (Canton) guarantees all the engagements of the bank not covered by its own assets.

The bank is placed under the Financial Department and the Executive council. It is administered by a director of fifteen members appointed by Government, with a special sub-committee of supervision; the manager who is the Executive officer is appointed by the Executive (State) council on the nomination of the directors.

Such are the general provisions which are supplemented by sets of rules for the administration, for the management of deposits, and for other details.

It will have been observed that the real work and the real responsibility in this bank rests with the communes, and with the Communal councils in particular. The communes in Europe are corporate bodies, with corporate rights and property, and the State, as paramount chief of these corporations, compels them to undertake, for the benefit of individual residents in the commune, a labour wholly unpaid, and a risk wholly uncompensated; moreover every resident in the commune is responsible, and duties are thrust upon him by the mere fact of his living in the commune. It is perfectly certain, however, that the communes will run no avoidable risk, and will be careful not only to verify the borrower's title and position and the valuation of his property, but will be keen to detect and report any deterioration or mismanagement. The risk, moreover, is really very small, for the debt, under the annuity plan, decreases every year and with it the chance of loss; hence the real use of the communes is as agents, entirely unpaid, local, and certain, by reason of the responsibility, to be very careful in their valuations and supervision; the bank has, in them, agents in and throughout every village, and yet is free from the cost of such agents, and from the necessity for costly supervision over them, for supervision is hardly needed when the Government can and does throw upon them all loss. The importance of this gratuitous and ingeniously-organized agency will be seen in the results as noted below; loans are extremely small and easily obtained. The regular Government officials are probably utilized also by the bank as in the case of the Vaudoise bank, but this is not entered in the law.

The report for 1889 shows that on the 1st January 1889 the bank had 23,559 mortgage loans outstanding for £3,235,548, averaging £137 in their existing value; during the year it granted 1,315 ordinary mortgages averaging £200. Its foundation capital contributed by the State was £520,000; it held deposits for £2,196,156, and savings deposits for £537,140. The State drew £30,316 as dividend on its contribution to capital, being an interest of 5.8 per cent., a very respectable return for the use of its money, it being remembered that all expenses of administration were paid for by the bank, so that this dividend was clear profit.

The operations of the bank had steadily developed from £51,000 in 1847, and it is noteworthy that this single bank was mortgagee to the landholders of the Canton in an amount equal to £6-5-0 per head of the total population, while in the Oberland districts the amount per head ran as high as £18, and even £33 in certain circles. It will be remembered that in this Canton the mortgage debt alone is equal to almost £30 per head of the population.

Though, or perhaps because, the bank's operations are cheap and facile, coercive process is seriously frequent. The report states that proceedings (Betreibungen) were found necessary in 4,366 cases; probably these corresponded to the demand mentioned as a preliminary to the calling in of a loan for arrears; this, however, is a very large proportion for only 23,559 loans, of which many were nearly paid off. Moreover there were, during the year, no less than 462 Court liquidations and expropriations of the bank's debtors as against 440 in 1888. When compared with the annual average

of new loans, perhaps 1,500, the annual liquidations and expropriations, though not all caused by the bank, are simply enormous. This is not peculiar to this bank; it will be noticed in the Vaudoise Mortgage bank, in the Bernese Boden Credit Institution and in those German banks which succeed in giving small and facile credit, e.g., Bavaria. Cheap and facile land credit is not without its disadvantages and dangers.

The Bernese Boden Credit Anstalt is another mortgage bank, but is a joint stock company without connection with the State. It is one of the three Swiss land mortgage banks which issue debentures proper, and may do so up to ten times its paid-up capital. On 31st December 1889 it had 1,232 mortgage loans in existence for £384,404, and it has been supposed that many of them were extremely small, viz., that 402 were from £6 to £50. This, however, seems to be hardly correct; the 1,232 loans are amortizable loans of from one to many years' standing, and the statement shows their value as they existed at the end of 1889, when, of course, a large number were on the point of extinction; hence, though it is known that Swiss mortgages are very small, it does not appear that this bank actually grants mortgages as low as £6. This bank has never held many loans; those outstanding in 1878 were 1,417, in 1881 1,554, in 1889 1,232.

It is very noteworthy that this bank, like the others, evidently resorts heavily to coercive process; in 1889 its outstanding loans were £384,404, a sum similar to that in 1878, 1881, &c.; but, according to a statement in M. Durand's work, its balance sheet for that year shows among its assets a sum of no less than £84,692 as "properties acquired by expropriation"; in other words, besides other coercive process and suits, it had sold up debtors to such an extent, that, in 1889, it held their properties, irrespective of those annually re-sold by the bank, to a value larger than the share capital (£80,000), and equal to 22 per cent. of its total existing loans. All action is taken through the ordinary Courts under the ordinary law.

*The Vaudoise Cantonal Mortgage bank**—not the Cantonal bank—is a joint stock bank, limited, in which the State (Canton) is not only a partner, but takes so controlling a part that it is practically a State bank. It has a share capital of £480,000 in 24,000 shares, of which the State holds 1,100. Only 19,500 shares have been issued; these have been fully paid up. As the bank usually pays 5 per cent. the shares are at 2 per cent. premium, and when, as in 1889, fresh issues are made, the premium is credited to the reserve.

The State (Canton) guarantees 4 per cent. interest on the whole capital with the right of recovering from the gains of subsequent years any payments it may have made under this guarantee. Profits are distributed as follows: (1) 4 per cent. interest on the shares; (2) any amount due to the State as mentioned in the previous sentence; (3) 60 per cent. of the surplus as a dividend on the shares; (4) from 5 to 10 per cent. as a bonus to the staff; (5) the remainder to the reserve.

Funds.—Besides the above share capital, the bank has at command the deposits of the Cantonal Savings bank which, by law, is entrusted to its management, and the reserve of the Cantonal Assurance society; it also issues debentures and receives deposits.

The first named is a very important source of funds; in 1889 the savings deposits at the end of the year were £1,060,825. By law the mortgage bank should place up to 25 per cent. of the deposits in first class liquid securities, the remainder being available for use in loans, in the discount of good paper, and in account current with the Cantonal bank.

The debentures appear to be mere bonds, having no privileged status or first claim over the mass of mortgages as is the case with the German Pfandbriefe; the law and statutes give them no such position, so that debenture-holders rank only with the other creditors. They are personal or to bearer; the former are transferable by mere endorsement, and the bank is not responsible for the regularity or genuineness of such endorsement. Interest is payable half-yearly; if not demanded within five years, all claims are barred in favour of the bank.

Deposits need no special mention.

Operations.—The bank is confined to lending on mortgage within the Canton—and, for not more than one year,—on the deposit of good mortgage deeds or land debentures, and to the buying and selling of certain securities.

Its chief duty is that of granting mortgage loans upon land or buildings, up to three-fourths of the value as estimated either by experts or by the settlement valuation. Preference is to be given to loans upon land repayable by annuity; none can be granted for less than £12, nor for any amount with a fraction of less than £4 (100 francs); this latter condition is to facilitate calculations. A demand for a loan must be accompanied by a certificate of title, and a declaration of value, together with all statements calculated to assist the bank in valuing the property and testing the security; the rules, however, are silent on the methods of valuation adopted by the bank, and merely state that all necessary enquiries, inspections, valuations, and verifications must be made; nor is it stated by whom local enquiries are to be carried out; obviously, therefore, it is difficult to estimate the costs likely to be incurred by the borrower.

Loans repayable by annuity may be for any term between nine and fifty-seven years, which are the periods in which loans at 4 per cent. interest, and 10 or $\frac{1}{2}$ per cent. sinking fund, respectively, would be paid off. The bank also takes a commission of $\frac{1}{2}$ per cent. at the grant of the loan. Mortgage loans not repayable by annuity are granted for not less than five years, repayable at maturity or subsequently on one year's notice. Six per cent. interest per annum is charged on arrears, calculated by periods of one full month.

It will be seen from the facts entered below for 1889 that while the bank succeeds in granting small loans to landholders, it is also obliged to have recourse to coercion in a very serious degree.

Administration.—The general assembly meets once in two years, and consists of all shareholders, proxies being allowed if given to shareholders for presentation. Shareholders have votes according to

* This is the land bank, an account of which is printed as appendix A to the Third Report of the Royal Commission to enquire into the Depression of Trade and Industry (1886), and is mentioned by the Honourable S. Srinivasa-Baghava Iyengar, Rao Bahadur, C.I.S., in his Memorandum upon the Progress of the Madras Presidency.

their shares, 10 shares giving two votes, 50 giving four, and every succeeding 100 giving one. The assembly appoints 10 members to the Council General; also two Auditors and two Secretaries.

The Council General is the real power in the bank; it consists of a President appointed by the Council of State, 10 members similarly appointed, and the 10 members elected by the general assembly; all must be shareholders and deposit at least one share in the safe of the bank; they may hold no other office in the bank. The Secretary to the Council is also appointed by the Council of State from among the State officials. The Council General annually appoints an Auditing Committee, and may appoint other special committees; it fixes the rates of interest, the investments to be made, and the issue of debentures; it decides disputes and complaints, provides for alterations of the statistics and rules, subject to State confirmation, receives and examines reports and balance sheets, apportions the profits, determines salaries, and decides the location of agencies and appoints the agents; on all the most important of these points the written opinion of the committee of supervision is first taken. The council meets regularly once in six months or oftener if necessary; the committee of supervision assists with its advice at all meetings. It will be observed that the council is practically a State council since the State has a preponderance of votes; this makes the bank practically a State bank, a necessity due to the State's interest as a shareholder, as final trustee of the Savings bank, and as guaranteeing a fixed interest.

The committee of supervision consists of the President of the Council General, and of four members appointed by the Council of State upon a list of 12 nominees presented by the Council General; its Secretary is that of the Council General. As hereafter mentioned, this committee, universally found in European companies and societies, has the highest supervising functions; it is not the executive council or board of directors, but is a controlling board, examining the various operations of the executive, especially the loans, verifying the cash balances and securities, &c.; and the directorate is bound to supply any information required. Its consent is needed for all borrowings by the bank, for the purchase of real property, for instituting suits, and for deciding matters on which a minority of the directors require a reference. The committee meets at least twice a month.

The directorate consists of a Chairman and two directors, all appointed by the Council of State from a list of nine nominees presented by the Council General, but they must not be related to one another within the fourth degree. It decides definitely all matters regarding loans, on the management of property under attachment, and all matters for which the consent of the committee of supervision is not needed; it appoints and discharges all employes, settles their pay; and generally passes orders on the details of administration. It must meet at least twice a week; twice a year, in person or by delegate, it must examine all the sub-offices and verify all securities.

The manager is in charge of the office and accounts, for which he is responsible, and represents the bank in the Courts; he signs the savings deposit books, the debentures and shares; he must deposit 40 non-alienable shares of the bank or equivalent security, in the Government Finance office. The cashier has the usual duties, and gives the same security as the manager. The controller is a head accountant and is immediately responsible for the condition of the books.

Salaried agents are appointed wherever necessary. The local tax collectors are also utilized as general agents, but only for the receipt of subscriptions to debentures and for paying out interest on shares and debentures, and for the receipt and repayment of Savings bank deposits.

There is a special set of rules for the Savings bank (*see* 'Savings banks').

Statistics.—For 1889 the bank reported operations, &c., as follows; the 4 per cent. debentures were converted into 3½ per cents. at 99; its total issue up to date was for £886,820. The share capital (issued) was £390,000, of which the State held £22,000; it held Savings bank deposits for £1,060,625 and reserves of £50,240. The dividend for the year was 5 per cent. The total mortgage loans were £2,224,000, viz., £1,809,600 in 9,558 loans repayable by annuity and £414,400 in 1,075 loans repayable in lump; the former averaged £189 and the latter £385; the former, it is to be remembered, is the average existing value of loans under amortization, many of which were on the point of extinction, so that the average value as granted was much higher; in fact the value of the 1,009 annuity loans granted newly in 1889 averaged £235. This (£235) being the average, it is clear that many were very small, some probably even below £50. It is, then, clear that the bank reaches quite small folk. But it is equally true that the bank resorts to coercive measures to a serious degree. The total loans in existence were worth £2,224,000; but at the end of 1888 it held properties in liquidation for £70,230, and in 1889 it became owner, by expropriation of its debtors, of further property worth £11,452; during 1889 it sold or gave back 60 properties on which it realized £49,620 and suffered a loss of £3,384. It is clear then that, as these figures represent only the final action of the bank, there must be a great deal of coercive process ending in final eviction, with serious loss to the bank and much more serious loss to the borrowers.

The Land Bank of Geneva was founded by means of contributions from all the 48 communes of the Canton, and is administered by a directorate formed from the Cantonal and Communal councils. The capital serves only as guarantee, the loans being financed by the usual "cedules" or debentures; these are said to be the only cases in Switzerland of debentures privileged, as in France and Germany, in favour of the holders, who have the first claim against the assets of the bank even before depositors; in all other Swiss banks, the debenture-holders only come in with the other creditors. This bank carries on other banking operations.

The Mortgage Bank of St. Gall is a private joint stock bank, but founded on the initiative and with the guarantee of the Cantonal (State) bank of St. Gall.

The Mortgage Bank of Fribourg is also a joint stock society in which the State holds one-fifth of the original capital, and guarantees a 4 per cent. interest to the other shareholders, with, however, the right of recouping itself in years of profit for any losses sustained by its guarantee. The bank is directed by a committee composed of the Financial Director of Government, of two members named by the Council of State, and of 12 chosen by the shareholders. It provides funds by the issue of debentures up to the amount of its mortgages; the debenture-holders have no special privilege, but this is of little importance, as the bank does not receive deposits or savings. As stated above, it is the only mortgage bank in Switzerland which enjoys any fiscal privileges and that but slight. One operation

is peculiar to this bank; it amortizes debts due to third parties; the debtor pays the bank a fixed annuity; out of this the bank pays the creditor his interest and capitalizes the balance on behalf of the debtor against the maturity of the debt. The idea is suggestive for India, as the method would give the debtor a deposit for his savings which he would not be able to draw upon, while all payments to the creditor being made through the bank, would necessarily be duly receipted and credited by him, so that one great source of oppression, viz., fraudulent omissions or short entries of payment, would be got rid of.

All other mortgage banks proper are private joint stock companies and are permitted to issue their debentures without limit, save such as they themselves provide in their statutes. Two banks are allowed to issue bank notes to a certain amount. Many of the Savings banks hardly come within the category of mere Savings banks as understood in England; they are rather deposit and credit banks, generally worked by a joint stock society; they accept savings, but these frequently bear but a small proportion to deposits; e.g., the Sparkasse of Lucerne had a share capital of £5,600, £360 of savings, and £30,400 of ordinary deposits. (See 'Savings banks.')

The majority of Swiss banks are simply petty joint stock banks (minuscules sociétés anonymes par actions); a large number work with a share capital of £400 and less; the well-known Savings bank (Sparkasse) of Moutiers has a capital of only £800, in 100 shares of £8 each; with that and its large reserves, it has attracted deposits of £84,000 or more than one hundred times its capital.

The debentures of Swiss banks differ considerably from those of the rest of Europe; there is no direct correspondence between them and their amount and the mortgage loans; they are issued without reference to the loans, and are merely methods of obtaining money whenever it may be wanted. The reason is that the banks are financed in various ways, viz., by share capital, ordinary deposits, long-term deposits, savings, &c. It is usual, however, to limit debentures to ten or fifteen times the amount of the paid-up capital. Moreover they are usually mere bonds of fixed term payable at maturity, say fifteen or twenty years, and are not generally repayable by lot as the loans are amortized; the bank has of course the right to repay them at any time on a few months' notice. The certificates given in exchange for term deposits appear to be made out to bearer and to circulate like ordinary paper.

Loans are always paid in cash, not in debentures. It is usual for banks to undertake all classes of banking work, and banks, as a rule, only differ from one another in giving greater or less prominence to the several classes; e.g., in 1881, ten mortgage banks proper had 83.6 per cent. of their assets in mortgages at the end of the year, and only 3.6 in bills; the Cantonal banks had 40 per cent. in mortgages, and 59 per cent. in other investments; of the former class some did a considerable amount in bills, and of the latter some had 70 per cent. in mortgages; Savings banks, so-called (*g.e.*), had about 57 per cent. of their assets in mortgages and Savings banks proper nearly 70 per cent., and the remainder in various investments. In gauging "other investments" it is to be remembered that bills, &c., are usually of short term, while mortgages are very long; e.g., two Cantonal banks with 70 per cent. of their assets in mortgages at the end of 1881 only granted during the year mortgage loans for £111,280, while the general movement of their assets showed a turnover in discounts, accounts current, &c., of £7,181,280.

The average existing value of loans in the regular mortgage banks was, in 1881, £194, but in two of these, including Berne, the average was as low as £95 and £113. This being so, it is clear that an immense number must be quite small. It is however to be noted that this was the existing, not the granted value, and that as the great bulk of the loans were on the sinking fund principle, this value varies from near zero in old loans to a full average in that of the loans just granted; e.g., in 1889 in the Vaudoise mortgage bank, the average existing value was £119, while that of new loans was £235. The point is important, for, though the Swiss banks give very small loans, it is not proved that they give such very small mortgage loans as £6, as supposed by one important writer.

It is however admitted that the Swiss banks have succeeded in giving small loans to small landholders; this is the peculiarity of Swiss mortgage banks and is due not merely to good and cheap laws of mortgage and registration, but to the proximity of the banks to the people, and in part to the ingenuity displayed in combining, as in the Berne and Geneva banks, local enquiry and responsibility with central management and finance. The importance of these small and cheap loans is incalculable in a country where, taking Canton Berne as an example, four-fifths of the holdings, embracing one-third of the cultivated land, are below 12½ acres, and three-fifths, embracing one-ninth of the cultivated land, are below 5 acres; Canton Aargau shows a much smaller average of holding.

In 1881 the bulk of the loans paid interest at 4½ and 4¼ per cent., while debentures were issued at 4½ and 4 per cent., showing that about ½ per cent. margin suffices for expenses; 84 per cent. of the loans—viz., £8,402,192 out of £9,943,160—in the 10 mortgage banks, paid 4½ and 4¼ per cent., while of the debentures on a circulation of £7,464,220, 71.5 per cent. paid 4½ and 4 per cent. Similarly it will be seen under 'Savings banks' that deposits obtain about 4 per cent., and since debentures and deposits provide the bulk of the assets, it is clear that from ½ to ¾ per cent. pays all expenses and gives the usual dividend of about 5 per cent. Since 1881 interest on both sides has again diminished by about ½ per cent., so that in the Vaudoise bank the debentures were paying only 3½ per cent. in 1889, while loans paid only 4¼ per cent.; at this rate the shareholders obtained a dividend of 5 per cent. and the borrowers very cheap loans. Of late years, many loans have been repaid solely in order to obtain fresh loans at cheaper rates. The reasons for this fall in interest are not special, but are chiefly those general to Europe, viz., a great cheapening of money.

ROMANIA.—This State has a well considered system of land credit, but it extends only to large proprietors. Up to 1870 there was no such institution; in that year the King, a Hohenzollern, introduced from Germany the principles of the Landchaften; there are now three societies. The special law which regulates these societies provides (1) that a society must have at least sixty members to begin with, owning properties worth, in the aggregate, £120,000 or £2,000 each; it thus rules out all but large or medium proprietors; (2) that the State shall provide the first funds at interest; e.g., the Bucharest society obtained a credit of £600,000; (3) that each society may issue debentures under rules similar to those of the French Crédit Foncier, and guaranteed by the mass of mortgages

and by the State; (4) that the loans shall bear interest not exceeding 7 per cent., with $\frac{1}{2}$ per cent. additional for a floating capital and for the expenses of administration, and $\frac{1}{2}$ per cent. for the sinking fund; the borrower also pays 2 per cent. of his loan amount down to form a fixed capital; this is returned to him on the completion of his repayments; also 0.25 per cent. not repayable, as a contribution to the reserve; (5) that the Government shall control each society by first and second commissioners appointed *ad hoc* by the king on the nomination of the Finance Minister; these commissioners audit the accounts, examine the balances, see that the law is observed, assist at the meetings, countersign the debentures, and are required to report every three months.

The administration is by a board elected by the general meeting for four years; there is also a committee of nine members appointed by the debenture-holders to watch over their interests.

The societies are doing good work, but are, by their limitation, obviously inadequate to small rural credit; they are good as a beginning and are able to place their debentures at interest a good deal below that charged to the borrowers, who will gradually profit by this fact.

BELGIUM.—In this country there is nothing special to note except a project which, in 1852, received the sanction of the House of Representatives, but was never sent up to the Senate, or, consequently, passed into law; it was a product of the excited times of the middle of the century, and of ideas then current as to the duty of the State in land credit reform. This institution was to be founded on the basis of that of Galicia (Austria) except that the latter was an association of proprietors, while that of Belgium was to be purely a State bank, working under the Ministry of Finance, directed by a committee appointed by the King and controlled by six commissioners, appointed two by the King, two by the House of Representatives, and two by the Senate. Loans were to be granted on first mortgage up to one-fourth of the value of buildings and woods and one-half of the value of lands. The valuations were to be certified by the mortgage registrars; no property would be accepted of less value than £40, estimated as regards houses, and calculated, in the case of lands, by capitalizing the land tax at forty times its annual amount. The collection of the annuities was to be entrusted to the ordinary State collectors (*Agents du Trésor*) and the collections sent to the National bank. Government Auditors were to control all operations, and the accounts were to be regularly published in the *Gazette*. Arrears were to be collected by special procedure, and eviction carried out by summary method; the debts due to the bank were to have priority of rank. It must be specially remembered that this was not to be a Commercial bank, but a purely Government institution, working not for profit, but for facilitating real credit and for the transformation of ordinary mortgages into amortizable long-term debts due to the bank; there is, then, nothing surprising in the proposed privileges, including those of summary procedure.

The existing banks are all ordinary joint stock companies, and have no assistance of any sort from the State.

PORTUGAL.—No information is available for this study beyond that contained in the report on the tenure of land in Europe (1870). By this it appears that Government grants to any land credit bank a special privilege, for twenty-five years, of issuing mortgage debentures, and also foregoes the usual tax of 10 per cent. on the interest of loans obtained from them. Up to 1870 only one company had been started; this had granted 10,630 loans in three years for a sum of £1,096,664—of these 447 averaged £65, and it seems clear that the smaller proprietors were getting some of the loans. The bank is a joint stock bank, lending at 6 per cent., the loans being repayable by annuities extending up to sixty years, and never less than 10. A commission of 1 per cent. is charged in addition to the interest. Nothing further is known of the bank except that in 1882 its outstanding loans were about £3,000,000; it is only mentioned to show that small loans *can* be given by such *crédit foncier* banks even in their infancy.

SPAIN.—In 1873 the Land Mortgage Bank of Spain was founded, "with the object of opening property and agriculture from usury, by means of loans on a large scale repayable by amortization." It is the only bank of its kind in Spain and holds a monopoly for the issue of debentures (*cédulas*). Its President is appointed by Government. No loan is granted below £200 (5,000 pesetas). "The precautions which it takes, and the guarantees which it requires are such and so great that agriculture has met with no relief through its means; its operations with rural property are rare and of little importance; while its effect on usury has been to exacerbate rather than to alleviate it." *Local institutions are preferred for agricultural credit.* (From a 'Note on Popular credit in Spain' in the '*Boletín de la Institución Libre de Enseñanza*' for August 1890.

DENMARK.—In this little country of small proprietors land indebtedness is very heavy and has been so for a century, viz., from 40 to 43 per cent. of the entire value of the properties up to 1884, and now 50 per cent.; but while the ratio is nearly the same, the amount has greatly increased with the great rise in values; it is due chiefly to the laws of inheritance and the sale customs; in the former case the land is burdened for the portions of the heirs who do not take up the land itself, in the latter part of the price is usually left on mortgage. The debt is said to be, in actual amount, six to ten times greater than it was forty years ago.

Now in this country where, besides the great farms, there are about 66,000 "peasant" (*Bonde*) farms of from 7 to 85 acres, and above 137,000 *Hausmand* holding less than that area, there are four *crédit foncier* banks, but these, with the Savings bank, appear to lend only to the large or substantial proprietors; these banks have been founded, under the special law of 1850, by the Agricultural Unions which exist throughout Denmark. The banks can only be started where proprietors, whose estates are valued in the aggregate at £120,000 at least, have united for the purpose; the conditions are similar to those of the *Landschaften* which they have evidently copied; their debentures are free of stamp duty, and their procedure against defaulters is more simple than in the case of ordinary creditors. The small farmers have no such resource, and there are no State banks. In 1880, however, Government passed a law for the institution of two small banks for owners of properties worth not more than £224; they were to lend at 4 per cent. obtaining funds by debentures, which are free of stamp duty, and bear an interest of 4 per cent. guaranteed by the State, which, moreover, takes upon

itself the cost of valuation, and grants a subvention for the initial expenses. The above privileges form part of the actual law, but as the full text is not available, it is not known whether the provisions of the Bill, for partial exemptions of the loans from stamp duty, were embodied in it. The conditions, on which these privileges were to be granted, were simply that the societies should be formed amongst holders of small properties, the aggregate of shares necessary for commencement being fixed at £28,000; this was never done; the petty proprietors lacked the initiative necessary, and the Government intentions, though formulated in a law, remain a dead letter to this day.

EGYPT.—The study of the 'Crédit Foncier Egyptien' is interesting because it was an attempt to bring credit to landholders including the fellahin, who may be considered to correspond in some degree with the Indian peasantry. It was founded in 1880 and was based on the methods of its great French prototype, but the point of interest is only one, viz., that it failed precisely where its exemplar failed in bringing real credit to the small folk. It was soon found impossible to grant small loans, and by 1883 it had ceased to grant them below £300 in value. As a matter of fact its report of 1891 shows that up to date it had lent 2,268 loans, of which only 66 were below £100 and 438 below £200, nearly all these small ones being of the earlier years and probably urban; urban loans were gradually taking the place of rural loans; the average of all loans for 11 years was £1,800 and for the 127—mostly urban—granted during 1891 it was as much as £2,480.

An extract from the 'Correspondence respecting Agricultural Banks in India' gives an account written in 1884 of the bank and its failure to reach the fellahin.

From Her Majesty's Agent and Consul-General in Egypt to the Secretary of State for Foreign Affairs, dated Cairo, 21st November 1894.

I have the honour to acknowledge the receipt of your Lordship's Despatch, No. 443, of the 31st ultimo. I enclose a memorandum prepared by Mr. Elliot, which gives all the main facts in connection with the working of the Crédit Foncier in Egypt. The most noteworthy feature of the present system is that, mainly by reason of the very heavy expenses and the delay incurred in the recovery of advances through the law courts, the Crédit Foncier has ceased to advance to small cultivators.

Nubar Pacha has from time to time spoken to me on the question of establishing a Crédit Agricole in Egypt. The subject is one of very considerable difficulty, and I regret to say that my time has been so fully occupied by other matters of more immediate importance that I have not been able to study it with that thoroughness which would justify me in expressing a decided opinion on the expediency of establishing an institution of this nature in Egypt.

Memorandum on the working of the Crédit Foncier of Egypt.

1. The Crédit Foncier of Egypt was founded in 1880. It lends money on mortgages to owners of real property, and issues debentures to an amount not exceeding the total sum lent on mortgages. It is also empowered by its statutes to grant loans to various public bodies, with or without mortgage security, to acquire debts secured on mortgages, to open credits on accounts current, and to receive deposits. It is not, therefore, exclusively concerned with agricultural property.

2. The capital of the Crédit Foncier is 3,200,000*l.** in 160,000 shares of 20*l.* each, of which 5*l.* are paid up. The profits are divided in the following proportions:—

- (1) The amount necessary to provide interest at 6 per cent. on the paid-up capital.
- (2) Of the remainder 10 per cent. to the reserve fund.
- (3) 5 per cent. to the board of directors.
- (4) 15 per cent. to the "founders' shares."
- (5) The remaining 70 per cent. to the shareholders as extra dividend.

This has raised the interest on the shares in 1882 and 1883 to a fraction over 7 per cent.

The working expenses amounted to an average of 15,800*l.* for 1882 and 1883. This sum, which does not include 3,310*l.* and 7,380*l.* paid respectively in those years in taxes to the French Government on securities negotiable on the Paris Bourse, is equivalent to 25½*d.* per cent. on the net profit remaining for distribution as above.

Debentures bearing interest at 5 per cent. have been issued. The nominal amount in circulation in 1882 was about 1,660,000*l.*, but the sum actually received amounted only to 81½ per cent. of that sum. In 1883 the debentures in circulation amounted to nominally 2,541,000*l.*, of which only 80 per cent. had been received. It has, therefore, been found necessary to provide by means of a sinking fund for the redemption of the large and unexpected difference between the nominal and the market value of the debentures.

The loans on securities and deposits on accounts current have not received any considerable extension.

3. The Crédit Foncier makes two kinds of advances on mortgage:

- (1) Loans for a long term, repayable by annuities in not less than ten or more than 50 years;
- (2) Loans for a short term, with or without sinking fund.

It lends only upon first mortgage, and only up to 60 per cent. of the value of the property, as estimated by its own values.

The rate of interest charged is 6*s.* 8*d.*, besides 2 per cent. per annum for commission and expenses.

* Originally 1,600,000*l.* in 80,000 shares; doubled in 1882.

4. The following table shows the number and amounts of the loans advanced annually by the Crédit Foncier from its foundation to the year 1883:—

	No.	1880. Amount £E.*	No.	1881. Amount £E.*	No.	1882. Amount £E.*	No.	1883. Amount £E.*
Under £E. 300	93	14,537	278	48,079	212	37,214	21	3,680
£E. 330—2,000	86	64,571	259	182,518	174	128,115	113	81,528
Over £E. 2,000	30	352,712	70	494,378	36	241,960	50	485,874
	209	431,820	607	724,975	422	407,389	184	571,082

It will be seen that the loan of sums under £E. 300, which during the first three years were 47½ per cent. in number, and only 6½ per cent. in amount of the whole, in 1883 diminished almost to nothing. They have now ceased altogether. It is obvious, therefore, that the fellah proprietors have never been among the most important customers of this institution, and they have now no dealings with it whatever.

5. The reason for this is to be sought (1) in the attitude of the Crédit Foncier towards the fellahs; (2) in the attitude of the fellahs towards the Crédit Foncier.

(1) The Crédit Foncier is not a hard creditor. It usually waits until three quarterly payments of interest are in arrear before serving the debtor with any notice. It will also accept an instalment of the interest due, allowing the remainder to stand over without charging further interest upon it. But it has in some cases found it necessary to foreclose these mortgages, and the expenses attendant upon the necessary legal procedure have been found to be such that the 40 per cent. margin between the amount of the loan and the nominal value of the land has proved insufficient to cover them. The legal expenses in the recovery of small debts have been found to range between † 60 per cent. and 200 per cent. of the amount of the loan. It must be borne in mind that the Crédit Foncier enjoys no special privileges or facilities for the recovery of the principal of its loans, nor for the collection of the interest. Under these circumstances it has been compelled to discontinue altogether the issue of loans of sums under £E. 300.

(2) On the other hand the fellah has not had the advantages of borrowing at low interest from the Crédit Foncier presented to him in the most attractive form. Owing to the want of agencies in the country districts he probably, before concluding his loan, has to go to the expense of a journey to Cairo, where he has many formalities to go through, and where he finds temptations and opportunities to spend a portion of the money which was destined for the improvement of his fields. Moreover, he is exposed to all the influence of the local money lender, from which he can obtain his loan with less trouble, if upon more onerous conditions. The Crédit Foncier has made no attempt to conciliate the local money-lenders. It would not, for instance, advance money upon a mortgage secured upon the hand of a third party. It is, therefore, exposed to all the hostility of the vested interest.

6. To remedy this state of affairs a scheme has been propounded, and is now before the Council of Ministers, for affiliating to the Crédit Foncier a 'Crédit Agricole,' which should enjoy special privileges, and a special legislation, enabling it to recover sums due to it speedily and economically. The Crédit Agricole would lend on the security of crops, cattle, agricultural implements, &c. It would establish numerous agencies throughout the country.

A memorandum explanatory of the proposed scheme is appended.

7. The experience of the Crédit Foncier proves that certain privileges, especially in the direction of despatch and economy in the legal processes for recovering its debts, are necessary for the success of an institution of this nature. The concession of such privileges must, of course, be made conditional on the exercise of a considerable amount of Government supervision over the working of the institution. But it appears to be a matter for grave consideration whether special privileges could properly be extended to, or Government control satisfactorily exercised over, a purely commercial enterprise, and one which extends its business transactions far beyond the limits to which the Government interest in it is confined, and whose financial position is not unassailable.

The society for the promotion of a 'Crédit Agricole' mentioned in paragraph 6 of the above extract has come to nothing according to information expressly obtained from Egypt in 1893.

It will be observed that the absence of proximity between the bank and its intended clientèle and the costs of recovering loans were believed to be the chief obstacles in the way of reaching the fellahin; to obviate the former defect agencies were proposed; the example of the French Crédit Foncier and above all of the Crédit Agricole shows that this is insufficient; agencies are too expensive and uncertain. To obviate the latter defect special legislation granting privileges in the way of recovering debts was recommended; apparently this was necessitated by the distance and expense of the courts, where the legal expenses were said to range, for the recovery of small debts, "between 60 per cent. and 200 per cent. of the amount of the loan"! The 40 per cent. margin between the amount of the loan and the estimated value of the security was insufficient. Small wonder, then, that the bank could not reach the fellahin;

* £1 = £E. 0.975.

† These figures are the result of the experience of the administrators of the domains. There is no reason to suppose that the experience of the Crédit Foncier is more favourable.

it was defective in the cardinal conditions of proximity, security to the lender, and of facility to the borrower.

It is believed that this example itself proves the necessity (1) of absolutely local banks, (2) of the privileges entered in the "draft bill," which forms another chapter of this appendix.

Resumé.—The above sketch of the European system of land banks is intended to give merely a general idea of the rise and nature of organized land credit in Europe. In brief, it has been shown that from a perception of the evils of indebtedness and of the hopeless position of "noble" landed proprietors who had none but the usurer to look to, Frederic the Great developed the system of associations amongst the proprietors of a province (Landschaft); these formed associations of borrowers—either *in esse* or *in panno*—who acted as intermediaries, obtained money on moderate terms for their constituents by issuing their own debentures against the properties pledged, adding not only their warrant for the sufficiency of the mortgaged property itself to cover the loan, but the guarantee of the association. These institutions were in all cases supported by the State; either the State ordered the formation of the mutual associations assisting them by subventions and privileges, and controlling them by strict rules, or, later on, similar societies were formed by private enterprise, but with the countenance of the State; in some cases the State itself founded and directed the banks. But in all cases the State supervises and controls the institutions. The older institutions did good work in Germany from 1770 to 1850, chiefly by introducing the possibility of loans on very long terms, for a creditor who required his money back, had not to demand it from the mortgagor, but simply sold his 'Association debenture' in the ordinary share market. Hence a proprietor could obtain loans and repay them at his convenience from the proceeds of the property mortgaged. But about that time, first in Silesia in 1849, the capital improvement was introduced of substituting the credit of the bank itself as the main security for the loans, which were thenceforward secured, not on a specific mortgage but on the mass of mortgages held by the bank, and by the general credit of the bank, including that of the solidarity of its members. This enabled the bonds to pass from hand to hand like ordinary Government paper or other stock, and permitted the introduction of the 'sinking fund' principle, which, in Europe, now governs almost universally the real credit operations of banks or associations; by this method a borrower not merely obtains, as before, a loan for a long term, but in paying his half-yearly interest, pays also an additional sum to a sinking fund, which gradually amortizes the whole loan in or forty or fifty years. It was on this latter model that the great *Crédit Foncier* of France was founded, which, after several vicissitudes, has won its way not only to the position of the chief land credit institution of the world, but has done an enormous amount of good within France by means of its cheap credit, and, outside of France by providing a model for similar institutions in every country of Europe. Under the influence of its example, modern land credit institutions, properly so called, are now chiefly associations of capitalists (joint stock companies) and not associations of borrowers (mutual credit associations). Whether this is the final type of institution or whether a new development is possible, whether in India or elsewhere, remains to be seen.

Immense sums have been advanced by these various banks, but, with few exceptions, the loans do not reach below the class of owners possessing about 20 acres of land, and comparatively few go down nearly so far; land credit only reaches the small holder when the bank is small and local as in Switzerland. The expenses of branches or agencies, the cost, difficulties, and risk of enquiring into and lending on small, distant and unknown properties, and the repugnance which small proprietors have against dealing with unknown banks, effectually debar large central societies from any but large or considerable dealings, and these, except in the case of the mutual associations, are more generally urban than rural. The Minister of Agriculture for Germany sums up even the German situation in a few words, viz., that the real credit institutions are able to include in these loans estates down to peasant (*bauerliche*) team-owning estates, i.e., those above 15 or 18 acres, but that "for smaller estates a mere land credit-bank is particularly unsuited"; real and personal credit must, in their case, be jointly considered, that is, the whole status and means of the would-be borrower. In other words, small proprietors can only borrow from banks which intimately know them, their means, character, and the object of their borrowing, that is, small local banks. Whether it is possible to finance small local banks so cheaply and abundantly that they can supply the credit required is one of the chief problems for consideration; can the methods of Europe, viz., the issue of debentures, or any other methods, provide small local banks with cheap funds?

CHAPTER IV.—ANALYSIS OF EUROPEAN LAND BANKS.] •

An analysis of the organization and methods of the various European land banks will give a more complete idea of Real credit in Europe than the description of isolated institutions or separate countries. This chapter refers only to institutions especially established for the granting of Real credit, and not to ordinary banks which merely grant mortgage loans as part of their general business, nor to Savings banks which place much of their deposits in this form of investment; these latter will be separately dealt with.

Character.—All institutions for the special grant of Real credit are classified as private or public.

Class I.—Private institutions are associations either (a) of borrowers or (b) of lenders, that is, they are either associations of mutual credit consisting of landed proprietors united in a society for the purpose of obtaining loans at cheap rates for their members, on the common security of all, or they are ordinary joint stock companies, financed by capitalists, large or small, who are looking for a good investment, and who regard mortgages merely as the means of returning a good interest on their investments. Each class seeks its own profit, which in the former is cheap loans, in the latter high dividends. To a great extent the two classes of institutions are opposed in principle; practically however the second class are able to give cheap loans by reason of the abundance of their funds, and they are obliged to do so by the law of competition. Loans are however probably cheaper on the

whole in the former class, since their credit is unlimited, they have no share capital to absorb profits as dividends, and all profits, if any, return to the members. The chief exponents of the former class are the *Landschaften* of Germany and the Boden credit institutions of Hungary; of the latter, the *Crédit Foncier* of France and the mortgage banks which have sprung up throughout Europe on the model of the French institution. The Italian banks are peculiar; eight of these are specially devoted to Real credit, but are not recent creations; they are ancient banks which of late years have received special privileges from Government on condition of devoting a special department to land credit on modern principles as in the French *Crédit Foncier*. These are now known as the privileged land mortgage banks of Italy. They are private institutions, several of them, notably the bank of Naples and Sicily being without shares or dividends, and based upon an ancient religious or pious foundation. Other banks are of the ordinary joint stock type, but are not allowed to deal in long-term mortgage loans with amortization, and upon issue of debentures, unless their capital is at least £400,000. A new society has now (1890) been promoted by Government with a special law in aid; it is however to be a joint stock company, but with special privileges and monopoly, and will be similar to the *Crédit Foncier* of France.

Class II.—Public institutions are those founded by the State, either by Government or by some local body whether province, municipality or commune. These are but few in number and generally of no great importance. Germany possesses a few, chiefly the banks established to redeem the ancient feudal charges which burdened the peasants. In Switzerland some of the cantons, notably Berne, have established State banks which are doing excellent work. Moravia was endowed with a similar State bank in 1890. But many of the land banks of Europe are largely controlled by the State; the *Landschaften* of Germany and the *Crédit Foncier* of France are notable examples, so that it is difficult to divide banks by a hard-and-fast line. This will be seen in the section on State intervention. In Russia there are State land banks of four classes: (1) those directly founded by the State, administered by the Finance Minister, and yielding profit to the State; (2) land banks under Provincial Governments directed by the Home Department; (3) institutions founded by communes; (4) institutions under the council of a particular charity under imperial patronage; all these were started before 1852 and little is known of their working. In 1882, a Peasants' land bank was established to provide capital for those peasants who wished to buy out their land; this is essentially a State bank.

Initiative.—Generally speaking, all land credit institutions prior to 1850 or even 1860 were due to the impulse of Government, varying from that of *dixation* or direct fiat, to the mere passing of laws favourable to their establishment, such laws being frequently necessary by reason of a prior restrictive legislation such as is generally unknown in England and India. The part played by Government initiative will be dealt with below *s.v.* 'State intervention,' and will be also gathered from the sketches of the various banks.

Some banks, however, have had a purely philanthropic or patriotic origin. Apart from the Savings banks—to be hereafter dealt with—the Italian banks were in many cases works of charity (*Monti Pie*) and the great bank of Naples is the result of a fusion of seven *Monti* of old and charitable foundation. The chief land banks of Hungary are patriotic and philanthropic institutions, *e.g.*, the Boden credit institution of Buda Pesth which was established in 1863 by a number of large landed proprietors who subscribed foundation shares at fixed interest below market rates in order to start the society. It has no shareholders proper, and no dividend, and is very successful in its way. Another society was similarly founded in 1871, and another, specially for the relief of small proprietors, had a similar philanthropic origin in 1879.

The remaining banks, principally those founded in the latter half of the century, are joint stock banks, due to private initiative, but—as will be seen—though very successful, they deal chiefly with urban property; in Germany alone thirty-one were founded between 1860 and 1880, and others since; these come under the ordinary law of the Empire and not under any special law; on the other hand they are not restricted to land mortgage operations unless by their own statutes.

Principles.—The foundation principle of the several banks is various; some are based on the principle of mutuality; the Old German *Landschaften* are the best types of this class, which are generally founded by persons likely to become borrowers, who, in order to obtain cheap credit, unite with an unlimited guarantee, and who divide all profits among themselves, usually by reducing the price of loans. They give very cheap credit through having neither capital nor dividends, and through there being no antagonism, but rather identity of interest, between the banks and their clients. Some are Government institutions founded in view of providing cheap capital for agriculture; Russia, the small German States, Switzerland and Austria are the chief exponents of this principle. The modern type is that of the joint stock bank, limited, in which money is invested for the sake of dividends.

Objects.—The objects of the societies are diverse; in the Old *Landschaften*, the chief object was the relief of the "noble" proprietors, who were much distressed by usury and war. The redemption of ancient and oppressive private mortgages by loans from the society at moderate interest and on long term is a second and general object. The relief and development of agriculture (*a*) by restoring to it the capital diverted by usurious debt, (*b*) by providing cheap capital for improvements and for family purposes, (*c*) by bringing into industrial circulation the petty hoards of capital available but unused is a third; a fourth object is the reduction of the general rate of interest by means of institutions of good security working on a large scale with cheaply borrowed capital, thus breaking the monopoly of the usurers, or of other imperfect methods of supply, and governing the rate at which capital could be properly lent. The *Crédit Foncier* of France and the institutions based on its example are noteworthy examples of this class. A fifth object is found only in the modern joint stock pattern, where capitalists seek a good investment for their funds, and establish banks for the purpose of earning dividends as high as security and competition will allow them. A sixth object is that of loans to public bodies—communes (villages), district boards, municipalities, &c.—for public purposes, the security given being that of the corporate property available, or the local rates and taxes. Here again the *Crédit Foncier* of France led the way and has been followed by societies of that type. A seventh object is found only in a few special banks, *viz.*, the redemption of rent charges,

feudal dues, &c., by peasants, especially in Germany, Austria and Hungary, and the buying in of their lands by the ex-serfs in Russia. An eighth and very rare object is that of dealing solely with petty proprietors; in most land banks no application for a loan will be entertained when the property is worth less than about £83, *e.g.*, 1,000 florins; in many of the banks in fact the minimum *loan* that will be given is 1,000 florins (rupees); as will be shown, Real credit institutions in general have, in consequence, done little for the small proprietor. A ninth object is that of lending on urban property either for ordinary loans or for special building purposes; these are all of the modern type, and such operations are expressly excluded from land banks proper such as the German *Landschaften*. A tenth object is the encouragement of thrift by establishing Savings banks, in which case loans are given on mortgage by the Savings banks, in order to obtain a profitable investment of their deposits. An eleventh and very important object is that of the new Central banks, formed not to lend direct to borrowers, but, almost solely, to facilitate cheap credit by the issue from a central institution of national reputation, of central debentures in representation of debentures issued by small local banks. A twelfth object is land improvement, pure and simple; such are the land improvement societies of England, and the *Landeskulturrentenbanken* of Germany; these are generally, if not invariably, the last development of land credit.

Hence banks which grant land credit are as follows: (1) land credit banks proper, whether mutual, joint stock or State, such as the *Landschaften*, the Hungarian Boden credit institution, the *Crédit Foncier* of France and the State banks of various German States and Swiss cantons; (2) the rent charge redemption banks as in Germany and Russia; (3) communal and benevolent societies of various sorts such as the communal societies of Hungary, and the *Hilfskassen* of Germany; (4) the Savings banks; (5) ordinary banks, which are excluded from this study; (6) Central land banks; (7) Land Improvement banks or annexes of banks.

Capital.—The oldest forms have practically no original capital; they were assisted at starting by a subvention, at low interest (*e.g.*, 2 per cent.) by the State, but they had neither shares nor capital, their funds, beyond the above subsidy which was only intended for first expenses and as a reserve, proceeding entirely from debentures issued in representation of loans granted, at first in immediate representation of specific loans, afterwards, *en masse* in representation of the aggregate of mortgage loans granted by the society. On the other hand, the banks of Naples and Sicily have immense capitals, derived from religious foundations (*Monti Pie*), but no shareholders, so that they have no dividends to distribute. But in general modern institutions are joint stock companies with a substantial capital, usually partly paid up. This capital may be foundation or ordinary, variable or fixed. Foundation capital is that provided by persons either merely philanthropic or interested in promoting cheap credit; such are the Hungarian banks above alluded to. In the Hungarian Boden credit institution the founders' shares were £417 each, of which 10 per cent. was paid in cash and the remainder in bonds which were merely kept in deposit, and in fact—in that bank—have been returned to the subscribers as not required, owing to the formation of a strong reserve to which all net profits go. This foundation capital bears a *fixed* interest of 5 per cent. which is below the ordinary Hungarian market rate, and has no claim to any dividends out of profits. Foundation shares may be paid off whenever the property of the bank permits it, but are also retained as fixed deposits. The State subvention may be called a foundation share, and, as in the cantonal banks of Switzerland, frequently takes the form of subscription for shares; in many cases it is paid back when a reserve has been established. Ordinary shares need no remark. In some banks the amount of capital is fixed, so that operations, which are usually limited to a multiple of the capital, are also limited; but in most, the capital progresses up to a certain maximum with the operations; *e.g.*, in the *Crédit Foncier* of France the maximum capital fixed by the statutes is £8,000,000 sterling; the actual capital at any moment must be one-twentieth of the bonds in circulation and is now (1892) £6,820,000, the debentures, mortgage and communal in circulation, aggregating about £120,000,000. In the German and Austrian banks, the necessary proportion of capital to debentures is 1 to 5, 1 to 20, &c. Many banks, even when constituted with a capital of their own, obtain State subventions, *e.g.*, the *Crédit Foncier* of France has a grant of £400,000, but this is usually credited to the reserve.

Reserve.—The reserve is an obligatory element in all cases. The German *Landschaften* provide a reserve from the principal or interest of the State subvention, from profits, from unforeseen receipts, and from profits on the issue of their debentures, from contribution and commission paid by borrowers *ad hoc*, and included in the annuities or deducted from the principal at the time of borrowing. The Hungarian Boden credit institution has, as a reserve, the founders' shares—one-tenth paid up—the Government contribution for the purpose, the whole net profits of the institution, the special guarantee fund, and a percentage payable by the borrower with each annuity. The first two have been described under capital; the third is possible in this institution, since—as there is no share capital—there are no dividends to be paid; the fourth item is derived from a 1 per cent. deduction from the amount of all loans made at the time of payment, but returned to the borrower with interest after his loan is paid off; the fifth item is a 0.06 per cent. addition to the annuity. The *Crédit Foncier* of France takes for its reserve from 5 to 20 per cent. of its net profits, and it should accumulate up to a maximum of one-half of the share capital. The employment of the reserve is various; in general it is to guard against unexpected losses; in some cases its interest goes to pay for the administration. The funds of the reserve are usually invested in Government paper or other good securities or in small and safe banking operations of quick return. There are special reserves as noted under the *Crédit Foncier* of France, *e.g.*, to equalize the proceeds of debentures issued at various rates according to the market; to provide against the loss on repayment at par of bonds issued below par; also for the issue of lottery prizes and bonuses.

Funds.—These are provided from capital, from accumulations of profits, from Government loans or grants, from mortgage debentures, from deposits, loans and bank notes. The first three have been dealt with under capital and reserve, and are comparatively unimportant as sources of funds though all important as security; *e.g.*, the capital is usually only one-tenth or one-twentieth of the amount of the debentures issued by the society in the case of the German institutions and the *Crédit Foncier* of France, and in some, as in the Hungarian Boden credit institutions, there is practically no

capital, but only a reserve. In the later commercial or mortgage banks the capital is a real working capital, as in the Hypotheken mortgage bank of Hungary where only one-tenth of the nominal and one-fifth of the paid-up capital is used as a guarantee fund (reserve) for the security of its debentures; so in Germany, the banks since 1860 use their share capital in mortgage operations, and with some which have not obtained Government authority to issue debentures, this capital is an important element in their working funds. Such banks can deal only to a very limited extent in loans for long terms repayable by annuities. In Belgium in 1890 the paid-up capital of the four chief mortgage banks varied in actual fact from one-fourth to one-twentieth of the debentures issued, and in Italy in the same year the eight mortgage banks—including the National bank—had a capital of £1,760,000, and debentures in circulation for £28,062,200. As shown in describing the Crédit Foncier of France, a certain proportion of its capital, and even of its reserve is used in short-term loans, but this is not its true use; it is a guarantee fund.

• *Land Mortgage Debentures.*—The great source of funds in all these institutions, whether the German *Landschaften*, the Crédit Foncier of France, and its replicas or mortgage banks in the rest of Europe, is the interest-bearing mortgage debenture (*Pfandbrief*, *obligation foncière*). This, in its old form, originated in the last century, was merely a bond of from £4 to £20, given by the bank to a borrower in representation of a mortgage bond executed by him; it expressly indicated the particular property mortgaged, and this property alone was the material guarantee for the specific bond; the bank was only an intermediary between a direct lender and a direct borrower who were the parties in actual relation, and gave merely its guarantee, as a bank, that the mortgage was a good one, and that payments would be duly made; the lender looked to the borrower for principal and interest, and not to the bank, which only took proceedings against the borrower in case of non-payment. This of course was an immense advance from the mere private system, for the lender had nothing to do but to buy the bonds in the market, relying not on his knowledge of the mortgaged property, but on the guarantee of the bank which was liable in the property of all its members for the guarantee; if the mortgagor failed to pay up, the lender came eventually upon the bank. If the lender wanted his money, he had merely to sell his bonds in the market, thus transferring his debt to another creditor. This took place without expense save that of brokerage, if any, and was very different from the action and expenses necessary when a private mortgagee, in want of his money, transfers his mortgage, after diligent search for another capitalist, to a third party. Moreover the holder of bank debentures need sell only so many as he desires—the debentures being usually for small sums—whereas a mortgagee must usually transfer the whole or nothing.

Hence the debentures of the *Landschaften* became current stock, which very soon rose to its par value and fairly maintained that value, owing to its double guarantee, even in the worst times. As for the borrower he enjoyed loans for very long terms, without possibility of foreclosure, so long as he paid his dues, and since the banks could issue to any amount, he could get as large a loan as he wished on first mortgage, whereas in the private system he could only get from one lender as much as that lender could afford, and any subsequent loan from another lender would only take rank as second mortgage and therefore be expensive.

This form of bond specifying the mortgaged property was subsequently modified in order to render possible the sinking fund system which the specialized form did not admit, since the bank did not receive the periodic payments, and no creditor would receive his principal by petty sums spread over many years. Hence the banks issued a new form in which the bank itself became the direct creditor of the mortgagor, and issued its debentures solely in its own name, and without specifying any particular property as the security; hence the buyers of the new bonds became the creditors, not of a specific person, but of the bank, and their security was not a particular property, but the whole mass of mortgages held by the bank, plus the security of the bank itself.

These new debentures payable generally to bearer, sometimes to order, are those now in universal use, and provide funds to any extent upon mere issue. The Crédit Foncier of France issues them in masses of from £10,000,000 to £36,000,000, the plan adopted being to divide them into numerous series and issue them by series as soon as loans have been effected to the value of a series; e.g., in 1879 a loan of £36,000,000 was sanctioned in 1,800,000 bonds, divided into 180 series, each of 10,000 and of the nominal value of £200,000. The Belgian *Caisse des Propriétaires* issues its debentures on the 1st of every month according to the amount of loans accepted during the preceding month.

In most cases, these debentures, though issued for sums from £20 upwards, are sub-divided into detachable "coupures" of perhaps £4 or £5, so that even poor persons may invest in them; in Germany as in France, the minimum is fixed at £3 to £4, and in this way, being based on the land, they form a body of stock which realizes the old dreams of the "mobilization of the soil."

All debentures are repayable as the mortgages are redeemed; every unit of capital repaid by borrowers must be followed by a similar redemption of debentures of that series. These are not repaid according to their consecutive numbers, but the numbers to be paid off are determined by lot. It is this which helps materially to keep bonds up to their par value, each debenture being repayable at par; hence, though a 3 per cent. bond for 100 is issued at, say, 85, its market value immediately rises, because of the chance of its being speedily drawn for repayment which will be at par. Moreover in some issues each bond of perhaps £20, is repaid with a premium or bonus from profits, often very considerable; in other issues, and these are greatly in public favour, a certain number at the periodic drawings obtain heavy lottery prizes from £4,000 downwards; e.g., the French Crédit Foncier loan of £36,000,000 of 1879 with 1,800,000 bonds repayable wholly within sixty years, has six drawings per annum, so that on an average 30,000 bonds worth £600,000 are annually repaid at par, and of these 600 each year get prizes worth £86,400.

The holder of a debenture cannot demand repayment until his number is drawn. Ordinarily, *per contra*, the bank only repays either by the usual drawings or by special drawings when mortgages are paid up in advance; in some places however, the bank can buy up its bonds from particular holders by giving six months' notice; or it can go into the open market and buy in its paper at the current rate. These powers are necessary so that the banks may be able to maintain the equilibrium between its debentures and its securities and to avoid an accumulation of idle funds;

moreover it is enabled in this way to convert its debentures to similar ones at lower rates; this is not unfrequent among the *Landschaften*.

Occasionally short-term debentures up to ten years are issued; these are repayable at notice by either party.

The market rate of these bonds has always been high; in 1848 the German *Landschaften* debentures at $3\frac{1}{2}$ per cent. were quoted at 83 to 96 per cent. when social difficulties caused general depreciation of stock, and Government 3 per cent. paper was quoted at 69; in 1850 the 4 per cent. debentures were at 102 and 103; in 1882 the quotations for thirty banks were about the same, while those at 5 per cent. were considerably above par; $3\frac{1}{2}$ per cent. bonds were then quoted at from 90 to 96, and it may be taken that $3\frac{1}{2}$ per cent. is now the usual rate for debentures and that at this rate they are at or very near par. Even in Hungary the 4 per cent. bonds were quoted at 96 $\frac{1}{2}$ in 1888, and 5 per cents. at 101 and 102 when the State 4 per cent. land redemption loan was at 88-89, while in 1889 it is said that even the 4 per cent. scrip was at 98; in 1890 Belgium 4 per cent. bonds were at 99 to 100, and even in Italy, where the *Crédit Foncier* system is not well established, the money market abnormal, and money very dear, these bonds suffered less in 1889 than the public funds; quotations however were for 4 per cent. 96.9 and 96.6 in the best banks, and 93.4 and 94 for less esteemed scrip at 4.3 per cent. interest. It should be noted that in Germany all the *Landschaften* are entitled to issue debentures; but the joint stock mortgage banks are only allowed to do so on the authorization of Government, and some have not obtained the privilege. Similarly in Italy only eight land mortgage banks proper have this privilege as a right; other banks only on certain conditions as to sufficiency of guarantee, capital, &c., and by special authorization. In Switzerland, however, every bank, carrying on land mortgage operations, has the right to issue debentures and requires no special order.

A very rigidly guarded rule is that the amount of debentures in circulation shall in no case exceed the amount of loans outstanding, otherwise some of the bonds would be uncovered by guarantee in the way of mortgaged property; they would possess only the guarantee of the bank itself, instead of the complete double guarantee which gives them that absolute security which ensures their popularity and market value; hence as soon as any loan is repaid, that amount in debentures must be withdrawn from circulation. The duty of maintaining this equilibrium is variously allotted; in Germany and Austria it is usually the special duty of a Government commissioner who has to countersign all debentures and see, by frequent inspection of the accounts, that equilibrium is maintained; in Italy there is an inspector for the same purpose. In France the directors of the *Crédit Foncier*, amongst whom are three high finance officers of Government, settle the issue, &c., of debentures; their resolutions are not valid till confirmed by the governor who is an officer appointed by the State and who must countersign all debentures. Moreover the three auditors (*censeurs*) are expressly bound to examine this subject. The penalties for disregard of this rule are very severe; by Hungarian law the directors of a bank are liable to three months' imprisonment either for excessive issue or for failure to withdraw debentures, as well as for other defaults. They must be registered and stamped and must not be issued below a certain minimum, which in the *Crédit Foncier* of France is £4.

Certain legal privileges are attached to these bonds; e.g., in France, holders are absolutely entitled to payment of their value or their interest as against all third parties, and the Courts cannot admit action by third parties to attach or obtain such sums. The only case in which the Courts can entertain actions as against holders is when the bonds have been lost, in which case the *bona fide* loser may bring an action against a holder, provided he has at the time of loss given notice to the bank of his loss. They are also admitted as securities in which trustees may invest the property of minors, married women or incapacitated persons, and of public institutions, communes, &c. The bonds are also occasionally fiscally privileged, the stamp, registration and transfer duties, being all considerably reduced in their favour in France; in Hungary the interest coupons are not taxed, while in the quasi-State bank of Galicia the interest coupons are stamped, but the debentures are not.

The invention of these debentures seems to be a most fruitful and useful conception, and a source of wholly undreamed of possibilities whether for Europe or India. Apart altogether from the capital development rendered possible by these bonds, viz., that of the gradual amortization of the debt—a development in itself of essential importance in land credit—these bonds permit of a drawing together of petty hoards from every quarter of the country; they form by their sub-division (*coupoles*) a method of investment open to the poor as well as to the rich; they provide an almost perfect security for savings and return a good interest; they are transferable by mere delivery or, if personal, by mere endorsement (except when the law of the country requires a separate document), so that a holder can obtain the whole or any part of his savings practically at will; there is neither legal nor fiscal expense in the transfer; money is placed with the society which gives in return an interest bearing receipt; this, as against themselves, is not repayable except at its full *échéance* which in these cases is either the full time of perhaps forty to sixty or even seventy-five years, or the periodic general or special drawings; on the other hand, the holder can transfer his rights to another by simple delivery or by endorsement. Hence the advantage of these debentures over deposits is (1) to the bank that it can never have a mass of deposit funds lying idle and consequently either infructuous and costly, or liable to be hastily invested in unsafe transactions in order to avoid such infructuousness, for debentures are only issued as loan transactions demand them; (2) that, as the debentures are practically synchronous with the loans, the latter can be granted for as long a term as may be wished without fear of unduly locking-up capital, whereas deposits being repayable at call or at most at the end of a year, either there is constant danger of stoppage from the locking up of funds, or a great deal must be kept in reserve in liquid securities—a system inimical to the interest of a land bank; (3) there can be no run on the bank in case of panic, often ill-founded, as happens with deposits; (4) the bank's creditors are benefited, for their money is safely and leisurely placed in good securities, instead of hurriedly in bad or indifferent ones; (5) investors can obtain their money at will, viz., by sale of the bonds in the market and without making any demand on the bank.

It should be specially noted that certain Central banks have been started in Germany, one by a group of *Landschaften*, the other by the mortgage banks, solely for the purpose of issuing Central bank debentures. It was considered that the credit of a great Central bank, like the *Crédit Foncier* of France, issuing its debentures in several languages so as to meet foreign markets, especially London

and Paris, would have immense credit, and find a ready sale at rates of interest below those of mere local banks. They seem to have been pretty successful and the 3 and 3½ per cents. stand well in the market. It would seem, however, that the local banks themselves enjoy such good credit owing to their reputation for soundness and solidity that the Central banks are hardly necessary; it would be far otherwise if the local banks were obscure novelties, started, for instance, in a Madras district.

The method of issuing these central debentures is simple: the local bank arranges the loan with the borrower and sends the documents including the borrower's mortgage deed endorsed over to the Central bank which then issues its own debentures for the amount of the loan, retaining the documents as its security.

It is advisable to complete this subject by describing the English form and law of mortgage debentures. The issue of these is governed by 28 and 29 Vic., chapter 78, and 33 and 34 Vic., chapter 20.

Only companies, under the Companies' Act, entitled to lend money on the security of land, may issue these debentures, and they must limit their operations to lending on real property and on securities based on real property other than mines, mills and factories; their individual capital must be at least £100,000 in shares of not less than £50, of which not less than one-tenth or more than half must have been paid up. The controlling authority is the office of land registry established by 25 and 26 Vic., chapter 53; in this office all mortgage securities must be registered and deposited when debentures are to be issued thereon. The registrar opens a register in the name of each company, in which every security is entered as it is brought, together with a precis of its chief contents; with each security must be a surveyor's valuation report or certificate. Upon the mass of its securities thus registered and deposited, the company may issue its mortgage debentures, but so that the aggregate amount may never exceed the total value of the securities or of ten times the amount of its unpaid share capital whichever is less; all the securities together are charged with the payment of the aggregate of debentures issued, and to secure this, a quarterly return must be made to the registrar showing the value of all securities held, the value of other instruments and shares, the number, date and the value of all existing debentures; the registrar must keep a register of all debentures in his office separately for each company. The penalty for any excess or unauthorized issue is £500 in case of any person concerned, and suit may be made by any person.

Each company must keep a register of all debentures, entered up as issued. On the redemption of securities by borrowers, the company must prove to the registrar that the aggregate of all the existing debentures does not exceed that of the securities exclusive of those to be redeemed; in that case the redeemed securities are delivered by the registrar to the company.

No debenture may be issued for less than £50, nor for less than six months or more than ten years, but a provision is made for repayment at any time on six months' notice by either party; each debenture is a bond to be duly signed and stamped as such; it must bear a serial number and must contain an endorsement as to the capital of the company and the amount of the registered securities as per last quarterly return; no provision, however, is made for endorsing an entry of the amount of debentures then existing. When executed and stamped each debenture must be taken to the registrar, who will enter in his debenture register above mentioned, all the main particulars, and will endorse it with the date of registration and page of entry; without such endorsement, no debenture is a valid charge. As each debenture is discharged, the registrar, on proper proof, must enter the fact in his register.

Debentures may be transferred by endorsement, but the transfer must be registered in the company's books.

No provision is made for the method by which debentures are to be selected for cancellation when the company desires or needs to cancel any; it is not stated whether the oldest are to be selected or whether selection is by drawings. This latter method is adopted in England for the ordinary class of commercial debentures.

It will be seen that great precautions are taken, as in Europe, to ensure that land debentures are properly covered by the securities.

Deposits.—Deposits play a comparatively unimportant part in societies of the nature described; when every loan is financed by the emission of a corresponding debenture, deposits can find no employment and are a needless source of expense and danger; in order to employ them the bank must enter into ordinary banking operations with all their risks and with the chance of locking up money repayable at call. Hence, though deposits are received, they are not sought after by the land banks proper; they are, however, occasionally received since they provide funds which, devoted to short loans of ninety days, &c., or invested in liquid securities, furnish the needful circulating capital (*fonds de roulement*) without loss of interest. As an example the *Crédit Foncier* of France had, in December 31st, 1890, deposits on account current of about £3,300,000 in 19,025 accounts; the interest given was only one-half per cent. and the movement for the year in deposits and withdrawals, nearly £22,000,000. Since these funds were largely invested in Government paper and in short-term loans, they returned a good profit. The statutes of the society forbid the receipt of deposits above £4,000,000, and order one-fourth to be placed at interest in account current with the treasury, and the remainder either in Government paper, treasury bonds, ninety days' advances or securities recognized by the bank of France, or in ordinary commercial bills with at least two securities payable to the society's order.

Of the Swiss mortgage banks some, such as the *Caisse Hypothécaire de Fribourg*, are not authorized to receive deposits, so that the whole available funds, outside of their share capital and reserves, consists of the proceeds of their debentures.

Borrowed Funds.—These require no special mention, except to show the occasional relationship between the land banks and the ordinary banks; e.g., the Swiss *Caisse Hypothécaire Vaudoise* has a cash credit account with the cantonal bank, and with others if necessary, and has also at disposal—in trust—part of the funds of the cantonal Savings bank and the reserves of the cantonal insurance society. This land bank moreover obtains funds by the issue of ordinary debentures having no relation to the mortgages accepted by the bank, but simply raised on the credit of the bank, their holders taking rank only with the mass of creditors.

Bank Notes.—The great success of the Scotch banks fastened attention on their system—almost peculiar to them—of issuing their own notes, and the alluring schemes drawn up, especially in France, based upon a paper issue, were as endless as baseless. It was soon perceived, however, that the Scotch success was chiefly due to prudence of administration and to the adaptability of the system to Scotch conditions and national characteristics, so that the banks grew into success by reason of their fitness to supply a want; it was not merely by reason of their paper privilege, which was a convenience and an economy rather than a source of funds. Hence few land banks proper have any right to issue notes; in France none; in Germany only one is now discoverable, that of Bavaria which may issue up to two-fifths of its capital and £660,000 in notes inconvertible (*cours forcé*) from 10 florins (nearly £1) upwards. In Switzerland some of the banks, *e.g.*, Thurgau and Basel, are authorized to issue notes, but these banks also carry on banking operations other than mortgage loans.

The rarity of this privilege seems to show that it is not generally feasible and is quite unnecessary; in one case the bank's notes are only current by reason of the "*cours forcé*." The place of notes is taken by the debentures and their sub-divisions, which have the advantage of bearing interest, and by the interest coupons themselves. These latter—interest coupons—are detachable and payable to bearer, of course only at maturity; hence they frequently circulate as a species of currency when a debenture is drawn for repayment, the value of all unpaid interest coupons not presented with it, is deducted, and the coupons themselves are subsequently paid to the holder on presentation at maturity.

Security of Creditors.—The security here to be considered is simply that of the holders of debentures and of the other creditors of the societies; under the heads of 'Privileges,' 'State supervision,' 'Administration,' 'Audit,' 'Loans,' &c., will be mentioned the precautions taken for the general security of the society and its operations. The debentures enjoy by far the highest security; they are completely guaranteed by the whole mass of the mortgages held by the society, as well as by the general position of the society itself; and since (a) the amount of the bonds issued must not exceed that of the loans granted; (b) the amount of each loan must not exceed half the estimated value of the property mortgaged, and takes rank as a first mortgage; (c) the valuation is very strict and even severe and the examination of title and security very careful, the debentures have a very ample material guarantee. Moreover in all the mortgages, the value of the security increases as the debt thereon is paid off; if a property worth £100 suffices as security for a loan of £50, *a fortiori* it is more than sufficient as the debt is gradually attenuated by amortization. Further, the society has a privileged and summary method of procedure against defaulters, which adds considerably to the security these bonds offer. Debenture-holders in common with other creditors such as depositors, are further guaranteed by the whole amount of the capital if any, and reserves including the Government subvention.

The societies which, as in Germany, Austria, and Hungary, are mutual credit societies or associations of borrowers have, in lieu of the guarantee of a share capital, the joint guarantee of all their members in all their property, under the prevalent system of unlimited liability. In some, however, the liability does not extend to the whole property of a member, but only to the specific property pledged to the society for the loan (*i.e.*, whether he is in default or not the specific property pledged is liable for the society's debts) or, in some cases, to an amount equal to his loan and a fraction more. In certain rare cases the State or Provincial Government adds its guarantee, and in the Austrian joint stock banks it is lawful, if not compulsory, to declare specific portions of the assets to be a special guarantee fund for the debentures, so that other creditors have no claim on such fund until debenture-holders have been satisfied.

In the Hungarian land bank associations the usual securities for the debentures are (1) the mass of mortgaged property which the bonds represent, (2) the joint guarantee of all the members (in mutual societies only, *e.g.*, the Boden credit institution), (3) the capital (in joint stock companies only), (4) the reserve fund, (5) the mutual guarantee fund.

In the Swiss banks there are peculiar rules; *e.g.*, in the mortgage bank of Berne, which is a State (cantonal) bank, a loan is granted only on the recommendation of the communal council (village assembly) and all the inhabitants of the commune are then held liable for the loan or for the value of the property entered in the survey register (*cadastre*) and the commune must also report to the bank any depreciation of the property; the inhabitants have their remedy also against the council. This gives very complete security for the loans and consequently for debentures.

Privileges.—These are of various kinds: financial, such as subventions and guarantees from the State; the permission to issue mortgage debentures recognized as securities in which trust funds may be invested; the preliminary purchase of a number of these bonds to give the society a start (*Crédit Foncier* of France); privileges of State direction and supervision, privileges at law, as in the grant of summary powers and speedy procedure; the non-liability to attachment by Courts of debentures or the interest due thereon; fiscal privileges in the exemption—whole or partial—from certain classes of taxation, stamp and registration duties, &c.; executive, such as the utilization of Government officers, whether metropolitan or district, and Government treasuries, for the collection of annuities and the promotion of the bank's interests. These privileges are not found in all banks, nor does any bank enjoy all of them: some banks have some privileges and some others; many have none.

The financial and other privileges relating to debentures have been stated in a previous section *s.v.* 'Funds,' those relating to State intervention will be described hereafter under that head—*see* also 'Subventions' and 'Monopoly'; those relating to the security of loans and the recovery of money will be found under 'Loans.'

The only privileges therefore to be now described are *fiscal*. In Austria (Galicia) the land credit association founded in 1841 by the Provincial Government and with their guarantee, under the auspices of the Imperial Government, but in its constitution a free association of proprietors, and not a State bank, issues its bonds free of stamp duties and other charges, and their transfer is similarly free; the interest coupons however are stamped. In Denmark the bonds are free of stamp duty, and money orders sent to the society in payment of dues, pay reduced postal charges. In Hanover all transactions of the bank, except remittances, are free of postage. It does not appear that in Italy there are any fiscal privileges attached to the land bank operations. In Germany, the *Landschaften*, as being mutual societies and not joint stock companies, are free of income-tax which is the most

onerous of direct taxes (*cf.* Hungary); but the other land mortgage banks are not so privileged, a fact which greatly favours the *Landschaften*, which however pay all other taxes and stamp duties in common with other banks. The new Land Improvement banks, which are public institutions devoted to loans for land improvement only, enjoy "such freedom from stamp duties as is conceded to "the Fisc," as also freedom from charges for registration in the *Grundbuch*: these privileges are granted in consideration of the interest which the State has in improvements in general agriculture, and are paralleled by similar privileges granted by the law of 2nd March 1850, regarding the establishment of public rent charge redemption banks. In Hungary the State dues on the interest coupons of debentures are remitted, and also the tax on earnings (income-tax) as regards the two Mutual Boden credit institutions only: the latter exemption means a large profit to the bank, since one non-exempted bank had to pay £17,000 per annum under this head alone; there is however no remission of stamp duties on loan transactions. In France there is no exemption from stamp or other duties, but these are at favoured rates in the case of stamps and registration charges on the debentures issued by the *Crédit Foncier*, and an additional privilege is indirectly given in that which frees the society from the necessity of renewing every ten years, as is the case in the general law of lender and borrower, the registration of the bonds taken from its debtors; this of course dispenses with the charges due upon such renewals.

Rates of Taxation.—In general the land banks pay taxes just as other banks. In Germany, except the *Landschaften*, they are in no way privileged, but pay a 3 per cent. income tax, beside other duties. In Austria the taxation on all banks together, including the land banks, amounted, in 1889, to 24 per cent. of the total expenses for the year. In France the debentures of the *Crédit Foncier* pay as follows: on the bonds to bearer 3 per cent. annually on the interest, and 0·2 per cent. annually on the value; bonds to order pay an annual tax of 3 per cent. on their interest, and 0·5 per cent. of their value on transfer. All prizes and bonuses pay 3 per cent. of their amount to the State. The Italian banks are very heavily taxed, the rate being 13·20 to 13·57 per cent. calculated on either the whole income or on three-fourths, according to the source of the income, while the pressure of the income-tax in Hungary usually 5 per cent. on the income, without deduction of debts, may be seen from the fact mentioned above.

In the countries of Europe generally, registration is necessary to the validity of bonds, a rule made largely in aid of revenue, the charges being very considerable. In France the debentures of the *Crédit Foncier* must be registered, but pay a favoured rate of 0·1 per cent. instead of 0·5 per cent. as in the case with the debentures of all other societies. This does not affect the mortgage deeds between the society and the borrower, which are subject to the usual charges. The mere taxation of the *Crédit Foncier* amounted in 1890 to no less than £462,000, payable partly by the society, partly by its share and debenture-holders, while its clear profit—all charges, taxes, &c., deducted—was £888,000. The stamp duties are payable by borrowers in all cases without special privilege.

Clientèle.—The oldest banks were formed on the principle that only members might borrow: this is maintained to this day in the *Landschaften* and is continued in all popular banks and mutual credit societies. The question then is, who may become members? In the Old *Landschaften* only "nobles" could be members; the banks were expressly founded for them, the "peasants" being disregarded. Gradually however this restriction to some extent disappeared; peasants were admitted—with restrictions—to borrow, and the New *Landschaften* generally admit them. But a restriction is found in the minimum prescribed for loans; in some cases loans may not be given on property below £83 in value; generally the loans may not fall below £42 or a considerably higher sum, their minimum being prescribed by the statutes. Even where the minimum loan is fixed at a small sum, in practice the loans actually granted are considerable; small business is risky, troublesome, and unprofitable to the bank, and is not undertaken. The Hungarian Boden credit society, for instance, had in view the large and medium landholders; it was founded by rich and patriotic men of the aristocracy (*par la munificence des grands propriétaires, par l'aristocratie hongroise*,—M. L. de Wagner), and by statute, will not lend sums below £83, *i.e.*, practically, on estate of less than 50 acres, though one-third of the whole area of the country is held in estates below 44 acres. As a matter of fact the loans average far above the minimum in this as in almost all other land banks; even the cheap and popular savings bank of Milan cannot in practice lend in Venetia on estates below 75 acres in area, whatever it may be able to do in its own neighbourhood, while the general average of the Italian land banks is very far above that. Hence the small proprietors are not the clients of the land banks: practically none below the proprietors, who in Germany are known as team-owning farmers, *i.e.*, who hold above 15 or 18 acres, can hope to borrow.

The joint stock banks, such as the *Crédit Foncier*, will lend to any one who can offer good real security, but, as a rule, have a statutory minimum for loans, and in practice lend considerably above that minimum. The real peasant class holding below 20 acres, are not reached by the land banks generally; practically they are financed, as regards mortgage loans, by money-lenders only, and occasionally by Savings banks, except in Switzerland and in some of the very small German States. Mere land credit banks, said the German Minister of Agriculture (1887), are unsuitable for the needs of the small peasant, *i.e.*, of men holding below 15 or 20 acres.

Administration.—This, as regards the *Crédit Foncier* of France, has been sufficiently dealt with in the section treating of that company. There is a board of directors elected by the general assembly with an official element in the governor and sub-governors and three Government officers of finance. The committee of control is also elected by the general assembly and has large powers of supervision; the general assembly not only elects the directors and controllers, but can also modify the statutes, settle the dividend, &c. The real power appears to be with the governor who is appointed by the Government *quandiu se bene gesserit*.

There are seventy-three district agencies, and a consideration of these is important; Originally the law authorizing the societies ordained that branches were to be started within the jurisdiction of each Court of appeal, so as to bring the society to every one's door; from each branch other agencies were to be directed. In 1854 this was altered and the establishment of branches was made optional, and not till 1879 was any attempt made in the direction of district work, a fact not without its lesson for

India. As might have been expected, a great demand at once sprang up for loans, and soon sixty-five, now seventy-three, direct branches or agencies, were at work. The work of the agents is to bring the operations of the *Crédit Foncier* to the knowledge of landed proprietors, communes, and public bodies; they instruct borrowers as to the formalities required for getting a loan, aid them in reducing to writing and filing their desires and petition. They advise the central board, pay out the loans granted by the board, and receive subscriptions for the society's debentures; annuities, it will be remembered, are paid by borrowers into the local Government treasury. They receive a fixed salary and commission on operations effected; and it is proposed to assist them by a committee of local persons of influence. To judge by the figures of recent years, the agencies have not been successful in promoting small loans on land, whatever they may have been for other purposes.

The above system of administration is with modifications, that adopted by the joint stock banks of the rest of Europe, *e.g.*, that of Austria, in which however the governor is proposed by the board of directors though actually appointed by Government; his assistants are appointed by the Minister of the State Department which supervises the bank. But there is also a Government commissioner—not found in the French society—who has great powers of supervision and of veto; see 'Austria, Boden Credit Anstalt' *supra*. In the Central Prussian land bank, which is a joint stock company, the board of directors elects the president and his assistants, but the appointments are subject to the approbation of Government; there is also a Government commissioner of control. In the German mortgage bank of Berlin, also a joint stock bank, the president is elected by the board of directors apparently without submission to Government, but every operation of the bank is subject to Government supervision and control. The *Crédit Foncier* (joint stock) of Southern Germany at Munich has two directors chosen by the committee of supervision which consists of twenty-one members chosen by the shareholders. But Government reserves a right of supervision by means of a commissioner appointed *ad hoc*. The Pomeranian mortgage bank (joint stock) has a directorate, committee of control, and general assembly, but Government takes a chief part in its business operations. No shareholder can dispose of more than twenty votes, and ten shares only gives one vote. The joint stock '*Crédit Foncier et communal*' of Alsace Lorraine, founded in 1872, is administered by directors, by a committee of supervision, by the general assembly of shareholders, and by a Government commissioner. The directors are nominated by the committee of supervision which in turn is elected by the general assembly; no shareholder can have more than ten votes and ten shares give one vote.

In Switzerland the Bernese bank is a State establishment exclusively administered by State officials. That of Geneva is peculiar; its capital is contributed by the forty-eight communes (villages) of the canton, each holding shares in proportion to its importance; these communal shareholders elect delegates to district councils or colleges, which in their turn elect eight deputies to the board of directors; these eight with seven from the municipality of Geneva and three nominated by the State form the board. The bank of the canton of Vaud which is a joint stock company, having a capital of £400,000, of which only £20,000 is contributed by the State which also guarantees a 4 per cent. dividend, has a council-general, a council or control of supervision, a council on board of directors. The council-general consists of a chairman, who is a member of the council of State, and is appointed by it; of ten directors who are also appointed by the council of State, and of ten appointed by the general assembly of shareholders; hence there are eleven Government members against ten from the society. The committee of control consists of the president and four other members appointed by the State from a list of twelve submitted by the council-general. The board of directors consists of the president and of four directors appointed by the State from a list of twelve submitted by the council-general; hence the administration is practically that of the State.

The above sufficiently deals with the joint stock banks of the modern type. The older institutions (Landschaften) are differently administered. That of Pomerania, the oldest but one in Germany has been described above, it is a combination of election, and Government appointment. The general assembly has the usual powers, but its decisions are subject to royal sanction obtained through the Home Department; this assembly seldom meets, its place being taken by a committee of elected delegates which audits the accounts, &c., and has general powers. The Province is divided into four districts (Bezirke), each having a local director, elected apparently by deputies from each 'Kreis' (taluk or circle of villages), who with a syndic or counsel form the district council or college. The deputies of the four districts elect—subject to royal confirmation—the director of the central administration and his two co-adjutors who are under the supervision and control of the Home Department (Minister of the Interior) and a royal commissioner, who presides at and guides all central and district meetings and has a casting vote. The district administration disposes of all local work, but is controlled by the central directorate to whom it submits all proposals for loans. With the exception of those in Westphalia and Schleswig Holstein which are purely private, the Landschaften have a quasi-public position; their administrations savour of the official, and their officers are quasi-public and as such subject to the disciplinary law of 1852.

Perhaps the most striking feature of the administration of the Landschaften is the manner in which all members—not merely office-bearers but members, *i.e.*, borrowers, are compelled to work almost gratuitously on behalf of the bank. Every member is bound to take office under penalties which may extend to the calling in of his loan or the sale of his estate, and against such decision he has no appeal outside of the bank. Every member is bound to carry out any lawful order or duty imposed on him by the bank authorities, including such delicate tasks as the valuation of properties for loans, the management of sequestered estates, the duty of deputy, councillor, &c. For these duties the remuneration if any, is of the slightest description. The mutual or co-operative principle is in fact compulsorily worked to an astonishing degree, and under rigid penalties, and it is this provision which really enables the Landschaften to work at considerable distances from their centres without much cost or risk.

The Württemberg land bank, which is independent of Government, appoints, by its general assembly, a board of ten directors, which in turn elects its president and a legal adviser. The general assembly also elects an auditor, and three supervisors. But the due examination of the banks' statutes and any proposals to change them, are under the supervision of a Government commissioner who submits his report to Government.

The Credit Union of Saxony is a society of proprietors and is administered by a board of directors, a general assembly, and a staff of employes; a royal commissioner supervises and audits the books and accounts, and no mortgage is cancelled or debenture issued without his permission.

In Galicia (Austria) the bank was founded in 1841 by the Provinces under the imperial protection, but is a free association of proprietors like the German *Landschaften*. The administration is however under the authority of the Provincial Government; there is a president and vice-president nominated by the Diet and confirmed by the Emperor; two directors are then nominated by the Diet and two by the Diet and association jointly. The committee of control is a Provincial committee and supervises all operations, especially the emission of debentures; it can even suspend operations till the next general assembly. The statutes cannot be altered without the permission of the State. The State committee appoints district commissioners for local work. Finally the royal commissioners assist and supervise the general and local commissioners. The administration of the Hungarian Boden credit institution, which is a society of proprietors of a philanthropic foundation without any share capital or dividends and working only for the benefit of its member-borrowers, but under the supervision of Government, is as follows:—

“The institut is governed by a directorate and a committee of control, who are responsible to, and elected by, the founders’ assembly and the general assembly. The directorate is composed of a president elected by the general assembly for three years out of three names submitted to it by the founders’ assembly; and of at least three, and of at most five, other members chosen by the committee of control. Non-members of the institut are eligible to seats on the directorate. The committee of control consists of thirty-six members, eighteen of whom are chosen by the founders’ assembly and eighteen by the general assembly. The founders’ assembly is composed of the original founders or their successors. At this assembly each founder has one vote, which he can exercise personally or by proxy; but no founder can dispose of more than ten votes either in his own name or in those of his mandatories. Twenty founders, representing at least thirty votes, form a quorum. The general assembly ordinarily meets once a year, and the following are entitled to vote at the meetings:—

“1. Those who have received a loan through the institut amounting to at least 50,000 florins (about 4,200*l.*). These members each have one vote, which they may exercise personally or by proxy.

“2. Those members who have received loans of less than 50,000 florins in value select their delegates to the general assembly, in each district one delegate being chosen to represent an aggregate value of loans of 400,000 florins (about 34,000*l.*).

“The duties and functions of these several bodies are the following:—

“The directorate has the general supervision over the affairs of the institut, and is the executive body; but it works under the watchful eye of the committee of control.

“This latter body is intrusted with the duty of securing the strict observance of the statutes, and of preventing any act which might endanger the credit and financial stability of the institut. At least three of its members must attend every meeting of the directorate at which the grant of loans is under discussion; and no loan can be accorded unless a majority of the delegates from the committee of control consent thereto.

“The committee of control has further the right to inspect the books and accounts of the institut; and it is bound to examine the ‘caisse’ at least once a quarter. It has also to make an annual report to the general assembly on the finances of the institut, and must carefully watch over the proper proportion being preserved between the amount of bonds issued and the value of the mortgaged property held in security. It will be seen that the powers of the control committee are extensive, and as it elects the board of directors, it may practically be considered to be the ruling power in the association. On the other hand, as its members are chosen from the founders and from the general body of members, it is responsible to its electors, and its action can be scrutinized and checked at the general meetings.

“The founders’ assembly, which is called together by the directorate, is empowered to examine every proposal which would lead to a modification of the statutes, and to decide whether such proposal should or should not be submitted to the general assembly. The general assembly receives and discusses the annual reports of the directorate and of the committee of control, and examines and approves the accounts which are submitted to it. To this body, as was stated above, are submitted all proposals for amending the statutes; but no measure in this direction is finally complete until it has received the sanction of the Hungarian Government.

“Local committees, composed of members of the institut, are established in the Provinces to watch over the interests of the institut and to act on local agencies.

“A Government commissary is appointed to superintend the observance of the statutes, though his participation in no wise relieves the authorities of the institut from their legal responsibility. This functionary countersigns the report on the annual accounts, and he has the right to inspect the books and accounts whenever he desires, and to make any inquiries or investigations which he may think fit. He would naturally report to Government any breach of the statutes, and action could be taken on his report. The institut is, with the exception of the Austro-Hungarian bank and the institut which lends money to the smaller land-owners, alone among mortgage loan associations in being under such direct Governmental control; but, on the other hand, as will be shown hereafter, it is in enjoyment of special and exceptional privileges from the Government” (*Commercial 9 of 1891*).

In Switzerland the cantonal mortgage bank of Berne has a remarkable system of administration. This is a State bank administered by the Financial Department and the executive council, through a nominated directorate and council of supervision, a manager, &c. But the real work is done by an ingenious dovetailing of the communal (village) councils into the bank. Every loan application must be presented by a candidate to the communal council, who are bound to verify all his statements, give their own valuation, opinion, and recommendation, if approved, and send the papers on to the Registrar of Mortgages, who further verifies the allegations from his land registers. The communes are responsible for any over-valuation, and for any loss which can be traced to any negligence or misstatement on their part, and they are further bound to watch the mortgaged property and to report any alienation or deterioration which may affect the bank’s security. It appears also that the annuity instalments are paid either through the communal tax-gatherers or other revenue officers. Here

the real work and responsibility of the administration are thrown on the village corporations who are unpaid and yet responsible agents; they take all the risk, but none of the profits, it being held, presumably, that their profits arise from the benefits which every resident of the commune may enjoy in obtaining cheap credit. The safety of the Central bank is secured by the fact that the local agents (communes) are liable for all loss. This ingenious arrangement is unique, though possible wherever the commune is, as in Europe, a corporate body with corporate property, with common borrowing and other powers, and corporate duties and rights. The Indian village, though in some parts more of a brotherhood, is not a *municipium* like the European commune or even the Russian Mir: in this Presidency it is little more than an aggregation of individuals with common customs.

It is the general rule in Europe that all officials of the higher classes, governors, directors, supervisors, &c., shall give security, usually in the form of shares of the company or society, which are inalienable during their term of office, are marked by a special stamp in evidence of this, and are deposited among the securities of the company.

It is also not uncommon for the general assembly to consist not of all members, but of the chief holders of shares, e.g., the general assembly of the *Crédit Foncier* is composed of the 200 largest shareholders. The general meeting in 1891 consisted of 110 shareholders, representing 41,766 shares with proxies for 29 representing 12,077 shares; there were at that time 21,642 shareholders.

The holders of a bank's debentures frequently have the right to join an assembly with power to watch over their special interests.

Audit and Control.—In Europe the place of auditors is filled by special committees of control and supervision (engere Ausschuss, Censeurs, Sindaci, &c.), the appointment and duties of which are settled by the Codes of Commerce or by special laws. But in many the Government commissioner whose position and duties will be described under 'State intervention,' seems to exercise many of the functions of an auditor in his inspection, *per se aut per alium*, of the accounts and securities and his investigation of the operations of the society. In Europe the law of societies invariably provides for this standing committee of supervision, which will be found more particularly described under 'Popular banks' and under 'Law.' Their position is above that of the directors or committee of administration; the latter are the executive and represent the society, but the former are controllers and the guardians of the society's interests, and are often given the power of suspending directors. The auditors and controllers (censeurs) of the *Crédit Foncier* of France are a standing committee of three, elected for three years by the general assembly and are eligible for re-election. Their duties are to see that the statutes are strictly adhered to—a duty which includes the proper disposition and investment of the funds according to the statutes; they must be consulted by the board of directors; they watch over the issue of debentures, and especially see that the equilibrium between debentures and loans is strictly observed; they examine the accounts, balances and position of the society, and report annually to the general assembly upon the directors' report and balance sheet; all accounts, and books are open to them, and they must verify the cash balance and the bill case at intervals; they can also call on the directors to summon an extraordinary general assembly. Their functions are borrowed from the statutes of the bank of France. They are obliged to hold at least 100 shares in the society; these are inalienable and are deposited in the society's safe.

In the German banks which are followed by the Austrian and Hungarian, the committee of control and supervision fills a most important rôle. In the *Landschaften* the select committee (engere Ausschuss) is the chief supervising body, which must examine all accounts and approve of the annual budget and report. The general committee (directorate) is of course responsible, as usual, for sudden inspections and audits, and, in their respective branches, the district committees and especially their chairman. In the Hungarian *Boden credit* institution (a society of proprietors), the committee is a large body with extensive powers, and in its duties of audit, it has to inspect the books and accounts, and to check the cash balance at least once a quarter; it sees to the maintenance of the equilibrium between the grant of loans and issue of debentures, it watches over the financial stability of the society and reports annually on its finances, it is independent of the board of directors who form the executive, and is responsible only to the general and founders' assemblies. In the Hungarian mortgage bank—purely joint stock—the council of control, of three to six members, is elected by the general assembly and is independent of the executive board of directors; its duties are similar to those of the *Boden credit* institutions committee, and it is particularly required to examine the mode in which mortgage loans have been granted.

In the Mortgage Bank of Spain the three auditors for examination of the books, accounts, and operations are elected by the general assembly and not by the directors.

In Italy the rule for each privileged land bank is for the committee of supervision to consist of a delegate of the society, of a delegate from the Provincial administration, of a delegate from the communal and municipal administration, of a delegate from the chamber of commerce and of two auditors, nominated by the board of directors. Their duties are those described above for similar committees, but in addition to this committee, a Government committee consisting of delegates from the prefecture, and from the Government Audit office, examine, every two months, all the operations and accounts of the society.

There does not in Europe seem to be any provision, as in England, for purely professional audit *ad extra* of the operations of land banks.

State Intervention.—The most noticeable feature in the organization of these land banks is the pervading presence of the State, in all degrees, from the complete direction and control found in the State banks, to the general supervision exercised over private joint stock companies; the State in no case leaves this form of bank to its own devices, but watches its proceedings with jealous care, and, usually by special law, provides most stringent rules and heavy penalties for malfeasance or even neglect of regulations. It is true that Continental Europe is accustomed to a general regime very different from that of England and India where the principle of non-intervention is generally held to be the true gospel in political economy, but in the matter of these land banks the intervention of the State is so marked as to show that there are particular reasons for it, some perhaps historical in the custom which has continued from last century when Frederick the Great erected the first land credit societies by his simple fiat, some, certainly, in the nature of the operations to be undertaken and the

class of people to be dealt with. It is, in fact, held by some European economists, German especially, that the State should undertake banking as it does the Post office, Railways, the Currency, &c. Others, on the contrary, object to State intervention, as savouring of State socialism, as tending to cramp, or even stifle the business energies and independent action of a nation, as developing still further that dominant bureaucratic action which is so all-pervading and powerful in Europe; as favouring—in the matter of credit—the class of borrowers at the expense of the general tax-payer. Others however believe that, while not bound to direct action, there are conditions which call for State interference in favour of an industry—agriculture—the stability of which is so absolutely necessary to the welfare of a nation, and they would admit or even require State intervention by way of encouragement and promotion, subvention and guarantee, control and supervision, and privileged procedure. These last opinions are almost universal in Europe where the conditions and history of society are so utterly different from those of England, and it will be seen that State intervention in all the last-mentioned forms is absolutely universal, not indeed in all forms for all banks, but for all land banks in one form or other.

Government control and supervision in varying degrees are then universal in Europe in the matter of land banks; it is recognized whether in France, Germany, Austria or Italy, that land banks must be controlled or at least supervised by Government authorities; the absolute need of agriculture for capital on moderate terms; the impossibility and danger under existing conditions of supplying it by private lenders; the inability of the people generally, under these conditions, to start and successfully work a land bank without State assistance and guidance; the evil of allowing newly-started banks to risk their credit in loose or misdirected operations with the consequent danger of failure and irretrievable damage to credit in frightening capital from associated and systematic effort; the danger that, without such control, the landowner might find that he had merely exchanged the private usurer for a mechanical screw-vice provided with powers of coercion, specially supplied, which the usurer lacked, seem to be among the reasons which have determined all European Governments to interfere more or less completely in the guidance and supervision of the land banks. The conditions which existed at the starting of the banks determined this action; the people were either nobles whose position round the throne, and in the then economy of their country, required the support of legally secured credit, or they were poor and ignorant peasants whose very life blood was being drained by private usury; nobles and peasants alike were in the hands of the money-lenders, and were incapable by their sole efforts of extricating themselves or of managing credit associations without supervision. Again, in late years it was necessary, in the still unimproved condition of the petty proprietary who form the great mass of landholders, to prevent associations of capitalists from exploiting the country, as the individual money-lenders had done before them; *per contra* owing to the extreme difficulty of dealing successfully with ignorant, suspicious, heavily indebted masses of small holders, Government connection with the banks was needed to give that official sanction and support which in much-governed Europe is the *sine quâ non* of rural dealing. Hence the great difference between the history of continental land banking and the banking of England and Scotland, and it may well be that in this, which is found a necessity in Europe—and strange to say—as will be hereafter seen in the most independent of countries, the United States of America, there is a lesson for Indian rural land banking. Free banking suits English and Scotch conditions and the peculiar history and development of society and of economic history in those countries, but is not necessarily suitable to other conditions as in India; nay, it may be a grave error.

State intervention then is of several degrees and kinds, viz., (a) in foundation, (b) in initiation and promotion, (c) in subvention, (d) in guarantee, (e) in control, (f) in supervision, (g) in the grant of privileges.

Foundation.—The State has not often, except in Russia and for special purposes in Germany, directly founded banks; it has rather contented itself with ordering or assisting—by legislation or otherwise—their foundation by societies. The only great States which have attempted direct foundation are Russia and Germany, all others are very small States, such as Hanover, Nassau, Hesse Cassel, and the several cantons of Switzerland. Belgium made proposals based, it seems, on the Galician type of bank and partly passed a law in 1851, but the law has never been completed or carried into effect. Little is known for the purpose of this study of the Russian banks, which are described *supra* s.v. 'Russia.' Apart from those of the small German States, the only German State banks are the rent charge banks of Prussia, established, as a political necessity, to assist the peasants to redeem feudal charges, and the Provincial Landeskulturrentenbanken established to assist works of improvement such as drainage. There are however the Provincial Hilfskassen (help banks) for aiding the establishment of further institutions, the payment of municipal debts, the improvement of unproductive lands, and the establishment of industrial works. These, established and endowed with a fixed subvention by the State, were in 1875 transferred to the Provincial administrations. There are also numerous communal establishments on a small scale.

With the above exceptions there is no State bank of any importance or in a State of any size.

But that which can be done in a State, Province or Canton, which, though often far less in area and population than a Madras District or even taluk, may have a complete Government, with ministers, departments, and all the paraphernalia of a modern and highly bureaucratic Government, cannot necessarily be effected in a State of a couple of hundred thousand square miles with 30 or 40 millions of people, and accordingly, except in Russia, there is nowhere to be found any State bank lending direct to proprietors, established by the Government of a great State. Moreover the Russian peasants' bank lends rather to communes and districts than to individuals, and its operations, so far as is known, are of questionable commercial stability; it lends up to 90 per cent. of the estimated value of the property, a proportion nowhere else admitted or even approached, and the real value of this material guarantee is doubtful. The fact remains, however, that great and pressing as are the needs of the millions of peasant proprietors in France, Germany, Austria, Hungary, Italy and Belgium, not a single State land bank exists for them, except a few isolated banks in petty States or Provinces; some of these are successful as in Hanover, Hesse Cassel and Berne; others unsuccessful.

Initiative and Promotion.—Broadly speaking all the institutions of the older class owe their establishment to State impulse. The Landschaften were due to the direct intervention, authority, and aid

of Frederick the Great in 1770, who simply ordered their formation and the adherence of all "Noble" proprietors in each Province; in all Germany prior to 1860, there were not four land banks founded by private initiative. Apart altogether from the annuity banks created by the law of 1850 to redeem the commuted feudal, &c., charges, the Prussian Government from 1850 onwards, ceased not for more than twenty years to study the subject of land banks; bills were presented to the legislature, discussed and dropped; the Minister of Agriculture summoned conferences of experts; the economic council was moved to consider and report upon the subject; enquiries, congresses, committees and bills followed without avail; the economic council was again moved by Government to give its advice, but the council broke up in despair at the diversity of opinions; finally a special commission was appointed (1870), which gave an opinion in favour of associations of proprietors, and advocated concessions to such. No legislation however followed, and though no new banks were directly assisted by Government, yet the great development both of *Landschaften* and mortgage banks, between 1860 and 1880, must largely have been due to the State provocation of incessant discussion of the subject. The *Crédit Foncier* of France is the result of the action of the French Government in 1852, not directly, but by the means of the enquiries set on foot by its several ministers and by the law which was the outcome of those enquiries, which favoured and practically caused the establishment of the society by the grant of various privileges; while in no sense an imitation of the German *Landschaften* it was based upon an examination and knowledge of their methods, which were combined or adapted to suit French habits and ideas. In Italy Government drafted laws in 1853 and 1862 to favour a similar foundation with the avowed object of supplying agriculture with capital; with this view they appointed a commission to study the whole question and to examine projects and business men on the subject. They subsequently arranged a convention for a society with certain privileges of subvention, monopoly, &c., which however fell through in parliamentary discussion. In 1866 this specific business was granted as a monopoly to eight banks already in existence, and this law was followed by others in 1884, 1885 and 1890 all intended to produce a proper land credit system. In Austria the right was granted in 1857 to the National bank, but the first land bank was established in Galicia in 1841 by the Provincial Government and protected by the Imperial Government. Many more have since been started with or without the Government aid, but the initiative was with Government. In Switzerland the various cantons have directly established several such banks and have assisted others as in Vaud. The countries of Europe at least prior to 1852, in all and even now in Italy and others, have depended upon Government for their initiative in systematic credit designed to oust the usurious non-systems which till then were the only source of credit and were "draining the life blood" of the landed property.

Subvention.—State aid has, however, occasionally assumed the form of financial aid. The four or five Old *Landschaften* received considerable sums, partly to supply the first instalment of funds, partly as a reserve against contingencies, but it is unquestionable that the subvention was due to the autocratic nature of the foundation; when a Frederick the Great not merely orders the foundation of a land bank but, by the same arbitrary, if wise, fiat, orders that not merely all members of the bank, but every noble owning lands within the Province shall be wholly, if ultimately, responsible for all the bank's operations, a State subvention to minimize the risk is the logical sequence of the fiat. In Russia the Czar Alexander supplied, in 1818, the funds necessary for starting the credit bank. In Galicia the Austrian Government granted funds, as a reserve only, to the association, which was founded not indeed by Government but under State auspices. In Roumania the Government granted a subvention to each of the special land credit societies which are formed under their auspices and control. The *Crédit Foncier* of France, a joint stock company, obtained a subvention from the State of £400,000 in addition to an understanding that the State and departments (Districts) would purchase a quantity of the society's debentures, in order both to provide the first funds and above all to give the public confidence in its stability. Similarly in Sweden, the royal mortgage bank, founded in 1861 under State patronage, has obtained an endowment of £444,000 paid in Government 5 per cent. paper; the object of this bank is to furnish Provincial mortgage associations with funds for their operations, for which it receives 3½ per cent. But the State has also granted as a guarantee capital, a sum of £320,000 in bonds not repayable and bearing interest; these bonds cannot be negotiated except in case of urgent necessity as provided by the statutes. In Switzerland subventions are granted by certain of the cantons to joint stock land banks, e.g., Vaud in which the Government holds 1,000 shares and guarantees 4 per cent. interest; so also Geneva and Fribourg, the State grant in the latter case being one-eighth of the share capital. In Hungary the Boden credit institution, founded in 1863 as a mutual credit association, has received £41,666 from Government as a contribution to its reserve fund; and the loan institution for small proprietors founded in 1879 received a similar grant.

The subvention is useful chiefly as an evidence of the belief by Government in the credit of the bank, of the connection of Government with it, of its interest in its success, and of its approval of its operations, as an advertisement to the public that the Government desires the success of the bank and believes in it and its usefulness; it is the Government stamp on the bank's currency. It is in fact seldom drawn upon; the money lies as a reserve, bearing interest which is again credited to the reserve; Government lose nothing but the interest and in several cases the principal has been subsequently repaid; in some a small interest below market rates is paid by the bank; in one Swiss bank at least, a high interest (above 5 per cent.) is obtained by the State as a dividend.

Guarantee.—Another form, whether of substantial funds or a grant-in-aid of reputation, is found in a form of guarantee. In the State banks Government of course takes all risks as well as all profit and therefore guarantees the public which accepts its bonds. The Swiss banks of Vaud and Fribourg, both of which are joint stock companies, enjoy as to their shares, a guarantee by the cantonal Government of 4 per cent. interest, the State claiming a large share of the management through its appointees. In Germany there is no Government guarantee to the present land banks (not being State), for it is no longer needed, but the rent charge banks, formed to assist the peasant in paying off his commuted rent charges and services, are guaranteed by Government on all their obligations.

Control and Supervision.—This is usually considerable. In the land association of Pomerania, which may be taken as a type of the *Landschaften*, the control of the society is with the Home Department, and a Royal commissioner supervises all operations, and has a supervising and controlling power almost unlimited.

The directors and councillors are elected by the deputies representing the associations, but the appointments are subject to Royal approbation. The Royal commissioner opens the meetings, directs and closes the discussions, and has a casting vote; even the general meetings are subject to his guidance, and their discussions, at least as regards any change in the statutes, are sent to the minister, who submits them for Royal sanction; the functionaries of these *Landschaften* are considered as quasi-public, and are subject to the Disciplinary Act (1852) which regulates public servants. In Austria, the Provincial land bank of Galicia is subject to the Provincial Government, the directors being appointed by the Provincial assembly (Diet) and confirmed by the Emperor. A State committee supervises all operations, and Royal commissioners are added as a double security. This bank, however, was founded by the Provincial Government, though it is an association of proprietors and not a State bank. In Württemberg the land credit association is independent of the State, which however appoints a Royal commissioner to watch over the due execution of the society's statutes.

In the new class of joint stock land banks, typified by the *Crédit Foncier* of France, the control of Government is also met with. The *Crédit Foncier* itself was, at its foundation in 1852, placed under the control of three State Departments, but this proved cumbrous and inefficient, so that in 1854 the present plan of a governor and sub-governor appointed by and responsible to the State was adopted; the governor has very large powers of execution and of veto; all appointments are made and cancelled by him; nothing can really be done without or against his authority, so that the *Crédit Foncier* is practically governed, though indirectly, by the State. Moreover three of the directors must be chosen from the Government finance officers. The State subvention is no sufficient reason for this intervention, which is out of all proportion to the States' financial interest in the matter; an interest of £440,000 in a society with a capital of more than £7,000,000 and existing operations of £126,000,000 is wholly insufficient to account for the controlling part taken by Government; it is the necessity for assuring the safe and proper working of a great and much needed land bank that has caused the intervention.

Similarly in the *Crédit Foncier* of Austria a joint stock society, the governor is appointed by the Emperor, and the directors by the minister under whose supervision the society is placed; there is moreover a Royal commissioner, who controls the issue of and signs the debenture bonds, maintains strict execution of the statutes, and has a power of veto over every resolution, even of the general assembly, which appears to him to violate those statutes. In Austria, in fact, all banks and joint stock companies of every description are subject to State supervision; their rules must be approved by, and their balance sheets submitted to, officials appointed to examine them. In Hungary the *Boden* credit institution, the *Austro-Hungarian* bank, and the special institution for credit to small proprietors, are largely controlled by a Government commissioner who can inspect the books and accounts whenever he pleases, and make any enquiry or investigation that he thinks fit; he is obliged also to countersign the report in token of the correctness of the accounts, but even this does not relieve the bank authorities from responsibility. Other institutions are not so controlled.

In Germany the *Central Boden Credit Anstalt* of Prussia, a joint stock company independent of Government, appoints its own directors, &c., but the election is subject to State approval; there is also a Government commissioner who supervises and controls operations, and countersigns all debentures; his salary is fixed by Government and paid by the bank. In the joint stock mortgage bank of *Pfalz* (Palatinate) established only in 1882, Government exercises control through a commissioner placed under the Minister for Agriculture, Commerce, &c. This commissioner is bound to see to the observance of the Articles and Rules of business, especially as regards the issue of debentures, their equilibrium with the mortgage loans and the security of the bank advances: he has the right of presiding at all the meetings of the general assembly, directorate and committee of supervision, and can summon these bodies; he can always inspect the cash, books, accounts and other papers of the bank at its office. All the costs of State supervision are borne by the bank and any alterations in its Articles require the confirmation of Government.

In the case of this class of mortgage banks in general the powers of general supervision exercised by the State are summarized as follows in the 'Dictionary of German administration.' "The control of Government as regards these banks extends generally only so far as their statutes provide for the co-operation of Government in the matter of guidance and management, or when the issue of mortgage debentures (*Pfandbriefe*) depends upon the sanction of Government. In the banks of Middle and South Germany there are specially nominated State commissioners who supervise the administration in general, and who can veto the resolutions of the society, if they are contrary to law or their statutes; they have also to examine into the correspondence of the debentures and mortgages. In Prussia, where the business of the mortgage banks* is chiefly limited to urban property, there is a special State commissioner for the *Central Boden Credit Joint Stock* company of Prussia; the others are supervised by Government only if they issue debentures (*Pfandbriefe*) or do insurance business. Supervision is exercised over them by the district officer (*Regierungspräsident*), and in the ultimate resort, by the Minister of Agriculture. The standard regulations of 6th July 1863 are authoritative in the matter of applications to start such banks; these regulations prescribe the maximum limit of loans, the proportion between the amount of debentures and of the share capital, the minimum rate of amortization and rules to prevent the oppression of debtors."

In Italy the societies or banks permitted, with certain privileges, to deal in land mortgages, after the fashion of the *Crédit Foncier* of France, are placed under the supervision of the Department of Agriculture and Commerce; every two months their accounts and operations are inspected and verified by official inspectors, the chief of whom is present at all meetings of the committee of control, has a large power of veto, checks the issue of debentures, watches over the drawing of lots, &c. The several societies pay the salaries of the various inspecting officials. Every week moreover each such bank must publish in the official gazette a statement of its operations, and every year its balance sheet. All resolutions of the board of directors must be sent to the minister within eight days of passing, and the minister may within ten days annul such resolutions as he deems contrary to law or to the bank's regulations. Every six months, a complete statement of all loans with details regarding each

* Not the *Landschaften*, but the *Hypotheken Banken*.

must be drawn up and sent to the minister, in order that the amount of bonds in circulation may be registered. In fact a complete control is exercised over the banks, especially as regards their loans and finances.

In Roumania the *Crédit Foncier* is controlled by two Government commissioners, who watch all operations, examine the books and cash, are present at meetings, countersign the debentures, and report quarterly to Government.

In Sweden the banks not only arrange for audit, but the Government of the Province appoints a commissioner to examine all the securities, accounts and transactions at any time whatever and to assist in drawing up the quarterly balance sheets; the Finance minister can also order an investigation at any time, or can require explanations. Hence there is a very complete Government audit and control.

Enough has now been said to show the nature of Government control and supervision, and its universality. The general object is to ensure the exact observance of the law and of the statutes of the society, to provide additional State audit, to prevent any malversation of funds, to make the security of the bank and of those interested in it as complete and lasting as is possible, and to prevent the banks from being so worked as to oppress rather than assist their debtors.

There are then the following methods of Government control and supervision: (1) complete management direct by State officers as in the case of State banks; (2) management by a governor with assistant financial colleagues, all of whom are experts appointed by Government and with such large powers that the management is practically vested in them, and therefore indirectly in Government; (3) management by the societies, with the supervision of a special Government expert (commissioner) who is charged with watching all operations, with making inspections and with countersigning all bonds of the society, so that the debentures in no case may exceed the amount of the mortgage loans, and who has large powers of control and veto; occasionally other Government officers have seats in the direction, but no preponderating influence or power; (4) management by the societies, under the general supervision of a Government minister (finance, or agriculture and commerce), to whom various returns are periodically sent for examination, and who has various powers of veto and guidance; to which is added a periodical audit by Government inspectors who also assist at meetings and in financial supervision. Publication of reports, balance sheets, lists of drawings, &c., is required generally in the Government Gazette, and in at least in one newspaper at the head-quarters of the society.

Monopoly and Privilege of Procedure and Finance.—It is recognized in Europe that in order to give the new institutions a better chance of success, to encourage what in each country is an experiment and a new departure, and to avoid the complications and public mistrust which would follow failure, certain privileges must be granted them. Unrestrained and jealous competition at first, among institutions tentatively started, and still feeling their way, would certainly result in departure from rules, in the gradual abandonment of the original aims, viz., the supply of cheap credit to land, the redemption of heavy mortgage debts, and the development of agriculture and in divergence to ordinary banking operations, many of them extremely risky in up-country districts; whence probably many liquidations, much public distrust, failure to realize the aims of the promoters, and the relegation of landholders and agriculture to exploitation by usury. Hence it has been generally judged right to give the societies by a special law a monopoly of operation over a certain area, and for a given period; not of course a monopoly of lending operations which are free to all, whether societies or individuals, but a monopoly of lending under the special law and with the special privileges conferred by it, e.g., a period of twenty-five years was granted to the *Crédit Foncier* of France, which expired in 1877 and has not been renewed. The area of the monopoly differs; some societies have the monopoly over a whole country as in France, it being argued that the bonds of a great society will command far greater confidence and therefore a better market than those of small Provincial societies. On the other hand, it is argued that the German banks are all Local, Provincial, &c., and owe their success precisely to that fact; their monopoly is local, but so in their knowledge. It is in fact the old dispute as to the comparative utility of a Central bank with branches and agencies, or local institutions autonomous, with large local knowledge and, possibly, linked in groups for the better security of their paper and finances.

The question then arises what are the privileges granted by the laws which render the monopoly worth having. These have already been mentioned, *s.v.*, Privileges; briefly they are *fiscal*, viz., privileges regarding taxation and stamps; *financial*, viz., the grant of State funds, the issue of debentures especially privileged as regards stamp duties, and free as regards bonds to bearer of all transfer charges; *legal*, in the privileged rules regarding the security of the society's loans and their recovery. The fiscal and financial privileges are elsewhere discussed; those privileges relating to "loans" will be discussed immediately.

* *Loans.*—The *raison d'être* of the *Crédit Foncier* of France is the grant of cheap loans. To be cheap, the society must have cheap capital; this is obtained by its privileged issue of debenture. But these debentures are secured in the main, by the loans granted by the society on mortgages; hence the security of the whole society and the acceptance of its debentures depend upon the nature of the mortgages accepted, and the certainty with which the loans can be recovered.

The great object then of the society is the issue of mortgage loans of very long term (thirty to seventy-five years) repayable by annuities which include interest, charges, and a sinking fund; these loans are financed by the issue of debentures in exact representation of their amount. At first all other operations were forbidden except that, with Government sanction, any other system might be adopted to facilitate loans on immovables and the liberation of debtors, but gradually others were admitted, viz., short-term loans with or without amortization, special loans for long periods for drainage purposes; loans without mortgage to departments (districts), communes, associations and public establishments; the receipt of deposits and grant of loans from such deposits on good securities. The *Crédit*

* In this section the *Crédit Foncier* of France will generally be referred to; its system is modern and complete, and full details not only of its operations, but of its principles, are available in modern treatises: when German or other banks are referred to, the fact will be specially mentioned.

Foncier communal loans form above one-third of all loans, but these, though of the highest importance, are foreign to the scope of the present study. So also is the question of loans on securities, an operation of ordinary banking; drainage loans are elsewhere discussed. The other classes of loans will now be dealt with.

Loans on long term with amortization.—The loans are made only in money; in the German and other banks they are frequently made in the bank's bonds which the borrower must negotiate for himself. There is for loans neither minimum nor maximum now prescribed by the statutes; the original rule of £12 minimum and £40,000 maximum has been omitted. In the rest of Europe, there is usually a limit either way; £83 is a common minimum with £25 for the special Hungarian society for small landholders; in Italy £40 is the minimum; a maximum is fixed according to circumstances. In the Crédit Foncier loans below £200 are 23 per cent. of the total number—not of the total value—and average £130; those from £200 to £400 form 19 per cent.; those from £400 to £2,000 are 39 per cent.; and those above £2,000 are 19 per cent. of the whole.

The duration of these loans is from ten to seventy-five years; the favourite period is that of sixty to seventy-five years in which are found just above half of all the loans wanted, the proportion being slightly greater of late years; the next is from fifty to fifty-nine years which absorbs slightly over one-fourth; all other periods with ten year intervals have very small numbers not exceeding one-twenty-fifth except that for twenty-one to thirty years where the number is above one-eighth. Here is the leading principle of the modern land bank.

Interest.—This, of course, is regulated by the circumstances of each country; the Crédit Foncier of France charges (1891) only 4½ per cent. including all commissions, but not the amortization charge. The German Landschaften are cheaper.

Charges.—These are of several kinds: (1) charges of administration usually recouped by an addition to the annuity; (2) charges of valuation; (3) sundry charges.

Charges of Administration.—In the German societies these are various; in that of Württemberg there are five classes of charge payable by the borrower, amounting to between 1 and 2 per cent. per annum, which, however, as the society is one of borrowers, all go to the profit of the borrowers themselves, and are demanded as a reserve and guarantee rather than to increase profits. In Italy 0·45 per cent. is a usual charge for expenses, and similarly elsewhere. In France, the Crédit Foncier is entitled to demand up to 0·6 per cent. under this head, but this item no longer appears overtly in the annuity; it is provided for in the difference between the borrowing and lending rates of interest. The reason is that under the amortization principle, the amount of debt gradually decreases, so that a fixed percentage for expenses gradually becomes a heavy charge on the amount remaining due; e.g., 0·6 at the beginning of the loan becomes a charge of 1·20 when half has been paid and of 2·40 after the payment of three-fourths. Hence the charge has now been suppressed, the interest including it, so that as the interest diminishes with the amount remaining due the commission also diminishes.

Charges of Valuation.—These require no remark as they must vary in every case, but they are no inconsiderable addition to the cost of a loan, and, as a matter of fact, are among the chief reasons why Central banks cannot touch very small business; the necessary charges of inspection are out of all proportion to the small loan required by the owner of 10 or 15 acres. In France the regular charge is 20 francs up to 10,000, 30 from 10 to 30,000 and above 30,000 two charges each of 1 franc per 1,000 for valuation and examination of title-deeds. Moreover whenever a new valuation or inspection is needed on account of division of property, any modification in the contract, or in order to verify the advance made in improvements, &c., a separate charge is made for the visit of an inspector. In the National mortgage bank of Italy the minimum valuation charge is £4, a charge which sufficiently shows the class of business sought.

Sundry Charges.—These include the expenses of registration, stamps, notary's fee, &c., and are said to amount to 3 per cent. on the loan. But the notary's fees are known to be very considerable, and this amount seems low. In Italy the charges of registration, stamps and taxes are borne by the society or bank in consideration of 0·15 per cent. added to the annuity. In Belgium the preliminary charges, all told, are said to be about 3 per cent. on the capital borrowed; in the Hungarian Boden credit institute, the charges are about 2 per cent. on the loan amount.

Privileges for the security of Loans.—One of the chief obstacles to the introduction into France of Real credit institutions was the state of the civil law—based upon the Roman law—which did not give adequate security for loans, nor speedy and cheap methods of recovery. Hence certain privileges were necessary in the special law in these two matters, of which the latter will be dealt with under 'Recovery of loans.'

The privileges as to security are to free the society from unknown and obscure claims and to ensure that the loan shall retain its entire validity till repayment. These are contained in the provisions for liberating (purge) the property pledged. By the ordinary civil law the "purge" is a means granted to a holder to free the property from any charges or liens held over it by previous possessors, or by interested persons, whether wives or other relatives, creditors or the like; it was also the means for bringing to light unknown, unregistered or secret mortgages or charges that burdened the property unknown to the intending purchaser. But it only applied in cases of complete alienation, and not to cases of mortgage; hence the special law authorizing the societies for land loans, extended this "purge" to mortgages accepted by the society. Moreover it provided methods shorter, easier, and cheaper than those of the ordinary law, while they more completely safe-guarded the interests of minors and others. The ordinary "purge" cost at least from £2 to £6 and required a minimum of three or four months' time even if there was no opposition or Court delay; the new form, as finally adopted, requires nothing but two notices giving full details, and from three to six weeks of time; when the rights of persons are known, the notices are sent to them or to their guardians; when unknown, they are published in certain papers and gazettes and in certain public offices, such as that of the Government pleader of the local Court. Failing the registration of any such rights or charges within a certain period, all claims are relegated to a lower rank as against that of the society alone, which thereafter takes position as first charge on the property, subject only to the dues of State.

Owing to the action of the law of registration subsequently passed, by which all charges, transfers, &c., must be registered in order to be valid, the "purge" is now only necessary for ascertaining and providing against claims which exist independently of documentary and contract creation, viz., those of wives, co-sharers, other relatives, minors, persons incapable by law of contracting and "the privileges" of third parties, such as those of the State, of builders of the house mortgaged, of the lender of the money which bought the house or land, of the labourers who have cultivated the land, or of the merchant who has supplied the seed for sowing it (*hypothèques légales et occultes*). Without the possibility of ascertaining and settling these claims, the *Crédit Foncier* would be frequently confronted by claimants who had no part in the mortgage contract, and who were not bound by it, and yet had indefeasible and prior claims. The operations of the "purge" are sufficiently set out for the purposes of this study in another appendix, which gives the law affecting the *Crédit Foncier*. The matter is of interest, since one of the chief difficulties in Indian land transactions is the right of third parties especially co-sharers. The "purge" may prove a useful method in India for this particular purpose.

It is usual to execute a "conditional mortgage deed" before making the loan final; in this is set out all the conditions of the loan, the consent of the wife, &c., and this is at once registered at the Mortgage Registrar's office. The society then proceeds, if necessary, to the "purge"; if not necessary, a certificate is obtained from the registrar that there are, or are not, other charges on the property and the final deed is then, if deemed right, entered into, and the money paid over. The final deed is registered, but till it is registered the conditional deed is in force, the object of this conditional deed being to maintain the society's position as first mortgagee until the final deed is registered, since it is conceivable that otherwise a borrower might collusively obtain and register a second mortgage from a third party before the society's deed was registered, and thus place the society in an insecure position. This conditional deed seems to be unnecessary in India under the operation of section 47 of the Registration Act.

Amortization.—The ordinary repayment of long-term loans is by amortization, i.e., by a sinking fund consisting of annual payments included in the fixed annuity, capitalized at compound interest and deducted each year from the principal, so that, while the annuity remains fixed, the portion thereof due to interest gradually decreases and that allotted to the sinking fund gradually increases. As elsewhere explained, this system of long-term loans amortized by annuities is in imitation of the German *Landschaften*, and was adopted into the *Crédit Foncier* of France, at its establishment in 1852.

This is the leading principle of these loans and is absolutely necessary for all loans taken for the purchase or improvement of land, for, as noted long ago by Adam Smith, capital sunk in land improvement is never again disengaged from it, but can only provide an additional annual income of greater or less amount; it is then only by setting apart annually a portion of this income that capital so sunk can ever be replaced. It is herein that one great distinction lies between private lenders and societies; the former cannot possibly receive back their loans by petty payments spread over many years, and it is therefore not merely expensive but essentially wrong, that money for improvements or purchase should be borrowed from them; such borrowing can only lead to further debt as soon as the term of the mortgage, usually a very few years, has expired, when the money has either to be repaid in full or a prolongation obtained, usually on still more onerous terms. It is not necessarily a question of usury or extortion; a capitalist cannot usually receive his money otherwise than *en bloc* and at short terms, or at best, in a few large instalments; a ryot cannot borrow on such terms for land improvements unless the loan is only a trifle compared with the value of his estate. The clearness with which this has been perceived by the founders of the *Crédit Foncier* of France, is shown by two provisions of their statutes: (1) that the amount of the loan should not exceed half of the valuation, strictly carried out; (2) that the amortization should not ordinarily exceed at the beginning 2 per cent. of the loan. The first provision not only secures the society, but was expressly intended to prevent a land-owner from borrowing too largely; a borrower often deceives himself as to the ease with which he can repay, and counts on profits which may never be realized. But this provision and the second are also intended to keep the annuity well within the probable proceeds of the property charged. The reports show that borrowers confirm the society's views; one-half of all the loans granted by the society bear annuities in which the amortization is so small as to be hardly distinguishable; viz., the loans from sixty to seventy-five years (see *supra* 'Duration') e.g., for a loan of seventy-five years with interest at 4.50 per cent., the total annuity is only 4.67, so that only 0.17 per cent. is the amortization amount. For fifty-one years the total annuity is 5.0, for forty years 5.41, for thirty years 6.10. The method is worth explaining—suppose a loan of Rs. 100 for fifty years with an annuity of 5.72 per cent. consisting of 5.30 interest and 0.42 amortization fund; in fifty years, $0.42 \times 50 =$ only 21 which is the sum apparently paid by the borrower, and yet these payments have extinguished the whole debt of 100. The explanation of course is that, as the amortization amount accumulates at compound interest, the principal due gradually diminishes; hence, the annuity remaining constant, the portion due to interest decreases, and the portion credited to amortization increases; so that at the end of twenty years the latter has increased to 1.15 and the former diminished to 4.57, and at the end of forty years the amounts are 3.28 and 2.44 respectively. The principle is adopted for all land improvement loans in all countries, including the loans granted in India by the State for that purpose: these are generally repaid by annuities of comparatively short term. In Europe all loans based upon the land, and, in the *Raiffeisen* societies all long-term loans, are repayable by annuity only, as being the safest method for the ryot. The subject is detailed here, as the principle and reason of the practice are not generally known, or accepted as suitable.

Again if a man borrows 10,000 for fifty years from the society at 5.72 per cent., viz., 5.30 interest and .42 amortization, he will pay annually 572 or in fifty years 28,600. If he borrowed as usual from a capitalist at 5.30 per cent., he would pay during fifty years 26,500 as interest and still owe the capital of 10,000, or in all he would pay 36,500 or 7,900 more than in the former case. Of course, he might have put the difference between 5.30 and 5.72 to compound interest, if he were *absolutely* prudent, and had a banker, and was never tempted or required to draw upon his funds, but

practically this would never be the case. On the other hand no private person will lend for fifty years, nor at 5·3 per cent. interest for such a time, nor would he consent to receive back his capital in petty dribblets during such a period. Hence the advantage in borrowing from the bank is incalculable.

Another result from the general amortization of the debt is that as the principal is paid off, it is possible with the consent of the society, to relieve a portion, *e.g.*, a field, of the property mortgaged, or to pledge a smaller property in its place. Another great advantage to the society is that the security of its mortgage increases exactly in the ratio that the principal debt decreases.

Repayment.—This has been dealt with under 'amortization' as regards the ordinary payment by annuities of long-term loans. But these loans may also be repaid at any time, wholly or in part, if the borrower finds himself able to do so. In most cases six or three months' notice is required; subject to this condition and to a small commission required to build up a reserve against expenses, and against loss in the repayment at par of debenture bonds perhaps issued below par, and against a possible loss of interest on the money repaid before it can be advanced on a fresh loan, a borrower can pay off his loan whenever he pleases or as much of it as he pleases. In other words repayment of a long-term loan from a society can never be demanded of a borrower except by the covenanted annuities save only in certain specified circumstances such as the deterioration or neglect of the property, its unauthorized sale, &c., while it is repayable by him in whole or in part, at pleasure. It is usual in the *Crédit Foncier* to credit the borrower with the amount of advance repayments by means of a reduction of the annuity, leaving the length of the loan as before, but it is equally allowable to keep the annuity rate, and reduce the term.

All payments of annuities, &c., may be made into the local Government treasuries (*recettes des finances*) on the 10th January and 10th July. If made by instalments in advance, interest as in deposits ($\frac{1}{2}$ per cent.) is allowed on the sums paid: if by a single payment of a whole half a year's annuity in advance, interest at 2 per cent. is allowed.

Recovery of Loans and Instalments.—It is in this matter that some of the chief privileges of European land banks are found. If cheap money is wanted, the lender must be absolutely sure of getting his money back and of getting it back easily, quickly and cheaply. If the lending society cannot recover its loans, principal and annuities with ease and certainty, not only must it raise the price of its loans, but the capitalists who lend to the society must also ask a higher rate, since their ultimate and principal security is the mass of mortgages held by the society; if recovery of the money guaranteed by mortgages is difficult and costly, the security of the capitalist's money will *pro tanto* be reduced. Moreover if these banks are to fulfil their rôle of teaching habits of business, punctuality, prudence, and foresight, they must have the power to enforce these habits on their clients, and while granting them by their statutes and organization, every facility, whether for cheap loans, for the most gradual and easy repayment of those loans, for repayment, moreover, at any time and almost in any sum, they must be able to demand the strictest exactitude in the borrower's fulfilment of his part of the contract. Exactitude does not forbid a certain amount of elasticity, but exactitude must be compulsory, if the country is to gain by its institutions. Hence—and because ordinary methods are slow, cumbrous and costly—every European country has given its land banks special privileges for the recovery (a) of the annuities due, (b) of the principal in certain cases.

In the *Crédit Foncier* of France the privilege granted for the recovery of the money lent are chiefly those of special methods and rights in procedure; such are (1) even the Courts can decree no delay and give no time to a defaulter in the matter of paying his annuity; (2) no third party can move the Courts to attach annuities on account of debt in any case; (3) penal interest at 5 per cent. accrues as a matter of course and right, the day after an annuity being due, remains unpaid, (4) the society has power to attach, for default, the property mortgaged; the attachment is effected under an order of Court obtainable on demand; (5) the right in such case to collect the rent, harvests, &c., of the estate as against all parties or other attachments (nonobstant toute opposition ou saisie); the right however is limited in that it takes rank only after * (a) expenses for the preservation of the property; (b) expenses for labour and seed necessary to work it; (c) the dues of the State; (6) simple and rapid methods of sale and expropriation by the Civil Court in case of default; (7) right to credit the money without delay direct to the society's treasury; (8) speedy and summary inquiries in the Courts in case of any dispute whether by the defaulter or by third parties; (9) if an annuity is in default, the whole principal may be demanded within one month after notice.

(1) *Refusal of Delay.*—The provision debars the judges in cases of default from exercising the right given by the ordinary civil law of granting a debtor time for repayment of his debts. The judge, can give no time in the case of *Crédit Foncier* annuities.

(2) *Refusal to allow opposition to the payment of Dues.*—This applies not only to annuities owed to the society by borrowers, but to the dues owed by the society to its debenture-holders. No third party can intervene as creditor through the Courts between the society and its creditors or its debtors in the matter of these dues.

(4 and 5).—The fourth and fifth privileges are those of attachment, if necessary, sale of the mortgaged property under special facilities and the receipt as against all other creditors—except certain specified "privileged" creditors—of the proceeds of the estate during attachment. The annuities are considered to be a portion of the proceeds, which are therefore the first object in collection. On default the society sends a notice to the debtor of intended attachment; at the same time it demands

* These are "privileges" established by civil law in favour of certain claims against property; the dues of the State take precedence of all the other "privileged" claims. The French law is particularly full in regard to the respective claims of various creditors upon property, certain privileges taking rank even before mortgages: such are not only the dues of the State, but those of Courts, those for funeral expenses, for death-bed attendance, for wages, for six months' subsistence, for rents for the preservation of property, for the price of goods sold, for seed, cultivation and harvest expenses, for the supply of implements, for the purchase money of an estate, for the lender who has supplied the price of such purchase, for the architects, builders, masons and workmen employed in building or repairing property, for those who have lent money to pay the latter class of claimants, &c., (See Civil Code, sections 2092 and 2113).

of the Court having jurisdiction (debtor's domicile or the location of the property) an order or authorization permitting attachment; this is granted as a matter of course, and being an authorization and not a judgment is, according to French law, not appealable; it can only be opposed by a regular suit. Attachment can take place on this authorization fifteen days after the notice to the debtor. During attachment the society is in the position of proprietor and must manage the property carefully; *per contra* it has the right of a proprietor and on receipt of a simple notice, tenants can only pay their rent to the society's agent. It can freely sell the produce as though proprietor and credit itself with all the proceeds. The society has the right to the produce as against all opponents and in spite of any other attachment.

This privilege takes rank next after the privilege attached to (1) expenses of preservation and management, (2) expenses of cultivation (labours et semences), (3) dues of the treasury, and extends not only to the annuities but to the expenses connected with recovering their dues. Only complete payment releases the attachment, unless the society consents to the release, or abuses its powers. The privileged attachment is upon the land, and no change of ownership affects the society's rights. At the close of the attachment the society reckons up with the debtor, and any dispute must be settled summarily by a competent Court. The "summary suits" are really summary, they are conducted in the briefest and cheapest way, without special pleadings and formalities, and have the briefest of records; appeal is however admissible. The Court can remit the case to an advocate as arbitrator. If attachment is undesirable or the results unsatisfactory, the society may proceed to sell the property mortgaged. The special procedure prescribed for this is peculiar to itself, and should the society transfer its debt to a third party, that person does not enjoy the privileged procedure. Moreover it only applies to the specific property pledged for the loan; the society has rights, like other creditors, over the property of its debtor, but in such case can only follow the ordinary procedure.

The ordinary law is cumbrous and dilatory; the various notices and delays between the first notice of intended sale and actual sale, necessarily occupy about six months and probably very much more, if at all contested, or if there is any delay in the Courts. Under the privileged procedure, the time occupied is six weeks, and in two months from first notice the society will have touched the proceeds of the sale. The formalities are still considerable, for the State jealously safe-guards agricultural industry and property from any undue or hasty expropriation, or from loss due to haste or impatience on the part of the creditors or to ignorance by the debtors of the proceedings taken by them. Recognizing that hasty and imperfectly advertised sales are a fertile source of ruin and discontent, very full precautions must be observed even in the comparatively summary procedure allowed to the *Crédit Foncier*; above all, however, there is the safe-guard afforded to debtors by the continual control and supervision exercised by the State over all proceedings of the society, and by its jealous supervision over the exact execution of its statutes which have already been subjected to State scrutiny and authorization. The steps of procedure by the *Crédit Foncier* are as follow:—

- (1) Notice to the debtor.
- (2) Registration of the notice in the Mortgage Registrar's office.
- (3) Deposit with the Registrar of the Court of an inventory of the goods and conditions of sale.
- (4) Fixing by the Court of the date of sale.
- (5) Advertisement in local journals, three notices at ten-day intervals.
- (6) First public notice struck up (*a*) on the notice board of the Court, (*b*) at the door of the mayor's office of the town or village, (*c*) on the property, if a building. Other notices are prescribed at common law, but not by the special law governing the *Crédit Foncier*.
- (7) Notice to the debtor and to all creditors on registered documents of the above public notice (No. 6) calling attention to the inventory No. 3.
- (8) Second affixing of public notice in the same places as No. 6 and fifteen days subsequently.
- (9) Period allowed for objections by the debtor and the other creditors.
- (10) Sale, fifteen days after No. 9, and in presence of the debtor and the other registered creditors or their agents if present. To be held before the Court having jurisdiction or some other Court authorized by it or, if the Court permits, before a Notary public of the canton or circle in which the property is situated.]

In Italy the land banks are entitled to use against those in arrears with their annuities the same summary processes as regards movables that the State uses when levying on movable property for arrears of direct taxes; they can also proceed to recover the whole loan if annuities are in arrears.

The procedure here alluded to is simply that of distraint: the tax-collector, who is in Italy, a farmer, or contractor and not a Government officer, must send to a defaulter a special notice giving five days' time; at the end of that period he can proceed to attach such movables as are not barred by law from distraint; if the property is in possession of a third person, recourse is had to the Courts for distraint. A copy of the distraint proceedings and list of property must at once be sent to the village mayor (*monigar*). The distrainer is not allowed to retain possession of the goods, but must hand them for safe custody to a third person, or to the defaulter (*cf.* English law) or to the village mayor. After ten days the distrainer publishes in the village a sale notice, and may sell on the expiry of the period therein entered. Every thing is conducted within the village and there is no need of elaborate notices from and to the higher authorities.

The goods exempted from attachment are those exempted by the Civil Procedure Code from attachment by Courts, viz., the beds and clothes in daily use of the defaulter and family, cooking utensils, and some other articles are absolutely exempted; the following are exempted unless there is no other property, and even these can only be attached for rent, for debts on account of food supplies, and other dues specially privileged; such are books, instruments and other requisites for carrying on a business, trade or profession up to the value of £20; grain and produce necessary to feed the family for a month; a cow, two goats or three sheep at the option of the defaulter, together with their fodder for one month. Silk-worms, except in the cocoon, and ungathered crops unless within one week of harvest may not be attached, nor can State stipends or pensions except under the provisions of a special law.]

The exceptions resemble those of the European laws in general and of the Indian Civil Procedure Code, but in Germany the *Landschaften* may not distrain any movables necessary to the due working of a farm, but only surplus stock.

In Hungary the Boden credit and Austro-Hungarian banks have unusual and summary powers of recovery and foreclosure; they act through the Commercial Court and can obtain immediate execution without the usual delays and formalities. It appears, too, that these summary powers exist as regards property other than that immediately mortgaged; this is an advance on the French privileges, and seems of doubtful advisability. Default however is said to be rare.

In Germany there are various rules both for preventing arrears, as by fines, by demanding even for the shortest delay, six months' interest on the sum in arrears, &c., and for recovery of arrears. All the Old *Landschaften* have the right of proceeding at once by way of distraint against movables; the New *Landschaften* do not seem to have this right, but proceed through the Courts which, however, are bound to lend summary aid, apparently without the need of previous enquiry. In the attachment of movables all stock and implements necessary for the due working of the farm are by law exempted; only surplus farm stock may be taken in addition to the ordinary property of the defaulter. In the Pomeranian *Landschaft*, the directors, on default occurring, send an agent to distrain the movables of the debtor or to sell his produce. If, on examination, this proves or is judged insufficient, recourse is had to the attachment, and, if necessary, sale of the property under mortgage; attachment is not necessarily a preliminary to sale; it is customary to treat it as a separate form of coercive process, and may be made either by obtaining an order from a Court, or by the managing director, who is at liberty to use these powers either for recovery of the annuities or to secure the society's interests. The property is placed in charge of an agent under the supervision of a commissioner, who exercises all the rights of a proprietor. If attachment and management are insufficient, the property may be sold under order of Court which is necessarily granted on demand.

In Württemberg the society may borrow from a bank the sum due, all charges for such loans being at the defaulters' expense; if there is still default, the society can demand repayment on three months' notice. This can also be claimed on a second default, or the society may proceed to attachment and sale of the property. In Mecklenburg Strelitz the bank can obtain execution against the defaulter through the Courts by means of orders which are issued *gratis*, or the estate may be attached and managed by an agent of the society. In Bavaria the joint stock mortgage bank has summary powers of attachment and sale, as in the Pomeranian association (*Landschaften*) and, as in the other German land banks, delays are brief and judicial proceedings are simplified.

Privileges for Security in other cases.—In the *Crédit Foncier* and in land credit associations generally the society can demand the repayment of their loan in full, if the property pledged becomes deteriorated to the amount of 25 per cent. or if it is sold without the society's consent or divided, should its value have thereby been in any way decreased, or possession disturbed or the society's security diminished, or if the borrower becomes bankrupt. These or similar provisions are common to all European land banks.

Short-term loans.—The above provisions relate to the long-term loan. The rules for short-term advances are slightly different. Short-term loans are those granted for less than ten years. They are repayable either in full at the end of the term of the loan or by annuities in which latter case debentures may be issued in representation of them and for similarly short terms.

General Results.—The effect of these various societies and banks must be considered. The two main objects which each institution or system set before itself were: (1) the redemption of the landholders from the private mortgages and usurious debts which were an absolute mill-stone round their necks, sinking them inextricably in a slough of indebtedness, poverty and bankruptcy; (2) the improvement and development of agriculture, chiefly by the indirect methods of freeing proprietors from debt and other charges, and of advancing capital on cheap terms for general purposes, rather than by the direct methods of loans expressly for drainage and other agricultural improvements. Have these banks succeeded in either object? Especially have they succeeded in aiding the small proprietors in either matter? For, remembering that in Europe the bulk of the proprietors are petty holders (in France there are 6½ millions of rural estates, 5 millions of which comprise an area which gives only 6 acres each on an average, some being smaller, some larger), it is obvious that institutions to be of full use in the manner mentioned, must deal with small proprietors, and that institutions which do not do so are comparatively of little use in aiding the "people" and in developing agriculture among those very classes who require special aid. Large and medium proprietors have no difficulty in raising money in the ordinary way; it has been stated—roughly of course—that, while a rural proprietor with land worth £200 can barely get a loan for £50 and that at high interest, a man with an estate worth £8,000 or £10,000 can raise loans up to one-half or three-quarters of its value, while a very rich landlord enjoys credit beyond that of the actual market value of his estate. Anyhow, economists in France, Germany, Austria, Switzerland and Italy agree that the peasant proprietor, the small cultivator is the person who requires cheap credit on easy terms of repayment, and it is his agriculture which needs development and stimulus. If then the land credit banks or societies of Europe have not dealt and dealt principally with the smaller landholders, they have failed in their main object, and of their national importance and value; they have failed also as examples for India.

The German *Landschaften* were avowedly started to aid a "noble" proprietary, and though of late years the Yeoman ('*Bauer*') class have been partially admitted, yet the ordinary economic rule of lending to those who have the largest and best estates, has ever prevailed, and insuperable difficulty has been encountered in attempting to finance the small proprietor by a mortgage bank. Practically the Old *Landschaften*—probably owing to their foundation principle of unlimited guarantee, which causes extreme caution in operation—never grant any loans except such as are *absolutely* safe; it is needless to say that if only those are to obtain credit whose property is unencumbered, complete in title and much in excess of the proposed loan, and who require loans sufficiently large to make the expenses of inquiry, &c., no impossible charge upon the loan, the vast mass of proprietors will be left

without help, while the banks, however attractive their reports and figures, will fail of their *raison d'être*. Without asking banks to enter upon risky business, a land bank must, after it has placed its business on a firm footing, touch second class business, namely those cases where the aid of the bank will enable men to extricate their estates, or to develop a poor farm with little present security, into a paying estate of which the *plus* value, after the improvement has been carried out, will be the real security; such are the cases of farms unproductive for want of drainage, &c., or, as in India, of dry-land farms of little immediate value, but capable by means of wells to be dug by the proposed loans, of becoming gardens even in a wilderness. Above all they must be able to lend petty sums to petty borrowers, viz., those whose farms do not exceed 15 acres in extent. By this standard the German *Landschaften* have not fulfilled the mission of popular land banks for which indeed they were not organized; in 1879 the French Consul in Silesia—where the first land bank was started in 1770—expressly stated that the third class of agriculturists whether proprietors or tenants, *i.e.*, all those below the medium position, had no resource but the ruinous resort to usurers, and were in a critical state (Note sur le crédit agricole mobilier, 1880). The German Minister of Agriculture (report for 1884-87) as well as other authorities, expressly declares that for small folk a mere land bank is little suitable; their operations cannot extend to such borrowers.

The *Landschaften* have, however, cheapened the terms of business among banking houses; owing to the fact that they have no share capital and dividends, they can grant loans at the lowest possible interest, and being scattered over many Provinces; all competing institutions must adopt, or approximate to their rates. This is an improvement common to all borrowers who can deal with banks.

As for the aggregate amount of the loans granted by the *Landschaften* and mortgage banks, they are as follows: the former, *plus* State land banks, lent up to 1883 about £75,000,000; the mortgage banks lent about £92,000,000. These figures have much increased of late years, especially for the mortgage banks, but the exact figures are not available, except that in 1890 the mortgage banks had £163,540,000 in mortgage loans. But it is to be noted (1) that, as the bulk of these mortgages are for long periods up to sixty years, the annual amount is not very considerable; (2) that, while the *Landschaften* lend almost entirely on landed property, three-fourths of the mortgage* bank business is in urban property; (3) that the *Landschaften* hardly lend at all on small peasant property; (4) that the total mortgages granted by all the various land banks is probably not one-half of the mortgage debt of the country and that that half is chiefly on property other than small rural property. German mortgages are probably not short of £600,000,000, seeing that the mortgage debt in Prussia alone before 1870 was estimated at £350,000,000* and is known to be rapidly increasing (£17,000,000 in the three years ending 1889), while that of France is known to be about £660,000,000 allowing for all mortgages expired but not cancelled.

Again, all banks have a minimum value for loans or for property on which loans will be granted; this is not always ascertainable, but, for the *Landschaften*, the minimum value of estates on which loans will be granted, is as follows, having been greatly decreased during the last forty years: in East Prussia an estimated sale value—much below market value—of £75; in West Prussia of £150; in Posen of £200; in Silesia a net annual income, assessed to the land tax (*Grundsteuerreinertrag*) of £1-10-0; in Westphalia of £5; in Brandenburg, Saxony and Schleswig Holstein of £7-10-0; in Pomerania of £12. Similarly, in the joint stock bank of Alsace Lorraine, only founded in 1872, the minimum loan which may be granted is £15, and in the State banks of Saxony and Hesse Cassel, £7 and £14 are, respectively, the minima.

Now these minima are illusory when compared with the actual facts. It has been shown in detail under 'German land banks' that neither the *Landschaften* nor the joint stock banks can lend such small sums to the small holder; few men, even with 25 acres, can expect to borrow where the average of existing rural loans from banks is even as low as £280 (the lowest shown with three exceptions), while it appears (Report on Land Tenures in Europe) that the average rate of loan was about £8-10-0 per acre (35 thalers per morgen) in Silesia; and, as shown in the section on German *Landschaften* *s.v.* 'Loans,' the average loan per acre for several Provinces cannot be much above £5 or £6 per acre. The majority of the banks had averages far more than double or even quadruple the sum of £280; the *Landschaften* show loans averaging from £716 (Silesia) upwards to £7,449 (Pomerania), while the joint stock banks averaged from £280 (Bavaria) to £3,376 (Alsace Lorraine). Moreover the above figures are, generally speaking, the average of all loans in existence on a given date; since all loans are under repayment by amortization, the existing average value of loans ranging from one to forty years of age is much below the average value when granted.

The exceptions were three, viz., Nuremberg (joint stock) with an average of existing values of £262, Cassel (State) with an average for rural loans granted in 1891 of £225 (290 in 1890) and Nassau with a similar average of £241. In the first case the loans were largely urban, close to the bank; in the latter two cases the banks were situated in very petty areas close to the people and utilizing the Revenue officers as agencies.

Now it will be shown below that the loans taken by small proprietors in France and Switzerland are generally below £50 or somewhat higher, as may be inferred, from the size of their holdings; consequently, the similar class of proprietor in Germany will require similar loans. Prussia in fact had in 1882, the latest year for which full statistics are available, 3,040,196 separate farms, of which 1,456,726 or 48 per cent. were below 2½ acres, and 1,178,265 or 38 per cent. were between 2½ and 25 acres; it is certain that none of the former, and not above half of the latter are likely to borrow above (say) £50 to £75, an amount very far below the smallest average of the land banks, probably much below even the ordinary minimum actually granted in such banks. In fact in the report for 1884-87 of the German Minister of Agriculture, it is expressly stated that the minimum fixed by the *Landschaften* as the valuation on which loans may be granted (*die Grenzen des beleihbaren Minimalwertes*

* Since the above was written it has been ascertained that "the amount of mortgages upon landed estates and peasant holdings in Prussia has increased since 1886 by £45,000,000, and amounts altogether to about £500,000,000," a burden which is rightly described as "oppressive indebtedness of agricultural land." Apparently, therefore, this does not include urban debt. (*Commercial No. 3 of 1894.*)

der Besitzungen) is in general so arranged that they can lend "even" to peasant * farms which require teams for cultivation, i.e., to farmers requiring two horses or three oxen, which in 1870 averaged for Prussia 34 acres with a minimum of 16; for still smaller holdings, unable as they are to offer substantial security, a mere Real credit bank is not at all suited (ist ein blosses Real-kredit Institut überhaupt wenig geeignet). It will be noticed that the report does not say that the team-requiring farms are reached by the Landschaften, but that their limits (minimum) permit of such farms being reached; now, as shown above, the minimum is only nominal, the actuals being much higher. The fact is that very small loans on land are almost impossible to banks of any considerable size: they are troublesome and risky and bring little, if any, profit to the banks, while they are expensive to the borrowers from the initial expenses common to large and small loans. In the above remarks the effect of the rent charge banks is excluded; these are special banks intended solely to enable the peasants generally to redeem by lump payments the various commuted feudal, common, and other charges due by them to the nobles, and thus to obtain their properties free of harassing claims; they simply took up the financial part of an operation which had been effected by many years of previous work, through commissions appointed to work out special laws; the banks merely lent an amount ascertained, fixed once for all, and commuted by the commissioners. These have done good work, but they are not land credit banks.

For Austria few statistics are available for this study. It is stated in general terms, that the "small and medium" proprietors can scarcely have recourse to mortgage loans from banks, but are obliged to resort to the usurer "who devours them."

For Hungary the well-known Boden credit institution founded by philanthropic land proprietors, especially to help one another, grants no loan less than £83 (1,000 florins). In 1889, 7,229 loans were in actual existence, averaging somewhat over £1,040 each; in 1889, 412 loans were granted at an average of £1,750 each. Up to 1889 loans had been granted for about £14,000,000 in about 11,000 loans, of which 5,511 were below £260 averaging (probably) about £200 each.

One writer states that this society only lends to large and medium proprietors, as in fact the figures show: moreover as the rate of loan per acre of land averaged £1-12-0, no person holding less than 50 acres can possibly borrow with a minimum fixed at £83. This fact was so notorious that in 1879 a special society, under a special law, was passed to grant mortgage loans to "small land-holders," Government contributing £41,000 as a reserve fund. The minimum loan which can be granted by this society is £25 and in ten years 9,726 loans had been granted for £925,750, averaging £95 per loan. Of these 3,644 had been granted with an average of £48, which at £1-12-0 per acre represents properties of at least 20 acres; even these smallest loans touch only the upper margin of small proprietors, and it is expressly stated by one writer that the institution does not satisfy the needs of "petty" proprietors.

Nevertheless, except for the land banks of two or three small German principalities, and of two or three little Swiss cantons, this land bank is almost alone amongst land banks proper in granting really small mortgage loans to peasants. Unfortunately no details are at present available for an analysis of the actual work and methods of this bank; they will be supplied at a future date.

In Italy with a poor peasantry the minimum loan grantable by the land banks is £40, and it is therefore not surprising to read—in the words of one economist—that "the services rendered by the Italian land bank system to agriculture, at all events to the small cultivator, are absolutely nil; the whole capital advanced on mortgage by the Real credit institutions is absorbed by the great proprietors." In fact up to 1885 the banks had only advanced 8,355 loans for £13,239,244 being an average of £1,585; less than 2,500 were below £400, the average of these being about £240, showing conclusively that the Italian land banks had not touched the small landholder. On the 1st January 1891, they had lent £29,426,320 in 14,594 loans, an average of £2,016 each. Hence the frequent and recently (1893) renewed alterations in the law regarding these banks. Even the land credit branch of the great Savings bank of Milan, probably the cheapest of land banks, is unable to lend, at all events in Venetia, on areas below 75 acres (American Consular Reports).

An analysis of the most recent report of the Crédit Foncier of France leads to a similar conclusion. From the commencement in 1852 up to 31st December 1890, the total mortgage loans granted were 77,536 for over £139,000,000, being an average of nearly £1,800 per loan. Of these only 18,059 were for sums below £200, the average of these being £130 and the largest proportion being urban.

* The word "peasant" has caused much misconception in considering the results of German land banks. The word translated "peasant" (Bauer) means in German simply a non-noble and refers to his political or social, and not to his material status; it corresponds rather to the French "roturier" as distinguished from the "noblesse," or the English yeoman or yeoman farmer as contrasted with the baron or squire, than to the word "peasant" which in English has now a restricted meaning, and refers only to very small holders such as cottiers or labourers. In English the word does not strictly include even small farmers, while in Germany the "peasant property" may be a holding of many acres; e.g., in Commercial No. 5 of 1891, it is said that a middle-sized estate, viz., one of 7½ to 160 hectares (18½ to 375 acres) is called in Germany a "peasant's estate." In 1816 a "peasant" estate was declared by Royal edict to be a non-noble estate which could maintain the owner as an independent cultivator, and in 1836 a similar edict fixed about 18 to 20 acres (25 morgen) as the minimum of such a farm. Similarly in Schleswig Holstein a "peasant" (Bauer) is a man with 100 acres, a half peasant holds 50; a man with only 15 or less is a Kathner, or again he is elsewhere a Kuh-bauer (owner of a cow), or he may be a Hufner (holder of a hide of land, such as may be ploughed in a day), or even a half Hufner, &c. In Denmark, too, a minimum limit has been legally fixed for farms to be called peasant farms.

So Mr. Wolff in the 'Contemporary Review' for 1891, p. 735, states that English writers have confounded the German meaning of the word "peasant"—a pretty substantial proprietor owning from 20 to 200 acres—with the English. The peasant or "Bauer" is simply a non-noble and in Prussia, for example, peasant proprietors above 20 acres, and averaging 62 acres each, occupy about 45 per cent. of the whole area, while the mass of "small" proprietors hold a far smaller percentage. For the purposes of this study the word "peasant" will be abandoned; (a) men holding below 7 or 8 acres will be called "very small" and (b) men from 7 or 8 up to 15 or 20 acres "small" proprietors; the remainder will be (c) medium or (d) large according as they hold up to about 100 acres or above that area. For this Presidency the corresponding ryots will be (a) those paying less than Rs. 10 as land-tax, (b) those paying up to Rs. 30, (c) those paying from Rs. 30 to 250, and (d) those paying above Rs. 250.

In reading in various works and essays that the German land banks have done much for the "peasantry" this limitation must be borne in mind, in addition to the fact that the land banks proper have not yet done very much for the peasant of any class.

It is clear then that if the small proprietors are reached at all, it is but to an infinitesimal degree and yet France is, *par excellence*, the land of small proprietors, the number of estates being above 6½ millions entirely excluding house properties. M. de Lavergne calculated that in France there were 6 million proprietors holding on an average 3 hectares (7½ acres) each, real peasant proprietors, of whom however many hold very much less and are partly labourers, partly owners, while many hold up to, perhaps, 20 acres. At present the *côtes foncières* (taxation accounts or *puttaha*) for estates less than 25 acres (10 hectares) are five-sixths of the total number of 6½ millions. In every 25,000 acres there are 1,144 holdings, of which 969 or nearly 85 per cent. are below 25 acres. Now, since the holders of the land under 25 acres number about 5,500,000, if only one-third want to borrow, there will be at least 1,800,000 borrowers. But as the loans under £200 are less than 1,000 per annum and as only two-sevenths of all loans go to the land, the rest going to urban property, it follows that the *Crédit Foncier* only supplies, at most, 300 small proprietors per annum or one in 6,000 of possible borrowers; and further, that as the small loan averages £131, no proprietor of the vast 7½ acre class can hope to borrow. Again in 1881, up to which time, for want of agencies outside Paris, the number of small loans was insignificant, the number of loans issued below £200 reached 1,170; in 1882, 1,581 were issued averaging £132; in 1883, 1,524. But from 1886, when they were 1,068, they steadily decreased in number, being only 829 in 1890 with an average of £131. Now it has been ascertained that of the mortgage loans in France granted by banks or persons other than the *Crédit Foncier*, no less than two-thirds are for sums below £40, the mean of these being for £16. It is true that the general inquiry on this point was in 1840, but the proportion is found still to hold good in testing single *arrondissements*, with a somewhat higher mean owing to the fall in money; the rate is, moreover, confirmed by the experience of Swiss banks, which (*cf.* Berne) habitually grant a vast number of mortgage loans between £6 and £40. But if this is even approximately true or even if the mean of the small mortgages be twice or thrice as high, it is clear that the *Crédit Foncier* does not get below the medium proprietor even for the few loans under £200 that it grants; a mean of £131 for small loans is incomparably greater than the mean of small proprietors' loans for all France of £16 or even a hypothetical £32 or £48. Moreover, in considering the above figures, it must be mentioned that in France commercial transactions descend to a very small value; *s.g.*, even the great bank of France itself discounts annually large numbers of bills of 10 francs (*8s. 4d.*) and very large numbers below £2, all of which would be curiosities in London, so that rural loans of £131 are relatively much larger and relate to larger areas and transactions than they would in England. Hence it is clear that the *Crédit Foncier* has not only not reached the small rural properties, but fails to do so in an increasing degree.

Again, on testing the nature of the property on which loans are granted, it is found that out of 77,536 loans for £139,000,000, no less than 55,034 or nearly five-sevenths to the amount of £110,484,000 were granted on urban property only, leaving less than £29,000,000 for all rural and mixed property. Of late years the proportion of rural and urban loans is slightly better than before 1885, but there is no great improvement. What, as regards agriculture, is a sum of £29,000,000 in 20,500 loans, spread over thirty-eight years, when compared with the enormous needs of the agriculture of France, of which the net annual proceeds to the cultivators (all expenses deducted) is calculated to be £100,000,000, while the sale value of the lands including all buildings thereon, but not urban property, is said to be £2,800,000,000.

Again, though the bank has 73 agencies or branches, there are 87 districts in France, and each agency has on an average exactly half a million people in its range; obviously one agent can only deal with a few persons, and naturally, those will be the applicants lying nearest, or who require the largest and most easily examined loans. To judge by the paucity of rural loans the agencies would seem to be for the purpose of selling debentures, rather than of granting loans. Hence, up to date, the *Crédit Foncier* has not succeeded in touching the burdens of the peasant proprietors of France who are the vast mass of her cultivators, nor in developing her agriculture.

France as yet is little further advanced than India as regards Real credit banks for peasant proprietors, whose sole resource is private money-lenders with their usual high, if not usurious terms. Nor has any great assistance been rendered to agriculture in general, since the total amount of its rural loans, for all purposes during forty years is but three-tenths of one year's net income of the proprietors and about 1 per cent. of the gross sale value of the landed property itself. Neither in France, nor in Germany, nor in Italy, nor in Austria, has it been found possible by Central land banks to supply the small proprietors—those below 18 to 25 acres—with cheap credit; the difficulties of inspection, of ascertaining values, of ensuring security, of keeping accounts and check over thousands of petty proprietors without altogether disproportionate expenses whether to the borrowers or to the banks, have foiled the excellent intentions of the Governments and of the banking societies themselves. The importance of the above facts as bearing on proposals for India is not small when the avowed aims of institutions organized with all the skill and forethought of the nations most skilled in organization are considered. In this no blame attaches to the banks; only they have not been able fully to succeed in the generous aims with which they are started or which they subsequently adopted. But enormous good has been done in developing and spreading the system of Real credit for long terms and in popularizing the method of financing long-term loans, and of repayment by amortization.

Switzerland has, however, some lessons to teach in this matter of results. In Berne it is stated that the market rate of interest on mortgages has been distinctly lowered, irrespective of the general European fall, by the action of the State mortgage bank: not because the State has resorted to artificial aids or financially favoured operations by bearing losses, but by the operation of a powerful and well-regulated bank, operating primarily for the benefit of borrowers. There the banks have enabled borrowers, as however is the case elsewhere, to pay off old usurious loans, to strengthen and clear their position by establishing themselves as debtors to a single creditor who grants the easiest possible terms and allows the loans to be paid off by infinitesimal instalments at convenient periods.

Again, owing to simple and rational laws of mortgage, loans upon land can be obtained in Switzerland cheaply and easily, so that the peasants prefer this method of raising money for loans even of only two or three years' duration. Hence the numerous land banks, State or joint stock, do a very large business and have placed cheap credit within reach of the Swiss peasantry who have

taken advantage of this to get rid of their usurious debts; in fact, the Federal Department of the Interior states that individual capitalists are no longer of any importance as lending agents; the mortgage and Savings banks being at present almost the only sources from which the landed proprietor borrows.

What this means to the people may be inferred from the example of the canton of Berne where the mortgage debt is £16,000,000 (1890) or 40 per cent. of the total value of the real property in the canton, and amounts to £30 per head of the population. This enormous burden is possibly endurable at 4½ or 5 per cent., but at 8 per cent. would be intolerable and impossible. Indeed, as elsewhere shown, it is probable that much of this debt has been incurred solely because banking credit is cheap and reasonable; rates are cheaper, but the mass of the burden is greater. It is, however, clear that the banks in Switzerland have cheapened credit and have ousted the private money-lender.

Now the Swiss banks have clearly got down to the peasantry; the loans granted are extremely small. In 1881 the average value of all the existing loans in the Swiss mortgage banks proper was only £194, while in two of these banks it was as low as £95 and £113; this was the average of loans under amortization, and about one third should be added to get the average value of loans as granted. But even an average of from £150 to £250 implies a large number of far smaller loans, such as are practically unheard of in the ordinary German or French land societies.

It is then clear that the European land credit banks have done a great amount of good in lending to certain classes of proprietors, in redeeming feudal and other charges, in reducing the interest and charges on their loans, in introducing a scientific method of financing their operations from the mass of petty savings of the public, in clearing off old mortgages of usurious interest and substituting single debts at moderate rates, and in inculcating and rendering universal the method of repayment by annuities with amortization over a long series of years; it is also, however, clear that the mass of small proprietors has nowhere been reached by these banks except in Switzerland, in two or three small German States including Bavaria, and apparently by one bank in Hungary.

What then is the missing link between the borrowing public and societies like the *Crédit Foncier* of France, with its magnificent organization, its privileges, its able administration and staff, its abundant and cheap money and splendid credit. What is it that is needed to bring their loans down to the mass of small proprietors, and to enable them to absorb a really large proportion of rural mortgage debt. The central organization seems perfect everywhere, and is little different in any country; why is it then that the banks in the great countries have failed where the banks in little Switzerland have succeeded? Is not the secret in the very words "great," and "little"? It is true that the German land banks are established in and for Provinces, and not generally for vast areas, but (1) the *Landschaften* began and to a great extent have continued with the aim and intention of helping the large proprietors, while the mortgage banks are intended in cities and deal mostly with urban property; (2) each Province is far bigger than a Swiss canton; each Prussian Province averages a little over 2,000,000 inhabitants, while Switzerland with only 2,934,057 inhabitants has 22 cantons or Provinces, each provided with a Government, banks, &c.; the canton of Berne is the giant amongst them, having 539,271 inhabitants, or about one-quarter of an average Prussian Province or Madras district; the average population of a Swiss canton is, in fact, less by a good deal than that of a Madras taluk, only five having above 150,000 inhabitants, all of whom live in communes, which, in several cases, are directly connected with the banks and their administration; (3) while it is true that the *Landschaften*, State banks and mortgage banks together, now number about 69, and that many other institutions, such as Savings banks, insurance societies, pious foundations, &c., also grant real credit, the total number, situated, moreover, mostly in the towns, for the millions of German people cannot compare with the 900 banks of all sorts and nearly all ready to grant loans on mortgage, established among the 3 millions of Swiss people.

In other words, the minuteness of Switzerland and especially of its administrative units, the extreme sub-division of a small country into separate States, each with an advanced and complete political, social and economic organization, added, moreover, to the greatly developed instincts of independence, self-reliance and self-completeness, have resulted in a very complete system of organized credit, complete even for single villages and, where central, connected with the villages by an ingenious ramification, so that the Swiss banks, whether central or local, are either in absolute contact or linked in close touch with their clients. They are planted right among the peasants and can easily obtain information as to the circumstances of each borrower, who again knows of and is near his bank. Education and social characteristics including especially the communal and co-operative instinct so strongly developed in Switzerland, doubtless have their weight in this matter, but the German proprietor is also fairly educated and prudent, and also lives in communities in the villages, and the French peasant if less educated is renowned for his thrift and carefulness. The Swiss indeed have laws which favour cheap mortgages, but the key word to their success is *proximity*.

It is only by *proximity* that any banks, whether of real or personal credit can fulfil their true mission, and it is precisely this element that is absent in institutions such as the *Crédit Foncier* of France, and even in the later land banks of Germany, all of which were avowedly started for the people generally and not for nobles and great proprietors only. It is true that the German banks have branches and agents in the chief places of the Provinces, and that, since 1879, the *Crédit Foncier* has had agents and branches which now number 73. The number of the German branches is not known but is clearly not great (in one Province four) for the popular banks to be hereafter described were founded for the express purpose of bringing banking credit down to the people. In France there are 73 agencies, but there are 87 departments or districts, each of which is a complete and important administrative unit with an average population of nearly half a million, and therefore far larger than an ordinary Swiss canton with its average of nearly 120,000. When a vast central society proposes to lend to agriculture, and has not even a branch in every district and only one branch or agency for exactly half a million people, it is certain that its work will be confined to the easiest and most obvious classes of loans, viz., to urban properties, chiefly buildings, and to considerable rural estates.

Here the question of centralization comes in; great central societies have better credit than small ones, but cannot reach the people, for they cannot easily or cheaply test the value of securities

offered and they fear to rely on their agents over whom they have little check; while branches can seldom prove a pecuniary success when the proposed clientèle is that of small farmers with very small individual requirements, and equally small security; it takes long and costs much to establish such a clientèle, the expenses meanwhile exceed the profits a hundredfold, and the margin of profit can never be considerable when individual operations are small and costly. On the other hand though small local societies are in touch with the people, yet their credit is less and their loans are therefore dearer, while they have no strength to resist unaided bad years or reverses. The difficulty is one of those much discussed in France, and, in 1851, before the *Crédit Foncier* was actually organized, M. Josseau the learned and experienced author of the standard work on the *Crédit Foncier* of France, and an economist financier, and administrator of now half a century's experience gave his opinion in favour of a Central bank with numerous local societies or sub-offices.

M. Josseau after considering the reasons for and against a single society, and those for and against a number of independent societies, concludes in favour of a mixed system in which there should be a central society with sub-offices or local societies affiliated to it; these latter would be under the control of the central society, but with a separate administration which would examine all applications for credit and transmit them, if approved, to the central society, to which would be conferred the power of final decision, of issuing debentures, of settling the instalments for repayment, &c. The means of local sub-offices, it would be possible to vary the conditions of loans to suit local needs, classes of cultivation, &c.

Similarly M. Durand in regard to Italy quotes, with approval, the opinion of M. Cordova, Italian Minister of Commerce, who points out that the varying conditions and needs of agriculture, the necessity for local knowledge and *surveillance* can only be met by local societies.

So M. Borie desires small local cantonal banks founded by private initiative, especially that of the agriculturists themselves, financed partly by petty savings, partly by bills rendered "bancables"—acceptable by the bank of France—through the branches of the bank.

The great question then is, how to establish Real credit on such a footing that it may be in absolute proximity to the mass of the people, like the popular or Savings banks, while enjoying the organization and credit of a central society like the *Crédit Foncier* of France.

This question has already been discussed in Europe, and one result has been the establishment of Central banks; for the *Landschaften* there is the Central *Landschaft*, and for the mortgage banks the Central joint stock bank, both at Berlin; it will be seen hereafter that the popular banks and societies of Germany and Italy have experienced a similar need, and have adopted, *mutatis mutandis*, a similar plan. By these banks it is sought to combine the local knowledge of the Provincial banks with the credit of a Central bank. A description will elsewhere be found; but, at present the organization is not likely to be needed in Madras, for, except in Scotland, Central banks have not yet succeeded and not preceded local rural operations: local banks start and provide first cheap organized credit, and these are subsequently linked to a Central bank, as competition and industrial needs demand cheaper and yet cheaper capital. The case of Scotland is an exceptional as its people.

Indebtedness as affected by Land banks.—It remains to consider the result of the land banks on indebtedness. Have the banks increased or reduced either the amount of debt or its burden, and have they transformed the debt or any part of it into useful and productive indebtedness?

There are various answers to these questions, and nothing certain is ascertainable from the data available. For, even if it be believed that indebtedness has increased in volume and in weight, it does not follow that this is the result of the banks' action; and, again, though greater as a whole in money, it may form a smaller burden on property owing to increased values, or it may be the result of borrowing for productive outlay, or, as in Switzerland, a transformation of floating book debts, as in the usurer's running accounts, into the visible and more solid form of mortgage debts, or, as in Germany to a small extent, a capitalization of annual charges into a mortgage debt amortizable by annuities. It is not safe then to generalize upon the action of banks upon indebtedness. A few opinions may be given however.

In Germany feudal charges and other local burdens have undoubtedly been paid off by the peasant owners through the rent charge banks. On the other hand this improvement has itself opened the door of general credit to the same farmers, so that, unless they have used their credit productively, their position is not necessarily any better as to indebtedness, which, in fact, as measured in mortgage loans, may have or rather has immensely increased, as is statistically provable.

In Hungary some persons consider that indebtedness has been "very materially alleviated" by the creation of the *Boden-credit* bank; on the other hand others altogether deny it; considering that between 1863 and 1889 only 11,242 loans had been granted for about £14,000,000, it is absurd to suppose that this one institution can have had much effect on general indebtedness; moreover the average size of the loans shows that only considerable proprietors were aided by the institution. The matter is here mentioned rather to show the exaggerated views sometimes taken; probably the witnesses know of a few cases, and this may be conceded. It is moreover considered—though the data are not stated—that some of this borrowed capital has been productively invested.

In Austria it is considered that the various land credit associations have alleviated the burden of debt; but no statistics whatever are given, or any reasons for the assertion. Probably all that is meant is that loans are undoubtedly obtainable by those whom the banks reach on far easier terms than from the usurer.

Similarly in Belgium it is stated that "loans repayable by annuities tend to lessen the total of the debt on real property," but no data are given.

Again, in Italy, the answer to the same question is that the "condition" under which loans are granted are certainly advantageous as compared with the conditions imposed by money-lenders. This however is not the point.

France has been sufficiently dealt with in criticizing the action of the *Crédit Foncier* which is the only purely land mortgage bank in the country.

In the above countries all that is certain is that the land banks proper have granted a certain moderate amount of cheap credit to large and medium landed proprietors, and a very small amount indeed to a few small proprietors.

In Switzerland there are more data to go upon, and the evidence is peculiarly interesting because it is exactly in Switzerland that Real credit has been so thoroughly organized and cheapened—chiefly by private societies without privilege—that the private money-lender has practically been ousted, and banking credit has been rendered so accessible and cheap that any farmer can, and probably nearly every one does, avail himself of it. Now in that country it is accepted as a fact, provable by statistics, that in the last few years, during which banking credit has thus been cheapened and popularized, indebtedness has immensely increased not only absolutely, but relatively to land values. Taking the canton of Berne, it is found that in 1856 the land was worth £24,255,488 and the debts thereon were £7,245,690 or 29.9 per cent. But in 1889, though the land had increased in value up to £40,735,084, the debt had increased to £15,952,492 or 39.1 per cent.; of this debt, only about 17.7 per cent. was held by the cantonal mortgage bank, the remainder chiefly by local mortgage or Savings banks. Other cantons have a similar increase of debt. "It may be accepted as a fact recognized by all who all who have studied the question with any attention that the indebtedness of the peasant proprietors in Switzerland has increased to a very large extent during the last twenty years." (Commercial No. 5 of 1891, reply based on that from the Swiss Federal Statistical office.) It is in fact stated that thirty years ago (1856) the embarrassments of the peasant proprietors were due to the high interest on loans from private lenders and to the absence of a proper system of land credit; hence it was in the "re-organization" of that credit and in the creation of mortgage banks and loan associations that the remedy was sought. Now, however, "borrowing" has been rendered easy for him, too easy indeed, perhaps, for the indebtedness on the land cannot go on increasing, as it has been doing for the last thirty years, without seriously endangering the agriculturists' position. Thirty years ago the remedy sought was the reform of the Real credit system—that of the usurer—and the supply of cheap capital by the introduction of land banks; in the present decade the usurer has given place to the banks, and dear to cheap credit, but the amount and actual burden of the debt has enormously increased. Remembering that land banks seldom grant above 50 per cent. of the estimated, not the market value of property, it is clear that a debt of 16 millions on property worth 41 millions means almost universal mortgage indebtedness; this is confirmed by the reports of the American Consuls in 1884.

It is right however to state that nothing can be predicated against the banks for this result; it may be that credit has been rendered easy and indebtedness increased; but there is nothing to show that the increase is due to the action of the banks, and that had it not been for the banks, the indebtedness might not have been as great or greater, and on much more onerous terms; it may be not the banks but the conditions of society that have caused the increase of indebtedness among one of the best educated, most industrious and prudent people in the world; such are (1) the general European fall in the prices of produce; (2) the operation of the laws of inheritance, either that the land should be equally divided or that one son should take the property and pay his co-heirs the value in money, which of course is raised by mortgage; (3) the competition for land owing to the increase of population, leading to high sale prices and consequent indebtedness; (4) the fact that in Berne an abatement of taxation is granted on all land on which there are mortgages, a short-sighted policy which naturally encourages debt; (5) a substitution of mortgage debt for floating book debt owing to the cheapness and ease of Real credit loans; (6) a certain amount of actual improvement to the land and stock, owing to the demand for higher farming. Nevertheless it is clear that, even in enlightened and progressive Switzerland, the mere organization of cheap credit and its approximation to the people are insufficient remedies for economic malaise; facile credit does not necessarily mean alleviated burthen. Moreover, as Lord Vernon has recently pointed out in the "Nineteenth Century," it is true that mortgages when of very long term and repayable by amortization, are apt to increase indebtedness, in that a borrower is able, in the first place, to throw at least part of the debt on future owners, and in the second because the burden of repayment is so little felt that loans are entered into with a light heart to the full loanable value of the property and the proceeds equally lightly expended. These are facts which must not be lost sight of whether in considering the effect of land banks on European indebtedness or in estimating the desirability and probable effects of such credit on a population in the position and with the characteristics of Indian ryots.

In Sweden again, where the peasant is decidedly frugal and thrifty, the indebtedness has increased (1) by reason of the law of inheritance, (2) by the increase in the number of country banks, which give facilities for borrowing money cheaply; (3) by the demands made for higher farming. There is also a steady increase in debt in the well-managed kingdom of Denmark, where the indebtedness of peasant proprietors has steadily increased from 25 per cent. up to 50 per cent.—almost the full loanable value—of the value of the land in forty years, in spite of increased value to the land. In Norway (Foreign Office No. 282 of 1893), it is asserted by a member of the 'Storting' that "those who now in reality own the soil of Norway are the bank of Norway, the land mortgage bank, the Savings banks and merchants in town" that the mortgage debt on agricultural land had increased from £9,000,000 in 1865 to £36,000,000 or more in 1893, while the total officially estimated value of real property is only £40,000,000; that the peasant proprietor owns only about one-sixteenth of the value of his lands, &c., and that the mere interest on the mortgage debt amounts to about one-sixth of the total yield of agriculture in Norway. The Minister of Agriculture thought that there was some exaggeration in the figures, but the general assertion was not controverted. Here the banks are mentioned as the chief creditors of the frightfully encumbered peasants. Belgium is no exception to the increase, and it is said that only those keep out of debt and impoverishment, "who possess all the absolutely necessary virtues, strict economy, morality, exemplary activity, abstinence from alcoholic excess and even from frequenting the public houses." In these two latter cases, however, the action of banks is not stated as a cause of the increase. In Austria indebtedness has greatly increased among the peasants, but the land banks have not reached them. The facts mentioned above are largely taken from Commercial No. 5 of 1891.

On the whole indebtedness seems the present law of the peasant proprietor, and though this cannot be set down to the action of the land banks, in that without banks, the debt might have been nearly as great and much more onerous, yet it is clear that no mere improvement in the machinery of credit can work out the financial or economic salvation of the peasant, if that credit is not itself safe-guarded against abuse, if credit is not itself a distinct educative and disciplinary power among the people as provided

and controlled by themselves, if men are otherwise hampered by adverse social or economic conditions. It would be wholly out of place here to discuss such of those social conditions—custom, ignorance, improvidence, inertia, the laws of inheritance, the methods of taxation, &c.—as are not connected with the re-organization of credit, but it is clear that institutions of credit, real or personal, if they are to prove blessings and not curses in disguise, if they are to effect their full benefit, if they are to be, as they may be, institutions to re-organize not merely credit but social characteristics and economic stability, must not be mere machines receiving pledges and issuing loans careless of the use to which the loans are put, but must be living organizations of aid amongst the people, safeguarding their interests not merely in granting non-usurious loans, but in determining the use to which those loans are put; it is, in fact, to the due and productive employment of the loans granted on cheap terms and to the educative results of association on the clientèle whether borrowers or otherwise, that the credit institutions must look, rather than to the mere granting of cheap loans. A due consideration of this point is of the utmost importance. In a report on the land banks of Germany, dated 1845, it is expressly stated that “the facility with which land-owners found that they could obtain loans (from the land banks) at moderate interest, led them to borrow heavily for the purposes of luxury and other unproductive expenditure” or even for the purpose of speculating with the proceeds of the loans, in the early days of such banks, so that banks and borrowers alike were brought into the greatest danger, leading, in fact with other causes, to a forced suspension of the repayments of dues; the case of the Nobles land bank in Russia affords a parallel. At this day the indebtedness of land-owners coupled with the “abuse of credit” (Stein ‘Die drei Fragen des Grundbesitzes’) are amongst the most prominent of European land questions; the effect of the facile credit of the banks on the one hand and the dearness of credit or rather of usury on the other, are questions of the day, and are not to be answered by a mere alteration in the machinery of credit, unless the principle of the machine is also altered.

If such are the dangers and difficulties in Europe, those of India can hardly be less. It is useless, however amiable, to believe that the ryot is only thirsting for capital in order to invest it at once in the improvement and development of his estate, that the influx of cheap capital is all that is wanted to enable him to wipe off his old debts in order to start forthwith on a self-denying career of productivity; it is dangerous to confer, whether upon the peasant proprietor or upon the Parish labourer, a fancy character, born possibly of hope or of an enlightened personal conception of one's own probable or possible action under similar circumstances, and forthwith to start for his aid institutions suited to such character, with the certain result that he will do what more educated and enlightened men did and do whether in Germany in the early days of land banks, or in Europe generally in these days of competition and facile credit. Credit is a remedy, but like many remedies, it is also a dangerous poison (a double-edged tool, a consuming as well as a comforting fire, to use metaphors from European writers) and in applying the novelty wholesale to the Indian ryot, it must be applied with the caution that such remedies require, lest the ryots learn too easily to borrow with a light heart, the lighter that the terms are favourable and repayment so easy and so gradual. In what way does it benefit a peasant to owe £200 at 4 per cent. to a bank instead of £100 at 8 per cent. to a money-lender, unless it is absolutely certain that the whole difference has been spent in the improvement of the estate, a hypothesis absolutely in contradiction with the European evidence which shows that Land Improvement Banks are the latest in development and the least in demand, and that the loans are for “family purposes,” for the repayment of previous debt, for the purchase of land, the payment of taxes and the like. What does it matter to a peasant whether he is ruined by a bank or by a money-lender, by the too facile credit of the one or the too usurious terms of the other? It is not facile credit or cheap credit or organized credit, but guarded, disciplinary, educative credit which is required, and the land banks, as at present constituted, are not organized to that end. Nevertheless, it is believed that institutions for the grant of such credit do not only exist, but are specially adapted to the needs of the small folk, and that even land banks, if as careful in the selection of their clients and in the intended use for their loans, as in their demand for mere material security for their money, could in a great degree fulfil this object.

This is no theoretic or academic suggestion; those who know the history and operations of the old English country banks or of the Scotch banks, or of the new but immensely numerous German and Italian popular banks, know that this was and is the part played by them in developing agriculture and social character; the English country banker with or without the family solicitor, the Notariat of France solicitors and negotiators of loans, the Scotch banks with their easy loans and cheap cash credit but only to men known to be steady, thrifty and to be proposing improvements, the European popular banks and credit associations, the true *raison d'être* of which is the development of thrift, foresight, brotherhood and social advancement, rather than the mere grant of cheap credit, the Building societies or co-operative banks of Great Britain and the United States; these are all living examples and proofs of the true rôle of credit institutions and, by contrast, argue error in those institutions which are simply credit issuing machines.

Resumé.—It remains to sum up the facts and results disclosed by the preceding analysis of land credit institutions in Europe. There are three main classes: (1) the societies of borrowers (mutual credit associations) typified by the Prussian *Landschaften* which were the originals of all land banks in Europe and which have no share capital or dividends, but work solely for the benefit of the borrowers, who reap the advantage of all profits; (2) the societies of lenders or capitalists (joint stock companies) typified by the *Crédit Foncier* of France, which is also the model for a vast number of similar institutions throughout Europe, and which are worked not merely to provide cheap loans for borrowers, but primarily to obtain dividends for the capitalists large or small, who find their share capital; (3) the State banks, including those initiated and managed by Provinces; these are of minor importance. The most successful rural banks are those based on the mutual system working for the benefit of borrowers and not for dividends for shareholders, and it is this mutuality and freedom from working for gain, so that the exploitation of poverty and misfortune is impossible, that is one justification for the privileges and support granted by Government, which, on the other hand, seldom gives special privileges to ordinary joint stock or commercial companies.

The objects of all societies alike are (1) the relief of land-owners from usurious and manifold debt by the substitution of a single honest and straight-forward creditor; (2) the development of agriculture and land improvement.

These objects were to be attained (1) by tapping a hitherto undeveloped financial source, viz., the idle and petty savings of the public, through a system of debenture bonds open to all who have a few pounds in hand and who desire to place them at interest and yet to have them available at will; (2) by lending this money out on very long-term loans, at interest as low as economical management and good security would admit; (3) in a method of repayment (amortization) by which the loan was insensibly and gradually paid off either from the borrowers' savings, or from the increased income derived from the improvement which the loan had effected.

The State has in all cases been the initiating power either by direct fiat as in the *Landschaften*, by favouring legislation as in the *Crédit Foncier* of France, or by direct organization. In all cases the State has assumed powers of supervision, varying from direct management in the case of the State banks and from large controlling and directive powers in the case of the *Crédit Foncier* to that of supervision and the receipt of returns and reports, as in Italy, with an intermediate stage of supervision, and even control by means of a State officer appointed *ad hoc*.

These institutions have the usual staff of directors, committees of control and supervision, and of auditors, while in all cases there is a general assembly consisting either of all members, or of only members with particular qualifications; the powers whether of the general assembly, which is sometimes a mere body convened to hear a report and to give an expected sanction, but is generally the source of power, or of the several boards, are largely determined by the powers given to the State commissioner, who may be, as in the *Crédit Foncier* of France, a governor with almost entire power of management and control, or an officer with power of veto and supervision little inferior, or he may be a mere inspecting and reporting officer.

The societies provide various securities for their creditors; the first class (*Landschaften*) have as guarantees not only the property on which they have granted mortgages, but the unlimited mutual guarantee of all their members, and sometimes of all the landholders of the Province; they have also reserves sometimes supplied or aided by a State grant-in-aid; a State guarantee is however rare. The second class (joint stock companies) provide for their creditors the guarantee of the property mortgaged to them, but in place of an unlimited liability, they furnish a share capital and reserves; occasionally these have State aid, and in one case, at all events, a State guarantee for a minimum interest. In the third class the State, which is the founder and manager, is of course the guarantee.

Certain privileges are given to some societies, viz., financial in the way of occasional subventions or guarantees and the permission to issue debenture bonds; fiscal by way of privileged reduction of stamp duties, registration fees, and as regards the mutual societies such as the *Landschaften* and *Boden credit institute* of Hungary, by freedom from the income tax; legal in the way of cheap and speedy procedure in obtaining the position of first mortgages, and in the recovery of dues.

Banks generally, with exceptions in Germany where the privilege is not always granted to the new mortgage banks, find their money for loans in the system of debentures (*Pfandbriefe*, obligations foncières) issued by the societies against the above securities; these usually bear about $3\frac{1}{2}$ to 4 per cent interest and are issued in series to the public, each bond being usually of small amount. Their acceptance is promoted by a system of bonuses on repayment, premia, and lottery prizes, which latter improve the interest, but act chiefly upon the hopes of each holder that his debenture may bring a prize and perhaps a very large one. The bonds are paid off by periodical drawings, as the mortgage loans are gradually repaid, it being an absolute rule that the amount of bonds in circulation shall not exceed the value of mortgage loans in existence.

Loans are granted to half or two-thirds the value of the property pledged and only on first mortgage, this position being secured either by paying off prior mortgages or by the "purge" which temporarily bars, but only as against the society, all claims arising out of relationship and civil status. The condition of the property is watched very strictly during the continuance of the loan, which may be called in if the property is allowed to deteriorate. Loans are generally granted for very long terms, none being less—under the ordinary rules—than for ten years, and most being accepted for terms of forty to seventy-five years. But, while the bank cannot demand payment except by the regular annuities, unless in case of deterioration, &c., the borrower may repay the bank in full or in part in advance at any time.

Repayment for all long-term loans is solely by amortization usually beginning at $\frac{1}{4}$ to 1 per cent. per annum; this is added to the interest, and the whole—about 5 per cent. *plus* commission, if such exists as in some German banks—forms an annuity, which is paid by half-yearly instalments, often into the Government treasuries which are scattered over the country. This sinking fund principle by which loans are insensibly paid off by extremely small instalments, over a long term of years, is the invention of the *Landschaften*, and has been improved and developed in later societies; it is now universal and is—with the debentures—the grand feature of European land credit societies.

The land banks usually have considerable privileges for enforcing punctuality and repayment; these are chiefly by cheap and speedy procedure in the Courts, or in direct distraint, &c., by the bank's agents; all operations not carried out by the bank's agents are executed by the Courts and judicial authorities and *not* by the Government executive officers.

The general results are excellent so far as the operations extend; money is cheaply granted; the position of the land-owner is simplified, interest is kept down and in some places the *curator* has been controlled, or—in Switzerland—relegated to a very inferior place. But save in Switzerland, the land societies have *not* reached the vast mass of petty proprietors, viz., those holding below 20 or 25 acres: these are still in the position they occupied before the banks started; it is the large and medium proprietors and the holders of urban property who have almost solely benefited; so far as regards the men who are in the position of the mass of Indian ryots, all the statutes, all the efforts, all the experience of Governments, business men, economists and philanthropists, brought to bear for at least forty years, and for much more in Germany, have utterly failed to organize a working Real credit for them; the difficulties in the way of mortgage loans depending on the security of petty farms, which in case of default are of minimum value to the creditors, have proved insuperable. Only in the Savings banks—as will be seen hereafter—do the small folk find some help in the matter of Real credit, but even here the result is unsatisfactory, for the Savings banks are not intentionally organized as lending institutions, except perhaps under the new laws of Italy, and in the case of the Savings

banks, so called,—often however mere joint stock banks taking very small deposits,—of Switzerland and the United States.

The preceding study suggests the various systems possible.

(1) The Central National *Crédit Foncier*, having a temporary monopoly for the whole country for certain methods and privileges, possessing therefore immense credit and commanding the best financial and business talent, but suffering from the grave and so far insuperable defect of absence of touch with the mass of landholders.

(2) Provincial banks and societies—with or without a monopoly—as in Germany and Italy, possessing less general but probably equal local credit, judging by the fact that the debentures of the German land banks are quoted as high as those of the *Crédit Foncier* of France, so that the Italian failure is not necessarily due to the Provincial character of the banks; autonomous and independent in not being branches or offshoots of other institutions or affiliated to them.

(3) Provincial banks or societies linked with a Central bank; the latter, as in Russia, alone issues debentures to the public upon the paper of the Provincial banks, which in turn is based on the usual mortgages; or they simply draw funds from the Central bank and pay interest thereon, as in Sweden.

(4) Local banks or societies, wholly autonomous, resting solely upon their own credit, and upon their own funds whether of subscribed capital, of deposits, or of loans variously obtained; necessarily therefore of less general credit, and buying money dearer, but possessed of the inestimable qualities of proximity and local knowledge and influence; similar to the country banks of England or the National banks of America.

(5) Local banks or societies linked with a Central bank as in cases (3) and (4).

(6) Central or Provincial banks or societies, linked direct with the communes both financially and administratively, as in the case of the Swiss banks of Berne and Geneva.

(7) Free banks of any description.

All the above except No. (1), which can only be joint stock, may be either joint stock banks of lenders, *e.g.*, the *Crédit Foncier* of France and mortgage banks of Germany, or mutual societies of borrowers, as the German *Landschaften*, &c.

For application to Madras, Central should be read as Presidency, Provincial should be District, Local should be Taluk, Union or even Village.

In brief, every European country has started land banks, at first at all events by the initiative or impulse of Government; these have done much good work in several countries as regards the larger and medium proprietors, but have not yet reached the small folk; urban property has benefited more largely than rural estates. Switzerland has developed a rural banking system in contact with the peasants, but the facilities thus offered have resulted in heavier indebtedness, of which the productive value is very doubtful. But credit awaits further development in Europe before it can reach the small proprietor in its modern form of long-term amortized loans.

Other Banks.—The preceding study has dealt solely with banks which are either entirely or principally land mortgage banks or societies. It has not attempted to deal with banks which make real credit merely one of several objects; it is the special European real credit systems that have been described.

But apart from ordinary banks and private lenders must be mentioned the Savings banks and Popular banks of Europe, the National banks, Savings banks and co-operative banks (Building societies) of the United States, the Building societies of Great Britain, and the Scotch banks. These will be described hereafter under special chapters; suffice it here to say that the Savings banks play a chief part in the mortgage loans of both continents; it is these banks which are in Europe, the mortgage banks of the petty proprietors. In Germany, for instance, in 1888 the deposits in the Savings banks (*Sparkassen*) were £150,936,832, of which 27.45 per cent. or £41,432,160 were placed in rural mortgages. In the United States of America in 1891, 1,011 Savings banks lent no less than £137,516,783 on real estate and in 1893 above 150 millions. The similar operations of the National banks are not known, but are very large.

CHAPTER V.—CRÉDIT AGRICOLE. |

In Europe, as has been stated, rural credit is generally divided into *Crédit Foncier* or immobilier, and *crédit mobilier* or agricole.* The former has been described in detail, and its shortcomings as regards the peasant class generally, have been shown. Nevertheless, the imposing institutions which have been created *ad hoc*, and the fact that those who can complain the loudest—viz., the large and medium proprietors and urban property holders—have been well served by these institutions, have diverted public attention from the further development downwards of this class of credit, and attention has been increasingly attracted to the '*Crédit Agricole*' as the means for the economic salvation of the small farmer.

† This form of credit includes chattel credit, *i.e.*, the credit based on movables, such as crops, stock, furniture, &c., and personal credit, or that based on a man's *status* and general position, his character, his property and his reputation.‡

Before proceeding to discuss the '*Crédit Agricole*,' it will be well to rehearse once more the nature of the credit required by the farmer; it is impossible to discuss or devise systems for granting him credit unless his needs are distinctly defined and grasped. For permanent improvements, then, whether of irrigation, plantation, building, levelling, and those lengthy operations which convert mere "*anáthi tarisu*," or neglected and possibly exhausted dry lands into fertile gardens, long-term loans are

* In Europe the words '*Crédit Agricole*' are used in a technical sense; they do not mean "agricultural credit" that is, credit in general granted to agriculturists, but those particular classes of agricultural credit not covered by land credit (*Crédit Foncier*, *Boden Credit*), viz., chattel and personal credit.

needed, in which the capital borrowed may be replaced by small annual instalments from the improved income. This form of credit is based upon the security of the land itself, which remains permanently as the guarantee for the loan. This is the *Crédit Foncier*, which has been fully described in the preceding chapters. But the farmer, proprietor, or tenant, requires other classes of credit; he needs money for cattle, manure, new implements, seed, maintenance, wages, rent or assessment, &c., and for this, comparatively short-term loans are necessary, varying in duration according to the class of requirement, from (say) three months to three or four years. Now, unless, as in Switzerland, mortgages are cheap and very accessible, it is obviously absurd to pledge land for a mere passing need. The crops, stock, and personal status of the farmer ought to be amply sufficient for loans necessarily moderate and of comparatively brief term; if credit has been effectively organized in a country, nothing can be simpler than for the farmer to seek his banker and obtain a short loan either on his mere bill or note of hand, or as a cash credit, or by a bill of sale, or in other simple ways. But this is precisely what is universally wanting to the small farmer, universally, that is, on the continent of Europe, where "the ignorant peasants, recognizing nothing save that money is necessary, rush into debt, and fall into the clutches of men who, under pretext of helping them, only desire to cause their ruin and to grow rich at their expense"; (Le Barbier). It is then the organization of this class of credit that remains to be discussed. It will be useful, further, to point out that discussions in France have largely turned upon chattel credit, *e.g.*, in giving the farmer a greater borrowing value in his crops and movables by limiting the landlord's privileges over them, in enabling him to pledge his stock, crops, &c., without delivery to the pledgee, &c., while in Germany chattel credit has never attracted much attention; it is the development of personal credit that has there occupied men's minds.

The reason why Germany has relegated chattel credit to a wholly secondary place is (1) that as the landlord has by law the first rights over the crops and stock of the farm up to the amount of his rents, it is impossible to pledge them by delivery to a third party without wronging the landlord, unless with his consent; (2) that crops and stocks and furniture by their very nature cannot be removed or delivered to the custody of the pledgee without disturbing or preventing the work of the farm. In Germany, therefore, while personal credit largely depends upon a consideration of the possessions of the borrower, those possessions are not themselves given actually in pledge, and chattel credit is practically of little use. This is equally the case in France, but the course of action has been vastly different; the business men of Germany, abandoning the idea of chattel credit, have sought development of personal credit, while their confrères in France have either unceasingly discussed the possibilities of developing chattel credit, so that the debates on the *Crédit Agricole* in France have been largely synonymous with debates on the restriction of the landlord's privileges as entered in the Civil Code, the pledge without delivery (*gage sans déplacement*), the assimilation of the peasant borrower to the merchant, and his subjection to the commercial law and Courts, or they have attempted to provide agricultural credit, which deals with petty transactions over the face of a whole country, by means of central institutions which could not possibly touch the difficulties. Hence the actual result is, that in France, where it is extremely difficult to alter the law, altogether apart from the practical difficulties in the way of chattel credit, the *Crédit Agricole* is, still, a matter of discussion, and the peasant is actually without agricultural credit, except in so far as the usual money-lender will grant it; whereas in Germany certain practical minds borrowing the principles of association, unlimited liability and local effort from the *Landschaften* of their own country and the Banks of Scotland, have founded the popular banks and credit institutions, which, though not yet fully developed, have, so far as they have gone, solved the problem of credit to the petty proprietor, artisan or tradesman, and while so doing have fostered and are fostering precisely those habits of thrift, temperance, prudence, punctuality, public spirit, enterprise and combination, which are the substructure of all permanent and substantial progress. France has discussed legal improvements and central institutions, the idea of the latter being based on the success of the *Crédit Foncier*, and being equally consonant with the centralizing ideas and methods which find favour in that country; such institutions have neither succeeded nor survived. On the other hand, the Germans put all legal questions aside and set to work to develop local societies for mutual assistance and credit, which draw their funds from outside by virtue of unlimited liability (solidarity), safeguard all internal transactions by the local knowledge available to them as a local association or brotherhood, and have eventually supplied by development, the links between themselves united in groups, and between themselves and central societies which grew up to supply a felt want. Not only did they not trouble the Legislature to alter the substantive law of the country, but they themselves were, for many years, to some extent outside the law, as being societies not recognized as moral and commercial entities; they had no *locus standi* in the Courts and survived at first solely by virtue of their own meritorious management. The general result is that while in France there is—speaking generally—not a popular bank nor a society for agricultural credit, there are in Germany popular banks and credit institutions by the thousand, dealing in rural credit by tens of millions sterling and developing each year not merely in numbers, but in importance and in beneficent influence, while their example has been copied in all other continental countries, and a beginning has, since 1889, been made in France also. Probably this latter great country will now develop the idea in its usual thorough and masterly way.*

The present chapter will deal with attempts in Europe to solve the problem by central institutions or large societies founded either by or with the favour of Government, or by private initiative. This will be followed in the next chapter by a description of the popular banks and local credit associations which are now scattered over Europe.

FRANCE.—In 1845 the French Government were so filled with the idea of the need for organizing this credit, that besides a great congress of agriculturists, economists, proprietors and lawyers, summoned to consider this and other questions, they sent an Inspector of Agriculture, M. Royer, to Germany to study the systems that might be found there; he came back with the report of a system not

* The above was written in 1892. Since that date the question of 'Le Crédit Agricole' has been earnestly taken up by the Legislature; a Bill has this year (1894) passed the Chamber of Deputies, and is under discussion in the Senate, by which this form of credit is to be organized, and a subventioned Central bank established. A translation of this new law will, it is hoped, be found in another appendix.

of the *Crédit Agricole* but of the *Crédit Foncier* in the shape of the *Landschaften* system of Prussia which was the germ of the great *Crédit Foncier* of France in 1852. From that time to this, the "Enquête sur le crédit agricole" has been unceasing; several (four) Government commissions have enquired and reported at length; district councils have been called on for opinions; agricultural societies have made elaborate enquiries and formulated their suggestions; consuls in foreign parts have written numerous reports; conferences of the highest financial, agricultural, and economic authorities, have been held; ministers have issued questionnaires and duly filed and sometimes published the replies; Legislative bills have been drawn up and submitted to discussion; the newspapers, reviews and agricultural journals have discussed the matter times without number, and more than 200 separate projects have, it is stated, been conceived, but perished in their birth. State organization, State funds, State guarantee, paper money inconvertible or otherwise, modifications of the law as to landlords, the "gage sans dessaisissement" or pledge without delivery, the commercialization of agricultural paper; such were the bases of innumerable suggestions, if indeed they were not summed up in the resolution which closed the debate of the great congress in 1845; "The congress is of opinion that Government should study the question of credit intended for agriculturists." Government was called upon to organize the '*Crédit Agricole*,' as a sort of *deus ex machina* provided with a universal panacea; a Government "organization" was "the demand which ended all the speeches, all the essays, all the reports which aimed at the establishment of agricultural credit" (M. Darblay quoted in M. Borie's *Etude sur le "crédit agricole, &c."*). The general idea was to form a special establishment for the sole purpose of granting agricultural credit, which was regarded as something special and by itself, probably from the fact that while credit in general is open to business men (commerçants), artisans, &c., and while their notes of hand or ninety-day bills were accepted by the Bank of France if provided with the usual "three signatures," and were subject to the rapid and summary procedure of the Code of Commerce, the paper of agriculturists was practically unknown; it could not become "commercial" paper, owing to the restrictive provisions of the civil law, and was consequently refused by the banks and could not be dealt with by the Commercial Courts. Hence the idea grew up that agricultural credit was a thing by itself, needing a very special organization and the grant of the particular privileges from Government, if not a Government organization, subvention or guarantee.

On the other hand, certain economists and financiers pointed out that there was no such separate thing as agricultural credit; what was wanted was that the farmer should be able to obtain simply that credit which was denied him by the law (Civil Code) which, in attempting to safeguard him from contracting usurious debts, had paralysed his credit; that with this view all that was needed was

- (1) that the landlord's privileges over the tenant's movables should be diminished;
- (2) that the privileges of the landlord should be transferable (*e.g.*, to a society);
- (3) that the farmer should be able to pledge his crops, &c., without delivery;
- (4) that he should, for purposes of credit, be placed under the operation of the Commercial

Code, as being more summary and effective than the Civil Code, and that his bills should be "commercialized" or treated as those of "commerçants." They demanded simply that the agriculturist should be freed in matters of credit from the restrictions which hindered him, and should be granted facilities given to other classes of trade and industry, and they advised either a National bank of agriculture with district and taluk branches, or institutions of private origin, either on the joint stock or mutual principle; some proposed banks to lend directly, others institutions to discount bills accepted by banks; others to give them guarantees, so that the ordinary banks might discount agricultural paper. In the present work it is however impossible, nor would it be profitable to detail the various proposals.

It may also be stated briefly that the concessions required by the various commissions and congresses, economists and projects, have never yet been accepted by the legislative authorities; the sole concession is that of 1889, when a law was passed limiting the special privilege, *i.e.*, priority of the landlords over the goods and stock of his tenant, to the rent of two past years, the current year and the year following. So far as the '*Crédit Agricole*' depends on changes in the law, it is practically in the same position now, as in 1845, when the proposals were first formulated.

Other attempts to solve the problem have, however, been made. In 1860 the Emperor intervened directly, and under the intimation conveyed in his letter to the Minister of Agriculture, the *Crédit Foncier* agreed to form, in 1860, the 'society for agricultural credit' ('*La société du crédit agricole*').

In pursuance of this agreement a bill was framed which, with the statement of objects and reasons, and the report of the special committee presented to the Legislature, are extremely interesting and are suggestive for Indian considerations.

The first document, 30th June 1860, recites that the immediate idea was excited by the recent Exhibition, in which the "small cultivator" had neither part nor lot save that of gaping curiosity, or of envious wonder at the methods and implements which he could not procure. This led to a consideration of the want of capital by the cultivator, the defects and expenses of the loan upon mortgage, and the invidious position occupied by the small proprietor, who, in spite of his possessing a farm with stock, crops, &c., could not, by law, negotiate a bill, while any petty trader or artisan could readily do so. It was, therefore, decided to form a society, after the model of the *Crédit Foncier*, which, by means of intermediaries, should obtain good agricultural paper, guarantee it by its own signature, and re-discount it with the Bank of France which requires "three signatures," of which at least one must be that of a recognized commercant having an account with it. This society was to be managed by the Governor, &c., of the *Crédit Foncier*, with, however, a board of directors and general assembly of its own.

But as the attempt was an experiment in unknown financial methods and fields, it required some Government support. This was provided by the Government convention with the society, by which Government guaranteed for five years a minimum of 4 per cent interest to the shareholders should the profits form insufficient; this however was limited by a stipulation that losses were not to be deducted from gross profits (*les bénéfices ne seront point calculés deduction faite des pertes; le Trésor ne pourra jamais souffrir des imprudences ou des négligences de la société*); in calculating profits in reference to the Government subvention failures of repayment by debtors were to be counted as though paid. Hence the subvention was nothing more than, so to say, an evidence of interest and encouragement.

The report of the committee points out the difficulties of agriculture under the land tax, the heavy transfer charges for transfer and succession, the absorption of capital by the system of inheritance, the consequent increasing mortgage debt upon the soil, aggravated moreover by its continual "morcellement," the heavy price demanded for land as compared with its net returns, the imperfection of cultivation and the estrangement of extraneous capital from agriculture. Capital, again, is deterred from turning towards agriculture by the uncertainty of agricultural operations, the numerous failures, disasters and diseases to which it is subjected by nature, the consequent unpunctuality of the borrower, or his inability to meet his engagements, all of which lead to heavy terms by lenders. The *Crédit Foncier* was never intended to supply circulating capital to the farmer; this is the duty of "le crédit agricole," and the problem is how to secure the desired capital to the cultivator with security to lender and borrower.

Obviously the State could not undertake the rôle of agricultural banker; it could not command the funds or enter into the millions of necessary enquiries and engagements. On the other hand, private initiative, so far, had done nothing. *Manet sors tertia*; a mixed society, partly private, partly public, founded on the model of the *Crédit Foncier*, which was to be established by the intervention of Government, subsidized to some extent by it, managed by a Governor appointed and dismissible by the State, and yet be a private joint stock institution, administered without State control and prospering entirely on its own resources. The society was to have a capital of £800,000, of which one-tenth was to be paid up, and bonds given by the subscribers (*cf.* Hungarian 'Boden Credit Institute') for three-tenths of the remainder. Its objects were the negotiation of agricultural bills of ninety days; the opening of cash credits and granting of loans for a minimum of three (afterwards five) years, the receipt of deposits up to one-and-a-half times the total of the capital paid up or represented by the subscribers' bonds, the opening of accounts current, and generally all operations intended to encourage and develop agriculture. Its methods will be described below; practically it was to be a mere endorsing intermediary or guarantee between the borrower and the Bank of France, which would, in fact, supply the funds (*cf.* the Belgian proposals); the society would recoup itself by a commission on first discount and on renewal.

But a chief object of the society was to provide for those undeveloped or unimproved properties on which the *Crédit Foncier* could not lend; the latter can only grant loans on actual existing values; this prevented borrowing in order to improve, for the unimproved property by itself had no considerable actual value. The *Crédit Agricole*, therefore, was to lend for improvements, *i.e.*, upon potential values, under safeguards for the proper use of its loans (*cf.* *Compagnie Foncière* and the methods of the Indian Land Improvement Act, especially the special well rules). It was this function which attracted the adhesion of several committee members who were doubtful as to the success of the company and especially as to the intermediaries who were to be the actual agencies for deciding upon the solvency of borrowers; (note the actual failure of these intermediaries and the similar want of success in Belgium).

Other objections were raised by the members of the committee, *viz.*, that it was not the business of the State to enter upon private business, but merely to promote good communications and public works, to stimulate private activity by good laws, to take steps for encouraging agriculture by wise institutions; more than this was to keep the population under tutelage and to accustom it more and more to rely on the State instead of on itself. State subventions are generally useless, as in the case of the *Crédit Foncier* and in the case of the grants for drainage which were altogether unutilized. Moreover subventions lead to carelessness on the part of the subsidized, while on the other hand, if the society is very energetic, agriculture may suffer from a too great facility of borrowing which might lead the peasant to embarrass himself beyond his means.

To these it was answered that there is nothing so wisely arranged that its use is not liable to abuse; that too great facility in borrowing was improbable, for the society and its agents were likely rather to be excessively careful in lending and would grant loans only to those of admitted solvency; that as for possible carelessness or inertia on the part of the society, that was unlikely since its administration would be that of the *Crédit Foncier*; that as for the intervention of the State, it is indispensable, since some guarantee was necessary in entering on experimental ways and methods. There was, in fact, no other means; private initiative had done absolutely nothing and evidently would do nothing. It would be a grave error to throw out the advantages which the Government offered not because it was desirous of undertaking agricultural credit but because without the moderate intervention, provided no other attempt was possible.

These reasons prevailed, and the committee recommended the adoption of the bank subject to a further proposal, *viz.*, that the guaranteed interest should be reduced to 3 per cent., and that any payments on this account should eventually be recovered from the society when it should have become prosperous. These amendments were rejected by the Legislature.

It is noteworthy (1) that no exercise of the guarantee was required; (2) that the society eventually failed not from want of business but from want of that very Government control which was provided by the decree and was apparently deprecated by certain members of the committee; the society went off the track into all sorts of ruinous speculations; (3) that the agencies were, in fact, largely a source of the society's failure from their own failures and misapplication of credit; (4) that a similar attempt in Belgium had failed—possibly warned by the French results—no intermediate agencies having been established or accepted by the National bank.

The Bill was accordingly passed, the Government guaranteeing 4 per cent. for five years in case the profits should not be sufficient, profits being calculated as mentioned above in favour of Government. The new society was established as a Joint Stock Company in 1861; its capital was finally fixed at £1,600,000, but its operations were to be financed as usual by the issue of debentures repayable in five years at most; this short term was necessitated by the fact that the loans it was to grant were short-term loans not covered by real mortgages. The organization was that of a governor and two sub-governors—those of the *Crédit Foncier*—an administrative council, three auditors, and a general assembly consisting of the administrative council and of the 200 largest shareholders.

The society was to be partly a discount bank, partly a loan institution.

Discounts.—As regards discount, it did not discount agricultural bills except at second hand, since it could not know the solvency of the parties; consequently it demanded in addition to the ordinary signature, that of either (1) a banker in correspondence with the society; (2) of an agent under the control or

authority of the society; (3) of a Joint Stock Company created under the patronage of the society and united to it; (4) of a local association working under its patronage. The signature of any one of these correspondents is the "second signature" demanded by the society, and should the society wish to rediscount this paper, its own signature provides the third, without which the Bank of France will not look at a bill of exchange.

The above correspondents were selected by the administrative council from bank or business houses or from important landed proprietors; these were located at various agricultural centres, many being at the head-quarters even of Cantons (Unions) or of principal markets and fairs. In this way this great society endeavoured to place itself at the very doors of the agriculturist; in 1870 there were 500 of these correspondents who supplied the central society with paper for discount to the amount of nearly £17,000,000 sterling. In addition to these correspondents there were in 1870, seventeen branches, with head-quarters at the chief towns, and in 1870, in spite of the great war, the discounts at these branches were £28,624,000 sterling.

In 1870 the society discounted bills of ninety days at utmost for about £49,560,000; practically the society was a discount bank and did but little in the way of direct loans, or even in the discount of paper at first hand; it worked through its intermediaries.

Two other societies were founded as annexes, one to open credits for works connected with agriculture; the other to assist transactions arising out of the sale and purchase of agricultural produce. Moreover under the patronage of the society but independent of it, the 'Comptoir Agricole de Seine et Marne' was formed to provide capital for the agriculturists of that district, by endorsing their bills which were then discounted by the society, thus acting as an intermediary like the regular correspondents of the society; presumably these societies failed with the Crédit Agricole itself.

Loans.—As a loan association, the society granted credits and loans on pledge and on other special guarantees if so permitted by the council. These, being secured by a material pledge, are granted on the single signature of the borrower, and for a term up to three years with power of renewal for a similar term. Up to the end of 1870 the loans thus granted only amounted to £2,715,840.

Deposits.—The society might also receive deposits up to twice the amount of its paid-up capital, and granted interest thereon at varying rates; on the 31st December 1870, 10,373 depositors had £210,680 on deposit.

Accounts Current.—The society opened accounts current on the usual terms, but did not do much business in this way.

Debentures.—These might be issued for periods of from forty-five days to five years, and of £4 and upwards; interest varied according to the duration of the bond, and was payable with the capital for short-term bonds, and half-yearly for those of one year and upwards. They were readily accepted, and, in 1870, were in circulation for above £3,600,000.

Failure.—This society has been referred to in recent years as an example for India; unfortunately it not only failed disastrously in 1876, but it never dealt to any extent with agriculturists. In that year the Egyptian Government suspended payment, and this led to the downfall of the Crédit Agricole; on examination, it was found that the society had not only lent £6,720,000 to the Khedive, but that its assets in other respects were exceeded by its debts by above £1,200,000; the result, of course, was bankruptcy, but being backed by the Crédit Foncier, into which it was merged, a series of skilful operations by that society which sagaciously awaited the rehabilitation of the Khedive, resulted in a net loss of only about £300,000, a result due solely to the credit and arrangements of the Crédit Foncier. It was discovered that far from lending to agriculture, the Crédit Agricole had lent largely and recklessly to other industries and commerce, mines, spirit distilleries, weaving factories, &c., and had become a large holder of Turkish, Egyptian and Greek bonds; it had lent to its various correspondents very large sums on very insufficient security and on accommodation paper (billets faux). It had never kept to the limits prescribed by its statutes, and it discounted not agricultural paper but the bills of various dealers in wine, grain, &c.

Now the important points in this matter are the causes which led to this disastrous failure: not the proximate causes, viz., the speculative purchases of low class securities and accommodation paper, but the prior causes which led to this hazardous speculation; why, with the excellent prospects of unlimited agricultural dealings, with large funds and powerfully backed, did they abandon their special legitimate business? In 1876 the then Governor explained in his report that agricultural loans were surrounded with great difficulties and many trickeries; that the arrangements which promised security were found insufficient even with all the machinery above described as being at their disposal; hence, he continues, they were forced to seek compensation in "other banking and financial operations." But it is noteworthy that these other operations were extraordinarily hazardous, baseless and speculative, and it is clear that the stern reproaches of M. Christophle, the new Governor of the Crédit Foncier, explained the reasons, viz., that the directors were seduced by the hopes of large gains; that they "delayed not" to desert the path of their legitimate business for adventurous speculation; that their example led away their agents into similar errors, and that it was not want of agricultural business so much as reckless speculation. M. Christophle adds as the foundation cause of these errors, that the Government which was bound by its own decree,* to supervise the working of the society, had done nothing of the sort, and that thus an opening had been given for abuses. He adds that even the Crédit Foncier did not succeed in its earliest years in meeting its own expenses, but was sustained by the

* The chief provisions of this law are as follows:—

(3) "The society is bound to send every six months a statement of its position to the Minister of Agriculture, Commerce, &c., to the Chamber of Commerce, and to the Commercial Court of the District of the Seine."

(4) Moreover, the society must furnish to the Finance Minister, either on demand or at fixed periods to be settled by him, similar statements showing its financial position, its securities and its business.

(5) The working of the society shall be subject to verification by the Inspectors of the Finance Minister whenever he deems it advisable. These inspectors shall be furnished with the minutes of meetings and with all the books, accounts, vouchers and documents of the society, and they shall inspect all securities: provision is also made for a monthly financial statement, copies of which are to be sent to the Minister of Agriculture and Commerce, and of Finance, and to be published in the newspapers.

subvention granted by the State, while it steadily developed its business, and with it its well-known profits; hence the *Crédit Agricole*, with its guaranteed interest, could have done the same.

It is, moreover to be pointed out that, owing partly to the highly complicated machinery necessitated in the issue of small loans by a central institution, expenses to borrowers were very high, reaching even 10 or 12 per cent. (M. Jacques Valserrès); M. Joseou remarks that the society "failed to penetrate into the rural tracts and to bring relief to the medium and petty cultivators," who, as in India, form by far the greater part of the agricultural population, inasmuch that within six years of its formation Government opened a new enquiry and formed a new commission to study afresh the subject of agricultural credit. The fact is, that the banks who were the society's correspondents lived in the towns; away from the mass of the rural cultivators, unknown to, and ignorant of, them, instead of living in their very midst; also that the agriculturists were ignorant and suspicious of the elaborate mechanism of a grand centralized institution, which, seated in the metropolis, and acting only by agencies generally located in towns, had no contact with the peasants, and could therefore give them nothing in the way of an economic education, for which Popular banks of simple form and action, situated amongst the people and worked by them were the true primary instructors in the art of banking. M. Durand considers that no central institutions could succeed; that it is not funds which are lacking, but the means to employ them and the clientèle to absorb them; it is, in fact, in the *formation of a clientèle* that the difficulty lies and not in the financing of a bank. Similarly Signor Luzzatti considers himself justified from the history of credit in deducing "the law that any attempt by a Government to form and work a central institution of agricultural credit must be a failure"; he believes that such credit must develop from without inwards—not conversely—that is, that small Agricultural banks for the peasantry must spring up locally in the various villages, and that these, as they increase in number and importance, should unite into groups, and these groups again should depend upon some common centre. This point will be developed in the history of Co-operative banks.

It is also stated that the local correspondents, agents, and other intermediaries, greatly failed in the duty expected of them, partly it would seem from insufficient remuneration compared with their responsibility. The branches were generally more successful, but their operations seem hardly to have been agricultural; anyhow the *Crédit Agricole* absolutely failed in its mission of bringing short-term credit to the agricultural proprietors.

The other societies formed under or with the patronage of this society, all seem to have likewise failed, that of 'Seine et Marne' so disastrously, owing to bad management, as "probably to retard for some time, the establishment of agricultural credit in the districts where it was most loudly called for."

Society for Rural Credit.—There was another society named 'The Society for Rural Credit,' the object of which was to lend to agriculture on pledge of crops and stock; it began work with a capital of £800,000 and began well, but its director used much of the capital in personal speculation in the society's shares. He was replaced by one who began by obtaining a modification of the statutes to enable him to enter upon ordinary banking operations, on the plea that agricultural loans gave insufficient scope for their capital. By means of credit obtained from the Bank of France, the society lived to accumulate a debt of about £900,000 "on securities chiefly bad and paper mostly fictitious." It was finally wound up and paid ten shillings in the pound.

The Bank of France.—The success of the Bank of France in granting agricultural credit in 'La Nièvre' (Nevers) through its branch in that district, has often been quoted in favour of direct action by a large bank. It is quite true that large advances have been most successfully made, and the case deserves examination. It is natural to wonder why success was attained only in one out of 258 places where there are either branches (94) or accepted agencies; the—till late—solitary exception, so often quoted, proves, in fact, the general rule of the inability of central institutions to lend to small agriculture. There were three distinct causes for the success at Nevers: (1) the advances were not to agriculture proper but only to those engaged in fattening stock for the market, which is simply a rural industry; (2) the fact that only short-term (six months) loans were required; (3) the fact that the Bank Director was a man of energy, capacity and devotion with a minute knowledge of the industry to which he gave credit. The first two reasons require no explanation; the third is the most important of all. M. Girard, the Manager of the Branch, was an agriculturist and economist, as well as a man of business; on joining the branch he proceeded to make himself personally acquainted with all details of the district, so as to be ready to deal with business as it arose. During his numerous journeys for the purpose he was struck with the cattle, and the importance of the breeding and fattening industry. Partly with a view to business, partly from interest in the matter, he obtained admission to the local Agricultural society, acquainted himself with the chief men and with all the details of the fattening and other business, and actually become the secretary of the Agricultural society, taking part in the various committees, examinations of farms, &c., frequenting numerous cattle fairs, and occupying himself with all the details of the industry and of agriculture. Armed with this knowledge, he began his advances, first to the chief men and gradually extending his operations. All that he required was the signature of three men known to him, or of two men with the endorsement of a local bank or broker doing business with the branch. The result was a large and perfectly safe business which brought high profits to the bank and in ten years from 1867 saved the breeders a million sterling; not a single bill was ever protested or ever in delay by a single day.

The lesson to be drawn is obvious; detailed local knowledge of men and conditions, business capacity, devotion both to the interests of the bank, to the welfare of its clients, and to the progress of agriculture, are absolutely necessary in the management of a bank if it is to succeed in its full mission of aiding, granting, safeguarding, developing and yet restraining agricultural credit.

As a matter of fact the Bank of France has since succeeded in giving aid to similar rural industry in eight other districts (departments), but in no case to ordinary agriculture; in three of the eight the fattening of stock is the industry; in four, horse and cattle breeding; in one, the cheese manufacture. Past experience shows that it is fairly easy to develop rural industries or manufactures, *e.g.*, the making of butter, cheese and sugar, the breeding and fattening of good stock, by means of instruction, by the provision and demonstration of new implements or methods, and by the grant of credit, but that agriculture proper is most difficult to teach or develop in any one of these three ways.

Result.—The result of all efforts at supplying by large banking institutions short-term credit to the mass of medium and petty proprietors in France, is that in 1892, matters are exactly as they were in 1837, except that confidence in such institutions is much impaired. "As regards agricultural credit ('Crédit Agricole) we are to-day," said M. Boris, in 1877, "exactly where we were in 1861. At that date there may have been some illusions even as regards the society for agricultural credit; to-day nothing remains, neither illusions nor society." This is no less true in 1892 as regards actual institutions, but indications are not wanting that small Popular banks adopted from the German or Italian systems, and local credit societies affiliated to the Agricultural associations (Syndicates) established by the law of 1884, are likely to develop in France in the near future; some, as at Poligny, Menton, &c., have already started, and will be mentioned below *s.v.* 'Popular banks.' But in actual fact there is practically nothing for the medium and petty landholders.

It has been shown, under 'Real credit' that the Crédit Foncier of France, the only Real credit institution of the country, has failed to establish relations with the same two classes, and since ordinary banking institutions in France as in most other countries, are only for the farmer on the large or fairly large scale, it follows that, as regards France, the vast mass of the agricultural industry enjoys no form of credit except that of the private and individual money-lender, whether usurer, capitalist, or notary, and enough is known of this to say that it is the most expensive form known. The reasons for the failure have been mentioned *passim*, and will be recapitulated in dealing with proposals for Madras.

Since 1892 there has been a great and possibly successful recrudescence of the subject. Under the head of Popular banks (France) will be found an account of the action of Agricultural associations in forming Credit Unions as annexes to themselves; the pioneer and best known example is that of Poligny. The success of this and some other of the associations in satisfying the requirements of agricultural credit, chiefly by re-discounting the bills of members (agriculturists) with the Bank of France, seems to have suggested the idea of utilizing the associations, now more than 1,000 in number, as intermediaries or agents between the cultivators and a great Central bank, organized to meet the needs of agriculture more completely than the Bank of France. It will be remembered that the 'Crédit Agricole' went into other business not because there was no rural business, but because it could not get down to the peasantry; its correspondents or intermediaries were either banks which themselves were not in touch with the peasants, or were paid agents who were not successful in obtaining good business, or went into risky undertakings. As will be seen *s.v.* 'Belgium,' the failure in that country to fecundate agriculture with supplies of capital from the National Savings bank by means of intermediate 'Comptoirs Agricoles' failed because the intermediate agencies could never be established. But in France there is now a vast number of Agricultural associations with about three-quarters of a million of members, largely drawn from the 'small folk'; the very object of these associations is the supply of necessaries to their members, and since capital is one of the most pressing needs, the associations have already begun to establish credit annexes as at Poligny, Genlis, Saint Florent, &c. These credit annexes are largely furnished with funds by entering into relation with the Bank of France, which discounts their paper, and thus enables a small guarantee capital to provide loans many times greater, on short bills. There are, however, inconveniences: the Bank of France was not constituted for such purposes but for commercial credit; it may not discount paper of above three months' term, and this is insufficient for agriculture, so that frequent renewals are necessary. M. Melinc has therefore drafted a bill, which, with emendations, proposed by the associations and others, has already passed the Chamber of Deputies, and is now (1894) under discussion in the Senate; it is hoped to give the full text in another appendix. The main principle is to establish small agricultural credit '*par en bas*,' by means of small local societies of very limited area, in which all the cultivators know each other and each other's status and credit, it being recognized that it is hopeless to seek for the development of such credit at the hands of a great central establishment; the Government is convinced that "the societies of mutual credit can *alone* succeed in solving a problem (agricultural credit) to which the whole agricultural world waits impatiently for an answer." This is important indeed as proceeding from a Government of generally centralizing tendencies. Still, it is necessary to finance these small local societies cheaply and readily, and this is to be effected by establishing a central society of vast credit, which will discount the paper of the local societies, recognizing that the signatories of the bills are all members of the local society, and therefore probably respectable cultivators, while the added signature of the society itself gives the paper the additional guarantee not only of its status but of its reserves and capital, which are, at least partly, charged in favour of the Central bank. This is the probable tenor of the new law which will be dealt with in detail when received. The paper will probably be of considerably longer term, and privileges of procedure will probably be allowed. Probably also the Central bank will be in direct relation with the Bank of France, and will rediscount its portfolio with that bank and thus replace itself in funds.

This is the present answer of the French nation to the problem of agricultural credit, upon which, for just sixty years, it has been engaged; as usual, it has struck out a line of its own differing entirely from the developments of Germany and Italy; as might be expected the method savours much more of the State than in Germany, where the only generally successful methods are those of the Schulze-Delitzsch and Raiffeisen banks, while it seems far more complete than that of Italy—except as regards the Luzzatti and Wollemborg banks—where the law on agricultural credit has never yet brought much success. If successful, it will chiefly be due to the extraordinary and unforeseen success of the *occidentally* constituted Agricultural associations (*g.v.*), and to the fact that such Associations exactly suited the needs of the people.

GERMANY.—In Germany there has been no attempt to provide institutions specially for the 'Crédit Agricole,' outside of those to be hereafter described under 'Popular banks' and 'Raiffeisen institutions.' All credit associations grant this form of credit; some of the *Landschaften* provide from their accumulated profits and from deposits, funds for this purpose, but though the operations are kept distinct and are open to others besides members of the *Landschaften*, they affect only persons of known standing, and therefore do not reach the small proprietors. Various State and Communal Land banks as described under 'Real credit' afford similar aid to a similar clientèle.

The Prussian agricultural report for 1884-87 states that in general the provincial administrations have paid little attention to the development of 'personal credit'; there are, however, exceptions. The administration of the Rhenish province is attempting to combat usury in cattle through the *taluk*

(Kreis) administrations; as a beginning it has lent £200 to the taluk of Daun "to facilitate the purchase of cattle by small proprietors" (*cf.* 'Baden,' 'Bank of Triers' and 'Thurgau'). The 'Nassau Provincial and Savings banks' (*see* 'Land banks'), which is subordinate to the administration of the Communal-Verband at Wiesbaden, attempts personal credit on its Savings Bank side, by lending on three months bills with two sureties, and on bonds for one year with sureties, subject to repayment by quarterly instalments. The latter class are well suited to small proprietors, and the organization is ingenious; there are numerous local agents, each of whom works with two local assessors (Beirathe) in considering requests for loans; if all three agree they can at once grant loans up to £15; for cases in which they cannot the meelves grant loans enquiry is made upon lines and on forms laid down by the bank. At the end of 1886 there were 2,811 loans outstanding for £127,000, of which 113 were below £3,711 from £3 to £7-10-0, 795 from £7-10-0 to £15, and only 738 above £30; the average loan was £45. In 1892 the loans had decreased in number, while the amount was much the same; the end of the year showed 2,164 accounts for £134,370, averaging £62 apiece; only 1,179 were below £15 as against 1,619 in 1886. This Savings bank had also lent £55,000 on pledge in 595 accounts.

The work of the Savings banks in the matter of personal credit is considerable; in 1885 the Prussian Savings banks had lent £279,515 on bonds without sureties, £6,774,780 on bonds with sureties, and £2,538,820 on bills of exchange. The Home Minister in 1886 required all Provincial Ober-presidents (Collectors) to see that all Savings banks endeavour, so far as is consistent with the safety of deposits, to develop this method of lending their funds to "small folk." (For fuller description *see* 'Savings Banks.')

In *Baden* agricultural credit is obtained almost entirely from money-lenders at high rates, but there are Communal associations for helping peasants with loans to buy cattle, which, until the loans are paid off, remain the complete property of the association, so that, in case of failure to pay arrears, the cattle are simply taken possession of without any legal delays or expenses. The loans must be paid up within a year, and meanwhile the borrowers must insure the cattle. These institutions serve those who trade in breeding and fattening cattle, not the regular agriculturist.

WÜRTTEMBERG has—save for its Popular banks, chiefly of the Raiffeisen type, left the field open to the money-lender as regards agricultural loans to peasants. But this kingdom has Communal banks, self-administered and independent, but under the official supervision of the head of the district. They borrow under the guarantee of the commune and lend at 4 or 4½ per cent. No loan can exceed £8-6-8; repayment is made very easy, and may be by instalments or in lump.

AUSTRIA-HUNGARY.—In this empire there is little provision for 'Le Crédit Agricole' for the small farmers, other than the ordinary banks and the usurers who are described as "vampires sucking the very life blood of the peasantry and cunning in evading the strictest laws," such as that recently (in 1881) enacted against usury. Associations copied from the German Schutze-Delitzsch and Raiffeisen societies exist, but the latter are few in number (246 in 1891) and the former are largely urban. There are, however, in Hungary, Communal Loan societies started since 1887 and numbering 47 in 1899; these are affiliated to a central society at the district head-quarters; these are probably similar to those described under *Baden* and *Württemberg*.

BELGIUM.—In this country the attempts to found agricultural credit are particularly interesting. The same difficulties, as in other countries, are here found, and the money-lending class, not however so usurious as elsewhere, owing apparently to greater competition, and to the fact that landlords assist their tenantry, is the general resort of the agriculturist. On the fall of agricultural profits, owing to foreign competition, this source decreased, and the farmers had recourse to the bankers, who, however, in general assist only men of some status; moreover, the banks could not accept agricultural paper, since the National bank is debarred from discounting any save commercial bills, and ordinary agricultural paper is not "commercial" in the European (continental) sense of the word. As in France, so in Belgium, the matter has for many years been discussed by the State Councils, Agricultural societies, economists, publicists, &c., and while some have placed their faith in Mutual Credit associations, others have demanded legislative assistance. Only a few of the former societies have been started, and these chiefly urban, but the Government has acceded to the demand for State intervention and passed an important law in April 1884. The law is carefully drawn and based on excellent theory, but so far has had no practical effect.

This law, given in full in another appendix, authorizes the General Savings bank to effect agricultural loans by means of intermediate offices (Comptoirs Agricoles). As will be explained in detail below, *s.c.*, 'Savings banks,' the Belgian General Savings bank is administered as a separate institution by the National bank, which utilizes the savings deposits in fructifying trade and commerce, whether by short-term loans and discounts, or by long-term investments; at the same time the Savings bank has a State guarantee as regards the depositors and uses the Government bureaux and post offices as its own offices. Hence the small savings of the villages are drawn into the bank by the State guarantee and yet do not go to the State coffers, but to the National bank, which, as the centre of commercial and financial affairs, redistributes them to trade. The object then of the new law was to send the streams of capital into the villages to benefit agriculture, which up to that time had received back nothing of its savings.

Now it is impossible for a great credit institution to grant small loans direct; it cannot know the status, character, or credit of the ordinary agriculturist, nor does the latter know anything of the bank or its branches in the towns. Hence some local intermediary was necessary, and this place was to be filled by the Comptoirs Agricoles; these local agencies would receive and examine the proposals for loans, report on them, and receive, as commission, a proportion—up to one-fourth—of the profits; they were, however, to be jointly responsible to the bank for the loans issued, in case of default by the borrower, and were even to give substantial sureties (mortgages or pledges) which could be directly sued upon by the bank in case of any loss. The plan seemed excellent, as it combined all the advantages of a powerful central institution, with a State guarantee, distributing funds collected from all parts to the places most needing them, and yet possessing local knowledge and influence through the Comptoirs. Moreover, the Government, besides granting special privileges contained in the law by way

of providing complete security to lenders, and cheap capital to borrowers, announced its willingness to devote £600,000 for the purpose in 1885, presumably from the Savings bank fund.

All this has been of no avail; nothing has been effected in practice. Up to 1889, only four Comptoirs had been established, and during that year only £42,400 were granted, of which only £10,160 were in sums below £400.

The reason is to be sought in the enforced joint liability of the members of the Comptoirs; it is hard to get persons to take up difficult work for the benefit of classes below them, and this difficulty becomes an impossibility when the risks of *unlimited liability* are added. Few people care to go out of their way to hunt up small persons, estimate and report upon the value of their property and their solvency generally, receive funds, look to their distribution and their subsequent collection, and undergo the risk of having to pay up the loan themselves, all for the sake of a few shillings profit. The principle of "solidarity," so general in Germany, arising partly out of Teutonic customs and partly out of the fiat of Frederick the Great, is foreign to Belgian habits, and the result was failure.

Even had the local distributing unit been an association with or without the further intermediary of a Comptoir between the associations and the bank, the plan could hardly have succeeded; the 'village association' would indeed have supplied the local knowledge and done the local work but—*quis custodiet*. The grand principle of personal interest in economy and safety would have been wanting; the funds would have been foreign funds, and the association interested therefore rather in getting as much as possible for their co-villagers and friends than in seeing that money was needed for productive purposes and was spent for that purpose; without a direct interest in the funds the association would be a mere spending society and would involve the bank in difficulties, since money spent unproductively or granted beyond due security, spells ruin, and is a social and economic injury; agricultural, as other forms of credit, is useful or injurious according as the funds supplied are used productively or extravagantly. There is only one method of creating in the members of an association personal interest in expenditure, viz., that of liability for, or ownership of, the funds; the former is the principle of unlimited liability, the latter that of the joint stock or co-operative ownership, and the two combined are the most powerful instrument of true credit yet discovered; only Germany has yet attempted generally the double employment. The only other successful method in which a Central bank has dealt with small folk through intermediary bodies, is in the Swiss and Russian loans through the Communes or Mires. But even these banks only lend on land mortgage and do not grant personal loans, and their power to utilize the communal organizations is in the fact that these are corporations holding joint corporate property (*cf.* the Madras Mirasi system) and are responsible for any losses or mis-statements. Moreover, every person in the commune is, in Berne at least, responsible in all his property for communal debts. (*See* chapter on 'Real Credit' *s.v.* 'Berne' and 'Russian Peasants' Land bank'.)

The Belgian plan is, however, fruitful in suggestion, notably in the employment of savings through the National bank, and it is possible to conceive plans for the due utilization of the funds in agriculture through Local Credit associations as will be shown hereafter. And it is not yet certain that even the present plan may not succeed; five years is but a short time for the organization and acceptance of a wholly novel class of rural institutions.

It remains to be stated that since the General Savings bank is under the general supervision of the Minister of Finance, its arrangements with the Comptoirs are also subject to his approval.

The loans were to be for different terms and repayable in lump or by instalments. The interest were to be 4 per cent., of which 1 per cent. would be devoted to remunerating the Comptoirs.

But the law has also another aim, viz., to facilitate loans in general to agriculturists, and, for this purpose, not only has the privilege of the landlord for rent been defined and circumscribed, but a privilege* over the agriculturists' stock is granted to any lender—Comptoir, bank, or private person—who chooses to lend without actual receipt of a material pledge (*sans gage*). The landlord's privilege over the stock is limited to a demand for the rents of three past years and of the current year, with damages arising for non-fulfilment of contract. This limitation gives to agriculturists a larger basis for borrowing, while the grant of a privilege for the loans equally facilitates his credit by assisting the lender to recover. The privilege is partly that of preferential claims, partly that of speedy and summary procedure, viz., that possessed by the landlord. The privilege only takes effect upon due registration and the debt bond must specify the articles subject to the privilege and their value. It will be seen that the privilege is practically that of a pledge without delivery, and is comparable to the effect of an English bill of sale.

The original draft of the law granted the above privileges only in case of loans "made in the interests of agriculture," these "interests" being defined in the law itself, which also provided that the object of the loan must be entered in the debt bond, and the fulfilment of the object proved by proper receipts; any failure to use the funds properly was punishable by the Penal Code. The provisions, however, which were evidently based on the presumption that only the useful and productive employment of credit should be privileged, were struck out in discussion, and the privileges are granted for all loans made to agriculturists.

Privileges are also given in the way of stamp duties; the contracts between the bank and the Comptoirs are free of duty, while those on loans granted on the sole basis of privileges, are reduced from the usual 1/40 per 100 to 0/30, or 0/60 according to the amount of the loan; duties on receipts for payments are also reduced; certain other taxable documents were freed from duty, and registration charges reduced to a fixed and low fee.

Another proposal to organize Agricultural credit was made on the lines of the 'Union du Crédit' of Brussels; this has no regular shareholders but only members, who alone can borrow. Each

* The word "*privilege*" in European (Latin) civil law means a preferential charge which takes precedence even of "hypothèques," which latter include mortgages and other liens. These privileges are of different classes, *e.g.*, privilege of claims of the State, of the landlord for rent, of the purveyor of necessaries for maintenance and for the working of a farm, of the seller of an estate for the price paid, of the lender of the sale price, of death-bed charges, &c.; they take rank according to the law, but all take precedence of non-privileged claims. The above special privilege or charge takes rank, apparently next after that of a landlord for rent, which seems to be a first charge.

member on entry subscribes for one or more shares, and deposits 5 per cent. of the amount; he can then borrow on a bill—apparently with two sureties, also members—up to the full amount of his shares, and whether he borrows or not, he is responsible for the society's debts up to the same amount. The paper held by the society is rediscounted by it if money is required. Apparently the Entrance Committee can refuse admission to candidates, and regulates the number of the shares—in other words the potential credit and responsibility—allotted to the candidate. In the similar bank at Vaud, Switzerland, a half-yearly estimate is also made of the solvency of members, and if necessary the number of their shares is reduced, so as to guard against risk from members of deteriorating status or credit. It was proposed in Belgium to extend these arrangements to Cantonal (village group) societies, members being agricultural instead of mercantile; a Central Union to supply the local societies with funds, and to issue bank notes being a part of the scheme. Nothing has been done in this way, possibly on account of the bank-note suggestion being considered an integral factor, whereas it was non-essential.

An attempt to ruralize the urban Popular banks (Mutual credit) has also failed, but the reasons are not known; there seems to have been no sufficient personal initiative; in these matters it is usually the "one man power" that effects real results.

The beginnings of rural credit are now visible in the action of the Agricultural associations; these will be described, *s.v.* 'Agricultural associations,' since Germany, France and Belgium are moving on similar lines in this matter, and there is promise of real progress herein.

ITALY.—This country is specially interesting since Government has attempted by two special laws to encourage the establishment of the 'Crédit Agricole.' That of 1869 was an attempt to found it by authorizing special establishments to which were granted privileges and which were regulated by stringent rules. The privileges consisted in the power of summary sale of goods or securities held by them in pledge, a considerable reduction of stamp and registration duties, and permission to issue special bonds. The idea was to encourage the formation, not of one central institution, but of several smaller ones, each suited to the particular conditions of its neighbourhood, cognizant of the wants and position of its various clients, and supported by local energies; these would also retain and distribute in their neighbourhood the much needed capital drawn from the hoards of the thrifty, instead of allowing them to be drawn off by a Central bank or, still worse, by a State Department.

The law was badly drafted, and whether from this or other circumstances, entirely failed of effect. It proposed to grant privileges to lenders and to some extent did so as stated above, but on the other hand, it actually deprived lenders of rights granted by the general law. It prohibited the discount of agricultural bills if they were drawn for more than ninety days while the ordinary law makes no such limit as to commercial bills, and, as is well known, agricultural paper requires terms longer than usual. The bills might indeed be successively prolonged up to one year, but this of course entails much extra trouble and expense. Similarly, cash credits could only be granted for one year, and that only on the deposit of land mortgage debentures and on goods deposited in bonded warehouses. Why the term was so limited, why the securities accepted were so restricted—not even Government paper being admitted—and why the deposit of produce was required when the warehouses for storing it did not even exist, are problems unsolved.

Funds were to be procured by the issue of special debentures payable to bearer and at sight; by bills to order transferable by endorsement and also payable at sight; by receipt of deposits on account current payable by cheques. All these were payable at sight, so that not only was the bank debarred from receiving fixed term deposits, but while its loans were to be for terms of considerable duration, all its funds were payable on demand. The first class of debentures could only be issued on deposit of Government 5 per cent. paper up to one-third of the paid-up capital, and the total value of all bonds, accounts current, &c., could not exceed three times the amount of the metallic reserve. In order to ensure the observance of these rules, a weekly statement was to be sent to the Minister of Finance.

The privileges were considerable; in case of default the bank would give a simple notice to the defaulter and five days afterwards could proceed, without further formality and without prejudice to any other action, to sell the goods or securities given on pledge to them. In lieu of all stamp and registration duties, which in Italy are heavy, a single stamp duty of 1 lira (10*d.*) was levied on all bonds between the society and its clients, and on the transfer of bonds to order, while the society's bonds were subject to a tax of only 0.01 per cent. (one centime per 100 lira). No attachment was allowed of any sums held by the bank on account current with their clients, or of any sums proceeding from the loans or credits granted by them.

The law had little practical effect, the only really successful society being that of Bologna, which was a branch of the Savings bank of that city. This did a good business and its profits were further employed in various operations for the encouragement of agriculture and especially for the improvement of cattle. The success of this society is said to be due to the fact that the great Savings bank not only supplied it with the necessary funds, but administered it almost without cost. It would seem, therefore, that good and cheap administration and plentiful funds will achieve success even under a poorly drawn law. But in spite of its success, the President of the Savings bank did not favour the extension of the system contemplated by law; instead of a comparatively few provincial or district societies, he preferred a large number of petty country banks, gathering in local savings, granting loans in their neighbourhood, and supervising the employment made of the loans granted. (M. Leon Say.)

The failure of the law was due largely to its having been drafted and passed without sufficient knowledge of the conditions and needs of agriculture and the position of the agriculturist; it would probably have been different had it succeeded instead of having preceded the celebrated 'Inchiesta Agraria' which has poured so much light on rural Italy. For many years the reform of the law was discussed, and in 1847 a new law, modified in 1888, was passed. This was more elaborate and will be found in full with its administrative regulations, in another appendix. The leading ideas of this law are to grant to banks generally and not to special societies only, the right of issuing agricultural loans with certain privileges, and to all borrowers an extension of their power to pledge their property by limiting the rights of certain privileged classes. In place of bonds payable at sight,

privileged agricultural debentures (*Cartelle agrarie*) guaranteed either by pledge or by the special privileges hereafter mentioned, are to provide funds.

The first chapter of the law regulates the grant of privileges to lenders on pledge, which, for this purpose, are banks and societies only; no private lender can avail himself of the privileges. This restriction is obviously intended against the usurer, who flourishes in Italy perhaps more than in any country in the world. The chief privilege is that over the crops of the current year, and over the produce and stock of the farm found within its limits. As in the Belgian law so in the Italian, it is the status of the borrower and not the purpose of the loan that determines the privilege; it differs however in granting a general privilege over all goods of the above class, whereas in Belgium they must be specified in the bond. The contract must be in writing and registered in a special register; registration is gratuitous and the certificate of registration is similarly free of charge.

By the same law the position of a landlord as to privilege is narrowed and deferred, viz., to two years' past rent, that of the current year and that of the year to come. In Italy the rights of a landlord under the general law were large and undefined, and it is common for the landlord to demand his rents wholly in advance for the coming year; this itself accounts for much of the usury.

Section 15 is noteworthy merely by reason of its limiting interest to a maximum fixed periodically by the Minister of Agriculture in consultation with the Minister of Finance.

Section 14 grants certain fiscal privileges: section 16 allows a mark to be used for a signature for small loans, and section 17 denies to cultivators the power of contracting themselves out of the law; all contracts contrary to the law are null.

The second chapter relates to loans on mortgage for agricultural improvements, and is really a law for the development of Land Improvement banks; the provisions are very different from those relating to loans granted on a privileged pledge of movables as in chapter 1; e.g., all loans to be privileged under chapter 2 must be expended on certain defined and purely agricultural needs, such as farm buildings, drainage and irrigation, digging of wells, plantations, levelling of lands and road-making, and all operations declared by the Board of Agriculture to be agricultural improvements. This is similar to the Belgian law, but whereas in the former, positive proof of proper outlay is demanded, the presumption in the Italian law is in favour of the borrower, subject to proof to the contrary. Other conditions are, however, demanded, viz., that the loan shall be for at least three and not more than thirty years, that it shall be payable by instalments (amortization) and that the loan amount shall be paid over to the borrower only in fractions according to the progress of the work; this latter is a most important provision. The rate of interest is to be that fixed by the Minister of Finance. The limitation as to duration seems unnecessary and that with reference to interest doubtful. All stamp duties and registration charges on all documents directly connected with these loans are reduced to one-half of the ordinary duties and charges.

Section 20 provides for cash credits covered by mortgage, a useful innovation.

All operations under the second chapter are ordinary and open to all the world, but it is only banks or societies that enjoy the privilege granted in section 21 of paying only half the ordinary stamp and registration and mortgage duties upon all bonds relating to operations under the chapter. This is no small privilege, for it is estimated that, especially in short-term mortgages, the charges are ordinarily so great as to swallow up all profits from the loan.

A further noticeable provision is that of a privilege granted to the lending bank over the "plus value" acquired by the mortgaged property by reason of the operations effected by the loan. This is a well-known privilege in Land Improvement Acts, whereby the loan takes precedence of all—even prior—mortgages.

Certain other sections permit corporations, such as Communes, to assign part of their taxes or levies as securities for loans for agricultural development.

The third chapter treats of the banks and societies which are to be considered as Agricultural banks and entitled to the above privileges. It seems that all regular banks, Credit associations and Savings banks come under the privileged category, but the privilege of issuing agricultural bonds (*Cartelle agrarie*) must be obtained specially by a Royal decree. These latter are issued either against the privileged loans, regulated by chapter I or against the mortgages of chapter II; apparently half the capital at least must be thus engaged.

Section 31 especially provides for the issue of bonds by associations of proprietors holding lands worth in the aggregate at least £120,000; this is obviously in imitation of the German *Landschaften*. Sections 38 and 39 give to the banks of Sicily and Naples and to the *Monti di Pietà*, power to issue agricultural loans; these will be mentioned in the section on 'Monts de Piété.'

To sum up, the new law desires that all recognized Credit associations or regular banks should undertake the work of agricultural credit, but it seems still imperfect though introducing excellent reforms and principles. In 1890 it was said that it had not yet been put into operation owing to financial difficulties.

SWITZERLAND.—As explained under 'Real Crédit,' Switzerland enjoys facilities for credit which are perhaps in being too considerable; the report of its own Federal Government, as well as of the foreign Consuls, show that unlimited access to credit may be as dangerous as a defective supply; a nation is not necessarily bettered either economically, socially or individually by facile credit, but only by the properly guarded and productive employment of it.

The 'Crédit Agricole' is not specially provided for in this country; the ordinary banks, of which there are an immense number, probably about 900 for about three millions of people or a bank for every 3,250, grant mortgages readily and cheaply and deal also in all other operations of banking. The Savings banks, for instance, assume very different functions from the institutions known under that name in England; they receive deposits, open accounts current, and otherwise act as ordinary banks, the Savings deposits, properly so called, very often bearing a very small proportion to that of deposits; in fact many of the Swiss banks are petty joint stock companies of merely local importance and with a share capital often less than £400; hence Switzerland affords no special facility for the study of the 'Crédit Agricole,' and its banks other than the land banks or land bank operations already described, will be studied in the next chapter; all that need here be pointed out is that the extreme facilities for cheap rural credit in Switzerland are due to the universal development of these petty banks which

gather together, each in its own locality, the petty savings of the vicinity and distribute them in turn to supply the needs of its immediate neighbourhood. They are thus brought to the very door of the agriculturist; unlike the great banks of other countries which are seated in towns and centralise, for the benefit of commerce and trade, the funds which they draw from throughout the country and which by their location are *ipso facto* inaccessible to and ignorant of the rural borrower, these petty banks content themselves with a clientèle from their immediate neighbourhood and despise neither petty deposits nor petty loans. They widely differ, however, as will hereafter be seen, from the German Popular banks and Credit unions, in that they do not use co-operative or mutual credit so much as joint stock credit, a distinction which, as will be elsewhere shown, is of social and economic importance, in that joint stock credit cares little for the use which is made of its loans, but looks chiefly to the security offered and to the results in dividends, whereas mutual credit, as understood and practised in Germany and Italy, has in view the due and productive employment of its loans and the benefit of the borrowers as first considerations, and its institutions are expressly organized with those objects; in Switzerland money is the chief object, in Germany the man.

ROUMANIA.—A special law has been passed with a view of favouring the institution of Agricultural banks. The chief provisions are that in each district a society for agricultural credit should be established, so that cultivators and agricultural labourers may obtain funds for their industry; the societies are associations of shareholders or rather subscribers, each share being personal. The foundation capital of each office is from £6,000 to £12,000, two-thirds being supplied by Government and one-third by the district, *i.e.*, apparently by the district administration. These subventions are repaid gradually as shares are taken up; profits are shared in the ratio of the capital supplied. Shareholders must either be agriculturists or agricultural labourers: the administration is with a director elected by the general assembly who is controlled by the three Commissioners, of whom two are elected and one is appointed by Government. Each share has a vote but not beyond five. The operations of each office are (1) discount of agricultural paper; (2) loans upon pledge of produce and stock, (3) receipts of deposits and savings from agriculturists, (4) advances to agriculturists upon Government paper. Loans must not bear interest of above 7 per cent., nor exceed nine months' duration. Loans are granted upon bills to order guaranteed by two sureties, both of whom must be agriculturists. The pledge of produce and stock is considered complete without delivery, but requires entry in a special register kept in the commune; in case of default such property can be sold without any application to Court and under the conditions which govern the procedure for arrears of State revenue. Loans obtained from the above offices are free of stamp duty for the first five years after foundation of the office; each office is entitled to establish agencies throughout its district. From a statement of objects and reasons prefixed to a new bill, apparently of 1891, it appears that the law of 1881 was very defective in its organization of these loan offices: from 1881 to 1887 there were a dozen amending Acts. But the real difficulty was that the banks were neither State institutions nor private, and it was found impracticable to establish them under the peculiar conditions imposed. The real reason seems to be that Roumania can no more effect personal credit by large central institutions than France, Belgium, Italy or any other country. The shares were not taken up so that the amounts advanced by Government were not returned, and these amounted to about £800,000. The new bill provides for a single central State institution with a bank in each district head-quarters. There is to be a large and fairly well-paid staff both at the Central bank and at each bank, and it does not seem probable that the bank can pay its way or that it will work satisfactorily in so far as it expects to lend short-term loans not exceeding £40 to the small agriculturist.

Summary.—From the above sketch of European attempts to found chattel and personal credit (*Crédit Agricole*) by means of special laws and special institutions, it will be seen that there has been, so far, total failure: in France which has attempted it in the most scientific way by a vast central institution allied to the flourishing *Crédit Foncier*, there is now no such thing as an organized *Crédit Agricole*. Belgium failed with a central institution as France failed, but not for the same reason; Italy has found that the substitution of a few Provincial banks for one central institution did not cure the radical defect in the system. Germany and Switzerland have not attempted special institutions under privileged legislation for this form of credit; the work in Roumania is not merely of doubtful success, but appears to be very costly to Government. Economic history has no examples for guidance in the matter of special central institutions for chattel and personal credit.

It is of the highest importance to try and find out the defect or defects which have led to this failure; the attempts made were not the visionary, ill-conceived, crude proposals of arm-chair economists or philanthropists, but the sober and thoughtful attempts of Governments, statesmen, financiers, and business men to supply a long-existing and loudly-crying want, success in which attempt would mean not merely prosperity to agriculture, but profit to the promoters.

The French failure was proximately due to the rash and misguided attempts of the managers of the *Crédit Agricole* to reap dividends by speculation, but why, when there was such a demand for capital near at home, did its managers require to go so far afield as Egypt, and why lend their capital to industries, only remotely if it all connected with agriculture? Why, but for the fact that they could not get their capital down in petty loans to those who needed it on the petty farms of France itself. The *crux* of the difficulty is this; if capital is to be lent to the small peasant, the credit institution must be at his doors, not merely because he cannot and will not go to the towns to borrow, but because without intimate knowledge of the individual borrower, money cannot safely be lent to him, and the process of inquiry, if useful inquiry is possible, is so expensive that small loans become much too dear for general use. It has been found practically impossible for the *Crédit Foncier* to lend to the small peasant, though his farm is a tangible fact, and can be surveyed and valued, and affords a material basis for a loan; if it is impossible, then, to lend on the mortgage of a small farm, how much more impossible to lend on the mere general status and credit or possibly the stock of the small farmer. Yet that is what is meant by the *Crédit Agricole*, and it is obviously impossible for a central institution so to acquaint itself with the millions of individual borrowers as to lend in safety; the 500 agents of the *Crédit Agricole* were as nothing amidst 5,000,000 peasant holders. The dilemma may thus be stated; if the central institution has few agents, it can never reach the peasant and must die of inanition; if it has

many agents, the cost and difficulty of payment and supervision are insurmountable; among so many there will be many dishonest or careless or weak; the losses from fraud, insufficiency of security, and lack of business capacity destroy the chances of the best devised institutions. These facts appear to have led the *Crédit Agricole* into the wildest investments of its funds, and the want of proper agencies apparently drove or permitted the managers to speculate with their funds either to retrieve their losses or because funds were idle. The Belgium plan failed *ab initio*; the *Comptoirs* (agencies), which were to be the responsible intermediaries, declined to form themselves, and practically no business was done. The Italian plan similarly failed, for even Provincial banks are far too large to deal direct with peasant clients and require responsible local agents, and the proof that this is the cause of failure, lies in the new law itself, which privileges any bank or credit institution that will take up the business. Here then we have three great attempts, all by institutions in *esse* or in *posse*, specially privileged and yet unable to bring capital to the peasant farmer. Moreover, as will be presently shown, central institutions are improper agencies for rural credit; if by these means, the most facile credit were available, they would be improper, for what shall it avail a peasant that credit is cheap if the result to him is only deeper indebtedness and unproductive extravagance? It is in the intelligent, guarded and directed use of credit that the safety of the peasant is to be sought and not in mere facility; it is in the employment of credit for useful and productive ends, in the development of prudence, thrift, self-respect and honesty, in promoting, not in destroying ideas of the sanctity and inviolability of contract, that the true province of credit is found, and in what way can a central institution looking only to the security of its money and to its dividends, and working by mere paid agents, effect these developments in the peasant whom it only knows by numbers in its registers and whom it regards solely as producers of dividends?

With certain exceptions there is none so far, but the money-lender, who has brought capital to the peasant, and he has fulfilled one essential of successful credit in going down into the village and dwelling among his clients; as regards the higher essentials, he is utterly wanting, for the gravest of charges against him is that he is directly interested, all over the world without exception, in bringing the peasant into his net, and that he is the cause, direct or indirect, of improvidence, dishonest dealing, and careless expenditure; at the best, it is not the borrower's but the lender's profit that is sought by him.

CHAPTER VI.—POPULAR BANKS.

UNDER this head will be described those classes of credit institutions which are devoted solely neither to Real credit, nor to the '*Crédit Agricole*,' but which deal simply with credit such as they are able to supply. It is not intended to discuss ordinary banks, but only those particular classes of banking or credit institution, which have sprung up to meet the wants of the poorer classes, whether urban or rural, and which seem to offer a solution of the credit question in its economic, social, and moral aspects. Such are principally the co-operative credit institutions known generally as '*Popular banks*' in Germany, Austria, Hungary, Italy and Russia, the mutual credit institutions of *Raiffeisen* and *Wollemberg* in Germany and Italy respectively, certain other Co-operative banks, a few Commercial banks, and the Central banks for linking Popular banks, &c., and supplying them with funds. The first two classes are by far the most important and suggestive for Indian needs.

It is to these banks that attention is particularly directed, for it is on them chiefly that the hope rests of popularizing an organized system of credit. It is these banks which, as the *Popular banks* of *Schulze Delitzsch* in Germany and Austria, and of *Luzzatti* in Italy, are giving credit to the amount of at least £250,000,000 sterling to small tradespeople, artisans and agriculturists; which, as the rural loan societies of *Raiffeisen* in Germany and *Wollemberg* in Italy are extending credit to and greatly developing the character of the purely rural classes; which in the form of the 2,300 so-called *Building Societies*—really Co-operative or Mutual banks—in England have about 600,000 members and supply immense credit on real security; which in America, in several thousand similar Co-operative banks, are said to be a financial factor of increasing magnitude, likely soon to overpass the Savings banks, and to form the chief means of granting small loans on Real credit. It is these which supply not merely credit but credit to the very smallest folk. They not merely supply popular credit, but they have democratized credit; their credit is not merely not that dangerous form of easy credit which often ruins, but is strongly educative. It not only does not demoralize or enslave, but directly and indirectly stimulates thrift, foresight, order, business methods, temperance and morality, industrial improvements, habits of mutual association and self-help.

These banks have not merely popularized but democratized credit, which proceeds from the people to the people by the people. Finally, it is this form which has found a beginning in the hundred and odd *Mutual Funds* (*Nidhis*) of this presidency, a form of society, which, originating probably in the indigenous *Chit* association, has developed by the adoption of the English *Building Society* rules and principles.

It will be seen from the mere names of the above classes of institution, that one central idea is common to all, viz., that of co-operation or association. That principle is, of course, at the base of most modern banking societies. The *Joint Stock bank* is the leading-feature of recent banking enterprise, and is the latest development from the rudimentary system of the private money-lender working with his own funds, who subsequently developed into the partnership banks which still share largely in this business, especially in country places. But there are two radically different forms of association, as has been repeatedly indicated above; the one is the association of lenders or capitalists whether small or large, numerous or few, who bring their funds together in order to earn the largest possible profits upon them. The primary aim of this form of association is large and safe dividends, any other object being secondary. But the other form is that of the association of borrowers; although in the best types of this form capital is subscribed by every member, the object of the society is profit, not through dividends on the capital, but through personal use of the subscribed capital and other capital

thereby attracted; it is the profit of the members not as lenders but as borrowers that is sought, and dividends therefore are not only not the object of the society but are opposed to its aims, since high dividends mean unnecessarily high interest on the loans. Many societies, therefore, rule out all dividends, devoting all surplus profits, after the reserve is supplied, to the reduction of interest, or to works of public utility; in others a limited dividend of (say) 5 per cent. is allowed, especially on foundation capital; dividends are expressly recognized as temptations to forget the primary object of the societies. Hence, it will be seen that in the first form (lenders) the interests of borrowers and shareholders are opposed, the former requiring low interest, the latter high dividends; in the latter form (borrowers) the interests are identical, since shareholders are borrowers and require low interest first. The two classes of institution may almost be defined respectively as associations of money and associations of men.

This distinction of interests, radical in itself, is not however the only one, perhaps not the most important. It is almost universally the case that joint stock companies are formed on the large scale, establish themselves in a large town, and work from that centre outwards, except perhaps in America where the peculiar institutions known as National banks establish themselves in every small town as independent institutions, or in Switzerland, where the country is in miniature, and "Governments" exist for areas with the population of a very small taluk, and where in consequence small banks start up in every village. But in all other countries joint stock companies for credit purposes take their rise and first establish themselves in considerable towns, one chief result of which is a large addition to urban business, whether mortgage or personal, but equally commercial and industrial, and, finding sufficient employment for capital, these do not exploit the rural tracts. Hence it results that, except in England where the rural clientèle are largely farmers of— to Indian ideas—considerable capital, or country gentry, the countryman is left without banking facilities.

Again, even if such banks grant credit to the peasantry, they are lacking to a great extent in the educational and even guardian power which the country bank should possess. It is the English country bank, not the great Joint Stock associations with numerous branches, which have so long developed and assisted the English tenant farmer.

Hence in the history of rural credit it is noticeable that no banks have reached the peasants proper—Switzerland and perhaps Scotland excepted—unless they were small local institutions, usually co-operative or mutual; even the Savings banks, when they deal in credit, have only partly fulfilled this rôle unless they were also associations of the above character, or developed them by their side as branches or offshoots. Indeed, except in Scotland, there was up to 1850 practically no banking credit at all for peasants, and it is solely owing to the genius of German philanthropists who were also business men, that such credit is now available in Europe, and combines with credit, an education in many of the finer social and economic faculties.

It is then under the form of co-operative credit and not of joint stock companies, of associations of borrowers, not of societies of capitalists, that rural credit is generally found in Europe.

These banks are numbered now by the thousand; with their aid journeymen become masters, labourers become owners; hopeless debt is banished and the usurer driven out; agriculture and industry developed, and the villages in the poorest tracts become prosperous; the illiterate man turns towards education and the drunkard is reclaimed; the middleman is eliminated; the peasant gets full value for his produce, and pays his rent with ease; village life is stimulated by associated action and by the business education of the bank; punctuality, thrift and mutual confidence are taught; litigation decreases and morality improves; self-help and not that of Government or of philanthropists is the main-spring of action; activity takes the place of stagnation and routine; associated action replaces distrust. This is true, not of a few isolated villages, but in thousands of cases. There are several thousand Co-operative banks in Germany alone, a vast number in Austria-Hungary, and about 900 in Italy; the business done is enormous and in sums extending downward to bills of less than ten shillings, while it is on record that these societies form everywhere centres of economic and even of moral progress. These are sober facts and not coloured pictures of the imagination; they will be amply proved when describing the several classes of banks. For these banks are not all of one type; in Germany there are the Schulze Delitzsch and Raiffeisen societies with their offshoots; Italy has developed a type of its own, and Austria-Hungary, while imitating those of Germany, has not made unlimited liability a necessary principle. They appear to be capable of assuming various forms according to the idiosyncrasies of the several countries; only in all there must be the common foundation principles of thrift and honesty. They are of great simplicity and are started and managed by the people of small villages. There are no losses when the directors keep the fundamental rules of the society, and avoid speculation or doubtful loans for the sake of extending business or obtaining high interest, for they develop an amount of devotion on the part of their members which prevents them from allowing the banks or their fellow members to lose by their default; the clientèle is of the lower middle and lower classes both urban and rural, tens of thousands of members possessing absolutely no property except their honesty, prudence and capacity for work.

! SCHULZE-DELITZSCH LOAN SOCIETIES. !

History.—Herr Schulze Delitzsch was a Village Magistrate who, having studied the working classes of the towns and rural tracts, was called to the Prussian National Assembly in 1848. Subsequently troubled by party intrigues he resigned Government service and devoted himself with but slight pecuniary resources, to the elevation of those whom he saw oppressed not merely with want of wealth but with want of the power to perceive, to strive after and to attain better things, a higher social, mental and moral development. Be it remembered that the work of Schulze Delitzsch was in its aim no less than in its results essentially educational in the highest sense of the word and not merely material. The country and the people were habituated to live under Government wardship, and to look to the State for all improvements and for all deliverance from difficulties and misfortunes. Schulze Delitzsch saw that it was essential, if the nation was to become worthy of the name, to turn the masses towards self-help, and to accustom them to rely on their own efforts and their own initiative to work out their national salvation. He was the more compelled to this as the habit

of leaning on the State for help in every difficulty, of blaming it for every misfortune, the habit of submitting to State guidance, regulations and control in all the affairs of life, was receiving fresh development from the growing socialism of the State, which, in the hands of Marx, Lassalle, &c., was assuming its modern form.' Schulze Delitzsch conceived this to be a radically mischievous development, and he spent his life in combating it, not by words only but chiefly by his marvellous skill in developing into solid fact the idea of co-operation. He saw, perhaps he was compelled to see, that powerful as is the pen, it is *per se* wholly insufficient, even powerless, to act on the classes who form the mass of the nation, and whom it was his aim to develop. Hence, while incessant in writing, lecturing, exhorting, it was in the creation of successful models by the power of his own individual influence and within his own immediate sphere, that he chiefly trusted. Neither did he attempt a vast agitation nor the institution of a grand society to drive all human ills out of the State; he was content to lay the foundation of a humble village odifice, which, like some Indian fane, should grow from within outwards till it became world famous; he believed in local growth and the development of individual powers inherent in all men, not in the importation of elaborate machinery. He had no universal panacea with which, in half a dozen years, the nation was to be re-created, and poverty, the legacy of a series of generations, the offspring of centuries of error and oppression, the result of social manners, customs and ignorance, the outcome in short of its history, was to be straightway eliminated; he aimed at practical education, and, if his efforts have been crowned with a marvellous and probably unlooked for success, it is but the greater proof of his wisdom in seizing the true idea of progress suited to the conditions and needs of his country, viz., the development of the individual through association, so that the powerlessness, carelessness and ignorance of the isolated worker might give place to the prudence, the thoughtfulness, the credit, the strength and self-reliance of banded and disciplined groups. Moreover it was not simple credit that he aimed at; credit without a proper knowledge of its use, he rightly held to be an error if not a fatal injury; it was disciplined and safeguarded credit, credit based on thrift and prudence and having a directly productive object. Nor was it credit only but all the benefits of co-operation at which he aimed. His first association in 1849 was a Friendly society for relief in sickness; his second in the same year was an association of shoemakers for buying raw material; in 1850 the first Loan society was formed with ten members, all artisans. The organization of credit was, however, a main object; he saw that by the aid of a little capital, properly employed, the man of prudence and capacity could often raise himself a stage higher in the social scale, whereas under the reign of usury, borrowing was simply the beginning of ruin, or at best a means whereby the surplus profits of work went to the non-worker. The want of credit may be imagined from the fact that 60 per cent. was common, while a workman borrowing 50 thalers (£7-10-0) for buying material might be charged 1 thaler a day for the loan, or 730 per cent. per annum. Hence his attempts to form societies both for lending money and for buying raw material. That this usury was not a necessary rate, but the result of mere greed and monopoly is shown by the fact that his petty associations, even at inception when rates were necessarily high, could lend with much profit at 10 to 14 per cent., and speedily reduced their loans to 6 per cent.

In 1849-50 Schulze Delitzsch began his famous work with the above three institutions, all within Delitzsch, a small town of 8,300 people. He added to the above labours that of his pen in the shape of small treatises or tracts, and, in 1854, he started at Leipzig a periodical for a co-operative propaganda, which, in 1861, developed into the now flourishing weekly Journal of Co-operation (*Blätter für Genossenschaftswesen*).

By this incessant individual energy of Schulze Delitzsch, whose activity with pen, speech and action was unbounded, thirty mutual credit societies had been started by 1858, and by 1868 his efforts had been crowned with unexpected success, a success won by sheer energy and courage; not only did his social and political adversaries attempt to crush his efforts, but the money-lenders and brokers from whom he was endeavouring to deliver the working classes united against him; they prevented his access to newspapers, and thus drove him to establishing his own periodical and to the issue of pamphlets and leaflets. In the early days the police attempted to interfere on the ground that the societies were not legal or recognized by law; this nearly fatal interference was successfully opposed. His societies in fact under the common law of Germany had no commercial status; they could only sue and be sued as a society if the deed of constitution was signed by every member, and the result was that they survived by sheer inherent force and by the extraordinary credit obtained by the principles of their foundation. The societies were not recognized as "commercial," not entering into the category of those recognized by the commercial law. Hence, as mutual societies, they were merely on the footing of ordinary individuals, while, if they had dealings of any sort with outsiders, they contravened the law. The German law of 1868 first recognized these societies of unlimited liability as legal entities on a commercial basis.

Suffice it to say that they have marvellously succeeded. In 1888 there were 2,160, of which 901 were members of the Central association and had given in their accounts showing—for these 901 alone—461,356 members (512 per society) with, in round figures £79,500,000 advanced as loans, £5,500,000 as own capital, £1,270,000 as reserve, £21,250,000 as deposits and borrowed funds.

For the year ending March 1892 the figures reported to the Central association alone are as follows: 1,470 associations reported, of which 1,076 were credit societies; these latter had 514,524 members, or 478 per society, very few having less than 50 and only seven more than 3,000 members; about half the number range between 100 and 350 members. About one-tenth of the members are women. The paid-up share capital of the 1,076 societies was £5,724,226; their reserve £1,473,702 in addition to the paid-up capital, to which it bears a ratio of above 25 per cent.; each society has on the average a capital *plus* reserve of £6,689, and each member has paid up an average of £11. Borrowed capital, chiefly deposits, and loans from Savings banks all below six months, was £21,951,159, so that the total working capital of 1,076 banks was £29,149,085. In every £100 of working capital, £20 (round figures) were share capital, £5 were reserve, and £75 were borrowed. The loans issued were £78,080,526, of which bills issued in favour of the society were for £27,865,803, ordinary bills of exchange discounted £17,644,502, promissory notes and simple bonds £4,569,842, mortgages £889,904, and cash credits £27,315,930. Each society lent on an average £72,565, or at the rate of about £152 per member. The outstanding balance against cash accounts is not known; on an

average of seven years it is just 25 per cent. of the aggregate of the credits allowed; there were in all 48,185 cash accounts. Exclusive of these, there were in the year 1,568,424 loans aggregating £50,765,095, or £33-7-0 per loan, a sum which sufficiently shows the class dealt with. The total business done, *i.e.*, money received and money paid out was £130,646,898: it varied from £300 to £5,250,000 per society. The cost of administration was £312,542 or £291 per society, a rather high figure. Losses were £61,482 and net profits £412,025, of which about two-thirds were credited to dividends and nearly one-fourth (£99,365) went to the reserve, the remainder being balance. Dividends ranged from nothing to 30 per cent., the average being 5.34; £2,653 were granted towards education.

The above figures have been adopted from Mr. H. W. Wolff's resumé of the report for 1892, but require some further remarks. The capital and borrowed sums aggregating 29 millions sterling are the amounts standing on the books on the 31st March; the borrowed capital is not the amount borrowed during the year but the amount owed to creditors on the 31st March. From a comparison of reports, however, it is clear that the sum entered practically represents the working capital on any day of the year. This then is the amount which the banks place at the disposal of borrowers; the loans were 78 millions; not, however, 78 millions for a year but only some 29 millions. Each loan, therefore, averaged $\frac{2}{3}$ of twelve months or somewhat above four months in duration; and as no loan is granted for more than three months, and many are for much less, a large proportion must have obtained extension. The matter is of economic importance; when learning that the banks have lent 78 millions it is often supposed that the 78 millions were out throughout the year, whereas, in fact less than 29 millions—for the reserve is not lent out to a great extent but is invested—form the capital advanced for possible production in successive short-term loans. Assuming that all the remaining societies, which though more numerous are probably of much less importance, not having enrolled themselves in the Union, do a somewhat smaller business, the German Co-operative banks of this type have, perhaps, £50,000,000 sterling in working capital available for loans. Hence when it is said that the whole number of societies "probably lends out annually something like £150,000,000," it must be remembered that though the loans aggregate £150,000,000, the amount lent is probably not above 50 or 60 millions lent in short loans several times in the year.

These are the general results as shown by figures: the relations of these banks with agriculture will be subsequently mentioned; and yet, marvellous as is the progress of forty years—a period short indeed in national growth, though long to impatient reformers, it is clear that only the edge of the subject has been touched. The question of rural usury is considered in Germany as one of the most pressing of the day, and usury itself as a social danger of the first magnitude. In 1888 the matter was exhaustively discussed in the German Parliament and has been the study of numerous economists, statesmen and societies. There is no remedy but that of incessant, intelligent, devoted labour in the cause of progress, and Schulze Delitzsch himself recognized this in his avowed principles of educating the masses in the questions of thrift and prudence. Still, a great beginning has been made, and the way not only pointed out but traced; wherever societies have been started, they have, for their members, overcome much of the indebtedness and misery which were till that time the unvarying lot of the working classes, or in the words of De Lavaleye, "Wherever they have been established, they have 'put an end to usury'; they have formed 'centres of economic progress.'" For not only do they grant fairly cheap credit, but in introducing the principle of association, they help the development of various societies whether of consumption and supply or of industry. The co-operative societies of all classes of which Schulze Delitzsch may be called the founder, direct or indirect, now number in Germany above 6,000, with millions of members, while the credit societies of Germany, Austria and other countries, based upon the principles of Herr Schulze Delitzsch, were calculated in 1886 to number about 4,500 with 1,500,000 members, and a total business—not loans but business—of about £250,000,000.

Principles.—These banks start from the fact that capital is necessary to enable labourers and honest men to lift themselves higher in rank, to improve their methods and instruments of work, to develop their estate, opportunities and capacity; the object of credit is the capital necessary for these purposes; loans for unproductive purposes did not enter into his idea of 'credit.' Credit is, in fact, the power of obtaining capital, and capital is wealth to be used productively. But he had also in view that self-help is the only true source of such credit, and that capital obtained by aid of philanthropy, charity, or even of the State except on a rigid business footing, is an injury; every act of benevolence accustoms men more and more to dependence on charity; every State intervention by way of favour renders men less self-reliant, more helpless in face of difficulty. He disclaimed all external intervention or interference, believing that men associated on his principles were sufficient for themselves, and he proved his theory by his success. Not only did the State not intervene on behalf of his work, but, after European fashion, it attempted to control it by police interference. Fortunately these attempts failed. Not only did the State not give privileges or freedom from taxation, but its laws did not recognize them as civil entities, until the law of 1868 was passed, *i.e.*, until the societies had established their position they had no legal status, and could not sue in Court or obtain recovery of their dues; their credit was based on their own respectability and solidarity, since not being a recognized entity they could not be sued except individually. Yet they succeeded and were an established success before the law recognized them. Schulze Delitzsch considered that the only province of the State was to remove obstacles, and he invoked its aid for this purpose and not to obtain privileges which he steadily resisted.

In fact the great principle which seems to underlie success in the Credit associations of "small folk" is that of self-help; credit cannot be successfully given to such folk by large institutions, and credit, which is the result of philanthropic or State effort, is apt to be either abused or abortive; it is abused for it comes in the guise of charity, and is received as a mere surplus of the wealth of others which they can easily spare, with similar subsequent grants beside; it comes from a general and indeterminate fund, which is popularly supposed to be inexhaustible. Similarly, when it is supplied by Government it is not only supposed by the borrower to be from an inexhaustible source, so that no one will be harmed if it is not repaid, but it is necessarily surrounded by the lender with so many rules and formalities, that it cannot reach those whom it would benefit. Above all, such credit does not educate; it does not teach the borrower that all capital comes from saving; yet without this lesson

credit is dangerous; credit is only safe when it brings with it the lesson that there is no royal road to wealth; the mortgage of the unearned increment, the cheap loan from the philanthropist, the Government takkavi at charity rates, teach the ryot nothing, while tending to beget carelessness and improvidence; it is the painfully saved surplus from laboriously won earnings that is the true educator. "If he is to value a gift he must be his own benefactor, if he is to deal scrupulously with it he must be its guardian."—(Wolf.) "The only true secret of assisting the poor is to make them agents in bettering their own condition."—(Archbishop Sumner).

As a rule, too, these banks are local, and a marked feature, if not a principle, of their establishment is the limitation of their area of operation. The Schulze Delitzsch banks do not indeed recognize any limit, but in practice it seems that each bank operates in a small area; in the Raiffeisen banks this is an absolute rule. Hence there arises that local knowledge by the bank of its members, by the members of the bank and of one another, which seem essential to success in bringing credit to small agricultural folk. A further principle is that of association with unlimited liability—a principle which gives the maximum of credit possible in the absence of material pledge—compels the admission only of the more prudent and thrifty, binds the members together in a spirit of fraternity, and at the same time ensures that loans will only be advanced and spent for productive or useful purposes. The result of this solidarity of members known to be *prima facie* prudent and laborious, coupled with the material results of their thrift in the shape of share capital and reserve, is not only an abundant credit as shown by the deposits, which average about three times the share capital and reserve, but a large freedom both from losses or from serious failure. Losses in general have been trifling, and such as are incidental to all credit operations, while the general annual profits have been good; but it is doubtful if this solidarity is essential to success. In Austria it is not compulsory, and only half the societies have adopted it; in Italy, where the success approaches that of Germany, it is practically unknown in the Popular banks; the new German law of 1889 cancels the former postulate of unlimited liability for co-operative societies, and grants an option between three different methods. As it is unlikely that unlimited liability will form the basis of any Madras society, the question will not be discussed; mention of it will, however, be found in the translation of the law of 1889 in another appendix.

The principle, of course, does not prevent failures; official statistics published by the Central association show 36 failures and 176 liquidations, out of about 2,000 societies in the twelve years ending 1886. Of these, the liquidations seem rather to be the winding up of affairs either for want of business or for replacing the society on fresh foundations. The bankruptcies are due to non-observance of the rules which experience has laid down.

Methods.—The method is that of an association, each member subscribing a share, and thus realizing a share capital to serve both as guarantee and as a lending fund, as well as to enforce thrift; the association is one of unlimited liability, by the guarantee of which and of its shares, outside capital is attracted, which is lent out on short-term loans to members only. The profits are credited to the share capital, after allotting a certain amount to a reserve, and to the payment of the directors and staff. Members can withdraw at pleasure, but can enter only after scrutiny by the society. No local limits are prescribed, but the office is usually placed in a town or large village. The following paragraphs develop this outline.

Formation of a Society.—Seven persons at least must unite to form a society; these must draw up the statutes (Articles of Association), the general subjects of which are laid down in the law (*see* subsequent appendix). A board of directors and a committee of supervision must also be elected by the general body. The statutes, with the names of the directors, must then be registered in full in a register of societies kept in that Court of the district which keeps the commercial register. The statutes are examined and certified by the Court, which also publishes an abstract of them. Only after the above registration does the society acquire a legal existence, and it is then considered as a "commercial" or trading personality, subject to the provisions and with the rights granted by the Code of Commerce. All further details will be found in the translation of the law.

Clientèle.—Any one may be a member, who can prove that he is worthy of being such; candidates must show that they are prepared to join in the principles of self-help and thrift; admission is granted only after enquiry into the character and circumstances of the candidate by the directors or committee of supervision. As candidates are generally from the same village, petty town or neighbourhood, this is easy enough. Every member must sign a declaration of adhesion to the conditions of the society. The classes aimed at as clientèle are those who, having no material capital, save perhaps some tools, yet possess a moral capital in their honesty, industry and skill; those particularly in view were the urban artisans, and small traders and agriculturists were not specially provided for; but nearly one-third of the members are agriculturists as will be seen below.

The following table gives the percentage of the various classes of members for 1889-90 out of a clientèle of 435,000 members belonging to 914 banks:—

Class.	PER CENT.
Agricultural proprietors	29.5
Independent workmen	28.1
Day labourers, gardeners, &c.	3.2
All other classes	42.8

The table, borrowed from a report by M. Brelay, is not quite correct, as the total amounts to above 103. The general proportion in other years of agriculturists is about 26 per cent., and of agricultural labourers about 3 per cent., so that nearly three-tenths belong to agriculture.

All members may, of course, become borrowers, and, by the law of 1889, only members are entitled to the privilege.

A member is permitted to retire at the end of the commercial year, if notice has been given at least three months previously; he may be excluded for loss of civil rights, or for disobeying the rules of the society, especially as regards his dues, or for joining another similar society, or if he has caused loss to it, or if he has become bankrupt; such dismissals can only be ordered by the general meeting upon the proposal of the directors. A list of members has to be kept up, a copy of which must be sent to the local Commercial Court.

Transfer of membership is permissible by law, but the societies may, by law, refuse to allow it, or may impose conditions. Death is considered as retirement. A retiring member has a right to his share value, but not to any portion of the reserve. He is partly responsible for the debts of the society for one and-a-half years after retirement or expulsion.

Administration.—The societies are wholly autonomous and democratic; they are neither dependent on one another nor on any external authority or institution. The general assembly is the source of power; this consists of all the shareholders, each of whom has one vote and one vote only. This assembly elects the board of directors, but these are subject to the control of the council of supervision, which can suspend them and call a general assembly for their dismissal. This council is, in its turn, amenable to the control of the general assembly. The third chapter of the law of 1st May 1869 and the model statutes of these societies, translated in full in an appendix, gives complete details regarding the administration.

General Meeting.—This is the source of power, and, by the law of 1869, every member has the right of voting in it, on the "one man, one vote" principle, which is adopted by most co-operative societies everywhere, both as a necessary principle and an advisable practice. Proxies are illegal; any member wishing to vote must do so in person; exceptions are made where the members are females, or incapable, or are themselves societies, as in Unions of societies. The meeting is summoned by the directorate or by the committee of supervision, but the law allows other methods; they must take place after the end of the business year when the general report is presented, and on orders issued every quarter. The balance sheet must be laid on the table of the office at least eight days before the annual meeting and members must be informed of this. There are strict rules for the assembling of both ordinary and extraordinary meetings, for the conduct of business at the meeting, for ballot and for the resolutions passed at a meeting, for which the law and the text of the model statutes may be consulted; for certain classes of resolutions a three-fourths majority is necessary, and for certain of these at least one-third of the whole body of members must be present, failing which a second meeting must be summoned, for which no minimum is fixed. Elaborate precautions are laid down for duly recording the resolutions. Certain subjects are expressly reserved for the decision of general meetings for which the Articles may be consulted.

Directorate.—This usually consists of three working members, who may or may not be remunerated; if remunerated, which is usual, they get either fixed pay or a commission on the profits or both. Their status seems somewhat different from that of directors in an English or Madras society; they fully represent the society, judicially and otherwise, the signatures of any two of them binding the society; they are responsible for carrying on its work according to their discretion, and are separate, from the paid office staff, but their duties are in some ways more like those performed by managers and they are partly responsible to the committee of supervision. The directorate has usually three members, a chairman, a treasurer and an auditor or comptroller, who are elected for three years by the general meeting. Their duties and responsibilities in the matter of general business, of keeping a register of members, of observing the provisions of the law as to the returns, &c., to be made to the Commercial Court, of book-keeping and preparing the balance sheet, of providing for external audit and of receiving and issuing money, their relations to the council of supervision, their remuneration and the security to be given by them, are minutely prescribed in the law itself and in the model statutes which are translated in the appendix. It will be found that the directorate is very carefully looked after, and it is not the fault of the law or of the rules if their management is faulty. In certain matters, such as the engagement and dismissal of the paid staff, the conclusion of certain special contracts, the fixing the rate of interest and commission on loans, the admission of new members or the proposal to expel them, the contracting of loans by the issue of debentures with the details as to amount, &c., the conditions for cash credits and savings deposits, and various other matters, the directorate acts conjointly with the council of supervision.

It is usual to forbid any director to obtain any loan from the society during his term of office as a director; the law provides that if the Articles do not absolutely forbid it, the consent of the committee of supervision shall be necessary if no other special conditions are laid down.

Council of Supervision.—This standing committee is an organ of society administration peculiar to and almost universal in Continental Europe. Its members do not actually interfere with the conduct of business, but have complete supervision over the work of the directorate, *i.e.*, over the operations of the society; they must meet once a week, and the directors must, at each such meeting, and also monthly, present a report of the receipts and disbursements of the previous week. The committee supervises every branch of operation and can call for reports from the directorate whenever they see reason to do so; they can and must examine the books, cash and securities frequently, and must assist in the special audit. They can summon a general meeting whenever necessary, and can suspend a director and make arrangements for his duties when necessary, pending the decision of a general meeting. Loans to members of this committee are granted only under special precautions, and neither they nor directors can be accepted as sureties for loans.

In certain matters their consent and their co-operation with the directors is necessary. The duties of this important committee are worth ample study as detailed in the appendix; some such committee will be a valuable aid in the proper conduct of mofussil societies.

Audit.—This subject is now fully provided for in the law and in the Articles. Experience has shown that without due audit being made compulsory, it was apt to be neglected, and Chapter IV of the law of 1869, *q.v.*, is now devoted entirely to the subject of audit *at extra*, while section 7 of the same law makes it obligatory for the articles to provide for the preparation and due inspection of the balance sheet. By the model Articles, the directors are especially responsible for the accounts, and while one of them, the treasurer, must especially look after the keeping of the accounts, another—the auditor or comptroller—is responsible for checking them; as stated above, a weekly and monthly balance sheet must be prepared by the directorate and submitted to the meetings of the committee of supervision, beside the ordinary complete annual balance sheet, statement of profit and losses, and statement of receipts and disbursements. It is this committee which provides the internal audit, for they can at any moment, and are bound frequently to look into the books, accounts, cash and securities

of the society, and are competent for that purpose to call in the aid of experts to be remunerated by the society for the annual examination of the accounts.

The law provides in its Chapter IV for a compulsory audit *ab extra* at least once in two years; if the society belongs to a Union or Group, the auditing or inspecting experts of such Union, will be auditors; such Union is required by the law to have the audit and inspection of societies as one of its objects (*see* 'Unions'). If the society does not belong to any Union, the local Commercial Court appoints an auditor in communication with the society and the local Government Executive officer. Moreover the general meeting can, if it thinks fit and without previous notice of such resolution, appoint a special committee of three members as auditors, who shall have all the powers of the committee of supervision for the examination and inspection of the accounts.

Funds.—Under this head will be mentioned the classes of funds available to the societies, viz., share capital, reserve, deposits, borrowings.

A share capital is deemed an absolute necessity, not merely as a guarantee—material in itself and moral in its evidence of the thrift and prudence of the members—for loans *ab extra*, since the solidarity of the society provides largely for that, but as a means of improving habits of thrift and as furnishing loanable capital. This consists of the shares of the members, so that the society has a variable and increasing capital. The value of each share varies with each society; the minimum is usually £6 (40 thalers), but may be much larger, so as to continue the initiatory thrift; but the minimum must not be too high lest the poor find themselves in a minority as compared with the well-to-do who look for heavy dividends; nor too low since the share capital would then be too small. Each member holds only one share—the societies being of unlimited liability—which may be paid up at once or by very small monthly instalments, all profits being credited to a share until it is fully paid. Since the credit allotted to each member takes into consideration the amount paid by the member, it is evidently to his interest to accumulate as much as possible with the society.

Moreover dividends are allotted upon the amount paid up, so that a member's share of the profits increases with his thrift. A small entrance fee is invariably demanded.

Reserve.—This is made obligatory by the law and is provided from entrance fees and from a share of the profits, and should accumulate till it reaches at least 15 per cent. of the share capital; as a matter of fact, the reserve of 1,076 associations in 1892 amounted to 25 per cent. of the share capital. It is usual to credit the whole profits for the first year or two to the reserve; after that 15 or 20 per cent. is found sufficient. This reserve must be kept full, any shrinkage, by reason of the payment of losses, being at once made good from the next year's profits. An outgoing member has no claim upon the reserve; this fund remains intact, save for demands to cover losses. It may not be used in ordinary business, but must be properly invested.

Deposits.—It is obvious however that societies which operate only with their share capital have a very limited field of action, while their expenses will be disproportionate to their business; they lose the advantage of credit which the possession of that capital gives, and they fail in the all-important function of banks, viz., in gathering together infructuous hoards and issuing them to industry. Hence deposits are received—generally on three months' term, which is the usual German period—from all classes whether members or not, interest at from 3 to 4 per cent. being given, the rate being generally determined by the directors and the committee of supervision; this attracts money from all sides, so that Schulze Delitzsch deemed it advisable to restrict deposits to a certain maximum in view (1) of the difficulty of lending safely, and (2) of the danger arising from the power to withdraw deposits at call. He desired especially to attract deposits from the class for which these banks were started, viz., the "small folk"; he had ever in view that the banks were to promote thrift and prudence, and not merely to grant credit; they were to be, and in fact are, Savings banks as well as Loan banks. As regards the danger arising from deposits at call, he minimized it by requiring, as far as possible, fixed term deposits, which might, if required, be repaid before the expiry of the time but only on deduction of a commission; part of these deposits must be invested in thoroughly liquid securities; he also directed that ordinary deposits should be used in discounting well known paper, while term deposits and capital should be invested in paper less readily accepted by ordinary banks, such as agricultural bills or bonds; it is also usual to add the now general clause *de sauvegarde*, by which the society, though ready to pay at call, can claim a delay of from four weeks to three months. Obviously a petty Popular bank has, by itself, no considerable power of rediscounting bills, since its own signature unlike that of a great bank, will hardly transform bills of unknown persons, e.g., agriculturists, into ordinary marketable securities; hence particular care is necessary in using the deposits in petty banks. The general Union and Central bank system, intended partly to meet this difficulty, will be described below; but it is considered well to limit deposits to two or three times the amount of the subscribed capital when the bank has attained its full development; at first they may be greater, since the capital is only in the inceptive stage.

Funds are also procured by establishing relations with some ordinary bank, which will either lend money direct or discount its paper; such banks also open an account-current with the Popular bank receiving its surplus funds till required. While this source of funds is desirable as providing a support to the Popular bank, the accommodation has to be paid for, and in times of tightness, the rate may be very considerable.

Debentures.—It does not appear that the German banks have adopted the system of issuing "debentures" after the pattern of the "Pfandbriefe" or "obligations foncières" described under 'Real credit.' These now well-known bonds are issued in Italy by the Popular banks under the name of "Buoni di tesoro dell'agricoltura" or "bons agraires," and appear eminently suited for the financing of these banks at least when united in groups.

Loans.—The points for consideration under this head are the class of loans, their maximum amount, their term, the rate of interest and the security available. Loans are either simple bonds, bills with the personal guarantee of other members, ordinary bills of exchange, mortgages and cash credits.

In 1884 and 1892, the transactions were as follows :—

Year.	Societies reporting.	Bills guaranteed by other members.	Ordinary bills of exchange.	Simple bonds or promissory notes.	Mortgages.	Cash credit.
1884 ...	879	£ 25,128,926	£ 18,011,677	£ 5,791,726	£ 706,755	£ 26,208,549
1892 ...	1,076	£ 27,865,908	£ 17,644,502	£ 4,569,842	£ 689,904	£ 27,315,980

It will be seen that the mortgages count for very little, simple bonds for about one-thirteenth, ordinary discounts for a little below one-fourth, while bills guaranteed by other members and cash credits are about one-third each.

The objection to the ordinary bond is that it cannot be rediscounted, so that money is locked up till the *échéance* of the bond; this accounts for the comparatively few operations. Mortgages are in entire disfavour with these societies, on which three months is the usual limit for a loan; probably these are either on pledge of movables or belong to certain rural banks, in which terms of loans somewhat differ from the ordinary Schulze Delitzsch banks. Schulze Delitzsch in fact considered that absolute ruin was the inevitable result of a society locking up capital in long-term loans when its funds were largely deposited at call or short term, and he forbade his societies to grant such loans; the three months' loan or bill was the aim of his operations.

The two forms of discounted bills account for the largest number of transactions. The former class of bills is that which originates within the society, where the drawer and acceptor are the member and the society respectively; the second class are outside bills brought to the society for re-discount, and bearing signatures known to the society. Since 1868, the societies have a regular status under the commercial law, and act therefore as ordinary banks.

Considering that the societies had had eight years longer life in 1892 than in 1884, and that 1,076 societies reported as against 879 in 1884, the increase in business is very small. Doubtless the immense development in the decade of Raiffeisen and similar societies account for this, as also the law of 1889 which forbids lending to non-members.

Cash Credits.—(See 'Scotch banks') are rapidly growing in favour, and are based, as in Scotland, upon a bond with other members as sureties, mortgages being also accepted as collateral security. The advantages of this form of credit recommend it strongly for agricultural use, but it is difficult for a small bank in its infancy to use the system; the bonds are not negotiable; a considerable amount of cash is necessary to pay in coming drafts; it continually receives petty payments, for which it has to pay interest, and must, therefore, find immediate employment. Hence although mature banks can grant these credits, recouping themselves for the disadvantages by a somewhat higher interest and by a commission on transactions, young banks grant them with caution. One great advantage is that the banks become aware by the operations themselves, in what way the client is using his credit, and can thus decide whether to continue or to close the account.

Maximum Loan.—This is generally not fixed as an amount, but it is the rule that no one, whatever his solvency, can obtain more than a certain proportion of the capital. Not merely does this guard against disaster, but against the capital of the bank being absorbed by members rich enough to go to the ordinary banks. The average amount of loan business "per debtor" in 1892 was about £152, the lowest average for some years. This seems high considering the class which is expected to borrow from these banks; it seems probable that prolongations of loans partly accounts for this; if a man borrows £50 and gets two extensions, the loan appears as one loan, but each extension is a business transaction which goes to swell the total values. If this is correct, the amount of each loan is less than that given, but *pro tanto* the apparent amount of business done is unduly inflated, for a loan of £50 twice renewed will appear as £150 of business. As a matter of fact, each actual loan in 1892 averaged £33-7-0, so that the above explanation is evidently approximately correct; the business done was a series of frequent small loans and prolongations, and the capital actually in use was therefore far smaller than that apparently in use. (See *supra* s.v. 'Results'.)

Term.—The regular term for loans and bills is in these banks short, viz., three months with prolongations; for cash credits the accounts are renewed or closed every six months. The first principle of Schulze Delitzsch in banking was that the term for loans should be no longer than that which the bank itself could obtain for its own borrowings. Borrowings by the bank are chiefly by deposits, and term deposits in Germany are usually for three months; hence the above term fixed for loans. Moreover, in three months the position of the borrower is not likely to alter materially, so that the bank is more secure than on long-term loans, while the shortness of the term compels members to be thrifty, prudent and calculating. A further advantage is that borrowers will more readily find sureties for three months than for longer terms. The principle is certainly erroneous, and errs on the side of caution; all banks trading chiefly in money at call lock up much of their money in long-term business; Savings banks even place about half their funds out on mortgage. (See 'Savings Banks' s.v. 'Germany' and 'U.S.A.')

For banks of purely personal credit this term is usually sufficient *except*—a great exception—for agriculturists; the three-months' term prevents undue locking up of capital and enables the bank to refuse further credit, if necessary; if desirable it can grant prolongations; but for agriculture a longer term is absolutely necessary; it is seldom that a three-months' loan is of use to a cultivator, and the necessity for renewal with attendant expenses, would largely negative the value of the bank. Schulze Delitzsch's own rule was that the "term should correspond with that of the reproduction of the "capital lent," and this, for agriculture, can seldom be below six months, even for single crops, counted from sowing to sale. For the purchase of cattle or implements, or of slow acting manures, such as bone, a much longer term is necessary.

It would be better to recognize, as societies are now beginning to perceive, that for many needs, especially agricultural, long-term loans up to, say, two years are necessary; much expense to parties and much complication in the accounts would be saved by a frank recognition of this fact, let alone that there would probably be an immense increase of business from the agricultural population.

Prolongations are granted up to nine months; but most societies demand either a part repayment at each prolongation or a commission.

Rate of Interest.—This is usually pretty high, operations being small in amount, the form of credit being solely personal, the borrowers of no great status, and the banks themselves so small that the interest on deposits and loans must be high. In the infancy of the banks, interest was as high as 14 per cent. including all commissions, this being considered necessary for stability at first starting; but it soon fell to 10 and 8 per cent. per annum, and the best now charge between 7 and 8 per cent. including commission; this is usually charged separately in one sum; e.g., suppose a borrower pay at the rate of 5 per cent. per annum with a commission of 0.5 per cent. for a loan of one month, this makes the rate 11 per cent. per annum; for a loan of three months 7 per cent. Hence in a three months' bill for £25 he would pay 10 shillings at most. As the societies borrow at about 4 per cent., the balance of about 3 per cent. suffices amply for all expenses, losses and profits.

Security.—The security given is, as shown by the class of loans, almost solely personal, viz., that of the borrower and that of his sureties. As regards that of the borrower it is usual, since the clientèle is small, for the committee of supervision to examine each application on its merits; but in more extended circles a list is kept, which is revised from time to time, in which the solvency of each member is recorded, and the maximum amount of credit which may be granted to him: this is the Castelletto (*q.v.*), much in use in Italy. The former plan is, however, preferred. Sureties, who are all members, have their credit similarly examined or recorded.

Schulze Delitzsch favoured suretyship calling it the "keystone of the organization"; he considered that it promoted fraternity, provided control and supervision over the borrower, guaranteed the honesty and capacity of the latter, who, if not honest and capable, would fail to find sureties, and ensured punctual payment by the borrower himself, who would on no account leave in the lurch a surety of his own class and guild.

Loans on honour, *i.e.*, without, or on very low interest, and without additional security (*see* 'Italy') are not given by these banks, as they savour of benevolence and charity, and are not considered business transactions.

Repayment and Recovery.—Schulze Delitzsch did not admit the principle of payment by instalments as being inconvenient to the bank; he demands payment in lump as in the case of commercial bills, considering that it is better to grant a prolongation of the term than to accept gradual repayments. For his short-term loans he is probably right, but such loans should be confined to cases where the loan is reproduced in lump, as in the case of a loan for seed, for carrying out a contract, &c. There are no special means of enforcing repayment. The defaulter's share capital and that of the sureties are the first sources of recovery; after that the usual legal means. The banks are not favoured by Government or by law in the recovery of their debts, and, in fact, they absolutely disclaim all special help.

Losses are small and such as are incidental to all credit operations; in nearly every instance they have been met out of the annual profits.

Profits and Dividends.—These are said to average from 4½ to 7 per cent. after deducting for expenses of administration, for reserve, for taxation, for a fund for pension, &c., to the employes, and for useful public purposes, such as popular instruction. Dividends play no small part in these banks being deliberately kept high so as to attract savings; this, of course, necessitates somewhat high interest on loans, since the banks individually are in too small a way of business to earn high profits on low rates. A certain proportion of this interest comes back to the borrowers, since the latter are also members, and therefore receive dividends, but their profit is, of course, much smaller than the excess of interest. Here is then a certain opposition of interests between borrowing and not borrowing members. It is noteworthy that in 1892 dividends ranged from *nil* to 30 per cent., the average being 5½.

A very small sum is devoted to charitable or public purposes; in 1890-91 in 1,002 banks, the net profits after deducting all cost of administration, &c., were £314,500, of which only £2,400 were devoted to popular instruction and £2,600 to a fund for employes, pension, &c. The idea of self-help and non-dependence on charity or benevolence of any sort, so dominated the mind of Schulze Delitzsch that it appears to have restricted such operations even within the societies themselves. The history of the rural Raiffeisen institutions and of the Rochdale Pioneers seems more thoroughly to display the co-operative idea of associated benefits other than credit.

The Articles lay down strict rules for the compilation of the balance sheet and for its inspection by the committee of supervision, to whom the directors must send it, together with a complete statement of the year's accounts, a statement of profit and loss, and another of all receipts and disbursements. After audit, for which salaried experts may be engaged by the committee, or after any special audit ordered by a general meeting, the net profits are disposed of by a general meeting after providing for the reserve and other matters, the net surplus is credited to the shares of the members, but is not paid over in cash unless the shares have been fully paid up.

Articles.—These provide for all matters not expressly dealt with by the law, and must be entered in a register kept for the purpose in the office of the Court having jurisdiction. The first chapter of the law contains detailed instructions as to the matters to be dealt with in the Articles. A translation of the 'Model Articles' is given in an appendix.

Savings Banks.—The societies now find it advisable to establish a Savings bank side, *i.e.*, to admit not merely term deposits of considerable sum, but the petty dribblets which the working man can alone spare, received at any time and repayable at call. The matter will be dealt with at length under 'Savings banks' (*q.v.*), but it is obvious that since credit is only the result of savings, and the inculcation of thrift is therefore even more important than the provision of credit, and since the

clientèle to be benefited is the class which can spare only very small savings, the societies are bound to provide a Savings bank side if they are to fill their true rôle.

In order to guard against withdrawals in panic, Schulze Delitzsch recommended (1) that the maximum of individual deposits in the Savings bank side should be kept low, e.g., £14 (100 thalers) or even less; (2) that a higher interest should be allowed on term deposits, so that when the Savings bank deposit reached its maximum, there should be an inducement to transfer it to the regular bank as a fixed term deposit; (3) that though savings deposits should be repayable at call, a saving clause should be introduced, allowing, in case of necessity, a delay of from fifteen days upward. These precautions are found to work well (see 'Savings banks').

Unions.—These are of two classes, local or district, and central. Of the former there are now 33, most of the banks in a particular district linking themselves together, not for purposes of administration, for each is strictly autonomous, but for strengthening one another's operations, e.g., by discounting bills, joining in guarantees for loans, lending surplus funds, &c.; these will be again mentioned s.v. 'Italy.'

The Central Union founded in 1859 embraces all classes of co-operative societies, and Co-operative banks registered therein are called registered societies and have special privileges. The Union is supported by a subscription of 2 per cent. from the profits of each society. Its action is described as follows:—

"The general Union of the German industrial and economical co-operative societies founded on the principle of self-help, the affairs of which are at present managed by me as salaried agent, sends delegates of the associations belonging to it to an annual general assembly, which controls the affairs of the Union as supreme authority, without interfering with the independence or with the special affairs of the individual societies. As connecting links between the central authority and individual associations, subordinate Unions, which embrace the societies of various German counties or provinces, or of special branches, have been formed, whose task it is to attend to their special interest, and to communicate between them and the central authority. They prepare for the general assembly in special assemblies of their own, and enforce the resolutions of the former in their districts, while the presidents chosen by them form a committee which assists the agent in carrying on the business of the Union in the interval between the general assemblies. Thus, without interfering with the free action of the individual societies, a central point is created for the exchange of experiences, for the sifting and criticising of the ever-accumulating material, for advice and help for members in any kind of embarrassment, and finally for common defence against threatening danger. Add to these advantages the most valuable business relations between the several societies in the execution of commissions, and especially in mutual assistance with capital." The resolutions of the general assembly have only the force of advice, and their acceptance is enforced only by the weight of their own reasonableness and not by pressure of any kind. Schulze Delitzsch was the managing director of this Union for many years, and has been succeeded by Dr. F. Schenck. This Union organizes the annual congresses, of which there have now been 32, prepares the annual reports and statistics, and issues the weekly co-operative organ called the '*Blätter für Genossenschaftswesen*.'

Finally, there is a Central bank at Berlin, with a branch at Frankfort, for uniting financially the various banks and groups. "An account is opened at the Associations' bank in Berlin, or, at its branch in Frankfort, in favour of each people's bank belonging to the Union. Each bank keeps a deposit of at least 300 marks there, which can be increased by deposits in specie, by bills on Berlin or any Prussian bank, or places where there are other loan associations, or by the transference of the deposit of a third party from his account to their own; it can, on the other hand, dispose of its deposit by transference to another account kept by the bank, or by cheques, bills payable at sight, or ordered consignment in specie. Though Schulze regarded this institution as extremely important, only a minority of the people's banks belonging to the general Union belong to it also." Its capital originally of £82,500, and now £750,000, was subscribed by the various banks and by capitalists. Its object is to equalize the financial position of the numerous small banks; each such bank having but a small clientèle, occasionally finds either that it has too much or too little money at its disposal. Those which have a surplus remit it to the Central bank which lends—with its own guarantee—to banks in want of funds; hence an equilibrium is established as in ordinary banking, between those who have and those who want, the several banks taking the place of individuals. The usual method, in fact, is for the Central bank to discount the bills of the banks which require money from funds on deposit by other banks.

Government Intervention.—Of this there is little; it has been energetically opposed by Schulze Delitzsch and his successors; only in the amelioration of the law, by removing disabilities under which the societies laboured, and by legislating to prevent the abuses and errors which experience brought to light in the working of the banks, and to make provision for the audit and good management of operations, do they recognize the aid of the State. They absolutely disclaim all subventions or privileges, and they receive no fiscal privileges. The law of 1868 was passed under the influence of Schulze Delitzsch, and that of 1st May 1889, which now regulates co-operation in Germany is due largely to amendments suggested by the experience of these societies. It is translated in an appendix.

The Banks in relation to Agriculture.—Schulze Delitzsch started his banks chiefly for artisans, tradesmen and such like, and without special reference to agriculture: nevertheless they have done a good deal for the agriculturists. He recognized that agriculture requires loans of considerable duration, while his own banks were restricted to three months' loans, though with possible prolongations, and he carefully distinguished between the needs which should be satisfied by Real credit, and these for which personal credit would suffice. His own formula was that "the term of loan should be in harmony with the reproduction of the capital lent"; hence, for all purposes for which three or six months would not suffice, e.g., land improvements, purchase of stock, &c., in which the capital is more or less fixed and is reproduced only by instalments, he considered that Real credit was necessary, such as the *Landschaften* provide, viz., long-term loans repayable by moderate annuities, and financed by the issue of mortgage debentures to an amount corresponding in the aggregate to the mass of mortgages held by the bank (see 'Real credit'). He consequently desired and proposed (1867) a law which

should give—without special privilege—to any institution which should provide proper guarantees and fulfil certain conditions, the right to issue “Pfandbriefe” (debentures), subject, however, to the control of the State; these institutions should rather be Co-operative associations than Joint Stock banks, the associations consisting of the land proprietors of any given area. For all short term needs “personal” credit as granted by his Popular banks would suffice. His projected law was, however, not taken into consideration, and long-term credit of the *Landschaften* type is still a desideratum for the ordinary German peasant, long-term loans up to ten and even twenty years being, however, to a small extent granted by the *Raiffeisen* societies.

In 1885, 814 associations sent in their statistics; these had 405,948 members, of whom 103,325 were agriculturists, and 11,655 were agricultural labourers; hence 28·3 per cent. were of this class; the proportion recently is slightly greater. In 1887, it was found that in Germany 12½ per cent. of the male population were engaged in agriculture (including forestry and fisheries), while about 26 per cent. of the members of the associations were male agriculturists (including labourers), so that agriculturists took, in the societies, a proportion more than twice as great as that to be expected from their ratio to the general population. Again, out of 1,000 persons engaged in all other industries, 21 are members; out of 1,000 engaged in agriculture 43 are members. This comparison, however, is vitiated by the fact that a vast number of “other professions” would never belong to a Popular bank, which is practically restricted to the “small folk,” amongst whom agriculturists immensely preponderate. In small provinces, from 100 to 113 per 1,000 agriculturists are members, but in these provinces, the banks are situated in the very villages, and in these, agricultural credit is the principal aim of their existence; e.g., in Baden with a population of 1,601,255 and an area of 5,891 square miles (Madras district) there were 57 rural associations of credit, besides others not specially agricultural. In Silesia there are altogether 107 banks, of which 39 are in villages of population less than 2,500, 24 being in villages of less than 2,000; all these are probably agricultural in chief.

The average interest in the chief of these banks—13 only are tabulated—is from 4½ to 6 per cent., the minimum loan is generally £1; in two cases 10 shillings and 12 shillings.

In 1885, 544 banks, exclusive of purely urban institutions, had 270,808 members, of whom 72,994 followed agriculture only, including gardening, fishing and forestry, and 37,979 were partly engaged in it; these latter are probably small holders combining agriculture with some industry or with daily labour; altogether 110,873 or 41 per cent. These 544 banks lent during the year £38,924,638, of which £8,982,995 were granted amongst the 72,994 agriculturists proper; hence 27 per cent. of the members got less than 18 per cent. of the loans in banks, chiefly rural. It has been calculated that not much more than 10 per cent. of the loans in all the banks together, reach agriculture proper. Again, these 72,994 obtained 204,132 loans or nearly three each; this seems to show that most of the loans were simply prolongations of short-term (three months) loans, as would be expected from the fact that agriculturists require, as a rule, loans for at least six or nine months, whereas the Schulze Delitzsch principle is to grant loans only for three months; moreover out of these loans only 21,080 were cash credits, proving that the loans generally were simple discounts or short-term loans. The average loan was about £34, but the proportion of small loans not being given, it cannot be said how far the small holders were benefited.

M. Durand states that many of the so-called Schulze Delitzsch banks which are avowedly agricultural, belong to the Schulze Delitzsch system only in name, e.g., they give loans extending to five and even ten years, an entire departure from the principles of Schulze Delitzsch. As shown below, the institutions of the Offenbach circle are largely agricultural, but are rather of the *Raiffeisen* than of the Schulze Delitzsch type, especially in advancing on long term to agriculturists; hence the figures, as given, scarcely represent the true value of the Schulze Delitzsch system proper as regards agriculture.

All the Agricultural banks of this school are not small; that of Augsburg has 10,627 members residing over a large area; but—whether because it is large or not—it fails like other large banks in reaching the small peasantry; it is said that only “large and medium cultivation draws profit” from this bank. The loans are granted for three months with possible prolongations to eighteen months.

On the whole, though there is no reason why these banks should not be developed to suit the needs of agriculturists, they do not at present appear to reach the mass of the peasantry proper.

Defects.—These are (1) the shortness of the loan term, which renders societies less useful to agriculturists; (2) indefiniteness of area leading to a loss of the co-operative bond such as is felt when the area is limited, and to a difficulty in obtaining information as to the borrowers and sureties; (3) the entire absence of control over the use to which the loan is put, whereby the societies lose a principal safeguard for the value of their money, and miss some of the great functions of co-operative credit, viz., the education of the borrower and the development of production; it is even said that petty usurers obtain loans to no small extent and lend out the proceeds in their own business; (4) the pursuit of dividends, which though tending to develop thrift, tend at least as much to injure the borrower, and to divert societies into dangerous paths of business.

General Results.—Splendid as these are absolutely, yet relatively, they do but touch the fringe of the subject. Thirty or even fifty millions sterling do not count for much where the mortgage debt alone, untouched by these banks, is at least 500 millions, and in Prussia alone, increased by 45 millions, in the seven most recent years of which account is given. If all the societies have together a million members, the above sums reach but a fraction of the population, and it is the poorer classes of that population which these societies have not yet reached, viz., the mass of petty land-owners and peasants owning or tilling less than 7 or 8 acres; still, as the work of only forty years and the result of one man's foresight, philanthropy, energy and business capacity, they are a marvellous work, and give promise of much greater development. The size of half of them (100 to 350 members) shows that they can be worked in quite small localities, and do not necessarily require to be located in a town. The next class of societies (*Raiffeisen*) will, however, throw still more light on the possibilities of small credit to poor people in ordinary villages.

RAIFFEISEN CREDIT UNIONS.

The societies now to be described and the Schulze Delitzsch Popular banks are rival institutions, rivals unfortunately not merely in a generous emulation and in a striving for the public good, but in controversial strife, which is the more regrettable in that each class of bank is adapted for its own work and its own clientèle, and that there was and still is ample room for a great development of both systems.

The Raiffeisen societies are due, as in the case of their rivals, to the philanthropy, prescience, courage, perseverance and skill of one man, Raiffeisen, a man of slight estate, a burgomaster or village mayor, of very poor health, with no particular property, but of unbounded energy. He has been called the Schulze Delitzsch of rural Germany, for he has done for agriculture—though as yet on a much smaller scale owing to the inherent difficulties of the case—what his contemporary did for the towns. Struck by the misery, isolation and want of capital among the peasantry, by the shameless and fearful usury of the private money-lenders, by the absence of association and public spirit in the cultivating classes, and by their need for elevation not merely in the material but on the moral side, he set himself alone and unaided, to develop a scheme for supplying the needs he saw. Like Schulze Delitzsch, talking and writing were with him merely subsidiary to action, and that action was his own, and not another's; he asked for no aid but that of his own will, his belief in his cause, and his confidence in the dormant capacities of the peasant; he formulated no great scheme, nor called on others or on Government to do so, but began work in his own village, with the inspiration of his own ideas and of the needs around him. He had no ideal *entourage* for his work; on the contrary, the country round Flammersfeld is represented as very poor, the men of scanty means, ignorant, very superstitious and overwhelmed by debt, and his first attempt at co-operative effort was on the occasion of a great famine "which decimated the people"; on that occasion, "the usury was frightful and bread and potatoes—the ordinary food of the peasantry, were not to be had." By personal effort he united some of the better class in a 'Co-operative society,' which imported grain direct, ground, baked and distributed it and brought down local prices by 50 per cent.; he also obtained potatoes both for food, and as seed when spring arrived. This was in 1848. In 1849, he started an association of the better classes, who contributed funds with which cattle were bought by the association,* and resold to the ordinary peasants who repaid the amount with interest in five years by easy instalments; this was to obviate the "Usure sur le bétail," one of the worst forms of usury found in Europe, the cattle dealer often exercising the right of taking back his cattle—which remain his till the value is fully paid up—if a single instalment of the heavy price is in arrears, and no return is made of prior instalments: subsequently this took the form of an ordinary loan society, the money and not the cattle, being made over to the peasant, who therewith bought cattle outright for cash. In 1854 Raiffeisen founded a society not only for granting credit, but for educating orphans, for supplying labour to men out of work, for buying cattle and for erecting a library. This was unmanageable and was wound up in 1864; and in that year, the first regular loan society, under the rules, which, in the main, govern these Credit Unions, was founded at Heddesdorf, a village of the Neuwied Union, of which Raiffeisen was the burgomaster. It is only from 1864, therefore, that these societies took their origin. Till 1868 it stood alone; 5 were then newly started and 22 in 1869. Until 1879 progress was slow, but from that time the increase has been very rapid; in 1885 there were about 600, and, in 1890, not less than 1,730 were reported; in the Neuwied circle alone the number increased from 245 in 1885 to 408 in 1888, to 684 in 1890, to 830 in 1891, and to 1,000 in 1893. In the small kingdom of Württemberg of the size and population of a large Madras district, there were in 1891 no less than 477 rural banks of this class alone.

Before proceeding to further details, it should be mentioned that Raiffeisen, to whom this organization of rural credit was solely due, was forced by ill-health to retire from public service about 1860. Though sick and nearly blind, he then devoted the remainder of his life to this work, dying in 1888 after his societies formed an established and successful system. Curiously enough, his work, though in Germany, has been attacked by business men and others, on account of the Christian and philanthropic tone which pervaded his writings and his works, as though a system, admittedly successful from a business and economic point of view, were the worse, nay, even objectionable, for having as motives of action, principles based otherwise than on the desire for gain! Had the societies been based and worked on a charity foundation, the objections might have been understood, but they are not only business associations, but business successes, and are not open to the reproach of being benevolent institutions; they are real associations of self-help and self-education of the highest character.

The Conditions.—It is worth while to note carefully the conditions under which Raiffeisen began his work, and the conditions of the problem; it is too common in thinking of Europe, to think of its general civilization, its wealth, culture and education, and to apply these vague notions to minimize the difficulties of the European problem, and to exaggerate those of India. The peasantry of Europe are not the cultured classes, who give the tone and name to European civilization and progress; they are often but barely instructed, while their prejudices, conservatism and narrowness of idea are proverbial; they are not wealthy but excessively poor, are much in debt and ravaged by usury to a degree, of which this presidency as a whole, knows comparatively little; what can be expected of them when the vast bulk own less than 7 acres per family, and a large proportion much less than that; vast areas of Europe are bleak and infertile, repaying labour with but a bare livelihood often of the meanest kind, so that the small peasants obtain a poor subsistence even in good years, while droughts and floods, hail, frost, blights, and cattle disease are common fatalities. Moreover, Raiffeisen began his work more than forty years ago and Europe was not then even as now; the peasant had long suffered from other evils, such as from the want of communications and of good markets, from general ignorance, from most conservative ideas and practices, from the poorest methods of farming, from feudal disabilities and customs, which the laws of the earlier part of the century had so partially relieved that a fresh set of laws was necessary, ending in 1850, to relieve them. Hence, it must not

* Association or credit societies for this purpose are not uncommon in Europe, and will be mentioned below.

be imagined that the task of starting credit societies or rural banks among the peasantry was one whit easier in Europe than in the Madras Presidency; on the contrary, so hard was it that it took nearly twenty years to establish more than the first such bank, while the whole of France, the bulk of Germany, Austria and Italy, the whole of the Iberian peninsula and the whole of Russia are still almost unsupplied, in fact, with rural banks for the peasant; for even the 2,000 or so Raiffeisen societies which have established themselves since 1868, when their real development began, are but a trifle even in Prussia alone with its 54,000 communes.

Raiffeisen was the burgomaster of a village—afterwards of a group of villages—in one of the poorest parts of Germany, the Westerwald; it had but a “barren soil, scanty means of communication, bleak surroundings, indifferent markets.” Nature had proved a very step mother to this inhospitable bit of territory, upon which the half-starved population—ill-clad, ill-housed, ill-fed, ill-brought up—by hard labour eked out barely enough to keep body and soul together, with the support of the scanty produce of their little patches of rye, buckwheat or potatoes, and the milk and flesh of some half-famished cattle, for the most part ruinously pledged to the Jews. “That reference indicates a peculiarly sore point in the rural economy of Western and Southern Germany, which led Raiffeisen to become an economic reformer. In this country we have no idea of the pest of remorseless usury which has fastened like a vampire upon the rural population of those parts. Even the gombeen-man cannot compare with those hardened blood-suckers. The poor peasantry have long lain helpless in their grasp, suffering in mute despair the process of gradual extinction. My enquiries into the system of small holdings in those regions have brought me into personal contact with many of the most representative inhabitants—heads of agricultural departments, judges, parsons, peasants. And from one and all—here, there, and everywhere—have I heard the self-same ever repeated bitter complaint, ‘that the villages are being sucked absolutely dry by the ‘Jews.’ Usury laws, police regulations, warnings and monitions have all been tried as a remedy, and tried in vain.”—*Wolff*.

It was this miserable district “where every little wretched cottage and tumble-down house was mortgaged and most of the peasants’ cattle belonged to the Jews,” that was severely visited by the famine of 1846–47, and it was the misery of the people that moved Raiffeisen to action. Such were the conditions of the country and of the people, and no more unpromising field could have been selected. And the conditions of the problem were no less difficult, viz., to supply within, confidence, courage, the spirit of thrift, of self-help and of mutual help through association to a peasantry so enfeebled, suspicious and dispirited, and to inspire without such confidence and credit that, upon the guarantee of such a peasantry, external capital should be attracted in sufficient quantities to free the peasants from debt and to supply them with funds for maintenance and production. This is the problem, such are the conditions which Raiffeisen had before him, and, in his solution of it in its most unpromising form, he has solved the problem so successfully, that the system is now developing with immense rapidity, so that the end of next decade may easily see at least 5,000 rural banks of this class in full operation. For India the solution of the problem presents an absorbing interest, for there are few, if any parts more difficult, to deal with, than the scene of Raiffeisen’s first success, while in this presidency alone there are 10,000 villages far more suitable than Flammersfeld. But the conditions of the country and of the peasantry do not exhaust the factors of the problem; there must be imported into it for its solution, the energy, skill and devotion of promoters of the Raiffeisen stamp; so difficult is the problem that it has nowhere been solved, save by such imported elements, and it is well to recognize this at the outset; given a Schulze Delitzsch or a Raiffeisen, and they will bring bread out of stones, credit out of poverty, isolation and ignorance; without them or some similar influence, the problem remains insoluble.

General Results.—The increase in numbers has already been mentioned, and it should be noted that this enormous increase has practically been obtained since 1868 when the societies first began to develop. Exact figures are wanting, especially as it is never certain whether societies of a similar type, such as those of the Offenbach Union ought not to be entered. Mr. Wolff considers that there are probably above 2,000 including those that have seceded on minor points only. As 1,730 were entered in a report for 1889, and they are said to be increasing at the rate of at least one or two per diem, this seems a moderate estimate.

The statistics of members and other items are unfortunately incomplete; each society is at starting, an isolated rural unit and a very small and unbusiness-like unit; it then joins a group and is gradually educated in business matters. Meanwhile its returns are imperfect or *nil*, so that the group statistics are incomplete. Apparently the rapid increase of late years has outrun the organizing capacity of the group syndicate: this is now under amendment. It will be remembered that the older Schulze Delitzsch organization, though formed in towns chiefly, labours under similar difficulties. In 1890 it seems that only 576 associations had sent in their accounts, and these showed a movement of affairs of about £4,375,000. For the group of Neuwied—the original centre of operations—figures for 1889 are as follows: 245 associations sent in accounts, these had 24,466 members or 100 each; their assets, including outstanding loans, were £501,900; their debts including deposits, &c., £495,200; they had lent during the year £175,000, of which £30,400 were on account-current. Similar figures have not been obtained complete for later years, but loans largely increased as will be seen from the figures given above for 576 associations of this and other groups, *e.g.*, in 1887, loans by the above 245 associations were £50,200 in excess of 1885, while the assets of 364 associations in 1889 were £859,000 as against £301,900 for 245 associations in 1885. Though these statistics show loans incomparably less than the Schulze Delitzsch societies, it must be remembered (1) that they are of much later development; (2) that their members are *solely* agricultural and poor, requiring only small loans; (3) that the amounts lent out are not for three months as a rule but for several years, so that while the recorded Schulze Delitzsch figures show an annual turnover of perhaps £80,000,000, owing to the same funds being turned over three and four times per annum, Raiffeisen societies have only a small movement, since their capital only returns to them every two or three years; (4) that the societies closely examine the object of the loan, which must be usefully or productively employed; they do not lend unless for a good purpose; reckless borrowing is checked rather than encouraged.

The loans granted are small; in 1887 in three societies taken at random, 200 loans were granted for £3,094 or £15–10–0 each; of these 35 were below £5, and averaged about £2; 139 were below

£25, and averaged £9-8-0; only 26 were above £25, and none was above £112-10-0. It is clear that these societies have the true peasantry as their clientèle.

The number of members in the various societies is not known; statistics are wholly imperfect and various writers include different classes of societies. In 245 societies of the Neuwied Union, there were in 1885 24,466 members; at this average there would in 2,000 societies be more than 200,000 members; in 1889 in 364 societies of the same Union, there were 33,160.

The proportion to population is equally unknown; in 30 societies taken at random, there appear 5,207 members (173 each) in a population of 55,450, or nearly one in ten; as each member represents a household, it seems that half the population is affected directly by these societies. These, however, are all in the Rhine Provinces, where they originated, and where they are far more numerous than elsewhere.

For Württemberg the statistics contained in the Union report of August 1892 for the year 1891 are as follows: the number of societies was 477 with 37,429 members, being an increase of 118 societies and 5,959 members over the previous year; the small size of the societies, viz., 78 members each is noteworthy. Of these 358 reported business to the amount of £1,473,984, assets as £517,923, liabilities as £514,655, profits as £3,490, reserve as £10,926, and share capital as £11,883: this was an increase of about 30 per cent. over the figures of the previous year. The Savings banks attached to them were doing a good business, while the purchases of manure, compressed fodder, seeds and fruit (for the manufacture of cider) for nearly £17,000 were nearly double those of the previous year. Audit was carried out by the Union in respect of the management and accounts of 266 societies in the usual fashion, viz., by the transmission of the books to the auditor and his subsequent visit to the society's office; the cost was £320, to which the State contributed £180; apparently a good deal of help, not merely pecuniary, is contributed by the Government in the Public and Agricultural Departments. It is considered that the Union is gradually raising the organization of the loan societies, strengthening their position, improving their credit and developing their useful activity. In proportion as the number joining the Union increases, so does the conviction of their community of interests. The development of this feeling is one of the highest aims of the Union.

Taking a single Rhenish society as an example: Efferen is 7 miles from Cologne; it has 1,600 inhabitants and a society with 121 members dating from 1880. On December 31st, 1887, the members held £992 in existing loans, its annual issue of loans being about £390. The Savings bank attached to it, which chiefly supplied its funds, held on that date £1,992 in deposits under 238 accounts; in 1886 it had added a penny bank, and, in eighteen months, it had issued against petty savings 333 cards and 4,584 pfennig tokens, after the fashion of the English postal Savings banks with their accumulation cards for penny stamps.—(*Le Barbier.*)

There have been no actual bankruptcies during the whole course of operations; in the early days some associations were wound up, but no case of bankruptcy has occurred. There are, of course, small losses in some of the societies, but in all cases they are covered by the reserve, and in no case has any general contribution been required from the members under the principle of solidarity. This at least is the repeated assertion of Raiffeisen and his followers.

Every one of these institutions is, as will be seen hereafter, autonomous, agricultural, local, with a membership and administration solely rural and of the village where the society is situated. It cannot be doubted that the existence and successful working of many hundreds of these societies, must have an enormous educational effect, especially when the particular principles of the system are considered. The result to the members is in fact marvellous; usurers have been ousted, and the peasants given a new chance with new hopes; men are tempted to save, taught to use savings productively; idle hoards are gathered in and used profitably; the spirit of association is developed, habits of business taught, new ideas inculcated, and new methods of economic and social progress encouraged and developed. The results go further: owing to the necessity for grouping the societies, Central associations have sprung up and these are performing most important duties and developing on various lines; they provide manures, seeds, implements, &c., of good quality and at low rates; an insurance department to insure against the effects of hail, cattle disease, &c., is being formed; there are special associations for dairying, viticulture, &c.

The following quotations from Mr. H. W. Wolf's work (1893) describes the general results as he himself has seen them:—

"You should go into the valley of the Rhine, where the Raiffeisen banks have been longest at work and observe to what extent homes have been made habitable and comfortable; how culture has been improved; how machinery has been purchased and the best manures and feeding stuffs; how the vintner has been enabled to sell his produce for cash at double the old rate of return; how the small peasant can now buy his implements and manures of the best quality at the cheapest wholesale prices, and yet—thanks to a large reserve accumulated in his bank, raised up seemingly out of nothing, as if by fairy hands—at six months' credit; you should see how small industry and trade have been developed, how the usurer, once all-powerful, has been driven out of the field, and those once poor men have become small capitalists. One is afraid of falling into a strain of rhapsody in describing all these results."

As a picture of the results in a particular case the following from the same observer is a stirring account:—

"One very striking and characteristic instance comes to me from the Grand Duchy of Saxe-Weimar. There, in what not long ago was a forlorn district, something like a rural Seven Dials stands the forsaken village of Frankenheim—poor, neglected it was, with tumble-down houses, all of them heavily mortgaged, badly tilled fields, and an uncouth barbarous looking race of inhabitants rightly or wrongly reputed capable of any misdeeds, and possessing some few famished cattle, nine-tenths of which really belonged to the 'Jews.' In pity the Grand Duchess had some model dwellings set up, erected at comparatively considerable cost, but to let at a nominal rent of 30s. a year. The success was not particularly encouraging. Some time after the Lutheran vicar of the parish resolved on trying the effects of a loan bank of the Raiffeisen type. With the help of the money so secured—on these poor people's own collective credit—he built houses, each of which,

"with the ground upon which it stands and the garden surrounding it, cost a little under £60. For these houses the occupiers are required to pay 4½ per cent. interest, plus one-fifteenth or one-twentieth of the principal each year, by way of sinking fund, therefore in all, according to circumstances, either £5-12-0 or £6-12-0, in consideration of which the houses become their own after a certain period. All these houses have been readily taken up: the tenants pay their rents regularly, and, thanks to the money brought into the village, the whole face of things has become changed. The dwellings have become decent, the gardens well kept, the fields well tilled, the 'Jews' have been paid off, the cattle are well fed, and the human inhabitants are known throughout the country as orderly, well conducted, industrious, saving and thriving folk."

Principles.—There is little difference between the aims and objects of Schulze Delitzsch and Raiffeisen, and that which has been said above of the former applies equally well to the latter; they differ only in the less essential matters of method, and in the clientèle which they had in view; the former founded popular credit for all classes, but especially for townsmen, tradesmen, artisans, &c., while the latter had in view simply the peasantry and rural classes. As in the Schulze Delitzsch societies, so in the Raiffeisen Unions, the principles of action are those of self-help, association, solidarity, prudence, thrift and public spirit, to which, however, Raiffeisen added unselfishness, in that dividends are forbidden; all profits, less fixed interest on the very small shares—introduced only in obedience to the law—go to a common fund to be used for purposes of general utility, and not for private gain. Raiffeisen, like Schulze Delitzsch, demanded no privileges for his societies, but was content to base their success on honest, energetic and prudent action. In the words of S. Wollemborg, who, in Italy has founded similar institutions, he believed that "when a whole class—the peasantry—is in danger, when the need is general and abiding, no kind of mere assistance, whether from the State or from individuals is of any avail; rather is it mischievous, for it not merely leads men to count habitually on such succour, a succour which must fail at last, and render more acute the consequent distress, but it gradually stifles the feelings of self-reliance and personal responsibility."

Whether he was right in rejecting or in not seeking temporary aid for nascent institutions, is arguable; success may have been delayed by the great difficulties of the start; on the other hand, when achieved it was undeniably due not to external aid but to intrinsic merit. In actual fact two or three advances have been made from the State apparently as encouragement or premia and as aids to audit (Prussian Agricultural Report 1884-87).

A great deal has been made of the differences between these and the Schulze Delitzsch societies, but on analysis, both seem to have similar aims; thrift and the promotion of general well-being is the common aim of both, but while Schulze Delitzsch places thrift and saving prominently forward as the chief factor of credit and of progress, Raiffeisen, while anxiously promoting thrift, desired to guide the peasantry towards unselfishness and public spirit rather than to individual profit. Schulze Delitzsch encouraged thrift and attracted capital by giving dividends as large as possible, so that there is a tendency to opposition between borrowing and non-borrowing members, and possibly to unsafe extensions of credit and enterprise. Raiffeisen allows no dividends, but only market interest on deposits, and all further profits go to a reserve; there is but small share capital which is intended (1) for the ordinary purposes of a reserve, (2) for purposes of public utility. Exaggerated views prevent the partisans of either side from doing justice to the other; both are doing a great work, and while the Schulze Delitzsch banks are far ahead in numbers and operations, the Raiffeisen societies deal with problems of far greater difficulty, viz., the advancing of small loans for long terms to men who, though they possess some property, obtain their profits only in small instalments, and after considerable delays, and with a certain amount of precariousness and uncertainty; the men themselves, moreover, are more difficult to deal with than the comparatively business-like artisan and tradesman class. Hence a considerable divergence in methods as well as difference in results.

The principle of solidarity is common and essential to both: in the one it is simply a means of obtaining credit, in the other it is not only that but a bond of brotherhood.

General Features.—The chief features are (1) that the society is absolutely local, the limits of a commune (village) being strictly maintained as the limits of membership and of operation; (2) that the administration is equally local, members alone being eligible for appointment, and is absolutely gratuitous; (3) that there is but small share capital, all funds being borrowed on the guarantee of solidarity and eventually of the reserve; (4) that there are therefore no dividends to pay and all profits go to the reserve; (5) that only members, who must be residents of the commune, can get loans; (6) that loans may be of long term extending to ten or even twenty years; (7) that, as far as possible, all funds are the result of local thrift.

Local Character.—A Raiffeisen bank is simply a village society of agriculturists, labourers, and shopkeepers united for common interests; at first a few of the better class unite; these by example and precept draw in others. The first steps are hard, but once fairly started there is little difficulty, as the advantages are manifest to all. It is considered that the village should have not less than 400, nor more than 2,000 inhabitants; several small villages may unite if too small for a separate society. This principle of restricted area is deemed essential: the bank is thus at the borrower's doors. It can be administered gratuitously and by the most trusted men of the community; it has a perfect knowledge of the candidates and can reject all unworthy of the honour who would be likely to discredit the society; it tends, therefore, directly, by reason of the advantages of membership, to encourage or to incite men to industry, thrift and sobriety; as a priest of the Rhenish Provinces once said: "The bank has done more in my parish for morality than all my sermons;" it has a perfect cognizance of the solvency and status of would-be borrowers, and it can and does examine the purpose of every loan and enforce its due employment, for in a village all is open to the eyes and ears of all; it establishes among the members the bonds of confraternity and tends to substitute association for suspicion, healthy and active communal, yet personally free, action for individual isolation and inertia; it forms a centre of local progress and reform. All are admissible, even the poorest, who satisfy the administration that they are worthy of membership, and, as will be seen in Italy, the mere possibility of joining a society has reclaimed men from drunkenness and extravagance, and has given them an impetus to sobriety, industry and even to education in its ordinary sense.

Objects of a Society.—These are well expressed in section 2 of the model Articles:—

“The object of the society is to improve the situation of its members both materially and morally, to take the necessary steps for the same, to obtain through the common guarantee the necessary capital for granting loans to members for the development of their business and their household, and to bring idle capital into productive use, for which purpose a Savings bank will be attached to the society.”

“The society will also have in view the objects mentioned in clauses 2 to 6 of Article I of the Law for Co-operative Societies of 1st May 1889.”

The objects mentioned in the last sentence are—

- (1) The supply of raw materials (*e.g.*, manures, wool, coal, &c.).
- (2) The sale in common of the products of agriculture and industry.
- (3) Co-operative production and sale.
- (4) The purchase, wholesale of food stuffs and agricultural necessities, and their retail sale to members.
- (5) The acquisition of implements or machines necessary for agriculture and industry and their use in common.

These objects cover a wide field, and, if carried out, would develop agriculture beyond belief; it is claimed that these societies are actually developing in the direction here indicated, as will be seen below.

It should be noticed that in fulfilling the object of improving production, a prime necessity was that of “freeing the members from the grasp of the usurer,” and one principal result has been precisely this; the usurer *has* been ousted, and the people set free to develop their farms or industries. No previous liquidation was asked for or needed; the member was a neighbour, his character was known, the use to which he intended to put the loan and his power of repaying it was examined, the money was advanced and the thing was done.

The following paragraphs are taken partly from the model Articles of Association, partly from other sources: Articles, of course, differ in various societies, but are generally similar to those mentioned. (For fuller details see ‘Model Articles’ in another appendix.)

✓ *Members.*—All adults of either sex, in full possession of their civil rights, may become members; admission is sanctioned by the directors, with an appeal to the committee of supervision in case of rejection. A member may withdraw or be dismissed; the statutes detail the circumstances in each case. It may be noted that dismissal is necessitated by the removal of the member to a village outside the society’s sphere of operations, or if he joins another society of unlimited liability, in which case, of course, the original society might lose its lien over the member’s property.

Members have the right of voting at the general meetings if present in person; females have no right to take part in such meetings, but may vote by proxy. Every member is entitled to ask for a loan. They are bound to answer in all their property for the debts of the society, to pay up their shares, to obey the rules, and to watch over the interests of the society in every way.

✓ *Administration.*—Naturally the best men of the village form the original members, and therefore the original administration; the burgomaster (village head), priest, schoolmaster and bigger peasants usually form the nucleus. The society always has a board of directors, including the chairman of the association, a council of supervision, a general assembly, and an accountant. Regarding these organs Raiffeisen said “the directors decide, the accountant executes, the committee of supervision ‘oversees.’” The directors elected by the general assembly represent the society, and have the management of affairs including the admission and exclusion of members, the internal work of the office, the enquiry into and grant of applications for loans; a full description of their duties will be found in the model Articles. For facilitating loans each director has a register; persons in his immediate neighbourhood or hamlet apply to him for loans; on his report the directors consider the application, the object for which the loan is demanded, and the worth of the sureties and of the applicant. The president or his representative, or failing them, a member of the directorate specially elected by them, represents the society in its capacity of member of the central society. The president has other duties, and is held specially accountable for the cash and the correctness of the books and balance sheet, and for carrying out the decisions of the directors.

The council of supervision has a general control; it is bound to see that the directors observe the rules, and that all resolutions are carried out; it is required to make a quarterly examination of the assets and debts of the society, when the position of each loan, its then value, the use made of the loan, and the status and solvency of the debtors and their sureties are examined afresh. Hence any deterioration of an estate, any misapplication of a loan, any degradation of a debtor or his surety, is at once known and steps can be taken to safeguard the society, since the members of the two councils reside in the village which forms the sole *locale* of the bank. It can, moreover, examine the books, cash and securities at any time, suspend the directors or accountant and call a general meeting. Its numerous duties will be found in the model Articles.

The general assembly is the source of all power and is a petty democracy. It decides the general rate of interest to be demanded from borrowers and is likely to keep this as low as possible since all the members are probable or possible borrowers, and since there are no dividends to pay to investors. On the other hand it requires an influential directorate to guide the assembly, *e.g.*, in so fixing interest that profits may accumulate into a reserve as soon as possible, and thus improve the material guarantee for the borrowed capital. No difficulty is found in practice, as the original members, and therefore the original directorate are the most enlightened and influential men in the village. Meetings must be held at least twice a year, and as often otherwise as the committee or a tenth of the members require. It is usual to require all members to attend on pain of a fine in the absence of a valid excuse; this is intended to develop the personal interest of all members of every degree in the working of their society, and is found very effective. The general meeting in these and other co-operative societies usually decides matters which, in an ordinary society, are dealt with by directors; it is a small democracy with direct working powers.

[All services rendered by the administration are absolutely gratuitous; only expenses out of pocket, if any, are payable to them; the area and number of operations being small, and the accounts simple, there is but little trouble. The accountant is the only paid official and must not be a member of either committee; security personal or material is required from him.] He is generally the village schoolmaster, sometimes a forest officer, frequently a tax-collector and the remuneration is small. In India the schoolmaster, monigar or kurnam would naturally hold the post. There is an economy about the German and Italian arrangements very striking to an Indian observer, who is accustomed to see every petty Indian association, village union, reading room, &c., spend much of its scanty funds on establishment.

[The accounts are very simple, sometimes rough; but they are now regularly audited by inspectors sent round from the central office of the group to which each society respectively belongs; these inspectors pay frequent visits, point out errors, explain the proper methods and forms of book-keeping and act generally as auditors *ab extra*. Their services are paid for, not by each society, but by the central office of the group to which each society subscribes annually.]

[It will be observed from the above that not only is the establishment of the societies dependent upon local devotion, but that, once started, they bring men together in association and tend to develop in them a most useful and enlightened public spirit; they are not merely centres of economic but of social and even of moral progress. Moreover these societies do not spring up from the inherent and active love of progress in the village; the peasantry of Germany are not very different from other peasantry; it has been only by the unwearied and incessant devotion and energy of Raiffeisen and his immediate disciples in this propaganda, that, after many years of effort and example, these societies have won their slow way to acceptance by the villagers. In some cases the suspicion of the villagers was overcome by the fact that their principal men lent money or placed considerable deposits in the nascent bank; this gave confidence, which, when once given, soon established itself and the position of the society. It is invariably a case of local energy, devotion and honesty.]

Shares.—Under the law of 1868 it was not clear whether a share-capital was a necessity; it is now placed beyond doubt by the law of 1889, and consequently the Raiffeisen societies which formerly rejected the share system, now require each member to subscribe a small share, which, however, only averages 10s., and may be much lower. Round this question was the principal strife between Schulze Delitzsch and Raiffeisen; the former, accustomed only to townsmen, who either had no property but only wages, or who being in trade, were subject to unseen risks, and who operated in trade matters entirely out of sight and out of the control of the society, obliged his associates to subscribe a considerable share-capital as a proof of their thrift and sobriety and as a material guarantee for their individual and corporate debts; but the Raiffeisen societies, dealing solely with agriculturists and villagers, required no such security; each member possessed in his little farm, in his cattle and implements, &c., material guarantees far beyond those of any subscribed shares. Moreover a peasant, even though he possesses property, has seldom any cash in hand, and his savings are necessarily and best invested not in a Savings bank but in his fields or farm-yard; finally, every act of a peasant, the state of his crops and stock, his personal possessions, the new dress he gives his wife, nay every visit to the public house, is perfectly well known to every other villager. For these reasons, Raiffeisen considered that a share capital is not only useless but mischievous; useless, for, as calculated, shares of even £3 only add to the guarantee provided by the solidarity of the members of his societies an additional guarantee of 5 or 6 per cent. since the aggregate actual property of each member in land, house, furniture, stock, &c., probably averages £50 in value; mischievous, for it keeps money out of the land, members out of the society, and induces a habit of looking for dividends, while the necessity for giving dividends, *pro tanto*, retards the accumulation of the reserve which is a prime necessity. What a peasant wants is often not property but simply cash; he is not a pauper, but he requires floating capital; and to demand a subscribed share, the value of which is to be permanently locked up, may be, in view of his property, an unnecessary burden. Raiffeisen, in obeying the law, fixed therefore the shares at a very small amount, while encouraging the peasant to place any spare cash in the Savings bank attached to the society, whence it could be withdrawn at pleasure.

As there are, however, shares, there are now dividends or rather interest payable on them; the rate is fixed annually by the committee of supervision, but must not exceed the rate of interest paid by the society on its borrowings; the amount is credited to the shares until they are fully paid up. The general meeting may determine that there shall be no dividends.

Shares cannot be transferred or pledged in any way while a member continues in the society; on quitting it he is entitled to his share value.

Reserve.—This consists of the whole net profits after paying the fixed interest on deposits, &c., and the cost of administration, and is fully dealt with in the Articles. It belongs to the society in its corporate capacity alone, and no individual has any claim to any portion of it. Should it attain an amount larger than necessary, the general assembly can devote the surplus to some object of public utility such as special beds in hospitals, the improvement of the village, its water-supply, school, &c., or it can lower the rate of interest and commission on its loans. Should the society be voluntarily wound up, the reserve, less any due debts, must be paid into the Imperial bank or placed in some recognized investment, there to accumulate at compound interest till a new society under similar rules shall be established in the same village, when it is to be handed over to them as a nucleus.

Hitherto, the reserves have accumulated slowly; in 1885 out of 245 associations only 6 had reserves above £500, and their average was only £103; in 1887 the average had slightly increased. In all cases the reserve is banked with the Central bank hereafter described, and cannot be used in the ordinary business of the society. The reserves appear to have been kept down by the low rate of interest and commission demanded from borrowers, who pay considerably less than the members of the Schulze Delitzsch banks.

In spite of the weakness of the reserves the societies have found no difficulty in borrowing, and all losses have hitherto been successfully met from the reserves.

No entrance fees payable to the reserves are charged to members.

Funds.—These consist of the shares, the reserve and the borrowed capital. The first source as already stated, is insignificant in amount; the reserve cannot be used in ordinary business; it is on their borrowed capital that the societies work, thus fulfilling the chief function of banks, viz., the collection of small capitals and their distribution for productive use.

The societies have not wanted for capital except at the very beginning. At first Raiffeisen found funds only with very great difficulty and amongst the richer men who were friendly to the enterprise; his first society could find no friends till a particular capitalist came forward and lent about £300; gradually, however, as the security and regularity of the societies became known, money from the country side began to flow in as deposits, so that a Savings bank open to all persons, and not merely to members of the society, is now the usual adjunct of a society, which draws much or even all of its funds thence. It is found that the funds supplied by members of the association in this way are assuming a larger share of the total funds borrowed, viz., about three-tenths, and that these funds are being received in smaller and smaller instalments showing that the small peasants have been reached, and that the hitherto inactive dribblets of capital are flowing in to fertilize the very neighbourhood in which they took their rise; these are assisted by the penny (10 pfennig) savings system mentioned above. In some associations the deposits of members receive higher interest than those of outsiders, and a large number are actually financed solely from the proceeds of this savings branch. The confidence of the people in the great security offered by the solidarity of the societies, most of whose members possess some material property, is shown by the fact that in the great war of 1870-71 any amount of funds was offered to these societies without interest, capital seeking security only; it was distinctly proved in the official commission of enquiry in 1875 that the Raiffeisen societies, by the nature of their own organization, though then in their infancy, suffered in time of panic less than any other credit institution, the reason being that lenders were also largely members.

In the infancy of the societies 5 per cent. and even more is paid as interest to lenders or depositors; gradually this is reduced, and most now pay 4½, 4 and 3½ per cent.

The 245 societies of the Neuwied group owed their creditors at the end of 1885 £231,000; in 1888 this had increased to above £300,000.

Loans.—These are for all terms from a month to ten or even twenty years. Mortgages are not refused, but personal credit is the usual form, one or two sureties adding their signatures to that of the borrower. Cash credits are also granted. Raiffeisen, like Schulze Delitzsch, believed in the efficacy of personal security; it brings together the members of a society, and, since a member will be very unwilling to cause loss to his immediate neighbours, especially those who have become security for him, it is one of the most efficacious modes of securing repayment if not punctuality; but he directed his societies to be very careful not to accept, either as principal or surety, an idler, a drunkard or a spendthrift, and since the societies are purely local, it is easy to avoid such persons; hence there is not only great security to the society but a direct inducement to the idle, extravagant or vicious to reform in order to become members of these useful societies. This is no theoretical fancy but the result of experience; both in Germany and still more in Italy is the evidence abundant that these societies do reform these very classes; that they preach temperance and self-control more practically than sermons, is the evidence of priests themselves.

When a peasant desires a loan he applies either to the office or to the director living in his neighbourhood; enquiry is then made as to the candidate's solvency and his guarantees, and as to the use he intends to make of the money; if this latter is approved of, the dates and instalments of repayment are settled, always in such a manner—and this is most important—that the periods and amounts fixed shall agree with the probable receipts of the borrower; the society prefers to increase the duration of a loan, and then to insist upon absolute punctuality—save in cases of disaster, flood, hail or famine, &c.—rather than to grant shorter terms with probable disabilities and delays. In this way, not only can the society calculate on its returns, but the borrower knows his exact liabilities and that—save for unusual misfortune—he is safe to have means to meet them; he is also educated in rigid punctuality and foresight.

Short-term loans, viz., those granted up to one year with possible prolongations to two years or even three, are repayable usually by instalments, as Raiffeisen considered this an important principle. Long-term loans, of which those above ten years can only be granted by special arrangement, are always repaid by equal annuities, which include both interest and principal. It was considered advisable by Raiffeisen, and his opinion is largely followed, that all short-term loans should be made payable at a particular time of the year, viz., that when the members have generally sold their crops; this differs for various neighbourhoods between November and the end of December. This practice, however, seems to cause a risk of leaving money unemployed for some months, unless there is competition for loans. Instalments or portions of instalments are received at any time in advance, so as to remove the temptation to spend small sums.

It is an absolute rule that the loan shall be for some useful and productive purpose; this is, in fact, one of the chief securities for the repayment of the loan—a security entirely lost sight of by those who demand only material and existing securities. When a loan is used only for a productive purpose, including in this definition the payment of previously existing debts which enslave the peasant and absorb his crops, the lender has the best of guarantees that his loan will be repaid; the borrower is, in fact, in a better position to repay the loan than he was when he borrowed it. To this end, not only must an applicant state the object of his loan, but the truth of the statement must be enquired into by the committee by its local member. If the loan is approved of it must be used for the purpose stated under penalty of immediate recovery. This is not merely for the protection of the interests of the society but of the member; it is desired to teach members the due use of credit and to safeguard their true interests; control of the use of credit is the base of the society's action, and the abuse of this control is checked by the fact that it is the members themselves who control themselves and one another, and that the members are men of similar position and needs.

The duration of loans is chiefly from one to ten years; the societies being composed of actual agriculturists, recognize that three months are seldom of any use in agriculture; even the Schulze Delitzsch banks, where they devote themselves to the needs of agriculture, find that their short loans

require numerous prolongations even up to two years; the same will be noticed in Italy also. In 245 societies, it was found that of the total outstanding amounts 15 per cent. was granted for periods below one year, 43 per cent. for one to five years, 35 per cent. for five to ten years, and 7 per cent. for above ten years. Again in 10 societies taken at random 71 loans or 11 per cent. were for one year at most, 442 or 68.5 per cent. for one to five years, and 132 or 20.5 per cent. for five to ten years.

It has been objected, especially by Schulze Delitzsch, that money cannot be lent on long terms (one to ten years) as by the Raiffeisen societies without great risk of bankruptcy, unless they can borrow on similar terms. As a matter of fact, the societies do not generally borrow on long terms; their funds are chiefly savings or deposits. Schulze Delitzsch and others proved conclusively that, by theory, this means bankruptcy, and that the societies could not succeed; but practice contradicts theory—*o pur se move*. It is only necessary to point to the German Savings banks, with 55 per cent. of their enormous deposits on rural and urban mortgages to disprove Schulze Delitzsch's theory; the Savings banks experience of Austria, of Italy and of the United States is equally conclusive. The fact is that the good credit of the societies prevents any lack of lenders; it is said indeed, that they have more money than they can lend, probably owing to strictness in lending; that these creditors are largely members; that their savings are left for a long time untouched; that, in fact, the banks find that they can place a very large proportion of their funds in long-term investments; finally, that long-term loans are all repayable by instalments, so that the money is continually coming in. It is true that the societies have introduced a rule that repayment of loans of any term can be demanded on four weeks' notice, a facility which is also given to the creditors of the society, but this safeguard is not used in practice except in cases of deteriorations, or of misapplication of the loan, or of serious diminution of the solvency of the borrower from his own extravagance.

Cash credits are not extensively used, Raiffeisen being of opinion that they were unsuitable to the smaller class of peasants; they are opened chiefly for the better class. Whether the loans are granted on mortgage, pledge or personal security, the administration is bound to examine every three months, the solvency of the parties, the condition of the property mortgaged and the use made of the loan; even the habits of the individuals are considered. If necessary a further security is taken from him, or the whole debt may be demanded in accordance with the terms of the bond, a copy of which is given in another appendix.

The right of the society to demand repayment at any time on four weeks' notice is entered in general terms, but is never practised unless the property has deteriorated or the solvency of the parties seriously diminished, or the position of the society by reason of demands imperatively demands this extreme measure. The advisability of this clause has been much debated. There can, however, be no doubt but that it is necessary where property is being allowed to deteriorate, or the borrower is evidently becoming insolvent through extravagance, or where he has misapplied money lent for a particular purpose. In the first and third cases the rule is universal in land credit societies, and is especially necessary as a matter of contract where the law, as in India, does not make the mortgagor responsible for deterioration of the property mortgaged. But the clause seems indefensible where the demand is necessitated by the position of the society; it is the duty of the society so to arrange its affairs as not to require at call loans which have been laid out perhaps in improvements yielding slow profits; such a clause must produce a sense of uncertainty, and might be means of harassing debtors disagreeable to the directorate.

As pointed out above, the loans are usually small; some fall as low as 10 or 20 shillings, showing the class of peasant who are admitted as members. The largest number of loans are those falling between £5 and £25; the average appears to be about £15 or less than half of the average of £33 in the Schulze Delitzsch societies.

The general rate of interest is 5 per cent., with a commission which raises it to 5½ or 6 per cent. It is usual now to take this commission in a single payment on the day the loan is granted; it is usually 1 per cent. of the total for a loan of one year; it aggregates 2 per cent. for loans up to five years, and 3 per cent. for those between five and ten years. This commission pays the expenses of administration.

With all the care taken to fix the easiest instalments and dates of repayment, it is found that the unpunctuality of the peasants is a standing difficulty; they cannot without vast trouble be got to understand the absolute necessity of punctuality, and much tact is required to avoid, on the one hand, a sudden severity which would deter them from becoming members and taking loans, and on the other, a lenity which would soon ruin the society. An official commission in 1875 commented on this fact, and found that the lenity of the administration on this point encouraged the peasants in their fault. It was found in one society with 284 members, that 81 complaints in Court were necessary in three years, of which, however, only 28 had to be followed up, and only in one of these was the surety called on. In the 24 societies in the jurisdiction of the Neuwied Court, there were 793 suits in three years; of these, 222 resulted in attachments of property; it is said that these were chiefly for small loans in very poor villages. At the end of 1885, the amount on loan in 245 societies was £316,289, of which 13 per cent., besides interest, represented expired but unpaid dues; of this, however, two-thirds was accounted for in a single group (Coblentz) which had lent not quite two-sevenths of the loans; this group had 33 per cent. of its loans in arrears, and evidently for considerable periods, for the interest in arrears equalled 4½ per cent. on the total loans outstanding. In another small group 63 per cent. of the expired loans were unpaid. On the other hand many groups had little or nothing outstanding. It is, moreover, to be noted that the statistics were gathered on the 31st December, while the period of payment is usually November or frequently 31st December, hence arrears do not necessarily mean serious arrears, and except in one or two instances, *e.g.*, Coblentz, the interest due was so small as to show that the arrears were of short duration.

On this point the Neuwied central directorate allege (1) that the loans were frequently granted imprudently by the local societies, chiefly from a false idea of benevolence or compassion; (2) that bad harvests, especially in the nine districts (*e.g.*, Coblentz), caused much distress and necessary delay.

It seems however also true that some local societies shrank from pressing their debtors fearing to drive them again into the hands of the usurers; they did not insist on punctuality and thereby

strengthened the peasants in bad habits; also that the debtors had the means of payment, had they been pressed, and did eventually pay up.

It is clear that these faults—undue leniency on the one hand and unpunctuality on the other—may easily wreck the best system. M. Le Barbier expressly alludes to that idea of peasants (and others) that a society (or a Government) is abundantly rich and can afford to wait for its money, so that unpunctuality with them conveys no sense of fault. Mr. Wolff, while admitting, it would seem, that the peasants are unpunctual, considers that the societies are training them to habits of punctuality by insisting inexorably on payments at date. Here in India, poverty is too frequently urged as a reason for granting a loan of public money, while the ryot—and not merely the ryot—habitually thinks that the Government is boundlessly rich and can afford to wait, or even to lose an individual trifle.

Other Objects.—The societies do not merely make loans; they do considerable business in assisting land purchase. In Germany as in Italy land is largely sold by public auction, the purchaser agreeing to pay by instalments, a practice which enables him to give a higher price from the ease of payment. For these instalments he gives bonds to the auction-seller, who in turn sells them at a discount for ready money to some money-lender or other capitalist. Should the purchaser fail in any one of his instalments he finds himself liable to be sold up without mercy, unless he pays a ruinous interest on his arrears. The society intervenes by taking the place of the money-lender at a moderate discount, but requires from the seller a guarantee, usually with personal sureties.

Other objects are the stimulation of, and assistance to, associations for co-operative production, sale and supply; either by the grant of advances or by establishing them as branches, with however liability and accounts wholly distinct from that of the parent society. These are becoming very successful, and supply associations are mentioned as doing business up to £2,000 per annum, the capital for which is originally borrowed from the parent society.

The same Article, which deals with these subjects, lays down that the directors shall endeavour to compose differences between the members of the society, and to assist them if they are unjustly injured by third parties.

Articles.—A translation of the model statutes provided for these societies, adapted to the new law of 1889, will be found in another appendix and will give further details.

General Union and Groups.—As the societies increased in number and importance, it was felt that they should be linked in groups for mutual support and for supervision, for the chief difficulty in starting and working these small local societies is not only that of their weakness when isolated, but also that of finding capable men residing within the area; hence the group and Union system. Five groups are now in existence embracing probably all the individual societies. In addition to these local groups there is a Central Union for the whole of Germany to which all societies may belong. Of the local groups, Neuwied, the original, will be taken as an example. It was founded by Raiffeisen in 1877 with the object of extending, developing, and protecting the local societies. One chief duty is that of instructing the peasants in the proper use of credit; this seems more useful than any other, for cheap credit without due prudence in its use, means only quicker ruin. Doubtless, too, though it is not so stated, the peasants are taught the arithmetic of credit, *i.e.*, the calculation of profit and loss probable on a given transaction. Instruction in book-keeping and the audit of the accounts is another chief duty; a regular service is organized for this purpose, and the inspectors give free instruction in the subjects to the societies that ask for their services. In 1886, 347 inspections were made amongst 245 societies. Another duty recently undertaken is the collection and preparation of systematic statistics; they are still very deficient. A further and most useful development is the purchase of good seed, manure, implements, &c., for the local societies upon demand by the latter; *e.g.*, in 1887 the Neuwied Union alone furnished to its members, at cost price, 15,000 tons of manure and forage, and above 1,600 waggons of coal; in the spring of that year, it bought 2,000 tons of nitrate of soda at 88½ marks per ton, the price otherwise being 130 marks; hence a large gain to the members; in 1889 this business had increased, and so again in 1891, a considerable additional business was done. The steady increase of this class of business is highly satisfactory, and it seems that up to 1893 the Union had thus supplied considerably over £500,000 worth of goods. Here it will be seen, is indicated a rapprochement between the duties of the local societies as credit societies and as Agricultural associations, a connection which will be dealt with hereafter (*sub voce* 'Agricultural Associations' and the 'Poligny Loan Society'). Finally the Central Union busies itself with the promotion of life assurance, and of assurance against the effects of hail, cattle disease and other frequent disasters.

The Central Union holds a general assembly every year composed partly of the representatives of the individual societies, partly of delegates from the local groups, which represent the societies belonging to them. Discussions take place, and a representative syndicate or council is appointed. For business purposes, the Union is divided into sections or district unions, each with the duties of the general Union.

Each local society pays annually 15 shillings as subscription for expenses, including the price of a weekly newspaper (*Co-operative Societies Journal*) intended to contain statistics and facts relevant to the work of the societies. The Articles of this Central society will be found translated in an appendix.

Central Banks.—The want of a Central bank for the use of societies either in investing or borrowing was soon felt, for it was clear that some societies will, at various periods, have too much and others too little money; a Central bank would bring about an equilibrium. Moreover a well-established Central bank would be in a position to borrow funds at cheap rates and thus provide for societies in need. At first three Provincial banks were founded for their respective groups; these again established a Central bank. This plan failed, funds being limited to a credit of £7,500 obtained from a Provincial Hülfskasse (Benefit Fund), and the banks were finally closed as contrary to the then law. In 1876 the Central Agricultural Loan Society of Neuwied was founded; this is a joint stock company, of which the only shareholders—exclusive of the directorate, who must by law also be shareholders—are the local societies of the group, holding one or more shares of £50 each. The dividend is limited to 4 per cent., all surplus profits going to the reserve. In 1886 148 local societies had joined, holding 736 shares, but in 1891 the report of the Central Union mentions 661 as having

become members of the bank; these have probably much increased of late to judge by the increase of business. All the shares (1,000) have been subscribed, but only 10 per cent. per share has been called up. It may be added that Government granted a sum of £1,500 in aid of the first expenses of starting; the same sum was granted to a similar institution in Westphalia (Munster). The shares are personal and cannot be transferred without the bank's consent. No societies are admitted as members except those which fulfil Raiffeisen's six primary conditions, viz., (1) unlimited liability, (2) the intention of promoting the moral and material welfare of members, (3) the narrowest possible limitation of area, (4) absence of entrance fees, and smallness of shares, dividends on which must not exceed the interest paid by borrowers, (5) gratuitousness of administration, (6) the accumulation of an inalienable reserve.

The Central bank, as far as possible, adheres to the same conditions; it is however formed as an ordinary joint stock bank limited by shares, and its administration is partly paid; the bulk of the responsible work is however undertaken by the committee of supervision which is wholly unpaid. The shareholders get dividends, but not higher than the rate of interest paid to the bank,—about 4½ per cent.—by its borrowing members; it operates only with its own members.

In order to procure funds, the Articles provide (1) for the issue of debentures (Pfandbriefe) with the permission of Government as required by law, (2) for the receipt of deposits from members or the public, (3) for receipt of commission, and of the difference between interest paid and received.

It appears that the bank is provided with sufficient funds from the deposits of the local societies; as stated above, these have always found more money than they could dispose of, and this surplus can be deposited with the Central bank at 4 per cent.; the bank lends these deposits to societies requiring funds at about 4½ per cent. with a small commission. On 31st December 1889, the Neuwied Central Bank showed loans to the local societies of £45,930, while the deposits from societies were £61,450. Hence the surplus funds were invested in mortgages, on account-current with a land bank and in Government paper. During 1890 the turnover of the bank was about £500,000, its expenses £450, or less than one per thousand, its profits £468 and its reserve £5,170. In judging of its turnover it will be remembered that it deals only with its member-societies, and that its operations are consequently not numerous; its business is however increasing rapidly, and in 1892 it was £800,000.

The bank is authorized to invest its funds (1) in accounts current with its members (societies), (2) in discounting bills and in loans on pledge, (3) in mortgages or purchase of rent certificates, (4) in immovable property, (5) in paper issued or guaranteed by the State or a commune.

The Central bank is doing a useful and increasing business and appears to be solidly based. Its Articles will be found translated in an appendix.

Other Unions have followed the Neuwied example in starting Central banks, e.g., Westphalia and Hesse Darmstadt (Offenbach); the Articles, conditions and operations of these are similar to those of Neuwied, but the Offenbach Bank is somewhat more liberal in admitting as members societies which do not adhere absolutely to the strict Raiffeisen principles.

In other Unions, the local societies utilize ordinary banks for the deposit of their surplus funds and for obtaining credit.

In Hanover a Co-operative Banking Corporation (Limited) has been formed under the law of 1889.

It has been objected that these banks being specialized for agricultural loans, operations would fail, since they would have to receive and disburse money at given periods, e.g., after harvest and before cultivation, and would not be able to maintain an even current of business. The result, however, proves that these special banks can maintain their position, and though no great profit is made this is not their object; they were formed as a channel of communication so as to maintain an equal financial level in the various local societies; this object has been successfully achieved.

Result.—There are then in full operation a vast number of very small, autonomous, village loan societies, of unlimited liability and wholly rural, if not agricultural, drawing funds largely from the savings of their members, cheaply, almost gratuitously administered, aiming at the moral as well as the material development of their associates, teaching them the use of credit and guarding them against its abuse. These societies, originally isolated, are now linked in Unions or groups for mutual support, inspection and instruction, and in order to equalize their funds and provide, if necessary, other funds, a Central bank has been started for each Union which receives and distributes the deposits of the societies which form its sole clientèle and body of shareholders. These Central banks have wisely provided in their statutes for obtaining funds *ad extra*, chiefly by the issue of debentures and receipt of deposits, but have not yet had occasion to do so. It is strange if in this organism of village societies, autonomous and independent, yet, as members of one body, linked to and supported by Central directorates and banks, there is not a seed which may take root and grow in Indian soil as it has done in Germany, Austria and Italy.

Differences between the Schulze-Delitzsch and Raiffeisen Societies.—There has been almost from the first, a regrettable controversy between the two classes of societies, or between their principal men, a controversy amounting almost to party strife, and as unnecessary as bitter, seeing that both classes are independently useful. It is advisable to mention the points at issue in order to assist the future practice of this country.

Both philanthropists started with the same idea, viz., that of providing cheap capital for those who were debarred from it by its enormous cost; cheap credit for those who were exploited by the usurer; their object was to supplant the individual lender by the organized bank. Both saw clearly that thrift is at the base of any possible system; only persons who showed themselves able to save were deemed worthy of credit; saving, moreover, as the only basis of capital, is a *sine qua non*. Here however the two systems diverged; Schulze-Delitzsch began to foster thrift by rewarding it with dividends and profits as high as possible, thus placing the interest of borrowers in opposition to that of lenders; Raiffeisen placed the interests of the borrowers first and allowed no dividends. The difference is considerable; the former tend to become joint stock societies, in which investments seek high dividends, some societies declaring dividends to members of 30 or even 56 per cent. (Wolff), a result hardly commensurate with anything but usury; the latter preserve intact the co-operative idea of mutual help, and yet are eminently successful both in attracting abundant deposits at market interest and in helping

borrowers; the interest of all members is that of the borrowers actual or possible, and there is no antagonism between investing and borrowing members. It must be remembered that Raiffeisen aimed directly not at the mere material benefits of association, but at its moral and educative results; thrift was to be promoted not so much to make a man wealthy as to make him a better moral agent, a better member of society: he regarded mutual help, the bond of Christian charity, as the cardinal principle, and the necessary result of his system; Schulze-Delitzsch looked more to the material, Raiffeisen to the moral and social results; the former used association to enable the individual to struggle to the front, the latter used the co-operative principle not merely for the individual but as a beneficent method of increasing the common happiness and welfare. This difference is important since the desire for dividends leads to speculation for the purpose of increasing profits, especially where directors are rewarded by a percentage, and elsewhere in this study it has been pointed out that in Madras the Co-operative Funds tend too much to diverge from the co-operative idea of brotherly help, towards that of profits upon investments or as a reward for management. The true co-operative principle worked out in banks is, according to Signor Luzzatti's idea, "a bank with fixed dividends on its shares and deposits, all surplus profits going to the reserve; when the latter shall be equal to twice the capital the shares are repaid, and all subsequent profits are expended in philanthropic or useful objects." (Rostand.) The external profit in this case is that derived by the borrowers from the cheap and accessible capital which they borrow for productive or useful purposes; the investors at the same time get a fixed dividend or interest which is usually somewhat above that of State paper. The corollary of these views is, in the Schulze-Delitzsch societies, comparatively large shares with considerable dividends and paid administration; in the Raiffeisen societies very minute shares—and then only in obedience to the law—and no dividends but an inalienable reserve, and wholly gratuitous administration except as regards the clerks.

Schulze-Delitzsch, again, started his societies at any given centre with a wholly indefinite area of operation; the larger the area the better the chance of paying business. Raiffeisen on the contrary lays down as an *absolute* rule that the area of operation must be small, never exceeding that of a village. The difference here is radical; in the former societies it is far less possible to know, much less to influence, the members individually, to judge of their character and status, to supervise the employment of the loan; in the latter societies all members are acquainted, the bank's clientèle are its neighbours; it can lend upon character, upon the status both personal and material, of the borrowers and their sureties. Usury can only be fought hand to hand, and it seems likely that only purely local societies can succeed, at least as regards the peasantry.

Other radical differences are as follow; in the Schulze-Delitzsch societies, which are largely urban, only short-term loans are granted, three months being the rule with one or two prolongations; in the Raiffeisen societies which are wholly rural, long loans are the rule, two or three years being the average, and ten years the ordinary maximum. The former societies do not trouble themselves to watch over the use made of the loan, though they satisfy themselves beforehand that it is to be used profitably; the latter consider it essential *to see* that the loan is used productively, and every three months the utilization of the loans is examined by the committee of supervision; the former societies require repayment of their loans in lump, the return being usually speedy, and the result of a particular operation in trade, business or industrial contract, &c.; the latter take their loans, if of more than a very short term, by instalments, per month or per annum; the former lending only in short loans have no rule regarding repayment on four weeks' notice; the latter insert, though they hardly use, such a rule to provide against the deterioration of property or the misuse of the loan; the former do an enormous short term business with artisans, tradesmen and a proportion of agriculturists, the latter a far smaller but now rapidly increasing business in long loans almost solely with agriculturists.

So much for the differences between the systems of the two great founders of German co-operative effort. On the other hand it must be pointed out that their common object was the strengthening and raising of the poor by the means of self and mutual help (*s'aider et s'entr'aider*). They rejected mere benevolence in their methods, for though charity is a high virtue when applied by individuals to individuals, it cannot or rather does not in our imperfect conditions, succeed when applied to the relief of classes. Yet it was the mainspring of their own action; Schulze-Delitzsch devoted himself with such unselfishness to his philanthropic work that, though voted a statue and a subvention, he left his widow in narrow circumstances, while Raiffeisen, who might have pleaded sickness to excuse inaction, used his life so sympathetically and usefully as to win the name of "Father" Raiffeisen throughout the country side. It is personal devotion alone which effects great reforms among the poor and helpless.

OTHER GERMAN INSTITUTIONS.

These may be divided into (1) mixed institutions which have borrowed from the systems of Schulze-Delitzsch and Raiffeisen, (2) the Agricultural Bank of Trèves, (3) institutions dealing with agricultural credit only as a secondary matter, or as annexes of other institutions.

(1) MIXED INSTITUTIONS.

The chief of these are the societies of Hesse Darmstadt which are united in a Central Union with Offenbach as its head-quarters; these draw alike from the tenets of the two rival systems, but they do not bind individual societies to any special formula or set of statutes, giving each society liberty to develop itself. They admit shares, dividends, entrance fees, and remuneration to the directorate and councillors either by salary or honorarium. In all these features they began with Raiffeisen and have ended with Schulze-Delitzsch. But they agree with Raiffeisen in allowing long-term loans as required by agriculture, and as admitted by the Schulze-Delitzsch societies in Russia, which contain many thousands of agriculturists, chiefly, it is believed, Germans; these loans for years repayable by instalments, are wholly opposed to Schulze-Delitzsch principles. The 'Cash credit' system has also been deliberately developed in this Union; its statistics for 1888 show loans of £400,002, of which £56,012

or 14 per cent. were on mortgage, and £86,035 or 21·5 per cent. on cash credit. One form of loan by these societies is the advance upon sale certificates or warrants, a form of bill discount in which the goods sold are invoiced, and the invoice accepted by the debtor then forms a negotiable instrument. Apparently many of these are also the sale certificates described below (*s. v.* 'Bank of Trèves'). The societies lent in 1888 £114,488 or 28½ per cent. of its loans, in this form.

On the whole these eclectic societies have much to recommend them; moderate shares, dividends which might however advisably be limited, entrance fees, and liberal terms and methods for loans. The general principles and methods are otherwise similar to those of the two systems.

(2) THE AGRICULTURAL BANK OF TRÈVES.

This was expressly founded to supply the needs of the small peasantry, but on the one hand it is restricted in its credit operations, and on the other hand it works as a store for sale and purchase of agricultural produce and goods. It is not however a co-operative or mutual society, but a joint stock company which operates for its clients whether they are shareholders or not. There is here an opposition of interests; in selling goods to the public, it should get high prices, and in buying from agriculturists, it must buy as cheap as possible so as to get profit for its shareholders; hence the bank and its clients have opposed interests. This difficulty is surmounted by proscribing dividends beyond 5 per cent., the disposal of all surplus profits resting with the general assembly, but not so as to benefit the shareholders. Hence the society while buying at fair rates can also sell at cheap rates, and all oppression and speculation are alike discouraged. This method savours of charity, for the profits voluntarily waived by the shareholders go to the borrowing clients of the bank.

The bank was founded in 1885 with a share capital of £1,500, for the financial help of the peasantry, specially in providing cattle—the cattle-dealer of Europe being amongst the worst of usurers—, in aiding the peasant to sell his produce at a fair price, and in buying goods for him favourably. It does not however lend money.

From 1885 to 1889, it had sent out 2,821 head of cattle worth £26,499 and had received instalments of their value for £10,656. In 1889, it had bought artificial manures for its clients for £2,716 or £327 above the previous year.

The bank sold raw produce for its clients only on a small scale, but it otherwise remarkably aided them, for the local grain brokers having formed a syndicate to buy up all produce at unduly low rates, the bank undertook to find other markets; this at once broke up the combination, and local prices took their proper level at nearly 50 per cent. above that fixed by the ring.

Another form of usurious injury was successfully combated by the bank, and though this is not found in Madras, will be mentioned to show the value of a local association. The peasants' estates, &c., are frequently sold by auction whether by Court's order or otherwise; the purchaser pays only part in cash, and the rest by a bill in the form of the sale certificate which is a negotiable instrument. This bill, the vendor who, *ex hypothesi*, is in want of money, is obliged to discount with the usurers, when he finds that he must lose 20 or 25 per cent. Moreover if the auction purchaser who has to pay the value of these sale certificates, usually by instalments, fails to pay any instalment at due date, the money-lender who has bought the certificates at once takes proceedings against him, and may thus get usurious interest out of him and sell the land afresh. This form of usury is very prevalent in certain parts, and the bank by buying the certificates at fair rates materially assists the peasantry: in five years it bought them for £44,759, and in 1889 alone for £15,377; these sale certificates are redeemed by the auction purchaser by payment in instalments. The bank owes its foundation to the 'League against Usury,' a society formed to assist the peasant against the money-lender, and inspired by a few active and philanthropic men. The example is full of suggestion for India.

(3) INSTITUTIONS DEALING WITH AGRICULTURAL CREDIT ONLY AS A SECONDARY MATTER OR AS ANNEXES OF OTHER INSTITUTIONS.

The third class consists of the Savings banks, *Landschaften*, and State and Communal banks including especially the provincial *Hülfskassen*. Savings banks will be discussed in a special chapter; the efforts of the *Landschaften* (*g. v.*) are confined to forming annexes endowed with part of their own reserves, and these annexes lend out their funds and the deposits which they attract. But operations are generally confined to members of the *Landschaften* proper, so that the small folk have little part in them. For the *Hülfskassen*, &c., see *supra* under 'Real credit.'

The German law of 1889.—This will be found translated with notes in another appendix; it is the expression of German opinion on the experience of forty years in co-operation and is the result of numerous studies, Commissions, bills and discussions in the Press and Parliament. It has of course been adversely criticised by those whom it displeases. It deals with the whole subject of co-operation in all its forms; in Germany as well as in Switzerland, there is a special law for co-operative societies, which are treated as entities (*Genossenschaften*) different from ordinary business societies (*Gesellschaften*); whereas in France and Italy, co-operative societies are treated merely as a class of commercial societies, with, however, a special section in their favour. The chief innovations of this law are—

- (1) a determination of the minimum number of members;
- (2) the necessity for a council of supervision;
- (3) the admission of new provisions to safeguard individual members under the régime of unlimited liability;
- (4) the introduction of liability limited either to the amount of a share or of multiples of it;
- (5) a regulation of the liability of retired members;
- (6) provision for audit by experts outside of the local society and nominated by the Union to which it belongs, or in default, by the local Commercial Court;
- (7) permission to deal with non-members except in matters of credit;
- (8) necessity for the subscription by each member of one or more shares;
- (9) provisions for the disposal of profits.

This law will be further referred to in a section on 'Law,' but special attention is directed (1) to the compulsory provision of committees of supervision, (2) to that of external audit. These two provisions, the one to compel watchfulness within the society and the other to inspect it from without, are noteworthy results of German experience. There is also elaborate provision for publicity through registration in, and returns due to the Commercial Court, a provision somewhat similar to that for Friendly, Benefit and Provident societies in England and America (*see* 'Law').

Communal banks of Alsace-Lorraine.—Before leaving Germany, a class of banks different from any yet described and arising out of the history of Alsace-Lorraine must be mentioned. These are of purely Government origin, and are based upon the fact that, while the general German system of Savings banks is that of free use of the funds by the Savings banks themselves, Alsace-Lorraine retains the French system—similar to that of England—of a compulsory remittance of all savings to the Government treasury (*Caisse des Dépôts et Consignations*). France is almost alone in Europe in thus draining the savings of the masses to the Government treasury, and it is an increasing problem amongst economists how to avoid or counteract this drain so as to permit the general savings to fertilize general production *in situ*. This will be discussed under 'Savings banks'; the new law of Alsace-Lorraine, dated 18th June 1887 (*see* another appendix), is a German Government answer to the problem in this new province, in that it assigns a portion of the funds of the '*Caisse des Dépôts et Consignations*' for the use of a number of small Communal banks, to be eventually established all over the country and destined to grant personal agricultural credit. The following description is taken chiefly from an article by M. Constant Bodesheimer in the '*Revue Suisse*,' 1891.

Usury is as real a plague in this province as in any other part of Europe, and till quite recently there has been an absolute want of all credit institutions for the peasantry, so that the usurers, having complete monopoly, "were the ruin of the rural tracts, materially and morally." There were no Savings banks, for these should be established by the communes, and under a centralizing régime, these bodies had little of the necessary spirit of initiative. A few Raiffeisen loan societies had been started, but their number and size were quite insufficient for local needs, and consequently the German Government in 1887 passed a law intended to favour agricultural credit by means of local State (Communal) banks.

The Governor is authorized, upon demand by the municipal (village) councils with the support of the largest tax-payers, to establish public loan offices, for a commune or group of communes, usually the latter; these are to grant loans at or below 5 per cent. interest—actually 4.25 at present—to peasants and artisans for a maximum period of five years; no loan ordinarily to exceed £50, or at most £100; repayments to be by instalments of not less than 5 shillings. The funds for these loans are to be advanced up to the budgeted amount by the Government *Caisse des Dépôts et Consignations*—answering to the English National Debt Commissioners—at interest not exceeding 4 per cent. and actually 3.60.

Government grant the loan offices as State institutions many valuable privileges—

- (1) freedom from taxes, stamp and registration duties;
- (2) the cost of first establishment is borne by the State;
- (3) arrears may be recovered by executive process, as though for Government taxes, as well as by ordinary civil procedure.
- (4) as stated above, Government advances the loan funds, not however at rates of favour;
- (5) the local (communal) Government officials are bound to act as accountants, but receive a salary as such.
- (6) The Kreis Direktor (Tahsildar) is bound to supervise the administration.

A committee of five members administers the office, the rules being subject to the sanction of Government. The President of the committee is appointed by the Sub-Prefect (Divisional officer or Tahsildar), the others by the several communal councils; they are entirely unpaid, but have a salaried accountant, who is one of the village officials. The operations of the office are supervised by the officers of Government, in the first instance by the Sub-Prefect. The banks being communal institutions, any resident of the commune may apply for a loan; no special status or membership is necessary.

Application for loans must be accompanied by a declaration of the use to which the money is to be put—purchase of cattle, improvement of land, repayment of debt, &c.—but no loan is allowed for the purchase of land, the reason being apparently that peasants are apt to buy more land than they can afford to work, and to compete recklessly for land at auctions, whereas the object of the State is to develop agriculture. The office is bound to see that the loan is spent as promised: if not so spent, immediate repayment must be demanded; so also if a borrower gets a loan from a money-lender without permission of the office. No loan is granted upon mortgage, or without one or two solvent sureties equally liable with the borrower. All loans are repayable by instalments.

A reserve of at least 10 per cent. of the amounts due by the office must be formed from profits any surplus must be spent by the communes in works of public utility not otherwise provided for. Losses must be made good by the communes, but not beyond 5 per cent. of their receipts as communes. No money may be borrowed by the offices from any source other than the '*Caisse des Dépôts*' without the authority of the Prefect, who may close an office if badly managed.

The loan offices are seen to be State foundations, directed and represented throughout by the State, since the latter has to look to the safety of the funds—Savings banks deposits—which it lends on personal agricultural credit. There is no provision for savings; the office is purely a lending bank, granting cheap and long credit, but carefully watching the borrower in his employment of the credit. While therefore the system does not greatly or directly tend to foster thrift or self-help, for the unaided development of which the Alsatian peasant seems unprepared, it provides capital and endeavours to see that the capital is providently and productively employed, thus indirectly fostering prudence and thrift; at the same time it is the beginning of education in business management by the villagers themselves; moreover by introducing the liability of the communes, it sows the seed of that associated action which finds its full expression in the Raiffeisen societies, and it provides a stepping stone for those unable to cross at once from isolation to solidarity.

The first office was started in November 1887; by December 1888 there were 39, serving 237 communes out of the 1,600 of the province; each office is therefore on an average maintained by six communes or villages; this development is said to be due partly to official zeal. No reports have yet been issued as to their working, but £19,650 had been advanced by the treasury (Caisse des Dépôts), besides free grants of sums of £25 to most of the offices for preliminary expenses. The interest at present fixed is 3·60 payable by the loan offices to the treasury, and 4·25, free of all charges for commission or renewal, payable by the borrower to the offices.

The Raiffeisen societies proper numbered 47, mostly recent, with 5,750 members: in seven years up to 1888 they had advanced above £100,000, of which above £50,000 had been repaid. They are evidently flourishing institutions.

Mr. H. W. Wolff, writing in 1893 of his personal experience in 1892, states that the communal loan offices had been of little practical effect in spite of the care and liberality with which they had been organized; he does not, however, give any statistics in proof of this. But the Raiffeisen societies had increased to 126, all thriving and doing a large business both in granting loans and in taking savings, and with every prospect of further development. M. Davizas in 'L'Association Catholique,' writing from Alsace in 1892, speaks similarly of the great success of the Raiffeisen societies in spite of the adverse predictions of experienced men, and the luke-warmness of Government, while the official institution is, apparently, being effaced in proportion as the private institution extends: he also mentions the abortive results of frequent Government efforts to start communal loan societies in Germany, which were managed by the local councils and officials, but with such ill result that in Württemberg, for instance, they were obliged to be closed, while, as stated above, there were in 1891 not less than 477 Raiffeisen loan societies.

Between the Raiffeisen and Communal banks, these are points of resemblance and of difference.

Resemblances.

- (1) Both deal with personal credit;
- (2) They lend only for productive purposes or to free the borrower from debt; in both, the employment of the loan is controlled;
- (3) The loans are long-term loans;
- (4) The interest is as low as possible;
- (5) Profits return neither to lenders nor to borrowers; all surplus must be devoted to works of public utility;
- (6) The administration is wholly gratuitous save only as regards the accountant-cashier.

Differences.

- (1) The communal loan offices are State institutions, worked with State funds only; the Raiffeisen are absolutely private in origin, administration and funds;
- (2) Any inhabitant of the commune may borrow from the communal loan office; only members admitted with caution can obtain loans from a Raiffeisen society;
- (3) The former is a mere impersonal corporation; the latter is an association of individuals;
- (4) The former has no place for savings; the latter demands them;
- (5) The former is a useful State instrument; the latter is a co-operative self-maintaining organism.

It is possible that the germ of these communal institutions may be found in a humble society mentioned by M. Borie (Le Crédit Agricole, &c.): the mayor or village head of a small commune (Sundhausen) in Alsace organized in 1867 a petty society managed by himself and members of the communal council; the funds (£240) belonging to the commune were placed in the hands of the local tax-collector, and loans were issued against bonds backed by two sureties; the bonds were not negotiable and were from 16 shillings to £12. These Communal banks, *i.e.*, societies instituted and backed by the communal organization of a village, are not uncommon in Europe. They are wholly different from the private Nidhis found in some Madras villages, but even in India some of the Kuttuchit associations have a village, though not communal, character.

The Alsatian law of 18th June 1887 will be found translated in an appendix.

AUSTRIA-HUNGARY.—In Austria proper the Popular banks have attained great success; in 1887, 1,195 were registered, of which 651 were of "limited" and 544 of "unlimited" liability; in 1890, there were 1,489, of which 720 were limited. The large number of "limited" banks is due to the fact that the law of 1873, though differing little from the German law of 1868, permits co-operative societies with a "limited" liability; evidently this provision is approved of in Austria. These had 513,756 members, which advanced during the year £25,061,000 with an own capital of £2,845,000, reserves of £1,108,000, and a borrowed capital in deposits, &c., of £22,408,800. The debts due to the banks at the end of 1887 were £14,598,000 in short-term paper, £340,000 in loans on pledge, and £7,936,600 in mortgages. It is probable that the figures as to capital, loans, &c., should be increased, as all banks did not send in detailed accounts of money matters. But it is clear that they are very successful. Details of working are not available, but seeing that the sums advanced during the year only equalled the capital and deposits, it is evident that the loans are not for three months only; the large amount in mortgages, a mode of advance scarcely used by the German banks of the strict system, also prove this. Evidently in transplanting the system, it has been adapted probably to rural requirements.

In Hungary there were, in 1887, 488 Popular banks, but the statistics are imperfect; in 1889 there were 576, of which 82 were of the Raiffeisen type. The deposits shown are far smaller than the own capital, and the loans outstanding only equal the amount of capital, exclusive of deposits. Most of the banks are believed to be "limited."

On the subject of the Austro-Hungarian societies, Mr. H. D. Wolff has more recent and fuller information. He states that in 1886 there was a good deal of discontent with some of the Schulze-Delitzsch societies, owing to poor administration, speculation, losses, high interest, &c., and that the Government therefore sent two experts to the Rhine expressly to study the practical merits of the Raiffeisen system. Their report was so laudatory that these societies were at once taken into both official and popular favour which is said to have endorsed the opinion that they form "the only (?) " means known calculated to satisfy personal credit in a manner which could be approved." Apparently this wide assertion refers only to credit for the peasantry. Backed by official and public favour, these societies are rapidly extending, and whereas in 1887 it was said that there were but few, there are now many; in Hungary they have, moreover, adopted the principle of liability "limited" to an amount which is usually a multiple—two, three or four times—of the share value; it appears that they are supported by a Central lending bank, about which no details are given. A point of interest, however, is that the provincial Government assists these societies in a small fashion, but one which proves sufficient,—“a grant of 250 florins (about £19) is made to each association newly formed to defray its first expenses —purchase of office furniture, a safe, books and so on. And in addition to this, a loan of 2,000 florins (about £150) is placed at the disposal of every association so formed, at the rate of 3 per cent. for not longer than two years, to provide it with the first working funds. That moderate advance appears to have been adequate, for the associations are everywhere showing signs of active life, multiplying and growing in strength.” This subvention starts the societies; once in motion the difficulty seems to be over.

RUSSIA.—It is instructive to note the development of agricultural credit in a country less advanced than Germany. The following sketch is extracted, with a few additional facts and remarks, from Report No. 83 of the Department of Agriculture of the United States, which is chiefly taken from one of the few available detailed papers* on the subject:—

“There is in Russia a form of co-operation which has apparently proved well adapted to the needs of the smaller class of cultivating land-owners and the more thrifty agricultural laborers of that country, namely the Co-operative banks modelled in great part after the German institutions known as the People’s banks (Loan and Credit associations), which owed their origin to Schulze-Delitzsch. The emancipation of the serfs and the measures adopted by the Russian Government to promote their subsequent acquisition of land, created a large body of small agriculturists having an insufficient amount of capital for the advantageous cultivation of the land obtained by them and for which they were gradually paying, partly out of its produce and partly out of their earnings by their labour for larger proprietors. In the case of loans on personal security the rates of interest exacted by the village usurers ran as high as 60 to 100 per cent. per annum, and there was consequently a great need for institutions which, in cases where money was temporarily required for productive uses, or to tide over exceptional difficulties, could supply it to trustworthy persons upon reasonable terms; and as co-operation in certain primitive forms had already existed for centuries in Russia and had demonstrated the existence of the spirit of association in that country among both the peasants and the laborers of the towns and cities, it is not surprising that relief should have been sought in this direction.

“The introduction of the system of co-operative banking was primarily due to a young proprietor of the province of Kostroma, Mr. Sviatoslaw Louguinine, who visited Berlin in order to study with Schulze-Delitzsch the workings of the system established in Germany under the guidance of that enlightened philanthropist, and on returning to his estate resolved to start an institution upon the same general plan, with such modifications as were suggested by difference in the local circumstances. Organizing a society, consisting at the outset of 21 members, including the priests of the churches at the village of Ragestwenskoe, the employes connected with the management of his own estate, and a few of the better class of peasants, he lent it the small sum of 1,000 rubles † with which to make a beginning. This was in 1864. But as co-operative banking was then an entirely new thing in Russia, it was necessary to send the rules and regulations of this society to the Imperial Council at St. Petersburg, and so long a time elapsed before the necessary approval was received that the bank did not begin operations until July, 1866. By this time its founder was dead, but the necessary direction for the new institution was not wanting. It remained for five years under the control of the men who had advanced it the capital for its initial operations, this control being gradually withdrawn as the members of the society became familiar with the mechanism and working of the bank. In 1886, 20 years after it began business, the society had 300 members and its transactions amounted to about \$20,000 a year, which, considering that this bank was located in an isolated community, chiefly composed of wood-choppers, was a considerable sum. In 1868 the operations of this society began to attract attention. In 1869 several similar institutions were established in the government of Novgorod through the aid of funds voted for the purpose by the zemstvo of that government.

“In 1871 the Agricultural Society of Moscow appointed a committee to prepare rules and regulations which might serve as a general model for Co-operative banks, and the following year measures were adopted at St. Petersburg to promote the organization of these institutions, the Ministry of Finance authorizing the Imperial Bank to open a credit with them and contributing 5,000 rubles to aid in extending the movement. As regards the credit opened by the Imperial Bank, it was, for some reason, not taken advantage of to the extent expected. From the beginning of 1875 to 1880, 202 associations borrowed from the bank and its branches 5,014,000 rubles, of which 4,532,000 had been repaid in 1880, and nearly 500,000 remained due, this indebtedness being distributed among 127 institutions.

“As members of a committee appointed for the purpose, Messrs. Hitrovo and Von der Flith devised a very simple and practical method of book-keeping, which served as a guide for all of the Co-operative banks. This committee became the medium of communication between the banks and

* Les Artéles et le mouvement co-operatif en Russie, par M. Longouine.

† The value of the ruble varies with the price of silver. On April 1, 1891, it was valued at 58·8 cents.

“the Ministry of Finance at St. Petersburg, its members occasionally visiting local institutions to give necessary explanations and correct errors or misunderstandings. By 1864 the rules and regulations of 1,325 Co-operative banks had received the sanction of the Imperial Government. Of this number, 727 had presented annual reports to the Central committee, and from these reports it appeared that 5,626,000 rubles had been paid in by the members; that there was a reserve capital of 620,000 rubles; that the deposits and sums borrowed amounted together to 7,300,000 rubles; and that the loans to members during the same year amounted to more than 22,000,000 rubles. As a rule the sums lent to members have been repaid punctually, but in cases where the borrowers refused to pay, the banks had no recourse but to appeal to the local communal authorities, which sometimes failed to enforce their claims. The example of successful repudiation on the part of one debtor has sometimes proved contagious, producing an epidemic of dishonesty, but on the whole the losses have been very small. The results shown by the annual report for one year are cited as a fair example of the general experience. This report showed that only one loan in fourteen was left unpaid at maturity; that of the total amount loaned only 1 ruble in 6,000 was paid by indorsers; that 1 ruble out of every 1,800 was obtained by sale of the debtor's goods; and that only 1 ruble in 2,300 was lost. So also has it been as between the associations themselves and their creditors. As regards the loans which they obtained from the Imperial Bank, it is stated, as the result of a pretty extended experience, that out of every 100 rubles borrowed by the associations, the amount not paid when due was about 2 rubles, and the amount finally lost not more than 60 kopecks, or six-tenths of a ruble; and as the loans were made at 7 per cent. there remained an interest of 6.4 per cent. after deducting losses. It appears, too, that private lenders have had a like favourable experience in their dealings with these institutions, and it is said that they regard them with steadily increasing confidence—a fact which must result to their advantage in the form of decreasing rates of interest. It is worthy of especial note, too, that while the banks began almost exclusively with money advanced by the provincial authorities, their operations are now mainly carried on by money obtained from private lenders, coupled, of course, with their own capital, composed of the payments from their members.

“The total amount loaned by the banks to their members during the decade from 1871 to 1880, inclusive, is stated at about 80,000,000 rubles, or, say, about \$36,000,000. For this sum they received about 3,000,000 rubles, say \$1,800,000, in interest, of which about one-third was returned to the members in the form of profits, the net interest payments being estimated at about 4 per cent. Mr. Hitrovo, after a careful consideration of the facts, reaches the conclusion that banks actually benefited their members during the decade in question to the amount of 22,000,000 rubles, or over \$13,000,000, this having been mainly done by saving them from the necessity of borrowing from the usurers or selling their products at a disadvantage, furnishing them the means of getting on their feet again after unforeseen accidents or losses, and enabling them to improve their industrial processes and methods.

“As an indication that these banks possess the inherent vitality necessary to a permanent existence, Mr. Louguinine points out that they have existed since the year 1866, that their number is still increasing, and that they show no signs of approaching dissolution. A special study of the reports of 515 banks yielded him the following result: 12 per cent. of the total number were declining; 27 per cent. had passed through the vicissitudes of alternate progress and retrogression, while 61 per cent. showed a constant and regular advance. Mr. Louguinine remarks that of all forms of co-operation that of co-operative banking is the one which makes the smallest demands on the time and attention of the co-operators. Aside from convening once a year in general meeting to hear the annual reports and elect officers, the majority of the associations leave the entire business in the hands of the directors. This is, no doubt, a prominent element in such success as they have achieved, since co-operators, whose total interests are very small, cannot be expected to devote a great deal of time to looking after them.

“As a general result of his study of the Co-operative banks, Mr. Louguinine gives it as his conclusion that the less such institutions rely upon outside aid the better is their chance of success.

“The leading features common to the Co-operative Banking associations may be stated as follows:—

- “(1) Their object is to collect the savings of the peasants and make loans to their members.
- “(2) The great majority of them operate among the rural population.
- “(3) The number of members is not limited.
- “(4) New members are admitted by vote of the association in general meeting.
- “(5) Members have the right to leave the association at will upon announcing their withdrawal.
- “(6) A member failing to make his annual payment within the prescribed time or to pay a sum borrowed when due is excluded from the association.
- “(7) The shares of all the members are equal and do not generally exceed 100 rubles (say \$60).
- “(8) The contributions of members on account of their shares of stock are usually 3 rubles a year, payable either at once or in monthly instalments.
- “(9) A member leaving the association, or excluded from it, cannot withdraw his share of the capital stock until after the expiration of one year.
- “(10) The shares are not transferable.
- “(11) A portion of the profits, not less than 10 per cent., is retained and invested in interest-bearing Government securities to form a reserve fund, which, however, is not to exceed one-third of the amounts contributed by the members.
- “(12) In case of the winding up of a bank, this reserve is to be devoted to the purpose of public instruction.
- “(13) The banks receive deposits of money both from their members and from other persons.
- “(14) The obligations incurred by an association may not exceed ten times the combined amount of its share and reserve capital.
- “(15) The engagements entered into by an association are guaranteed by the annual profits, the reserve fund, the payments of members on account of their shares, and also by the property of the members, who are liable as partners.

- "(16) The banks lend money only to their members. The maximum amount which a member may borrow is one and one-half time the final amount of his share.
- "(17) Loans are made for periods of nine months, with the privilege of three months' extension (*avec 3 mois complémentaires*).
- "(18) Members obtaining loans are indorsed by other members.
- "(19) Each member may offer himself as an indorser to an amount equal to one-half of his contribution, and this does not diminish the sum which he has the right to borrow.
- "(20) The yearly profits, after deducting the expenses of management and the amount required for the reserve fund, are distributed among the members *pro rata* on the basis of their paid-up capital.
- "(21) The business of the bank is carried on by a board of three directors, subject to the control of a council of revision, which meets monthly, and of a general meeting of the members, which usually occurs once a year. The directors and the members of the council of revision are usually elected to serve for three years."

Since 1880 there has been a slight decrease in the number of these banks and of their members. They are each of small size: in 1880, out of 720 only 8 had £3,000 in capital, 146 from £1,000 to £3,000, 451 from £100 to £1,000, 111 from £10 to £100. In 1888 the average per bank was about £1,150. Ninety per cent. of the members are in a humble position, and the average loan is said to be only 57 currency rubles or about £6 at present values. The total loans granted in 1888 were not quite £2,600,000 amongst 197,447 members. It seems clear also that since only $\frac{1}{10}$ of the sums lent were recovered by sale of the defaulters' property, the loans were not borrowed for mere unproductive expenditure. Moreover in places where they are well established, as many as one-third of the peasants are said to have joined. In 1888 720 banks had 197,447 members or 274 each, whereas Germany has 512, Austria 429, and Italy 590 per bank. On the other hand, these Russian societies are far stronger individually than the Raiffeisen societies which only average about 100 per society; both are rural, so that the Russian societies are by no means weak.

Of the two types of banks, *i.e.*, those under State patronage and those independent of it, the former are said to receive subventions from the Government, whether central, provincial or communal; such are also more or less under official control.

Mr. H. D. Wolff considers that the movement has made little way except among the Germans of the Baltic Provinces, and that it is checked by Government interference and restrictions, though that interference is with the best intentions; less than 800 survive out of 1,483 originally formed, though the movement is encouraged by Government, by nobles, and by the provincial authorities and though Russia is pre-eminently a land of co-operations (*see 'Les Artèles, &c.'*, which gives an account of Russian industrial co-operation; the villages (*Mirs*) are also communities with considerable corporate life and potential co-operative capacity). The nature of the interference, however, is not very clear, nor is any objectionable instance given save one, *viz.*, that the Government forbids associations to expel members; this is obviously ill-advised, as it is impossible to enforce discipline and punctuality. The real difficulty seems to be in the characteristics of the peasantry who are said to take advantage of the beneficent provision of the civil law which protects their principal items of property from being taken in satisfaction of debt, and to evade payment. But from the quotation already made from '*Les Artèles, &c.*' it would seem that the peasants are by no means unpunctual as a rule, and that the banks do not lose appreciably by them. So far as the information goes no case is made out against Government intervention as a cause of decadence in the societies.

Mr. Lougounine in his pamphlet (1886) states that there is a certain amount of decadence due to several causes: (1) that they were received over-enthusiastically with exaggerated ideas and hopes as a universal panacea, which was of course an error, since credit can only help social evils up to a certain point; (2) that some of the banks were badly conducted and caused abuses and disorders; (3) that the banks have a weak point, *viz.*, that if a member fails to pay, the society "has no resource but to address the administration of the commune, which frequently fails to help it"; the bad example of one defaulter generally spreads like an epidemic and may easily ruin a society (*cf. Madras experience, see 'Madras Nidhis'*). M. Lougounine goes on to show that out of the 959 banks in 1881, 588 were probably certain to prosper, 253 were doubtful, and 118 were certain to fail; as in 1890 at least 728 were certainly in existence and sent in returns, the decadence seems to have stopped about the point suggested by M. Lougounine, not more than 231 having perished since 1881. Probably in the first enthusiasm a large number were planted on unprepared ground and withered away when artificial protection was withdrawn; the better established ones are probably flourishing, and it is noteworthy that, whereas 1,000 banks in 1883 possessed 207,259 members, or 207 each, in 1890, 699 banks had 200,950, or 287 apiece.

It must also be noticed that, by others, decadence is not only not admitted, but a good account is given of the Russian Popular banks. M. Fournier de Flaix, in a communication to the Fourth Congress of French Popular Banks in 1892, states that the number which had obtained approval of their statutes was, in 1885, 1,325, of which 727 had sent in their returns, and that though subsequent progress was less rapid, yet that, in 1889, 1,477 Popular banks were reported as *in existence*, of which 714 had sent in returns. He states also that the Government did not favour these banks, preferring the Savings banks, by the deposits in which they are benefited, and the management of which they are better able to supervise.

Business done seems small when compared with the Schulze-Delitzsch societies in Germany, *viz.*, less than £2,000,000 in loans by 728 societies, but as the clientèle is chiefly peasant, the business should rather be compared with that of the Raiffeisen societies; moreover the loans are for nine months with a prolongation and not for three months with prolongations; further, though the loans in 1890 were only for about £2,000,000, the annual average during the decade ending in 1880 was only about £750,000 showing a great increase of present operations.

These matters are of importance, for, if banks of this class can succeed in Russia, it is certain that they have a far better chance in this country.

SWITZERLAND.—As stated *supra* Land Banks, it is the immense number of petty Joint Stock banks—about 900 in all—many with a capital of less than £400, that largely supply the Swiss peasant and artisan with personal credit. These differ in no way except in size from the larger banks, but by their proximity to the people, situated at their very doors, they are able to grant fairly cheap and useful credit. Many of these are called Savings banks, but are only so named because they receive, as deposits, the savings of all classes; they are really banks drawing in all sorts of deposits and lending them out in all classes of operation. By these means, coupled with the aid of other special banks, the peasant of Switzerland enjoys almost too much credit, and the new institutions—Raiffeisen system—are specially intended to control the grant of credit and bring about a wise and productive use of it. The above small Joint Stock or Savings banks are here mentioned to show that it is not needful to have great banks with large capital, but that village banks with petty capital can succeed both in giving credit, in making profit, and in ousting the money-lenders who, in the words of the Swiss Home Department, in Commercial No. 9 of 1891, “are no longer of any importance as lending agents.” In fact it would seem that agricultural credit—and even Real credit—can only be brought down to the peasant either by individual money-lenders or by small banks; there is in the whole of Continental Europe no large Central or even Provincial bank that deals really with the peasant, or touches more than the outer fringe of his needs. It is the small banks alone which gather together *in situ* the local hoards or savings and redistribute these dribbles locally in small rills of fertilizing credit. On the one hand, the peasant need hardly, if at all, leave his village to obtain a loan; on the other the bank knows him personally or can easily ascertain his status and character. That is precisely the contrary with a large bank, which, situated far from the peasant, neither knows nor is known by him.

The ‘Savings Bank’ of Moutiers has a capital of £800 in 100 shares. Recently it held deposits of £84,600 or above one hundred times its share capital. It lent these funds in ordinary mortgages to one-half of the value of the property, on mortgages with two sureties to four-fifths of the value, on bonds with sureties up to £40 for six months with prolongations, at 5 per cent. interest, and on cash credits covered by mortgages. Its mortgages in 1887 amounted to £40,000.

The ‘Savings Bank’ of Ardesheim is a similar foundation, founded in 1876 with a capital of £2,400, now £6,000; it also obtains funds by the issue of debentures; these are (1) for £12, and upwards if desired, repayable at three months and bearing 4½ per cent. interest; (2) for £40 or upwards, at 4½ per cent. interest repayable at the end of three years. Both classes are negotiable being payable to bearer. In December 1888, it had funds in capital and reserve of £6,480, it had borrowed £13,840, and had deposits of £11,800. It grants all classes of loans, but notably on mortgages and on simple bonds with one or two sureties for a term of one year, with prolongation for another year; these appear eminently suited to many agricultural needs. In 1888 it had mortgages for £13,440 in 331 loans averaging £40 each, so that there must have been many below that sum. It had also lent £12,040 on simple bonds with generally one surety, cash credits for £1,200 upon the security of mortgages or personal “cautioners,” and had discounted bills for £3,240. Obviously this so-called Savings bank was just a small country bank engaging in all classes of ordinary banking operations.

It seems clear from these and other examples that small Savings banks, though receiving deposits payable at call or at not more than a few days’ sight, can grant even long-term credit without danger and with profit.

There are, to some extent, co-operative credit societies; they are not specially agricultural and need little remark, except that in some cases they grant loans to members, who must be shareholders, up to twice the amount of their share-payments, without any guarantee but their sole signature: in such cases, there is—as in the land banks—an examination every six months, of the solvency of all shareholders.

The ‘Swiss Popular-Bank’ (Schweizerische Volksbank) of Berne—not the State bank of that city—is a remarkable institution of *quasi* co-operative credit; each member is bound to subscribe one share now amounting to £40; this is payable by monthly instalments of one franc. In case of need, *e.g.*, serious losses or liquidation, each member is bound to pay *in addition* an amount equal, not to the nominal amount of his share, but to the paid-up amount; it is argued that this arrangement is just to the poorer or recently joined members. It does business with outsiders as well as with members, but accords the latter favourable rates of interest on deposits and on loans. It started in 1869 with 63 members and £106 capital; in 1889 it had 5,297 members with a large paid-up capital, savings deposits from members of £88,656, from non-members £279,496 and ordinary deposits of £179,332; out of the 5,297 members only 279 were agriculturists. These are M. Durand’s figures, but Mr. Wolff’s for 1891 show an immense increase in capital and members; agriculture is, however, but slightly represented. An important mode of raising funds is the bank’s bonds (Kassenscheine), which are long-term bonds running for two years at 3½ or 3¾ per cent., or for five years at 4 per cent., and requiring from the holder three months’ notice of redemption immediately preceding the expiry of the bond, failing which the bond runs for a further term of the same period as the original. There were bonds of this sort out at the end of 1892 for nearly £480,000 (Wolff).

This method of raising money would enable the bank to grant long-term loans, and would therefore be highly useful if the bank had an agricultural clientèle: it prefers, however, short-term loans, seldom extending beyond a year with three renewals. The bank is more an ordinary Joint Stock bank in its methods and principles; it is merely co-operative in the technical European sense, in that it allows withdrawals at pleasure and has therefore a variable capital.

There is little real co-operative money credit in Switzerland, though numerous share organizations of the ordinary joint stock type (*sociétés anonymes par actions*).

The only other institutions requiring notice are the societies in Canton Thurgau for the supply of cattle, the breeding of which is the chief industry of the Canton. A common form of usury in Europe is in the supply of cattle on credit; and it will be remembered that Raiffeisen’s first venture was a society to free the peasantry from the usury practised by cattle-dealers; similarly, in 1851 the Canton

passed a law authorizing the opening of communal offices to assist the peasants to obtain cattle without risk by cash payments. The office is formed by the decision of the villagers assembled *en masse*, who elect a committee with a paid manager; funds are provided by loans guaranteed by the commune, the inhabitants of which are all jointly responsible. A borrower should either give sureties, or else the cattle which he buys with the loan—which must not exceed £12 per head of cattle purchased—are held pledged for the amount; in any case if the cattle are sold by the borrower, or if he is found purchasing goods on credit, the loan may instantly be recovered and the seller may be penally prosecuted; the communal authorities exercise a very strict control over the due utilization of the loans. The contract must be in writing with all terms entered and a full description of the cattle bought; it is registered with the local magistrate (village Juge de Paix), who is entitled to a fee of *5d.* (say 4 annas); only on registration does the contract come into force. These offices are found so useful that the local Government grants a credit of £60 annually, from which a sum varying from £1-4-2 to £2-8-4 is contributed towards the reserve fund of each commune where an approved loan society has been established. In return for these grants the commune must annually submit the books of the loan society for examination by the authorities. The grants are, it will be seen, very small, but are annual and go to the reserve, and seem sufficient as stamping the societies with the approval of Government; they are made from the proceeds of fees levied on certificates required to be held by peasants as to the health of their cattle. The remainder of the reserve must be constituted from profits.

In 1889 there were 35 in operation in 35 communes with a total population of 22,230, of which 16 were very small, having less than 400 inhabitants. They had outstanding advances of £16,635, and had advanced £4,478 during the year; the loans are small and are repayable by small instalments over a long period. Many of the offices have accumulated a considerable reserve, almost equal in some cases to the amount annually lent.

It is stated that the own capital, apparently shares and reserve of the 35 societies, was, in 1889, about £4,360 and their borrowed funds £13,432.

The peculiarity of the law is that it admits the pledge of goods without their delivery to the pledgee; the cattle are pledged to the society (or commune) which has lent the money for their purchase. This is contrary to the general law of pledge, but a similar practice was found in Ireland where a plough, &c., bought with the proceeds of a loan from a loan society was marked with a special stamp by the society, whose property, it remained till the loan was cleared off. The Swiss Federal Code makes a special exception in the case of cattle. The difficulty in the way of allowing pledge without delivery is, of course, that, without a system of registration, movables might be pledged two or three times over, and registration is difficult and expensive. In Switzerland the exemption from the general law requires such entry on the public registers of the local Juge de Paix. As this officer is local, the registration can be effected without trouble or expense. (*See* chapter on 'Law,' *s.v.* 'Bills of sale.')

In India where, especially in the Ceded Districts, cattle are supplied on credit by breeders, such as the Nellore Reddis, such institutions would be most useful; in the Ceded Districts young cattle are sold at very high prices on the three years' credit system; each year an instalment is demanded; the ryot is seldom ready and the creditor sends man after man who, by custom, must be maintained by the debtor till the latter, in despair, runs to the local money-lender and gets, also on high terms, an advance to pay off his instalment. Hence this vicious system involves doubly high rates and doubly quick ruin, *viz.*, heavy credit prices paid for by usurious advances. Of this, more hereafter.

ITALY - History.—The Popular banks and loan societies of Italy, though based on the same lines as, and in fact adopted from, the Schulze-Delitzsch and Raiffeisen institutions of Germany, demand detailed treatment from their success in an environment apparently unsuited to them. A country degenerated from its former greatness, dominated till of late by a foreign power, only recently united under one sovereign, poor yet burdened with taxation of the gravest character and a general conscription, with a rural population uneducated, suspicious, poor, highly conservative, and wholly unaccustomed to concerted action, except within their village limits, largely agricultural, and in immense numbers mere tenants or labourers, or at best metayers, absolutely ignorant of banking, and usury-ridden to a degree seldom approached; such, in many parts of Italy, were some of the conditions which, to theory, make popular and agricultural credit impossible. A few men, however, of whom two were in the earliest manhood, made an accomplished fact of a seeming impossibility, once more proving that all great enterprises are "impossible" at first. Signor Francesco Vignani by his writings and action did much to popularize a knowledge of popular thrift and credit. Signor Luzzatti, a young Professor of Political Economy, fired with the ideas of Schulze-Delitzsch as expounded in his famous movement, himself wrote a work, now classical, on 'Popular Banks and the diffusion of credit' and, at 23 years of age, founded in 1865 the Popular Bank of Milan, an undertaking which began with only £28, Luzzatti himself being, as he says, the "millionaire" shareholder with a subscription of £4; this bank has now 16,000 members, a capital of £330,000, a reserve of £165,000, deposits of £2,192,000 and a business (*mouvement de Caisse*) which, in 1890, was nearly £72,000,000. But this was merely his first essay; thenceforward, like his prototype Schulze-Delitzsch, he apostolized the movement, lectured, wrote, energized and inspired the development everywhere, so that in 1887 there were 641 Popular banks, of which the statistics for 541 were: members 318,979, paid-up capital £328,000, reserve £843,000, borrowed capital (deposits, &c.) £17,109,000, loans and discounts £57,308,600. Even in the south of Italy, where the population is the most isolated, ignorant, suspicious and averse to change, the movement had largely spread, and above 300 banks had been started in that region. But besides these Popular banks on the Schulze-Delitzsch system, there are now others on the Raiffeisen system. Signor L. Wollemborg, struck with the adaptation of the Raiffeisen loan societies to small agricultural needs, started similar institutions in the north of Italy, beginning, as in the case of all these reformers, with his own village—Loreggia—where, in 1883, being then only 24 years old, he drew together his first society; this gentleman, as devoted, eloquent and self-denying as Signor Luzzatti, has now founded directly or indirectly 64 societies, all of which are flourishing. Here, then, is the case of a country in which an idea wholly foreign to its people, *viz.*, that of *mutua co-operative action* as a

foundation for credit, was introduced *ad extra*, implanted and tended by the efforts of a few private individuals, till it is now a rooted and growing institution. All that has been accomplished is the result of private initiative by half a dozen devoted men, and of mutual co-operation in the localization or decentralization of credit; the State did nothing in their favour till quite recently; the institutions, as in all other European countries, were for many years outside the pale of the law; only after 1882 were they recognized and brought under the Code of Commerce: they have never been granted a single privilege, except in liberating them from the stamp duty payable on their memoranda of association and on their reception and dismissal of members; on the contrary, they bear, in common with all other institutions, very heavy taxes amounting, exclusive of stamp duties falling on clients, to at least 13 per cent. of their gross profits, and to about half the total cost of their administration. It is to the sagacity, energy, devotion and courage of a few men, especially those named, that the whole of the success is due, added, of course, to the intelligence shown by the people—not the mass but the village leaders—in adopting the new idea. “The great development of these banks in Southern Italy where agriculture forms almost the sole livelihood of the vast mass of the population, and where, owing to ages of ignorance and misgovernment, the means of obtaining credit were in a most primitive state, and usury reigned supreme, is deserving of special notice.” (Commercial No. 42 of 1887.) This result is certainly due, at least in part, to the fostering and protective action of the Bank of Naples and Sicily; see *infra sub voce Monte de Piété (Italy)*.*

The methods of these banks and societies are so similar to those of their German prototypes that no detailed analysis will be made of their organization; a brief analysis from an English Parliamentary paper will be given, the points of difference noted, some further and more recent details supplied, and the history, working and results of a few specific institutions will then be given; the Popular banks will first be dealt with, and then the Wollemborg societies or Casse Rurali. ✓

POPULAR BANKS (LUZZATTI).—*Objects and Character*.—The following extract from No. ⁴²₁₈₈₇ of the Foreign office reports explains the objects and character of these banks:—

“Like the Credit Unions founded in Germany by Schulze, the Italian Co-operative People’s banks are simply associations, by means of which artisans, peasants, small tradesmen, and, in fact, all classes of persons who, though honest and intelligent, could not otherwise obtain credit without submitting to every form of usury, combine to establish a local self-governing institution of credit to meet their requirements.

“They are based upon the principle of self-help, and aim at developing habits of prudence and thrift in their members, by providing them with a profitable means of investment for their savings; while they seek to put down usury by the facilities which they afford for obtaining loans and advances of money at a reasonable rate of interest.

“The members being at once the proprietors of the bank and its clients have a direct interest in its making a profit, and a sufficient inducement to keep the rate of interest charged on loans and advances within proper limits.

“The pecuniary interest of each member in the association, through the shares subscribed by him and his contribution to the reserve fund, offers a *material* guarantee for the punctual repayment of his debts to the bank, and a *moral* guarantee is created by the restrictions imposed upon the admission of new members, and the sale or transfer of shares, which must be submitted to the board of directors for approval.

“In connection with this subject, Signor Luzzatti observes that ‘in an ordinary joint stock company the member’s money is the main object considered, but in a co-operative credit association the person of the shareholder is of much greater importance than the share itself, since in the latter society the moral worth of the persons who compose it, united as they are for the purpose of obtaining, by means of co-operation, the credit which they would not find in other institutions, supplements and completes the material worth of the shares, which are accumulated gradually, and even in some cases by weekly instalments of a few centimes.’

“In order to secure the efficiency of such a moral guarantee, it is most desirable that the members of the association should be well known to each other, especially during the early period of its existence, and that the bank authorities should maintain a strict supervision over the granting of loans and advances.

“The area in which the operations of the bank are carried on must therefore not be too extensive, so that its members may have frequent opportunities of intercourse with it and with one another, and be able to take an active part in its management without personal inconvenience, and Signor Luzzatti accordingly recommends the conversion of branches of existing banks into independent institutions, whenever their condition is sufficiently flourishing to justify such a course, as well as the foundation, in large centres of population, of small independent banks, side by side with those already established.”

The banks are strictly business concerns and will have nothing to do either with benevolent grants or with benevolent loans, *except* as regards the “loans upon honour” which are sometimes granted from a small special fund and will be described below. Moreover, in the interests of the bank, but more specially in those of its clients, no loan is granted that is not for a distinctly productive purpose, using the word “productive” in a large sense so as to include loans serving all useful purposes, such as the extinction of usurious debts, the rehabilitation of a family or its house, &c. And while Luzzatti recognizes that money is frequently required for unproductive needs, he considers that the

* It should be noted here that in Italy, as in France, the early ideas of agricultural credit were that it should be land mortgage credit (le crédit foncier, hypothécaire); whereas, in fact, such credit should ordinarily be reserved for long-term loans, usually for productive improvements; it is the circulating or floating capital which the country most requires for the vivification of its agriculture and its relief of the peasantry from stifling usury. Hence it is that the Popular banks, ministering to these latter needs, received no Government aid or notice till they became accomplished and successful facts. In India it seems probable that similar ideas prevail.

two purposes should be carefully kept apart and that, while the Popular banks should lend themselves to production, provident societies (*sociétés de secours mutuel*) should supply other needs.

The popularizing of credit being a chief object, and not large profits, small loans have the preference over large ones. And in order to retain the popular and mutual character of the banks, the Commercial Code of 1882 limits the capital to be invested by any single member to £200, to be held in shares each not exceeding £4 in value; shares cannot be transferred without the consent of the society. The law also limits a member to one vote however many shares he may hold, forbids proxies except in special cases, and in other ways endeavours to prevent the tendency to convert mutual societies into mere joint stock companies of capitalists. It should be noticed in fact that the tendency to work for dividends is fatal to the true efficiency of banks as popular credit institutions, and Luzzatti considers that a maximum limit to dividends should now be fixed in order to retain the original objects of the banks.

Origin.—Many have been started under the auspices of co-operative or philanthropic institutions, such as benefit societies; these would grant small loans to members; gradually as the operations grow more numerous, a separate branch would be formed, and this would finally assume independence. Several of this class are mentioned by M. Léon Say in his well known 'Dix jours dans la Haute Italie.' In many cases however, they are due—as in the first instance—to private initiative; one is mentioned in which three young men united in 1873 with a capital of £36; in 1885 it had a paid-up capital of £13,240 with £3,310 as reserve, and assets in the way of loans of £54,421. Fifty or sixty members with a capital of £300 to £400 are considered quite sufficient to make a start. Readers will remember the numerous Joint Stock banks of Switzerland with a capital of below £400.

Many again have been started as branches or even agencies of existing banks. It is a notable feature of Italian popular banking that the assumption of independence is favoured by the mother bank; branches in fact are apt to be expensive, and M. Léon Say notes that the then branches of the Cremona bank, though established some years, never paid their way. Cheap, if not, gratuitous administration is the secret of these banks, and agencies require payment; it is cheaper to excite local enterprise and independence, and thus attain a useful object and avoid a compromising loss. But in many cases, it is the increase of local spirit and of local business that leads to independence. It is the local spirit that is fostered in Italy, where autonomous local banks are preferred to branches or agencies of a central institution.

In all cases, however, success has always attended those who were content to begin in a small way and work up thence to larger operations. No centralized effort has succeeded in the case of a great institution starting with large capital to provide credit for great areas; many institutions are now large, but they have grown from very small local beginnings; as these develop, they may throw out branches and these in turn take root and live an independent life.

Principles and Methods.—The main difference between the German and Italian societies lies in the degree of responsibility of their members. The German *Landschaften*, established in the latter part of the eighteenth century upon a royal or rather autocratic decree, enforcing unlimited liability of the widest character, familiarized the Germans with the idea and practice of unlimited liability, even though the *Landschaften* dealt at first only with "noble" estates and have never reached the "small folk" to this day. Hence, at all events in towns and chief centres, they were prepared to accept the principle if carefully put in action, and Schulze-Delitzsch had little difficulty with his urban banks. Raiffeisen, it is true, had a much harder task in rural tracts, and was only successful after much toil, for peasants are always suspicious and probably knew nothing about the *Landschaften* and their principles. But in Italy, even the middle classes, at least outside of the towns, were to a great extent unprovided with banking facilities and were wholly unacquainted with the principle of unlimited liability, while the poorer were so unaccustomed to concerted action, to habits of business, and to mutual confidence, that without the initiative of educated men of a somewhat superior status, they would never have formed such associations; on the other hand, men of the better class would not have joined if their responsibility had been unlimited. Hence to induce both the superior and the industrial classes to join, the principle of limited liability has been adopted universally for the Italian Popular banks. At the same time, since the success of mutual credit societies largely depends on the character of its members, strict regulations are provided for the admission of members, so that the societies may, as much as possible, realize the "Capitalization of honesty," and attract capital not merely by their material, but by their moral guarantees. The result has been (1) a ready accession of all classes to the banks, (2) a free influx of cheap capital, so that the banks have developed with marvellous success considering their environment and novelty.

The general methods of the banks are sufficiently indicated in the following abstract from Parliamentary Paper, Commercial No. ²⁹/₁₈₈₆ :—

"The capital of a Co-operative bank consists of—

- "The *entrance fees* paid by members,
- "The *shares* subscribed by them,
- "The *reserve fund*,

"and any other sums set apart for special purposes.

"In order to be able to extend its operations, the bank may either contract loans—a method largely pursued in Germany—or receive sums on deposit at interest (the more usual course in the Italian banks) in the form of savings or of accounts current.

"A portion of the net annual profits, varying from 5 per cent. to 30 per cent., is set aside to form a reserve fund. Signor Luzzatti, in his report, expresses great satisfaction at the proportion (one-third) already reached between this fund and the paid-up capital of the banks, but he urges them not to rest until the reserve shall be at least one-half of the paid-up capital, and to invest it in Government funds, mortgages on land, and such other securities as can be safely and speedily converted into ready money in the event of a crisis.

“ The sum set apart for special purposes are placed at the disposal of the administrative board (or directors) for such objects as gratuities to employes, loans on trust (“*prestiti d' onore*”), and contributions to charitable, educational, or provident foundations.

“ Besides the usual organs common to co-operative societies in general, such as—

- “ The *general assembly* of members (one-fifth of whom form a quorum),
- “ The *Board of Administration, or directors*,
- “ The *Committee of Control, or auditors* (“*sindaci*”),
- “ The *arbitrators* (“*probi viri*”),

“ and the *business manager and clerks*; the people's banks also possess a so-called ‘*Discount Committee*’ (“*Comitato di Sconto*”), composed of the directors and other competent members, whose duties are—

“ 1st. To examine all applications for credit; and

“ 2nd. To fix the maximum of credit, within the general limits fixed by the regulations of the bank, to be allowed to each member.

“ A special register (called ‘*Castelletto*’) is kept, containing the names of all members, and the amount of credit to which they are respectively entitled. This should be subjected to frequent revisions, *e.g.*, at intervals of six months, so as to protect the society against all possible risks.

“ Objections have been raised against this system, but Signor Luzzatti and the general association of people's banks have given it their support, as affording a great safeguard against possible bad faith or carelessness on the part of their servants.

“ In his last report, Signor Luzzatti warmly recommends that the services of the board of directors, controllers, and committee of discount should be rendered gratuitously, and this has, in many instances, been carried out with success.

“ He also advises that the example of those banks in which the directors, &c., abstain from making use of the facilities of credit afforded by the institution in which they hold office, and of those in which the amount of credit given to any member is definitely fixed, should be more generally followed.

“ The operations undertaken by People's banks are the following—

“ (a) Granting of loans and discounting of bills of exchange, warrants, specifications of work undertaken, statements of account for goods (“*fatture*”), orders of public departments, treasury, provincial, or municipal bonds.

“ (b) Granting loans on trust (“*prestiti sull' onore*”).

“ (c) Operations of credit in behalf of agriculture.

“ (d) Granting pecuniary aid on the security of public stocks.

“ (e) Opening accounts current upon the guarantee of two or more persons in good standing.

“ (f) Receiving deposits in cash.

“ (g) “*Servizio di Cassa*,” *i.e.*, undertaking collections and payments, and issuing cheques and receiving bills of exchange for collection, in behalf of members or third parties.

“ (h) Receiving valuables on deposit for safe-keeping, or bonds, &c., for collection of interest due on them.

“ (i) Undertaking, *free of charge*, the management of the capital of other co-operative or friendly societies.

“ Transactions under the heads (a), (c), and (e) can only be undertaken in behalf of members.

“ The preference is given to such loans, discounts, transactions of credit to agriculture, or advances as involve the smallest sums, and in cases where the bank cannot accede to all the applications made to it, the oldest members, or those who also possess an interest in other co-operative or friendly societies and are not indebted, shall have the preference.

“ No operations of a speculative character can be undertaken, nor can sums received on deposit be employed in operations extending over a prolonged period, or in the purchase of real property, except for the purpose of recovering amounts due, or for the site of offices, &c.

“ (a) As regards loans and discounts, in order to be entitled to apply for such facilities a member must—

“ 1. Have paid up at least half the amount of one share.

“ 2. Not be actually in debt either to the bank or to his sureties on account of any previous loan obtained from the bank.

“ 3. He must furnish, according to circumstances, moral or material guarantees for the strict fulfilment of his obligations.

“ No member can obtain a loan for any sum exceeding twice the amount paid up on his shares. (A definite amount is also generally specified as a limit.)

“ The amount of the loans referred to above must be stated in the form of a bill of exchange, payable at the expiration of six months, which may, however, be extended four months upon the punctual repayment of one-quarter at least of the original sum.

“ Bills of exchange presented for discount must bear two signatures at least of persons well known and in good standing. (The signature of the person presenting the bill may count as one of them.) The bills must be payable not later than six months from the date of presentation.

“ In the case of warrants, the goods deposited may take the place of the second signature.

“ Specifications of work undertaken (“*note di lavoro*”) and statements of account (“*fatture*”) must be approved by the person liable for payment, and bear his promise not to pay except to the bank.

“ No member can obtain at one time credit (whether in the form of loans, discounts, or accounts current) for any amount exceeding that which the general assembly fixes, from year to year, by the advice of the board of directors.

“ (b) Loans on trust (“*prestiti sull' onore*”) are intended as an encouragement to the honest and industrious poor, by admitting them gratuitously to the benefits of credit to which they could not otherwise attain.

" Applicants must be very poor, must have a good reputation for honesty and industry, must possess a trade or occupation, and be able to read and write.

" Most banks also require them to be members of some co-operative or Friendly society.

" The maximum amount of the loan is usually not more than 100 fr.

" The applicant must be recommended by two witnesses to character (" patroni "), who vouch for his honesty and ability to repay the amount; or if a member of a society, by its executive.

" The loan is granted for a short period, not exceeding six months, and repayable in regular instalments. In order to encourage thrift, a small interest is allowed upon the sums repaid.

" Many banks assign a fixed sum each year to this form of credit. This, in the case of the People's Bank of Milan, amounts to 40,000 fr., and in that of the Lodi bank to 10,000 fr.

" (c) With regard to agricultural credits the banks may—

" 1. Make advances on the security of agricultural produce.

" 2. Discount to landlords the amount of their rents, acquiring their rights in respect of them as against the tenants.

" 3. Make advances to farmers on the security of their stored produce, and crops whether standing or harvested, provided the landlord waives his rights in favour of the bank.

" These transactions, as also any ordinary loans or discounts granted to persons engaged in agriculture, may be for a longer term than was stated above, but in no case for more than a year; and the amount of capital to be employed in such transactions should be determined each year.

" (d) Advances upon security of bonds issued or guaranteed by the state, or of mortgages on land, may be made for an amount not exceeding four-fifths of the value of the securities.

" The advances must be for not more than six months, but this term may be extended.

" Should the value of the securities pledged depreciate 10 per cent. or more, the depositor must either refund a portion of the sum advanced or furnish additional security.

" Provision is also made for the sale of the securities in the event of failure to repay the advance.

" (e) Accounts current upon guarantee cannot exceed a definite sum, or be granted for a longer term than two years.

" (f) Cash deposits can be made withdrawable by means of cheques, pass-books of savings, or interest-bearing bonds terminable at a fixed date.

" The interest on the amount of deposits, whether of savings or in account current, in hand at the end of December each year, is added to the capital.

" (g) As regards ' Servizio di Cassa,' the People's banks undertake collections and payments in behalf of members without charge; and issue cheques and cash bills of exchange, for members or non-members, on payment of the charges and the ordinary amount of commission.

" (h) Bonds and stocks, deeds or documents, and other valuables are received for safe-keeping upon payment of a commission. The banks also undertake to collect the interest on bonds, &c., in behalf of the depositors.

" The recent rapid growth of the People's banks in Italy may be attributed partly to the advantages granted to them by the new Commercial Code,* which include the gratuitous publication of such of their acts as must by law be published, and exemption of their acts of incorporation, &c., from stamp and registration fees.†

" But besides this they have received great encouragement from the principal institutions of credit in the country.

" The chief banks of issue, especially the National Bank and the Bank of Naples, by encouraging the foundation of new co-operative banks, by nominating many of them as their correspondents, and by granting an abatement of 1 per cent. on the ordinary rates of interest charged in the market to those which comply with the regulations laid down on the subject for their guidance, have contributed greatly to this result.

" In three years the number and value of the transactions effected by the Bank of Naples with People's banks at this reduced rate of interest amounted to—

Year.						Number of transactions.	Value.
							Fr.
1883	...	...	...	...	...	7,581	4,249,348
1884	...	...	...	...	...	23,767	14,674,364
1885	...	...	...	...	...	104,990	151,124,068

" On this subject two articles by Signor Luzzatti, published in the ' Nuova Antologia ' for February 1 and March 1 may be consulted.

" Finally, in his report to the association of People's banks Signor Luzzatti mentions as encouraging signs for the friends of co-operative banking in Italy—

" 1. The relations established between some of the banks and some of the principal working men's friendly and mutual aid societies.

" 2. The spread of popular credit, especially in Southern Italy.

" 3. The gradual lowering of the rate of interest and of the commissions demanded.

" 4. The increase in transactions of credit to agriculture, and the experiments made to facilitate special advances to farmers for important improvements."

The details may be gathered from the model Articles and the rules of business which are translated in another appendix.

Clientèle.— It is urged against these banks that they do not provide for the needs of agriculture. That is partly true, for the loans are generally given by short term bills, susceptible however of two or three renewals, and Signor Luzzatti proposes to overcome this difficulty by raising money on long term debentures and lending it out on similar terms. Nevertheless the statistics as published show a

* See Code, Article 221.

† See Code, Article 228.

clientèle of agriculturists very similar in proportion to that of the Schulze-Dehitzsch banks in Germany. In the German banks in 1892, 30 per cent. were peasants and small cultivators, and 3·2 per cent. were agricultural labourers—in all exactly one-third were of the agricultural classes. In Italy particulars were obtained in 1889 of the clientèle in 1887 of 399 banks; these had 234,073 members, of whom 62,085 or 22·25 were petty proprietors, tenants and metayers, 15,841 or 6·77 were larger holders or tenants, and 9,708 or 4·15 per cent. were agricultural labourers—in all 77,634 or 33·17 per cent. or practically one-third. Moreover the Italian banks are much newer than their German prototypes, and as such have naturally an unduly large urban clientèle.

In 1876, 1880 and 1887 the percentage of agricultural members was as follows:—

Year.	Large agriculturists.	Small agriculturists.	Agricultural labourers.	Total.
1876	6·40	16·80	3·20	26·40
1880	6·90	19·08	3·16	29·14
1887	6·77	22·25	4·15	33·17

This shows a steady increase in the ratio of agriculturists to other members. In Venetia the number of small agriculturists alone rose in 1887 as high as 36·38 per cent., showing that nearly half the clientèle was agricultural, and in many of the more rural banks the proportion is considerably larger as will be seen below. But the figures show how much the banks have yet to do for rural credit in Italy; all the loans are short and small, and the immense mass of small agriculturists, who in Italy are generally tenants and metayers rather than proprietors, and agricultural labourers, have yet to be reached.

General Statistics.—M. Jannet, writing in 1889, states, in round figures, that there were then 705 popular banks, with a clientèle of half a million, own capital (without reserve) of nearly £4,000,000 and deposits of £20,000,000. In 1887, the figures given for 541 banks, out of 641 in existence were, members 318,979, bills discounted, loans, &c., £57,000,000, own capital and reserve £4,160,000, deposits, &c., £17,280,000. This is a very large business, and the one-third or more of agriculturists must have obtained considerable sums as their share. Moreover, as will be seen under 'Loans,' the actual business is probably larger, for the figures in 1887, for only 290 out of 608 banks, showed business during the year of above 49 million sterling. The Bulletins show that many banks do not send in full returns.

For 1888 instructive figures are available in the Bulletin of the Minister of Agriculture, Commerce and Industry, as condensed by M. G. Francois in the Journal des Economistes; there were 692 banks with a capital of £3,665,480, of which £3,439,120 was paid up; there were deposits, including savings deposits of £17,566,520. During the year advances were as follows: loans on pledge were £970,520; ordinary loans and discounts £55,743,120. These figures are subject to the above remarks that the real figures for all banks are probably larger. Discounts are not all separate transactions, but a vast number are renewals, for though bills of terms up to six months are accepted by the popular banks, those exceeding three months are not generally re-discounted by the ordinary banks; hence, since agricultural loans must usually exceed that time, these three months' bills have to be renewed at échéance by the society. It has been supposed that Northern Italy, where the inhabitants are highly intelligent and business-like, would practically have a monopoly of these banks and that the south, where agriculture is almost the only industry, where the cultivators are very ignorant, suspicious, more indolent and poor than in the north, and where "usury reigned supreme," would be almost destitute of them. On the contrary, the six provinces south of Rome including Sicily, have 362 banks as against 326 in the nine northern provinces, though the latter was the birth place of these institutions; Campania in fact has 109, a much higher number than any other province in Italy; Apulia comes next with 80 and Sicily fifth with 61. It is true that the capital and reserves of the northern 326—which exclude Sardinia—are £2,976,520 as against £1,400,760 for the 362 southern banks, but these latter are much newer, most having been founded during the last 15 years; moreover if Lombardy, which accounts for just half of the capital and reserves, largely by reason of the great Milan bank, be excluded, there is no great disproportion. In transactions there is of course a marked difference. Discounts in the 326 northern banks were 1,435,946 for £41,253,770—of which the Milan bank accounted for over £4,000,000—being an average of about £28 each; in the 362 southern banks they were 785,102 for £13,261,010, being an average of nearly £17 each. The average here does not disclose the full state of affairs; as shown under 'Loans' nearly half the number of transactions are below £8 and about one-fifth were below £4.

The rates of interest varied as follows: from 5·50 to 10 per cent. in Sicily, from 6 to 9 per cent. in the other southern provinces, and from 4·50 to 7·50 in Lombardy; the rate on loans was slightly lower than for discounts. Interest granted on deposits was 3 to 5 per cent. in Lombardy, 3½ to 6 per cent. in Campania and 3 to 6½ per cent. in Sicily. Generally speaking, the interest on loans and discounts is from 2 to 4 per cent. higher than interest granted on deposits, the difference being smallest where rates are lowest and business largest in volume. In 1886 S. Luzzatti pointed out that the preponderating rates on deposits including savings were from 3 to 5 per cent., those on savings being usually rather higher than on ordinary deposits; interest on loans granted and discounts, &c., chiefly ranged between 6 and 8 per cent.

The above statistics are full of suggestion and encouragement for this Presidency, where the conditions of credit for the ryots are far better than in Southern Italy. In gauging credit by the size of loans it must be remembered that allowing for the difference in the value of money, a loan of £4 to £8 in Italy represents loans of (say) Rs. 15 to 30 or even less, in Madras; a very small class of business.

Similar figures are found in the Bulletin for 1890 published in 1893; the number of banks had gone up to 738.

Shares.—Every member must subscribe to one or more shares; it is usual to require that these should be paid up by about 10 monthly instalments. A curious and unexplained fact is that, though the members can withdraw at will, taking with them their share values, and though shares are not transferable, they bear, in the case of the older and more successful banks, a high premium, e.g., a share of £2 may be issued at £3 and even higher. Apparently this premium is not an open market value, but a premium or entrance fee, demanded and obtainable by the bank by reason of its high dividends, e.g., the bank at Lodi pays about 12 per cent., and its shares of £2 are quoted (1892) at £4-4-0.

Funds.—These are chiefly derived from shares and deposits; in 1886 the reporting banks had £2,710,560 in paid-up capital, £810,320 in reserves, £3,497,040 in ordinary deposits, £7,904,560 in savings deposits, and £1,580,360 against deposit receipts (Buoni fruttiferi). Hence the deposits were nearly four times as large as the capital and reserves. Savings deposits draw usually a slightly higher interest than ordinary deposits, as the banks desire to encourage thrift and the fructification of the immense petty savings of the poor. This is well effected; the ordinary deposits were held in 36,403 accounts or nearly £100 apiece; the savings deposits were held in 217,524 accounts of £36 apiece, and 49 per cent. of the accounts were for sums below £4: the banks are savings banks as well as credit banks. The Buoni fruttiferi are simply deposit receipts for a fixed term of from 3 months to 2 years and bear interest of from 3½ to 5½ per cent.; they are issued from £20 upwards and the 11,873 of 1886 averaged £132 in value. The rules of business sufficiently indicate the method of issuing them. In 1890 the paid up capital had increased by about 36 per cent., the reserves by about 20 per cent., and the deposits by about 30 per cent.

Signor Luzzatti in his reviews of the work of these banks, states that funds are obtainable in any quantity, and that the ordinary banks are only too willing to lend money at moderate rates. The banks of Naples and Sicily are very forward in their offers to discount at favourable rates and to supply the funds for the first start, but these are banks of a charitable foundation formed from the amalgamation of several Monti di Pietà, and have no share capital on which to pay dividends; hence the generosity of these offers. But the Savings banks readily lend their funds to the popular banks, by granting them loans, taking up their "Buoni," and opening cash credits with them.

As the banks re-discount their bills, funds are continually returning to them for fresh work; in 1886 the 16½ million sterling of available funds did work to the amount of about 49 million sterling; in other words, they were turned over three times.

For funds to be specially employed in financing Agriculture see 'Agricultural credit.'

Loans.—The general methods have been mentioned in the quotation from Commercial No. ²⁰/₁₈₈₆, and fuller details of the methods will be found in the Articles and rules of business.

The chief forms of credit are ordinary loans, discounts of bills of exchange, advances upon the pledge of securities and cash credits. For 1886 the following are the figures:—

Class.	Number.	Total value, pounds sterling.	Percentage.	Average value, pounds sterling.	Number of banks reporting.
Loans	622,192	£ 12,485,442	26·24	£ s. 20 1	280
Discounts	1,089,898	38,417,390	54·02	30 15	292
Pledge	88,386	1,005,138	10·27	11 6	233
Cash credits	21,092	2,531,256	7·47	109 0	127
Total	1,821,568	42,439,221	100·00	...	...

It will be remembered that loans are for short terms (six months) usually on the pledge of shares with other security, and the debt bond takes the form of a bill which the bank discounts. The other discounts are ordinary bills of exchange, each with two good signatures including that of the member presenting it. Cash credits are growing in importance. It will be noted that the figures refer to less than half the number of banks (608) then in existence, so that the total credit given by all banks must be far greater.

The values of the loans were generally low; 30 per cent. absorbing 3·86 per cent. of the total amount were for sums below £4 and 24·54 per cent. absorbing 7·37 per cent. of the funds were from £4 to £8; for sums from £8 to £20, the percentage was 22·65 and 15·17 respectively. From 1876 to 1886 the percentage of loans below £8 steadily increased from 39 to 54·70, showing that a poorer class, probably rural, was being reached.

Bills of exchange below £4 absorbed 18 per cent. (196,164) of the number and 1·67 (£558,068) of the funds, so that the average of such bills was below £3, and an immense number must have been much smaller (it will be remembered that even the Bank of France discounts bills for 10 francs); 20 per cent. with 4·21 of the funds were from £4 to £89. It is clear, therefore, that bills of exchange can be profitably drawn and discounted for very trifling sums, and thus enable small folk to obtain small loans, while enabling the bank to keep its portfolio in a negotiable form.

As might be expected, the smaller loans and discounts are found in the southern provinces, which are poorer and more purely agricultural than the northern.

The reasons for the selection of bills as the medium for loans are several: *firstly*, to secure liquidity of assets, a mobile portfolio; *secondly*, to ensure the proper use of the loan; a bill is supposed to represent a genuine business transaction with a productive foundation; moreover, if the proceeds were doubtfully used, or the borrower's reputation became tarnished, it would be easy to withdraw the loan by refusing renewal; *thirdly*, since renewal was only granted on repayment of a proportion, money was constantly coming in; *fourthly*, some slight profit is obtained by the bank on rediscount, as

its own endorsement permits of discount at easier rates. Hence the business of the popular banks is done almost entirely by bills of six months, a fact which may fit it for the current needs of agriculturists, but not for such needs as land improvement, the purchase of cattle and implements, &c.

Mortgages appear by the published balance sheets to be accepted, but not largely, and chiefly as security for cash credits.

Interest.—The rates of interest vary considerably: "that which would justly be considered usury in the north, where industry and trade are well developed, is but a fair profit in those regions of the south, where the farmer was obliged to pay from 50 to 100 per cent. and even more only a few years ago." In 1885 the rates varied from 4½ per cent. per annum, chiefly in the north, to 10 per cent., chiefly in the centre and south; the maximum was reached in but very few cases, 7½ and 8 per cent. being much more general. In addition, however, a commission is often charged of from 1⁄8 to 2 per cent. for general expenses. As the banks obtain strength, rates are usually lowered; in three years 40 banks reduced their rates. Interest on deposits runs from 2 to 6 per cent. The figures for 1892 support the above.

Profits.—The net profits are from 8 to 9 per cent. on the paid-up capital; in 1882 figures were as follows: gross profits of 139 banks with a paid-up capital and reserve of slightly over £2,000,000 were £337,000; of this about £80,000 were paid in salaries and sundries, £48,000 in direct taxes, £11,500 in covering losses; net profits were therefore £188,500, distributed as dividends £150,000, reserves £20,000, fees to directors £3,000, gratuities to staff in addition to ordinary pay £9,000; benevolent fund £2,000, carried over £4,500. It will be noticed that fees to directors were only about 1·6 per cent. of the net profits.

For 1886 the following figures, published in 1889, are available: 397 banks reported gross profits of £557,210, from which were, amongst other matters, deducted £167,219 for cost of administration, £73,048 (331 banks) for taxes; the net profits were £299,536, of which £213,435 were distributed as dividends to the members of 343 banks; the remainder was devoted to the reserves (£51,901), to the directors in 103 banks only (£8,222), extra gratuities to the employes (£15,532), works of beneficence (£3,080), and the remainder was carried over. The percentage of dividend to paid-up capital varied from 2 per cent. in Sardinia to 10 per cent. in Lombardy, the average for the whole kingdom being 8·26. It must be remembered that this large dividend returned to the members who were largely borrowers, for in 541 banks there were 318,979 members, while the loans were—in a smaller number of banks—622,192, besides 1,089,898 bills discounted and 88,386 advances on securities. Hence, though dividends are large, they return to a great extent to the borrowers. The result is that the older banks reduce their rates as their reserves increase. As 40 banks did not divide profits, but passed them bodily to the reserves, the dividends actually distributed by 343 banks was considerably higher than that given, which includes all the 383 banks reporting.

The cost of administration was made up of £92,574 to employes and £74,645 for the miscellaneous expenses of office, for office rent, stationery, postage and all other miscellaneous matters; it does not include, unless perhaps occasionally, any fees to directors or others. The only cost for direction is to be found in the trifle, £8,222, allotted in only 103 banks for this purpose. This is the peculiarity of Italian popular banks; the administration, though skilled, is very largely gratuitous; in the annual statements of the great banks of Milan, Bologna, &c., where the turnover is by millions sterling, and the annual profits tens of thousands, the column for directors' fees is absolutely blank, as it is also for other banks in five out of six cases. It is a marvel that about two million loans, discounts or advances for nearly £60,000,000 should be effected almost gratuitously so far as the skilled direction is concerned.

Government Intervention.—As stated above, these banks are due solely to private initiative, whether that of individuals or of societies (provident or savings). Government have done nothing for them, and did not recognize them until 1882, when provisions granting them a distinct status were entered in the Commercial Code of that year, with the very minute privilege of freedom from stamp duty on their memoranda of association and on the documents for admission and exclusion of members. No other direct privilege whatever is given either by law or by Government. An indirect benefit, in the shape of enforced publicity, is conferred by the requirements of the Minister of Agriculture of a monthly statement of their business, which is published in the Bulletins of the department.

Taxation.—In common with other banking institutions and to a large extent owing to the forced publicity of their accounts, they have to endure very heavy taxes. Luzzatti states that these, exclusive of all stamp duties on their operations, amount to about 13 per cent. on the gross profits; in 1882 taxes were, on the whole of the banks reporting, £48,000 out of gross profits of £337,000 (see *supra*) or above 14 per cent.

M. Leon Say gives much higher figures; e.g., in Cremona, the shareholders divided on a capital of £84,000, net profits of £8,000, which would have been £13,760 but for £5,760 of taxes, viz., Richezza mobile (income tax) £2,706, Richezza mobile due for members £2,642, house-tax £27, tax on loans granted £46, tax on shares £96, tax on the paper owned by the bank £242, profession tax £8, weights and measures £1, trade tax £8. The Richezza mobile is 13·2 per cent. now (1894) to be raised to 20 per cent.

M. Rava states that in 1889 the profits of the Popular Bank of Bologna were £6,800, which would have been £11,600 but for the taxes (chiefly income tax on the amount of deposits—tassa sulla ricchezza mobile) of £4,800.

Agricultural Credit.—It being admitted that agricultural loans for production must usually be for terms exceeding three months, it remains to be seen how the Italian popular banks have met the difficulty. A certain amount of floating funds can always be devoted to loans of fairly long term as shown by the investments of savings and other banks. But where banks are principally agricultural so that all borrowers want long loans, there is no continued influx of short-term payments as in a bank of mixed commercial and industrial business; hence means must be taken to obtain funds also on long terms. The ordinary long-term deposit (Buono fruttifero) is a usual means, but the Italian popular banks have endeavoured to provide agricultural debentures issued, as in the case of the French and

German land mortgage debentures, against bonds executed by the borrower, but differ in that they have no material guarantee in the shape of a land mortgage. They are promissory notes bearing interest, issued by the bank on its own security, *plus* that of the borrower and his sureties, and payable to bearer at maturity, which may be for various periods. It is found that even individual banks, *e.g.*, Asolo (*see* De Laveleye), can place these bonds, but apparently it is, in such cases, generally with a Savings or other bank with which the popular bank has business relations. In this connection the debentures issuable by Loan Societies under the English Loan Societies Act of 1843, and under the Irish (Charitable) Loan Societies Act of 1843, may be adverted to (*see* 'Loan Societies').

But by utilizing the group formation (*see* 'Group') federated banks are able to issue these bonds—called 'Buoni di Tesoro dell' agricoltura a scadenza fissa' or agricultural debentures of fixed term—under the guarantee of the group. The banks of the Province of Trevisa united in 1879 in a syndicate, to issue, under the supervision of the group, but under the responsibility of the individual bank, debentures of fixed term; these are in series and on printed forms, and are issued by each bank under its usual signature as a guarantee, and with the countersignature of the President of the group as a token of its regularity and as additional guarantee. They bear interest at 4 or 4½ per cent. and are usually of £20. It is found that the public take them up, but the usual method is to place them with a larger popular or Savings bank, for which they form a first-class investment.

The funds obtained by these bonds are devoted to agricultural productive loans of one year and upwards; when a member desires a loan, he applies to the bank stating the nature, &c., of his land, and of the proposed improvement, the guarantees he offers and the period for which the loan is required; the case is then examined by a Committee of Experts (*Probi viri dell' agricoltura*) and if their report is favourable, the money is advanced as soon as the bank has placed a debenture for the amount. Every four months, the bank examines the progress of the intended improvement; if unsatisfactory, immediate repayment can be demanded.

The other groups are said to be following the example of that of Trevisa.

But the latest reports show that these debentures are not greatly successful; it is difficult for small isolated banks to place them successfully, and the several banks forming groups are disinclined to pledge their credit for each others operations. The method seems inferior to that of the German Central Bank system. M. Levi recognizes this and recommends that certain great banks, such as those of Naples and Sicily, should accept the paper of the small banks and thus place them in funds, such paper, with their own signature, being then easily marketable. It appears that this very duty has been undertaken by these banks, the former of which offers to discount the bills of popular banks recognized by it as its correspondents at 1 per cent. below the ordinary market rates; the statistics and rules of business are not available at present, but in 1885 it effected 104,990 advances to the small banks for the sum of £6,044,963. The possibility of this favourable rate is due to the fact that the Bank of Naples is a charitable foundation with no capital or dividends. But at ordinary rates similar business may be done to any amount; the Popular Bank of Milan is in correspondence with 320 smaller banks, and did business with them for £8,930,000.

The rules framed by the Trevisa group for the issue of these debentures will be found in another appendix. The statistics relating to agriculture—so far as known—are given above, *sub voce* 'Clientèle.'

Other Results.—The educational result cannot be measured, but may be imagined; the above are all autonomous banks, many very small, yet working independently in rural tracts.

One result must be mentioned, *viz.*, that the considerable dividends show that the rates of interest are at least sufficiently high; in fact, it is the greed for dividends which is said to be spoiling the institutions "especially in the villages." It is even asserted that many of the newer banks, as elsewhere, are "co-operative" only in name, and in reality are mere usurious firms.

Another notable result is that these banks retain and distribute *in situ* the savings of their several localities, a result of immeasurable value; another, that wherever they have been started, they have successfully combated usury by offering money at 6 instead of 60 per cent., at the same time carefully supervising the use to which the loans are put; usury is met at close quarters, and the means and safeguards of credit are brought to the very doors of the peasants.

Another notable result is that they everywhere form "centres of economic progress"; they initiate and assist co-operative societies or stores, agricultural associations, &c., while the larger banks from their profits endow, support or assist many works or societies of popular benefit or utility. M. Rostand gives a list of 30 such societies assisted from the profits of the Popular Bank of Milan, and this, on a smaller scale, is the general rule.

Relation with Savings Banks.—As will be explained below, Savings banks in Italy are free to dispose of their funds at their own will. They play an important part—as in Germany—in assisting popular banks and loan societies either by directly lending their money, by accepting and discounting their paper, or by buying their debentures. In some cases the popular banks are the direct offshoots of Savings banks, the directorate of the latter seeking to provide credit for their clients without themselves dealing directly in credit.

Branches and Agencies.—The feeling in Italy is against the system of Central banks with numerous branches; the tendency is to the foundation of small autonomous banks, affiliated to particular groups, and, when branches are formed, it is usual to encourage them to assume independence as soon as possible. But branches and agencies are nevertheless not infrequent, and supply the means whereby the larger banks in cities place themselves *en rapport* with the rural classes and educate them in the methods and objects of credit. It is found that at first a bank can establish an agency and thus spread a knowledge of the bank's methods, collect small business, and accustom the peasants to deal with the bank; the agency presently develops into a branch with power to lend as well as to collect and to manage much of the ordinary business, and in course of time, the branch, as it acquires experience and solidity, becomes an autonomous bank.

Agencies at first are usually confined to collecting the dues of the banks; they are also established as offices for the receipt of savings (*cf.* Savings banks in Germany), and they receive requests for admission to the society. The agent is usually paid, and *per contra* gives security, and it

is customary to appoint a supervising committee from amongst the society's local members. He is bound to furnish every five days a statement of his collections, and of his cash in hand and of other matters as provided by special rules. Demands for admission when made to the agent are sent with his report and that of the local committee to head-quarters; so also the requests for loans and discounts, and it is usual for the borrower to execute his promissory note in the presence of the agent. In all reports regarding admission on loans, the local committee of supervision forwards its opinion with that of the agent.

The officers of the head-quarter office frequently inspect the agency at irregular intervals.

The rules of the Bologna bank for these local agencies will be found in an appendix.

Branches differ in status according to the ideas of the establishing bank; *e.g.*, those of Lodi are little more than agencies, but have the power of granting loans up to £12; beyond that sum they report to head-quarters; the members of the branch directorate are chosen by the directors of the chief bank. Those of Cremona have a directorate elected by the local members, and have larger powers of local action; the local losses of one year must also be made good from the profits of the next; losses not made good fall entirely on the local members. The Lodi bank considers that it is so difficult to conquer the suspicion with which the peasants regard new departures, and to overcome the distrust which they would have felt in case of any losses falling upon them, that rural credit might have been a mere hope to this day had they adopted the ideas of entire autonomy and responsibility for their branches. On the other hand the Cremona authorities, following closely the ideas of Schulze-Delitzsch and the genius of the Italian Luzzatti system, argue that the great object is to educate each local centre in credit and business methods and in the ideas of autonomous co-operation, and that the object of branches should therefore be to train the local members in managing their own offices, and to encourage them to assume independence as soon as they feel themselves firm in their position, while the *quasi* independence of status, and the insistence throughout of separate responsibility and to some extent separate balance sheets, render secession a matter of simplicity.

A translation of a note by the Lodi bank on the subject, and of another note by that of Cremona with the rules of both banks as given in Signor Levi's Manual, will be found in an appendix; a brief abstract will be here given, intended merely to show the importance of branches, their true work and their general methods. It will be seen that by the system of agencies, branches and Savings bank branches, Co-operative banks in Madras, Trichinopoly, Bellary, &c., might readily extend a knowledge of their systems and their useful operations to surrounding villages, and thus gradually create a complete system, born of solid experience, and extending by natural development from a vivifying organism.

Lodi began its rural work by preparing the ground; for two years its friends lectured frequently in various centres, explaining the methods and demonstrating the utility of the bank's operations. These lectures had good results and six regular branches were started by 1869 under the form of affiliated local communities, directly dependent on the Central bank; this was contrary to the received Italian ideas of almost autonomous life and local administration. These six branches were established in villages or small towns of not more than 6,000 or 7,000 persons, usually possessed of a market (*cf.* 'Scottish Banks') and largely inhabited as in Southern India, by agriculturists, inasmuch that about three-fourths of the members in 1880 were agricultural. Money was advanced generally by loans and not by discounts; they averaged from £21 to £36 according to the branch, and were largely used in buying cattle and in paying the taxes, especially when a farmer desired to hold his produce against a rising market. All the branches were not profitable, and one would have been closed, but that the Central bank was making large profits and decided to defer closing the branch, "as the small cultivators would then have fallen without a chance of rescue, into bondage with the usurers." The work done in the mere grant of loans was very large, but the branches were otherwise useful. In the first place they served as places for the receipt of savings and therefore for the development of thrift; *secondly*, they served as places of co-operative education; *thirdly*, the local committees provided the bank with information when loans were demanded; *fourthly*, they enabled the bank to act as distributor of aid to the distressed when the great floods of 1878 ruined so many families; and *fifthly*, they excite progress in other directions.

The administration of the branches was effected by a small local committee selected by the directors of the bank; the committee obtained the use gratis of the local communal office for their business, their meetings were weekly, and the only paid employé was a secretary-cashier appointed by the bank, but nominated by the local committee. The branch receives members, requires payment of the shares, grants loans and discounts, receives deposits whether for members or non-members, and performs such other duties as are appointed by the central directorate; the above operations are conducted under rules prescribed by the bank. Loans, &c., up to £12 are granted definitively by the branch; beyond that it reports to the bank. Further rules are laid down for the accounts to be kept, &c.

As Savings banks the ordinary branches receive deposits, but nine other branches are Savings banks only; these are supervised by a small committee, who, with the treasurer, are specially selected as men of high reputation; these are all unpaid, but if the treasurer has to give security, he may get pay.

The operations of the Savings banks are supervised by the Central council of supervision, who are obliged to inspect all the operations. The duties of the local committee are not confined to the receipt of deposits, but it is expected that they shall promote thrift in every way, and make public the methods and usefulness of the bank. The bank usually grants 50 or 60 small prizes annually to those small depositors who have been most regular in making weekly deposits.

Lodi and its branches afford a good example of usefulness of the banks in times of general distress. After the floods of 1878 large subscriptions were raised in aid of the distressed; a good deal of the money was entrusted to the banks for distribution, as they were in intimate relations with the poor; they obtained sanction to issue these sums as loans and not as charitable gifts, adding thereto a larger sum of their own. At Chignolo-Po, a branch of Lodi, the floods were very severe; the local communal council gave £800, the relief committee £200, and the bank added £2,000; this was distributed through small local committees under the branch, in loans without interest or at very low rates, not exceeding £16 for the purchase of cattle and the removal of sand from the flooded areas.

Within three years every lira of this was repaid, so carefully had the money been distributed, and so grateful were the peasantry for the opportune aid of their neighbours.

With the aid of its branches, the bank has been able to promote a Society for the Assurance of Cattle, which is said to be highly useful and appreciated.

Cremona, as stated, proceeds on somewhat different lines. The branches work on their own responsibility and each has its own balance sheet; all profits of the bank and its branches are lumped together, but if any loss has occurred in any bank, that branch bears a *pro tanto* reduction of its dividend, which may, however, be spread over several years. The branch has its own general meeting, its directorate elected by the local members, but presided over by a manager who is the nominee of the bank and has powers of veto subject to appeal to the bank. The employes are appointed solely by the bank which must, however, consider the proposals of the branch. Requests for admission to membership are received by the branch, but disposed of, on their report, by the bank. The branch can only deal with members on its own register and receives and disposes of all applications for advances, subject, however, to the action of the manager as the representative of the bank.

Notwithstanding the *quasi* independence of the branches, the central administration closely supervises their working, not merely by the periodical returns required, but by frequent and sudden inspections in which the stability of the branch and the solidity and prudence of its officers and management are specially looked after. These principles accustom the branches to business methods and to prudence in administration, and thus fit them for eventual autonomy.

Groups.—As stated above, the popular banks of Treviso have necessarily imitated the German banks in federating themselves in groups while preserving strict independence. Seven other groups have since been formed, of which three are in the south. Each group is centred on the bank of most importance; two delegates from each bank form a general assembly, which elects certain of its members to form, with the Presidents of the several groups, a central committee; this collects and publishes statistics, and a journal organizes local congresses, supervises, but not with authority to interfere, all federated banks, and examines the financial, &c., condition of each bank. There is at least one inspector per group paid by each group; his sole duty is the inspection and audit of the accounts and operations of the banks, and the advising of them as to their requirements. The general expenses are met by a contribution from each bank. Moreover, each group guarantees, in the second instance, the debentures issued by the individual banks with the countersignature of the group President.

The Central committee also acts as an intermediary in placing the surplus funds of a bank with any other of the federated banks, and even aids those in temporary need from its own reserve of £4,000. In placing surplus funds, the following advertisement from the Central Journal ('*Credito e Co-operazione*') gives the method:—

"A bank having £3,200 surplus, wishes to invest it at 5 per cent. for six months with faculty of renewal. Associated banks are invited to apply to the Central committee."

Twenty-five or thirty banks accordingly applied, and the Central committee having full information of the position of the applicants through the group, presidents and their inspectors, were able, within a week, to suggest to the advertising bank a safe and satisfactory allotment of its surplus.

Here then is a complete though not yet fully developed organization in which decentralization and local autonomy are completely preserved, yet combined with federation, mutual knowledge and support.

Specifo Banks.—Some banks have been vividly and lucidly described by M.M. Leon Say, E. de Laveleye and E. Rostand, and it will be well to draw briefly upon their accounts. M. Say visited North Italy in 1883, M. de Laveleye in 1884, and M. Rostand in 1890.

The Popular Agricultural Bank of Milan—not to be confounded with the great Popular bank—has (1883) 906 members with a capital of £9,500; its Savings department has 886 accounts, and it lends these deposits and its capital to its members only; on 31st December 1882 it had bills for £28,500 in its portfolio. The pass-books of the Savings department are payable to *bearer* as is general in Italy; only a few are personal and these are usually granted only to certain poorer classes. It lends on personal security, or discounts bills endorsed by a good signature. Prolongations are allowed, but only if a certain part of the original is repaid. The bank's best guarantee is in the limitation of its clientèle, who at the same time are its administrators. The State grants it no manner of privilege, but taxes it very heavily.

It has a small village branch, and market days are the periods of receipt and disbursement; the peasants, girls, representatives of petty associations, all bring or draw money; the deposits are from 1 franc, the loans from £1-4-0 upwards. The bank and its branch are largely helping "la petite culture."

Popular Bank of Milan.—This was founded in 1865 by Luzzatti and a few others with a capital of £28 raised in 1866 to £1,180. In 1883 it had 157,832 shares for £315,000, with a reserve of £132,000, deposits in 4,436 accounts for £680,000, and savings deposits for £1,360,000 in 23,867 accounts, of which 9,748 were "Petty savings accounts" receiving interest of $\frac{1}{2}$ per cent. higher than ordinary savings. In 1888 operations had considerably increased, and money was advanced for above £6,250,000.

A most important function is in its relations with the various popular banks throughout the country; in 1882, it discounted 39,205 of their bills for £2,050,000, or a little over £50 each; it corresponded in this way with 208 such banks, and dealt with them by discount and accounts current to the amount of £8,640,000. Profits in 1882 were nearly £50,000, the whole of which returned to its members. Though its work has progressively increased, it has remained faithful to co-operative principles, and its administration is, up to date (1893), entirely gratuitous, although it employs as many as 100 paid clerks, cashiers, &c., and does so large a business; the directors are about 130 in number, are elected with great care, and give their inestimable services absolutely free, though the work of considering and granting the immense number of loans, of supervising and auditing the accounts which, with the continual receipts and disbursements, show operations of above 70 millions sterling in the year, of organizing relations with several hundred other popular banks, and of super-

vising the numerous branches and affiliated benefit and other societies, must be enormous. The importance of this great lesson, taught by Signor Luzzatti, and thoroughly learnt by the hundreds of popular banks, is inestimable; the unpaid labour and zeal of these thousands of directors cannot be valued in money.

Popular Bank of Lodi.—This is largely agricultural, and is the offspring of a local benefit society, which, up to 1862, used—among other benefits—to lend small sums to its members. A perusal of Signor Luzzatti's book on 'Popular Credit' led to the foundation of a popular bank in 1864 in the usual small way. In 1883 it had a share capital of £56,000, a reserve of £27,000, and 15 branches, six of which were banks proper, and the others only savings banks. Its Savings departments had 9,280 accounts for £312,000. Its first and chief branch was already a considerable bank with 1,118 members, of whom three-fourths were agriculturists; bills were rare, but cash credits common. Credit was chiefly used for the purpose of cattle breeding and payment of the taxes while awaiting favourable markets. These cash-credits—*see* 'Scotch Banks'—were granted in 1882 for about £98,000 by the bank of Lodi and its branches. Like all the established banks, it grants "loans on honour": these are issued by a special committee to poor artisans and others who wish to undertake some enterprise, buy a set of tools, &c.; they are granted only for productive purposes, and for £2 only, rising to £4 if the borrower is a member of a benefit society; interest is 4 per cent. and the term six months. If the application is not for a productive purpose, it is absolutely refused. These loans are only granted from a small special fund derived from profits.

The Bank of San Dona sur Piave is situated in a village of 8,000 people, of whom not more than 1,000 reside in the chief hamlet. It forms one of the Trevisa group, and in 1882 had 515 members with a capital of £1,440, a reserve of £370, and deposits of £6,800. It had also borrowed on agricultural debentures £1,680. On December 31, 1882, it had bills for nearly £10,000 in its portfolio; its profits were £149 after deducting £68 as taxation. It lent at from 4½ to 9 per cent.; this was in a district where the regular terms of money-lenders for the same class of people were from 15 to 100 per cent. This little bank was not behind-hand in promoting useful institutions, such as a co-operative bakery, which supplied bread to its members at 40 per cent. below baker's prices in the same village; the goodness of the co-operative bread is attested by the fact that the "pellagra," the origin and spread of which are traced to maize of bad quality, diminished in the village after the opening of this bakery.

This little bank was one of an associated group of 10, the aggregate paid-up capital of which was £24,720 in 23,268 shares held by 8,279 persons: the shares vary from 20 to 50 francs: they held a reserve of £5,760; their deposits were £96,000, including savings deposit of £8,000; they had issued debentures under their joint guarantee for £11,600 out of a series of £20,000, which were to provide funds solely for agricultural improvements and development; each bond was for one year—a rather short term—and the respective banks are bound, every four months, to examine by their "prudhommes agricoles" the work undertaken by their clients with the funds borrowed.

Padua.—The bank here had, in 1883, 3,949 members; it held £140,000 in deposits and savings, three months' bills for £80,000, and for longer terms for £48,000. Its loans in 1882 were 8,995, of which 2,014 were below £4 and 2,269 from £4 to £20; the expenses were £2,068, and its taxes £920. It had a fund of £1,440 for "loans on honour." It was intimately connected as usual with various other benefit societies. In 1890 M. Rostand visited this bank. It then had 4,310 members with 22,121 shares, an own capital of £44,000, and a reserve of £19,700. Its business had considerably increased since 1888; its dividends were lower owing to more favourable rates to borrowers; its expenses were moderate, viz., about £5,000, of which £1,440 were taxes; its net profits £4,450. The bank had adhered scrupulously to the principles of co-operation and popular credit, three-fourths of the loans being small. Being, however, in a town of 70,000 people, only about one-eighth of its members were agricultural these had received about 1/7th of the loans. The rate of interest and of discount was, as a rule, either equal to or below that of the National Bank. The "loans on honour" are only granted up to £4, repayable by monthly instalments of 1 or 2 francs; non-members can obtain them, but they must belong to one of the several affiliated benefit societies, and bear a good character for industry and sobriety; interest is 2 per cent. In 10 years 3,410 of these petty unsecured loans have been granted for above £6,000; the losses have been 2 per cent.

Asolo.—The Popular Bank of Asolo was visited by M. de Laveleye in 1884 under the guidance of Signor Luzzatti, who, in taking him, promised that he would there see how the Italian popular banks "solve the quadrature of the circle of political economy—agricultural credit." It was founded by three or four devoted men who gave their services gratuitously for several years, gained the confidence of the cultivators and other small folk, "taught them the machinery of credit, received their savings" and made advances to them, even upon produce; in fact they solved the question of agricultural credit "which is everywhere discussed without coming to any conclusion." The administration was gratuitous, but the staff was paid. Asolo had then a population of only 5,000 people, but the bank had no less than 1,595 members—evidently from the surrounding neighbourhood—of whom 1,066 men and 52 women were "small proprietors, peasants, cultivators of various tenure." Of 6,694 bills discounted in 1881, 5,825 were on account of small farmers and shopkeepers. It gave interest on deposits at 4 to 4½ per cent. according to term, and granted loans at 6 per cent. upon securities, produce, &c. Under Luzzatti's inspiration, it successfully issued "agricultural debentures" of £20 each at 4 to 4½ per cent.; these are further guaranteed by the Trevisa group as mentioned above.

Asolo is only one of a group of agricultural banks; Lonigo, in the Venetian group, is a similar one, and is described by M. Rostand. The commune has barely 10,000 people, of whom not more than 5,000 live in one centre. Till 1877 it had been only an agency of another bank, but in that year developed into independence. In 1890 it had 3,255 members with 12,380 shares, a capital of £14,864, a reserve of £6,500, and a special reserve of £3,400. It held ordinary deposits for £14,660, savings deposits for £60,908 and £48,548 on fixed term deposit receipts. Its operations in savings have, as elsewhere, ousted the Government Postal Savings Banks. But its interesting feature is its agricultural work; in 1889 its loans and discounts were £305,248, out of this, agriculture received in 11,028 loans, £218,600 distributed as follows:—to petty farmers and proprietors £141,988; to richer

agriculturists £73,156; to ordinary peasants and agricultural labourers £3,456. Special agricultural loans up to £20 are granted at 3.75 per cent. up to one year, solely for buying implements, seed, manures and stock; these are only granted on a special report and are, as yet, little used, though possible since 1884.

M. Rostand then gives interesting details of some borrowers and the use made of the loans, showing that men with from 4 to 7 acres easily got credit at about 6½ per cent. as against the "crushing rates" demanded hitherto from the same men by the usurers, who were losing their business. The bank is steadily exercising a wide agricultural credit. As usual, it also grants "loans on honour" to members of Benefit Societies, and has business relations with various Friendly or Industrial Associations.

These and many other popular banks, specially agricultural, are of immense service not only in drawing out hoarded savings and putting them into industrial employ, but in bringing the very cultivators themselves into business relations with the directorate, and in educating them in business habits and in rural and political economy.

There are many other banks, notably that of Bologna, which would be worth describing, but the above will suffice.

It seems clear that these banks have solved or are solving for Italy, the question of petty agricultural credit which great institutions have hitherto attempted without success, and the history of this class of credit seems to justify Signor Luzzatti in saying that agricultural banks must begin in a small way to attain success; that the true mode of progress is from the outskirts inwards; and that from the history of Italy, no less than of Germany, he would "deduce the law that any attempt by a Government to form and work a Central Institution of Agricultural Credit, must be a failure."

RURAL LOAN SOCIETIES (CASSE RURALI DI PRESTITI, SYSTEM WOLLEMBORG-RAIFFEISEN).

Hitherto, the Luzzatti adaptation of the Schulze-Delitzsch popular banks has been discussed, but a form of Agricultural Loan Society still closer to the peasantry, still more their own foundation and property, remains to be described. In Italy, there is no such rivalry between the two forms of co-operative banks as in Germany; Luzzatti warmly welcomes the newer and humbler rural loan societies, and considers that for the smaller classes of agricultural credit, the Casse Rurali are best adapted, with the popular banks for agricultural credit in general.

The Casse Rurali are practically copies of the Raiffeisen loan societies adapted to Italian surroundings; they had the great advantage of the perfected Raiffeisen system in full view, so that many initiatory difficulties were avoided. The lesson they teach is that private initiative will overcome the most insuperable difficulties, if only knowledge, tact, courage and perseverance are brought into action on given areas. No amount of talk or paper schemes or learned treatises or even (I.O.s would convince the peasantry—should they even by chance hear of them—that it is possible to obtain credit and defeat the usurer by simply uniting in societies of unlimited liability. What however was otherwise impossible was actually accomplished by the devotion and will of one man, Dr. Leon Wollemborg, then in his earliest manhood.

History.—Dr. Wollemborg's family resided at Loreggia, a village of 2,795 inhabitants, nearly all agriculturists, scattered over its whole area. A man of observation and culture, he was struck by the miserable condition of the peasants, their poverty, the "frightful and shameless" usury to which they were subject, the absenteeism of the landlords. He himself states regarding usury in his village, that it was common for borrowers to pay 1 franc per month for every 20, or 60 per cent. per annum, to which is regularly added a dinner (collation) every Sunday, gratuitous labour and other "corvées." The peasants were at the mercy of the money-lenders, and had moreover to buy bad goods at ruinously high credit prices. But, as M. Rostand says, Dr. Wollemborg added to observation the result of much thought on social matters, and, fortunately, a knowledge of what had been done abroad, notably by Raiffeisen in Germany; and in 1883, when only 24 years of age, he attempted a similar foundation in Loreggia. It was a task of the utmost difficulty; in his own words, "the novelty of the proposal, the nature of the locality, the class of persons to be persuaded, distrust, jealousy, factions of all sorts, were obstacles which had to be surmounted," and to these he adds the isolation of the peasants, their misery and apathy, their ignorance and their mistrust of the landlords, for the peasants were mostly tenants and not proprietors. No situation less promising can well be imagined, but Dr. Wollemborg attacked the situation and conquered it, absolutely without external aid. After many discussions and much persuasion, he got 32 persons to join, among whom were 12 very small peasant proprietors. The example, of course, was little imitated at first; the nascent society had to prove its position, and only then would it be imitated. This has now been done; the societies are rapidly spreading, and in November 1890, there were 44 in existence, all duly federated; the number in 1892 had risen to 66.

Organization and Methods.—These are so similar to those of the German societies that they need no recapitulation. There are only minor differences: (1) the German law requires a share capital, however small the shares may be, whereas the Italian societies have none; (2) the German societies are not above receiving external aid, even in the form of Government subventions however occasional, whereas no such aid is given in Italy; (3) the Italian Casse, while agreeing with the German societies in granting long term loans, even for several years, do so by three months' bills, periodically renewed; it is claimed for this method that it enables the Cassa to recover its money if it is hard-pressed for funds; that it enforces punctual payment of the interest, since renewal is not granted if the interest is not paid; and that the Cassa is able thereby to ensure the use of its loans in the manner intended, the penalty of not doing so being a refusal to renew. The German plan is simply a long-term loan repayable by instalments. This instalment system is not generally practised by the Italian societies, but it is obviously easy to graft it on the three months' system by demanding a small part-payment at each renewal on penalty of refusal to renew; (4) a fourth difference is that in the Raiffeisen societies no loan is granted without an additional guarantee, such as a surety, a mortgage or a pledge, whereas in Italy loans within two years may be granted up to a certain amount on the simple

security of the borrower; (5) it may be added that, while in both countries the aid of the village priest is sought, as probably the most enlightened and philanthropic man of the commune, the Italian Casse have no religious element in their aims as is the case in the Raiffeisen societies; they are simply secular business associations.

The common traits are unlimited liability, strict territorial limitation, viz., the commune at most, the absence of dividends, the rigidly maintained reserves, which, in the case of dissolution of the Cassa, go to the local charity-society or to the commune (the principal in trust for any subsequent Cassa, the interest for utilization in charity), the extreme simplicity of organization and management, the gratuitous administration, the minimization of expense, the devotion of all members, and the affection and pride therein displayed by the poor whom the societies have rescued from misery. The strict controlling of the use of the borrowed money is also common to both countries; no loan is granted save for productive purposes including, of course, the paying off of usurious debts, and these purposes must be strictly carried out.

It should be added that, whereas in Germany there is some complaint of irregularity by borrowers in repayments, no such fault is found in the Italian reports; prepayments are frequent, delays rare, and losses practically *nil*, the relations of deceased members, and even emigrants who have left the country, taking pride in recouping the society in all its dues.

Funds for loans are procured on the security of all the members jointly, from well-to-do private persons of the locality, from savings or popular banks, or from the ordinary banks. The Casse also open savings banks of their own, and thus increase their funds. Some difficulty is usually felt at first; as the Cassa grows, money comes in easily.

The model statutes of these Casse will be found in another appendix and give full details of the organization and management.

Dr. Wollemborg's Report to the Paris Exhibition of 1889, entitled 'Les Caisses Rurales Italiennes' must be read in full for a view of these societies taken from the life. A few extracts from this and from M. Rostand's work ('Une visite en Italie') will however be given to bring out certain salient points and results. Dr. Wollemborg's account of the Loreggia Cassa is here roughly translated, as it gives a complete and living picture of the operations of a society in detail.

This is a village of Padua about 12 miles from town, with 2,795 inhabitants almost entirely agricultural; most of them are tenants, some with from $7\frac{1}{2}$ to 75 acres, some mere cottiers holding below $7\frac{1}{2}$ acres; there is a sprinkling of small proprietors holding generally below $12\frac{1}{2}$ acres. The soil is, perhaps, the least fertile in the whole province, while the rents are very high. Most of the great proprietors are wholly absentees. Usury is a long-standing plague and is practised either by professional money-lenders or by thrifty persons who lend their savings, which latter form is less vicious and more profitable to the cultivator.

As the result of several lectures to the peasants, 32 members united on 20th June 1883 in the first Italian Cassa Rurale; of these, 12 were very small peasant proprietors, 17 small tenant farmers, the local apothecary, the village secretary (karnam) and myself.

The object of the society is the improvement of the moral and material condition of the members by lending them such money as they may need for *that purpose*, funds being obtained by loan on the collective guarantee of the society. Members accept individual responsibility in equal shares for the society's liabilities. Only inhabitants of the village may become members. Solidarity and limitation of area are the two fundamental principles of the society, mutual confidence resulting from local knowledge and the communal feeling. The society becomes one of the village institutions and is spoken of with the same affection as the village church. The result is an absolutely co-operative society strictly limited in area, where everything is perfectly open, perfectly simple, and perfectly within the capacity of the members to manage prudently and regularly. It would be impossible to increase the area of operation since the inhabitants of one village would refuse unlimited liability for engagements made with the inhabitants of other villages, and without solidarity, it would be difficult to attract a sufficient capital; by substituting the association for the individual a guarantee is offered to the capitalist, who thus obtains a single safe investment in place of a number of small and risky loans. For it is not that the members are paupers; on the contrary most, if not all, have a certain amount of property; what they want is that credit which will supply them with ready money, and by association they can obtain this credit from lenders who would not care to open their purses to the isolated individual.

As a matter of fact this solidarity presents no real dangers, while it is the most efficacious safeguard against loss through careless lending or reckless spending; as one of the members remarked "we are 100 in number and each one looks after the other; it is impossible to humbug."

Solidarity moreover is not merely financially powerful but morally; formerly men stood by carelessly or even complacently when a neighbour fell into misfortune; now the community of interests excites a friendly solicitude which takes the shape of advice and help to avert loss to or promote the profit of a comrade. In other words, selfish isolation gives place to mutual help.

Any one may become a member provided that his character is generally known and approved of. Membership is lost on leaving the village or by disobedience to the rules. In case of death it is usual to accept the next head of the family. A member is especially liable to expulsion if he does not employ the loan for the understood purpose, or if it is necessary to take legal proceedings for arrears. It is found that the fear of such expulsion, which would bring on the member loss and shame and general discredit, has a strong preventive influence. Withdrawal is perfectly free, but for two years after withdrawal a member continues responsible for the liabilities of the society.

In eighteen months 96 new members joined, 16 had retired, of whom 4 had died, 6 had left the village, 5 had withdrawn, and only 1 had been expelled. Each member represents a family seldom less than 4, and often (as in India) including 20, 30 or even 40 persons.

The administration is absolutely gratuitous. Its organs are the general meeting, the directorate, the committee of supervision and the cashier-accountant. The members of the directorate are chosen

by the general meeting, which also fixes the maximum amount to be received on deposit or loan, the maximum credit grantable to any one member (£24), the fine leviable (5d.) from each member, who fails without proper excuse to attend general meetings, it being judged that attendance at a meeting is not merely a right but a duty; recalcitrant members may be fined more heavily. The meeting assembles at least twice a year and as often as may be necessary.

The committee of supervision is the standing representative of the general meeting; it watches the due observance of the rules and of the resolutions of the general meeting; it has the right to verify at any moment the cash and to audit the accounts, and may suspend the cashier or any member of the directorate, in which case the general meeting must at once be summoned. The committee decides all applications made to the society by the directors, where their personal interests are concerned.

The cashier is the only person whose functions are not necessarily gratuitous; it is permissible to pay him, but his salary in general does not exceed £2 per annum.* In many cases no salary whatever is paid, some educated and well-to-do member undertaking the duty. Operations being very simple and the office being open only on fixed days, the cashier's work is light; most of the work is also done by the directors (*cf.* 'Building societies, United States of America'). Any cash balance is at once paid over to the nearest Postal Savings Bank.

Loans.—Loan operations are very carefully considered and regulated, nor is any loan granted unless judged beneficial to the borrower; its term is calculated according to its intended use, which must be precisely stated in the application. Since the status of the borrower, the area and condition of his farm, and the improvements which he can carry out are perfectly well known, the society will grant no loans which are not justified by the circumstances, even if the candidate offers abundant security. For the object of the society is not a mass of business, since it has no expenses to cover and no dividend to distribute, but beneficial credit, so that it declines to grant loans which, far from aiding the moral and material advancement of an imprudent or ignorant member, would certainly end in ruining him.

Loans are of short term—up to two years, or of long term—up to five years. These latter are not ordinarily given at the inception of a society; when granted they are repaid by annual instalments. A right of demanding payment at any time on three months' notice irrespective of the term of the loan, is reserved to the society. This right can only be used if the society is pressed by its creditors. Generally loans are taken for not longer than one year. The committee of supervision or a special committee demands from the borrower all necessary proof that he has used the loan as intended. Long term loans are covered by mortgage, by sureties, or occasionally by pledge. Short-term loans may be granted on the sole guarantee of the borrower if of approved character, but the total of such loans must not exceed the maximum fixed by the general meeting.

Funds.—These proceed in general from two sources, (1) from a savings branch, (2) from outside loans. At the outset there is admittedly a difficulty in procuring capital, but a beginning may be made with very small funds, and once started, there is never any further difficulty. At Loreggia the society started with a loan of £80 at moderate interest from a neighbouring proprietor. I have stimulated others in good circumstances to follow this example, since the members of the society are their tenants. Certain popular banks and savings banks also grant loans to the rural *cassa* in their neighbourhood, and as the society grows it succeeds in drawing out the secret hoards of the hitherto suspicious peasants. Interest on deposits is at 3 to 4½ per cent. and on loans from Savings banks, Popular banks, &c., at 4 to 5½ per cent. The interest demanded by the society from its borrowers is usually 6 per cent.; the rate is fixed by the general meeting, that is, by those who may themselves become borrowers. The difference between interest paid and interest received forms the profits of the society: these are never distributed as dividends, but, after payment of expenses are handed over to the reserve, which, in Loreggia, is now 10 per cent. of the aggregate of deposits and other liabilities; it is further supplied either by a general annual contribution or by a commission on each loan. This reserve is of the highest importance as a guarantee for credit and as a safeguard against loss. As it grows it will serve to sustain various works of public utility, and with this view the general meeting has, notwithstanding the progress of the reserve, unanimously rejected a proposal which I had made, to diminish the rate of interest payable by the society's borrowers, although the meeting was comprised of 112 persons, of whom only 2 were not borrowers.

The following description of the working of the *cassa* is from the pen of a well-known French economist (Father Ludovic de Besse):—"I have just been present at the office of the Loreggia *Cassa*, which is only open once a fortnight for business. Signor Wollemborg presided, assisted by the chaplain and several members of the committee of supervision and directors. The office is held in the village hall (*chávadi*); the work to be done was the receipt of payments and the grant of loans; the business to be done had been examined by the directorate some days before, and the loan applications had been either accepted or modified, *e.g.*, an application for £8 for a term of one and-a-half years to buy a cow, had been endorsed as follows: 'accepted for £7-4.' The member is informed of the decision, and on the office day, appears and signs a bill not for eighteen months but for three months, since loans of whatever term are granted only on three-month bills, with the view of retaining control over the borrowers, of requiring them to pay the interest every three months, and of stimulating them to pay off the loan as early as possible. If the loan is not utilized as intended, renewal of the bill is simply refused. One of the chief features of the business is the alacrity with which peasants pay their debts; it is visible in their very faces, especially if a man has succeeded in repaying in advance. A borrower may repay at any moment. On this particular morning 10 members were due to come, and duly came, with reference to prior loans; of these, 4 paid up their debts in full, 2 paid the interest and renewed their bills, 1 paid an instalment, another who had paid in advance—treated in that case as a deposit till the maturity of the bill—came to cancel his bill and receive the interest on his deposit; 2 others simply renewed their bills. Two other members from whom nothing was yet due came unexpectedly to pay up joyfully in advance the whole of their debt."

* Allowing for the difference in the value of money this would represent Rs. 12 per annum or Re. 1 per month; the fact is commended to the attention of Indian banking reformers.

"The grant of loans was next taken up; the president announced that the National bank had renewed and increased its credit of £200. Six members came for loans of from £6 to £8; they signed their bills and received their money. It is noteworthy that as many peasants cannot write they are now getting themselves taught for the purpose of the society. Deposits were next received; these are accepted from non-members; this morning only 4 children made deposits of small sums."

"Every transaction is vouched for by a written memorandum in counterfoil, the book being in the custody of the president; the coupon is handed to the cashier who carries out the transaction and files the paper as his voucher, *e.g.*, for a miscellaneous expenditure of 3 francs, the president wrote a memorandum authorizing the cashier to pay himself that sum. At the end of the morning there remained in hand £5-10, which the president remitted with a coupon from the memorandum book to a neighbouring bank. This finished the business, everything having been done quietly and perfectly in an hour and-a-quarter."

In the sixth year of work (1888) the Cassa granted 78 loans for £438; its outstanding loans on the 31st December 1888 were £599, on which interest was due for £15; it had borrowed £120, had deposits of £320, savings deposits of £43, and various deposits for £80, with a reserve of £59.

Experience has proved that the members pay punctually, and where time had been given, owing to sudden misfortune, *e.g.*, death of the cattle purchased with the loan, there had been no eventual failure (this is one great advantage of local societies that they know when they can give time and yet be sure of their money).

The loans were for the following purposes:—94.2 per cent. for buying cattle and live stock; 8.5 per cent. for buying forage, and the remainder for buying implements and silkworms eggs.

As for the moral and material effect of the Cassa, it is, on other testimony, very remarkable.

The priest writes as follows in a public letter:—"Labour is now more honest and the wineshop less frequented; only steady men are admitted as members; and the result has been that drunkards have taken the pledge and kept it. Unlettered men of 50 years of age and upwards have learnt to write so as to be able to sign, &c., the necessary papers. Men rejected as members as being in receipt of public relief, have got their names struck off the pauper list and taken to successful work with the aid of a small loan from the Cassa. Many a man who could not even maintain himself has now bought a cow, paying off the loan by selling the milk and cheese so that her value is clear profit. Empty stalls are now tenanted; there are more beasts, more manure, better harvests. I have heard the members rejoicing at their escape from the cruel usury which was devouring them, and blessing the society and its founder."

The apothecary of the place writes that "the pastures have been tripled in area; the stalls have been purified and the cattle increased; many families are now able to add milk to their diet to the great improvement of their health and strength. The peasant wholly isolated, and the prey of the most shameless usury, had formerly the choice between utter misery and vice; now he is growing in independence and self-reliance; he is proud of his share in the management of the Cassa, and is more sober, industrious, and punctual in his engagements. 'I think myself in Paradise,' said one, 'when I remember what I used to have to pay to the usurers,' and it is common to hear the assertion that since joining the Cassa they are able to afford a better porridge (polenta). A rural association has also been founded by the Cassa with the view of procuring for its members a place of meeting, where with the aid of lectures, discussions, conferences, &c., the best methods of developing agricultural progress under local conditions might be studied. This particular object has not been much developed, but advantage has been taken of this association to elub together for the wholesale purchase of guaranteed manure, seed, &c."

This is remarkable testimony to the value of these petty credit societies; and this is repeated in varying forms, for many of the 35 Cassa reported on by Dr. Wollemborg; all are successful in many the evidence is extremely stirring.

In Trebaseleghe the Cassa opened with 19 members, of whom 10 were "petty proprietors" (ordinary ryots) and the other nine "petty tenants"; the village schoolmaster, a village officer, and the priest undertook the directorate. Difficulties were numerous; the local Shylocks fought it *d'outrance*, the big landholders joined the usurers for fear the "small folk" should get too independent; funds could hardly be got; yet these petty farmers, with their local and enthusiastic directors, triumphed completely. Interest on money is now 6 per cent. instead of 100; stock is increasing, the lands are under improvement, rents are duly paid, and food is better and more plentiful. The loans run from 8s. 4d. to £20, for one or two years, on the usual three months' principle. The repayments are invariably punctual, and usually by instalments in advance. The same testimony is given as in Loreggia to the beneficial influence of the Cassa on idleness or misconduct.

In Buttrio there is similar testimony as to punctuality and as to payments in advance; not a pie has been lost. The Cassa is more and more resorted to for all legitimate needs, and the situation of the peasants is sensibly improving.

There is similar success in S. Angelo de Piave where the workers now get the full fruits of their hours which used formerly to go to others. Again is their punctuality commended.

In Campo San Martino, a youthful landholder took the initiative in 1885, and the Cassa had up to 1889, furnished 239 loans, all for agricultural improvements or for paying off usurious debts, a form of relief of course recognized as legitimate by all the Cassa. This Cassa is supplied with funds by Savings Bank of Padua, which lent it £640 apparently at 4 per cent. repayable in 16 yearly instalments. The operations of the Cassa "have driven out from the village the former frightful usury which used to touch 200 per cent."

In Vigonovo where the peasants were suffering not merely from the universal trouble of grinding taxation, but from fearful losses caused by the vine-disease, and by the great fall in the prices of all agricultural produce, and where usury "always passed 60 per cent." and was "daily becoming more and more shameless," the economic and moral effects are not less remarkable. The Cassa actually "moralizes" its neighbourhood, persons of misconduct reforming themselves so as to become members "the great defect of the peasantry, *viz.*, unpunctuality, has disappeared so far as regards their dealings with the Cassa. M. Rostand says, from his personal enquiries, that drunkards are "being reformed by the hope of becoming members (and probably by the new hope of attaining some

"prosperity); petty thefts are becoming less numerous; the ideas of mutual help are spreading. Not "a single pie has been lost; even emigrants pay up before leaving; any defaulter would not only be "struck off the member's roll, but would be dishonored and excommunicated in civil life."

In Sossario, "the usurers have disappeared," the country side has awakened to new life; independence and self-help are spreading, and of 18 absolutely unlettered (analphabétiques) members of a local Benefit Society, no less than 15 have learned to read and write for the purposes of being admitted to the Cassa.

In Servo, a village of 670 people, money has largely been borrowed to pay off old usurious debts to buy stock, manure and implements, to establish small industries, such as a petty soap factory; it relieved peasants from the clutches of lenders who "under colour of interest grasped the entire harvest "from their fields," and freed men from the thralldom of the shopkeepers by enabling them to pay cash.

In Cerguai, the President of the Cassa, a simple peasant proprietor, writes that they have "broken the chains in which the usurers had bound them." This Cassa is controlled entirely by peasants who are almost the sole inhabitants of the village. One member had obtained a loan of only £7 to pay off a mortgage of that sum which, "without the aid of the Cassa, would have devoured "me to my very hut."

A Chamber of Commerce, writing in 1887 of various Casse, bears witness to their remarkable effect in sobering and improving the peasantry, specially noting that "they are not charitable institutions, giving help to the incompetent and even to the idle; on the contrary they lend only to honest, "laborious, and capable men who know how to use the capital confided to them."

In Abario usury passed everything on record; a report states that the richer peasants had formed a ring which sold maize to their poor brethren at the rate of a sack worth 10/ for 19/ or 20/ payable in three months. This—say 400 per cent.—was bad, but on petty money loans the village head (Maire) states that interest "often reached the fabulous amount of 1,200 per cent."; even peasants not of the poorest class would have to pay on a four months' loan of £4, at least 45 per cent. per annum taken in advance, with a commission for brokerage, and a dinner to the lender and broker. The Cassa has put an absolute end to this sheer tyranny of greed; it lends to these very peasants at the rate of six per cent. and bewilders them by the smallness of its demands. The rules of the system are strictly observed; no loan is granted but for a productive purpose; punctuality is enforced by penalties; strict control is maintained over the members and their use of the borrowed money; here also men learn to read and write so as to join the society (Rostand); members are required to be present at meetings under penalty of a fine. This latter rule is common to all the Casse.

The above extracts, which might be multiplied and amplified to a great extent, show how successful these Casse are; they show also that the common talk, borrowed from treatises on abstract political economy, that usury is but the result of uncertainty and is merely "insurance," is idle talk. The petty villages where usury reigned supreme, and made utter slaves of the peasants, have by the mere organization of *mutual* credit which seeks only the good of the borrowers, at once and everywhere driven usury and the usurers out of the field. Be it remembered that the security of individual loans is in no way increased by organization; it is not that the society gives any guarantee and thus enables a borrower to go to a lender upon better terms; it is simply that a number of men get together and lend to one another on *just the same* security that the individual borrowers were before able to give to private usurers; the same men, in the same circumstances and conditions as before, find it possible to lend themselves money at 6 per cent., and lend it with safety and profit, whereas 60 per cent. had up to that very day been considered moderate by the money-lender. Usury is, in general, as regards peasants, a mere exploitation of misery; it is not necessarily the result of insecurity and poverty; it is too often and too greatly the monstrous offspring of greed and monopoly. A peasant proprietor is not generally poor as compared with artisans, for he has the health and capacity of the latter *plus* a landed estate and stock; he ought therefore be able to borrow on good terms, and the Rural Loan societies of Germany and Italy prove that he can do so, if he is merely taught the methods of organization, methods which he is not slow to learn or appreciate.

Statistics might be given for each society, but the facts are sufficient. The loans are, of course, small, and the aggregate amount comparatively insignificant; that is not the point; it is the fact of success, the fact that these small local societies can successfully work credit organizations so as to oust usury and develop their own industry, status and character, which is important; this point is proved; the rest is a matter of time and development.

A few general statistics may, however, be given for 27 societies up to 1887. The Casse have been started in villages only, with a population of from 317 to 5,000; only four are above 3,000. In all cases the directors are chosen from the men of most influence, whether officials, priests, proprietors or others. The chiefs of the committee of supervision are mostly "peasant proprietors." The number of members was 2,235, an average of 83 per Cassa. Out of these, 493 were petty proprietors holding less than 5 acres, and 580 holding 5 to 12½; 186 were tenants of less than 5 acres and 172 were tenants of from 5 to 12½ acres. Loans granted in 1885-87 were 4,380, of which 3,148 were below £8 and 952 were below £2. During 1887, cash receipts of all sorts were £26,116 and disbursements £25,540.

In all the Casse, the bulk of the loans were for the purchase of stock, implements, manures, seed, forage, &c., for the repair of buildings, or for the redemption of usurious debts; *none* was given for mere purposes of maintenance; the loans are industrial, productive grants only.

Grouping.—Dr. Wollemborg however is not content to start these Casse and leave them to themselves; isolated they might fall; federated they stand. All the Casse founded up to 1890 are in Venetia and are linked together in a group (1) for the collection of information and statistics; (2) for the aid of nascent institutions in organizing their statutes and administration, and in struggling against opposition; (3) for assistance in procuring capital *ab extra*; (4) for supervising the methods of the societies and auditing their management; and (5) for the creation of a common rallying centre for the interchange of experience, for the propagation of the system, and for obtaining legislative reform. The influence of the group committee is simply moral, not authoritative. Padua is the seat of the Central Committee, which not only publishes the monthly balance sheets and reports of the various Casse, but issues a monthly periodical called 'La Co-operazione Rurale.'

The Popular banks of Signor Luzzatti, whether in their direct operations in agricultural credit in the less urban localities, or in their not unimportant function of feeding the *Casse Rurali* of Dr. Wollemborg, appear suited to the larger and more general class of cases; for the *petty* proprietors and cultivators the *Casse Rurali*, operating in the very home of the agriculturists, under their own eye and by their own administration, educating the peasant in thrift, prudence, sobriety and punctuality, and developing other local, even though petty, economic or other associations round them, seem to be the rural credit institutions of the future in the centres of "*la petite culture*," whether that be of proprietors or of mere tenants and metayers.

FRANCE.—In the matter of Popular banks or Loan Societies, France is singularly behind-hand; a people of pre-eminent organizing capacity, with a complete perception of the need for guarded agricultural credit—a subject studied and discussed amongst them for fifty years—with the example of other nations, whether of the Teutonic or Latin race before them; with a soil sub-divided amongst millions of small proprietors wholly unaided by systematized credit, and with a land mortgage debt amounting, in registered mortgages alone, to about £660,000,000 sterling, France has yet failed to establish any system of agricultural or even land credit which should reach the masses of the people; Popular banks and Loan Societies, except in towns, hardly exist; apparently not more than a dozen at most can be counted up, and these are urban rather than rural. If, however, France does not imitate, she originates, and the germ of a great co-operative system of agricultural credit is now visible which promises to spread over France, and may provide useful suggestions for India.

There are in France above 1,100 agricultural associations (*Syndicats Agricoles*), all developed since 1884 (see below *sub. voce* 'Agricultural associations'), and a few of these have developed a branch for agricultural credit; this method bids fair to solve the question for the mass of the small farmers. The associations consist of the various agriculturists of a given neighbourhood, united for the promotion generally of agricultural progress, but especially for the examination and purchase at wholesale rates, of genuine manures, seeds and other matters. Instead, however, of always purchasing for its members, the association occasionally finds it better to advance cash from its share-capital, and this has led to the development of a special branch *ad hoc*.

The best known and pioneer example of an association with credit annexe, is that of Poligny which is an *arrondissement* or *taluk*, having an agricultural association, established with the usual view of supplying its members with agricultural information and materials. The members of the association are admitted by election, the elite of the agriculturists being thus secured; any of the members, and only members, may then join the Credit Union by subscribing a share of £2, of which one-fourth must be paid up. The Credit Union does not form part of the association, but is an annexe with separate status, separate administration, and separate capital and accounts. Most of the agriculturists of the neighbourhood are petty proprietors, as usual, much in need of capital. These petty subscriptions cannot form a working capital, which is obtained as a start by foundation shares of £20 half paid up; these subscribers are the better class of proprietors and landlords, and cannot borrow from the association, but draw merely interest with a fixed maximum. The total subscribed by both classes was up to 1892 only £1,768, of which £1,115 had been paid up; this was increased by £1,434 of deposits; with this small capital loans were granted—solely by the discount of bills—of £1,240 in 1886, £2,400 in 1888, £5,080 in 1890, £6,360 in 1891 and £8,480 in 1892. The interest paid on loans was formerly at the rate of 4 per cent., but is now 3½ per cent. per annum. These results were obtained by re-discounting the bills with a branch of the bank of France usually at 3 per cent.; the procedure is as follows:—A member presents his demand which must state the object of the loan—the association lends at present solely for the purchase of implements, manure, cattle, &c.—this is presented to and examined by the president of the sub-committee of the *Canton* (Union), in which the borrower lives. On his report the loan is granted or refused; if the former, the borrower gives a bill for three months, with one surety; this is accepted by the association, which then issues the money; the bill is then re-discounted by the association, the bank of France accepting its signature as the "third signature" required by its statutes, recognizing that not only does the association guarantee the loan, but that each signatory is a person carefully selected primarily by the association, and secondly by its credit annexe. These bills may be renewed several times, but their short term is necessitated by the fact that the bank of France will not discount bills of longer term than three months. No loan is granted for more than £24. The result is a very considerable business with very small funds, and frequently the rescue of individual cultivators from absolute ruin, as when cattle are swept off by disease, &c. The agricultural association believes that in this way, it is solving the much-discussed problem of the *crédit agricole*; all financial combinations in France up to this time have failed, and it is believed that there, as elsewhere, agricultural credit to small folks can only be granted by mutual co-operative societies. It does not apparently believe even in the new project of a vast central establishment under the patronage—as formerly—of the *Crédit Foncier*, but working, as was proposed in Belgium through local intermediaries, which already exist in France in the shape of the 900 and odd agricultural associations, for these have no particular interest in safeguarding the interests of the lending establishment, but will rather incline to favour its members at the expense of the institution; they will, moreover, require remuneration, and this will raise the cost of loans.

The secret of the success of the present association is that it is a local group of associates, that it works for the immediate benefit of its own members, and does so gratuitously; it can appreciate the position of each borrower, and is ready to grant him delays or other assistance, if necessary; no central institution working by hired employés and with funds intended to earn the highest possible dividends with the utmost regularity, can do so.

It should be noted that this credit branch is due to the initiative and liberality of one member, M. Alfred Bouvet, who, at first, placed his accountant and cashier at the service of the nascent Society, and thus gave it the advantage of a good system of accounts gratuitously. As profits accrued, the society was able to pay its staff. All its directorate and members of committee, twelve in number, give their services *gratuitously*; the demands on their time are not great, and the local prestige and influence fully compensate for any slight loss of time and labour. The society had not at first greatly attracted deposits in spite of a fair interest at starting of 3½ per cent., but it is now developing this branch; in 1890 it had only between £200 and £400 in this form; on the 31st December 1892 deposits had reached

£1,435, though the interest had been reduced to 3 per cent; deposits are term deposits usually for three months certain; but, as will have been seen, its real dependence for funds is on the bank of France which re-discounts its bills at 3 per cent. or less; deposits, except as promoting thrift, are therefore of less importance financially; but to fulfil the true role of an association, and to instil true ideas as to capital and credit, it is suggested that the savings bank department is worth still further and special development.

The reporter, M. Milcent, considers that Government should place at the disposal of the Minister of Agriculture a lump sum annually for distribution as grants-in-aid to such agricultural associations as found branches of mutual credit; in this, it would only follow its own example in the matter of provident and friendly societies. £40 or £60 granted to defray first expenses would be sufficient, and the total *per annum* would not be considerable.

Finally, he considers that the solution of the whole problem lies in grouping agriculturists in associations, in organizing them into groups, in inducing men of intelligence to devote their time and brains to this important work, and in providing the first funds so as to start nascent societies favourably.

It seems probable that it is the success of this little society which has inspired M. Méline with the idea which he developed into a bill for the organization of agricultural and popular credit, a bill which has now passed into law; this law proposes to utilize the agricultural associations, or rather their credit annexes, in dispensing rural credit, funds being provided by a central bank which shall re-discount agricultural paper, which has been discounted by the Crédit Unions. The fundamental advantage possessed by this proposal over the former attempts of the Société du crédit agricole, and by the abortive Belgian proposal, is that the proposed intermediaries between the central institution and the peasants already exist in the 1,100 odd agricultural associations or in the credit annexes which either already exist or may readily do so in the early future; if the project succeeds it will be due to the prior existence of the agricultural associations and of the pioneer Crédit Union of Poligny.

The statutes of this 'Crédit Mutuel' will be found in an appendix; as also the model statutes for agricultural associations under the law of 1884, which is also translated.

The Syndicat Agricole of Compiègne has not itself established any Credit Society, but makes use of a responsible manager as intermediary who—as surety—guarantees the paper of the members when presented for discount to a banker, and receives a commission for his risk.

It seems possible that associations, whether in Europe or India, might, as soon as corporate life became established, adopt or adapt this principle for a special credit branch, *e.g.*, a very small capital, derived from the subscriptions of the members of the branch, and securely invested in Government paper, would serve to guarantee an indefinite number of discounts of short term paper with a bank, for only a portion would be maturing at the same time, while a very small portion indeed would ever be lost, seeing (1) that the borrowers would be the best of the ryots as evidenced by their membership of the association; (2) that they would also be as members of the Credit Union a further selection from the association members, who had by their subscriptions and by their selection evinced *prima facie* their solvency; (3) that they would, in case of default, be subject to exclusion from the society and its benefits. Or it would be possible, as in the above case, for the association simply to use as intermediary a person of well-known solvency who would give his guarantee for a consideration.

Further particulars are now available up to 1892 from the work of M. Le Comte de Roquigny (1893) on the Syndicats Agricoles, who mentions 10 other syndicates, which, chiefly in 1891 and 1892, have started credit branches of one kind or other. That of Genlis founded in 1891, works without capital through a member of the syndicate who has deposited securities for £400 at a branch of the bank of France as a guarantee; the bank then, on the security of this deposit, discounts bills of the association members; a borrower signs and gives a bill to the President of the association who countersigns it; these two signatures coupled with the security abovementioned are accepted by the bank. The guarantor or depositor of the security apparently gets a commission for his services, while he is saved all trouble and risk in drawing the interest on his securities which is done by the bank. Loans can only be obtained by members of the association, and for a productive agricultural purpose, and the borrower must name a surety: the maximum loan is for £20, and the term three months renewable twice or thrice. Interest is 1 per cent. above the discount rate of the bank, *plus* $\frac{1}{2}$ per cent. for charges, and $\frac{1}{4}$ per cent. on each renewal. Loans are also granted in kind (seed, manure, &c.); as the French law grants a special privilege to lenders of this sort, no security is necessary.

The association of Deux-Sèvres has a reserve capital of £1,600; with this and the personal guarantee of the president, the association has an unlimited cash credit with a bank: this enables it to buy wholesale, manure, &c., which is retailed to the members either for cash or on credit at the rate of 6 per cent. per annum: in six months from January to June 1892, the association had opened credit accounts with 450 members to the value of £2,600, and had supplied 2,400 tons of goods, chiefly among small cultivators.

Another society (Lunéville) has pledged its property worth £1,000, and with this and a reserve of £820, both given in pledge to a bank, it obtains the discount of bills, which, in 1892, aggregated £20,000.

At Saint-Florent-sur-Cher the association founded in September 1891 a popular bank similar to those of Germany and Italy with a subscribed capital of £360, and paid up of £200: its paper is discounted by the bank of France up to £800. With this facility and with deposits of £1,300 it had, in 1892, granted 86 direct loans for £2,788, and had discounted bills for a still larger amount. The management is purely gratuitous, and the profits will be utilized in cheapening credit which, however, for agricultural loans is only $\frac{1}{2}$ per cent. above that of the bank of France.

By these means individual cultivators wholly unknown to the regular banks, who could not, moreover, trouble themselves to enquire about persons wishing to borrow only £10 or £20, obtain credit at the cheapest rates, through co-operation. Forming themselves into a society, and subscribing a modest capital, they are able, by the guarantee of their capital and of the additional status given to them as members of an association, to obtain the desired credit, and as each member is interested in the safety of the association, each, while ready to help his neighbour, at the same time watches his utilization of the loan, which, in all cases, is only granted for some direct agricultural purpose.

Attempts are also being made to aid the small farmer not merely in obtaining credit, but in getting the best prices for his produce; the associations are endeavouring to grant advances upon crops in hand, so that peasants, instead of dealing as isolated units with brokers, or throwing all their produce at one time on the markets, may be able to hold over their produce by obtaining advances against them from the associations. Owing to the provisions of the law, goods cannot be the subject of pledge (gage) without actual delivery of possession; there is nothing corresponding to the English bill of sale. Hence the efforts of the associations are confined to storing the peasants produce and issuing advances and warrants against them; they also issue to the peasant materials required by him against part of the value, the transaction being called "credit by exchange" (*le crédit agricole par virement*). As the associations demand a minimum profit, the peasant gets the full benefit of selling at leisure, and through the ability of the association to higgler and place produce profitably, he usually gets a far better price than if he dealt personally with a broker or a glutted market. The subject is mentioned not merely to show the various forms which credit may assume, but to show how these local Credit associations may in this presidency, assume the rôle of produce brokers, both for the purchase of raw produce from their members, or its receipt and sale for the benefit of members, or for the supply to members of necessaries at wholesale rates. As regards the grant of advances upon produce, the procedure of the bills of sale Act, or the corresponding procedure of the Italian and Belgian special laws (*see 'Crédit Agricole'*) may be adopted. It is also probable that by providing grain pits or granaries the (future) associations of this presidency might actually receive produce in kind which might be lent out in subsequent seasons for seed, maintenance, &c., and thus adopt the rôle so successfully filled by the *Positos* of Spain and the *Monti Frumentarii* of Italy (*q.v.*); they would, in addition, serve as granaries for relief in time of famine, and would serve the excellent purpose of utterly preventing rings to keep up the price of grain in times of scarcity.

BELGIUM.—The following extract from Commercial No. ²⁰₁₈₈₆, gives an account of the Belgian popular banks. It should be explained, however, that they do not serve agriculture to a great extent, but chiefly other industries. It will also be observed that a loan can be obtained for other than productive purposes:—

"Co-operation took root in Belgium later than in England, Germany and France, the first Co-operative Society being the People's bank at Liège, founded in 1864; once started, the banking system soon found ready disciples, and in 10 years' time of the 34 Co-operative Societies then existing no less than 20 were Popular banks. They are of great service, not only to the labouring classes, but to the small tradesmen and farmers, who are helped by them to carry on their business. These banks are founded on the following general principles:—

"(a) The admission of new and the resignation of old members without any necessity for renewing the terms of partnership.

"(b) As a consequence of the above there is no restriction on the society's capital and administration.

"(c) Assistance and loans granted by the banks are limited to their members.

"(d) As an essential condition of membership, the associates must put aside some savings, no matter how small they may be; as a general rule the obligatory subscriptions vary from 100 to 300 fr., which can be paid down on joining the bank, or in weekly or monthly instalments.

"(e) Lastly, the unlimited liability of all the associates for all obligations contracted by their bank during and previous to their membership. This principle of unlimited liability is not, however, universal; the responsibility of members is often limited to double, four, ten, or twenty times their share in the capital invested, and even in some instances to the amount of that share. The Belgian law of 1873, which gives corporate rights to co-operative societies, leaves the individual liability of members an open question. The risk to the People's banks of such limited liability has been often pointed out; some worked on this principle have succeeded in getting support from the National Bank, but only in cases where the solvency of the People's bank is sufficiently guaranteed by the patronage of men of wealth and position. Should these patrons die or resign, the banks which are hitherto traded on their credit might find themselves in difficulties.

"The amount of good done by these banks in various ways is very great. Should an artisan want to buy or repair his tools, he can obtain from the bank a loan for the purpose, and buy them for ready money, and at his own choice and price; if by thrift and economy he repays the loan, his bank is ready to advance him larger sums, varying from 120% to 200%, to assist him in improving his position; nor is it only in their business affairs that the workmen receive help from the banks. To cite only a few instances: should he want a marriage outfit he can get it from his bank; if his son is drawn for military service, his bank advances him the money required to buy a substitute. The amount which each member may borrow is however limited, and in proportion to the amount of his investments; generally the limit is fixed at twice the amount of the latter.

"The following is an analysis of the statutes of the People's bank at Liège, one of the eldest and most flourishing of these institutions.

"As explained in article I, the object of the bank is to procure by its collective credit the capital needed for the industrial, commercial, and domestic wants of the members. The capital of the Liège bank is obtained from the following sources:—

"(1) From an entrance fee of 3 fr., which go to form a reserve fund, the exclusive property of the association. (In the event of the bank being wound up, this reserve fund would be divided equally amongst the members.)

"(2) From shares taken up by each member of 200 fr., to be paid either at once, or by monthly instalments of 2 fr., or by weekly instalments of 50 c. The members are not allowed to take more than this share, in order that there may be an absolute equality of interest, rights and liability amongst all members.*

* This restriction is not universal: the Tournai bank, for instance, allows its members to subscribe for several shares: but this system is liable to abuse, and is hardly in harmony with the democratic spirit governing People's banks.

"Until the 200 fr. share is paid up the member receives no dividend, but the amount he would otherwise have received is entered to his account, and reduces *pro tanto* the balance of the 200 fr. still owing. These shares remain the absolute property of the members, and cannot be alienated.

"(3) From the member's savings.

"(4) From investments of the outside public.

"(5) From loans raised by the bank, for which all members are jointly liable, and the maximum amount of which must be fixed by the general assembly. As a general rule, this maximum may not exceed half the bank's capital.

"In addition to the entrance fees, a portion of the bank's annual profits is also paid into the reserve fund, the amount so withdrawn to be fixed each year by the general assembly, but it cannot be less than one-twentieth of the net profits. This payment from the profits ceases to be obligatory when the reserve fund equals the tenth part of the bank's capital.

"The affairs of the bank are administered:—

"(a) By an executive committee composed of the president and a salaried manager and treasurer,* who are charged with carrying out the resolutions of the council and of the general assembly.

"(b) By an administrative council meeting once a week, elected by the general assembly, and empowered to admit or reject candidates, to appoint the executive committee, to contract loans, to make advances to members and generally to manage all the society's business.

"(c) By a committee of supervision, having unlimited control over the financial operations of the bank, which is also named by the general assembly.

"(d) By the general assembly, which meets at least twice a year to examine accounts, and has supreme control over all the business done by the bank. The action of the assembly may be said to be the direct application of the principle of universal suffrage to the control of financial matters.

"Candidates for admission into the society must present themselves at least eight days beforehand to the administrative council, in order that inquiries may be made into their antecedents. A member may be expelled by the general assembly if his subscription is three months in arrear, or if it has been needful to summon him before the tribunals for non-payment of loans, or if any serious offence has been proved against him. On the other hand, a member may leave the bank at pleasure, after giving due notice in writing: should a member be expelled or resign, he is none the less held personally responsible within the limits of the conditions he subscribed on entry (4,000 fr. at Liège), during a term of five years from the date of his expulsion or resignation for all the engagements binding at that time on the bank.

"Loans can only be made to members, and under certain conditions and guarantees: they cannot be less than 10 fr., nor exceed 4,000 fr.; they are made for three months at most, but this period can be prolonged by the council. To obtain a loan a member must—

"(1) Give the council proof of his solvency.

"(2) Show that he has paid up any previous advance, without calling on his surety.

"(3) He must have belonged to the bank for at least one month.

"Advances may be made unconditionally to the amount of the members' shares in the bank: the executive committee may make further advances, not exceeding twice the applicant's capital; and still larger sums may be advanced, if the applicant can find sureties for the amount.

"The success of the People's bank at Liège has been most remarkable: starting with but 67 members, in a small room in a back court, it enrolled in 11 years over 2,000 members, and advanced 14,000,000 fr., of which total only about 65,000 fr. were lost. During these 11 years over 106,000 fr. were distributed in dividends, and a reserve fund of 19,000 fr. was created.

"The Antwerp People's bank has also proved very successful: the administrative council is composed of some of the city merchants, and of one workmen's member, elected by his fellow members, with a consultative but not a voting right on all questions submitted to the council. All candidates for admission must bear a good moral character, and secure three-fourths of the votes of the electing council. Members can obtain loans of sums not exceeding a maximum of 30,000 fr., to be repaid in three months' time, or after a longer period by special consent, in each case, of the council.

"The first congress of the People's banks was held at Liège in 1869, since when meetings have been annually held in one or other of the chief towns of the kingdom: out of these congresses has grown the 'Fédération des Banques populaires Belges,' with its head-quarters in Brussels, and under the administration of a permanent committee, on which all the Popular banks are represented. The object of this federation is to maintain the unity of all the Co-operative banks during the intervals between each congress."

The bank of Argenteau is worth describing, though founded only in 1889, as a specimen of a few banks founded by Co-operative associations. The members are jointly bound for all the engagements of the society: each share is of £8. There are two classes of members, (a) founders who may hold five shares, but may not obtain loans; (b) ordinary members with a single share payable weekly or monthly by instalments of 5d. or 1s. 8d.; these can borrow only after having paid up about £1. Founders cannot retire during the thirty years' duration of the society; ordinary members can retire after six months' notice. Of profits, 20 per cent. goes to the reserve, and the remainder up to a 4-per cent. dividend to members; any balance goes to a special reserve or as dividend. Loans may not fall below 8s. 4d. or exceed £200. A member can always demand a loan up to the amount of his subscriptions, and to twice the amount upon his sole signature if sanctioned by the directors; beyond that amount other security must be given; the ordinary term is for six months prolongable to nine months.

SPAIN.—Besides the Positos (see *infra*), there is a bank which is considered in Spain as the type of Banque Agricole, and is held, and justly, in high esteem; this is the Banco Agrícola de la Provincia de Segovia, founded in 1882 by a group of landed proprietors desirous of helping the peasantry. The bank started with articles of no special peculiarity, but has modified and developed its practice by

* This committee of the Liège bank is now assisted by paid clerks, on account of the great extension of its business.

its experience, therein presenting a precedent for Madras; it is almost impossible to draw up in advance, a scheme which shall be absolutely practicable when the facts, data, and even probabilities are unknown, or which shall not be condemned by experts and theorists at every point of novelty. It seems necessary to start in a simple way and gradually to evolve the methods suitable; *solvitur ambulando*. In the case of the bank of Segovia its operations as developed are unusual, but appear to be justified by experience; for instance it lends for periods extending to seven years its deposits demandable at call, a method adopted by Raiffeisen, who, however, had the principle of unlimited liability to strengthen his position.

Objects.—The bank is a joint stock bank with a capital of £40,000, in 2,000 shares. Its objects are—

- (1) to lend in cash or in kind on movable and immovable property, including crops on the ground or tree, and flocks and herds;
- (2) to receive in deposits all kinds of securities and cash, and to open current accounts with societies, corporations and persons;
- (3) to issue debentures in conformity with the law of 19th October 1869;
- (4) to carry on ordinary banking operations after satisfying the requirements of agriculture.

Shares.—Its shares are divided into four series, of which the first consists of 500 founders' shares issued at a discount of 25 per cent., this discount being allowed in order to attract the first working capital, and being debited to costs of installation: the share value is payable by successive instalments of 10 per cent. at two months intervals; the remaining series are issued at par, and, whenever necessary. Shares not punctually paid upon can be treated as lapsed and sold without the intervention of court.

Profits.—Net profits found, after paying all expenses and the interest on any debentures, are divided as follows: 5 per cent. to the expenses of installation until satisfied, and thereafter to reserve which must accumulate up to at least 25 per cent. of the share capital: 20 per cent. to the directors and secretary; the remainder as dividend.

General Meeting.—This consists only of those holding five shares or more: before the meeting such shares must be deposited in the office, and the receipt, with a ticket for the meeting, is given to the depositor: every five shares gives one vote up to a maximum of five votes. Any person entitled to take part in a meeting may, after the issue of the meeting notice, examine all the accounts, books, and balance sheets of the bank. A special meeting can be called by any six or more shareholders who would be entitled to take part in a meeting; a written demand with a statement of objects and reasons must be put in.

Disputes.—Every question which arises between the company and its shareholders must be settled by "judicial arbitration" (*en juicio arbitral*).

Debentures.—These are issued in series, but all details are left to the disposal of the directors. Public bodies, especially communes, are specially invited to subscribe for them, promise being given of a preference in the matter of loans to the inhabitants of such communes up to the amount of such subscriptions—a most ingenious attempt to finance their debentures.

Loans.—Mortgage loans are repayable either by amortization or in lump: any loan may be wholly or partly repaid in advance, 1 per cent. being added as commission. Only first mortgages are allowed, unless the loan is to pay off former mortgages, the two operations being then simultaneous. Loans are granted up to 40 per cent. of the value, and full proof of title of freedom from charges of due payment of rent and taxes is required, together with a deposit of all costs of inquiry, including the fees to counsel for an examination of the title. In case of incomplete or mere possessory title, two good sureties are required in addition.

Loans "*de credito agricola*" that is, on crops (whether on the ground or in the barn), stock, &c., are granted for the agricultural year, which is held to begin and expire on the 24th August: apparently all such loans, whenever taken, must be settled up by that date. These are the loans for which the bank is especially established. Proprietors requiring loans of this class must prove their ownership, and tenants their leases and the regularity of their payments of rental; both classes must provide two sureties. Every person, proprietor or tenant, who obtains a loan of this class, becomes thereby a mere trustee, bailee or manager for the bank of the property pledged (*se constituirá administrador y depositario de lo que hubiere ofrecido en garantía*), until complete repayment: if he fails (*si se hiciere insolvente*) presumably wilfully—in this trust, he incurs penalties of the Penal Code, presumably for breach of trust, and an express entry to this effect is made in the document.

Repayment, may, by agreement, be made in kind.

The loans on cash credits amounted, in 1890, £15,420; the bank reserves its right to close such credits at any moment. Its mortgages only amount to about 2 per cent. of its assets. It is, however, its agricultural loans proper, on personal credit, which are its speciality. These last, may, by its articles, be granted for one year, and, to grant these long term loans, the method of obtaining long term capital by means of debentures, which it hoped to place with municipalities and communes as investments for their endowments, was adopted; in this it was disappointed though it held out the inducements of preferential loans to inhabitants of such communes as had invested in their debentures. As a matter of fact its funds are chiefly derived from savings deposits (whether by savings banks or individuals is not clear) to the amount in 1890 of £69,030, while its paid-up capital was only £14,620.

The bank, nevertheless, extended its loans on personal security to two years, and further granted permission to repay these loans by five instalments of six months or one year each, beginning from the end of the two years; hence a maximum term of seven years, in which the borrower pays only interest for the first two years, and the debt itself with interest during the subsequent five years, a practice similar to that of the bank of Naples, which, for certain mortgages, suspends amortization for the first years—a concession eminently adapted to improvements—such as the digging of wells, planting of orchards, &c.

The bank considers that for an agricultural bank these long term loans are a positive advantage to the bank, as the returns are constantly flowing in, whereas short term loans are demanded and repaid usually about the same time, such as seed time and harvest, so that the bank has its money idle for some months, and unduly in demand for others. The success of these long term loans has, so far,

been complete, but its ability to meet the demands of depositors depends evidently upon its credit merely, and this again on its sagacious and honourable management. That is the difficulty, the bank is a success, but only in virtue of qualities not always available.

Its loans in eight years amounted to £546,300, no loan ordinarily exceeding £40, while a large number are much smaller, viz., £2, 4, or 8. Only about 2 per cent. of its loans are on mortgage, personal credit being the usual form granted. It is the boast of the bank that it has not yet lost a farthing, nor has it been yet obliged to seek the aid of the Courts to recover its dues at échéance.

GREAT BRITAIN.—It is not proposed to give an account of English banking as related to agriculture; the class of farmers in England and Scotland are of a position generally much superior in intelligence, capital, size of farms and methods of working, to those of the ryots of this presidency; they are accustomed to deal with banks in considerable operations; the banks regard them as any other customer and take their paper, whether bills or promissory notes, as readily as that of ordinary business men, and all this is, like the agriculture, on a comparatively large scale. Out of 24,891,000 acres only 1,506,000 or 6 per cent. are cultivated in farms below 20 acres, whereas in Madras 45 per cent. of the area is cultivated in farms of 20 acres or less: in England a tenant farmer with less than £500 actual capital is a comparative rarity. Moreover most farmers are tenant farmers, whose capital is not sunk in the purchase or permanent improvements of the soil; their capital is more or less working capital (capital d'exploitation) and is used merely for stocking and working the farm. Hence, should they require credit at all, it is only for short terms for the purchase of manure, &c., and it is therefore easy, both because of their comparatively large stock, and because of the shortness of the accommodation required, to procure loans upon bills or promissory notes, or, at worst, bills of sale. Hence unless in the Scotch and Irish banks, and in certain classes of loan societies, there is little in the mere banking of Great Britain to assist this study. But in the Scotch banks, in the provisions of the Acts for the various Friendly, Co-operative, &c., societies, and the drainage and land improvement societies, there is much that is instructive, and a short notice will accordingly be now given of these institutions.

Scotch Banks.—Scotch agriculture owes so much to the banks that it would be impossible to deal with agricultural banks without mentioning them; Scotland, as Lord Macaulay has said, has been transformed by her schools and banks.

The Scotch banks, while eminently useful to agriculture, are not Agricultural banks in the ordinary sense; they are not special banks but general, dealing with all classes of commerce, trade and industry; their development was two-fold; first, in the eighteenth century they developed locally as individuals or persons who were trusted by their neighbours with savings; one at least was a linen-draper at the beginning; these developed into partnerships, with a local range, like that of the country banks of England; they issued their notes as a safe and cheap substitute for gold in the old days when communications were few and dangerous. But in the beginning of the nineteenth century, as commerce and communications developed, joint stock banks were started and pushed their branches into the districts, absorbing the old private corporations and developing their business to suit the development of trade and agriculture.

Their success seems due partly to their power of attracting deposits, partly to their issue of notes which formed a cheap, portable and safe currency, partly to their invention of cash credits, partly to the thrifty and prudent characteristics of the people. They accepted on deposit very small sums (£10) and granting interest even on these small deposits, which, moreover, were treated as current accounts, they developed habits of banking among a race naturally inclined to be thrifty and hard-working; these deposits finding insufficient investment, the cash credit system was invented by which operating loans were granted to solvent persons or men of known good character who gave a bond with two sureties for the maximum amount of the advance; all drawings were charged with interest, while all repayments were credited with somewhat lower interest as deposits. In this way the bank obtained a profitable investment of its funds, and an incessant circulation for its notes, since the credit was only maintained if continually operated on by drawings and repayments; on the other hand an industrious borrower got funds at the cheapest possible rate, and acquired habits of punctuality and thrift: industry in general and agriculture in particular, was immensely helped by these advances, since the Scotch farmer seldom had enough capital for improved farming, but with his industrious habits, was perfectly ready to adopt or create improvements if capital were available; the cash credit supplied these advances, and the notes furnished a cheap circulating medium profitable to the bank and convenient to the people; as banking habits grew, accounts were settled by cheque or book adjustment; the banks found it profitable to start branches first at the larger towns and then in remoter places, while their branch agents visited all the chief fairs and markets and transacted business with their clients on the spot. The original method of attracting deposits was to receive them for fixed terms at comparatively high interest; as deposits increased the method of deposits at call upon the "deposit receipt" system was adopted in addition to that of the ordinary current account. These deposit receipts bore a varying but small rate of interest, usually 1 or 2 per cent. below the discount rate of the bank of England; of late years no interest has been allowed on current accounts, which, however, are only about one-fourth of all deposits, the remainder being on deposit receipts.

The note system has, of course, been of great assistance to the banks; prior to 1845 it was unrestricted, and the advantage of carrying large sums in a small box instead of heavy coin, greatly assisted the bank's agents in pushing credit. Then, as coin cannot be demanded for the notes except at the head offices, branches have not to keep any great stocks of coin, but merely a supply of notes; in fact the "till-money" of the banks is said to be largely in notes. Mr. Michie, President of the Royal bank of Scotland, states ('Forum,' September 1893) that while the authorized issue (restricted since 1845) is £2,676,000, against which no cash need be held, and the average *excess* issue, against which coin must be held, is perhaps four and-a-half millions, the till-money held by the banks at their thousand offices is at least seven millions and probably much more: hence, while the direct profits of the note system are not great, the indirect profits are very considerable. The matter, however, is hardly of importance in India, which has, and will have merely a State paper system; it is mentioned to show one great cause, especially in the days of bad communications and frequent highway robberies, of the success of the Scotch banks.

The result of this is that even at the present day coin, especially gold, is comparatively little used in Scotland; everybody down to the domestic servants banks, so that the notes of the banks or their cheques are the common circulating medium; everybody is thrifty for the banks not only receive very small sums, but invite them by paying 2 per cent. interest thereon; deposits in 1890 aggregated £89,000,000 (£93,000,000 in 1893) for a community numbering only 3,735,000. There are ten banks with 945 branches (in 1887) which penetrate even to the villages; practically a bank is within everybody's reach, there being one (branch) for every 3,910 people, a number with which Switzerland alone can compare (Australia excepted) having one bank including, however, savings banks, for every 3,300 people; the Madras Presidency would require above 9,000 banks or branches on the same scale.

The problem is, how did the Scotch banks manage to push these branches without loss; a central bank cannot usually, and, in fact, has nowhere succeeded except in England, Scotland and Australia in sending out numerous rural branches; the expenses of paying the establishment of a rural branch while waiting for custom are usually deterrent, and the risks are always considerable. Probably there were at first considerable losses, but the chief reasons for success seem to be (1) that the bank's agents first went out with a box of notes to markets and fairs and made themselves and their bank's credit and other facilities known to the farmers; these were induced—this is certain—to send in their savings even 40 or 50 miles to the market town or to leave the proceeds of their dealings there on market day, rather than keep their money at home or take it home without interest at risk of loss; as soon as the bank became fairly known in a circle, it sent out a branch there; in other words the banks began by agents who went to the people; then they placed branches at market towns and attracted a clientèle, before they sent out branches to the smaller places; (2) they found a clientèle all ready to hand (*a*) in the clients of the older corporations (*b*) in a population ready, with Scotch shrewdness to place their money at interest and in safety; (3) the notes of the banks and cheques drawn on them formed a safe and easy method of transferring funds, which, till recent developments of communication, otherwise ran great risks; (4) not only was there a ready and thrifty clientèle, but the class of farmer was more considerable than that found in Continental Europe and in Madras; the farms are of considerable size, only 14 per cent. of the cultivated area being held in farms of less than 50 acres, so that cash credits and other business were concerned with considerable sums and thus made business profitable. Writing in 1873 Mr. Somers says of the Scotch banks: "Wherever there are transactions going on, the Scotch banks push them (branches) outwards. At our great country fairs held on moors and hills at some distance from a town or village, they open tents or booths, and sheep, lambs or cattle sold, are paid for within a few paces of where they stand, without the handling of money by buyer or seller" (that is by means of cheques or mere transfers of account through the bank agent). "Such is the elasticity of the Scotch banking system. Fifty or more years ago, country people entrusted their savings to some neighbouring proprietor or cattle dealer, who had the advantage of being known to them, while the banks were yet too far away to be known. But this irregular bank, of course, often failed, and money then came dropping in 40 or 50 miles to the nearest town where there was a bank by the hands of the common carrier. As such contributions increased, the bank bethought itself of opening a branch in these virgin fields, and where one banking company went another followed. Nearness to depositors is absolutely necessary to confidence. If you seek the custody of people's money, and more especially the money of the shy saving class, you must be known to them and be seen by them in flesh and blood." ('The Scotch banks' by R. Somers.)

There seems no reason why similar banks should not be formed in Madras with branches in district head-quarters, therein to work out into the districts as the Scotch banks exploited the Scotch counties by agents and finally by small branches. The district, for instance, of Coimbatore is full of large regular weekly markets which ryots frequent to sell their produce and buy necessaries; communications are good and the country safe; this and other similar districts could easily be worked on the Scotch plan, if the men to work it were available. There are no greater risks in modern Madras than there were in Scotland in the time of Adam Smith: far less indeed; and the Scotch banks worked wholly without privileges or concessions, and solely by their own merits and by their adaptation to their environment out of which they grew. But if the energy and power of organization is wanting on the one side, and a suitable clientèle on the other, then no amount of privileges or concessions will avail to render banking a success. Be it remembered that the agricultural clientèle of the Scotch banks are tenant farmers, not proprietors, with nothing to guarantee their solvency save their own capacity and industry; their farm stock is generally much below the value of their cash credit; their leases are seldom or never beyond nineteen years which is the regular Scotch maximum term, and they have no proprietary interest in the land to offer on mortgage; their sureties merely depend on the character of their principal and the object of the loan. A Madras ryot has, however, his land as well as his stock; neither may be very valuable, but together they form a tangible and complete security. Communications, Courts, security, are all far better in 1892 in Madras than in Scotland in 1792, and there is no discoverable reason why banks started in a modest way by Indian capitalists should not abundantly succeed if they will be content with moderate establishments and modest profits.

Friendly and other Societies.—These will be noticed in order to bring into prominence the facts (*a*) that there are numerous Loan, &c., Societies in Great Britain deserving of study by the Indian public; (*b*) that these are chiefly of the mutual or co-operative type; (*c*) that they are regulated by special laws; (*d*) that they are granted certain privileges; (*e*) that they are subject to considerable and increasing control not only in the laws, but by a special officer; (*f*) that the numerous Nidhis of Madras probably originated in one class of them (Building Societies), and yet have neither the laws nor the privileges nor the control found necessary for them in England; there are in Madras numerous Co-operative or Mutual Societies, but no co-operative law as everywhere else in the world.

The British societies, inclusive of the ordinary Joint Stock Companies, which grant credit are (1) The Friendly Societies and Societies specially authorized and registered under the Friendly Societies' Act; (2) Industrial and Provident Societies; (3) Benefit Building Societies; (4) Incorporated Building Societies; (5) Certified Loan Societies. The Acts are as follows: the Friendly Societies' Acts, 38 and 39 Vic. (1875), Cap. 60, as amended by 50 and 51 Vic., 1887, Cap. 56; the Industrial and Provident Societies' Act, 56 and 57 Vic. (1893); the Loan Societies' Act, 3 and 4 Vic., Cap. 110; the

Benefit Building Societies' Acts, 10 Geo. IV., Cap. 56, 6 and 7 Will. IV., Cap. 72, and 4 and 5 Will. IV., Cap. 46: the Building Societies' Acts, 37 and 38 Vic. (1874), Cap. 42, and subsequent Acts including the new Act of 1894. All the above societies are distinct from one another and are governed by distinct laws, even when the granting of credit is a common object. The material portions of these Acts and the Treasury rules relating to them will be found in another Appendix.

All the above Societies as well as some others, but not Companies under the Companies' Acts, may register themselves in the office of the Registrar of Friendly Societies; such registration is voluntary, but seems to be nearly universal, since many privileges result from the Act; these will be mentioned under the separate classes of Societies.

The public functions of the Registrar, who has been called the 'Minister for Thrift,' are as follows* :—

10. The chief public functions of the Registrar (without here distinguishing those which are reserved to the Chief Registrar) fall under the following heads:—

- (a) Registering or otherwise recording the rules, and generally the leading events in the life of the societies with which he has to do (savings banks excepted).
- (b) In some cases, chiefly under the older Acts, certifying that rules are in conformity with the provisions of the special Acts, or with law generally.
- (c) Receiving and enforcing the sending of the various returns required by law, and in most cases keeping such returns when received.
- (d) Giving official copies of documents in his custody.
- (e) In certain cases determining upon disputes, either generally, as in the case of savings banks, or under specified circumstances, in the case of societies under the Friendly Societies Acts, the Industrial and Provident Societies Act, and the new Building Societies Acts.
- (f) Prosecuting for various offences under particular Acts, or in some cases for fraud or misapplication of the funds of societies, or, in some of the latter cases, authorising prosecutions by members.
- (g) In some classes of societies, authorising changes of name.
- (h) In some classes of societies, exercising on the application of a definite minority of members a limited amount of interference with societies by (1) inspections; (2) the holding of special meetings; (3) if need be dissolution of the society.
- (i) As respects some classes of societies, giving directions for the transfer of certain securities.
- (k) As respects some classes of societies, with the approval of the Treasury, preparing and circulating model forms, circulating useful information, and constructing and publishing certain tables.
- (l) In one case only, certifying for exemption from rates.
- (m) Reporting yearly to Parliament.

11. But it forms no part of the functions of the Registrar—

- To advise members or officers of some 30,000 different bodies as to the best mode of carrying on their business; or as to their legal rights or remedies.
- To interfere of his own motion in the management of such bodies.
- To overhaul their accounts.
- To compel them to follow good advice, or prevent their going to ruin with their eyes open.

The Registrar has no power to ensure the good management of societies, nor does registration guarantee the solvency or honesty of a society. But such registration and the supervision consequently exercised, is a very material help to good management, and a most wholesome check upon dishonesty, negligence, and incapacity which is often neither dishonest nor negligent, but simply ignorant and inept, *e.g.*, full provision must be made by registered societies for the settlement of disputes, which may be referred to the Registrar, who then has the powers of a Court; or if the rules provide for application to a Court, the dispute shall be decided by a Court of summary jurisdiction or by a County Court. Again a wholesome set of rules is provided by the special law for the protection of individual members; so also, a small minority can call upon the Registrar to inspect the affairs of a society, and even to dissolve it, if its affairs require dissolution; audit and valuation are made compulsory and public auditors and actuaries are rendered available to the societies. It is obvious that these functions are very different from those prescribed for the Registrar of Companies under the Indian Companies' Act.

Friendly Societies, &c.—These are not in themselves loan societies, but were established,—and now have an enormous membership,—to provide for relief in sickness, old age, widowhood, &c., &c., for funeral expenses, for insurance of tools, &c., against fire, for endowments; they may also, under section 18 of the Act, out of a special loan fund contributed for the purpose by members, grant small loans not exceeding £50 to members only. But under the Acts now governing the Friendly Societies (1875 with amending Acts in 1876, 1882 and 1885), four other classes of societies are admissible, *viz.*, Cattle Insurance Societies, Benevolent Societies, Working Men's Clubs, and Specially Authorized Societies. These are all registered under the Friendly Societies Acts and enjoy the same privileges. Of these the fourth group embraces numerous classes of societies, amongst which are (a) Mutual Societies to create funds by monthly or other subscriptions to be lent out to or invested for the members of a society or for their benefit; (b) Societies for promoting Agriculture, (c) Societies for promoting thrift by receipt of savings, &c. The authorization is given by the Treasury, and under an order dated 18th May 1876, a large number of Loan Societies have been registered, more particularly in Ireland. These are subject to the rules prescribed under section 18 of the Act: the loans may rise to a maximum of £50 and must be granted to members only; deposits may be received aggregating not more than two-thirds of the aggregate sums due at the time to the Society by borrowing members. No member can hold an interest of above £200 in the fund. These Specially Authorized

* The following and other rules, distinguished by numbers, are taken from the official 'Guide book of the Friendly Societies' Registry office,' 1893.

Societies have the privileges of Friendly Societies as regards the protection of their members individually; e.g., a member has rights as follows:—

To inspect the books at all reasonable hours at the registered office, or wherever the same are kept (with an exception as to loan accounts);

If aged 16 at least, by writing under his hand delivered at or sent to the registered office of the society or branch, or made in a book kept at such office, to nominate any person, not an officer or servant of the society or branch (unless such officer or servant is the husband, wife, father, mother, child, brother, sister, nephew, or niece of the nominator), to whom any moneys payable by the society or branch on the death of such member shall be paid at his decease not exceeding 50*l.* or under the Provident Nominations and Small Intestacies Act, 1883, not exceeding 100*l.*;

By writing under his hand, similarly delivered or sent, to revoke or vary any such nomination; On dissolution of a Friendly Society, if claiming any relief or benefit, to have his claim satisfied or adequately provided for before division of funds;

792. As a matter of fact, however, with one exception, all special authorities hitherto granted have been "limited" ones, i.e., they have limited the application of the Act in respect of societies registered under the authority.

793. The limitations have varied according to the authority, but they have hitherto invariably excluded societies availing themselves of them from the special privileges of the Act, as exemption from stamp duties, priority against the estates of officers, certificates of death at reduced rates, &c.

The Treasury has, in the special authority of 16th May 1876, limited (section 9 of the Act) these special Loan Societies, by refusing them the general privileges granted to Friendly Societies, viz., exemption from certain stamp duties (not important except as to orders or receipts for money), rights to services, on payment, of public auditors and valuers, exemption from Income-tax, discharge of mortgages by mere receipt endorsed on the deed, facilities for settlement of disputes, &c.

These Loan Societies are, however, bound by the other provisions of the Act, of which the chief provisions will be found in another Appendix.

All officers under the Friendly Societies Acts having receipt or charge of money must give a bond with at least one surety, or give the security of a Guarantee Society for such sum as may be directed.

Some of the privileges of Friendly Societies are as follows:—

(3) If an officer of the society dies or becomes bankrupt or insolvent, or if an execution is issued against him whilst he has money or property of the society in his possession by virtue of his office, the trustees of the society are entitled to claim such money or property in preference to any other creditors.

(4) If the society has stock in the funds in the names of trustees, and a trustee is away from the United Kingdom, becomes bankrupt, &c., or a lunatic, dies or has been removed, or if it is unknown whether he is alive or dead, a registered society, instead of having to apply to the High Court of Justice, or to take any other proceedings, which it would have to do if unregistered, can have the money transferred by direction of the Chief Registrar on payment of 1*l.* fee.

(5) The documents of the society are for the most part free from stamp duties.

(6) The society can admit members under 21 (but above 16), and take binding receipts from them, which would otherwise be of no effect.

(10) If it invests money on mortgage, such mortgages can be discharged by a mere endorsed receipt without reconveyance.

(11) Its officers are legally bound to render account and give up all money or property in their possession on demand or notice, and may be compelled to do so either by the county court of the magistrates.

(12) Disputes may be legally settled according to the society's own rules or if no decision is made within 40 days after a decision is applied for, by the county court or the magistrates, or if both parties desire it, and the rules do not forbid, by the Registrar of Friendly Societies.

(13) Members of registered Friendly Societies have the privilege of legally insuring money on the deaths of their wives and children for their funeral expenses without having an insurable interest in their lives (such insurances are void by Act of Parliament if effected with an unregistered society).

(14) Members of registered societies may (unless in benevolent societies or working men's clubs) dispose of death of sums payable by the society, not exceeding 100*l.*, by written nomination without a will, and this nomination may be made by youths of 16, who cannot make a will till they are 21.

(15) Where there is no will and no nomination the trustees may distribute sums under 100*l.* without letters of administration being taken out (a person who should do so in any other case would make himself liable for the debts of the deceased).

(16) Money due to a member of illegitimate birth may be thus distributed as if he had been legitimate (under ordinary circumstances it would go to the Crown).

(17) The society is entitled, without being in anywise compelled so to do, to call in the services of the public auditors for the auditing of its accounts, and those of the public valuers for the valuing of its assets and liabilities, at fixed rates of fees.

(18) Its rules and other important documents relating to it are placed on record in a public office, from whence authentic copies can be obtained, which are evidence in any court of justice. This is of great consequence in proving title to land, and in cases of prosecution by the Society.

(19) Registered Friendly Societies which do not assure any gross sum exceeding 200*l.*, (the general limit), or any annuity exceeding 30*l.*, are not chargeable under Schedules C or D of the Income Tax Acts.

Industrial and Provident Societies.—These are the societies generally known as co-operative; under the Act of 1876 (now 1893) the various Co-operative Societies of production, distribution and consumption are incorporated and governed. It will be noticed that these Co-operative Societies are governed by a special law and not by the general Company law; this is also the case in Europe generally, especially in Germany and Switzerland, while the other countries devote special sections

of the general law of societies to this form, which differs essentially from the ordinary Joint Stock Company. India has nothing of the sort, and the numerous Madras Mutual Societies (Nidhis) are governed by a law which does not apply to several of their conditions, and is otherwise not altogether suitable or sufficient.

The provisions of the Act are similar to those of the Friendly Societies Act; but the objects of the societies are the carrying on of any trade, labour or handicraft, whether wholesale or retail, including the buying and selling of land, and banking, with however special restrictions.

A society registered under the Industrial and Provident Societies Acts has (or its members have) the following advantages over a company registered under the Companies Acts.

1st. Whilst the minimum fee for registering a company is 2*l.*, and such fee may rise as high as 50*l.*, the first registry of a society under the Industrial and Provident Societies Act is gratuitous.

2nd. Its capital need not be fixed, so that it does not require to give notice under a 5*l.* daily penalty of any increase in such capital, and it may also be withdrawable.

3rd. The society has a special remedy on summary conviction whenever any person—

- (a) obtains possession of any of its property by false representation or imposition;
- (b) having possession of any of its property, withholds or misapplies it;
- (c) wilfully applies any part of such property to purposes other than those expressed or directed in the rules and authorised by the Act.

The penalty being a fine not exceeding 20*l.*, with costs not exceeding 20*s.*, and in default of payment imprisonment, with or without hard labour, for not exceeding three months.

4th. If the society has stock in the funds in the name of trustees, and a trustee is away from the United Kingdom, becomes bankrupt, &c., or a lunatic, dies or is removed, or if it is unknown whether he is alive or dead, instead of having to apply to the High Court of Justice, the society can have the stock transferred by direction of the Chief Registrar, on payment of 1*l.* fee.

5th. The society can admit members under 21 (but above 16) and receive binding receipts from them.

6th. It has certain special privileges in the holding of copyhold property.

7th. If it invests money on mortgage, such mortgages can be discharged by a mere endorsed receipt without reconveyance.

8th. Its officers are legally bound to render account and give up all money or property in their possession on demand or notice, and may be compelled to do so either by the county court or the magistrates.

9th. Disputes may be legally settled according to the society's rules, or if there is no direction in the rules, or if no decision is made within 40 days after a reference of the dispute is applied for, by the county court or the magistrates, or if both parties desire it, and the rules do not forbid, by a Registrar of Friendly Societies.

10th. Members (including minors above 16) may dispose at death of their share in the society, where the amount credited to them does not exceed 100*l.*, by written nomination without will.

11th. Where there is no nomination and no will, the committee may distribute sums not exceeding 100*l.* without letters of administration being taken out, with power to take account of claims through illegitimate persons.

12th. The society is entitled, without being in anywise compelled to do so, to call in the services of the public auditors for the auditing of its accounts and returns; (services must be paid for).

13th. Moneys payable by a member to the society are recoverable as a debt.

14th. The society as such is not chargeable under Schedule C or Schedule D of the Income Tax Acts, unless where it sells to persons not members, and the number of its shares is limited either by its rules or practice.

15th. A certain proportion or number of the members may obtain, on application, the appointment of an inspector or the calling of a special meeting by the Chief Registrar.

16th. The members have a right to inspection of books and to copies of annual returns.

17th. In addition to the modes of dissolution, produced by the Companies Acts, the society may also be dissolved by an instrument of dissolution a form which appears to be generally preferred to any other, when the winding up is not a hostile one.

As regards the disposal of sums due at death the following privilege is important.

With respect to payments on the death of members, where the amount credited to a member in the books of the society does not exceed 100*l.*, such amount is payable to his nominee.

Within the above limit the right of the nominee takes precedence of that of a personal representative (executor or administrator).

If a member to whom not exceeding 100*l.* is credited dies without having made a nomination which remains unrevoked at his death, but leaving a will, the executor is the person entitled.

But if such member leaves no will, his interest in the society is transferable or payable without letters of administration to or among the persons who appear to a majority of the committee, upon such evidence as they may deem satisfactory, to be entitled by law to receive the same.

Under the Provident Nominations and Small Intestacies Act, 1883, when a member entitled to make a nomination is illegitimate and dies intestate without making a nomination which is subsisting at his death, the committee may pay the sum which the member might have nominated to or among the person or persons who, in the opinion of the majority of them, would have been entitled thereto if the member had been legitimate.

If there are no such persons, the deposits may be dealt with as the Commissioners of the Treasury may direct.

Under the Industrial and Provident Societies Act, 1876, any payment or transfer by the committee to any person who at the time appears to them to be entitled is valid and effectual against any demands made upon the committee or the society by any other person.

Each registered society forms a body corporate with limited liability; the reason for this latter restriction is not known. Nor can any single member have an individual interest of above £200 in its funds. Provisions as to disputes, inspections, &c., by the Registrar, audit, etc., are the same as in the Friendly Societies Act.

As regards the grant of credit, apparently any society may provide by its rules for the advancing of money to any of its members on the security of real or personal property [section 12 (2)], but besides this, societies may be specially devoted to banking [section 10 (2)]. These, however, are restricted as follows; no society which has any "withdrawable share capital" shall carry on the business of banking [section 10 (2) a].

It is not, however, considered to be banking if a society takes deposits of not more than five shillings in any one deposit, and not more than £10 from any one depositor, payable on not less than two clear days' notice; hence any society under the Act may bank to this extent.

984. Every society which carries on the business of banking must, on the first Mondays in { February } in each year, make out and keep conspicuously hung up in its registered office, and every other place of business belonging to it, a statement in the following form, or as near thereto as circumstances permit:—

1. Capital of the society.
 - (a) Amount of each share.
 - (b) Number of shares issued.
 - (c) Amount paid upon shares.
- 2 Liabilities of the society on the 1st day of January (or July) last previous—
 - (a) on judgments,
 - (b) on specialty,
 - (c) on notes or bills,
 - (d) on estimated liabilities.
3. Assets of the society on the same date.
 - (a) Government securities (stating them).
 - (b) Bills of exchange and promissory notes.
 - (c) Cash at the bankers.
 - (d) Other securities.

985. A society failing to make out, or keep conspicuously hung up, such statement as aforesaid commits an offence under the Act.

986. It may be observed that in some parts of the country the Industrial and Provident Societies Act is beginning to be used somewhat extensively by loan societies and money clubs registering as societies for carrying on the business of banking.

There is no exemption from stamp duties, the co-operative Union having expressly requested, when the Act was revised in 1876, that the previous exemption might be taken away. The societies are however exempt from income tax in their corporate capacity, being 'mutual' societies.

All officers having receipt or charge of money must, if the rules so require, become bound either with or without a surety, or give the security of a guarantee society. In these, as well as in the Friendly societies, the registrar has considerable powers and important functions as noted above.

Benefit Building Societies.—These come under 6 and 7, Will. IV, Cap. 32, and are not incorporated; they cannot be added to, since all new ones come under the Building Societies Act of 1874.

The primary object of these societies was to enable each member to secure out of the funds the value of his share or shares, to erect or purchase one or more dwelling house or houses, or other real estate, to be secured by mortgage to the society until the amount of the share or shares be fully repaid with interest. Each share may be worth not more than £150, payable by £1 per month at most.

There is nothing particular in the provisions for these societies, save that their documents are exempt from stamp duty except in case of mortgages by non-members and by members for sums not exceeding £500. Mortgages are also cancelled by mere endorsement of a receipt on the deed.

The most notable of these societies is the Birkbeck, which is practically a bank; the recent run upon its deposits, and the ease with which it paid the demands, will long be remembered.

Building Societies under the Act of 1874.—These are the modern form, and their purpose is "to raise by the subscriptions of the members a stock or fund for making advances to members upon security, of freehold, copyhold or leasehold estate by way of mortgage." It will be seen at once that though this includes the borrowing by mortgage upon a house of the sum necessary to obtain that house after the now usual fashion, it also gives the society the status of a mere loan society, and they form, in fact, true mortgage loan societies for the English small folk. As such, and as the obvious exemplars of the Madras Nidhis (*q.v.*) they deserve careful study.*

The leading methods of these societies are (1) the association of a number of members which may vary from time to time; (2) the subscription of shares by such members by regular periodical (weekly or monthly) payments; (3) the borrowing by the society of other funds up to the maximum allowed by law, viz., two-thirds of the amounts secured by mortgages from members; (4) the lending out of these funds to members; (5) the repayment to non-borrowing members of the amount of their subscriptions with profits at the end of a given period; (6) the repayment by borrowing members of their loans by means of the periodical subscription.

Hence these societies are societies of thrift and investment as well as of credit; the non-borrowing member is induced to save by the hope of profits, and having once begun to subscribe is obliged, by the rules, to continue regularly to save; at the end of a fixed period, he can draw his savings with profits in lump and otherwise invest them; the borrowing member, on proper security obtains a loan and repays it by his enforced periodical instalments; e.g., if a share is worth £25, the period seven years, and the monthly subscription 5s., at the end of seven years, the non-borrower would have subscribed £21, and would receive £25. But a borrower who, after subscribing for a month or two, wishes to borrow £25 can do so on giving due security, and, after receipt of his loan, will have to pay monthly his 5 shillings plus interest; at the end of seven years his debt will be balanced by what would otherwise be due to him as a member, and he is relieved from his debt. This is, of course, the well known Madras Nidhi system.

* This chapter will be found in a completely revised form in Appendix II in the forthcoming second volume of this report.

Societies are permanent and terminating; the latter are wound up at the end of each period or they throw out a new branch before the termination of the period; in these a person who joins otherwise than at the beginning of the period must pay up all back dues. This is inconvenient, so that societies are now frequently permanent, i.e., a member may join either at any time, or at the beginning of one of a frequent series of subscriptions; shares are thus incessantly beginning and maturing.

The number of these societies is very large; recently there were 2,860 societies incorporated under the Act of 1874 with about 600,000 members, £50,000,000 in assets and about £18,000,000 annual income. There are numerous publications relating to them, and several periodicals of which the 'Building Societies Gazette' is well known. These societies might be registered under the Companies Act, but registration under the Building Societies Act gives the following advantages:—

1085. By registering under the Building Societies Acts it obtains the following advantages over a company (most of which are common to it with co-operative societies:—

- (1) Registration at a fee of £1, instead of one rising from £2 to £50.
- (2) Its capital need not be fixed, and may be withdrawable.
- (3) It has certain special remedies on summary conviction.
- (4) It can, in certain cases, obtain transfer of stock in the funds held in the names of its trustees by direction of the Registrar.
- (5) It can have minor members.
- (6) It has certain special privileges in the holding of copyhold property.
- (7) Its mortgages are discharged by receipt endorsed.
- (8) Its officers are legally bound to give account and deliver up property.
- (9) Disputes may be legally settled by arbitrators, by the Court or by the Registrar.
- (10) Sums due to deceased members not exceeding £50 may be paid without administration.
- (11) Sums not exceeding £150 due to the infant heirs of mortgagor members dying intestate may be paid to the administrator.
- (12) Documents relating to the management of the society are exempt from stamp duty.
- (13) In addition to the modes of dissolution provided by the Companies Acts, the society may be dissolved in any manner provided by its rules, or by registered instrument of dissolution.
- (14) Without being bound to add the word "limited" to its name, the society obtains practically limited liability for its members.

1086. A society registered under the Building Societies Acts enjoys over one registered under the Industrial and Provident Societies Act the advantages numbered above 11, 12 and 14.

1087. On the other hand, as compared either with a company under the Companies Acts or a society under the Industrial and Provident Societies Act, the incorporated building society is restricted from holding land generally, and as compared with the latter society has not the advantages mentioned in section 990.

1088. With respect to the holding of land, so far as is necessary for its purpose a building society has power to hold land with the right of foreclosure.

1089. But any land to which a society may become absolutely entitled by foreclosure, surrender, or other extinguishment of the right of redemption must, as soon afterwards as may be conveniently practicable, be sold or converted into money.

1223. The liability of a member is limited, in respect of any share on which no advance has been made, to the amount actually paid or in arrear on such share.

And in respect of a share on which an advance has been made, to the amount payable thereon under any mortgage or other security, or under the rules.

1224. The rights of members are much less extensive than those of members of societies under the Friendly Societies Acts or the Industrial and Provident Societies Act.

As regards payments of money due at death the following privilege is noteworthy:—

1229. Where a member or depositor having in the funds of the society a sum not exceeding £50 dies intestate, a member of a building society has no power of nomination, but the amount due may be paid to the person who appears to the directors or committee of management to be entitled under the statute of distributions without taking out letters of administration.

But the society must have (1) satisfactory evidence of the death, (2) a statutory declaration that the member or depositor died intestate, and that the person claiming is entitled under the statute of distributions.

Payment made by the society to the person who at the time appeared to be entitled to the effects of a deceased member or depositor under the belief that he had died intestate is valid and effectual with respect to any demand from another person as next-of-kin or as lawful representative of the deceased; but such person has his remedy for the amount paid against the person who has received it.

1230. If a mortgagor member dies intestate leaving an infant heir or infant co-heiress, the society after selling the mortgaged property may pay to the administrator or administratrix of the deceased any money not exceeding £150 remaining in the hands of the society after payment of the amount due to the society and costs of sale, without being required to pay it into the Post Office Savings Bank under the Trustee Relief Acts. The £150 is to be considered personal estate, and liable to duty accordingly.

Societies are either "permanent" or "terminating." They may raise funds by the issue of shares, and may repay those shares when no longer required.

1106. Building societies under the Act may receive deposits or loans from members or other persons, or from corporate bodies, joint stock companies, or any terminating building society.

But the total amount received on deposit or loan and not repaid cannot at any time exceed—

in a permanent society, two-thirds of the amount for the time being secured to the society by mortgages from its members;

in a terminating society, either two-thirds of the amount so secured or twelve months' subscriptions on the shares for the time being in force, whichever may be the limit prescribed by its rules.

1107. And every deposit book or acknowledgment or security of any kind given for a deposit or loan by a society must have printed or written therein or thereon the whole of the 14th and 15th sections

of the Building Societies Act, 1874, viz., as to the limitation of the liability of members and as to the power to borrow money.

1127. The rules must provide for an annual or more frequent audit of the accounts.

1128. And also for the inspection by the auditors of the mortgages and other securities belonging to the society.

1129. Provision must be made for the settlement of disputes between the society and any of its members or persons claiming by or through a member, or under the rules.

1130. Such disputes may be settled in three different ways, viz., by reference—

- (a) to the county court (which is the court under the Act);
- (b) to the registrar;
- (c) to arbitration.

1131. The rules must determine which of these three modes is to be adopted. They cannot provide for the adoption of more than one of the three modes, whether generally or in particular cases or events.

But the parties to a dispute may always agree to refer such dispute to the registrar.

And the court may also hear and determine a dispute in the cases after mentioned.

1132. The three modes indicated are the only ones by which a dispute can be validly settled. No provision for the determination of the disputes of a building society under the Act by a general meeting or by the board of directors can be registered.

1133. But the registrar does not object to a rule requiring all disputes to be considered in the first instance by the board of directors, acting as a kind of court of conciliation, with the object of bringing the parties to terms.

Every officer having receipt or charge of money must give a bond with at least one good surety, or else the security of a guarantee society.

The important sections of the Act will be found in Appendix II.

In practice, numerous defects have been found and many scandals have resulted. It has long been urged both by Government and building societies' officials and experts that the law should be amended largely in the direction of greater supervision and publicity. The chief defects are as follows:—

- (a) The results of the ballot or ballot and sale system of granting loans.
- (b) Insufficiency of powers granted to members or to the registrar for the safety of members.
- (c) Defective mode of valuing securities, and insufficiency of security for creditors.
- (d) Want of limitation of amounts loanable to any one member.

The first defect is universal in this form of society and seems inseparable from it. The funds of these societies are limited; when all funds proceed from subscriptions of members, and three out of four wish to borrow, borrowers must be content to wait sometimes for years before a loan can be obtained. The borrowing powers or facilities of a society are moderate and do not solve the difficulty. Hence, in granting loans, the directors have to decide questions of priority. There are three modes: (1) priority in order of time, (2) auction-sale, (3) ballot or rather decision by lot. The first is generally considered objectionable; it permits favouritism, bribery and false documents to any extent. The second is the general American plan, by which the member who bids the highest premium or consents, by bid at Dutch auction, to accept the lowest amount, obtains the loan; this frequently amounts to a mere exploitation of need; the sum at auction is, say, £100; the member who is most sorely in need will perhaps agree to take £75, his loan being, of course, entered as £100, the remaining £25 going as a premium to the society; in another method he agrees to pay interest above the minimum rate, the rate being determined by auction. The third system lets in gambling to such an extent that the new law of 1894 forbids the system; the grant of the loan of £100 is decided by lot; it falls to A, who does not really want it, but has entered the competition on the chance of winning the lot; he, therefore, sells his success to B, who does want the loan, and who therefore pays A, £10 or £20 for the favour. Hence the borrower is exploited, the society loses the premium, and A pockets it.

The second defect was that members had no power as in the Co-operative Societies Act, of inspecting the books, nor could a moderate number of members apply to the registrar to appoint inspectors to examine and report on the affairs of the society, or to investigate with a view to winding it up. Nor had the registrar powers to cancel or suspend the registry of a society for good cause shown, or to demand returns in particular forms.

The third defect is equally important, as in Madras; the societies could borrow up to two-thirds of the "amounts" secured to them by loans to members. Most of the securities are real property and may easily deteriorate; some have been over-valued, and so on. If societies are allowed to borrow up to two-thirds of the "amount" instead of to two-thirds of the "value" of the securities, creditors may be insufficiently secured. The parallel case in Madras and elsewhere is the habit of calculating profits by valuing debts at their nominal amount instead of at their actual value.

The fourth defect is very frequent; directors and their friends or favourites obtain unlimited loans to the detriment of the members generally.

The result has been a new law (August 1894) in which the leading features are the increased control given to the registrar and provisions for the greater safety of members and creditors. Section 2 requires returns to the registrar in forms prescribed by him, containing full particulars of the affairs of the society, and in particular a statement of all mortgages in several classes; the auditor must certify that he has actually seen the deeds of each such mortgage and all other securities. Section 3 provides that at least one auditor must be a public accountant. Section 4 provides that the registrar may, on the application of ten members of not less standing than one year, appoint an expert to inspect and report on the books of the society; section 5 relates to the registrar's powers to appoint an inspector to examine and report upon the affairs of the society, or to call a special meeting, and paragraph 5 enables him, with the consent of the Secretary of State, to exercise these powers without such application where the society has failed to make due returns, or where not less than three members make affidavit of facts which call for investigation. Section 6 enables a registrar to suspend or cancel the registry of a society if it has wilfully and after notice violated any of the provisions of the Acts. Section 7 enables a registrar to wind up a society upon the application in writing of one-tenth

of the members. Section 12 forbids the granting of advances upon ballot or lot. Section 13 prohibits advances upon second mortgage unless the society holds the first mortgage. Section 14 requires in calculating the borrowing power of a society, the exclusion from the assets of all amounts secured on properties on which payments have been twelve months in arrears on the date of the last balance sheet and all amounts secured on properties of which the society had been in possession for twelve months. Section 15 refuses a society power to receive deposits except on condition that "not less than one month's notice may be required by the managers of a society before repayment or withdrawal." Such are the chief provisions of the very newest law on this subject, and it will be seen how large are the powers now given under certain conditions to the registrar and what precautions are thought necessary to secure the members and the public.

An example given by Mr. Ludlow (late Registrar of Friendly, &c., Societies) may explain the reason; a certain society was receiving subscriptions and deposits freely; it was registered not under the Building Societies Act, but under the similar rules of the Co-operative Societies Act which gave the registrar larger powers of inspection. Suspicion was aroused, and the registrar ordered an inspection; it was at once found that the Manager (Secretary) was the society and practically appointed the directors; that there had been no meetings for two years; that there were no regular accounts or books; that the published balance sheet was absolutely false, such as £3,600 invested in public funds, of which there was not a penny; £2,314 as balance at bankers when there was not even a banking account, and so forth. Here the necessity for a proper law providing for inspection, &c., was evident. Those who have studied the history of the liquidation of Madras Building Societies (*see* 'Nidhis') can recall very parallel cases; what is necessary in England is not less necessary in Madras.

Certified Loan Societies (3 and 4 Vic., Cap. 110). The object of these is to make loans to the industrious, recovering them by instalments; they may be benevolent, mutual and general.

All rules must be submitted to the registrar.

1460. The registrar has to ascertain—

- (a) Whether the rules or alteration are calculated to carry into effect the intention of the parties;
- (b) Whether they are in conformity with law.

If required he advises with the clerk or secretary of the society.

1461. In examining the rules, the points which the registrar has chiefly to look to are—

- (1) The payment to be made for inquiries.
- (2) The scheme for the payment of instalments and interest.
- (3) The absence or all fines of penalties for irregularity in paying instalments.
- (4) The providing for entering all the borrower's payments in his pass book.
- (5) The providing for the amount of security to be given by the Treasurer, &c.

The cost of all enquiries prior to loan, provision for pass book and other papers, must not exceed 1s. 6d. in all; repayments must be made according to certain schemes of instalments laid down in the Act; all repayments must be entered up in the pass book; the maximum loan is £15, and the maximum interest, payable by deduction as discount, is 12 per cent. per annum. The society is managed by a trustee or trustees who are wholly responsible. All officers in charge of money must give a bond with sureties. Regular annual returns and balance sheets must be made out and sent in to the registrar for submission to Parliament.

The societies may receive deposits and issue debentures against them. In case of default in repayments the matter may be laid before the nearest Justice of the Peace, who must summon the defaulter, hear the case, and give judgment with costs; failing payment the award may be recovered by distress and sale of goods, subject only to the landlord's claim for rent.

The societies are further privileged by exemption from stamp duty as follows:—

1499. No note signed for the security of any loan under the Act, nor receipt or entry in any book of receipt for money lent or paid, nor draft or order, nor appointment of an agent, nor copy of a transcript of rules by the clerk of the peace or town clerk, nor debenture issued by the society, nor any other instrument whatever required to be made in pursuance of the Act or of the rules of the society is chargeable with any stamp duty, nor is a debenture liable to any parliamentary imposition whatever.

These societies, though decreasing in numbers, are increasing in strength as follows:—

Year.	Number.	Members.	Funds.
			£
1876	373	30,048	155,065
1889	333	39,960	273,008

The registrar, however, considers that it would be well to abolish the Act and place all these societies under the rules for "specially authorized societies." In several counties they appear to be mere groups of petty capitalists or money-lenders, and it does not seem necessary to give the fiscal and other advantages of the Loan Societies Acts to bodies of this description.

The Loan Societies of Ireland other than those of the specially authorized category mentioned above, are regulated by other laws; they are practically benevolent institutions, the profits of which are devoted to works of public utility, such as maintenance of schools, hospitals, &c.; their administration is gratuitous. They are established to help the poor, and require Government authorization and supervision through the local Justice of the Peace. They lend up to £10 with two sureties, and only for specified purposes. Interest is 6½ per cent., including all charges; repayment is by twenty weekly instalments; the documents are exempt from stamp duty. The tools, agricultural implements, &c., bought with these loans are stamped with the seal of the society; till this stamp is removed on the repayment of the loan, they remain free from all seizure for any debts—even for taxes—other than

due to the society. A central committee nominated by the Lord Lieutenant supervises the books, returns, &c., of the societies; a return is annually made to Parliament. Nothing is known about their present work, if any.

UNITED STATES.—There is in the United States an immense development of 'Co-operative banks,' generally known as 'Building Societies' or Associations. These are exactly similar in principles to those described above (*s.v.* Great Britain), and are more correctly described as co-operative banks, as in the State law of Massachusetts, seeing that for every borrower there are usually three investing members. While enabling workmen and others to purchase homes, &c., they are at least equally important as savings banks, and it is considered that vast as are the operations of savings banks, those of the co-operative banks will shortly exceed them, while these latter have the advantage of being deliberately organized as credit societies, lending on real estate. The principles and methods have been described above, *s.v.* Great Britain, but it may here be added (1) that the manuals on the subject usually insist that small local societies are the only societies which are truly co-operative and safe for members; (2) that directors must not merely take an active part in the work, but must in fact *do* most of the work, both for cheapness of administration and for the maintenance of the co-operative idea. The laws of the several States regulate these societies very closely, provide thorough supervision, *e.g.*, through the Superintendent of Banks (New York) or the Commissioners of Savings Banks (Massachusetts), and grant certain privileges (*see* chapter on 'Law.') It is hoped in Appendix II to give a more complete study on this important subject. Meanwhile the following extracts from Commercial No. 48 of 1887 will be interesting:—

"It is necessary to distinguish carefully between Savings and Co-operative banks in the United States.

"Savings banks are incorporated under charter, by an organization of directors, the system being similar to that of the English Savings banks. The depositors who can subscribe for single shares obtain the interest on their money by the usual system of dividends, and their money is invested in the usual bank or other securities.

"Co-operative banks, on the other hand, work in quite a different way. They are organized by a few subscribing shareholders, who can commence operations at once in the simplest way. They offer the money subscribed for auction at a general meeting, at which the subscribing shareholders have the preference for the first bid. The subscriptions are generally combined in 'blocks.' The security demanded is almost always real estate, and thus in towns these banks pass insensibly into building loan associations. Among the benefits secured are an immediate return for the money, which is constantly being turned over afresh.

"These co-operative banks have spread from Pennsylvania, where they are reported to number over 1,700 under the name of building or loan associations, over a large part of the Union, and are recognized and protected by law in many of the States. In the city of Philadelphia alone they number 600, with 75,000 members, and an aggregate capital of 80,000,000 dollars.

"In Pennsylvania little or no distinction is made between Co-operative banks and Building associations, the latter name prevailing, and the associations undertaking the business of banking proper in addition to that of building loans in the strict sense.

"Mr Turner, the Secretary of the Knights of Labour, and resident in Philadelphia, informs me that the term 'Co-operative bank' is unknown there, and that the 'Building association' is the only name in use. He states that they are highly successful and increasing, and generally on a sound basis, the only danger being in cases where an association gets into the hands of a circle of friends, who allow the rules to be relaxed for each other's benefit in regard to the securities which are accepted for loans; but it is obvious that this is a danger common to all forms of business, and in no way peculiar to co-operative banking. In any case the Philadelphia Building Association was the germ from which the Co-operative bank has sprung, and undoubtedly many of these associations now do as much business of the one kind as of the other.

"In Massachusetts, where they have now made great progress, they had no legal status till recently, but in 1879 an Act was passed for their constitution and supervision, which is considered a model for other States, under which they are placed on the same footing as the Savings banks. From the annual report of the Savings Banks' Commissioners it appears that there are now thirty Co-operative banks in Massachusetts (with 78,665 shares, held by 11,336 numbers, of whom 2,482 are borrowers)."

The following further particulars respecting the system of Co-operative banks in Massachusetts are taken from circulars issued by the banks themselves:—

"Any person desiring to purchase shares as an investment may do so, not exceeding twenty-five shares.

"The price per share is 1 dollar a month.

"The payments to continue until the shares are each worth 200 dollars. They are then called 'matured shares,' or are said to have reached their 'ultimate value.'

"Before the issue of a new series the accounts are made up, and the profits credited to the several shares. These credits help to 'mature' the share.

"At maturity each shareholder receives 200 dollars cash for each 'matured share.' If no profits were added, it would require 200 months (16·22 years) to pay up a share, but the profits generally reduce the time to 10 years, and this makes a very good investment. If the shareholder omits to pay his 1 dollar a month per share, he is subject to a monthly fine of 2 cents per share.

"Any shareholder may borrow 200 dollars upon each of his shares if he can furnish the security required by law. Security may be by first mortgage upon real estate, or upon the shares themselves. If one borrow upon a mortgage, he transfers his shares to the corporation, as additional or collateral security. One is entitled to borrow upon his shares, provided that the sum desired is not more than is permitted by the bye-laws. The process for borrowing is this: When the president or other authorised person announces that there is a certain amount of money on hand and for sale, and invites bids for it (not exceeding 2,000 dollars on one bid), the borrower bids a premium, which he by so doing offers to pay monthly for the privilege of borrowing the money. The premium is a bonus, and goes to the general fund, and the borrower receives back his proportionate part of it. The bids are to be

" in sums divisible by five ; that is to say, the bid must be 5 cents 10 cents. 15 cents and so on per share per month. The premiums are over and above the 6 per cent. rate which is charged for the use of the money. If one bids 25 cents per share, it will of itself equal $1\frac{1}{2}$ per cent. ; so that if one bids 25 cents per share, he is in reality offering to borrow the money at $7\frac{1}{2}$ per cent interest.

" To illustrate : One wishes to borrow 1,000 dollars. This requires five shares, which he may already hold, or can, after successfully bidding for the money, procure from the secretary. If the money is 'knocked off' at 25 cents per share, the borrower then pays the following : 5 dollars for monthly dues (this he is to pay whether he borrows or not), 5 dollars for monthly interest at 6 per cent and 1 dollar 25 cents for monthly premium—being at 25 cents per share on five shares—the total monthly payment being 11 dollars 25 cents on a thousand dollar loan, with premium of 25 cent per share. This payment is continued without diminution until the shares mature, when it is plain that they offset the mortgage, being worth 1,000 dollars in cash. At that time the payments cease, the mortgage is discharged by the corporation, and the shares cancelled. The fines are 2 cents per month for every dollar in arrears for interest, premium, or dues.

" When an investor becomes a borrower, the investment at once becomes a sinking fund to pay off the loan.

" Mr. J. Q. A. Brackett, in a pamphlet on Co-operative banks, gives a short but clear description of their system and advantages, from which I quote :—

" These banks are, in general terms, corporations, the capital stock of which is paid in not at the time it is issued, as in other corporations, but in monthly instalments of 1 dollar upon each share ; the amount realised from these instalments being at each monthly meeting of the corporation loaned, not to outside parties, but to such shareholders in the same corporation as desire the use of money for the purpose of purchasing or building houses, the corporation receiving as security for its loans mortgages of such houses, together with assignments as collateral of the stock of the borrowing shareholders, and the profits derived from interest and premiums on such loans being credited to the whole number of shares outstanding, and thereby increasing their value.

" The period for maturing the shares depends upon the profits made. In properly-conducted banks it has varied from eight to thirteen years. This has been the result in Philadelphia, where the system has long existed, and has met with great success. In Massachusetts sufficient time has not yet elapsed since the first establishment of the banks for their shares to mature.

" The advantages of these institutions to the person who does not care to borrow are that they furnish a safe and profitable investment for his earnings. As the money paid in at each monthly meeting is immediately loaned and paid over to the borrower before the next monthly meeting, there is never any large amount of cash in the treasury liable to loss by defalcation or otherwise. The security for loans is constantly increasing. The loan is secured not only by a mortgage of real estate, but by the assignment of the borrowers' shares, which are regularly increasing in value by the monthly payment of the dues thereon, and their participation in the profits of the bank, which are periodically credited to them. The profits are not offset by large expenses. The bank requires no costly buildings, only an inexpensive office to do its business, and the use of a room once a month for its meeting. It requires no highly-salaried officers. The secretary is the chief executive officer, and if he holds also the office of treasurer, as the law allows, there need be no other salaried officer. If he is employed by a single bank only, his duties will not require the whole of his time, but he can attend to them in conjunction with other business. In Boston three of the banks—the Pioneer, the Homestead, and the Working Men's—employ the same person as secretary, dividing the expense of his salary between them ; they occupy the same room for their offices, and hold their meetings in the same hall, but of course on different evenings. The net profits of these three banks have never been less than $5\frac{1}{2}$ per cent. per annum, and have been as high as 8 per cent., the average being over 7 per cent.

" The influence of the banks upon the depositor in cultivating habits of economy and thrift is great and good, but their influence in facilitating land ownership among working men is more important, not only to the working men themselves but to the whole community.

" A Co-operative bank benefits the member who contributes his money as a deposit, and the one who receives the money contributed as a loan. The capital of working people should remain with working people for their own use and benefit. The Co-operative bank aids in producing this result. It puts the money of the working people where it will do the most good, and does it in a perfectly legitimate way, in accordance with correct business principles, without any violation of the rights of others."

These Loan associations and Co-operative banks appear likely to take the place of the Savings banks, at any rate to a great extent. Each system has its advantages and defects.

The Savings bank receives money at any time during business hours in such sums as the depositor chooses to pay : it gives interest on the money while in the bank, and permits the depositor to take it out at any time under slight restrictions. This is good, and teaches the people to save. But the Savings bank takes no personal interest in the investor, who pays his money to an irresponsible and indifferent clerk.

In the Loan association the money must be paid in a fixed sum at regular intervals, and there are fines in case of neglect. He cannot draw his money out so easily as in the Savings bank, but this is really for his good. He is in personal contact with the president, directors, and his fellow members, and has the same interest in the disposal of the money. He has the annual report and a vote, and no one has more.

Mr. Barnard, in his work on co-operation, suggests that each class of banks might adopt the good features of the other. The Loan associations, for instance, should issue much fuller and more complete reports, and those quarterly. The attendance of directors at meetings should be noted, and fines imposed for absence. The Massachusetts plan of paying the premiums monthly, with the interest, is preferred to the Philadelphia plan of deducting the premium from the loan, as being juster and less likely to create ill-feeling. Fixed tables of payments are better than the uncertain bidding at an auction. Similarly the savings banks might adopt with advantage many of the features of their rivals. But in any case the Co-operative banks have a great future before them.

" In conclusion, I would observe that while the National banks of the United States have undoubtedly, through recent legislation, extended and deepened their sphere of operations, so as to reach the

"small depositor, especially in the minor towns of the outlying districts, still they cannot be said to replace people's banks for the working man, who must in almost all cases rely on the Savings and Co-operative banks, whose operation is attempted to be set forth in this report."

MONTES DE PIÉTÉ.

Originally based upon charitable foundations, and, as a rule, promoted directly by the Church, these ancient and now public institutions deserve notice, not merely under their generally known form of *quasi* pawn-broking establishments, but as assisting the poor in several ways, and, especially under the names of *Monti frumentarii* in Italy or *Positos* in Spain, as providing a species of agricultural credit under the form of "takkávi"; they are interesting as being the primitive form of banks for the poor, and as showing the need—and one method of meeting that need—in all countries of small cultivators, for supplying peasants with aid, chiefly in grain, either for seed or for food during the growth of a crop.

Among the points of interest it should be noticed (1) that they are generally managed by the communes and municipalities or other local public bodies; (2) that, whether public or private, they are always under State control; (3) that their management is gratuitous—or nearly so—except, of course, as regards the paid staff; (4) that profits are transferred to the capital of the Mont so as to cheapen credit; (5) that surplus profits are devoted to works of public local utility; (6) that it is common to establish, alongside the Mont, a Savings bank (penny or otherwise) for the receipt of very small sums, so as to facilitate the redemption of the pledges while promoting thrift generally; (7) that some Monts which have a special fund for the purpose, usually derived from profits, lend very small sums—up to 4s.—without interest (*cf.* the 'Loans on honour' of the Italian Popular banks), in particular cases of distress, such as those mentioned by Hall (Ireland) where poor persons may have to pay 2d. *per day* for a loan of 2s. 6d.

The history of peasant cultivation everywhere discloses habitual and necessary borrowing even for subsistence or for the cultivation of the next crop; so many are the vicissitudes, so small the outturn in the poorer class of soils, so unable either the land, its cultivator or its crops to resist seasonal or other stress, that the money-lender is invariably the complement of the peasant-proprietor, unless, as in the case of tenant cultivators, especially under the system of *métayage*, the landlord fills the rôle. European rural history teaches this, and in India it was the same; while, however, *takkávi*, as advances for seed, was common to both continents, it was granted in Europe by communal institutions, but in India by the ordinary Revenue Department direct from the State treasuries. In India the practice has consequently been discouraged and suppressed, so that the money-lender is the sole source of a necessary credit; in Europe, the old institutions are still working, but are being supplanted by newer and co-operative or else joint-stock forms. Even in India, the once suppressed *takkávi* is re-appearing under an anglicized form in the Agriculturists' Loans Act. But it is not only as institutions for advancing grain, but as pawn-broking establishments that the *Monti* require notice. One of the most remarkable features of Indian life is its custom of storing wealth in the form of jewellery, of which the money value, in infructuous use, is incalculable. When money is required, these jewels are pledged; in ordinary years, the money-lender gives a fair advance, though the terms are not low; these pledges are frequently unredeemed, and the pledgor loses very considerably on the sale. But the moment there is a general pinch, jewels come freely for sale into the market; it is the capitalist's opportunity, and, as in the great famine, jewels even of considerable value are sold for the veriest trifle; a very distressing feature of the famine of 1877-78 was the fearful loss on this form of accumulated wealth which was exported from the distressed districts by tons. Properly regulated and financed establishments would have doubled the value of these jewels to their owners. The question is whether, in either of these capacities, Indian institutions can be developed. The pawn-broking side of these institutions will be mentioned below, *sub voce* 'France,' where the laws and regulations are very complete. The following remarks on the Italian *Monti* are chiefly taken from the learned work of M. Durand and a pamphlet by M. Claudio Jannet.

ITALY.—The Italian institutions spring from the fifteenth century when they were started, usually by the Church, for the assistance of the poor, and were avowedly intended to combat usury which, in the hands of Jews and Christians alike, ravaged the country. These funds were at first charitable grants; they were subsequently financed by the issue of bonds and by the receipt of deposits and savings. They thus developed into regular banks for deposits, savings and loans, as well as warehouses for pledged goods, and spread with great rapidity.

But it is clear that this did not help the mass of agriculturists who had no money to deposit and whose crops could not be delivered in pledge; hence, in the seventeenth century, institutions were started, and rapidly spread, in the South of Italy, called *Monti frumentarii* or *granatici*, for the purpose of lending seed grain to the peasants in ordinary years, and in years of famine or scarcity, grain for food also. Repayment was in kind at the rate of a heaped for a struck measure: nothing could be more simple or readily comprehensible by the peasant, the value to whom may be gauged by the results in India where the money-lender is the only resource. Many of these *Monti* having surplus grain, gradually accumulated a stock of cash, and lent this out to the peasants in small sums by special branches, called '*Monti pecuniarii*'; such loans are only granted for buying cattle or implements. The work of these *Monti* singularly recalls the objects of the Agriculturists' Loans Act (India) of 1894; the latter indicates certain agricultural needs among small farmers; the *Monti* have supplied that need in Italy; in India, the State is assumed to be the necessary source.

In 1878, there were 1,965 of these *Monti frumentarii*, with a capital of £591,000 or about £300 each. As each of these serves generally only one commune, they should be of immense service in their particular capacity. And as these are chiefly developed in the South of Italy, and as in all Italy there are only 8,256 communes, it follows that these institutions serve a very large proportion of South Italian villages, while their impersonal and inalienable character derived from their ancient foundation, should render them thoroughly free from selfish aims. The management is with the Communal or Municipal Council.

Unfortunately they seem to have been isolated and neglected; great complaints are made of their mismanagement, wasted and misappropriated funds; managers borrowed the funds to lend them out at

usurious rates; others, with political aims, lent the funds and neglected to recover them, and it is stated that at this day, the best part of their funds is irrecoverable. These evils are of modern date; they used to work well, but—as elsewhere—local and communal administration has greatly suffered in the transition from the *quasi*-patriarchal or truly communal stage to modern administrative methods. The tale of mismanagement recalls the history of many an ancient Indian religious or charitable foundation. What has been wanted in Italy is not laws but a strong and capable supervision; the Italian law makes all municipal councillors jointly and completely responsible for malversation or fraud by the administration and these Monti are administered by the municipalities (communes); the laws are there, but none to work them. Hence it has been proposed—and the money-lenders are said joyfully to support the proposals—to suppress the Monti foundations, and transform them into establishments of agricultural credit; this is equivalent to suppressing institutions that have operated successfully, with a view to start institutions hitherto unsuccessful except when of private foundation. It would seem preferable to regulate and develop rather than transform these institutions. The new law on agricultural credit (1887–88, see another Appendix) authorizes (section 39) this transformation, if desired.

It should be noted that these Monti frumentarii enjoy the privilege granted by all European Civil Codes to the lender of seed grain, viz., a priority in its claims for its dues; this privilege takes rank even before that of the landlord and exists *de plein droit*, requiring no formalities or documents.

Some of the Monti have otherwise developed; the Bank of Naples, one of the most flourishing and useful institutions in the world, is formed of a consolidation of seven Monti, and, as such, possesses a foundation capital (endowment) of £2,500,000; there being no shareholders, all profits are devoted to public improvements, and the bank is able to allot very large sums to agricultural credit. It is also in business relations with a large number of Popular banks in Southern Italy, which it supplies with funds at market rates; if certain regulations are complied with, it appoints them its agents or correspondents, and grants them loans or discounts their paper at 1 per cent. below the ordinary rates; in 1885, 213 were enjoying this privilege, and had effected 104,990 operations for a total of £6,044,960. It has of late set aside £2,000,000 for the benefit of agriculture (Levi).

The Bank of Sicily has a similar origin, and has made a very special attempt to develop popular credit. It proposed to create agencies which would be local associations; these would provide four-fifths of the required capital, and the bank one-fifth; their paper would also be readily and cheaply discounted. This excellent plan fell through simply from a difficulty due to the Italian law regulating commercial societies. It has now been proposed to take the Popular banks and Savings banks as correspondents, allowing them, as such, discount at 1 per cent. below ordinary rates, with the privileges of collecting the bank's dues and holding them at favourable rates of interest; it would also serve as a Central bank and clearing house for the affiliated banks.

The result of these favours has been a rapid development of Popular banks in Southern Italy, and it is probable that in India, the development of Popular banks may attend upon similar action.

SPAIN.—The "Positos" of this country are worth special notice, not only from their history and actual value, but with regard to the suggestion of members of the Famine Commission of 1876 that granaries should be established in which to store grain against famine years.

These institutions, called 'Celleiros publicos' in Portugal, were originally started in the fifteenth century simply as granaries in which to store grain for the supply of the people in the then frequent famines or local scarcities due not merely to seasonal failures, but to other disasters and to the want of communications. Many were established by Government, but most by private beneficence; these granaries not merely stored the surplus grain of good years, and relieved distress in bad ones, but enabled the local authorities to prevent an undue fall or rise in prices; by the middle of the sixteenth century there were 12,000 of these local granaries. Obviously it was necessary to change the grain at frequent intervals to prevent spoiling, and this led, if indeed it was not part of the original idea, to the plan of lending out grain at seed time to be returned with an addition at harvest: sometimes the grain was sold and loans given in cash, and this gradually became customary. By 1792 the number had fallen to 9,604 with a declared capital in grain and money of £4,800,000. Then followed wars and disturbances, accompanied amongst other difficulties by a forced contribution of one-fifth of their capital to Government, and a forced condonation of vast sums owed to the Positos by their debtors. In 1836 and 1839 there were still further levies and demands, on national grounds, for even the whole property of the Positos, demands which must have ruined any but well-established and necessary institutions. In fact, by 1866 only 3,400 survived with a capital of about 1½ millions sterling; but even then they were lending to 150,000 cultivators not less than 600,000 fanégas* of grain and £50,000 in cash; if they used all their capital, the average loan would be about £10. By this time they had long been communal institutions, managed by local committees locally elected, and lending grain for seed and maintenance, with interest, in kind, at about 4½ per cent. for the crop period, or small cash loans at about ½ per cent. per month. It was considered that they might form the basis of a sound system of agricultural credit, in the establishment of which Government had long, but vainly occupied itself: in 1840 Government attempted to turn the Positos into agricultural banks, but without success, and for many years there have been reformers with similar ideas, based chiefly on the undoubted abuses that found their way into the management. Hitherto the proposals have been without effect; it appears that the institutions fill an important and almost essential customary rôle in assisting the poorer cultivators, and are agreeable to the needs, ideas, status and methods of the small folk. That there have been abuses cannot be doubted; the Spanish local administration is not strong, the country has been subject to all kinds of disorders, and so little were the Positos under supervision that in 1849 the minister in sending circular questions to the Prefects (Collectors), embodied therein a question as to whether any Positos existed in the several districts, a question which elicited the figures mentioned above for 1866. And as soon as the Positos were placed under regulation by the law of 1877, they took an immediate development, insomuch that within ten years their capital had increased by about a million sterling

* The fanéga is stated by Mulhall as equal to 4 bushels; in the 'Statesman's Year Book' as 1½ imperial bushels; in a French writer as 55½ litres which equals 12·2 imperial gallons.

to £2,640,000, of which £880,000 was in cash, £80,000 in immovables (buildings), and the remainder in grain. They are now doing good work in grain loans for seed and maintenance, repayable either in grain or cash with 4½ per cent. interest for the period lent, and cash loans at 0·5 per cent. per month. By a regulation in 1792, at least one-third of the grain in store was to be lent for seed, the remainder being available for loans for maintenance; it is not known whether any such proportion is still observed.

In 1877 a short law was passed for the management of these institutions, supplemented as usual in Europe, by lengthy administrative rules; the following is an abstract of the more important points.

In each district a standing committee is appointed; this is composed of the Prefect (Governador Civil, Collector) the District Agricultural Officer, two members of the District Council, two members of the District Chamber of Agriculture, Commerce and Industry, and two members residing in the district and elected by the 50 largest landholders or cattle-breeders of the district: all are subject to the appointment or confirmation of the Minister of the Interior. The first duty of the committee is to examine each Posito in the district, verify its funds, examine its accounts, especially its statement of capital, its loan register, its statement of arrears and defaults, &c.: as a first guide, the committee is supplied with a detailed statement from the Minister's office. If any malversation is discovered, the committee are bound at once to proceed for its recovery, for which purpose it is granted all the powers possessed by public officers for the recovery of arrears of revenue. If any Posito is found to have disappeared or to have changed its construction (*e.g.*, into an agricultural bank), a full report must be sent through the Prefect to the minister for final orders. As far as possible, the Positos are to retain their existing form, granting loans in grain and in cash; the committee may on good grounds authorize the conversion of funds in cash into funds in grain, and *vice versa*, with the consent of the Minister in important cases. The committee is to sell all immoveable property of the Positos except their granaries, and storehouses, the proceeds to be credited to the respective Positos; if the Posito lends in grain, the sale-proceeds are to be spent in buying grain. It will be noticed that the Government was in 1877 scrupulously anxious to keep these institutions in their original form of seed and grain lenders, a strong proof of their usefulness and of their manageability even in that form.

The Positos are to be managed by the communal councils, to whom one-sixth of the interest is allowed to cover the cost of administration. The members of the council are individually and collectively responsible for the loans granted. Special accounts are to be maintained by the council and submitted to the standing committee for audit. The committee nominates and the Prefect appoints special inspectors for the audit and examination of the accounts and operations of the Positos, and it is laid down that the duty of inspection rests with the Prefect and with the committee. Loans are granted in grain, repayable in grain or money, or in money repayable in cash only with interest at 0·5 per cent. The communal councils may, on the report of the standing committee, grant delays for repayment up to four years and the Prefect up to six. The insolvency of a defaulter may be declared (by the Prefect) as regards his debt to the Posito, but it is provided that such declaration of insolvency shall bear the entry "temporary and without prejudice should the defaulter recover his position." Final remissions of debts due to the Positos can be granted only by the Minister of the Interior, who must moreover consult the Council of State, and for cases where the individual debt exceeds £100, a special decree must be passed by the Chambers.

The Minister is authorized to issue the necessary rules of business and did so in 1878. Communes may establish new Positos on proof of the need for them, the scope of their undertakings, the endowment to be provided, the method of management, &c.: their foundation is to be approved by the standing committee after due enquiry, and sanctioned by the Prefect. The one-sixth of the interest on the loans, as allowed by the law for the administration, is to be divided equally as honoraria to the communal sub-committee, and for the payment of staff and contingent expenses.

The standing committee must meet for business once a week at least in the Prefect's office; every member must attend unless upon excuse in writing sent to the Prefect; three consecutive absences render the member liable to dismissal. It will be noticed that the services of the members are wholly gratuitous, another instance of this almost universal feature in European local administration, even when continuous, delicate, and difficult executive duties are required.

The rules provide for the proper upkeep of the books and accounts, and for an annual report on the position and operations of each Posito.

The rules for the communal administration provide for loans in grain at the rate of 4½ per cent. for the cultivation period: arrears to accumulate at compound interest until the next harvest; the same rules apply to cash loans, which are not granted for more than one year. Should a debtor be in arrear, the commune must use every executive method, and this appears to include the debtor's sureties and any members of the communal council who may have admitted the loan without surety or have failed to proceed for the debt in due time. Failing all these methods, the papers must be sent with a report to the Prefect who, after hearing the Standing Committee—probably by a report, or at the weekly meeting in his office—is authorized to declare the insolvency of the defaulter as regards his debt to the Posito; with, however, the proviso noticed above, *viz.*, that the insolvency is temporary, and that the amount may be collected should the defaulter recover means to pay; this declaration keeps the debt alive and maintains its priority over all subsequently contracted debts. For the purpose of final remissions the Standing Committee draws up a register of debts with complete notes against each case and sends them to the Prefect, who transmits them with his opinion to the Minister for final orders.

Applications for time must be accompanied by due declarations from the sureties, and the Communal Council must be satisfied of the sufficiency of the guarantees. It will be seen that though no rules are laid down as to the security for loans, it is contemplated by this and a preceding provision that there should always be collateral security, usually personal, for a loan. All grants of time must be notified to the standing committee; recommendations for more than four years are sent to the Prefect who has absolute power to grant or withhold his sanction.

Rules are also laid down for the work of the special inspectors of Positos, but need no remark except that their powers of audit and verification are complete. A small establishment is sanctioned for the standing committee with the proviso that all the employés are to be ex-employés of the ordinary administration. Funds for this purpose are to be obtained by a levy from the Positos of 1 penny per fanéga (12·2 gallons) and 0·25 per cent. on cash.

The Positos are thus seen to be very ancient foundations which arose out of the necessities of the country and at once adapted themselves to the further necessities of the cultivators in their periodical need for seed and consumption. The urgency of the needs which they met, and the satisfactory way in which they met them is shown by their extraordinary persistency of life, in spite of incessant wars, forced contributions, disorders, administrative neglect and consequent malversations and abuses. In later times they have had to meet the attacks of reformers who would transform them into agricultural banks, and do away with their specific character. The provisions of the above law show that, up to 1877, Government, notwithstanding its continued efforts to found organized agricultural credit, was willing that the Positos should continue and increase upon their ancient footing, and a Central Congress of agriculturists in 1882 pronounced to the same effect. M. Durand, however, states that in 1889 a new commission was to inquire into the subject, but that no report had been published.

Given a country of very small farmers, poor in money, restricted in their markets, exposed to seasonal difficulties, with an agriculture still in many respects primitive, a society almost self-contained with but moderate external trade, it would seem that institutions, such as the Positos, would peculiarly meet the needs of the cultivators. In times of surplus crops the excess would partly go to the granaries, to be again doled out in times of scarcity; in ordinary years they would issue these stores as loans for seed and maintenance; in times of seasonal stress they might provide some help in distributing grain to the poor, but even then their most beneficent rôle would be the issue, towards the close of the stress, of stocks of corn for seed and for the maintenance of the cultivator during the crop period, leaving the actual famine period to be dealt with by ordinary trade and keeping the stock in hand simply as a reserve. If there is one form of usury which, though partly defensible in figures is, in fact, ruinous to the ryot, it is the grain loans of the private lender; when grain varies in village price as 10 and 8 or even 10 and 6 at seed and harvest times respectively, it is clear that the ryot suffers terribly in his grain assets, in his ability to store a surplus, who has to pay back 20 for every 12 or even every 16 that he has borrowed six months previously. It is not so much that the interest, calculated in money, is high; it is that so much of his crop is lost to him that he cannot reserve an amount sufficient even for the next twelve months, let alone a further period in case of crop failure. Hence the local institutions which should lend grain repayable in grain with, say, 6½ per cent. addition and should then store that grain not for exportation but for local loans a few months later, would be of immense benefit, would earn sufficient to provide against losses, and would bridle the private lender who lends in order to obtain a large quantity of exportable produce. They could be worked almost for nothing, grain pits being substituted for granaries and the village panchayat for the Communal Council.

FRANCE.*—The Monts de Piété of France are simply public pawn-broking establishments. At the end of the last century, interest, even on pledge of valuables, was incredibly high; 5 or 6 per cent. *per month* was considered moderate, and the Paris Mont de Piété startled the public by asking only 3 per cent. per month; this was gradually reduced to 12 per cent. per annum. Napoleon, while preferring in general, liberty in commercial transactions, said that in certain cases, public authority ought to intervene to protect weakness against oppression, need against greed, and misery against robbery. The private pawn-broking institutions (lombards), which, in default of personal, and even real credit, were the chief resort of the needy, were mere dens of usury; their operations were "without regulation" or control, and their demands are characterized as "ferocious" and "acts of brigandage." Napoleon therefore adopted the heroic remedy of absolute suppression and gave the monopoly to Monts de Piété, which he made public institutions regulated as Benefit Societies. The present law is that of 24th June 1851 (*see* another appendix); they are everywhere public establishments, instituted by the State, with the consent of the local Municipal Council. The administration is given to a Board, presided over by the Mayor of the Commune (Municipal Chairman or Village Head); the members of the Board are appointed by the Prefect and their services are given gratuitously.† The actual agent or staff, of course, receive payment. Within certain limits, the law permits each institution to formulate its own system of management. It will be seen that both in France and Italy, the result of *laissez faire*, was grave abuse and mismanagement.

BELGIUM.—In another appendix will be found an extract from the Royal Decree of 1826 which placed them on their present footing. It will be seen that whether public or private, they are placed under State control.

CHAPTER VII.—SAVINGS BANKS.‡

Savings banks are distinguished from other deposit banks as follows:—The object of ordinary banks is credit, and they merely attract deposits, *i.e.*, savings, in order to utilize them in business; in Savings banks, the encouragement of thrift, *i.e.*, the gradual accumulation of petty savings or of a

* This paragraph is based chiefly upon the article in the 'New Dictionary of Political Economy.' (Paris, 1889-92.)

† One of the most striking features in European life is the "gratuitous" character of many of the local administrations; the development of local life depends largely upon the willingness and devotion with which local men of influence will give their time gratuitously. The gratuitous administration of the Popular banks is only one specimen of this custom; another is the gratuitous administration, in France, of the Commercial Courts.

‡ It is not intended to describe in detail the Savings banks systems of Europe, but only so much as is germane to the subject of Real and Agricultural credit. But the study of the various systems and of examples of their working is of the highest interest and importance, especially to a country where they are yet to be established, and which, so far, seems to be guided only by the English ideas of postal Savings banks with official working and the aspiration of all savings to the State treasury, a method radically defective unless those funds are replaced in productive circulation, if possible "sur place." Savings banks generally precede all co-operative effort, all organized attempts at self-help, and it is one of the highest functions of modern statesmanship to promote the ideas and institutions of systematic thrift, "the daughter of foresight, sister of temperance (self-restraint) and mother of independence" (Cicero). Nevertheless, Savings banks which only promote thrift fail of half their value; it is in the fructification of their accumulated savings, in the fertilization, by their means, of industries that thirst for capital, that the second half of their value, of their duty, lies.

provident fund is the object aimed at, and the banks merely enter into the business of credit in order to provide a fruitful investment for the accumulated savings. In ordinary banks, dividends are the objects of business; in savings banks, a moral as well as a material benefit; in ordinary banks it is the shareholders, in savings banks the depositors, whose benefit is mainly sought. Considered from another point of view, ordinary banks usually receive money in lump and repay it to depositors on comparatively small drafts or cheques, while Savings banks receive money in very petty dribbles and usually repay it to depositors in much larger sums. The principles which should characterize true Savings banks of the best class may be stated as follows: (1) absolute proximity to depositors; (2) readiness to receive deposits of the very smallest class, which for ordinary Savings banks, exclusive of Penny banks, may be taken as the smallest silver coin of the currency of the country; (3) a moderate maximum for deposits at one time, or in one year, and for the total receivable from one depositor; (4) payment of moderate fixed interest on all such deposits beginning with the lowest unit on which interest is readily available (e.g., 1 rupee, on which interest at 6½ per cent. per annum is exactly 1 pie per month); (5) readiness and ability to repay small withdrawals on demand, and larger withdrawals on notice; (6) absolute security of the investments and total absence of all speculative employment of the funds, together with complete liquidity for a certain amount; (7) a sufficient guarantee fund, whether arising from the liability of the promoters, trustees or any public body, or from a share capital, or from reserves; (8) gratuitousness of the direction, and where there is a share capital, a dividend, if any, with only a moderate and fixed maximum; (9) employment of the funds in such manner as to produce the greatest possible industrial benefit to the country, if possible "*sur place*."

It will be seen from these postulates that a Savings bank proper is not a popular bank, that is, a place of deposit where credit is the *raison d'être* of its existence; it grants credit because it must invest its funds, but it is an adjunct to credit rather than a true source of credit.

Moreover, in their mere character of banks for savings, they are of minor use in a purely agricultural country; they are intended to provide facilities for the receipt of frequent petty sums, whereas the agriculturist requires merely means for temporarily depositing the proceeds of his harvests pending disposal in his real Savings bank, viz., his farm. The bank that the agriculturist primarily requires is a deposit and lending bank rather than a Savings bank. Nevertheless, in Europe and in the United States, so large a part is played by Savings banks proper in providing or assisting rural credit by their investments, chiefly in mortgages and in loans to popular banks and credit societies, that a brief description of their functions will be useful.

They may be divided into public and private according to their origin and working, and again into banks of restricted and banks of free employ of their funds. In England and in France, Savings banks are both public and private, but the use of their funds is strictly limited to investments with Government; in Italy, Austria, &c., they are both public (postal chiefly) and private or quasi-public, but the private institutions have the free employment of their funds; in Belgium and in Russia, the receipts of the Savings banks are handed over to a central institution which employs them under State guarantee in various ways limited by law; in Germany they are chiefly public, viz., Communal, Taluk, and District banks, but have the freest use of their funds; in the United States they are private and, within certain limits, free in the disposal of their funds; in these latter two countries, there are no State (postal) Savings banks. Obviously, it is only in those States which grant to Savings banks the free use of their funds that these institutions can directly benefit agriculture. In England and in France, the whole savings of the country are drawn into the Government treasury, which holds them as a floating loan repayable on demand, and uses them simply for State purposes, instead of allowing them to fructify in the localities where they are produced; in France the debt of the State to the Savings banks on 1st January 1891 was nearly £140,000,000, held in above 7,000,000 accounts. In noting, therefore, the influence of Savings banks on agricultural credit, England and France may be left out of account. An account will, however, be given of the administration of the private Savings banks in these two countries, since their methods and the part taken by Government in supervision, afford important practical lessons.

The European Savings banks assist credit in one of the following ways:—(1) they may establish popular banks; (2) they may provide funds for such banks or other intermediaries by opening accounts current with them, granting them loans, &c.; (3) they may use their funds directly in mortgages or other classes of loans; (4) they may serve simply as branches of popular banks to receive savings in the intervals of payment of instalments.

From the following description all popular banks or loan societies which, as in Germany, Austria and Italy play so large a part as Savings banks, are excluded unless expressly mentioned, as they have been described at length elsewhere.

PRUSSIA.—There has been no Imperial legislation for Savings banks in Germany, so that each State has its own regulations, none of them modern. That of Prussia is fairly complete, and will be taken as an example of the German management of institutions for thrift.

The regime of the Savings banks in this country is peculiar; there are no postal Savings banks, but most have been established by the local authorities, whether Provincial, District, Municipal or Communal; the law regulating them is that of 12th December 1838, which has never been added to, though interpreted on several occasions by authority. There have been several attempts to organize a postal Savings bank, but these have been defeated, chiefly on the ground that their institution would be prejudicial to the popular banks and ordinary Savings banks, which are doing such splendid work, and would attract savings to the State treasury, whereas they are now employed "*in situ*." There are some private Savings banks, but these are few and of limited operation.

The Prussian Savings banks are mainly public institutions guaranteed and managed entirely by the local authorities, communes, taluks, or districts; the Provincial Government authorizes their establishment, and supervises their operations as municipal institutions. They are, however, largely autonomous, and in the disposal of their funds, subject, of course, to the above supervision, they are free.

The following statistics* show at once the great development of these institutions as Savings

* From the 'Zeitschrift des Königl. Preussischen Statistischen Bureau' in the 'Bollettino' for January 1893 of the Italian Minister for Agriculture, &c.

banks and as credit banks in 1890-91. There were in all 3,540 offices, of which 1,393 were the Savings banks, 526 were branch offices, and 1,621 were collecting offices; there was one receiving office of one kind or other for every 8,462 inhabitants and 38 square miles. The 1,393 banks were: urban 593, entirely rural 159, taluk (Kreis) 344, district 6, and private or co-operative 291. The 344 taluk banks had 1,819 of the branches and collecting offices. This is, however, a somewhat small number for 54,440 communes including 1,263 towns.

There were at the end of that year 5,592,662 deposit accounts, or 1 for every 5½ inhabitants: in twenty years from 1870 they had increased from 1,391,970, or 1 for every 18 inhabitants. The accounts below £3 were 29 per cent. of the total number and those between £3 and £7-10-0 16½ per cent.; hence nearly half of the accounts were below £7-10-0. The deposits reached £164,078,650, or treble the £5,603,870 of 1875; this averages £5-9-0 per head of the population.

The modes of investing this enormous sum are very instructive and suggestive. They are embodied in the following table: the investments include deposits, capital and reserve:—

Nature of the Bank.	Mortgages.		Bonds.		Bills of exchange.	Pledge of moveables.	Loans to public institutions and corporations.	In securities.	Total.	
	Urban.	Rural.	Without surties.	With Surties.						
Urban ...	£	28.182	14.782	0.1	1.646	0.703	1.256	6.263	29.591	82.519
	p.c.	34.15	17.92	0.12	2.0	0.85	1.52	7.58	35.86	100.
Rural ...	£	1.177	4.143	0.047	0.745	0.037	0.129	0.522	1.544	8.314
	p.c.	14.15	49.47	0.56	8.96	0.45	1.58	6.28	18.57	100.
Taluk ...	£	9.907	19.332	0.19	2.135	0.819	0.586	3.987	14.259	60.929
	p.c.	19.45	37.95	0.38	4.19	1.22	1.15	7.66	28.0	100.
District ...	£	1.416	1.122	...	0.111	0.075	0.181	0.299	2.576	8.782
	p.c.	24.50	19.43	...	1.92	1.30	3.14	5.17	44.55	100.
Private or Mutual.	£	7.192	5.404	0.054	2.186	1.048	0.689	0.692	5.604	22.869
	p.c.	30.83	23.17	0.23	9.37	4.49	2.96	2.97	24.02	100.
Total ...	£	47.875	44.754	0.393	6.824	2.482	2.842	11.663	53.575	170.408
	p.c.	28.02	26.19	0.23	3.99	1.45	1.66	6.88	31.36	100.

N.B.—The pounds sterling column represents millions.

It will be noticed that 54.21 per cent. of the deposits, or £92,629,000, were invested in mortgages, of which nearly half, £44,754,000, were solely rural; even the urban banks invested £14,782,000 in rural mortgages, but all Savings banks are called urban if in a town, and this word includes what are merely large villages. No less than £6,824,000 were out on bonds, the bulk being held by rural and private banks; as these are usually of short term, the figures do not show the whole year's work. Similarly the £2,482,000 in bills of exchange represents merely the portfolio at the end of the year, and as bills are not only of short term (three months), but are incessantly coming in and going out on rediscount, the transactions for the year were probably far greater. Hence the personal credit work of Savings banks is not fully represented in the table. Chattel credit (pawnbroking) is represented by £2,842,000, and this is open to the same remarks as bills of exchange. The large sum of £11,663,000 was lent to public bodies (communes), corporations, institutions, &c., while no less than £53,575,000 were invested in securities which must, by law, be first class.

The modes of investment have, except as regards mortgages, sensibly altered since 1871:—

Year.	Mortgages.	Securities.	Other investments.	Remarks.
1871 ...	53.83	20.52	26.46	The figures represent the percentage of deposits invested in the several classes.
1880 ...	55.21	24.33	19.84	
1890 ...	54.21	31.36	14.43	

While mortgage investments have remained steady, it has evidently been found advisable to limit the investments in personal and chattel loans, and to increase the proportion invested in securities. Unfortunately the average size of the mortgage and other loans is not stated, so that it cannot be said whether the loans got down to the small peasant: it is said by some writers (Note sur le crédit agricole mobilier, 1885) that the small peasants are not much benefited, since the Savings banks are not organized for the minute and numerous enquiries necessary for a mass of petty loans; moreover loans can only be granted at 1,919 offices, and if the 593 urban banks are excluded, the 1,326 other banks could hardly, even if organized for credit, serve the requirements of 53,177 rural communes, each such bank, moreover, having to serve 22,500 people and an area of 107 square miles. Though figures to show more precise details of distribution are not available for this study for the whole of Prussia, they have been obtained for some of the provinces and smaller States. Dr. Koscher writes, in 1885, that nearly 72 per cent. of the deposits in Savings banks in Saxony were employed in mortgages; that the average mortgage loan was from £100 to £150 (in Brandenburg (Prussia), the average was £38), while no less than from 31 to 44 per cent. of mortgages outside of the large towns were below £50, about 15 per cent. being below £25. Mortgages such as these cannot even be looked at by larger banks. The interest too was moderate, viz., 4½ per cent., and no less than 1 in every 32 of the people of Saxony had a mortgage with these banks. The reason given is that as the Savings banks are local they can constantly survey the position of their debtors, and the condition of the property pledged,

while the larger institutions, operating over a wide area, are unable to do so; hence the possibility of small and cheap loans on easy conditions of repayment.

Moreover, as the banks are Savings banks, they accept at any time small sums to be credited to the debtor; these accumulate at interest and are then credited to the loan at the regular instalment periods. Very small loans are repayable by the pottiest sums, e.g., at the rate of 1 penny per thaler (3s) per week. He adds that similar advantages are obtained from a Savings bank in the matter of personal credit.

The Nassau Savings bank, which is, however, a State institution, had on its books on 31st December 1892, deposits of £1,567,879, of which above £900,000, or 57 per cent. were on mortgage and £134,000 on bonds with sureties (Burgschaft). The mortgages were 1,978 in number or nearly £450 on an average, but the small agencies show loans averaging as low as £16-5-0, that of Rennerod having 148 for £2,401. Similarly the personal loans with sureties were 1,194, of which 584 were below £6-10-0, and 1,079 below £15.

The foundation and administration of these Savings banks under the Prussian law of 1838 is as follows. The banks (public) are those of the commune, taluk * (circle, Kreis) and district (Provinzial).

The Communal banks are started by the village corporation and on their guarantee; a committee from the Communal councils manages the bank and appoints the staff, but, though working independently, is under the general supervision of the Communal administration; the funds, documents, &c., of the bank are entirely separate from those of the commune.

When a commune decides to start a bank, its intention must be communicated to the authorities; the object, methods and Articles of the bank must be submitted to Government with the proposal which, if it refers to a commune only, is sent to the president of the province (collector) for his orders; the points for consideration are the safety of the investments, the propriety of the rules, and the probability that the needs of the poor, whether for saving or for credit, will be met. Only after authorization can the bank begin work, and its administration is then subject to supervision by the same authorities, who are bound to pay special attention to these institutions, satisfy themselves of their regularity and business methods, make ordinary and special inspections of their accounts and affairs, and repress all abuses. An annual detailed statement of the bank's affairs must be made to the Provincial president in a form prescribed by the minister for the Home department, and must also be published in the local gazette; the president forwards the returns to the minister. Inspections are conducted by officials deputed for the purpose by the president, but it is said that this power has not often been exercised, probably from want of attention, for in 1875 the minister took occasion to object to the carelessness and inaccuracy of the inspections, and in 1886 the attention of presidents was again called to the subject of the Communal Savings banks.

The banks are left very free as regards internal organization. It has been general to begin with an unpaid staff, the managers undertaking this honourable duty gratuitously; as affairs develop in quantity and complexity a paid staff is introduced; usually a single accountant at first, who is required to give security for his conduct. Even in the larger banks, such as those of the taluk, the directorate always performs its duties gratuitously, as do the trustees and managers of the English Trustee Savings banks.

The fact that the communal council (Municipality) is, in the last resort, liable for the bank's obligations, is an important guarantee for its stability and largely induces public confidence. But in order to avoid any risk to public—communal—funds, it is obligatory to establish from the beginning other guarantees, principally that of a material reserve, which is generally fixed at a minimum of 10 per cent. of the liabilities, i.e. of the deposits; in 1882 the reserve was below £6,000,000; in 1890 it was above £8,000,000 which, however, does not amount to anything like 10 per cent. of the deposits. Its reserve is taken from profits, which in 1882, amounted to about £1,000,000. When the reserve is full, the Provincial President may authorize the banks to use any surplus in works of public utility in the commune (paving, lighting, &c.); in 1882 more than £307,000 were thus spent, and from 1838 to 1882 about £3,225,000.

The law lays down no maximum or minimum for deposits. The minimum is, however, to be placed as low as possible and interest is only allowed upon the deposit reaching a certain sum, usually one mark (shilling) at least. The minimum in rural banks varies generally from 3 to 5 shillings, the lower rates being the more common; some private banks, probably children's or school banks as in Switzerland, are even said to accept a single pfennig (1 pie). The maximum deposits are, in rural banks, usually from £15 to £300, but the Provincial Presidents have power to allow or order a change in the maximum, whenever it would be to the public advantage. It is common also for the bank to invest any surplus on behalf of the depositor, in some good security or debenture. Some banks repay any surplus; others allow the surplus to remain but give no interest thereon; some stop interest upon the whole sum. It is usual also to fix a maximum for each payment into the bank, and the maximum to be deposited in a year.

Interest on deposits is various, but does not seem to exceed 4½ per cent. in rural communal banks, though somewhat higher in the taluk and district banks. It has been proposed to allow as in Italy slightly higher interest to small savings, so as to encourage thrift among the poor, but it is not a rule of the law. It is ordered, however, by law that the rate of interest shall be printed on each pass-book, together with a table showing, for various sums, the amount which would be reached in ten years at compound interest.

The investment of the funds is left to the discretion of the banks, the only proviso being that the investment must be safe. The investments recommended are (1) loans on first mortgage, (2) investments in public funds, (3) loans on the deposit of Government paper, (4) loans to local Monts de Piété, (5) any safe investments, the word "safe" being interpreted to mean such as are admissible for the investment of trust funds. The discount of bills of exchange is discouraged but seems to be used. Loans on personal security are admissible, the bonds ranging in term from three months to ten years;

* The word "taluk" is used to translate "Kreis" or "arrondissement," partly because of the nature of its administration, partly because of its size, from 20,000 to 70,000 and occasionally more inhabitants.

only a given portion may be invested in this manner. Mortgages are by far the most used, 52 to 55 per cent. of the funds being thus invested; loans are granted up to two-thirds of the value, calculated in various ways. It is usual to allow only a proportion of from 25 to 66 per cent. of the funds to be laid out in mortgages; some banks refuse such loans unless repayable by annuities. Loans to public bodies, such as communes, District Boards, &c., are allowable even when made to the commune which manages the banks; about 4 per cent. of the funds are thus invested.

Loans upon pledge are common and are one of the most ancient forms of employing the funds of Savings banks which are frequently found in connection with Monts de Piété, and are sometimes started simply to supply a Mont with funds; sometimes they merely lend part of their funds to a Mont, sometimes they lend money direct as a Mont. It is considered that this branch of their operations is very useful, if kept under the supervision of the Government as an important item in the customary economy of the country. About 6 per cent. of the funds seems to be laid out in this way. It appears likely that one great method of developing popular credit is to co-ordinate ordinary Savings banks with institutions of popular credit, not merely with Monts de Piété, but with land and agricultural credit banks, to which they would supply funds on loan. Savings banks are not organized ordinarily for credit inquiries and transactions; their business is the encouragement of thrift by an organization for the receipt of petty savings, and a secure and easy investment for such funds. According to Prussian common law, the pass-books of Savings banks are considered as documents payable to bearer, but by the Regulation a bank is entitled but not bound to call upon the bearer to prove his title. It seems, however, that the Articles can decide whether pass-books shall be personal or to bearer; it also seems customary in practice to pay the bearer even of personal pass-books. It has been suggested that pass-books, which the depositors have expressly elected to be personal, should be rigidly maintained as such, while the favourite form of "to bearer" should pass without question. It should be added that by law, transfers to the value of above £6-10-0 must be by written document, so that pass-books containing above this sum cannot be transferred without documentary formalities.

Ample rules are laid down in case of the loss or destruction of a pass-book. The depositor must *at once* inform the bank, and if it is a case of destruction he can get a duplicate on proof of the destruction. In case of loss, or where destruction is not proved, the local Court is notified; if within six months from loss the book is presented at the bank, it is at once detained and the bearer and depositor invited to prove their respective claims before the Court. If no such person appears, the bank issues a copy of the depositor's account to the depositor which he presents to the Court with a request to issue a notice in the public newspapers in cancellation of the lost pass-book. The notice must give all particulars, and invite claimants to appear within a given time which varies according to the amount of the deposit. If no claimant appears, the Court orders the cancellation of the lost book and the issue of a new one, on the original depositor making oath of his original possession and subsequent loss of the book. The order must be placed on the notice board for 15 days and is then made absolute. All expenses are paid by the loser of the book, but, as far as possible, he is relieved of stamp duties and fees. The above details are given partly to show the lengthy if thorough mode in which matters are dealt with in German offices.

In case of material alteration of the Articles, all depositors must be notified, so that they may withdraw if they object to the alterations. Failure to withdraw within three months implies acceptance of the alterations.

Deposits not claimed within thirty years from the last transaction, bear no interest from the expiry of that period. Many banks provide that if, after due notice has been published, such sums are not claimed, they shall become the property of the bank; some provide a ten-year period.

The Regulation orders that the Articles shall require notice, if necessary, in repayments. The general rule is to require notice for all payments above 15 or 30 shillings. The Regulation itself suggests payments on demand up to £1-10-0, two weeks' notice for sums up to £3-15-0, and two months' notice for larger sums. In practice it is probable that notice is not insisted upon. It is usual also to provide for much longer delays in time of war or siege.

Nothing is provided in the Regulation for the disposal of disputes between the bank and its depositors, as in the case of English Savings banks, *q.v.* In Württemberg every dispute must first go to arbitration; failing such settlement, it may then go before the magistrate.

Savings banks are bound to publish in the gazette their Articles and all changes therein, their guarantee funds, the investments of their deposits, their rate of interest, &c.

M. Le Barbier gives an account of the Communal Savings bank of Merzig, which specially devotes itself to credit amongst small agriculturists; its director, Herr Knebel, is particularly interested in this development, hoping by its means to get rid of "usury which exploits the peasant beyond all measure." Herr Knebel believes that if credit is to be usefully granted to peasant holders, loans by private lenders must be absolutely got rid of; only institutions which look to the benefit of the borrower, to his convenience and profit, and to the use he makes of the credit granted, can really help him; private lenders, if not mere benevolent philanthropists (and therefore useless if not mischievous) have their own profit to seek, even when working honourably, while there are crowds of usurers, who seek their profit in the entanglement and ignorance of the peasant; in any case, it is not the benefit and profit of the peasant, but of the lender, that is the private lender's aim. In other words, Herr Knebel aims at the same mark as Raiffeisen, and the Savings bank is to be a loan institution as much as a Savings bank. His bank has "agents" who receive savings in the hamlets, report on demands for loans, and collect instalments. The difficulty however of lending to agriculturists is shown by the statistics; in ten years this little bank, expressly intended for small agriculturists, lent £11,080, of which only three-tenths went to agriculture. It is noteworthy that above one-half the loans were used to extinguish usurious debts.

It is, however, in the addition of Savings branches to Popular banks or loan societies that agricultural, *i.e.*, personal rural credit is best served by Savings banks; either the credit banks start Savings banks, or the ordinary Savings banks lend to the credit banks. The Raiffeisen societies, especially of the Neuwied Union, tend more and more to rely on savings deposited in their savings branches; in some of these societies there are no funds borrowed from outside; in the Cologne taluk (Kreis), it is the Savings bank department which alone supports agricultural credit. These branches

are usually started by the loan societies, as these latter grow in strength and credit, so that the peasants and others bring their savings to the society for investment; in order to prevent complication of accounts, and loss to the Savings department, this latter is kept separate, and merely lends its funds to the society, usually at about $3\frac{1}{2}$ per cent.; in this way local savings provide the means for local credit; the idle hoards of the locality become streams which fertilize local industry. In any case the savings accounts and pass-books are kept separate from the loan accounts, so that a depositor can draw his savings, wholly irrespective of any account that he may have with the loan department.

Similarly, Schulze-Delitzsch recommends the addition of a Savings bank to his popular banks whenever necessary, but with precautions owing to the necessity for paying savings on demand or with very short delay, and the congress of the Schulze-Delitzsch banks in 1885 distinctly recommended the establishments of savings departments as part of the duty of the banks towards the poorer classes, and in their own interests; it was their duty to collect all the savings within their area of operation, and utilize them within that area; it was their interest to do so, for, in times of crisis, it is not the small savings that are withdrawn from a bank, but the deposits of capitalists. It will be remembered that in Schulze-Delitzsch's opinion, credit should depend upon savings, and the man who would not save should not have credit. Hence when the associations had established their position and their reserves, and had attracted long term deposits, they felt it right to foster savings under the usual conditions, adding however one, not unusual in Europe, that if necessary, repayment of savings deposits may be withheld up to three months.

AUSTRIA.—The Savings banks system is similar to that of Germany; in 1889 there were 414 quasi-public Savings banks established by communes, taluks and districts. The amount in deposit at 12 florins per £1 was about £103,000,000 in 2,293,092 accounts—about 1 in 10 of the population—averaging £44-15-0 per account which is 50 per cent. above the Prussian average; the banks appear to deal, as in India, with a somewhat well-to-do class, and not merely with the small folk. The amount invested in mortgages is not stated, but in 1881 it reached five-eighths of the deposits, which in 1889 would mean nearly £65,000,000; as the Savings banks are said by several economists to be the only resort for organized mortgage credit of the small and middle classes of agriculturists, much of this sum was probably spent amongst them.

ITALY.—The Savings banks of this country, outside of the 4,388 postal Savings banks which are recent, are mainly private in their origin, and free as to the disposal of their funds. The distinction between Italian Savings banks and ordinary commercial banks is that they are entirely free from the spirit of gain; they are debarred by their statutes from the distribution of dividends. The State does not directly interfere in their management, but on account of their usefulness and because they are not societies working for profit, it exempts them *partly* from stamp duties, taxes and postal charges.

“In fact the State endeavours to intervene, not merely negatively, in guarding the institutions from all that might injure them, but positively, by promoting favourable conditions, and by so submitting them to watchful care as to insure that the savings so hardly earned shall be securely invested, and not squandered by heartless speculators” (Antonietti). It is by the “*vigilanza*” and not by the “*ingerenza governativa*” that the State acts.

There are, besides the postal banks, three classes, viz., Municipal or Communal, administered by the corporation, benevolent private associations of ancient origin, and private (joint stock societies) established for the purpose, but whose shares bear generally no interest; the original share capital is, however, usually restored to the shareholders as soon as the reserves are sufficiently high; the great Savings bank of Bologna, for instance, has a share capital of only £520, but £120,000 in its reserve which has been formed wholly from profits. They have been established by men of philanthropic views, and compare, except as to the freedom with which they place their funds, with the Trustee Savings banks of England. Their investments being wholly free, they are able to place their funds locally to the great benefit of local industries including agriculture; three of them, including Milan and Bologna, have established Real credit departments, and in 1883 nearly one-fifth of all the funds were invested in mortgages. Moreover Bologna and Sienna among others have directly attempted the ‘*Crédit agricole*,’ devoting considerable funds chiefly to personal credit loans. In the congress of Savings banks held at Florence in 1885, the duty of serving agricultural credit, *i.e.*, personal and chattel credit, and not land mortgage or real credit, was acknowledged by a unanimous vote, which, however, had no authority and no practical result. Neither have the numerous circulars of the Ministry of Agriculture been productive of greater effect in spite of their appeals to the benevolent aim of these institutions; neither congress resolutions nor even Government circulars avail to change the methods or current of business, let alone the characteristics of a nation.

The fact is that the Italian Savings banks, well served as they are, have not the organization necessary for the numerous and difficult enquiries necessitated by this class of credit; agricultural credit is, of all classes, the most difficult not as regards *la grande* or even *la moyenne* culture, but as regards the immense mass of small cultivators.

Hence the Italian Savings banks, while agreeing in congress resolutions which bind them to no action, have not yet seen their way to agricultural credit direct. But Signor Luzzatti has proposed and many Savings banks are carrying out, an excellent form of assisting agricultural credit, *viz.*, by the indirect mode of granting loans or opening accounts current with popular banks or rural credit societies, to which, in fact, the Savings banks would act as bankers so far as regards the supply of funds. Signor Luzzatti's proposal is that the Savings banks shall simply lend to local credit societies; these latter have all the local knowledge of individuals, while it is easy for the Savings bank to satisfy itself of the position of the society. The loans are either granted direct to the society, or the Savings bank discounts the paper of the individual borrower guaranteed by the countersignature of the local society.

An instance of the latter method is given by the Savings bank of Cuneo mentioned by M. Rostand; this bank had paper to the value of £24,000 in its portfolios; during the year it had discounted paper for £58,000 in 1,021 bills averaging nearly £58; of these, however, two-thirds were below £24, and just one-fourth were below £8. This paper was largely agricultural.

The former plan is, however, that chiefly used and the rural loan societies of Signor Wollemborg are largely financed by loans from the nearest Savings banks; in fact, M. du Bled states, that in Italy "most of the societies of mutual credit in a certain sense lean upon Savings banks, or are affiliated to them." Similarly the great bank of Bologna engages in agricultural credit; on this Signor Luzzatti expresses himself: "But the Savings bank of Bologna has found its inability to penetrate into those minute channels of the agricultural organization, which require credit if agriculture is really to be benefited; no urban Savings bank can enter into direct relations with agriculturists, whom it knows not and who live far off. It must place itself in connection with those smaller institutions which command a clientele among the poorer classes of farmers who are in need of credit, and who can only obtain it by co-operative effort."

It will be seen that this idea is that of the Belgian proposal (*see* page 128 *supra*), in which the Central Savings bank was to lend its funds to agriculture by means of "comptoirs agricoles," which were to be formed for the purpose. That plan has not yet succeeded, because it has not been found practicable to form the comptoirs in spite of a large subvention offered by Government; in Italy the popular banks, &c., already exist, and only need to be brought into financial relations with the Savings banks.

In 1887 the 395 Savings banks employed about one-fifth of their funds in mortgages, but very little appears which can possibly be construed as agricultural loans.

One other method is noteworthy; the great Savings banks occasionally establish an agricultural or land bank branch, supplying it with a foundation fund for first start; this is the case at Milan and Bologna. At Bologna the land branch has a guarantee capital of £10,000 derived from profits, besides a regular reserve of £4,000. It had in 1883 issued 52,585 debentures of £20 with *coupons* of £4 each, and lent the funds thus obtained on first mortgage, repayable by amortization in from ten to fifty years. It lends also on cash credits covered by mortgages. In 1890 all these figures had considerably increased, and in three years it had only 1 per cent. in arrears. But from 1868 it had only granted 1,146 loans, the average value of which was £1,550, showing that it deals only with large farmers or landholders. Similarly the Savings bank started an agricultural branch for personal credit in 1871, taking advantage of the law of 1869, which permitted societies to issue notes payable to bearer but not at sight, on condition of paying into the Government treasury (*Caisse des dépôts*) a guarantee fund equal to one-third of its own capital; this was fixed at £40,000 and was paid by the Savings bank. The agricultural branch had also, according to law, to maintain a cash reserve equal to one-third of its engagements. The Savings bank furnished not only the guarantee fund, but also the working capital, and administered it almost gratuitously by members of its own administration, so that at the beginning of 1890 it had in its portfolio agricultural bills averaging three years in term for £294,546 besides other loans. Hence as M. Leon Say remarks, its success, if any, was due to ample and cheap funds (from the Savings bank) and almost gratuitous administration. Its director, in a memorandum to the Minister of Agriculture, reports that it has not confined itself to agriculture alone, but has relieved agricultural property and discounted the paper of "local institutions and their members," but the director further remarks that the proper method of extending credit to agriculture is not by special institutions formed *ad hoc*, but by encouraging the development in the rural tracts of petty institutions getting in local savings, making local loans and supervising on the spot the utilization of the borrowed funds; these should be encouraged by the authorities and aided by affiliation to a central institution which should be free from the pursuit of dividends as a primary object. This testimony from the director of a comparatively successful office for agricultural credit is very important. The Savings bank has, in accordance with these views, developed various small Savings banks and popular banks, by organizing them, finding their first expenses, taking shares in them and granting various privileges in the way of funds. Experience has proved that the director was right, and that these affiliated local institutions springing from local—though aided—initiative and managed by local councils, are far preferable to branches or agencies; they have local sympathy, local knowledge and local confidence; they gather in local savings, spend them locally and watch over their utilization on the spot. It remains to be said that this agricultural branch now works, of course, under the new law of 1887-88, which grants special privileges to institutions of agricultural credit, allows certain fiscal favours, and has substituted for the bank notes of the former Act regular debentures of fixed term and bearing interest.

For 1889 the following statistics for Italy from the Bollettino of the Minister of Agriculture, &c., are interesting; there were 393 Savings banks proper including branches, and exclusive of the 4,388 Postal banks, and the Popular and ordinary banks. Of these Savings banks, 219 were principal and 174 were branches; 117 of these latter belonging to the Milan bank alone, and the remainder to five others. These 393 banks held £45,565,832 of deposits in 358,672 accounts or about £33-11-0 each. It is curious that the 4,388 postal banks had 1,877,403 accounts, with however only £11,032,032 or less than £6 each, showing apparently that a different class had been reached during the fourteen years of their existence; 38 per cent., however, of the accounts in private Savings banks were below £4 and 28 per cent. averaged only £16.

The "patrimony" which includes share capital, endowment fund and reserve, of the private Savings banks is very large; this is chiefly accumulated from profits and equals 10½ per cent. of the deposits; of this the reserve forms three-quarters and endowments only one-third-hundredth.

The funds were invested as follows:—

	PER CENT.
Mortgages	17.29
Ordinary bonds	8.27
Bills	9.27
Securities (chiefly of the State; but including land mortgage debentures for 2.73 per cent.).	34.43
Cash credits	5.83
Loans on securities	10.39
Cash in hand	1.36
Miscellaneous	13.37

The bills of exchange worth nearly £6,000,000 represent only those held on the last day of the year, and consequently in no way represent the turn-over of the year; these probably represent private loans, which in Italy (*cf.* Popular banks) are very generally granted in this form. Figures are wanting for the total turn-over of the year, but it must have been very great. It is noteworthy, however, that for ten years there has been a steady decrease in this form of investment, owing to the losses incurred by some banks; it does not appear that Savings banks are well-adapted to deal with bills except for their immediate and well-known clients: they ought not to deal in commercial paper in general. This is the opinion of the Italian minister, who has continually urged a larger investment in State and other good securities, such as land mortgage debentures (*cartelle fondiarie*). Nearly all the bonds were executed by communes or other corporations, and very few by individuals.

The gross returns from the investments were 4.11 per cent.; deducting 0.91 for expenses, the net profits were 3.21 per cent. or £2,062,300; of this £1,743,020 or about 3.8 per cent. was paid as interest on deposits, the balance £319,280 being net profits; of these profits 17.85 per cent. were spent in works of public utility and charity, 0.41 per cent. in repaying shares, and 81 per cent. went to the reserve.

The expenses were 0.91 per cent. of the funds dealt with or £589,530; these include administration 0.24 per cent. or £155,905, taxes £288,370 or 0.45 per cent.; losses were £95,698 or 0.15 per cent. The weight of the taxation is as noteworthy as the smallness of the cost of administration. The bulk of the taxation, which, of course, does not include stamp duties, is due to the tax on "la ricchezza mobile," a species of income-tax charged at about 13.6 on profits.

The Italian Savings banks have now been placed under a new law (15th July 1888) which is worth noting as the newest organic law on the subject in the world; the English law of 1891 is only an amending law and that of New York State (1892) recasts the old law. This law will be found translated in another appendix together with its administrative rules; the chief points to be now noticed are the nature of the supervision established by law and the employment of the funds.

Savings banks, exclusive of the new Postal banks, are either public or private; the former are those founded or patronized by public bodies, viz., communes, Provincial and Local Boards, or institutions (*Opere pie*); the latter are those founded by societies of shareholders and members, but usually beneficent and not lucrative in purpose; in fact it is usual for the Articles to declare that the share which each member must hold shall not only be non-transferable, but shall bear no dividend or interest, and should the member withdraw or be expelled, his share lapses to the reserve and cannot be withdrawn by the member; in case of death the heir does not become a member, but the amount of the share is paid over to him; members are elected by their co-members. In fact, all Savings banks in Italy—outside of the Postal banks—are practically 'Opere pie,' and services, except of the staff, are almost always gratuitously given.

Taking 34 banks in consecutive order from the Bulletins of the Minister of Agriculture, it is found that 18 were founded by the private action of benevolent citizens; 9 were founded by communes, the banks in such cases being the transmuted forms of previous *Monts de Piété* which are generally managed by the communal authorities; in two cases the Provincial (district) council, apparently something like a district board, founded the banks and endowed them; in five cases the banks were founded by charitable societies, *Monts de Piété*, &c.

The endowment fund necessitated by Italian law was provided in each case by the founding members or bodies, and in most cases it is expressly provided that the funds and administrative bodies shall be distinct from, and independent of, those of the founding body, though such body always provides for its representation on the directorate. The members in the private banks provide the endowment fund by their subscriptions or shares, but only in one case is it provided that the shares shall bear interest, and even in this case part of the profits go to a hospital for the poor; in several cases it is expressly provided that the shares are not returnable, except to the heirs in case of death, and they bear no interest.

The reserve funds are far larger than the original capital which is usually below £500, and it is frequently provided that the original share capital shall be returnable in whole or part when the reserve reaches 10 per cent. of the deposits.

In Savings banks the security of the deposits is the first consideration; their utilization in the form of credit is secondary; it will be seen from the following pages, and from the abstract of the Articles of one or two banks how both these objects are served.

The Savings banks are placed under the supervision of the Minister of Agriculture, Commerce and Industry. When it is intended to establish a bank, the promoters must petition the minister, sending also the Articles and Memorandum of Association, and a certificate from the Government "Cassa dei depositi e prestiti" or of a bank of issue, that the endowment fund, which must not be less than £120, has been paid in. The law is so drawn as to give a wide range of freedom to the Articles as regards administration, deposits, employment of funds, &c., thus differing remarkably from the French law which is very precise in itself.

The directorate must serve gratuitously, but the immediate manager may receive an honorarium, and sitting fees are permissible when the bank has deposits of more than £200,000. A paid staff is of course permitted.

Pass-books are personal, to bearer, and personal, but payable to bearer; rules are laid down for the issue of duplicates in the case of loss, and for dealing with opposing claims to deposits. Another form of pass-book is that issued with a special lien or assignment (*a vincolo speciale*) in favour of a third party, a useful provision which may be utilized on behalf of heirs, &c., without the formality of wills, as in the case of the "Provident Nominations" admitted in the English laws on Savings banks, benefit societies, &c. It may also be usefully adopted by the heads of factories, offices, &c., desirous of encouraging thrift among their work people, by opening accounts in their name, but under control of the masters temporarily or for a given time.

The employment of the funds may be in commercial paper bearing two signatures; in agricultural loans according to the law of 1887; in State paper; in bonds guaranteed by the State; in debentures of land banks authorized by the State; in debentures, &c., of agricultural credit banks; in first mortgages up to half the value of the property pledged; in loans to public bodies or institutions; in loans on pawn of goods; in advances on the deposit of securities of the above classes to four-fifths of their market value. Each Savings bank fixes for itself the proportion of its funds which may be

devoted to each class, but mortgages must not be granted for more than one-sixth of the assets, a very small amount when compared with Germany, Austria and the United States, nor for more than thirty years' terms. Banks must not acquire immovable property except for their offices, or as the result of expropriation in case of failures by borrowers to pay their debts, or by bequest; in the two latter cases the property must be sold within ten years.

The net profits must be disposed of as follows: nine-tenths to a reserve and one-tenth to works of public utility; when the reserve equals 10 per cent. of the total deposits, the whole may be spent in useful works or in developing the institution, if any, to which it is attached. Certain taxes and stamp duties are remitted, but, as elsewhere shown, the remainder are terribly heavy, amounting, in taxes only, to nearly twice the amount of the total expenses of management.

The banks are under the charge of the Minister of Agriculture, Industry and Commerce. The law and regulation insist upon inspections both regular and special; the former at least once a year, the latter whenever necessary; the local supervising officer is the Prefect (Collector), who warns the minister whenever inspection seems called for, or carries out such inspection at once in case of urgency. The inspectors are intended chiefly (1) to verify the accounts with the half-yearly statements and annual balance sheet; (2) to ascertain whether the law and Articles are obeyed as to deposits, investments and reserve; (3) to verify the cash balance and the actual presence in hand of the various securities; (4) to examine the general conduct of business.

Directors are bound to place the whole office at the disposal of the inspector from the hour that he arrives and to give all information that may be demanded. A report of the results must be sent by the inspector to the minister, who may, in case of serious irregularity duly proved, obtain the sanction of the Government in council for the dismissal of the directors; in such case a Government commission must within three months proceed to appoint a new directorate according to the Articles of the bank. If inspection proves that half the own capital and reserve (*patrimonio*) of the bank is lost, the minister may move the dissolution of the bank unless arrangements be made for its reconstitution, in which case the law allows a month for the formation of a sufficient capital which must, in no case, be below that with which the institution was originally endowed; failing such arrangement, the bank is wound up by liquidators appointed by the minister and working under the rules of the Code of Commerce for joint stock societies unless the minister prescribes special rules; the liquidators report directly to the minister.

The banks are also bound to send to the minister (1) their annual balance sheets within one month of their being passed; (2) half-yearly statements in the form and with the information prescribed by Government decree within fifteen days of the close of the half-year. If these instructions are not obeyed, the minister shall send an inspector to compel them.

Directors are held responsible in their property for due observance of the laws and Articles, and are liable to pecuniary penalties for misfeasance.

In the matter of the reserve, it should be noticed that not only is a general reserve to be established and kept full up to 10 per cent. of the deposits, as a guarantee fund for the depositors, but special reserves are desirable to promote beneficial objects, to supply any loss caused by market fluctuations in securities, to provide for the gradual recoument of casual losses, &c.

The law does not lay down rules for the working of the bank, but leaves such details to the Articles. The limits of this study, which does not include Savings banks except in so far as to show their capacity for granting rural credit, do not permit further details which belong rather to a manual, but the words of Signor Besta, quoted by Signor Antoniotti, are too suggestive to be omitted: "For such office (director of a Savings bank) should be selected only such as have the right capacity, such as are honest beyond suspicion, such as are educated in the sense of duty to that degree that they think it shame not only to do evil, but not to use their utmost and willing efforts for good."

The following extracts from the Articles of a few Savings banks will be found useful:—

Classes.—Savings banks are either private, formed by a few beneficent men or quasi-public, founded by communes, public bodies or benevolent institutions, such as *Monti di piet *, &c. The promotion, formation, endowment and management of Savings banks are regarded as important modes of philanthropic effort, but the banks are business concerns and managed in business-like fashion by business men, absolutely, however, without expectation of gain.

Administration.—In the case of private Savings banks, answering in some respects to the English Trustee banks, the number of members (trustees) is seldom above 100; these subscribe shares to make up the minimum guarantee capital (£120) required by law. The Prato bank requires that they shall be selected from men "who, by their social position, office, reputation, education (*gradi accademici*), economic and financial knowledge, seem most likely to promote the good of the institution." That is a universal feature in these banks; the trustees are allowed absolutely no interest, dividends or profits on their shares or in any other way; they run the risk of loss without any corresponding chance of gain, yet they are willing and anxious to accept risk and undertake the duties in order to promote thrift and well-being among the less favoured classes. It is not every one who can become a trustee; the office is sought for and proper persons selected with great care. Not only so, but the delicate and difficult duties of office-bearers, viz., directors and auditors are absolutely gratuitous (*see* sketch of Milan Savings bank); the office manager and staff are alone paid, though the whole responsibility of managing the banks falls upon the office-holders. This feature is also universal. In some of the larger banks a small sitting fee is allowed to the directors and auditors, but no other honorarium.

In private banks, it is usual to elect directors and auditors (*sindaci*) and a paid manager. The directors are the administrative officials, working through the manager who represents the bank to third parties, while the *sindaci* have not only all the powers of continuous auditors, but must supervise the working of the bank's system, and see that the Articles are duly observed. In banks managed by a public body, it is usual (*e.g.*, Verona) to appoint a supervising Committee (*commissione di sindacato*) with a small sub-committee of administrative officers and a paid staff.

Deposits.—Deposits are either ordinary or special; these latter are again sub-divided.

Ordinary deposits are those for which the bank is ordinarily intended; they are received up to a general limit of £200 to £300, and are entered in pass-books either to bearer (the most usual in Italy) or personal. The minimum is often 10d., but a penny (*centesimi dieci*) is common even in ordinary

Savings banks and for ordinary deposits; *e.g.*, in Cortona the minimum received is a penny, the maximum limit of deposits is £280. Ordinary deposits are usually withdrawable without notice up to £2 or £8; more if the bank is a large urban one; notice on a sliding scale is required for larger withdrawals.

Special deposits are (1) those taken from institutions, minors, &c.; (2) those which result from the petty savings of the poorer classes (answering to the penny deposits in England, though these latter are taken only in 'Penny' banks); (3) deposit notes (as in the Scotch banks). In all these cases the pass-books or notes are personal only and not payable to bearer. In the first sub-division the minimum and maximum receivable are both much higher than for ordinary deposits. Some banks only admit institutions of a beneficent character, such as Friendly societies for artisans and agriculturists not founded "*a base di dividendo*" or societies formed to encourage thrift.

The second class are very important; they are expressly intended to encourage thrift among classes seldom thrifty or who are too poor to save except in pence; such are labourers, petty tenants, domestic servants, elementary school teachers, the lower grades of public servants, students and scholars, and all the numerous classes of persons with small salaries. In these cases the minimum deposit is from 1d. to 5d., the rate of interest is 0.5 per cent. higher than the ordinary rate of the bank, and the total receivable is from £20 to £80 according to the bank. It is usual to allow this favoured class to attain only a certain proportion, 5 or 10 per cent., of the total deposits. The Cortona and Foligno banks specially encourage this class by establishing a fund from which, at the end of each year, premia are granted to those depositors who, during the year, have made at least forty payments, and no withdrawals.

The third class are simple receipts for sums of from £4 to £800. But the part or whole may be drawn out on due notice; they bear interest like ordinary deposits.

Investments.—The investment of these funds is various, but it is always expected that, security being duly considered, the funds shall, as far as possible, be productively and locally employed in loans to small popular banks and *Casse rurali*, especially at their inception; the following investments are usual; mortgages up to one-half or three-fifths of the estimated value of a property after deducting charges; loans to public bodies; advances upon certain classes of securities; the discount and rediscount of bills for not above six months, bearing three good names or guaranteed by good security; advances upon deposit of silk (*cf.* Milan) and other goods; purchase of good securities chiefly those of the State or public bodies, or the debentures of the specially recognized institutions of land and agricultural credit; the creation of institutions of agricultural credit (*cf.* Milan and Bologna), or partnership in the same: under this head probably come loans to Popular banks and *Casse rurali*; special loans to workmen for the purchase of tools (*cf.* the "loans upon honour" of the Popular banks); advances upon labour notes, *i.e.*, workmen's wage bills accepted or endorsed by an employer of labour for work done for him; in accounts current or cash credits based upon mortgages, or the deposit of securities, &c. Pawnbroking is operated in two ways, (1) directly, *e.g.*, Cortona, by advancing up to two-thirds of the value of goods pledged; (2) indirectly, *e.g.*, Verona, by opening an account current with a Monte di Pietà which effects the actual operations; Savings banks not infrequently sprang from such Monti, and therefore continue the relation. As elsewhere stated, the Italian banks dispose freely of their funds in these various ways, but it is usual to fix a limit, *e.g.*, six-tenths (Cortona) of the deposits, beyond which loans and cash credits may not be granted; so also for mortgages in particular, a certain limit—20 or 30 per cent. of the deposits—is usually fixed; similarly a limit of 10 or 15 per cent. of the total deposits for bills and simple bonds. Mortgages may be granted for five or ten years if repayable in lump, or for twenty-five, thirty or even fifty years if repayable by annuity. One bank, and probably others, provides a right to call in mortgage loans on four months' notice; this is also found in the Moutiers Savings bank in Switzerland, and though never found in ordinary land banks may possibly be necessary for Savings banks. Banks which discount bills on land or simple bonds usually provide a "*castelletto*" (*see* 'Popular banks, Italy') or register of solvent persons who may be granted loans or accepted as sureties to the amount entered against each; this is revised by a discount committee every six months at least.

Profits.—Profits are never divisible among the members (trustees), but are by law to be disposed of as follows; to the reserve nine-tenths till it equals 10 per cent. of the deposits; the remainder to works of beneficence or public utility, or to the maintenance of the institution which founded the bank. When the reserve is full the following may be taken as a probable division of the profits: two-tenths to the reserve; three-tenths to a special reserve to provide against special losses by a decrease in values; five-tenths to works of utility, beneficence or the promotion of thrift; or part of this sum may go to the Pension Fund, if any, of the bank. It is customary also to provide that if the bank has to be wound up, any remaining assets shall be devoted to some work of public utility.

Many other provisions are found, but the above will show the general working of these banks. For further details *see* 'Articles of the Verona Savings bank,' &c., translated in another appendix.

MILAN.—The Milan Savings bank requires special notice, for though a Savings bank proper, it is a marvellous institution and probably the greatest example in the world of its class of institution, if indeed it is not a class *per se*. The following account is chiefly taken from M. Rostand's '*Une visite en Italie*' (1891), and the facts recorded, though slightly outside of this study, are stimulative in the highest degree. Briefly, the bank is one without capital, shareholders or dividends, but with a vast reserve; its deposits are enormous, and its utilization of them under the system of the free employment of funds, in the highest degree prudent and economically fruitful; its administration is absolutely gratuitous, though the total funds disposed of annually approach £20,000,000, and the income £1,000,000, while the disposal of such funds involves great financial knowledge and prudence.

It was founded in 1823 by a benevolent committee, which, in 1818, was formed to manage a capital of £20,000 intended for the succour of the famine-stricken. Beginning in this way, it has preserved its character for absolutely gratuitous administration; the direction has from that day to this been entirely conducted by men of position "who give without measure their time and their skill" to the task, which is one not of mere collection of funds and its investment in Government paper, but involves financial knowledge, skill and prudence. The staff alone is paid; this numbers 140 at head-quarters and above 200 at the 117 branches.

In 1823 the bank began with 729 accounts for £10,340: on 1st January 1890, there were 448,744 accounts for £17,343,234 averaging £38-12, nearly 99 per cent. being in pass-books payable "to bearer," though interest on non-transferable books was $\frac{1}{2}$ per cent. higher.

These enormous funds, with other assets of about 2½ millions sterling, are invested largely in Government paper (about £9,553,000), mortgages (£3,720,000), loans to communes, &c., (£1,650,480) municipal, railway, land bank and other debentures (£2,269,000), commercial bills (£280,000), advances on warrants (£323,596), other good securities and cash, &c. The item for bills is merely that in the portfolio on the 1st January; the annual business in such bills is immensely greater, while from M. Rostand's statement and the known operations of the bank it appears that these bills are largely the discount or re-discount of the bills of Popular banks. It will be seen that the investments combine solidity with liquidity, and that about one-fifth is granted on mortgages proper, and another fifth in loans direct or by purchase of debentures, to communes, towns, commercial and industrial institutions, so that credit and industry are well promoted, while security is maintained.

The operations of the Savings bank do not end here; it has promoted, perhaps established, the silk industry in Milan by its advances on warrants which represent silk in cocoon or piece in the bonded warehouse which it has established in Milan.

It is one of the eight banks which have established a land branch or *Crédit Foncier*. To this end it has set apart a separate guarantee fund of £200,000, upon which it issues mortgage debentures and thus grants mortgage loans. These are wholly separate from the mortgages above noted which are merely the investments of the Savings bank proper; in its land branch it had in circulation at the end of 1890, just £6,000,000 in debentures, and had granted mortgages for a similar amount; the expenses of the branch were £9,446 and taxes £10,050.

In addition to these operations it promotes in various ways, chiefly by taking shares or giving a guarantee, several industrial and beneficent societies, such as that for workmen's houses, an assurance office against accidents to artisans; it also gives grants-in-aid to more than 30 benevolent institutions, on which, including grants to the charity committees of 458 communes, if spent, in 1889, £56,462 from a special fund of £182,860. This fund ("fund for promoting works of charity and public utility") is formed from the net profits, of which one-fourth are assigned to it so long as the reserve has not attained one-tenth of the deposits; after the reserve is full, the whole of the net profits may go to the benevolent fund, from which, in thirty years, no less than £571,442 have been spent in promoting providence, public charity, and assistance to the sick and needy, though it is only of late years that the fund has attained large proportions. The gross returns in 1889 were £938,609 or 4½ per cent. on the total assets. From this was paid interest (£568,000) on deposits at 3½ per cent. for pass-books to bearer and 4 per cent. on "livrets nominatifs"; general expenses were £183,265, including the pay of the staff, all miscellaneous expenses, the upkeep of the bonded warehouse, and £129,486 for taxation (!).

The reserve is formed from the net profits, and must increase up to 10 per cent. of the deposits; it was, in 1889, almost £2,000,000 sterling; the net profits in that year were £116,960, of which the beneficent fund got £30,000 and the reserve £80,000. This vast reserve has been accumulated solely from profits, there being no dividends to absorb these latter.

There is no more attractive and stimulating example to be found in Europe, save that of the marvellous co-operative credit organizations of Germany, Italy and Austria, and the great co-operative Friendly, Benefit and Building societies of Great Britain and America, than this great Savings bank in Milan, administered absolutely gratuitously by the highest skill, operating safely and surely, collecting and securing deposits, fructifying trade, industry and commerce by a wise choice of investments, assisting thrift, prudence and the virtue of organized charity by its select methods of expending surplus profits. These profits are not gained at the expense of the depositors, who get good interest for their money; they are derived from the gratuitousness of administration and the absence of a share capital with its absorptive dividends; if the reserve of £2,000,000 were share capital, the net profits of £116,960 would practically be absorbed at only 5 per cent. interest, and it is safe to say that the interest on deposits would be cut down, the beneficent fund a missing item, the liberal pay accorded to the staff a bare stipend, and their reserve fund, endowed by the bank, an unknown institution, had the bank been a joint stock company with share capital and a highly-paid directorate. In its Savings banks, Popular banks and rural credit societies, Italy takes a foremost rank so far as public spirit, generous self-devotion, prudent business habits, and beneficent and statesmanlike foresight are concerned.

* SWITZERLAND.—This is pre-eminently the country of Savings banks; only it must be understood that many, so called, are really mere banks of ordinary deposit, accepting sums either without limit or up to perhaps £800; others are really credit institutions receiving savings deposits, *i.e.*, very small sums, because their clientèle is of small means; a large number are mutual institutions corresponding in many ways to the English and American Building Societies (Co-operative banks) or the *Nidhis* of Madras; others are simply small Joint Stock banks. For instance, in 1882 there were 487 so-called Savings banks with £20,546,328 of deposits; but of these, only 325 were Savings banks proper (*eigentliche Sparkassen*), and these had savings deposits for only £9,734,390 or less than half, while the 141 others were credit institutions accepting savings deposits, and in addition to their share of £10,691,938 of savings possessed £19,112,005 of "other deposits or funds of other creditors." and a share capital of £4,668,265, as against "other deposits" of only £269,200, and a share capital of only £41,814 for the 325 Savings banks proper. M. Durand points out that the title of Savings bank mostly—*le plus souvent*—means a banking society pure and simple which takes savings deposits, and that the savings deposits often bear a trifling proportion to ordinary deposits even in so-called Sparkassen; *e.g.*, the Sparbank of Lucerne had £30,660 in ordinary deposits and only £362 in savings deposits. Allowing for this however, the Swiss Savings banks are notable institutions; in 1886 they had 802,697 depositors with £23,748,993 of deposits; the population (1888) was only 2,934,000,

* The information is not up to date, as the official compilation from which these facts are drawn, though published in 1889, gives facts only for 1882 with a brief supplement for 1886. An introduction to these statistics was promised at some future date; if procured in time, further notes will be possible.

so that actually more than one-fourth of the entire population of all ages had savings deposit accounts averaging £29-10-0 each, altogether apart from the immense deposits and numerous depositors in other banks and under other heads.

The 487 Savings banks, including the credit banks taking savings deposits, are of five classes :

- (1) Those guaranteed by the State (canton);
- (2) Those guaranteed by communes;
- (3) Joint stock societies;
- (4) Mutual Savings banks founded by associations (von Genossenschaften);
- (5) Private Savings banks.

The following table shows the work of these various classes, for 1882 including, except in the lowest line, the powerful and wealthy quasi-Savings banks :—

Class.	No.	Branches and receiving offices.	Depositors.	Liabilities.				
				Savings deposits.	Other deposits, &c.	Capital paid up.	Reserves.	Total.
I. State	16	396	201,950	£ 5,436,461	£ 11,066,466	£ 3,073,649	£ 846,450	£ 19,923,025
II. Communal	36	2	36,944	1,180,540	581,476	9,200	53,310	1,824,526
III. Joint stock	141	219	168,513	5,019,167	6,718,675	1,445,266	283,148	13,513,858
IV. Co-operative	242	859	816,718	8,422,035	1,006,331	175,834	445,022	10,049,221
V. Private	53	...	22,864	474,922	8,258	6,128	1,424	490,835
Total	487	976	745,335	20,546,328	19,381,305	4,710,079	1,147,056	45,784,664
Savings banks proper, included in the above 487.	325	426	380,402	9,734,390	269,200	41,814	468,331	10,633,734

Class.	Assets.							Remarks.
	Loans.		Paper of public bodies.	Railway and other industrial stock.	Real estate, offices, &c.	Miscellaneous cash, &c.	Total.	
	Mortgages	On security or pledge.						
I. State	£ 11,890,055	£ 3,959,896	£ 846,833	£ 33,668	£ 180,424	£ 2,919,148	£ 19,923,025	The total is not exactly the aggregate of the figures for the classes, as a slight deduction, not worth entering, has been made for double entries.
II. Communal	1,424,144	244,501	60,296	10,096	19,508	65,976	1,824,526	
III. Joint stock	5,773,877	4,523,976	578,260	74,558	235,859	2,327,328	13,513,858	
IV. Co-operative	6,816,178	1,371,303	1,219,716	50,748	80,464	510,210	10,049,221	
V. Private	105,925	219,138	18,475	2,870	4,947	139,480	490,835	
Total	26,010,180	10,313,908	2,723,586	171,937	521,200	6,055,144	45,784,664	
Savings banks proper, included in the above 487.	7,291,166	1,009,954	1,611,336	65,370	90,016	505,988	10,633,734	

It will be remembered that Switzerland contains 25 cantons, each averaging only about 120,000 inhabitants, or less than the population of a Madras taluk: hence a State bank operates only over a very small area. The fifteen State banks have a large number of receiving offices; these are chiefly (325) in six cantons only; in some of the circles of these cantons every village has a receiving office. This accounts for the large number of depositors, four-fifteenths of the whole, and the large deposits. Class IV is the co-operative class, and accounts for exactly half the total number of banks, three-sevenths of the members, and about one-fourth of the deposits; its collecting offices are frequently placed at factories, for the benefit of the workmen. Class II, communal, are of comparatively small importance in Switzerland, where "States" are so small as to be able to work State banks, and where co-operation is so prevalent.

It will be observed that in the State Savings banks only one-third of the deposits are savings deposits proper; in the joint stock they are somewhat less than one-half, while in the other classes they enormously exceed "other deposits"; the co-operative, for instance, have 8½ millions in savings as against 1 million in other deposits. It will also be noticed that the 325 Savings banks proper had about half the total number of depositors, less than half the savings deposits, and practically none at all of other deposits.

A noticeable feature of the State guaranteed banks is their large share capital; these fifteen banks have twice as much paid-up capital as the 141 Joint Stock banks, and the capital is two-elevenths of the deposits, while in the Joint Stock banks it is about one-eighth; hence a large number of small Joint Stock banks can attract with apparent safety and confidence very large deposits on a capital proportionately much smaller than the State banks with their additional guarantee; not only so, but their loans are proportionately greater. Moreover the cantons of Berne and St. Gall have between them, just half (71) of the Joint Stock banks; on testing the details it is proved that 39 of the 65 which have their capital entered, possess a capital of less than £1,000, and 18 are below £500. It should be noticed again that the 325 Savings banks proper possess in all a paid-up capital of only £41,814, showing that, as a rule, they are not Joint Stock or State banks, but mostly co-operative associations; yet these banks, practically without capital, have Savings deposits of £9,734,390. The secret is only partly in the reserves, which in these same banks aggregate £468,331 or below 5 per cent. of the deposits; it is clear that it is in the smallness and local nature of the banks, in their proximity to the people and in the mutuality of their working, viz., by, amongst and for the members, that the real secret of their success lies, for they are not Trustee Savings banks, guaranteed by a number of wealthy men and protected against loss by having all their funds placed in Government stock, but are under the régime of the free disposal of funds; these very banks have £7,291,166, or nearly three-fourths of their deposits on mortgage and £1,069,954 loans on surety and pledge.

Taking cantons Zurich and Berne as examples, since these two have 99 out of the 325 Savings banks proper, it is found that in Zurich, which has 45 of these banks, there are Communal banks 1 and Co-operative 43; in Berne with 54—2 are Communal, 17 are Joint Stock and 35 are Co-operative. In Berne it is noteworthy that many of the Joint Stock Savings banks proper, though with very petty capitals, have very large deposits; *e.g.*, the Courtelary bank has only £585 of paid-up capital, but £306,317 of deposits (savings only); that of Dünemroth with only £175 of paid-up capital has £14,692 of savings deposits. In most cases of this sort the reserves are considerable; *e.g.*, Courtelary has £14,432, but, as a rule, they seem insufficient for safety; even Courtelary is below 5 per cent. and in Bisecourt with £600 of paid-up capital and £41,560 of deposits, the reserve is only £204 though the bank was established in 1865. It is possible that the unpaid capital is very considerable, though by Swiss law it cannot exceed the amount paid up, since no shares of a joint stock company can be put on the market till they are half paid up, but, as a fact, Courtelary has been a Savings bank since 1829, and seems therefore to be safe: so also Aeschi, with only £213 of paid-up capital and £286 of reserve, but £10,131 of deposits, has been in operation since 1834. Probably it is in the solidity of the investments and the proximity and even relationship of banks and clients that the safety of these banks lies.

The immense amount on mortgage is a noticeable feature amongst all except the private banks, which are generally attached to factories for the benefit of the workmen. No less than £26,010,180 was thus lent out of deposits of £37,927,533 or 65 per cent., a higher average than in any other country in the world, and due chiefly to the fact that the mortgage laws are simple, procedure expeditious and cheap, and above all that the banks are at the doors of the people.

Other loans were not neglected, no less than £10,313,908, or about 25 per cent. of the deposits, being lent on personal security and on pledge; hence 90 per cent. of all deposits were granted on loan. Even the Savings banks proper had about 83 per cent. of their total deposits in mortgages (73) and other loans (10).

It should be remarked that these banks are not ephemeral institutions, springing up and failing in a year or in a decade: no less than 115 out of 487 or nearly one-fourth were founded before 1850; many of them more than fifty years ago; 209 or five-twelfths had, in 1882, been founded more than twenty years. The co-operative associations have a large share of the older foundations; *e.g.*, in Zurich 33 out of 44 were more than twenty years old; in Berne 17 out of 35; in Aargau 18 out of 30.

It has been seen above that the average for savings depositors in 1886 was £29-10-0, a large increase on 1882, when it was only £25-12-0. Both these figures are for savings deposits alone. To complete the sketch the following particulars are added for 1882:—

Class.	Depositors.						Total.	Remarks.
	Below £4.	From £4 to £20.	From £20 to £40.	From £40 to £80.	From £80 to £200.	Above £200.		
I. State guarantee ...	63,341	67,149	30,979	25,060	12,600	2,801	201,950	These figures are taken from the tables, but slightly disagree with the figures in the former table, probably from double entries.
II. Communal ...	21,874	12,051	4,988	4,155	2,614	1,262	86,944	
III. Joint Stock ...	52,860	56,088	22,602	17,302	10,657	4,069	163,668	
IV. Co-operative ...	123,561	97,808	41,192	32,250	22,689	3,345	320,845	
V. Private	12,048	6,028	2,187	1,432	866	360	22,871	
Total ...	263,684	239,124	101,988	80,219	49,426	11,837	746,278	

It will be seen that more than 35 per cent. are depositors of £4 or less, and that almost half of these are in the Co-operative banks; 32 per cent. held between £4 and £20, and of these nearly 41 per cent. are in the Co-operative banks.

Deposits generally bear interest at about 4 per cent. which rises to 5 and even 6 per cent. in some of the Co-operative and private banks. In 1882 the lowest rates, $3\frac{1}{2}$ to 4 per cent. were in the State and Communal banks, 4 and $4\frac{1}{2}$ being common in the Joint Stock and the same in the Co-operative banks. In 1886 there was a general reduction, except in the State banks, of about one-quarter to one-half per cent. The private banks seem generally to give about 1 per cent. more than the others. Many banks have no limit to the amount of deposits accepted, but Savings banks proper, as a rule, limit them to £80 to £200, or give either no interest or a smaller interest on sums beyond those amounts. Sums up to £4 or £8 may usually be withdrawn without notice; for larger sums it is usual to stipulate for one month's notice up to £20, and two or even three months for larger sums; there are, of course, very many different arrangements.

The minimum for in-payments is very remarkable; in the State banks it is generally from 10*d.* to 4*s.* 2*d.*, in two cases 5*d.* being accepted. In the Communal banks the minima are similar for most of the banks, but for the seven banks in Canton Glaris, the minimum is one-half penny (5 centimes); these are all 'Children's (Penny) banks'; depositors must withdraw at sixteen or twenty years of age. In the Joint Stock banks the rate is the same as in the State banks, with the exception of a few 5 centime banks. But in the Co-operative banks the rule is the converse; only in 41 out of 242 is the minimum above 10*d.* (1 franc), while in a large number (81) of cases (children's or school banks) the minimum is one-half penny, and even one-tenth of a penny (1 centime); 1 franc is the general rate for the ordinary banks of this class. But the large number (24) which will take 1 centime (less than 1 pie) is noticeable, as showing the attention paid to youthful thrift and the willingness to accept such extraordinarily small sums. In the private banks chiefly attached to factories, 1 penny and one-half penny are common minima.

On the whole the Swiss lesson is that very small banks with small capital can attract, with safety, large savings deposits, provided (1) that they are local, (2) that they have decent reserves, (3) that they are managed by local men with local knowledge, (4) that their investments are solid, prudent and *in situ*, (5) that repayments are made readily.

The following description of two Savings banks will be useful whether they are viewed as savings or credit institutions. That of Moudon is one of the small private Joint Stock banks; that of Vaud is worked by the cantonal mortgage bank and is practically a State institution.

The Vaudoise Cantonal Savings bank is administered by the cantonal mortgage bank (*q.v.*) and has, therefore, no directorate, &c., of its own. It was established in 1848 by the State, which guarantees and supervises it. It receives deposits of not less than 5 francs at one time, a minimum much too high for a true Savings bank; the maximum to be held in deposit including interest, is at present £200. The bank has branches and the Government tax collectors are charged with receipts and payments on account of the bank.

Interest is not less than $3\frac{1}{2}$ per cent., but is calculated as follows; on deposits paid in during the first fortnight of a month, from the first of next month; on deposits paid in during the second fortnight of a month from the 15th of next month, but no interest is paid on deposits withdrawn within three months. The bank thus obtains considerable gain. Any excess in the maximum deposit bears no interest.

Withdrawals can only be made after notice, viz., fifteen days for sums below £20, one month for sums from £20 to £80 and three months for sums above £80. This is the "clause de sauve-garde," which is universal in the European Savings banks, though some banks provide no notice for small sums, and in most it is not customary in practice to require notice if there is cash to meet small demands. In cases of succession proof must be offered of heirship.

All postal charges are borne by the bank. The pass-books are only personal, and in case of loss notice must at once be given by the owner; after three months, public notice a duplicate may be granted to him.

On 31st December 1889, the Savings bank had 38,215 accounts with £1,060,625 in deposits averaging £27-15-0 each. But the payments-in were only 29,061 averaging £7-15-0 each, and the withdrawals 12,468 averaging £18-8-0, so that the bank cannot be called a Savings bank in the true sense of the word, but rather a deposit bank. There were in operation twenty agencies. As the funds of this bank are utilized by the mortgage bank, there is no separate account of its investments.

The Savings bank of Moudon is the exact opposite of the Vaudoise bank. It is a small Joint Stock bank (limited), and is one of the "Sociétés minuscules" which form the majority of Swiss banks in general; it has no Government connection, no privileges, no subvention, but is an autonomous private bank working primarily for the profit of its shareholders, and secondarily for the benefit of the public; its object, as stated in its Articles, is to give to the working classes and agriculturists a secure deposit for their earnings, and the opportunity of obtaining cheap credit. It was founded in 1856. The bank has a share capital of only £800 in 100 shares entirely paid up, personal and indivisible, but transferable in the usual way. No one may hold more than four shares. The interests of the depositing public are guaranteed by (1) the share capital, (2) the reserve, which in 1888 was £1,400.

The General Assembly has the usual powers, and appoints the directorate, auditors—who need not be members—and the paid manager. The directorate has all the usual powers of supervision and control; the auditors are to have every facility for checking the books and cash balances, but no details are laid down for their work; the manager is the executive officer and must give security; he represents the bank under the orders of the directorate. Every director and the manager must own and deposit one share.

Deposits are received with a minimum of 1 franc; the rate of interest is periodically fixed by the directors, but does not accrue at all for the first fifteen days, nor till the deposits have reached 5 francs and been lodged for three months. No maximum is fixed for deposits, and the Articles contemplate withdrawals as high as £800, showing that the bank differs (in statutes, but not in practice) from the true Savings bank. The directors can refuse deposits if they have superabundant funds; this again is a breach of true Savings bank rules. Withdrawals are solely upon the pass-book; no notice is required for sums up to £8; eight days for sums between £8 and £20, thirty days for sums between

£20 and £800, and three months for larger sums. In case of decease, the heirs must prove their title before the manager; the method of proof is not stated. Loans are granted at 5 per cent. including commission; they may be ordinary mortgages up to one-half of the settlement value; mortgages up to four-fifths with two good personal sureties in addition; advances upon good mortgages of the above nature; simple loans of short term (six months with prolongations) with two or more personal sureties, and not exceeding £40; not more than 10 per cent. of the deposits may be granted in this mode; cash credits based on the first three classes of security. Surplus funds are invested in Government or guaranteed securities.

Mortgages must be first mortgages only, with complete proof of title and value in the usual way; the Swiss settlement and registration system provide clear proof both of title, of the extent and official value of the property, and of any charges which may burden it. If the certificate of the Conservator of mortgages shows previous mortgages, it is open to the bank to pay them off the borrower being charged with the expenses of such proceedings.

Arrears of annuities are charged with 5 per cent. interest, and if unpaid for six months the whole capital may be demanded without further notice.

A borrower may always repay his loan in whole or in part on three months' notice; conversely—and this is an unusual provision—the bank can equally demand repayment on the same notice (*la Caisse pourra également, moyennant dénonciation préalable de 3 mois, exiger le remboursement du capital*). Probably this latter provision is only used when property is being mismanaged or is deteriorating, or the bank's security is endangered.

The balance sheet must be presented to the general meeting every year, and the directors cannot vote on any point which may have to be discussed; an extract is published in two newspapers. Profits are divided as follows: 40 per cent. to the reserve; 40 per cent. to the shareholders; 10 per cent. to the manager; 5 per cent. to the directors; and 5 per cent. to some work of public utility.

If losses which exhaust the reserve and half the capital are experienced, the directors are bound to call a general meeting to decide whether the bank should not be wound up; for the decision in such case a simple majority suffices; in other cases a three-quarter majority in a meeting of at least eighty shareholders is necessary to determine upon liquidation.

The reports of the bank have not been procured for the present study, but in 1882 this little bank with £800 of capital and £1,052 of reserve had deposits of £81,555 or at some hundred times the capital and forty-five times the capital and reserve. The Articles nowhere provide for the safe investment, *e.g.*, in State paper, of either capital or reserve, and as the capital is not paid up, it follows that the depositors may easily find themselves without the slightest guarantee from these funds; there is nothing to prevent the directors from lending out capital and reserve in ordinary loans. The real security of the depositors therefore rests on the mass of loans granted by the bank, and this is not altogether satisfactory in Europe, where values of agricultural land have fallen owing to external competition: evictions and losses shown by several Swiss mortgage banks (*q.v.*) show this. The law or the Articles should provide, especially when the capital is so small both absolutely and relatively to the deposits, that the whole capital and reserve should be invested in Government paper only. The mortgage loans in 1882 were valued at £82,525, and loans on personal credit £3,249; there were 1,550 members, who in 1886 had increased to 1,811, while deposits had gone up to £98,632, or about fifty times the capital and reserve. The interest on deposits in 1886 was 4 per cent. as against 4½ in 1882. In 1882 nearly one-third of the members had deposits below £4, and two-sevenths more between £4 and £20; only sixty-five held above £200, so that the bank was acting as a Savings bank though its statutes display it rather as a deposit bank.

The bank is described in order to show the working and methods of these petty Swiss banks (Savings banks so called), in which the joint stock principle is the basis of the bank and the first security of the depositors; it is clear that very small banks may be thoroughly successful if worked prudently; probably as the bank is quite local, the depositors base their confidence rather on the status and character of the directors, who must be well known to them, than on the minute capital and small reserve. The interest on loans—5 per cent. including commission—is very moderate considering the smallness of the bank.

FRANCE.—In this country postal Savings banks were only adopted in 1881. Before that time, however, private Savings banks had existed in large numbers from 1818. For the purposes of this study they have little interest save from one or two points of view, for they are bound by law to invest all their funds in the purchase of Government paper through the "Caisse de dépôts et consignations" except such as are placed in account current with the treasury; hence no portion of their funds is utilized in agricultural or local credit; in fact they draw off the numerous rills of petty saving and force them into the reservoir of Government floating debt, and thus actually sterilise the hamlets and villages.

But their status, management, and the supervision exercised over them are fruitful of suggestion.

They fall under three classes, viz., those started by Societies, those dependent upon charitable institutions, and those under the patronage of communes and municipalities. The first-named are formed by a group of shareholders, but the capital, intended as a guarantee, is generally in the nature of a charitable or philanthropic endowment and not of a commercial investment; they are not societies formed for the profit of shareholders, but for the development of thrift by depositors. Subject to the general supervision noticed hereafter, they are wholly independent, but, like all others, must invest their funds in Government paper. The second class are not numerous. The third are much the most numerous especially since 1835; the sanction of Government is required in each case before a Savings bank is started, and the Communal authorities are held responsible for the safety of the funds.

The system now develops rather by the establishment of branches than by the institution of new banks; in 1889 there were 547 banks with 987 branches.

Administration differs according to the form of the bank; the independent societies have their directorates like any other joint stock company; those of the second class are administered by the directorate of the parent institution; those of the third class by a committee elected by the municipal (Communal) council; a third of these are usually municipal councillors, the others local notables, whether councillors or otherwise; once appointed, they are, however, independent of the municipality or Communal council.

The general control of the banks is under the Minister of Commerce, who, through the Prefects (Collectors) exercises over them a species of general guardianship. But it is the Financial department which seriously controls them; the *Réceveurs des finances* are bound to verify the accounts, personally or by agent, as often as possible, and at least once in three months; these examinations are confined to the verification of the cash balances, and of the existence in hand of securities entered on the registers: they must also see that the accounts are regularly kept.

But the inspectors of the Financial department are required to make a complete audit of the accounts, and examinations of the whole business of the bank; they must examine the system of accounts adopted, enquire whether the staff is efficient, and whether the banks observe the conditions of the law.

Both the *réceveurs* and the inspectors report the results with their suggestions to the Minister of Finance, who, in consultation with the Minister of Commerce, arranges every necessary step. The inspecting officers have no direct powers save those of examination, and cannot interfere with the management or with the staff or with the operations whatever they may discover: all these are matters for the directorate only. No pecuniary responsibility rests upon Government by reason of these examinations which are mere matters of audit and supervision.

(GREAT BRITAIN.—In the following paragraphs the postal Savings banks are not dealt with, but only the Trustee Savings banks; these are private institutions now numbering about 308 with deposits of nearly £43,000,000 and 1,510,000 depositors; the number of banks has decreased from 625 in 1859, probably in consequence of the establishment of the postal Savings banks in 1861, but the number of depositors and the amount of deposits have sensibly increased in spite of a lowering of interest from about 3 to about 2½ per cent. on deposits.

There is much to be learnt from the history of these banks, and of the legislation found necessary for them, especially from the latest development, viz., the law of 1891 which followed upon the Parliamentary committee of 1888–89, and which has created an inspection committee for the better regulation of the working of the banks. This later legislation with its administrative development, is the more important when it is remembered that the banks are institutions founded and worked by English men of business, that they have been in operation for almost a century and that every new phase of legislation has resulted in a stricter supervision.

The law of 1817 recognized these banks as institutions of public utility and beneficence, in that they were founded for the encouragement of thrift, while their founders (trustees) gave their services gratuitously and were to derive no manner of benefit from the deposits. The trustees in fact were actuated by philanthropic motives, and while running no inconsiderable pecuniary risk gave their time and services gratuitously; hence the Government granted certain privileges to these banks and only required that their Articles should be approved by the justices in quarter sessions. In 1828 the sanction of the National Debt commissioners as well as of the justices was required for the formation of the banks, and the certificate of a barrister, appointed for the purpose, that the Articles were legal, was also required. In 1844 the barrister received greater powers, especially in the matter of disputes. Considerable abuses and irregularities came to light, with the result that a commission was appointed in 1858 to examine the facts and to suggest remedies. The chief irregularities seem to have been in the management of the funds, and the enquiry resulted in the Act of 1863 which is still the organic law on the subject.

This Act defines a Trustee Savings bank as above mentioned; the Articles are to be certified by the barrister (Registrar of Friendly societies) and section 6 provides (1) that neither treasurer nor trustees nor managers shall derive any benefit whatever from the funds or receive any salary or allowances; (2) that at least two persons, either trustees or special paid officers, must be present on all occasions of public business and be parties to every pecuniary transaction, whether of payment-in or withdrawal (the "double check" provision); (3) that pass-books shall be compared with the ledger; (4) that payments be received and made only in business hours and at the office; (5) that proper provision be made for audit half-yearly; (6) that a list containing the amount of every depositor's balance be made up each year without names but with the pass-book numbers, certified by the auditor, &c., and made always accessible to all depositors (extracted list of balances). It is further provided that a weekly return of all transactions be sent to the National Debt commissioner; that the staff which deals with money shall give security; that the bank shall have a right of priority over the estate of a deceased or bankrupt officer of the bank for any of the bank's funds held by him; that all money shall be invested in the bank of England in the name of the National Debt commissioner, who shall invest such sums in "Parliamentary securities" only, i.e., Government paper or stock guaranteed by Parliament; that the trustees shall, however, be empowered to invest in other ways, sums expressly deposited for the purpose. Certain privileges in the matter of succession and nomination of legatees are also granted for sums under £100, viz., exemption from the necessity for probate or letters of administration and from stamp duty (see Act of 1887, 50 and 51 Vic., Cap. 40). Disputes between the bank and depositors or their representatives must of necessity be referred to the registrar, who shall dispose of such disputes without appeal and who has for that purpose all powers for the inspection of books, &c., and the taking of evidence. A general statement of the affairs of the banks is to be made annually to the National Debt commissioners; the names of any unpunctual banks are to be gazetted, while in the case of negligence or disobedience, the account of the bank with the National Debt commissioners may be closed, which is equivalent to the closure or suspension of the bank itself; the commissioners may also require an annual statement of all expenses incurred by the trustees. The commissioners report to the Treasury and also to Parliament every year on the position of the banks.

Under this Act the Savings banks have worked, but, in spite of the provisions of the Act for good management, for audit, for the submission of returns, for the protection of depositors, numerous cases of negligence and fraud occurred; there was nothing to ensure that the balance sheets and returns sent in genuinely represented the state of affairs; there was no control over the audit, the provisions for which were wholly general; the Act was good enough, but the spirit of it was not observed. As a result a number of banks showed gross irregularities, defalcations and frauds: the Parliamentary committee, appointed in 1888, remarked on the Cardiff case, where there were defalcations of £37,000, that "there was gross negligence on the part of the trustees of all the main directions of the Act

"of 1863, though the accounts laid before the National Debt commissioners were in perfect order; "it was considered a model bank and there was nothing in the accounts for ten years past which "threw any doubt upon its state"; the directions of the Act with respect to the deposits and withdrawals of money and the check thereon by trustees were habitually disregarded; large sums were received and paid out of office hours and not on the bank premises; the limit of deposits allowed by the Act was exceeded in numerous cases; the audit was of a most perfunctory character, and the pass-books were not compared with the ledgers. It resulted that the actuary (manager) was able to appropriate the funds of the bank by not entering in the ledger the full sums paid by depositors, &c., and these fraudulent transactions were carried on over many years resulting in a loss to the bank of £37,000. These frauds could not have taken place if the trustees had performed the duties prescribed by the Act, or if the audit had been a proper one, or if the pass-books had been even occasionally compared with the ledgers. In another case a junior clerk embezzled about £4,000 during a period of at least seven years by various tricks; "he could not have done this without the greatest "negligence and incompetence of nearly every other person connected with the bank; of the trustees "who took no pains whatever to see that the provisions of the Savings Bank Act were complied with; "of the actuary (manager) who allowed entries to be made in the pass-books without the double check "required by the statute; and of the auditor who appears to have admitted his incompetency; the "examination of the pass-books with the ledger was entirely dispensed with."

The result of these and several other bad cases led to the appointment of a select committee in 1888; the evidence taken by them in 1888 and 1889 relates almost entirely to the checks to be maintained by trustees and others and to the nature of the audit to be required. The conclusion of the enquiry, as gathered from their report, was that though the Act was sufficient if its provisions were thoroughly carried out in a business-like way, the actual administration under the Act was defective; that consequently further supervision, in order to enforce the observation of the requirements of the Act, was necessary if the banks were to do their complete work and if confidence was to be maintained in these useful institutions, and the committee recommended the formation of an independent board of audit which should operate "in such a way as to secure that the Savings Banks Acts are carried "out in every particular, and to secure a continuous audit and a continuous examination at uncertain "times of the pass-books and their comparison with the ledgers; that the board of audit have authority "to move the treasury to appoint a commission under the Act of 1887 to examine into any bank when "it thinks fit." Other recommendations were made, but this was the principal one.

The result was the passing of the Act of 1891, which provides that there shall be an inspection committee, for election to which no paid officer of a Savings bank shall be eligible; this committee, which may receive remuneration, shall appoint inspectors to examine and report upon the books, accounts, and business of the banks and whether the banks are complying with the various laws and rules; the National Debt commissioners can close the account of any bank that is disobedient to orders, or not fulfilling the requirements of the law. The inspection committee, if not satisfied with the provisions for audit, can call on a bank to make proper rules, and in default may themselves make such rules, which, on certification by the registrar, shall be binding on the bank. Trustees not attending to business shall vacate office; the annual statement shall be in the form and accompanied by such particulars as may be required by the National Debt commissioners, and shall also be sent to the inspection committee. The power of trustees in the matter of special investments on behalf of depositors is withheld from future Savings banks, and is subject to certain restrictions in the case of existing banks, both in the amount to be invested (£500) and in the class of securities, viz., trustee securities only exclusive of land mortgages, and the assets of the Savings banks shall not be liable for any expense or loss by these special investments, which moreover are to be subject to a special audit.

The inspection committee was accordingly appointed under a scheme approved by the National Debt commissioners; there are seven members, one appointed by the Bank of England, one by the Council of Chartered accountants, one by the Council of the Incorporated Law Society, and one by the Chief Registrar of Friendly societies; the other three were then selected by the above four from nominations made by the principal Savings banks. The committee must hold at least twelve meetings during the year and every member must attend at least six, failing which, or in case of his imprisonment for any offence, or of his becoming bankrupt, or of his entering into any composition or arrangement with creditors, he shall vacate office. The committee reports to the National Debt commissioners who seem to have a general supervision over their work in their capacity as supervisors of Trustee Savings banks: see sections 2 to 5 of the Act of 1891.

The committee have already (1893) issued their first report and announce a considerable number of irregularities as discovered from the examination of their thirty-one inspectors who were all men of experience and standing as professional accountants and to whom full instructions were issued; 167 banks were examined, and "the inspection committee regret to find that in many instances "the statutory requirements relative to the conduct and management of Savings banks have been "neglected, either through ignorance of the law or through general laxity in management. It has been "found that some banks ignore even their own rules." The committee make various suggestions for better administration, greater facilities to depositors, &c., and insist upon the necessity for the "double "check" in all matters of payments-in and withdrawals, and of a proper audit, which must include of necessity the continuous examination of the pass-books by the auditor, and their comparison with the ledger. In their circular letter to trustees, dated 19th November 1892, these points, and the necessity for the accessibility to all depositors at all business hours of the half-yearly "extracted list of "balances" as taken from the ledger and certified by the trustees and auditor, are especially dealt with.

It should be noticed that before the Parliamentary committee sat, it occurred to some of the larger Savings banks that an association of the banks for mutual advice, assistance and even for inspection, was advisable "in the interests of depositors," and in 1887 sixty of the banks, possessing about £18,000,000 in deposits, organized themselves accordingly. Their circular of 31st March 1887 invited reports as to (1) whether there was always a second party to every transaction (double check); (2) whether the pass-books were compared with the ledgers, and by whom; (3) whether the audit was made by a chartered accountant, and whether it was independent; (4) how often the trustees met for business; (5) what security was taken from paid officers. The circular of 22nd July 1887 based upon

the replies to these queries, deals with all these points in the fullest and most practical way, and their first annual report of 1888 again impresses on banks the absolute importance of *efficient* audit.

Witnesses before the select committee referred to this association, which however is not mentioned in the committee's report: the inspection committee (board of audit) proposed by the committee is similar in aims to that already proposed for a central board to be formed by the association, and it is presumed that the Committee and Parliament preferred the quasi-official inspection committee, under the general supervision of the National Debt commissioners, to the independent association.

The above sketch shows that even in England, in spite of good laws, of business-like surroundings, of management by honorable and philanthropic men, themselves usually business men, and in spite of vast interests at stake, the administration of the banks is found to require in many cases—by no means in all, especially in the splendid banks of the Glasgow type—more stringent supervision by independent authorities outside the banks themselves, if negligence and fraud are to be eliminated, and that the practical sense of the nation, in spite of its traditional love of independence in business matters, not only permits but requires official and quasi-official supervision *ab extra* where institutions of public benefit, relating especially to the welfare and development of the humbler classes, are concerned.

UNITED STATES.—The Savings banks of America are deposit and credit institutions of the first importance, though it is to be remembered that many banks are merely 'Savings banks' in name; the comptroller states in the report for 1893 that more than 10 per cent. of the total deposits in joint stock Savings banks are admittedly not savings proper, and that probably the proportion is much larger, as it is known that stock Savings banks in certain States make no classification of deposits, and transact a commercial as well as a Savings banks business.

1,030 banks reported themselves Savings banks to the Comptroller of the Currency, Washington, in 1893; of these 649 were mutual and 381 joint stock; they had total assets of £402,755,030; savings deposits of £357,030,192, capital stock of £6,685,837, reserve of £27,491,223; loans on real estate (mortgages) for £152,715,997, being 38 per cent. of the assets and 42 per cent. of the deposits; loans on other security for £57,038,942, or 14 per cent. and 16 per cent. respectively; paper of the United States, and of individual States, counties and municipalities for £105,643,416 or 26 per cent. of the assets, railway stock for £24,303,814 or 6 per cent., &c. Depositors were 4,830,509 or one in every thirteen of the population with an average of £73-4 each, showing that, even allowing for the difference in the value of money, the Savings banks touch classes much above the corresponding banks in England, where the average in the Trustee Savings banks is about £28. The average of savings deposits for each bank is £316,630, the average of the English Trustee banks being £141,380, but if the 637 mutual banks of the eleven Eastern and Middle States be taken alone, the average is much higher, viz., about £477,000 each. In New York State the reserves amount to more than 12 per cent. of the deposits—a very admirable position.

The points to be noticed in this sketch, however, are not the magnitude, &c., of the deposits, but (1) the mode in which these deposits are employed, (2) the supervision exercised over these wealthy banks by the various Governments.

It will be seen from the statistics above that the Savings banks of the United States invest their funds at pleasure within certain limits; 42 per cent. of the deposits are lent out on mortgages and 16 per cent. in loans on personal and other security, while National and State paper takes less than 30 per cent.; even railway bonds absorb almost 7 per cent. of the deposits. The New York law of 1892 admits investment in National and State paper and bonds guaranteed by the Government, and in municipal bonds; but railway and bank stock are not admissible investments. Loans may be granted upon the report of a special committee, on mortgages of unencumbered real estate up to 65 per cent. of the deposits, and up to 50 per cent. of the value of productive property or 40 per cent. of unimproved land; 46 per cent. of the deposits are in fact invested in this manner. Banks may also lend on the deposit of good paper as specified above, up to 90 per cent. of their market value and up to 10 per cent. of their deposits, but loans on personal security including bills of exchange are forbidden. The New York Savings banks may also place up to 10 per cent. of their deposits in current accounts with ordinary banks, provided that the amount deposited with any one bank does not exceed 25 per cent. of the capital and reserve of such bank; they have, moreover, the notable privilege that if the bank holding these deposits in account-current fails, the Savings banks have a *first* claim, before all other creditors, for the whole amount of their deposits, if such banks are State banks, and also—with certain exceptions—if they are private banks.

The laws of other States are not so restrictive, as shown by the preceding figures for the 1,030 Savings banks; in some, up to a third of the deposits may be lent on personal security with two sureties.

In Massachusetts, the law, as amended up to 1892, is as follows for the investment of deposits; investments in National paper and that of certain States, of counties or cities, local boards and others, may be unlimited; so also in the first mortgage bonds (debentures) of various railways; stock of certain banks up to 35 per cent. of the deposits; in first mortgages on real estate up to 60 per cent. of the value of the property as estimated by the board of investment, and up to 75 per cent. of the total deposits; loans on personal security for not more than one year with two sureties up to one-third of the deposits, provided that not more than 5 per cent. of the deposits shall be lent to a single person, firm or corporation; loans to any amount on the deposit of public bonds and rail-road stock and up to 35 per cent. on bank stock; and loans to depositors up to half the deposit amount, on pledge of the pass-book. Savings banks may also deposit with any incorporated bank or National bank and certain trust companies up to 5 per cent. of the deposits, but not exceeding with any one bank an amount equal to 25 per cent. of the capital and reserve of that bank. No loans, however, may be granted to any president, treasurer, member of committee or of the board of investment, or to any officer charged with investing the funds of the Savings bank, nor upon the security of any such person.

In Rhode Island State, investments may be in public stocks, or in any bank or corporation stock that may be deemed safe and secure, or in discounting notes, bills or drafts of persons or corporations with two other responsible endorsers or sureties, or in mortgage on real estate, or in loans on deposit

of stock. Not more than half the deposits must be lent on the notes, &c., of individuals or corporations, nor shall any money be lent to any trustee, director or officer of the bank. The law of this State seems altogether too liberal in its provisions regarding investments. It appears to follow the original idea of some States in 1816, viz., to leave to trustees the choice of investments, relying on their care and prudence; other States more wisely limited the investment to investments of repute, expressly specified in the law and in the Articles of each bank.

The second point is the supervision exercised over the banks by Government.

The figures given above for 1,030 banks are taken from the annual report of the Comptroller of Currency, who appears to obtain the figures from the various State Governments. This report is a mere addendum to the Comptroller's report on National banks, and the Comptroller, while giving much useful information, does not appear to have any authority even to make suggestions on the subject. But it is quite otherwise with the respective State Governments, who, throughout the United States, possess a power and exercise an amount of supervision altogether surprising, the more so when the generally independent character of business in the United States, the intelligence and character of the American people, and the general publicity of American business life, are considered.

In the first place each State has its own law, which, as in New York, generally provides minutely for the methods of incorporation, for the powers and disabilities of trustees, for the class of securities in which deposits may be invested, for the restricting of Savings banks from trading and from commercial banking, for the rate of interest on deposits, for the formation of a substantial reserve (15 per cent. of deposits in New York), for any privileges, for the powers of Government officers in the way of supervision and inspection, for dissolution, &c. The existence of such a law is in itself a form of supervision, but the particular supervision expressly imposed by the law is generally remarkable.

In New York State the law of 1892 amending that of 1875, confides the supervision of the Savings banks to the Superintendent of banks, a high functionary appointed by the Governor, whose special duty it is to control and supervise all banking and deposit companies. When it is intended to start a Savings bank, public notice must be given by the proposed trustees (at least 13) in the newspapers, a notice must be sent to the superintendent, and a copy to every existing Savings bank in the county. The superintendent then ascertains whether the proposed bank is necessary; whether there is a sufficient population in its sphere of business to ensure support, whether the members (trustees) are persons likely to inspire confidence, &c.; if he is not satisfied that the bank is likely to be of public benefit he can refuse his consent. From the existing banks the superintendent receives each half year a full report of the affairs of the banks based upon a special half-yearly examination of affairs by a committee of the trustees and containing full details of all investments and their value, of all liabilities, and in particular, full details as regards deposits; heavy penalties are prescribed for delay or failure to report. He must inspect each bank either personally or by his expert examiners at least once in two years, and oftener if he pleases. In such examination enquiry must be made as to the condition and resources of the bank, its mode of conducting its affairs, the action of its directors, its investments, the safety and prudence of its management, the security it offers to its depositors, &c., its conformity or otherwise with the law and rules of the society, and any other matters that require investigation. It is his duty to fix the valuation of all stocks, bonds, mortgages, &c., held by the bank, which have been in arrears of interest for six months or more. In case of any irregularities which violate the law or are dangerous to safety, he can proceed in Court through the Attorney-General, for the dismissal of the trustees, or for such other measure as may be desirable. Every Savings bank has to contribute annually towards the cost of the superintendent and his office; this being paid, there is no charge for the actual examinations.

In Massachusetts the Governor appoints and pays a board of three commissioners of Savings banks; these commissioners must visit once a year, and as much oftener as they please, every bank; in such examinations they have the fullest powers of enquiry and examination of affairs, accounts and persons and must preserve a permanent record of such enquiry; in case *vis* officers, trustees, creditors, or depositors make a verified request, with reasons, for examination, the commissioners shall at once proceed to such examination. In case the bank is found to be in a dangerous position, or if it is acting irregularly or illegally, the commissioners may apply to the Supreme Court for an injunction, and the Court may take such steps as may be necessary; if the commissioners find any violation of the law by any officer or trustee, they may move the Attorney-General to prosecute for the same. The general Court (State legislature) may alter the powers granted to any Savings bank corporation or may take them away, and it has powers also to cause of its own motion a complete examination of the affairs of any bank by a special committee; any person refusing or neglecting to show the books, &c., to such committee may be fined up to £2,000 or imprisoned up to three years. The commissioners may prescribe the manner and power of keeping and auditing the books and accounts of any bank.

Once a year the treasurer must report to the commissioners the position of the bank in such form as may be prescribed by them, but the report must specify the name and location of the bank, the amount of deposits, and of all other liabilities; investments in public funds specifying each class the amount invested in each class, &c.; loans on similar paper; bank stock with all details; loans on bank stock; railway debentures with all details; loans thereon; value of real estate owned; mortgage loans; details of all other classes of loans; cash in hand and deposits in banks with name of each bank; total profits and rate of dividend; rates of interest received on all classes of loans; amount on loan at each rate of interest; number and value of loans below £600; number of accounts; number and amount of deposits; number and amount of withdrawals; number of accounts opened and number closed in the year, and the expenses for the year; the whole under the oath of the treasurer and certified, also under oath, by the president and five trustees, that the report is correct to the best of their knowledge. Every bank must now state, in addition, the number and amount of deposits divided into various classes according to amount and beginning with those under £10. In another law it is provided that at least once in each year an "accurate trial balance" (audit or comparison) shall be made of its "depositors' ledgers" presumably with the pass-books. Such are the legal provisions in Massachusetts as made up to 1892.

In Rhode Island State the Governor appoints three commissioners to superintend the formation of any banks, whether savings or ordinary; these are paid by the bank and supervise the whole organization, including the apportionment of stock to subscribers, until the full capital is subscribed and paid up. After the bank is at work, the general assembly of the State, or the governor, when the assembly is not in session, may, at any time, appoint a special commission for the examination of any bank to see if it is legally conducted and to ascertain its position; the commission has all powers of inspection and enquiry. The Governor is obliged also to issue a similar commission if any three persons being officers, shareholders, or creditors, request him in writing with reasons to institute an examination. The commissioners report to the general assembly, and may also complain to the Supreme Court with a view to the closing of the bank, if it is being conducted in such a way as to cause danger of loss or fraud; the Court, on hearing both parties, may make such order as is necessary, and may appoint a receiver to wind up the bank. Every bank must make an annual verified report to the State auditor (Accountant-General) giving particulars similar to those required in Massachusetts; the State auditor reports upon the subject, and sends copies to various high functionaries. The above provision apply to Savings banks as well as to other banks.

In Illinois (Chicago) under the law of 1887 no bank of any sort can be started without the authorization of the State auditor; this officer must call for reports from each bank at least once in a quarter; such reports to be in a form prescribed by the auditor, and to show the whole position of the bank on any day that the auditor chooses to mention in his call; each report is published in the newspapers at the expense of the bank. The auditor also appoints examiners, not being shareholders, officers or employes of the bank to be examined; these examiners must make a thorough inspection of all the affairs of every bank at least once in a year, and as much oftener as the auditor thinks necessary; they have full powers of enquiry, and report to the auditor; the examiners are paid by the banks on a prescribed scale, viz., £2 per day and travelling expenses. The auditor has further powers and duties when banks close up their business, and is entitled to remuneration for the same.

The above is the general banking law of 1887 for joint stock banks and appears to cover Savings banks also, since it applies to all companies formed for discount "and deposit," and lending money on real and personal security. California and other States have similar provisions; it will be seen then that the several States unite in providing very stringent supervision.

DENMARK.—A note on a recent law (1880) will be interesting to emphasize once more the necessity found by all nations for a careful supervision of Savings banks and similar popular institutions of thrift and credit. On March 31st, 1890, there were 541 Savings banks for this little kingdom of 2,097,000 inhabitants, or one for every 3,876 persons; of these 148 were in the towns and 393 were scattered over the country side. Deposits were £27,832,000 or £13-15 per head of population, an immense average, due partly to the fact that many banks taking savings deposits, are ordinary deposit and lending banks. These banks have the free employment of their funds, but details are not known except for single banks, in which mortgages, loans to communes, debentures of mortgage banks, are considerable features. As in Europe generally, and in Italy especially, the Danish Savings banks give largely of their profits to institutions of benevolence and public utility; M. Rostand gives a list of 68 such institutions assisted in 1890 with £1,760 by a single Savings bank in Copenhagen; such were hospitals, schools, asylums, &c.

The law of 1880 provides that the Minister of the Home Department, under whose general supervision the banks are placed, shall appoint a special Savings bank inspector who shall examine the articles and balance sheets as obligatorily communicated to him by the banks. The balance sheets are to be in a form prescribed by the Minister, and rules are laid down for the careful valuation of the several items of the assets. The balance sheet is to be tested by auditors who are not directors or appointed by directors; the audit is to comprise a complete examination of the affairs of the bank. When the bank has a committee of supervision the auditor's report must be passed by them; in other cases, or when the committee desire it, the Government Inspector shall verify it. In case of any dispute on the subject of the balance sheet between the directors and the auditors, the committee or the inspector, the matter may be referred by the Minister to arbitration, in which case the Minister appoints three arbitrators and the directorate two others to be selected from the presidents of other Savings banks. Their award is to be final; the expenses are fixed by the Minister and paid in the first instance by Government, subject to recovery from the directors if the verdict is against them. Any person proved by such decision to be injured may file his suit for damages in the ordinary Courts through the Government inspector.

The inspector can also carry out a local enquiry where the certified balance sheet has not been sent in.

The inspector reports annually to the Minister. In case a Savings bank has lost its reserve and a sum equal to 5 per cent. of its deposits, the inspector may proceed to suspend the bank's operations, unless the directorate offer a sufficient guarantee for the recoupment of the deficit. Such loss or deficit must be reported by the directors to the inspector as soon as discovered on penalty of fine. If the directorate deny such deficit the inspector must bring the matter before arbitrators as above. During suspension or in case of liquidation, the affairs of the bank shall be entrusted to a Royal Commissioner nominated by the Minister of Justice.

The Minister of the Home Department may, on the application of the inspector, impose a daily or weekly fine on directors or auditors who do not carry out the rules, or the orders imposed upon them by any valid decision; such fines may be recovered by attachment, and cannot be charged to the bank.

Summary.—It will be seen that Savings banks, though not credit banks, have a very important rôle to fill in the matter of credit. The Savings banks systems of all countries, except France and England, have developed an immense extension of popular credit, since the excellent arrangements made for small deposits have attracted immense funds which need investment. These institutions in the United States, Switzerland, Germany, Austria-Hungary and Italy, are all "local banks with free employment of their funds," (the word "free" being understood, as in all true freedom, with certain restrictive limits); the result of localization and freedom has been the attraction to Savings banks in the above countries of about £700,000,000, of which about £330,000,000 has been lent on mortgages of real estate, about one-half, or say, £160,000,000, being invested in rural loans, of moderate and even small

amount and up to 30 years in duration. Not only so, but immense sums have been granted on loans on personal security for terms up to one year, and other large sums to public institutions, local boards and the like, for works of public utility; railways have been financed in America to the amount of scores of millions sterling by the funds of these banks, and—more legitimately it would seem—very large sums have been advanced in Europe indirectly to the "small folk" through loans to popular banks and small credit societies, and by the discount or re-discount of the bills of such societies.

All this work has been done by Savings banks proper and with hardly appreciable loss, owing not merely to good regulations but to prudence in business and to the public spirit of trustees and others; the object of Savings banks proper not being dividends, but simply the benefit of depositors chiefly through the safety rather than the fruitfulness of their deposits, they seldom fail, and when they fail it is seldom with disaster. But the sketch given in the preceding pages shows equally, and probably unexpectedly, that to restricted area, good regulations, and prudent business, there is universally added what is partly the cause of their good qualities, viz., an extremely watchful external supervision, generally official. It is strange to note that in England and in America where freedom in business is so striking a characteristic, so dominant a demand, there is an amount of supervision which almost amounts to control; much greater in fact than in the countries of Continental Europe. Both in England and America experience and common public sense teach that matters of vital national importance affecting the moral and material development of the smaller folk, cannot be left to themselves, at all events where the receipt, custody and use of money are concerned; not only so, but each decade seems to develop such supervision till it results in the inspection committee of England, and the State commissioners, with their immense powers, of New York and Massachusetts.

The explanation is simple; freedom which allows one to injure another is not freedom but license; a Society may be free, and take away by a ruinous failure the independence of thousands. Government, at least as regards the mass of small folk, does not promote freedom by leaving everything free, *en champ ouvert*, but by taking precautions that all, especially the small folk, shall have an equal chance of reaching independence.

It is to be added that in Europe and America, public spirit and philanthropic effort within the banks are conspicuous; the trustees of the British and American banks, the communal councils of Germany and France, the honourable men (*benemeriti cittadini*) and directors of benevolent institutions in Italy, are all, in varying degrees, actuated by public spirited unselfishness, a desire to promote thrift and providence among the poor even at some risk and much certain, yet wholly unremunerated, labour to themselves. In none of these cases do the founders, promoters or managers (trustees, &c.), receive any remuneration; such recompense is, in fact, in England, America, France, Italy, expressly refused by law and by the articles of the banks, and while this fact leads to the necessity for some external supervision, since rogues and incapables will sometimes assume the guise of philanthropists and business men, there is no doubt but that much of the success of the banks is due to the example and self-denial of honourable men.

Localization, free employment of funds, extreme watchfulness from without over the safety of all operations, and public spirit and unselfishness within, seem to be the chief features of Savings bank work in the above countries of Europe and America, and to demand ample study by Indian economists.

CHAPTER VIII.—AGRICULTURAL ASSOCIATIONS.

An account is given of Agricultural associations not merely because of the direct development through their agency of agricultural credit in France, as at Poligny, but because the true development of that credit in India may well be promoted by some such associations. Existing ideas of association and co-operation are developed in a wonderful degree by these means, and when ryots are accustomed to combine together for agricultural purposes, association for purposes of credit will soon follow. Moreover, it is only by associations that agriculture will attain a rapid and thorough progress; a score of united men will go further in five years than a thousand isolated units in a generation, and with such development must arise the demand for capital on proper terms. The opinion is hazarded that the Department of Agriculture should lend its efforts very specially towards the promotion, directly and indirectly, of Agricultural associations. Signor Luzzatti considers that Agricultural associations and Popular banks are complementary and should develop side by side; the Association awakens and strengthens in the cultivator the desire to improve his cultivation and develop his land; the Popular bank provides on the best terms the means for such developments, and may even devote part of its profits to assist experiments in the direction indicated by the association. The Association again assists the bank not merely by providing a clientèle but by indicating to its members operations in which credit will be useful, and those in which it would be useless or harmful.

The Agricultural associations (*Syndicats Agricoles*) of France will first be described, as being systematic and complete in form and aim; a notice of similar Belgian associations will follow, and be succeeded by a sketch of the German *Bauernvereine* if materials are obtained in time. It should be premised that the class of association to be described is not the mere agricultural society usually contemplated, whether the Agricultural societies of England, the *Comices Agricoles* of France, the *Land-wirtschaftliche Vereine* of Germany, or the abortive Madras associations; they are rather Farmers' or Peasants' Unions (alliances, guilds, &c.), and aim at much more than the improvement of agricultural methods; they aim rather at obtaining a corporate existence for groups of peasantry, as well as the development of their material, mental and moral welfare through co-operative effort and self-help. In most cases they are of more recent formation than the Agricultural Societies or Chambers which have existed for many years in France, and since 1809 in Germany, with however no great result as regards agriculture and the agriculturist. The Unions to be described appear to supply that co-ordinating influence, furnished *ab extra* yet exerted within the people themselves and their immediate neighbourhood, which alone will unite the individual and isolated cells into an organism. It is in this direction

that the possibilities of true progress appear; not so much in the positive action of Government as in placing the people in a vivifying environment, by a careful stimulation of the ideas and facts of a local life and organization. This will be further adverted to in discussing methods for this Presidency.

FRANCE.—By a law of 1791, the ancient industrial and professional guilds were forcibly abolished, and their resuscitation under any form, or even the meeting of members of the same business or profession for formal deliberation or for the passing of resolutions on their common interests, was absolutely prohibited under penalty of prosecution. In view of the abuses to which close guilds had led, to their assumption of a monopoly, to their check upon the spirit of invention, and to the frequent quarrels between them, the free exercise by any individual of any industry or profession was declared to be one of the foundation stones of the Constitution. While thus legislating for liberty, the Constitution denied liberty, viz., that of associating for common progress. Gradually, certain forms of association were tacitly permitted, though against the law, but it was not till 1884 that unions of men of the same industry could unite in corporations for the protection and advancement of their common interests in such industries.

In that year, a brief law (*see* another Appendix) was passed; the original draft contemplated only industries, professions and trades as distinguished from agriculture which was absolutely ignored; the Bill had been discussed in the Lower House, and was being debated for the second time in the Senate, when a member proposed the addition of the word "agricole" in section 3. This was agreed to, and thus, by a casual and almost accidental addition, the formation of Agricultural associations, forbidden up to that time, except of late years solely for irrigational purposes and against the phylloxera, was formally admitted.

Within six years, no less than 910 of these associations, with about 600,000 members, were in operation, and many of them were grouped into Unions. The numbers annually increase, and, in 1893, it was estimated that the recorded number of 1,100 was much below the actuals. It has been ascertained that the associations are most numerous, though naturally, not the most powerful, where "*la petite culture*" prevails, and their success will probably be measured by their ability to unite and benefit the small cultivators. The law, however, would have remained a dead letter, unknown to the people, but for a few eminent men who devoted themselves to agitating the subject, started societies, lectured, encouraged and drove public opinion into successful action; the best farmers of a Canton (group of villages) were induced to unite and subscribe the statutes, ready framed according to the necessities of the place; these again were grouped by taluks, and these into a district union; or it might be that the district association was formed first and developed smaller associations by its example and precept. It is to this personal devotion that the extraordinary development of associations is due; for useful as they are, their usefulness would not have become patent to all but for these men.

The associations are solely for economic and social purposes; all political and religious tendencies or aims are strictly prohibited. Their objects, as abstracted from the various statutes, are as follows:—

- (1) Study and defence of common interests.
- (2) Suppression of middlemen, whether for the purchase or sale of goods, and purchase by wholesale, &c.
- (3) Agricultural mutual credit.
- (4) Arbitration.
- (5) Mutual assurance against the effects of hail and cattle disease.
- (6) Provident and friendly purposes.
- (7) The progress of agriculture.

It will be seen from this (*vide* also statutes in another Appendix) that the associations are not mere commercial societies, providing only for the mutual benefit of their members in buying cheap and selling dear; nor are they statistical and consultative chambers, still less mere debating societies such as Agricultural associations are apt to become unless their members are practical agriculturists and business men, really cognisant of agricultural needs and of agricultural hindrances. The "progress of agriculture" is a very fine subject for lectures and articles, but the cultivators want a tangible presentation of progress if only on a single point. Hence the Syndicates desire the association of agriculturists, and with it all the material and moral benefits to be derived from it, the concentration of local forces and knowledge, encouragement in experiment and attempts to depart from routine, the accumulation of information for their members and for presentation to the authorities in view of their own interests, the disposal by arbitration of disputes among their members, the benefits of cheap and genuine goods or stock, and of proper prices; these are tangible or readily intelligible benefits. It will be seen that if these aims are carried out, the associations form a high expression of the co-operative idea; the material, intellectual and moral position of the members must alike be benefited, and that not by some external *vis medicatrix*, but by their own inherent, if dormant powers, stimulated by association.

The immediate success of the associations, once formed, is however doubtless due to their operations under head 2. By combining the orders of their members, an association can not only purchase manures, seeds, &c., at wholesale prices, often 30 per cent. below retail prices, but—which is even more important—can ensure the goods being genuine, and up to sample, thus avoiding the scandals and frauds which have so often set farmers against scientific suggestions, such as phosphates with 80 per cent. of sand and clay, animal black which is only powdered coal, &c. The mere fact of the existence of an association has often sent down prices of such goods more than 20 per cent. in the neighbourhood. Similarly the produce of the several members is placed direct on the market without the intervention of a series of brokers, such as are necessary in the cotton tracts of this Presidency, where there is, as yet, no such thing as an association though association has always been wholly free.

The transactions of the associations in buying and selling are already estimated in tens of millions sterling, and the direct profits in millions.

The question of agricultural credit as provided by annexes to these associations has been mentioned above, *s.v.* "Popular banks, France," and discussion of the other objects would perhaps be out of place.

A translation of the model statutes given as a ground-work on which associations may found their own statutes, will be found in another Appendix.

There are also two species of Unions in addition to the local groups. One is the 'Union des Syndicats des Agriculteurs de France,' the other the 'Syndicat Central.' The former aims at grouping all Syndicates into one grand union "for the study and defence of economic agricultural interests," and especially to serve them as a permanent centre of information on markets, produce, &c.; to encourage the formation of new Syndicates; to collect and distribute all information as to harvests, &c.; to advise societies and their members on all matters of doubt or dispute relating to agriculture; to facilitate analysis at the Laboratory of the 'Société des Agriculteurs de France.' Since its foundation it has dealt also with questions of customs, of railway tariffs, of sugar duties, of the repression of fraud generally, of the improvement of the butter trade, of the suppression of vagabondage in the rural tracts, &c. Though founded only in 1886, it had, in 1890, secured the adhesion of 257 of the largest associations.

The 'Syndicat Central' has, as its general objects, the study and defence of agricultural interests, and especially (1) to favour the sale of produce, establish a centre for samples, &c.; (2) to centralize the orders for implements, manures, seeds, animals, &c., so as to secure for its members or for Agricultural associations the benefit of the best goods at the cheapest rates; (3) to ensure the genuineness of supplies; (4) to provide information, plans, &c., on all sorts of agricultural subjects.

The statutes of these two central societies are translated in another Appendix. In them, as in most, if not all, of the Agricultural associations, the directorate or administration is absolutely gratuitous, only clerks and such like being paid.

These Agricultural associations are encouraged by Government, which has ordered its departmental prefects to interest themselves to the utmost in the matter, to encourage and advise the societies, and to work with them. But the success of the associations is due (1) to their supplying a distinct need; (2) to the initiative of a very few energetic men who put into practical shape the ideas formulated in the law.

The "Farmers' alliances" of the United States resemble the French associations in their aims, methods and functions.

* BELGIUM.—In Europe, the agricultural crisis is severe; the pressure of population and of foreign competition renders it necessary to cultivate as thoroughly as science and art can devise, and yet as cheaply as good business arrangements can secure. All sorts of panaceas have been proposed, but the only available one is that which is never tried yet is actually in hand, viz., self-help. The difficulty is how this remedy is to be developed and applied; the cultivator is in need of capital, of experience, of initiative, of self-reliance; the more intelligent or richer proprietors stand afar off. It is then in the association of the various classes that the true agricultural remedy is to be found; one remedy diverse applications, viz., the supply of credit, the development of knowledge, the stimulation towards new departures, the *rapprochement* of classes, the education in wider ideas and in business-like habits. The Westphalia (Germany) Peasants Association expresses the idea sufficiently well in its statutes; their object is so to unite the peasants in an association as (a) to elevate the moral, intellectual and material level of its members, (b) to group them into a solid and strong phalanx, (c) to establish the stability of agriculture. The associations are to be more than mere agricultural societies dealing simply with agricultural improvements and methods; on the other hand they are not to be mere petty commercial societies for the purchase and sale of manures, seeds, implements, &c. They are to be associations for the better study of all common interests; for the concentration of local energy and intelligence, for the stimulation of all modes of progress, experimental, educational, practical; for the introduction of co-operative methods whether of the purchase and sale of produce and matters of consumption and production, or of credit; for the examination of difficulties whether agricultural, fiscal or administrative, and for representation of such difficulties and of other information to the proper quarter; for the carrying out of works of improvement requiring joint action.

Many of these aims are for the future, and the programme, however, pleasing to the theorist or advanced student of social progress, will have no attraction for the peasant unless he can see or feel some immediate tangible profit. The result is that, without exception, these associations have, at first, and mainly, devoted themselves to buying and selling for the profit of the members. To do this, they have adopted the form of co-operative societies under the Belgian law, and either deal direct with wholesale merchants for the sale of produce or for purchase of agricultural requirements, or, in order to avoid local hostility, through some local tradesman. It is necessary, however, to restrict operations to members, so as, on the one hand, to give membership a real value and thus attract men to the society, and on the other to restrain the desire of obtaining profitable dividends which is apt to lead to oblivion of the true objects of such an association, and make it a mere trading company.

The next object which an association may take up is the development of agricultural credit "which in Belgium, remains a mere project." For this purpose the own capital of the society cannot be used, as it is needed for its business dealings, and it is advisable therefore to stimulate the establishment of societies of mutual credit, side by side with themselves and in union with them, but having a separate existence.

The remaining aims of the associations are those higher aims above noticed; these are not yet developed, as the associations are of recent origin. In Germany, however, the 'Bauernvereine' actually carry out, more or less perfectly, the programme put forward, including legal advice in matters of common interest, and even the payment of legal expenses for the discussion and, if necessary, judicial, &c., decision of matters involving principles and requiring settlement; the establishment of arbitration courts, to which all members bind themselves to resort in the first instance; the preparation and submission of petitions to the authorities on grievances or other matters involving protection to rural interests (*see below s.v. 'Agricultural Associations, Germany'*).

In establishing the associations subscribed shares are invariable; these may be founders' shares, honorary shares, or ordinary shares. The first are usually from £8 to £20, and the shareholders agree to remain during the currency (thirty years at most) of the society; in some places, tenants of foundation share-holders are admitted as quasi-members without payment of shares. Honorary shares are those

* Chiefly from an article by M. Francotte in 'La Reforme Sociale,' 1888.

subscribed out of pure benevolence, and are not recommended; the associations should be on a business and not a charitable footing. Ordinary shares are of variable amount, usually at the rate of so much per hectare ($2\frac{1}{2}$ acres) per annum, and hold good for five years only, when a member may withdraw, taking with him the amounts he may have subscribed; during membership the share bears interest or draws profits. Not only are share subscriptions necessary for the work of the association, but they are found to promote an active interest in the society. Occasionally a retiring member does not withdraw his share values; in this case, there is no real loss to him, for it means cheaper supplies.

The societies have the usual administrative organs, viz., a directorate, a committee of supervision and a manager. In many associations the above functions are gratuitous; in some the administration obtain honoraria. On the activity, zeal and capacity of the manager largely depends the success of the association.

The above associations are still in their infancy, only one having been founded before 1885; it is, then, too early to discuss results.

GERMANY.—Bavaria and Württemberg are perhaps the most advanced countries of Germany in respect of Peasants' associations, which are of some standing and similar in aim to the French Syndicates. Usually, however, they are societies restricted to a single commune, and with objects narrowed in practice to the provision of good stud cattle, of costly agricultural machines, &c., and perhaps, to the execution of some work of common utility. Latterly, however, they have adopted larger views and a wider scope, as in the case of France.

The following account is drawn from a description given by the Count de Loë to the Congress "Des Œuvres Sociales" at Liege in 1886. The "Bauernverein" is that of the Rhine Province, and is similar in rules to that of Westphalia. At that time it had been only four years in existence, but numbered 25,000 members; one of its special duties was that of encouraging the growth of small local societies for assurance against cattle-disease, the establishment of Savings banks, and of Loan societies after the Raiffeisen pattern. It will be noticed that this reverses the general German mode in which the small credit, &c., societies are first established locally, and then federate themselves into a Union and establish a Central society; as also in France in the case of the Agricultural associations. Again, the association had established a laboratory for the testing of chemical manures, &c., and had entered into contracts with firms for the supply of good manures which were tested gratuitously at this laboratory, and then issued to members. Various studies and experiments were set on foot in matters of cultivation, and favourable terms of assurance were obtained for members of the association against hail and fire.

The association also assists its members in legal matters, especially against usurers and cattle-dealers and in matters of general agricultural importance; several hundred cases have already received their aid. Arbitration has been specially introduced, and, in some cases, the members have bound themselves to resort to arbitration before resorting to the Courts in their disputes with one another, and this plan is spreading.

But the association regards the modification of the system of rural credit as essential. The existing system—if it can be so called—is most injurious, not only by reason of the high rate of interest, but because of the demand for the return in lump of the borrowed capital. The association is bending its efforts towards a reduction of the interest, and towards the introduction of repayment by amortization. It claims already to have induced the local Land bank to lend at 4 per cent., the money being repayable by annuity. It now aims at inducing the bank to develop its credit operations, and to enter into direct relationship with the petty rural banks which grant personal credit to the peasants. These petty Communal banks succeed because they have immediate local knowledge of every person in the neighbourhood. Not one has ever yet failed and they have driven out the usurer in their neighbourhood; but apparently the support of a large bank, which will supply them with larger funds by loans or by re-discounting their bills, is advisable.

The annual subscription of each member is 1 mark (say 8 annas). The Provincial Government gives a small subsidy of £210 per annum for the laboratory and special donations for special studies or experiments. The association publishes a monthly journal which is supplied gratuitously to all members, the advertisements of seed and manure merchants, &c., providing the cost of publication and supply.

It will be seen that the improvement or development of rural credit is one of the chief objects of the associations in France and Germany, and that each country is attempting the solution in its own way.

ITALY.—Italy has long possessed numerous small societies for dairy purposes, but since 1889 the Italian Agricultural department has encouraged the formation of societies similar to the French Syndicates by the grant of subventions and by co-operation. The action of the Hungarian Government has been similar.

CHAPTER IX.—GENERAL RESUMÉ.

It will be well to bring together the facts of the preceding study for a few typical countries only.

France has one great Land Mortgage bank with operations extending by seventy-three agencies throughout the country; it has no Popular banks to speak of and no system of Crédit Agricole except a new law passed in November 1894: it has, however, about 1,200 new Agricultural associations since 1884, some of which have formed credit annexes, and which it is proposed to utilize as intermediaries between a new Central Agricultural bank and the peasantry. Rural credit is partly through local banks, but chiefly by private lenders, and usury is both general and severe. Organized rural credit is yet in the future for France. She has numerous Benefit and Co-operative societies, all the product of private and philanthropic initiative; its Monts de Piété are organized by law and are quasi-State institutions; she has 547 Savings banks with 987 branches amongst 36,144 communes, and the savings accumulated are

immense, but are all drawn into the State coffers. Insurance societies, which of course lend their funds on mortgage, are also numerous, and tend to protect the peasant against losses by fire, hail, cattle-disease, phylloxera, &c.

Germany appeals more strongly to Indian study in the matter of organized credit: the first Land Mortgage bank was founded in 1769 in Silesia by the simple fiat of Frederick the Great, since which time these banks have largely developed. On an area and with a population not much greater than that of Madras, Germany has now some sixty Land Mortgage banks partly mutual (*Landschaften*), partly joint stock; Real credit is also extended to the people by Provincial *Hülfskassen*, by the very numerous Insurance societies, by church and other funds, but especially by the Savings banks; yet though immense amounts of money are thus lent, little reaches the small and very small peasant, the "*kleine Leute*," of the law of 1836, *i.e.*, those holding below about 15 to 18 acres; for them the usurer is the only resource, and his operations are such as to constitute a social danger, to require special usury laws, and to be the subject of numerous anxious debates in Parliament, in economic circles, and in the public press. The agricultural mortgage debt appears to be about £600,000,000—in Prussia alone it is £500,000,000—is exceedingly oppressive and is rapidly increasing. There are in Prussia 1,393 Savings banks with 526 branches and 1,621 collecting offices for 54,903 villages and 29,955,281 people; these are not State institutions and are organized under the system of free disposal of their funds; they consequently lend above half their deposits on mortgages, and about one-half of these are rural.

But it is in the co-operative institutions that Germany is most noteworthy; there are about 6,000 societies varying from forty-five to one or two years' standing; of these about three-fourths are Mutual Credit societies, having about 1,500,000 members, and granting in loans, usually in personal security only, perhaps £150,000,000 per annum. At least 2,000 of these are purely rural (*Raiffeisen*) situated each in a single village, granting loans of considerable term, but of small amount, almost solely to agriculturists; the remainder are of the *Schulze-Delitzsch* pattern, distributing immensely greater credit to a different and only partly agricultural clientèle, but on short terms only. These various banks act also as Savings banks, and assist thrift even more completely than the Savings banks. Even so, however, the mass of the people have yet to be reached even by these societies. For instance, *Raiffeisen* limits each of his banks to a single village of not less than 400 or more than 2,000 people; since 27,680,000 people (56 per cent. of the population of Germany) live in villages of less than 2,000 inhabitants, it is clear that at one bank for 1,200 persons, above 23,000 rural banks are necessary.

There are in addition numerous Agricultural societies, Irrigation, Drainage and Reclamation associations, many of them compulsory. Nor must the Land Improvement and the Rent Charge banks be forgotten, though the former are but three and of little importance, and the latter are merely special and transitory banks, founded to fill a temporary necessity. For all these institutions except Savings banks, there are very complete laws in the greatest possible detail: that for Savings banks (Prussia) is antiquated (1838), but apparently sufficient.

Italy is also specially interesting on account of its political and social history. Its Real Credit banks are of little use to the masses in spite of frequent changes in the law and attempted encouragements; the loans are to no great amount and are all of very large size; in all there are now nine Land Mortgage banks, including the new Central National Land bank. Usury in this country is a terrible and ancient scourge, taxation is severe, and the peasant generally a tenant or a metayer; for these latter of course Real credit cannot, and for the small peasant population it does not ordinarily exist, except in the private bank or money-lender. But in this poor country the system of Co-operative Popular banks has, in only thirty years, attained an immense development: there are perhaps 900 of these institutions (system *Luzzatti*) distributing annually above £60,000,000 in loans of short term, usually by three months' bills with renewals; these are scattered throughout the country and are very numerous even in the agricultural south; the proportion of agricultural members is, however, on the whole, only about one-third. There are also about seventy rural banks (system *Wollemberg*) of the *Raiffeisen* pattern, each in a single village, and working most marvellous results each in its own small but beneficent way; in these and the Popular banks lie great possibilities for Italy as in the parallel cases in Germany from which Italy adapted these institutions. There are also 393 Savings banks which, as in Germany, are not State institutions, but are founded by private persons or public corporations under the system of free disposal of funds; these are doing splendid work both in the matter of thrift and credit. There are also Agricultural associations, of which, however, little is known for this study. But the *Monti Pie* including the *Monti Frumentarii*, distribute a cheap and useful credit; the former lend cash on pledge, the latter grain on ordinary security, and receive these loans again in kind. There is also a great number of *Opere Pie* or Beneficent societies, many being ancient charitable foundations, the rest modern Benefit societies. The laws regulating *Opere Pie* and Co-operative societies are extremely full and copious.

Great Britain is remarkable in its own way. It has few Land Credit banks proper, though numerous societies exist for granting mortgage loans whether in England or America. There are a few Land Improvement Loan societies, and Land Mortgage societies operating under the special Land Mortgage Debenture Act. But there is no organization of banks solely for Real credit comparable with that in Continental Europe, such credit being granted by ordinary banks, and, specially, by private lenders, Insurance societies, &c. Great Britain is remarkable rather for its societies under the Friendly, Co-operative, Building Societies and Trustee Savings Banks Acts. The enormous organizations called Friendly societies do not strictly come within the purview of this study, though they grant small credit in a limited fashion, but as examples of mutual self-help they are among the most striking in the world, having millions of members whom they assist in sickness, misfortune, and bereavement. The Co-operative societies are usually those for the distribution of goods, and credit is practically not an object of their existence; it is in their stimulative and educative power that they are examples for India. The Building societies, however, are of extreme interest to this study, for it is on the model of these societies that the actually existing Madras loan funds have based their operations. These societies under the Act of 1874 alone, are about 2,632 in number, of which 2,262 had £50,000,000 in assets, an annual income of £18,610,000 and 563,933 members; they are the Real Credit societies of the poorer classes, and not merely assist such persons to become owners of houses, but grant advances on mortgages of such property: as such they are of extreme value whether to investing or to borrowing members. The Loan societies under the special Acts of 1840 and 1843 of England and Ireland are of little importance. The

Trustee Savings banks are magnificent institutions as examples of philanthropic action and gratuitous energy, and have, during their century of operation, done absolutely incalculable good in promoting thrift and prudence. They are obliged, however, by law to send all their funds to the Treasury, and thus miss one grand possibility of their existence, viz., the fructification of their deposits *in situ*.

The United States have magnificent object lessons in their National banks, Savings banks and Building societies. The first named, about 3,796 in number, have spread into the small towns and villages, but are purely joint stock companies of private origin. But the Building societies, more numerous even than in England, are ramified, each independent of the other, throughout the country; they are beginning to be called—even by law—Co-operative banks, which is their true designation, for the mere building of houses or provision for procuring homes is only one function; they provide excellent investments for thrift, they lend money on favourable terms, and they are notable examples of cheap and gratuitous working by those who believe in the duty of assisting others and of developing thrift, self and mutual help, as essential characteristics in national character. The Savings banks are institutions holding enormous funds which they are free to place as they please within certain restrictions provided by law; they consequently have gigantic amounts invested in mortgages. A noteworthy feature of American banking is the completeness of the laws and the extraordinary thoroughness of the State supervision exercised over all classes of banks.)

Switzerland and Württemberg will be mentioned as examples of small States magnificently provided with credit institutions. The former has about 900 banks of all kinds for about 3,000,000 people; they have actually driven out the private lender, but so far from decreasing indebtedness they have probably increased it by the extreme facility with which credit is obtainable. Most of these are small Joint Stock banks; some are Co-operative and many are Savings banks; their peculiarity is the smallness of their size and their universality; some few are worth special study.

Württemberg is extremely interesting; it is a small kingdom just the size of a large Madras district—7,528 square miles, of which three-tenths is under forest—with a similar population, 2,036,522, of whom 923,252 are absolutely dependent on agriculture, living on 308,118 separate farms of which 36 per cent. are below 2½ acres (probably held by labourer-cultivators), 56 per cent. between 2½ and 25 acres (small peasants), and only 8 per cent. above 25 acres; there are in fact only 0.5 per cent. above 250 acres; these figures compare unfavourably in size with those of an ordinary Madras district. In this country of poor peasants about one-fourth of the 1,910 villages have small rural banks, usually of the Raiffeisen type, of which there were, in 1892, 477 with 37,429 members, distributing loans of many lakhs *per annum*, supplying goods at cost price and of good quality to their members, and generally united in a Union which provided for audit, inspection, and assistance. There are also numerous other Loan societies, Savings banks, some attached to the Raiffeisen societies, Benefit societies, Insurance societies and Agricultural associations, besides ordinary banks of various kinds. The kingdom suffered most severely from the great drought of 1893, and the presence of these numerous Loan and Benefit societies must have immensely assisted the peasants. Nevertheless it is within the writer's knowledge that a vast number of peasants were in great distress by reason of the "Jews," and it is clear that even this large number of rural banks is greatly insufficient for the general purposes of rural credit in the kingdom.

It will be useful to express the above roughly-sketched facts in terms more intelligible in this presidency, to which end a single Madras district of the size and population of Württemberg and with 1,500 villages may be taken as the unit. To be provided even as Germany generally is at present provided, there would be in such district two or three Land banks devoted entirely to land mortgage credit, issuing debentures and loans in correspondence with such issue, and managed entirely by local men with a certain amount of State supervision. There might also be a district *Hilfskasse* granting mortgage and other credit, and lending to associations for the purposes of industrial improvement. There would be about 200 Savings banks and branch offices, collecting deposits and lending a large portion of those deposits *in situ*; all would be supervised in a general way by a Government officer, though this is not exactly the case in Germany. There would be nearly 300 Co-operative societies, of which about 200 to 250 or more would be purely Credit associations of the Schulze-Delitzsch or Raiffeisen types, while the others would be associations for various co-operative, industrial and benefit purposes. There would also be an indefinite but considerable number of Insurance societies, some being co-operative, associations,—many being compulsory—for irrigation, drainage, tree planting, &c., associations for providing cattle, Agricultural and Peasants associations, and Monte de Piété. The whole of these societies, except the Co-operative banks, would be more or less supervised by the State, but so as to assist and not to hinder. None of these societies, except the Land banks, would have any privileges, but all would pay the usual taxes and be regulated by special and carefully worked-out laws. If, instead of confining comparison to Germany, Europe be taken as the model, the Agricultural associations in the Madras district should number, on the French existing standard, at least sixty, such associations being organized to procure for their members at wholesale prices and of first quality, iron ploughs and other implements, cattle, manure, seed, &c., and to place the produce of the peasant on the best markets free of the profits of the middleman, and at the best prices. There would be 100 or more Building societies of the type of the Madras Nidhi, and a number of Benefit or Friendly societies for the assistance of the poor in time of misfortune, sickness or death. If Switzerland be taken as the model, a large number of the Co-operative Credit societies would be ousted by small Joint Stock societies of small capitalists, in which dividends would be specially aimed at, but which the power of competition would keep within the limits of cheapness. If the example of Spain were followed, there would be about 200 Positos or credit granaries, from which grain for seed and maintenance would be lent, repayable after six months with moderate interest. There would be not less than 60,000 members in the various Co-operative societies, irrespective of the clientèle of banks, Savings banks, Insurance societies and the like.

And all these figures would be capable of and require *great* expansion and internal development in method and comprehensiveness, before the district population would be thoroughly provided with organized credit and industrial assistance. Such then is the lowest standard up to which reformers must work, and though a beginning has been made in the establishment of Nidhis in some districts, yet what are they among so many; about 80 Mofussil Nidhis, mostly in towns and for the urban population only; some Postal (Government) Savings banks; here and there a branch of the Madras bank for

commercial credit purposes, and that is all. There is not the slightest reason why each decent town of 5,000 inhabitants should not have one or two Nidhis which may be taken as corresponding, but in some way superior in method, to the Schulze-Delitzsch societies; every village of 1,000 persons or even less, could have its village bank and credit-granary. These societies should all be united in groups of perhaps 100 each, and these groups again conjoined in a Central Union, so that proper internal supervision, audit and assistance might be given, and the necessity for detailed Government supervision removed.

The Nidhis would supply the Mortgage (Real) credit which they already furnish to their members, and are in this way superior to the Co-operative societies of Continental Europe; their pawnbroking, side would also be a highly useful addition which is practically untouched in Europe. It is possible that Land banks would be feasible in every important taluk, but they would be useless if not in absolute proximity to their clientèle. Doubtless, too, under the present bent of the Hindu business mind, a large number of Joint Stock banks would be found working alongside of the Co-operative societies. The system of village credit granaries supplying a credit so particularly consonant with the existing and universal custom of the presidency, might be developed till almost every village should have its granary, not merely as a source of annual credit but as a supplemental store of incalculable value in time of famine. The provision of Savings banks should be developed to a great degree, and would not be properly satisfied till every man should be within easy reach of a receiving office whether of a Savings bank or of a Loan society. No district of the above size would be adequately provided till it had at least 250,000 persons, usually heads of families, as members of the several classes of society, irrespective of individual depositors in Savings banks whether ordinary, penny, or school banks; this is no impossibility if the co-operative idea takes hold of the people as that of the Nidhis showed signs of doing in Madras, Chingleput and North Arcot, and as it would already have done, had there been due understanding of the purpose, methods and leading idea of the Nidhis, and due control over their organization and working.

To those who have the highest interests of the growing nation at heart, to those to whom the development of individual and national character in its higher planes and functions is more dear than its development in material and selfish methods, it should be a constant and absorbing effort to strain after the introduction of the co-operative and altruistic rather than the joint stock and self-seeking method: effort should also be made to develop the future associations as far as possible independent of State initiative and aid, and if such aid and supervision are necessary at first, effort should proceed in the direction of divesting the institutions of such accessories by the development of internal resources for the control, guidance, and assistance of working and nascent societies.

PART II.—MADRAS PRESIDENCY.

CHAPTER I.—PRELIMINARY.

Certain points in the history of European rural banks require clearing up before any proposals are made. There must be no room for misconception as to the facts of that history, and the present study is an attempt to provide a distinct conception of the actual work of European Agriculturists' banks, in view to the establishment of as many of those or of other systems as may seem good to various classes of promoters.

In the *first* place, there are practically no Land banks for the "peasant" as ordinarily understood; the original mortgage debenture associations (Landschaften) of Frederick the Great, were not peasants' banks at all; on the contrary the "peasants" were expressly excluded; they were solely nobles' (Ritter) land banks, and though the peasant was in later years admitted to a few, especially to the new banks, the German "peasant" is a farmer of from 18 to 300 acres; the real "peasant proprietor" of English ideas, holding 10 or 15 acres, is not provided for or contemplated by these banks. As elsewhere explained, the word "peasant" in German means simply a non-noble, however large his estate and however rich he may be; the "peasant's estate" held by a "peasant" as understood by the law and administration, is a farm, the minimum size of which is laid down by a law of 1836 as about 17 acres, and it is the owners of these farms who are—generally speaking—the "peasants" for whom branches were opened by the old Landschaften and who were admitted freely to the new Land banks. In Schleswig-Holstein the peasant is a man holding 100 acres; the half-peasant holds 50.

Secondly.—There is no general European Land bank "system," least of all for peasants. In Germany there are the Landschaften about 25 in number; these are mutual associations encouraged by Government; so also in Austria; then there are the private joint stock banks which may be founded at pleasure; there are a few State banks; there are special banks, under special laws, as the Crédit Foncier of France, and the Hungarian loan institutions; there are the Italian Land banks with a totally different origin and a different system. Then there are Savings banks which lend immense sums, other classes of banks, insurance societies and so forth. But there is no general European Land bank system—nor even a general system for any one country.

Thirdly.—There are no real 'Agricultural' banks except the State Landskulturrenten banks of Germany which are Provincial land improvement banks only, some communal banks and the Raiffeisen agricultural loan societies; the first are only three in number; the second are more numerous but of very limited spheres and methods; the last named are truly agricultural but are only now developing. The 2,000 'Agricultural banks' with £150,000,000 of business mentioned by Sir W. Wedderburn are evidently the Schulze-Delitzsch Popular banks; these however are not agricultural but urban and general, though now about 30 per cent. of their members are agriculturists, and get about 15 per cent. of the loans; it is stated, however, that not the mass of small proprietors but only the medium sized holders, are reached by these banks which were started for urban purposes chiefly, and not for the peasants. These and the Raiffeisen loan societies have nothing to do with Government, but are purely private in origin and co-operative in method, and have arisen out of the devotion of two men and from the slowly developed confidence and powers of the German artisan, tradesman and peasant.

Fourthly.—There do not appear to be any "institutions on a large scale" established for the benefit of the peasant class; there is one small one in Hungary started in 1879 and a few Communal loan societies since 1887; to these however must be added the Popular banks of the Schulze-Delitzsch model, dealing with the same classes as do their prototypes in Germany. The large 'Boden Credit Institute' is emphatically, *not* a peasants' bank. In Italy there are Popular banks and Wollemborg-Raiffeisen societies, the latter being especially for peasants, the former rather urban. France has no such establishment whatever, the Crédit Foncier being the Land bank only of the medium and large holders and chiefly urban at that. Belgium has no establishment for the peasants though there have been attempts and proposals made; her popular banks are distinctly urban. Switzerland has however numerous, but chiefly joint stock, institutions of a small and local character for peasant credit.

Fifthly.—It cannot be said that the State gives the above institutions "every support and encouragement"; as will be shown immediately, the concessions are moderate and are exceptional; such as they are, they cannot be quoted as examples but exceptions, save in certain points. The Popular banks and Raiffeisen systems which form the main body of banks for the peasantry, were not even recognized by the German law till 1868; they were then placed under considerable restrictions, and even by the law of 1889 they are regulated but in no way privileged; no single privilege can be quoted for them; on the contrary, they are subject to strict taxation of all classes, and have no powers of recovering debts save those open to all persons. The German Land banks of the mutual type (Landschaften) pay all charges and taxes except income tax; they are exempted from this because they are societies working without share capital, dividing no profit, and existing solely for the benefit of their clients; they have no real income to tax and are exempt as are savings banks and benevolent societies. So in Hungary the Boden Credit Institute is similarly exempted for an exactly similar reason; it is not a joint stock bank with dividends but a benevolent society; it pays no dividends and divides no profits whatever, but merely a fixed 5 per cent. interest on the small guarantee capital philanthropically contributed as "founders' shares" for first starting, an interest considerably below the then ordinary rate of interest in Hungary. As for stamp duties, the Landschaften pay like any other commercial firm; the Hungarian Institute is exempt from stamp duty on the interest coupons of the debentures by which it draws funds from the public, but its transactions with its clients are subject to stamp duties; on page 15 of Commercial No. 9 of 1891 will be seen a list of such duties expressly stated as payable on loans obtainable "in the Institution" and these amount to exactly 2 per cent. of the amount of the loan.

The Crédit Foncier of France has certain privileges, amongst which are a reduced stamp duty on its debentures whether in issue or in transfer, but even the reduced duty is higher than the similar duties—on mortgages—in India; decennial re-registration of its documents is not necessary as in the case with all other banks or lenders; it has legal privileges for recovery of its dues, and trust funds may be invested in its bonds. It has also the use of the Treasuries of Government for receipts and payments; for this and for the services of three of the "Receivers-General" as directors, the society pays at rates determined by Government. It pays moreover very heavy taxes; while its net income in 1890 was £880,000, the taxes amounted to £440,000 payable partly by the Crédit Foncier as a society, partly by the holders of its shares and debentures; its mere business license (*patente*) cost £10,000 in 1890; it pays also the salaries of its officers though appointed by Government. In Italy there is no exemption from taxation or stamp duty, the former being of the very heaviest description; as shown *s.v.* 'Popular banks' and 'Savings banks,' the mere tax on the "*ricchezza mobile*"—a sort of income tax—is a very heavy item, *e.g.*, on the Savings banks it amounted in 1889 to £280,000, while the whole expenses of administration for the same year were only about £160,000. In the Land Credit banks the half-yearly payments include a tax under this head of no less than 13 per cent. of the interest paid by the borrower. Moreover a large sum appears against each bank as "payment for Government supervision."

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But what is to be clearly understood is this, that save for one item, the privileges granted are exceptional, and not "examples" of general usage in the matter of Land banks; it must not be understood that there are thousands of 'Agricultural banks' in Europe enjoying from the State "every support and encouragement"; it is a mistake to consider absolutely exceptional and almost solitary privileges granted to exceptional banks (*viz.*, either those working without dividends and profits, or the Crédit Foncier of France which is a quasi-State Institute) as though they were examples of very "liberal concessions granted by the respective Governments"; they are not examples, but exceptions.

Certainly, too, the Belgian proposal of 1852, though passed by the House of Representatives, cannot be considered as indicating the "extent of support which Continental Governments are prepared to give in the way of re-organizing credit"; the bank was to be a State bank and would therefore get certain unusual and abnormal privileges, but even so, it was a mere project, which has never been revived, and was a product of that excited time which produced hundreds of extraordinary and wholly abortive projects for agricultural credit; it was, moreover, the project of one little kingdom and none of the larger States has provided or even contemplated any such system.

One important item however is general and not exceptional, and this is granted rather as a safeguard than as a privilege, *viz.*, that of Government supervision. This is general and very strict; Government ministers, commissioners, auditors, &c., supervise every class of Land bank in Europe, whether joint stock or mutual; supervision is universal and is only a matter of degree. This supervision is paid for by the banks and its amount is fixed by Government. But the Popular banks and Loan societies, the real peasants' banks, are not so supervised; they disdain and reject Government interference and have established special methods of supervision. Nevertheless even in this case supervision is provided, for they are placed under carefully devised laws, whether those of the general commercial codes, or—as in Germany—some special law.

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Sixthly, it is a mistake to suppose that through the creation of the Crédit Foncier of France "the current rate of interest has been reduced from 9 or 10 to 5 per cent." and that the facilities granted by the Hungarian Institution "have greatly helped the prosperity of all classes in the country and lowered the rate of interest all round"; it is not conceivable, nor is it a fact, that a single Land bank in a vast country like France, or a single institution in Hungary should have this extraordinary effect. All that is said in Commercial No. 9 of 1891, which seems to be the authority referred to, is, as regards France, that the Crédit Foncier "has materially lightened the load of debt weighing on property, *in this sense*,"* that it demands (*i.e.*, the Crédit Foncier) only 4.85 per cent., while the rate of interest payable by property at its creation was from 8 to 10 per cent. That is, it works very cheaply and all loans obtained from it, pay only 4.85 per cent. As a matter of fact M. Durand, writing in 1893, states that his personal enquiries convince him that even medium and well-to-do estate holders in France habitually borrow for the purposes of their estates at 10 per cent., per annum, from which the rates paid by the small folk may be estimated. Similarly, as regards Hungary, it is not that the institution has lowered interest "all round," but that it has been able (p. 11 *op. cit.*) to reduce "the rate of interest which the borrower pays for the loan" from itself, as shown in the table of its charges from 1863 to 1886 which immediately follows the remark.

Seventhly, the Government of France does not "guarantee the Crédit Foncier against competition," nor is there in fact in any European country a "monopoly" of land mortgage business. In the first place the monopoly of the French Crédit Foncier was or is a monopoly not of business but of certain privileges; in the second place this monopoly was only for 25 years from 1852 and the monopoly has never been renewed; thirdly, the law authorized the establishment of any number of similar societies with the sanction of the Government; fourthly, this monopoly in no way prevents the foundation of societies for land credit on the basis of the ordinary law without any Government authorization, which is only required for societies under the special law, neither is land mortgage business of any class forbidden to any person or society or bank. As a matter of fact, in 1879 a powerful society with a capital of about £2,000,000 called 'La Banque Hypothécaire de France,' was established expressly to gain a share of the privileged mortgage business; it issued debentures, and as the commercial courts subsequently ruled that debentures of the class indicated by the Act could only be issued under the Act it sought the authorization of Government for the privilege; while awaiting this, and when it had already accepted mortgages for above £6,000,000, the Crédit Foncier entered into negotiations with it, and finally (1882) absorbed it into itself. Hence the monopoly is merely the result of the power, influence and extreme skill of the existing great society. There is no Government guarantee against the competition either of similar societies under the special law or of ordinary societies, banks or persons operating under the general law. Similarly the Italian monopoly is a monopoly of privileges including especially the issue of debentures, and the power of summary procedure. The point is important, as monopoly of business has been claimed by promoters of Indian Land banks.

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"Small" proprietors or cultivators in Europe are those who hold at most 10 hectares (25 acres); all holding from 25 to (say) 100 are medium holders; those above are large holders. Now it is the "small" class which form by far the greatest number of holders; in Germany out of about 3,504,040 proprietors—exclusive of those below 2½ acres—no less than 2,274,096 or 65 per cent. hold from 2½ to 25 acres, besides whom there are 2,323,316 holding below 2½ acres. Hence the vast bulk of the proprietors are from small to very small. The area held however is very differently apportioned; in France 38 per cent. of the holders occupy, in holdings below 2½ acres (very small), only 2.2 per cent. of the surface; 46 per cent. with from 2½ to 25 acres (small) occupy 22.9 per cent.; 13 per cent. occupy 29.9 per cent. in medium holdings of 25 to 100 acres; and 3 per cent. occupy 45 per cent. of the land in estates above 100 acres. Hence 84 per cent. of the holders occupy only 25 per cent. of the area of France, in holdings below 25 acres; and, even excluding altogether the numerous very small holders, nearly half the proprietors occupy less than one-fourth of the soil. Similar facts are noticeable in Germany, where 87 per cent. hold 28 per cent. of the land. In Madras the areas held are not precisely known, but, as the average incidence of the land assessment per occupied ryotwari acre is about Rs. 2, it follows that those paying less than Rs. 50 hold on an average less than 25 acres, unless the land is all "dry" or of poor quality, in which case the area may be more but not the value or the productive capacity. This class in this Presidency numbers about 94 per cent. of all ryots and holds about 60 per cent. of the ryotwari area; those holding below 15 acres (paying below Rs. 30) are 89 per cent. in number and hold 45 per cent. of the land. Hence conditions are very different in Madras, and if credit is to be provided for "small" proprietors holding below 25 acres, it must be extended not merely to the great bulk of all holders, but also to more than half the land. This, in fact, is shown by existing mortgages, the average value of which is only Rs. 190, while the average value of just half the mortgages is only Rs. 44.

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In examining, then, the feasibility of applying the European Land bank systems to Madras ryots, it is necessary first to see whether those systems have really reached the corresponding classes in Europe. The answer in brief is "not at all"; it has never got below the medium class; speaking generally, the "small proprietors" get real credit only from Savings banks and money-lenders. The statistics of the *Crédit Foncier* of France are elsewhere mentioned in detail; suffice it to say that whereas about two-thirds of the mortgage debts of France are probably below about £60 (in 1841 they were below £40), the *Crédit Foncier* has probably never granted such a loan out of the £139,000,000 granted since 1852; in the five years prior to 1890 its rural and urban loans below £200 averaged annually only 1042, the mean value being £131. And after all said and done, it is found that in 38 years from 1852 to 1890 only 77,536 loans have been granted on mortgage, of which no less than 55,034 were on purely *urban* property. Hence the supposed work of the *Crédit Foncier* as regards the rural masses shrinks to nothing, only 22,161 loans in 38 years to *all* rural classes; these formed 28 per cent. of the total borrowers, but got only 20 per cent. of the loans, each loan averaging £1,254.

Similarly in Germany the statutes of the Land banks forbid loans below minima which practically exclude the small folk; while, as a matter of fact, as shown in detail *s.e.* Land banks (Germany) loans even approaching the minimum are nowhere given by the several classes of Land banks, save only in exceptional cases in Bavaria and in small States, and many, if not most, of the very small loans are probably either urban or in the immediate neighbourhood of such banks. As stated in the Prussian Agricultural minister's report for 1887, real credit institutions are capable of giving real credit down to the "team owning" classes, *i.e.*, those holding about 17 acres of land and upwards, but that for smaller folk "a mere land credit institution is particularly ill-suited." It must be added that it is exceptional to find mortgage loans by Land banks actually granted so low as to reach the lower class of team owning farms.

In Italy the result of the system was that between 1866 and 1885, the eight mortgage banks lent only £13,239,244 in 8,355 loans, averaging £1,584 each; the mere valuation fee in the National bank is fixed at a minimum of £4 for rural property; even for the cheaply working Milan Savings bank it is stated (Report of U.S.A. Consul in 1880) that 75 acres was about the lowest area on which a mortgage loan could be given by it in Venetia. In Hungary the Boden Credit Institute lent in twenty-six years £14,000,000 in 11,000 loans or £1,272 per loan, only about half the number being below £260; as the statutory minimum for loans is £83 (1,000 florins) and the average loan granted was about £1-10 per acre, it follows that no one with less than 55 acres can ordinarily even apply for a loan. The special bank for the "small folk" did however grant 9,726 loans in nine years averaging £33, but as the loans granted average less than £2 per joch (1.43 acres) it follows that even in this society, no one holding less than 12½ jochs (17 acres) can get loans, the statutory minimum being £25, and it is significant that this society has recently raised its maximum loan, showing that it contemplates taking larger rather than smaller business. This is precisely the result of the *Crédit Foncier Egyptien*, a bank intended to assist the fellahin (ryots) with land credit; it began with a few small loans, but within a few years found that loans below £300 could not be granted.

It is expressly stated by numerous authorities that real credit, as administered by existing institutions, whether in France, Germany, Austria or Italy, reaches only the large and medium proprietors; the "small" men get it only from money-lenders and Savings banks. The only exceptions are the special cases of the Provincial Rent charge banks of Germany started by the Provincial Governments for the redemption of feudal charges, the special Boden Credit Institute for small proprietors in Hungary, the Peasants' Land Bank of Russia, and the Banks of Switzerland. But, as elsewhere shown, the Rent charge banks are mere offices of issue; the work of fixing the charges, and of commuting them into a fixed money charge was laboriously done by special commissioners; on the register of rent charges settled by them the bank simply issued its debentures. There is, indeed, no similarity whatever between the work of these so-called banks and actual banks; the amounts to be issued by them are fixed for them; those amounts do not increase or even fluctuate when once fixed; there is no risk, no incessant change in status, no incessant lending, borrowing, depositing, withdrawing for all sorts of purposes and at all sorts of seasons on all sorts of securities, as in the case of a bank. So also the Russian Peasants' Bank does not deal, except occasionally, direct with individuals, but with the communes (*mir*) or with associations, and this bank, established by Government to enable the ex-serfs to purchase their lands, as in the case of the Rent charge banks of Germany, is already seriously contracting its volume of business owing to the comparative failure of its operations; quite recently the arrears for which it had attached lands for failure of repayment, amounted to exactly 10 per cent. of the total amount of mortgage loans issued. And after all, exclusive of Switzerland, the work done by the above special classes of banks in the way of real credit is a mere trifle to that done without fees or special privileges by the ordinary Savings banks under the régime of the free employment of their funds.

There is then unfortunately little ground for believing that European Land bank systems have revolutionized credit, or work wonders for the peasantry. It is true that in Germany many peasant estates have of late years benefited by the extension of the operations of the *Landschaften* to them, but the "peasant" estates of Germany are the *Bauerhöfer* as opposed to the nobles' estates (*Rittergüter*) and are those which range from 18 to 300 acres. The really "small" men, the "*kleine Leute*" or "peasants" as Englishmen understand the word, are not within the scope of the Land banks proper.

It follows, then, that in proposals for India the success of the European Land banks cannot be quoted as precedents for Madras, where the bulk of the men who need credit and who hold above half the land are precisely those "small" folk whom the Land banks have not yet reached.

If we look, however, at areas and agriculture, then the European Land banks have been more successful than if we look at men; loans granted to medium and large holders who occupy by far the greater area even of Europe, may benefit agriculture, so far as they have gone, to a much greater area than if they were granted to small folk, but if we consider the people rather than the areas, these large loans granted to a comparatively few large and medium holders are unsuccessful as sources of credit.

The failure then of the Land banks hitherto to reach the masses does not necessarily imply that they have not reached a considerable number of large and medium holders, and a considerable area of land; all that is pointed out is that they have not yet succeeded for the mass of holders; that many years of effort—40 at least of the most highly developed forms—have not brought organized and cheap real

credit to the masses of small holders, such as form by far the greatest number and hold or occupy two-thirds of the land, in this presidency. Many of their principles and methods, *e.g.*, those of co-operation, mutuality, the gratuitousness or cheapness of administration, the issue of the land mortgage debenture, the grant of long term credit and repayment by amortization, the establishment of a degree of Government supervision and audit, the grant of privileges such as distraint, and reduced fiscal charges, may very usefully be adopted in the land or other banks to be hereafter established in this presidency.

Nor must any sudden development of bank credit be expected; it has taken one hundred and twenty years in Germany and forty years, at least, all over Europe, and yet the system has not grown into full success; we cannot therefore expect to see Indian conditions revolutionized by any sudden development of Peasants banks; they must painfully grow out of many attempts and many failures; not out of many proposals or schemes, for—as shown under ‘personal credit’—France for fifty years has made proposals for ‘Le Crédit Agricole’ and is now exactly where she was then; *solvitur ambulando solum*.

One further lesson is this, that however attractive the idea of special Land banks, with special laws and privileges, acting like machines from a centre of power, it is after all the Savings banks governed only by the ordinary law of the country, without any privileges, except—as benevolent institutions—that of exemption from income-tax, obscure in origin and in working, and earning not even honoraria much less salaries for their promoters and directors,—who on the contrary give their time and money freely to their administration—which alone have succeeded generally in extending real credit to the masses of continental Europe; it is evidently by their proximity to the people, and by the confidence induced by their purely local administration that they are thus successful. Similarly, the real credit institutions of the people in England and America are the Building societies, often small and local, and most successful in this particular function where small and local; in America this fact is especially recognized; cheap, local administration on thoroughly co-operative lines is earnestly advocated in the United States as against central societies on the dividend and agency principles. So also in Switzerland, it is the petty savings and Joint Stock banks, often with a capital of only a few hundred pounds, established each in and for a village or similar circumscribed area, that have ousted the private money-lender and extended organized and cheap credit to the peasants. Heroic remedies, brilliant schemes and magnificent societies are very seductive but they are neither necessary nor even successful in this particular rôle.

Now the above is not a mere academic discussion or profitless criticism; the question is, *why* after so much discussion, study, effort and experiment, the “small” proprietors of Europe are outside of the land credit systems, however successful for certain classes? The answer is simply because they are “small” folk; it is just the difficulty of providing organized credit for the masses by means of centralized institutions, it is the impossibility of dealing with hundreds of thousands of petty cases by such banks, that prevent the development of popular real credit. How can even an institution at the centre, say, of a district, deal with a hundred thousand candidates for loans of from £5 to £30? How can it investigate titles; how keep down expenses so that they shall not be utterly disproportionate to the loans? The crux of the problem lies here; how to adapt to the needs and conditions of millions of scattered ryots the principles and methods found successful for a few thousand large scale borrowers; if that is impossible, how to organize credit, real or personal, so that it shall be available cheaply, readily and yet safely in millions of petty loans. There seems to be one chief answer to the problem, *viz.*, proximity and local influence; this is the case with the money-lender and it must be the case with the banks which are to compete with him; only the influence must be the result of confidence and not of the thumb screw.

So far Real credit alone has been discussed; all the institutions hitherto adverted to in the various proposals for India are purely Land Credit banks. But Land banks by themselves are useless; a ryot requires frequent and temporary credit on a small scale far more than occasional mortgage credit, and no provision is made for that. In Europe there is no personal credit banking system yet available for “small” folk, save only the Village banks of Switzerland, and the co-operative institutions known as Popular banks and Loan societies in Germany, Austria and Italy; the Savings banks grant comparatively little in this form; the ordinary banks do not know the small man; some few of the German Land banks have started branches for this purpose, but nothing special is known of them; it is in fact stated that the persons using them are generally members of the *Landschaften* and therefore not small folk at all. The Communal societies which are found in Germany and Switzerland, and are newly started in Alsace-Lorraine, are however useful in this matter. No Government or great company has yet succeeded in providing personal credit for the masses; these are only reached by small local institutions, whether joint stock, co-operative, or communal.

In fact, the only Agricultural or other banks which have really reached the peasant masses corresponding to the bulk of the ryots of this presidency, are not the Land banks or State banks or Central banks of any description, but the Popular or Village banks, and these are the work of the small folk themselves, stimulated, and led by energetic and devoted men of their own class, but operating and managing the banks themselves, without help or privileges or favour (*see* ‘Popular banks’ in Part I). The problem is whether this presidency possesses men capable of similarly energizing and guiding the ryots of their respective neighbourhoods, and what assistance can be given to such men if they exist.

CHAPTER II.—MADRAS SYSTEMS OF CREDIT.

General.—The general credit system of this presidency is well known; in any given village there will be a few mortgages, a certain proportion of money debts on bonds or promissory notes, and a much larger proportion, chiefly among the small ryots and cultivators, of debts in kind. The proportions under each class will vary immensely according to the district; *e.g.*, Tinnevely, with 1,621 villages, had, in 1892-93, 59,598 mortgages or 36 per village; Cuddapah, with 1,340 villages, had only 2,445 or 2 per village; in Anantapur, village after village may be examined without finding a single mortgage. Similarly in certain of the Tamil districts a large number of cash debts upon bonds or

promissory notes will be found, while similar debts are insignificant in many villages of the Ceded Districts. But in all villages there will be found a large number of grain debts, due either to brokers and shopkeepers, or, and more generally, to other ryots: in many Anantapur villages where there is no such thing as a shop, every measure of borrowed grain is obtained from some ryot of the village, and at the same customary rate. Probably it would, at least for an immense number of villages and for the majority of small ryots and cultivators, be safe to say that the rural credit of this presidency is chiefly grain credit, all the poorer ryots habitually and annually borrowing from richer ryots at the sowing season, and repaying the advances at harvest. It may also be said that the rural creditors or lenders of this presidency are, for the vast bulk of the loans, ryots and not men of the Marwari class. In Tinnevely, South Arcot, Coimbatore and other districts where the short mortgage is in vogue, from 85 per cent. to 73 per cent. even of such loans are granted by ryots; similar figures are found in loans upon simple bonds. In the Ceded Districts, such as Anantapur where mortgages are rare, there will be a few simple bonds due to men—often well-to-do landholders—outside of the village, but the bulk is due to the richer ryots within the village, and nearly every seer of borrowed grain, the commonest form of loan in these districts, is due to co-ryots of the same village.

In considering the future of banks it will be necessary to consider these differences in system: above all it will be needful to take count of the fact that the ordinary ryot borrows for current needs not in cash but in grain. (*Cf.* 'Monti Frumentarii' and 'Positos' in Part I of this appendix *s.c.* 'Italy' and 'Spain,' respectively.)

There is, with two exceptions, no such thing as banking or organized credit in the presidency outside of Madras and the few towns where there are branches of the Madras Bank; the whole mofussil is under the regime of the individual money-lender, whether ryot or professional; the result, of course, is stint of money, dear and inconvenient credit, insufficient facilities for thrift.

The exceptions are the Nidhis or Loan Funds and the 'chit' system. This latter is an indigenous method of thrift and mutual credit; a number of persons, usually co-villagers, agree to pool each week or month a fixed subscription, and the pool is, on each occasion, successively lent to each member in turn, the individual being selected by casting lots, previous winners being excluded from taking the pool, but of course paying in their subscription. Thus, fifty persons each pay 1 rupee per week; each pool of Rs. 50 is handed over by lot to a member; at the end of fifty weeks each member will have contributed Rs. 50 and received Rs. 50: by this method thrift is facilitated, and mutual credit developed; the fortunate ones obtain the lump sum early in the period, the least fortunate at the end.

It is obvious that this system may easily be developed, and the Nidhi or Loan Fund is precisely such a development on the lines of the English and American Building societies; the matter is more fully discussed in the chapter on 'Nidhis.' The 'chit' system is said to be largely developing in Tinnevely and Malabar; this development is a matter of great promise as an evidence of the power and willingness of villagers to combine in saving and lending: it requires to be cautiously stimulated and guided so that it may develop into a village banking system. The history of the Nidhis shows the need for such stimulation and guidance; a large number have started and failed; many are proceeding on wrong tracks, and there is a general lack of development whether in extension or in method. Had there been external stimulation and supervision, it is believed that the 140 existing Nidhis might easily at this moment have been 1,400 or more.

The subject will now be considered as regards (1) the classes who lend money; (2) those who borrow; (3) the purposes for which loans are taken; (4) the purposes for which they are given; (5) the methods, rates, and periods of credit; (6) the results.

The lenders.—Generally speaking it may be said that all who have spare wealth—money or grain—lend it; retired officials, pleaders, shopkeepers, professional money-lenders, and, above all, ryots. As already mentioned, the last-named class is the great lending class in this presidency; it is only in towns and large villages, and in certain tracts that the professional lender is of importance; village credit is granted generally by villagers, mostly ryots. One peculiar fact appears from the tabulation of more than 3,000 small cause suits throughout the presidency, *viz.*, that the small loans below Rs. 50 are lent as follows: by Brahmans 17 per cent., by Chetties and other Vaisyas 27 per cent., by Muhammadans $7\frac{1}{2}$ per cent., by all others about 48 per cent.; the number of retired officials probably accounts for the relatively large number of loans by Brahmans.

The classes of lenders are (1) masters to servants, (2) landlords to tenants, (3) ryots to ryots, (4) sowcars to clients, (5) brokers to producers, (6) cattle-dealers to ryots, (7) cloth-sellers to buyers, (8) shopkeepers to buyers, (9) domestic and petty lenders. The first class will hardly—for the present—come within the scope of banks; the case is that of labourers, often ancestrally labourers, who work for the same masters from year to year; they receive small sums from time to time for marriages, &c., and the advances are—probably purposely—so arranged that the labourer can seldom free himself from service, though nominally hired by the year; it is a form of contented and almost voluntary serfage. It is not banks that will eliminate this form of money-lending.

The second is the help frequently given by landlords not merely directly in loans, but in improvements, in delaying claims for rent, in lending cattle, seed, &c., under the various forms of metayage. This form again will not be affected by banks; it is a function of landlords everywhere and a regular incident of the relationship, where the tenants are barely above the ordinary labouring class and often have no lands of their own. The relationship, however, in the bulk of cases is that of metayage, which exists in every form known in Europe; sometimes the tenant is the richer, and farms his poorer neighbour's land; more often the tenant is landless and is dependent on the landlord for cattle and seed, &c.; between the two extremes there is a variety of methods. This credit cannot be touched by banks; it is a social relationship. But in one form the metayer or half-varam relationship is not a form of credit, but the result of credit, *viz.*, when a money-lender has obtained a usufructuary mortgage, in which case he usually lets it out on varam to the mortgagor. This case will be affected by banks.

The third class of credit is that most frequent in the mofussil, especially in the Tamil districts. The table of registered loans in this appendix shows that of mortgage loans about 35 per cent. were granted by ryots in the Anantapur district, while in Tinnevely no less than 84 per cent. of all such loans were granted by ryots, Coimbatore coming next with 78 per cent. So in the case of loans on simple bonds; in Bellary only 29 per cent. were granted by ryots, while in Coimbatore 79 per cent.

and in Tinnevely 77 per cent. were so granted. In the whole presidency, typified by ten districts, just two-thirds of the mortgage loans are granted by ryot lenders, and seven-tenths of the registered loans on simple bonds. (See table of 83,000 registered loans in another part of this appendix.) This is a very remarkable and interesting fact, and places the character of Madras indebtedness, especially in the Tamil districts, in a position wholly different from that of the Deccan: if the money-lender is expensive he is at least a ryot and not a foreign usurer. It will be seen, presently, that the Madras lending *in general*, though expensive, is hardly usurious in the sense of being the result of calculating greed and opportunity. In many cases, however, it is exercised usuriously in order to gain possession either of coveted land, or of influence; it is in this latter way that much moral evil results, the influence being often exerted for faction purposes.

As regards personal credit also it is certain that this is chiefly granted by ryots to ryots. The table of registered bonds does not bring this out, for the credit in question is seldom evidenced by regular bonds, but is oral or covered only by chits or promissory notes, or by entries in accounts. This is especially the case with the universal grain credit system: it will often be found that while a large proportion of the ryots of a village owe debts in kind, not a measure is owed outside of the village. Village Mutual credit associations on the Raiffeisen and Schulze-Delitzsch principles will simply systematize this useful form of credit, make it co-operative instead of individual, and immensely improve the terms of credit.

The fourth class is that usually contemplated when speaking of *mofussil* credit and indebtedness; further details will be given under 'methods, rates and results.' In the Tamil districts there are classes who are fully equal to Marwaris in keenness, but owing to competition among such classes, and to the fact that, for ordinary purposes, the ryots are largely lenders among themselves, they have not, as a class, earned the evil reputation of the Deccan usurers, and no serious exploitation of the ryots is heard of such as is depicted in the Deccan; correspondents usually describe the Tamil professional money-lender as possessed of no special influence unless otherwise influential; there is of course lending at high interest and much local and individual hardship caused by greed, but the sowcar does not enter as a dominant factor into the daily life of the general Tamil population, or become master of the labour, lands, bodies and services of whole classes of ryots as in the Deccan and parts of the Ceded Districts, except where he has obtained leases of villages from Zemindars, or in and near his family head-quarters. Banks should largely replace these men.

The fifth class is that of brokers and producers. Probably the heaviest terms in the way of interest are found in this form of credit. The broker is not necessarily, as he seems to be in Northern India, especially in the wheat countries, the village money-lender who deliberately gets power in order to command the crops of the ryots for export purposes, but is often a mere trader or the agent of large brokers or merchants who supply the European or other export firms; these are chiefly found in the tracts of special produce, such as cotton, jaggery, indigo. The immensely valuable black cotton tracts of the presidency are exploited by these men; the palmyra tracts of the extreme south are chiefly worked by them, including many Muhammadans, so that the ignorant Shanar population gain little by the immense increase in prices and demand. The Raiffeisen, &c., associations could entirely eliminate this form of usury, and obtain every rupee of legitimate profit for their own members. If banks are to succeed they must be so organized as to take up produce brokerage, at least in the special produce tracts; they must be associations, not merely lending banks. Ryots can seldom manage to dispose of their own cotton or jaggery direct to merchants; they must have a middleman, and this "daughter of the horse-leech" is ever grasping at more and more of the profits of trade. Associations, and open weekly markets much more numerous and thoroughly organized than at present, are a necessity; the work of the former will be detailed hereafter and has been described at length under the heads of Raiffeisen and Wollemborg societies and Agricultural associations. When weekly fairs, as to some extent in Coimbatore, are very thoroughly opened and worked, a ryot can obtain, by the higgling of the market, a fair price for produce, but then there must be the complement of the market, viz., a bank which can lend the ryot money for kist, &c., while he is waiting for his crop to ripen, or for decent offers in the market. When the cotton ryot, especially in zemindaris where the old kists prevail, must have money for cultivation, assessment, &c., in November-January, while his crop is not picked till April-June, he *must* borrow, and he falls straight into the middleman's hands, and can no longer call his produce his own.

The sixth class is that of cattle dealers or owners. In the case of owners of cattle the bargain is usually that between landlord and tenant, and is a form of metayage; the land-owner lends his cattle to a tenant on varying terms, expressed in shares of produce. The usual class of credit, however, is that of the dealer; certain tracts are worked by particular dealers, who supply customers with young cattle on credit at very high rates, calling periodically for instalments; if these are not ready, the debtor is coerced in a peculiar way by saddling him with the maintenance of duns or men in possession, till he ends by borrowing the instalment from a local money-lender. The methods and results will be described below. This class is very largely found in the Ceded Districts; elsewhere a ryot usually gets cattle by borrowing money at interest.

The seventh class is pretty general; a great deal of cloth is sold on credit by travelling merchants who call for their instalments like American pedlars and agents.

The eighth class is that of shopkeepers and buyers. The village shopkeeper is often an important person; he supplies grain, &c., on credit at his own prices, the record is *solely* that of his books, and his stock is more than replenished at harvest by the payments of his debtors; he becomes in fact, in many parts, a produce broker. The Raiffeisen class of societies could deal successfully either as credit or as Agricultural associations with the last three classes of credit.

The ninth class embraces a variety of miscellaneous dealings bearing the most usurious interest "*à la petite semaine*"; domestic servants—a very large class—are usually in debt, and pay terrible interest; petty retail shopkeepers buy goods from larger dealers or at markets or credit, and pay absurd prices; or they borrow very petty sums from lenders to buy a basketful of goods, the amount to be repaid at next market day, with interest sometimes amounting to 2 annas per rupee per week or 650 per cent. per annum.

This class also includes the case of petty contractors, artisans and others who borrow for purchase of raw material, &c.; these are now charged heavy rates for the accommodation. Loan societies of the Schulze-Delitzsch pattern are those specially intended for all those falling under this class.

The Borrowers.—Probably there is no ryot who at one time or other has not borrowed. That a man is rich or has large private lands is nothing; it merely means—as correspondents state and experience proves—that they can and do borrow more largely; social customs require them to make a larger and disproportionate show on many occasions; seasons will fail; litigation crops up; spendthrift members dissipate savings, and imprudent ones borrow rashly; there are many descendants of high family in the Cauvery valley whose extensive estates, chiefly wet lands, have decupled in value by railways and by rise in prices during the last thirty years, but who do not know where to turn for the Government kist and whose lands are mortgaged to the last rupee.

It may be said, then, that all ryots at one time or other, even the lenders themselves, become borrowers. Many money-lenders themselves trade partly or generally on borrowed capital; these are the worst of usurers, for they have to make a livelihood after paying heavily for their capital.

But a vast body of ryots habitually live only by means of borrowing; they could not begin to cultivate without borrowing seed, cattle, grain for maintenance, &c., so that their crop is pledged in advance; they are thus in the worst cases little more than tenants of the lender who can prescribe what crops they shall grow and demand what terms he pleases, so that on settlement of accounts the cultivator has little to go on with, and must again borrow; in famine years these men have practically no resource, having no actual ties with others such as those of tenant with landlord, servants with masters. The immense number of these may be judged from the fact that about 86 per cent. of the Madras ryots pay less than Rs. 10 and on an average Rs. 4, as assessment. If banks or credit associations cannot reach these, a large proportion of Madras agriculture must remain degraded and a far larger proportion of agriculturists must ever remain in poverty, ignorance and bondage.

(3) *The purposes for which credit is taken.*—These are as follows:—

- (1) Cultivation expenses (current) including purchase of seed, manure, &c.;
- (2) Purchase of cattle, implements, stock in trade, raw material, &c.;
- (3) Purchase of land;
- (4) Improvement of lands (irrigation, drainage, breaking up waste and weedy cotton lands, planting of orchards, &c.) including improvements to existing works;
- (5) Relief from prior debt;
- (6) House building and repair;
- (7) Advances for entering into contracts, small trades, security to employers, &c.;
- (8) Maintenance;
- (9) Payment of Government dues, rent, &c.;
- (10) Marriages and other social events including the borrowing by bridegrooms of money for ornaments, &c., to be settled on the bride;
- (11) Ornaments and other tangible luxuries;
- (12) Litigation;
- (13) Education (amongst the higher classes or castes);
- (14) Unproductive or extravagant expenditure.

The tables prepared for this report only show part of the borrowings. In the table of registration statistics, it will be seen that, according to the districts, eight or nine-tenths of the borrowers upon mortgage are ryots, except in Anantapur where the proportion is 63 per cent. of the borrowers; upon registered bonds, only six or seven-tenths are ryots. In the table showing small cause suits, ryots and cultivators figure for only 64 per cent. These tables, however, tell nothing of the mass of small village loans which seldom come to Court, but run on from year to year; or of the grain loans, which form by far the largest number of loans and possibly aggregate a greater annual value than any other single class, being universal throughout the country, and the general custom in every village.

From the table of registration statistics in this appendix, it will be seen that by far the largest item, usually approaching half the number of loans, is No. 5 (settlement of prior debts), and probably a large share of the loans for which no purpose was stated is due to this item. Probably the item in the table does not mean generally a loan from one person or bank to pay off a variety of other debts, but is merely a settlement of account between the creditor and debtor in which the creditor desires more tangible security than has hitherto been given; it should be read with the column entitled 'renewal of debts.' In these cases the mortgage is the last stage on the road to ruin; up to a certain point the creditor is content to lend upon the general *status* of the debtor; beyond that stage he requires a mortgage. This is precisely the case in all other countries.

Item No. 10 (marriages, &c.) accounts for a large share—one-eighth—even of registered loans especially in Salem, Bellary and Kistna. Moreover a large number of the 'not stated' loans should probably be credited to this head, especially in districts where the item appears small.

Item No. 4 (improvement of lands) appears for only a very trifling percentage (1½ per cent.), though such loans, being of considerable size and for considerable terms, are granted usually only upon mortgages or registered bonds.

Item No. 3 (purchase of lands) is not inconsiderable.

But this table shows only the transactions based upon regular documents, while by far the greatest amount of borrowing is either upon no document or upon mere promissory notes, or chits, or entries in the lender's accounts: in such borrowings, items No. 1 (cultivation expenses), No. 2 (purchase of cattle, &c.), No. 7 (advances for small contracts), No. 8 (maintenance), No. 9 (payment of kists, rent, &c.) form the overwhelming mass.

An important fact is suggested by the above, by the correspondence, and by experience, viz., that land improvement is seldom found, except in two or three districts, as a cause of borrowing. Those who traverse the districts in their length and breadth know how rarely agricultural improvements are carried out; even the digging of wells is rare, even in Coimbatore, as compared with area. But in Coimbatore and in Tinnevely it is stated that the ryots proper seldom dig wells till they have saved grain enough to pay the Wudders; they do not borrow, unless their stores run out before completion of the work, for "it does not pay," generally, to improve on borrowed capital. One experienced

Deputy Collector of Tinnevely stated in answer to the queries of the Madras Agricultural Committee that "he has never met with cases of private loans for purposes of land improvement; the dangers of borrowing are well understood; the class who would improve lands would put off improvements rather than encumber their property." Many other replies to the same queries as to the methods and classes of land improvement stated that these were few and feeble or "almost nil"; that "it is not cared for, not being sufficiently remunerative" (that is, of course, at present prices of capital); that well-digging and breaking up fallows are the only general improvements. Similarly in the answers made to queries in the present enquiry, many correspondents do not even mention land improvement as a cause of borrowing. Dewan Bahadur Ragunatha Rao Garu says that money is borrowed "at times for sinking wells; this, however, is very rare."

There seems no general desire for improvements and what there is, is checked by the dearness of money and by the difficulty of borrowing, say, Ra. 300 upon a field worth, when unimproved, perhaps Ra. 30, but which after improvement may be worth Ra. 300 to 500, but may also be worth nothing owing to failure of the improvement.

If this absolutely necessary development of agriculture is to be quickened, it can only be by cheapening credit, by stimulating a right use of it and by a system of insurance against loss, adding such arrangements as shall enable unimproved land to be safely taken as security for the improvement proposed upon it; this, except as regards insurance against failure, is done under the special Well Rules, and the method is habitually adopted by the Raiffeisen societies, and was the object of the 'Compagnie Foncière,' started as a subsequent adjunct to the Crédit Foncier of France.

It is further to be remarked that money borrowed for one purpose, e.g., improvements, is frequently misapplied; this is expressly stated in the correspondence, and is one of the difficulties with which money lending has to contend; money nominally borrowed for a well or for cattle is spent on a marriage, and the lender sees his security *pro tanto* lessened, if not vanish. This is precisely the case in Europe, and several classes of societies are expressly provided with methods to combat this tendency.

Purposes for which loans are given.—These of course correspond with the purposes of the borrower. But there are other reasons of the lender's own, e.g., to obtain possession of lands or a preponderating claim in the management of an irrigation source; to get command of crops so that, as broker, he may be sure of filling his contract with merchants; to obtain local influence for purpose of faction or for mere self-aggrandizement. These are reasons additional to the ordinary purpose of gaining profit, and that profit as large as opportunity permits. On the other hand, as between ryot and ryot, credit is often a mere friendly office without documents or accounts based upon village good feeling, local knowledge of character and status, and even custom; it is not so long even in this presidency, since the revenue default of one ryot was regularly made good by his co-villagers. It is this survival of communal feeling which will go far to admit of mutual associations.

Methods, Rates, Size of loans, Periods and Results.—*Methods.*—The methods by which the money-lender obtains and keeps or ruins clients need not be described; the pictures drawn by correspondents are precisely paralleled by the writings of economists in Europe. It is simply the modes of granting credit that will be mentioned. These are (1) by oral contract without security; for small sums only and generally by one ryot to another; (2) by unstamped chit (செக்கெட்டு), also by ryots, for small sums; (3) by entry in the lender's accounts; this is usually by sowcars, traders and shopkeepers; (4) by promissory note; (5) by simple bond with or without security; (6) by simple mortgage; (7) by mortgage with possession, usually between ryots, seldom between sowcar and ryot; (8) by pledge of moveables; (9) by advances on growing crops, usually by ryots and brokers; (10) by account current. The above are for money loans only; grain loans are given by ryots, sowcars and shopkeepers usually without formal documents by ryots; by account current or entry in the lenders' accounts in other cases.

When money is lent, repayment may be in money or in produce: the latter is the case when the lenders are brokers as well as lenders; the vast cotton and jaggery trades are very largely, if not generally, carried on by advances made by middlemen with a view to securing the crop.

When grain is lent, the return is usually in grain; this forms the stock of the lender for subsequent loans.

It is said that the great bulk of petty rural, short term loans are either oral or on ordinary promissory notes; if the borrower is not of good status, e.g., if his land is scanty and poor, his character somewhat improvident, he is frequently obliged to bring in a surety who jointly signs the document; up to 20 or 30 per cent. of the value of a borrower's property mortgage deeds are not required, but when the aggregate amounts to above that sum, varying, of course, in each case, the lender demands a mortgage deed. It will be seen then that in many cases the mortgage represents the last of a series of transactions; in some districts, however, as in Tinnevely, the mortgage is abused, being a mere means of obtaining short term loans of six months and less.

Rates.—This very interesting question is full of difficulty; the actual rates and the conditions that determine them vary in every district and in every village, and for the classes of borrowers, often of course with the individual, and according to the nature of the security, and often according to the intended use of the loan. As shown above, loans "à la petite semaine" in the case of petty trades may amount to 650 per cent. per annum; this rate of course is rare, just as the 2,000 per cent. mentioned by one Irish writer, and the 730 and 1,200 per cent. in an Italian Manual on Popular Banks; but 1, 2 and even 4 annas per rupee per month or 75 to 150 per cent. per annum are well-known rates among servants, petty traders, &c.

The following is an example of a money-lender's usurious loan for a marriage; it is taken from a suit of 1892 in a District Munsif's Court. Three brothers required a loan of Ra. 85 for a marriage; they owned a small area of poor land. The loan was granted on a simple bond; Ra. 4 were deducted as commission, and no interest charged for the first six months; if not paid within six months, 100 per cent. per annum was to be paid. Of course, as the lender knew, the money was not paid, and in three years the borrowers owed Ra. 85 as principal and Ra. 255 as simple interest. The creditor generally sued for Ra. 200 only and costs. The rate was treated as usurious. Here the necessity of the borrower and the unproductive use to which the loan was to be put, obviously sent up the interest.

The following is, *per contra*, an illustration of the risks run by money-lenders which lead to high rates; a Marwari of one district lent Rs. 8,000 on the mortgage of lands in the neighbouring district; the loan was not repaid and a suit was filed. Meanwhile the borrower allowed the land revenue to fall into arrear; the land was attached by the Tahsildar and eventually sold for less than Rs. 300, *free of encumbrances*, according to the provisions of Act II of 1864. In such case, had the sale been confirmed the Marwari would have lost his capital.

The following table is based on registration data; it is the result of an examination for the purpose of this report in ten districts, of documents relating to about 76,000 loans, chiefly agricultural. Typical villages were selected by the Registration officers in each circle examined, and the period is that of the three years ending 1891. The full table of the results will be found further on in this appendix:—

Classes of Document.	Rate of interest.								
	Six per cent. and less.	Above 6 per cent. and not exceeding 9 per cent.	Above 9 per cent. and not exceeding 12 per cent.	Above 12 per cent. and not exceeding 15 per cent.	Above 15 per cent. and not exceeding 18 per cent.	Above 18 per cent. and not exceeding 24 per cent.	Above 24 per cent.	Not stated.	Miscellaneous.	Total.
Mortgages of 100 and upwards.	Number ... 1,085	4,396	18,404	6,990	1,808	280	1,600	11	84,009
	Per cent. ... 3.19	12.93	54.12	20.38	3.88	.62	4.7	.03	
Mortgage below 100.	Number ... 460	1,127	12,698	9,006	4,084	1,380	1,032	18	29,750
	Per cent. ... 1.55	3.79	42.67	30.27	13.56	4.64	3.47	.06	
Simple bond	Number ... 608	.798	5,713	2,734	851	233	1,554	84	12,575
	Per cent. ... 4.83	6.33	45.43	21.74	6.77	1.85	12.36	.87	

The chief points of interest are (1) that in mortgages about three-fourths bore interest between 9 and 18 per cent.; (2) that the mortgage loans below Rs. 100 paid considerably higher average interest than those above Rs. 100, about half of the former and one-fourth of the latter paying above 12 per cent.; no less than 18 per cent. of the smaller loans paid above 18 per cent.; (3) that simple bonds on good personal security paid lower rates than small mortgages, more than 56 per cent. of the former paying rates not above 12 per cent. as against 48 per cent. of the latter.

The next table is compiled from an examination of 3,167 small cause suits in the Courts of District Munsifs and 267 in the Courts of Village Munsifs for 1894. About 100 cases in each of 32 District Munsifs' Courts were taken in consecutive order, not selected, half of them being for sums below Rs. 20, and the other half above that sum.

Table of results of the examination of 3,167 Small Cause Suits in 32 Courts of District Munsifs in 1894.

Number of Loans.	Lender's caste.				Borrower's occupation.			Interest on loans below Rs. 20.		
	Number of				Number of			Below 6½ per cent.	Between 6½ and 12 per cent.	Between 12 and 18½ per cent.
	Brshmins.	Chetties and Vaisyas.	Malom-madans.	Others.	Ryots and Cultivators.	Traders.	Others.			
1	2	3	4	5	6	7	8	9	10	11
3,167 ...	491	777	216	1,380	1,760	401	581	77	540	388
Percentage.	17.13	27.14	7.55	48.18	64.18	14.63	21.19	2.94	41.67	39.94
Number of Loans.	Interest on loans below Rs. 20—cont.			Interest on loans above Rs. 20.						
	Between 18½ and 25 per cent.	Between 25 and 37½ per cent.	Above 37½ per cent.	Below 6½ per cent.	Between 6½ per cent. and 12 per cent.	Between 12 and 18½ per cent.	Between 18½ and 25 per cent.	Between 25 per cent. and 37½ per cent.	Above 37½ per cent.	
										12	13	14	15	16	17	18	19	20
3,167 ...	156	106	29	50	529	306	92	38	9	
Percentage.	12.08	8.18	2.24	4.87	51.56	30.02	6.97	3.70	.88	

It will be seen that of the borrowers 64·18 per cent. were cultivators, 14·63 traders, and 21·19 were "others." Of loans below Rs. 20 no less than 41·67 per cent. paid less than 12 per cent. and 29·94 between 12 and 18½ per cent.: in other words seven-tenths of the loans bore interest at between 6 and 18½ per cent., while about two-tenths paid interest above 18½ and below 37½ per cent. As expected, loans above Rs. 20 and below Rs. 50 paid somewhat lower interest, 82·58 per cent. or above eight-tenths bearing interest between 6 and 18½ per cent., and only 12·67 per cent. or one-eighth paying between 18½ and 37½ per cent. These figures, though they show high interest, do not display that gross usury of which so much is heard, and it is to be remembered that they are in no way selected cases, but claims made all over the presidency in the ordinary course of business, and taken simply in the order in which they were recorded. They differ very widely from the results of many money-lenders' suits as published in the English newspapers, and as recorded in certain recent articles (1894) in the *Pall Mall Gazette* and in the *New Ireland Review* (July 1894), and in many periodicals, reports and works relating to the European money-lender, where interest at 200, 500, 750, 1,200 and even 2,000 per cent. is spoken of, while the shopkeeper in his capacity as supplier *plus* lender is represented as charging immense credit prices upon goods often poor and adulterated, with excessive interest upon the unpaid accounts.

Nevertheless the rates in the tables taken as instances of the general rates of the presidency are far too high; it is impossible that ryots can thrive with credit at such prices, even assuming that the transactions are all fair and open, which unfortunately is not the case.

For a presidency with a highly-civilized administration, a stable and equitable Government, an internal peace practically unbroken in the century, communications of all classes—railways, roads, postal and telegraphic—fairly good and far better than those of Europe generally forty years ago, and than in many parts to this day, a settled law and good courts, a peaceable, steady, and orderly population, a large external and internal trade, a mercantile class of all nations nowhere surpassed, a surviving municipal or communal life of no mean stability, why is it that credit is in so rudimentary a stage and why are rates so disproportionate both to the settled condition of the country and to its needs?

The latter question must probably be answered by the former; rates are unduly high because there is no real banking system; money-lending is not banking, and the indigenous system of bills (hoondies) is not credit but mere mercantile exchange; hence credit is based not upon the rates of the Indian market merely, but upon those rates, *plus* the influence of custom, monopoly, opportunity, the stint of capital due to the absence of the deposit-collecting function of banks, and the risk and trouble of making, booking and collecting small loans. But experience, as noted in these studies (*see* especially the results of the Italian Wollemborg Loan societies) shows that local banks can lend at 6 per cent. where the local charge of the usurer is 60.

On the rates themselves in the first table many explanations are needed: (1) bonds generally contain penal clauses, stipulating for additional and heavy rates in case of default, and for interest upon interest; (2) these documents, especially mortgages, generally represent not a mere individual transaction, but the result of a series, of which previous interest and compound interest are large and often chief factors; (3) discount or commission is frequently deducted in addition to the interest expressed; (4) the interest is often deducted in advance to the advantage of the lender; (5) under the 'Kanthu' system greatly in vogue in some districts, *e.g.*, Salem, the interest for the full period on the full sum is deducted in advance or a premium is added, while the debt is repayable by instalments, usually monthly over ten months, no counter-interest being allowed; in this way 10 per cent. nominal approaches 20 per cent. actual. The variations in this system are, of course, numerous; the instalments may be daily over 300 days or monthly over three or four months; *e.g.*, Rs. 20 are borrowed, 4 added as premium, and the whole made payable in four monthly instalments, a very handsome rate of interest; (6) the amount is frequently overstated; (7) there are numerous unexpressed services and dues which custom requires of the debtor; *e.g.*, presents of fodder, vegetables, delicacies, services in repair of tanks, &c., services in faction disputes and in the giving of evidence.

On payments in produce it is noteworthy that 25 per cent. is the regular, almost universal, addition demanded; it is true that harvest prices are cheaper than those of seed time as regards food crops, but, *per contra*, the loan is only for six months, while, as a matter of fact, the lender either stores the grain for a few months till the market is again high, or he lends it once more to the very same debtors. The fall in prices is not the only reason however for high rates; the reasons are (1) that grain sometimes deteriorates in keeping, (2) that the transactions are small, (3) that the lender, if not a co-ryot, must watch the borrower sharply and insist on payment at the threshing floor; if once removed the lender's troubles begin; (4) that the rate is a matter of custom, the origin of which is immemorial.

It is said that grain for seed is always repaid with larger interest amounting frequently to cent. per cent.; this is partly because seed grain is, or is supposed to be, of good quality, partly because the amount is small.

Again, while returns of food grains are moderately—so to say—in excess of the loan, those of special products are often ruinous; on the pretext of guarding against a fall, it is common in the cotton tracts of the south to lend Rs. 10 in November-January on condition of receiving a pothi of cotton at harvest in April-June; the pothi is never worth less than Rs. 15 and is often Rs. 18; hence the cotton ryot, a fairly prosperous peasant, whose crop very rarely fails, with his crop more-over usually in good progress, and settled by January at all events, with good cattle and valuable land as further securities, has to pay Rs. 5 to 8 for the use of Rs. 10, *i.e.*, 50 to 80 per cent. for six months, or 100 to 160 per annum. This is simply due to the middleman system which is a custom; the middleman may be another ryot or trader. In the jaggery tracts of Southern Tinnevely advances are made against jaggery on still higher terms, for the Shanars are ignorant and poor. It is perfectly clear that rates of interest have very little to do with market rates; they are the product of custom, monopoly, opportunity acting on ignorance and inability to combine.

In the matter of cattle credit the ryot is doubly hampered. First he buys young cattle at credit, *i.e.*, at very high prices; he has the liberty of paying by instalments, and he pays high for the privilege; if the cattle die he bears the loss of course. On the appointed dates the dealer's agent calls

for the money: the ryot is frequently behind hand; by custom he is then obliged to feed and shelter the agent till he can pay. Failing speedy payment a second agent is sent and perhaps a third, till the ryot in despair resorts to the local money-lender and raises a usurious loan to pay for animals bought on usurious credit. This practice obtains specially in the Ceded Districts, and the same is told of cloth traders in Chingleput and elsewhere. The coercive process is doubtless a modification of the old dharna system.

High rates are of course due partly to bad security, and to uncertainty of recovery; one reason at least why sowcars' charges are higher than those of ryots is that the money-lender is often resorted to only when village credit is insufficient and exhausted; another that it is often for unprofitable expenditure; another that a ryot is often ready to cheat an outside lender, whether Sircar or Sowcar, if he thinks he can do so, while the village system prevents his attempting it with co-villagers.

In the method of recovery it is notorious that the expenses of the courts and the chances of evasion, delay and bad debts are so considerable, that the lender is forced to discount these risks by a high insurance rate. There are many necessary expenses in going to court which cannot appear in the bill of costs, but which nevertheless must be paid for in time or money, while it is not uncommon for the ryot, especially under the ill advice of a low class of so-called pleaders to practise every evasion which may delay or reduce the lender's chance of recovery.

Size of loans.—This is extremely small as a rule; without going into details it is obvious that when 335,321 mortgages average Rs. 194 in individual amount, about half averaging Rs. 342, and the other half only Rs. 44, the loans are amongst the smallest in the world; allowing for the difference in the value of money they are very comparable with average loan values on rural mortgages in France as ascertained in 1841.

But these are all mortgages and teach very little as to the mass of ordinary credit. This is known to be in very petty sums or quantities, often only a few measures of grain, or a rupee or two at a time, the whole aggregating perhaps Rs. 20 or 30 in a season. The immense number of suits in the Village Courts of this presidency, averaging annually above 50,000 and all necessarily below Rs. 20 in amount, and the numerous similar suits in the Courts of District Munsifs, show the petty nature of much of the business; many of the suits are for sums of below Rs. 10. In this matter the table of about 3,000 small cause suits which will be found in this appendix may be consulted; many hundreds of those below Rs. 20 were for sums below Rs. 10. In fact, 59 per cent. of all the civil suits of this presidency, exclusive of those tried in Village Courts, and 69 per cent. inclusive of such suits, are below Rs. 50 in value, while no less than 45 per cent. inclusive of those in Village Courts are for sums below Rs. 20 inclusive of the interest due. Taking four Nidhis of the Ceded Districts, partly urban, partly rural, as examples, it is found that out of 1,332 loans on simple bonds or promissory notes, 61 were for sums below Rs. 10, 236 between Rs. 10 and Rs. 25, and 453 between Rs. 25 and 50; more than half, therefore, were for sums of Rs. 50 or under, altogether irrespective of the numerous small lot loans usually of Rs. 5 or Rs. 10. Remembering that it is not generally the poorest classes that join these Nidhis, the extreme smallness of the mass of rural loans may be gauged.

Periods of the loans.—This is a most important item in considering the effect of loans; mortgages upon demand or for short terms are or may be real engines of oppression; they must be frequently renewed, where the cost of stamps, writing fees, witnesses, registration, &c., comes to a very large sum, while they can be used to coerce the debtor into signing any terms on the conclusion of every period. It is moreover absurd to expect any loan, even for land improvement or purchase of cattle, to replace itself in one or two years. Hence when it is seen from the table of registration statistics in this appendix that the bulk of all registered loans, whether mortgage or simple, either on demand or for periods of one year or less, the significance of the fact to the borrower will be appreciated. In Tinnevely nearly 9 per cent. of the mortgages, especially the small ones, are for periods of six months and less, and nearly 56 per cent. are for periods of from six months to one year; hence two-thirds of all mortgages are for less than one year. In South Arcot nearly three-tenths (28½ per cent.) of the mortgages are on demand; in North Arcot four-tenths, in Nellore seven-tenths, in Bellary eight-tenths, while these figures should probably be increased by adding in those for which no term is mentioned. The average term for mortgages without possession is about two years, and with possession about five years.

All ordinary village credit is for a term not exceeding one year, all grain loans being understood to be for six months, or the full length of a crop season.

Results.—Whatever the differences in opinion of correspondents as to the exact rates charged, there is none that the results of borrowing are generally of little profit though doubtless of supreme importance to the borrower. Probably this does not apply to the numerous small transactions between ryot and ryot, to the borrowing of seed grain, and so on, though even here accommodation is heavily paid for; but in general it is meant that terms are so high that once in debt a man seldom thoroughly extricates himself; so large a share of produce goes to the lender, so frequent are short crops on unimproved land, hastily and poorly cultivated, that even without actual usury, once in debt, always in debt, is the rule; the beginning of borrowing is like the letting out of water, and a mortgage is generally the beginning of the end of the ryot's freedom. The general state of indebtedness will be discussed hereafter more fully, but the above description of the credit systems of Madras shows that it is impossible to gauge that indebtedness or the extent of annual borrowing with any certainty. There are millions of annual transactions of which the registration statistics contain no record, which in fact are evidenced by no document, or at best by an illegal (unstamped) chit, or by a mere entry in accounts which, owing to the want of legal provision for supervision, are absolutely unchecked. It is also clear that there is in the villages a vast amount of trust—both confidence and credit; it is an imperfect form and cannot supply the greater needs of agriculture and development, but suggests a hopeful future, promising the possibility of Rural credit and Agricultural associations.

Correspondents paint the social results of money-lending in very dark colours; greedy, unscrupulous, fraudulent, powerful, the money-lender is said to work deliberately to get the ryot into his power, to tempt him to borrow, to avoid him when he is ready to pay, to press him when he is in need, to exploit him in every way; when in his power the ryot is his slave and must keep him in good humour; he has to cultivate the products required by the mortgages on the latter's own terms; he

has to give services of all sorts including those of false evidence if necessary. This is borne out as regards some localities by experience; some of the black cotton soil villages of Anantapur were in a chronic state of riot and unrest owing to the harassment of the ryots, and their resentment at the usurer whose strong tower-like houses are common features in a village; the wet lands under the splendid tanks of the district were in some cases entirely in foreign usurers' hands, and so late as 1888 one of the chief money-lenders of the district was murdered by debtors in open day on the highway. There are, moreover, tracts in Tamil districts where money-lenders abound, and where they certainly have been local masters of the country side; they have been known to compel labour, to turn out the ryots *en masse* for the duties of the corvée, to hold regular courts (kúttam) for the punishment of the refractory, and as one himself is alleged to have said in a complaint of extortion and torture by an illegal kúttam, to conduct affairs "in the good old Carnatic fashion." Much of what is alleged is confirmed by the exact parallel found in Europe, where a change of name would equally describe an Indian scene.

But whether the clutch of the money-lender is as universal or even general as it is undoubtedly close, is a different question. Observers are apt to apply to the mass the cases, necessarily few, which come under their own observation, and which are the more distressing and exciting as they generally relate to friends, acquaintances, or dependants, or are the more noticeable because they happen to be, or by reason of partiality appear to be, extremely inequitable; exceptional cases the more prominent just because they are exceptional, are taken as examples of general practice, and usury "à la petite semaine" as practised against men of little status, property or credit, is quoted or accepted as typical of money-lending in general. For instance, some of the most indignant remarks as to the money-lender have been received from the Ceded Districts, but they have usually been from correspondents whose immediate dealings were almost entirely with the poorer classes rather than with the general mass of ryots. Usury there is both severe and frequent, but the mass of the ryots are not so dependent on, or exploited by the usurer as is supposed.

For example, the mortgage is the culminating form of credit by the usurer, and the following table for 1890-91 shows that, compared with population, the number of mortgages in the Ceded Districts is insignificant. Much usurious credit is practised without recourse to mortgages, but no ryot is hopelessly involved, whose land is not yet encumbered, provided the land is or can be made worth anything; much of the land in the Ceded Districts is very valuable by nature, position and produce, and the mortgage condition of the districts discloses no great number or amount of encumbrances. In fact many bonds in Anantapur, as examined for income-tax purposes, bear only 6 to 9 per cent. interest, and several money-lenders boast that neither they nor their fathers have ever been in court; they prefer to keep money idle rather than lend on bad security. Here again is proof that the development of security by association is a necessary preliminary to sound and abundant credit:—

District.	Population in 1891.	All mortgages, with and without possession.	Percentage of population to that of presidency.	Percentage of mortgages to those of presidency.
Ceded Districts (Kurnool, Cuddapah, Bellary and Anantapur)	3,695,000	10,580	10.3	3.15
Whole presidency	35,606,000	335,321		

Hence one-tenth of the population of the presidency has less than one-thirtieth of the mortgages. It is noteworthy that annual presidency mortgages number only about 1 per cent. of the population; taking the average term as three years, this means that about 3 per cent. of the families, or, say, 15 per cent. of the total population, have entered into mortgage debts, so that, allowing for numerous urban and house mortgages, rural property is not heavily involved. Moreover the tables of rates given above show that the general debt, whether mortgage or personal, while bearing heavy interest, is not so cruelly usurious as is supposed by many who notice occasional, but, over the whole presidency, too numerous cases of grossly usurious contracts and entanglements.

The results of the credit system in the matter of indebtedness will now be discussed.

Indebtedness in the Madras Presidency.—The indebtedness of the Madras Presidency is a subject on which little is known. Some believe it to be overwhelming, applying, possibly, their reading of Deccan and other difficulties, cases which have come under their own observation, or their knowledge of special localities, to the general mass of the presidency; others regard it as a very moderate, if not decreasing burden. The following paragraphs will deal with such data as are available.

In the first place there are the statistics of the Registration offices; the following table gives details of the transactions in immovable property in this presidency:—

Year.	Sale or exchange.				Mortgages.			
	Rs. 100 and upwards.		Below Rs. 100.		Rs. 100 and upwards.		Below Rs. 100.	
	No.	Value.	No.	Value.	No.	Value.	No.	Value.
1889-90	95,434	Rs. 3,48,19,491	125,720	Rs. 53,59,391	155,967	Rs. 5,15,14,356	155,296	Rs. 67,01,384
1890-91	101,185	3,65,98,176	129,604	55,09,788	168,983	5,77,73,728	166,338	72,72,228
Average value, 1890-91 ... ..	...	361	...	42	...	342	...	44

The average value of all sales in 1890-91 was Rs. 182 and of mortgages Rs. 194.

Of the 335,321 mortgages for 1890-91 (other years are in similar proportion), 101,850 were with possession. In the Tamil districts this is interpreted to mean that the mortgages are chiefly between ryot and ryot; the money-lenders, it is said, do not much care for this class. In the Ceded Districts, as in the Deccan, this does not hold good, but then there were in the Ceded Districts (Kurnool, Cuddapah, Bellary and Anantapur) only 2,922 of this class or $\frac{1}{3}$ of the total. Mortgages with possession are usually for longer terms than simple mortgages; slightly over half are for five years or less; about $\frac{1}{3}$ are for twelve years and upwards.

The simple mortgages in 1890-91 were 233,471. These are, in most cases, of very short duration; excluding those without term expressed, there were 184,114, of which 88,769, i.e., about $\frac{1}{2}$ or nearly half were of one year or less; 123,786 or about $\frac{1}{3}$ were of two years and less; 149,904 or nearly $\frac{1}{2}$ were of three years or less.

The meaning of these figures and their bearing on Madras indebtedness will now be examined. If the average duration of mortgages with possession taken as one lakh, be taken as five years, and that of simple mortgages taken as two lakhs as two years, the average duration of all mortgages will be about three years.

Now the value of all mortgages in 1891 was just $6\frac{1}{2}$ crores; hence the total registered mortgage debt of the presidency existing at the time would be something like $6\frac{1}{2} \times 3 = 19\frac{1}{2}$ crores. It will not be far out, speaking roughly, if the existing Madras registered mortgage debt be put down at 20 crores. No figures are available to show how much of this is urban, but, as the Madras town mortgages alone were 30 lakhs in 1891, and mortgages are very frequent in towns, probably the rural land mortgages are not more than 18 or 19 crores.

The following table gives more accurate figures for 1889-90 and 1890-91; the number of mortgages divided according to term (*see* later on in this appendix) has been procured, mortgages being entered in separate columns "under one year," "between one and two years" and so on up to "12 and over." Hence it is only necessary to multiply the number in each column by the number of years at the head of the column and to add the results, to obtain the probable number of existing mortgages; on multiplying their products again by the known average value of mortgages, the product will be the gross mortgage debt of the country. There are, however, several difficulties: (1) the number of mortgages paid off before due date is unknown; this is always considerable, and should *pro tanto* reduce the number; (2) the exact mean duration under each column is uncertain; e.g., between two and three years, the bulk may be of two years, or of two and-a-half or of three years; the number of items is, of course, immensely altered, according as the smaller or the larger multiplier is taken. Accordingly the minimum, viz., the figures arrived at by taking the smaller, and the maximum, viz., that found by using the larger multiplier, are both entered. Those again of above twelve years have been multiplied by 12 and 20 to find the minimum and maximum respectively. Again mortgages without term are numerous; for them the mean number of years belonging to that class of mortgage (simple or with possession) has been used.

The result is that the minimum number of existing mortgages is 907,805, and the maximum 1,300,386, both however subject to a deduction for mortgages paid off before due date. Multiplying these figures by the mean value for five years of each group (Rs. 326 for mortgages of Rs. 100 and upwards, and Rs. 44 for smaller mortgages), the minimum mortgage debt is Rs. 16,93,03,588, and the maximum Rs. 24,50,08,116, both subject to the above deduction. The means of the two sets of figures are 1,104,095 and Rs. 20,71,55,852 respectively. Hence 21 crores is about the total probable value of the 11 lakhs of mortgages now in existence, subject however to the deduction above noted:—

Nature of mortgages.	Number of existing mortgages of Rs. 100 and upwards.		Number of existing mortgages below Rs. 100.		Indebtedness involved in mortgage of Rs. 100 and upwards.		Indebtedness involved in mortgage below Rs. 100.		Total indebtedness by mortgage.	
	Min.	Max.	Min.	Max.	Min.	Max.	Min.	Max.	Min.	Max.
Simple	225,781	351,389	159,487	252,310	Rs. 14,95,44,024	Rs. 21,70,91,376	Rs. 1,97,69,664	Rs. 2,79,16,840	Rs. 16,93,03,588	Rs. 24,50,08,116
With possession	232,993	314,537	289,594	382,150						
Total	458,774	665,926	449,081	634,460						
Mean	...	...	...	...	18,33,17,950		2,38,37,902		20,71,55,852	

Now in this presidency in 1893-94 there were in actual occupation, for Government and Inam lands only, 29,597,272 acres of land, including 5,185,972 of fallow under puttah. The exact area of zemindari lands under occupation is not known, but is something above 8,000,000 acres; on the whole about 38,000,000 acres are under holding. Of this, at least, 8,000,000 acres are irrigable, including about $1\frac{1}{2}$ million acres under wells, for in 1893-94, 5,912,249 acres were actually irrigated in Government and Inam lands alone. The value of the irrigable lands cannot be less than Rs. 200 per acre or 160 crores, while 30,000,000 acres of dry lands at an average of Rs. 15 per acre are worth at least 45 crores. The above rough figures do not include the value of nearly half a million wells, a vast number of private channels and tanks, and numerous buildings both for residence and for the farms; altogether the real estate of the rural tracts, exclusive of town lots and buildings, cannot be

less than 220 crores. Hence a total existing rural mortgage debt of from 18 to 20 crores is heavy, but in no way alarmingly so.

This result renders the aspect of Madras mortgage debt rather less formidable than a casual glance at the totals would suggest. Those acquainted with European mortgages, especially on the continent, where the Land banks have accustomed people to forty and fifty year terms, would consider an annual mortgage debt of 6½ crores in 335,000 loans as overwhelming, incorrectly supposing it to represent about 130 crores at an average of perhaps twenty years per mortgage, since in Europe such a term would be moderate; the loans of the Crédit Foncier of France are for much longer terms, as also those of all Land banks. In some countries, *e.g.*, Switzerland, Denmark and Sweden, the known mortgage indebtedness is 40 per cent. of the capital value; in France it is at least £660,000,000 plus £30,000,000 owed to the Crédit Foncier alone; in Prussia the total is stated (1894) at about £500,000,000 on landed estates and peasant holdings with an increase in the last seven years of £45,000,000; the total for Germany is probably much above 600 million sterling. Allowing that money in Madras is five times dearer than in continental Europe, the Madras debt of, say, 21 crores would represent a European debt equivalent to £105,000,000 sterling, for a population not much less than that of France which has £660,000,000. In Switzerland the canton of Berne, much spoken of in the matter of banks, has a gross population of 536,769 including the district of the Jura; its mortgage debt in 1886, exclusive of the Jura, was £16,000,000 (round figures) not far short of the total Madras debt; if Berne had the population of Madras, its mortgage debt would be above 1,070 crores, or ten times the Madras debt, taken, for comparative purposes only, owing to the different value of money, as 105 crores. These figures are given not to minimize the gravity of Madras indebtedness, but to give a dry view of its position; in order to advocate reform, it is unnecessary, if not unwise, to take an alarmist view of affairs.

Madras resembles Switzerland in the nature, though not in the amount of its mortgages. It has been elsewhere shown that in Switzerland mortgages are much resorted to even for very small loans and of very short term, such as would elsewhere be effected by personal credit; this is owing to the proximity of banks and good mortgage laws and cheap fees. In Madras the bulk of the mortgages are similarly for very short terms, and for very petty sums; they are, in the southern districts, largely resorted to for securing simply current transactions, and are not necessarily the evidence or result of prior debt or serious entanglement. Here again there is cause for regarding Madras mortgages less seriously than first views would suggest.

But it must be stated *per contra*, that these Madras mortgages disclose a most imperfect credit organization and extremely costly methods; they are not the result as in Switzerland, of very low stamp and registration fees, and of universal banking; on the contrary, they are the result of the absence of banking, so that men requiring 50 rupee loans have to give property as a guarantee, with the heavy resulting charges of stamp duty, registration fees, witness dues, batta, &c.; mortgages are unnecessarily expensive and cumbrous. It is to be borne in mind that 166,338 of these were for sums averaging Rs. 44, on which the above charges, wholly exclusive of interest, commission, and loss of the borrower's own time, could hardly be less than Rs. 3 or 4 (stamp duty, writing fee, registration charges, witness fees for bond and batta for journey to registration office, &c.).

As regards the smallness of transactions; in 1890-91 just half were for Rs. 44 each; the other half average Rs. 342; the average of all is Rs. 194. Here then is the measure of the transactions which the banks will have to undertake, and here is the crux of the problem; how can banks afford to take up rural credit business when the average of the larger transactions is only Rs. 342, of one-half only Rs. 44, and of all only Rs. 194? And if this is the average of the mortgage business, usually the most important as to individual size in a country of small proprietors, what must be the average of the immense amount of business unsecured by mortgages, which banks, to be successful, must equally undertake? Can any Central bank or any bank, working by paid branches or agencies, either make a profit out of such small business or manage to issue such small loans at rates,—considering the cost of enquiries, &c.,—which shall attract a clientèle?

Again, these mortgages show a rapid increase; in 1886-87, ten years after the new law came into force, mortgages numbered 258,122; in 1892-93 they numbered 400,235, or an increase of 55 per cent. Moreover this was not seriously due to the law granting priority to registered documents of less value than Rs. 100, for the increase in documents above that value which were always compulsorily registrable has practically kept pace with that of investments below Rs. 100; the following table gives the figures, the increase being steady and continuous:—

Year.	Mortgages of Rs. 100 and upwards.		Mortgages below Rs. 100.	
	No.	Percentage of increase.	No.	Percentage of increase.
1886-87	130,026	...	128,096	...
1892-93	200,628	54.3	199,607	55.8

More perfect and popular registration accounts for much of this, but not for all; nor does it appear from the statistics compared with the seasons that prosperity can be claimed as the cause of increase.

The term of the mortgages is usually short; in simple mortgages where the term is mentioned, about ¼ are of one year or less, nearly ½ are under two years, and nearly ¾ below three years; the proportion is even larger if mortgages without term are counted as averaging two to three years. "With possession" the average period is about five years, ½ being of five years and less, ¼ above five years.

Now the number of holdings of Government land in the presidency is about 2,850,000 with 4,600,000 ryots, to whom about one-third more should be added for zemindari ryots. Hence there are

about 3,800,000 holdings with, perhaps, 6,000,000 holders in them. Inam holdings are excluded, for, unless enfranchised, they can seldom be mortgaged; it is probable, too, that in the northern zemindaris, comparatively few mortgages take place, owing to the views there subsisting as to tenure; moreover since an immense mass of land now in occupation in small holdings at from 4 to 8 annas per acre is so wretched and unimproved as not to have any sale or mortgage value, the actual mortgageable or valuable land is far smaller than the holdings indicate. Hence, a burden of 1,104,095 mortgages, valued at 21 crores on the above number of holdings, is a serious, though not necessarily alarming, feature, and as the whole urban debt is also included in the above totals, the rural debt is *pro tanto* reduced. For 7,000,000 families it means Rs. 30 per family; more probably it means an average mortgage debt of Rs. 190 to 1,100,000 families or perhaps one-fourth of the puttah holding families. At 12 per cent. on 21 crores, the annual interest payable is 2½ crores, to which must be added 30 lakhs for other charges for stamps, &c., at, say, 5 per cent. on an annual 6 crores, in addition to the cost of receipts, discharges, &c., on an annual repayment of 6 crores. Altogether the mortgage debt cannot cost the population less than about 3 crores annually, and it is probably considerably more costly, since the interest on small loans is often much higher than 12 per cent., while unpunctuality, a very frequent fault, always entails penal interest. If to these charges again we add the immense cost of litigation, not merely that which comes to suit in the regular courts, but that in which only preliminary steps are taken, and that which forms the subject of prior arbitration, &c., it is clear that this debt is no light burden on the resources of the people.

Finally, the shortness of the mortgage period is a serious matter. Assuming the most favourable case, viz., that the mortgages under one year are paid off at each harvest, being really loans for current expenditure such as ought to be based on personal credit, the mass which remains is probably a real encumbrance, the result of prior debts. Now, granting again the most favourable assumption (an utterly untrue and absurd one) that all these mortgages were raised for improvements and giving the word "improvement" its widest sense, how is it possible that the mortgagors can hope to improve their position by such short term mortgages? In improvements capital is permanently sunk and can only be recovered from the profits arising from the improvements; what improvement is there which will enable capital to be restored in two, five, seven or ten years, with the addition of interest at not less than 9 to 12 per cent. exclusive of all penalties for short payments and delays? If, however, the money was not wholly spent on improvements, but was largely the result of prior debts for maintenance, for social expenditure, litigation, payment of assessment, rent, &c., how much less can the mortgage be paid off in a short time? We arrive then at the result that much of this mortgage debt means simply more mortgages, deeper entanglement and finally expropriation. Also at the conclusion that the mortgage system needs reform, so that mortgages for very long term may be possible, and thus give ryots a chance both of making improvements and of redeeming their debt.

So far only registered mortgage debt has been dealt with. It is not probable that much mortgage debt exists unregistered, and the figures given may fairly be held to include the whole class. But as regards all other debt, there are absolutely no data. The few bonds registered are nothing; the immense mass of debt on pledge and personal credit cannot be known. Expert opinion, expressly consulted for this report, considers that perhaps three-fourths of the rural population borrow, during the crop season for maintenance, seed or other necessities, either grain or money, but chiefly the former at, perhaps, Rs. 15 or 20 per family per season, the invariable rate for grain loans being a 25 per cent. addition on repayment at harvest. It can hardly be more than this, for an immense number need no loans but lend to others, and as the loans are in grain and are the supplementary rather than the sole means of livelihood, Rs. 20 are probably a sufficient estimate; the records of many suits show borrowings much smaller than the above, suits for Rs. 6, 10 or 15 or the value in grain, being common. In the Anantapur district 1,000 or 1,200 seers (2 lbs.) of grain worth Rs. 30 or 36 are said to be an ordinary borrowing for a ryot family of ten persons for six months; in addition to this, an immense number whether ryots, labourers, village and other artisans, small shopkeepers and traders, borrow cash for which however there are no trustworthy data, for though the amount due in a village may be approximately arrived at, it is impossible to say how much of the total is an annual borrowing or is merely the amount outstanding on the annual balancing of accounts. If two-thirds of the total population live, cultivate, &c., or half the year on borrowed money at Rs. 20 for the whole six months per family of five, nearly 10 crores of rupees would be required. To this must be added probably 15 crores for outstanding non-mortgage cash debts; in a large number of Anantapur villages such debt on simple bonds, promissory notes or account entries, was found to average several rupees per head of the population. In this district mortgages are rare, and it is probable that these non-mortgage debts are, in other districts, such as Tinnevely, largely represented by the immense number of small short term mortgages there found. Nevertheless there must be a vast amount of non-mortgage cash debt, especially in populous districts; at Rs. 4 per head this would equal 14 crores. This does not mean 14 crores annually borrowed, but 14 crores as the total of non-mortgage cash debts outstanding from year to year, and probably does not represent more than half that sum annually borrowed. Hence, grain and non-mortgage cash debts together probably amount to at least 25 crores outstanding in any given year at the beginning of harvest, or 18 crores annually borrowed in this form, at from 12 to 24 per cent. This cannot be an exaggeration when the immense mass of advances against special products, of grants for maintenance, of loans for cattle, seed, and manure, of sums paid for revenue and rent, for social ceremonies, litigation, &c., and of mere shop purchases on credit is considered; probably it is understated. In the Punjab and Bombay it was estimated that only about 25 per cent. of the ryots were free from debt; that 50 per cent. were moderately in debt and 25 per cent. were deeply if not hopelessly involved. Hence in Madras, considering that the rural annual produce of the presidency is certainly not worth less than 60 crores, it is a low estimate to place the annual rural borrowings outside of mortgages at from 15 to 20 crores.

Hence it must be concluded that the total existing mortgage debt of this presidency is about 21 crores, that the present annual amount averages about 7 crores, and in rural tracts probably about 6 crores, that the annual total borrowings—mortgages, simple debts and grain—calculated, or rather guessed at in the roughest way, must be about 25 crores. Again, adding the total existing mofussil mortgages of 20 crores to the total of borrowings on personal credit of, say, 25 crores, the mofussil

population generally is in debt, exclusive probably of trading debts by shopkeepers, merchants, &c., to the amount, at the beginning of any harvest, of about 45 crores. If the average interest on this be taken as 15 per cent.—an assumption assuredly not too high considering the rates on registered mortgages below Rs. 100, grain debts, sums claimed in small cause suits, &c.,—rural Madras pays at least 6½ crores annually as bare interest, and more probably 8 crores at an average of 18 per cent. If to this are added all extra charges for stamps, registration, fees, commission, brokerage, penal interest for unpunctuality, costs in litigation and arbitration,—the mere costs awarded in a series of small cause suits averaged 22 per cent. of the sums claimed—, it is certain that the annual cost of its borrowings to rural Madras is from 8 to 10 crores at least, or, in other words, at the mean of 9 crores, 15 per cent. of the gross annual rural produce, taken as 60 crores.

This is the field for banks to occupy as regards present borrowings only; since however it is a postulate that one chief function of banks is to develop credit, so that the much-needed capital may be supplied to industry in general and agriculture in particular, it follows that this field may be indefinitely extended, while the cost of the individual transactions to the ryot is decreased.

The indebtedness of the ryot is no new thing; Munro in Madras and Elphinstone in Bombay showed, at the beginning of the century, how utterly sunk in debt the ryot was; nearly all the ryots, said they, depended on the money-lender for maintenance from crop to crop; the whole of the surplus produce went to the money-lender as payment of interest; as for the payment of the principal, it never entered their heads. But it was the produce and not the land that was the money-lender's security; immovable property was not sold for debt, and individual debt was therefore moderate in actual amount. As soon, however, as proprietary right was fully acknowledged, and prices rose while assessments sank, the burden of mortgage debt rapidly increased in amount. The following were alleged by the Deccan Riots Commissioners as the chief causes of agriculturists' indebtedness:—

- (1) Poverty with unproductive soil, precarious climate, and irregularity of income;
- (2) Ignorance and improvidence;
- (3) Extravagance;
- (4) Ancestral debt;
- (5) Expansion of credit;
- (6) Increase of population without corresponding increase of return from land;
- (7) Facilities for borrowing owing to influx of money-lenders;
- (8) The Limitation Law as leading to renewals on usurious terms, including compound interest;
- (9) The Revenue system of a fixed demand.

These reasons apply more or less forcibly to the state of Madras; on cause (6), it may be said that the produce of land, acre for acre, is possibly diminishing, partly from the exhaustive nature of the cropping due to the pressure of population, partly and perhaps chiefly, from the arid, shallow and utterly unimproved areas necessarily taken into modern cultivation. Cause (9) is of less importance in Madras than elsewhere, since very considerable annual remissions have always been given, especially in bad years, but, until lately, the kistbandi has often been too early as compared with harvest time and the marketing of the produce.

The same Commission found that the ryot class was deeply in debt, and that nearly two-thirds of the debt was secured by mortgage of the land. The usual dealings of the ryot with the sowcar were by a species of account-current, the sowcar finding cash for the ryot's needs and the latter handing over his crop at harvest. When the debt, in the usual way, became larger than the ryot's personal security warranted, his house, stock, &c., would first be mortgaged, and finally his land. The rate of interest on perfectly good landed security was commonly 18 per cent., and as the ryot's net profit was never so much as that, he could never pay off the debt, the load of which steadily grew, resulting in the serfage of the ryot, sometimes in actual slavery; many ryots were under bond to serve the sowcar, then wages being annually credited to their debts; sometimes the wife's labour was also included. The ryot was constantly in need of aid, and as the sowcar was "sharp in business, and fully understands the weak side of the Kunbi (ryot) and the urgency of his necessities," there could be but one result to the transactions. The Commission added another reason for indebtedness, viz., the facilities given to the creditor in the recovery of debt, so that they could afford to give, or rather it was their interest to give, very large credit to all classes of ryots, who thus fell into their power. It will be observed that the Commission noticed the tendency of the ryot to encumber himself when credit becomes facile without being safe. That is the experience of Europe even when, perhaps especially when, very cheap and ready credit has been extended to the peasantry by banks.

Happily, there has been no occasion in this presidency for a Commission based on acts of overt hostility between lender and borrower, nor are any precise and authoritative data available as regards debt in the presidency. But from the figures given above, it is clear that the load of debt borne by the Madras ryot is heavy, that its interest is high, and that it has been incurred with but a minimum result in profit.

To the above must be added the testimony procured for the purposes of this report. The actual indebtedness of the ryot was a question somewhat outside its scope, but an enquiry into credit necessarily touched upon indebtedness. Without supposing that the ryots generally are so badly in debt as believed by many, who are apt to treat exceptionally bad cases as examples of indebtedness and usury generally, there is ample proof of much indebtedness, and of gross abuse of monopoly and opportunity. Those who mix most with the poorer classes of ryots and labourers, those who note the indebted condition of the larger landholders, especially among those who do not themselves cultivate, are unanimous in asserting the existence not merely of indebtedness, but of very general habits of living on credit, of borrowing far too readily, and paying back far too unsteadily; of heavy interest amounting, in many cases, to deliberate, calculated usury; of grievous results in the impoverishment of borrowers due to want of forethought and unthrift on the one side and to unscrupulous exploitation on the other; of a tendency to mortgage any increment of gain such as that arising from the rise in land values, and of a tendency to spend disproportionate sums unproductively; of an absence of improvements or even of a desire for them. In fact the impression given is not so much of unscrupulous oppression on the part of money-lenders as of want of business education on the part of the borrowers;

the want of an education which shall lead the ryot to restrain his tendency to borrow, which shall lead him to calculate the result of expenditure whether on improvements or otherwise, which shall enable him to combine both for the formation of capital, and for its right and equitable distribution. It is true that the money-lender, whether ryot or sowcar, is described as the absolute master of his clients, as tyrannical, hard, grasping, as obtaining and using his influence for base ends whether of village faction or of intrigue in the courts and offices: this is the natural result of the relationship in backward countries; the debtor has always given hostages to the lender who is but too apt, should occasion arise, to use or abuse his opportunities. But in admitting that the position is open to grave abuse, it must be remembered that the gross cases attract attention, while the ten thousand ordinary ones are unnoticed.

On the whole, indebtedness is general and its burden heavy; on individuals and on classes it is particularly so; the remedies lie in systematic and stimulative forms of banking which shall economically educate while assisting the ryot, and in the spread of general education of the ordinary sort with, as frequently advocated, special attention to the facts of rural economy.

CHAPTER III.—MADRAS LOAN SOCIETIES (FUNDS—NIDHIS).

These are numerous and some are permanent and well established. A few years ago there was a boom in these Funds, which started up by hundreds, perhaps several in a village, and perished as quickly as they rose. There are now about 135 in existence according to the lists of the Registrar of Joint Stock Companies, in whose office all must be registered.

The leading idea of these Nidhis is mutual credit; a certain number of men form a company under the Companies' Act and attract other members; these pay a monthly subscription for a given term; at the end of that term affairs are wound up and profits divided. Members may get loans from the society, repaying them with interest by monthly instalments. The idea is sound, but requires development; at present they are of very limited scope and fulfil merely the object of the similar class of Building societies of Great Britain and the United States, on the model of which, even to the verbal adoption of their rules, they have been founded. It is curious that these societies, as their history will show, might almost have been developed directly from indigenous practices, viz., from the Kuttu-chit system, a fact which forms a striking argument in favour of the suitability of the Fund system to the presidency, and gives promise of its great future development as a method of thrift and credit. The enormous development of the present system in England, and especially in the U.S.A., where it appears to be rivalling the Savings bank, is a proof of its general suitability to small folk, and it can probably be adapted to suit rural and agricultural needs. (For a description of the Building society system see 'Building societies' *supra*.)

History.—The Nidhis, as now found, originated in Madras, in the Fund called the Sudder Court Fund, open to officials only; it seems to have been started about the middle of the century. But the foundation principle, viz., that of association for mutual credit, is found in the indigenous 'Kuttu-chittu' system, which is universal throughout the presidency (see postscript to this chapter).

This latter system depends upon (1) association; (2) confidence; (3) honest dealing, and its universality speaks highly for the general honesty of Madras villagers, for the power of the village and caste system to prevent fraud, and for the possibility of a development in Madras, of European associations based upon similar principles. Briefly it is as follows: a number of men unite to subscribe periodically a small sum each; say 50 men agree to pay Re. 1 per month for fifty months; each month Rs. 50 are subscribed and lots are drawn for the total sum; the winning lot takes the pool; next month the same fifty subscribe, but in drawing for the pool, previous winners are excluded; this continues for the whole fifty months till each subscriber has received Rs. 50. This practice—a necessary system where there is no such thing as even a Savings bank, and where deliberate hoarding for many months or years, is a most difficult operation—gives men the use in lump of a considerable capital, repayable by small and easy instalments; it is most useful for building houses, starting a shop, buying a pair of cattle or piece of land, &c.; it is clearly the result of the village self-contained system in a country devoid of banks and communications, and where permanent emigration, even to other districts or villages was till of late, perfectly unknown. It is said that, whether from honesty or fear of the consequences, the system is never abused by winners prematurely withdrawing from subscription. It will be observed that there is nothing of a lottery in this proceeding; the element of chance appears only in the order in which the subscribers obtain the pool; every subscriber obtains it in turn; it is not a gambling transaction in which one person obtains a given sum by mere chance to the loss of others; it is no more a gamble than the drawings by which in England, as in Europe, it is decided what particular debentures shall be paid off.

A further development, however, is next found; the subscribing members, or more usually the promoters of the Fund, desire to obtain definite and increased profits for themselves, drawn from the need of the subscribers; instead, therefore, of drawing for the pool, it is put up to auction in lump or in lot; the lowest bidder takes the amount, that is, the one who bids the lowest sum below Rs. 50, say 40, obtains only that sum, but gives a chit or promissory note for Rs. 50; the difference, Rs. 10 is divided as profits among the other members. This is similar to the Building societies system where loans are knocked down at auction to the man who bids the highest interest or the largest premium; in both cases, it is apt to become an exploitation of need or of recklessness; the man most in need of money has to pay as high as possible for the accommodation. It has been common in India as elsewhere, to get up societies for the sole purpose of providing the promoters with a living; the so-called "directors" get together the subscribers, and withhold Rs. 2 in every 50 rupees as their own remuneration; these are not regular village or communal institutions but outside speculations; in some cases, the borrowers consequently defrauded the promoters by refusing payment, knowing perfectly well that it would not pay their creditors to sue them in Court, at a distance of perhaps 20 miles, for sums of only Rs. 20 or 25; hence the bankruptcy of some such Unions. These Unions are

useful and legitimate, but when they are not sustained by village authority, by the power which a local community or caste has over its individual members, they are very apt to fail, for human nature can seldom pass the chance of a good thing at another's expense if there is practically no risk (see also below *s.v.* 'Classes of Society').

The first Madras Fund (Nidhi) further developed the system; about 1850 certain Court and other employes discovered that they were being ruined by usurers, and determined to start a Fund to give persons of fixed income, a chance of borrowing at equitable rates. The model selected was the English Building society so called; why this particular class of society was adopted, or who suggested it, is not known, but it is clear from the rules and methods of the Nidhis, which reproduce, in many cases verbally, the rules and conditions of the English exemplars, that some keen-sighted man discovered the suitability of the Building society to presidency needs; possibly the original idea was actually to provide houses for subscribers. The first Fund was a 'Terminating' society with a seven years' period; each subscriber agreed to pay for eighty-four months, when the Fund would be wound up and shares repaid at Rs. 102½ per 84 received. From the collections loans were granted to members at 6½ per cent. interest with penalties for delay; the loans, repayable by the monthly subscriptions, were usually on mortgage, and the order of granting them was determined by lot; the cost of establishment was met from the penalties and from a charge for commission. Branches were subsequently started; these were found expensive and it was determined to make the Fund permanent, that is, a new series of subscribers were admitted and shares opened every year, and finally every month, so that there was a continuous influx and efflux of members and shares.

The Fund continued in much prosperity and favour till 1872, and many others were started in Madras in imitation of the original; some were genuine Mutual societies; some were for the benefit of the promoters and directors; some adopted the practice of selling their loans to the lowest bidder, so as to obtain high profits; some charged 10 or 15 per cent. or other high interest on their loans; as in the English Loan societies a sound principle was often abused for the sake of gain.

But about 1872 it was discovered that the societies were all illegal and had no civil status, not having been registered according to the Companies' Act which, though for many years in force, was unknown to the very companies which should have registered; it is a very peculiar fact that at the very head-quarters of trade, the existence of the Act under which companies were bound to exercise their trade was even unknown to them. The result of the High Court's judgment was the collapse of many societies; debtors knowing that the societies could not go into Court, refused to pay; and after registration the societies could not sue for acts done before registration, and the result of course was liquidation. Some were re-established and duly registered, but the loss to the various societies was calculated at 20 lakhs.

Other abuses also crept into certain societies; the energetic and honourable men who began the Nidhis died or retired, and in some cases were replaced by unscrupulous, incapable or negligent men; subscriptions were misappropriated: in one Fund many thousands of rupees of profits were devoted to the payment of handsome salaries to directors, promoters and staff; many bogus societies were started in Madras and in the mofussil for the sole purpose of enriching the promoters by sheer fraud; splendid promises were made and for a while fulfilled, till confidence produced large subscriptions when the "Fund" closed its doors; impossible profits such as 2 rupees for every rupee subscribed, were promised; these sham companies even got the nickname of 'Lubbuck' (literally, gulping or devouring) Funds, and were a disgrace to the community, and a source not merely of immediate loss, but of much subsequent distrust of Credit societies. The specific frauds or faults will be dealt with subsequently, in order to indicate the remedies; suffice it now to say that a large number were started and closed to the ruin of many investors. The following table gives particulars from 1872:—

Period.									Average number annually in existence.
1872-77 ..	..	..	..	..	..	..	..	..	37
1877-82 ..	..	..	..	..	..	..	..	..	68
1882-87 ..	..	..	..	..	..	..	..	..	157
1887-92 ..	..	..	..	..	..	..	..	..	186

In 1872 there were 20 Nidhis; 93 in 1882; 269 in 1886-87 and 135 in 1891-92. In the five years ending 1892 no less than 260 societies disappeared, 181 of which were in Madras town alone. Doubtless many of these were the irregular and often fraudulent Benefit and Insurance societies described in the papers read in Government Order, No. 3368, Judicial, of the 7th December 1885, where one person is mentioned as "director" of six Funds, though he had been "at least thrice punished for theft, misappropriation, &c."; another was a petition writer, and so on; these were started, received subscriptions, and disappeared, the "benefit" being only to the promoters.

For the present study the winding up reports of 70 regular loan Funds taken at random from the registrar's records have been analyzed; 42 fell because of the failure of subscribers, especially those who had borrowed, to pay their dues, probably owing to laxity and mismanagement; nine fell because of the misconduct or fraud of the secretary or other officers; nine simply decayed, getting no business; the rest from various causes, natural expiry being the reason in only three cases. Abuse of powers and embezzlement by the secretary, absolute negligence by directors of the rules of the society and of business methods, disregard by directors of the shareholders, the falsification of accounts and records, dishonest withholding of repayments by borrowers, and negligence in subscription by non-borrowing members, are the chief features of these reports.

The notorious case of a certain "Bank" quite recently started under most excellent auspices in Madras, is well known; the rules provided especially for audit, and yet the funds disappeared almost from the beginning; the resolutions of the general meetings and the petitions put into Court and the proceedings in Court disclose extraordinary laxity and negligence.

The history is very instructive; it shows that, in the infancy of a movement, the energy, devotion, zeal and honour of the early promoters may suffice to thoroughly establish a paying business on just and honourable principles; that success means ready imitation; that in the imitations and even in

the originals there is no intrinsic guarantee that the high principles of the original promoters will be sustained; that if the principle of "*laissez faire*" be allowed free course amidst a needy population, much too ignorant of business to be able to guard their own interests, that principle will be abused; that the mere fact of laws, even if suitable, being in existence, is insufficient, unless there is a specific authority whose special duty it is to work or supervise the working of those laws.

The above has been simply a sketch of the development of the Fund idea; as regards the Nidhis themselves, it is found that they have been promoted either by a philanthropic desire to relieve men from usury and provide a means of saving either for specific purposes such as marriages, house-building, &c., or for general thrift, or by a hope of obtaining profit for the promoters, or by a mixture of both expectations. Individual energy has always been the proximate cause; merchants, officials and vakeels have, in most cases, been the active promoters. Sometimes public meetings were called or printed notices issued, but generally it appears that the society developed by simple accretion, not—after the first effort—by an active in-gathering of members.

The history and general principles of these Nidhis having been given, it will be well to describe them further under the following heads, viz., (1) objects, (2) principles and constitution, (3) methods, (4) Government intervention, (5) results, (6) advantages, (7) defects, (8) difficulties.

OBJECTS.—These are described as the facilitation of savings, the relief of members from old debts, the deliverance of them from usury, the accumulation of a fund for special purposes, such as marriages, the grant of loans on good security for all purposes whether for domestic ceremonies or maintenance, for expenditure on jewellery, on house-building and repairs, on land, &c. Members alone are generally contemplated, but, in fact, surplus funds are frequently lent in small lots to outsiders at a somewhat increased rate of interest; in such cases the material security must be carefully looked to, since the society lacks that derived from a borrower's membership. An unexpressed object is also the provision of salaries or profits for the promoters, directors or officers; a perfectly legitimate object, but one that is apt to interfere with benefits to borrowers and members, and tends to departure from the strict rules of the society. The receipt of deposits is not usually a primary object; in some societies it is only of subsequent introduction; in hardly any has it obtained any considerable position. It will be seen that the scope of the societies is limited; they are not Banking societies so much as Mutual Loan societies, and they thus fail in one great function of banking, viz., the concentration of idle hoards for productive purposes.

PRINCIPLES AND CONSTITUTION—Classes of Society.—There are several classes of Funds; the regular permanent Nidhi described below *s.v.* 'Methods' and forming the general subject of this chapter; the terminating society, the Chit associations of various sorts, and the Benefit societies. Of the terminating societies there is one which is thoroughly rural; its promoters are village residents, none of whom knows English; its clients are largely agricultural; its original term was for seven years; on the expiry of which it was wound up with a net book profit of Rs. 2,400, of which seven-eighths would, when realized, go to the directors; about half was still outstanding. The society was re-started immediately on a much larger scale embracing distant villages, and is therefore likely to be largely defrauded or to lose heavily. The Chit associations calling themselves Nidhis vary in method; in one town the method is as follows: each 100 members form a class or group; those subscribe 1 rupee each per week; from this Rs. 100, Rs. 5 are deducted as commission to the directors, and the balance is put up to Dutch auction: the bids go as low as Rs. 74. The difference between Rs. 74 and Rs. 95 is divided among the 100 members of the class. The borrower executes a bond with sureties for the whole sum and repays it by the usual weekly subscription. No interest is charged, but the premium and commission amount to very heavy interest. In case of failure to repay a suit is filed; one of these Funds, started in 1890 at the head-quarters of a District Munsiff's Court, had, in less than three years, filed 150 suits; another started in 1891, had filed nineteen in twenty months (*see* postscript to this chapter). The Benefit societies are those which provide money for various domestic and social occurrences by means of subscribed shares; some are, or were, Insurance societies; these have mostly died out, and the so-called Insurance societies described in Government Order, No. 3308, Judicial, dated 7th December 1885, would never be tolerated under the control of a proper law. These societies do not come within the scope of the present study.

The central structure of an ordinary society is that of a terminating society consisting of a maximum number of shares which are paid up by regular monthly subscriptions and terminate with the period for which the society is founded. The society is wound up at the end of the given period, say, forty-five or eighty-four months approximately; each member takes one or more shares for which he pays at the rate of (say) 1 rupee per month; at the end of the period he will have paid up Rs. 45 or 84, and will be credited with this amount, *plus* profit; a share on which Rs. 84 have been paid in eighty-four monthly subscriptions is usually repaid at Rs. 102-8-0; the period may be a little less or a little more than the nominal, terminating whenever the shares reach the determined value. It is usual, however, now to make the societies "permanent"; that is, fresh series of shares are periodically and frequently issued, and it is these only and not the society which are wound up as each series matures, so that subscribers are continually coming in and going out; this prevents the accumulation of idle funds at a loss of interest as the termination of the period approaches, in order to pay off non-borrowing members, and also permits the entrance of members without the payment in lump of a serious and often prohibitory mass of back dues, it being only necessary to pay such as are due for the prior months of each particular series. It is, however, usually necessary, as each series approaches maturity, to attract deposits at perhaps 7½ per cent. per annum, in order to pay off matured shares: these deposits are then repaid from future subscriptions, to the detriment, however, of the lending power of the society.

All the societies are called "limited"; this word is frequently not even understood by the societies, which in many cases have explained that the word means limited to a certain number or to a certain value of shares. Since business is almost limited to the grant of well-secured loans to the maximum amount of the share values, there is no real risk to any member in a decently-managed society.

The essence of the society is mutuality; it is a group of men united to help one another by a common contribution of funds which are to be lent out to members only for their sole benefit; all profits derived from the transactions are to return to the members, so that all benefit: the non-borrowing

members by the receipt of profits, the borrowing members by the use of the loaned capital and by a portion of the profits which they have contributed to the society. That is the theory, and with the exception of the British Friendly societies, the British and American Building societies, of which the Madras Nidhi is a copy, and the Raiffeisen and Wollemborg Rural Credit Unions, there are no societies in the world more thoroughly co-operative in theory. It is, therefore, greatly to be regretted that, through want of guidance and explanation, through the total absence of any teaching in the idea and methods of co-operation, through the fact that the only societies available for imitation in this country are trading joint stock companies, through the *personnel* of many of the promoters and directors who are Madras business men, through the natural and in this case undiverted desire for gain, and lastly through the fact that the only law governing societies is a Commercial or Trading Company law, these essentially Co-operative societies have largely diverged, and are daily diverging more and more, in the path of mere trading societies. The same tendency is observed in the Schulze-Delitzsch societies in Germany, and the inference seems unavoidable that if profits, dividends, and large stipends or honoraria to directors and office-bearers are put forward as attractions to members and administrators, the effort after them will soon become dominant, and substitute the competitive struggle for the co-operative march.

METHODS.—Under this head will be described the general working of a regular Nidhi, its clientèle and administration, its funds, loans, &c.

Clientèle.—In most cases the Nidhis have been started in considerable towns, Trichinopoly, Coimbatore, Salem, Bellary, Tadpatri, &c., by the official, professional and trading classes; the main rule of the Nidhis, viz., the regular monthly payment, itself shows this. It is these classes who are most likely from their intelligence, knowledge and requirements to begin associations of this class. Accordingly it is found that the proportion of members of these classes is, up to date, altogether overwhelming; the following table for the thirteen Nidhis which alone have given information as requested, brings this out clearly:—

Nidhi.	Officials.	Professionals.	Merchants.	Shop-keepers.	Artisans.	Agriculturists.			Others.	Grand Total.
						Big.	Small.	Total.		
13 Mofussil ...	1,084	287	1,151	766	257	200	349	549	474	4,669
1 Madras ...	1,172	217	628	46	235	81	98	174	545	3,017
Total ...	2,256	504	1,779	812	492	281	442	723	1,019	7,686

In this table the principal and working profession of each member is given; e.g., a vakeel is a professional man even if he owns land; "merchants" include money-lenders and shopkeepers; "others" includes pensioners who are numerous. It will be seen that the four classes of officials, professional men (vakeels, schoolmasters, &c.); merchants and shopkeepers account for 5,351 out of 7,686 or nearly 70 per cent; even in the twelve mofussil Nidhis they are 3,288 out of 4,669 or slightly over 70 per cent.; agriculturists proper are only 723 or 9·4 per cent. It is clear, then, that the Nidhis of this presidency have so far reached only the official, professional, and trading classes of the towns with a few agriculturists, most of whom also live in the towns. However well adapted their general principles may be to the conditions of this presidency, or however capable of development, the Nidhis have not, during their forty years of existence and twenty years of extension, been able to provide the Madras ryot with any appreciable help.

As a rule there is no condition as to admission except nationality; most admit only caste Hindus, some (Madras town) only Europeans or Eurasians. There is but a single and that a *very small* Muhammadan Nidhi in the whole presidency, Madras city included, and the ordinary Hindu Nidhis do not admit Muhammadans, because of the difficulties arising out of the Muhammadan law of inheritance. Directors generally have power to refuse admission—a very necessary faculty—so as to keep out objectionable characters. There is no general condition, however, as to character, status, &c.; any man who is willing to abide by the rules, and pay his monthly quota regularly, is an eligible member. The responsibility of members is "limited" to the maximum value of their shares; in most Nidhis no single shareholder can hold more than a certain number—usually twenty, twenty-five or fifty—of shares; only in one—a 'Commercial bank'—is there no limit, and the maximum held in that society by any one member is 165; in one society 100, and in two others 300, is the maximum allowable. This rule may be evaded by taking shares in the name of relatives. As however—see below—the Nidhis as in Europe, proceed on the democratic principle of "one man, one vote," irrespective of the shares held, they avoid *pro tanto* any plutocratic preponderance in the governing power.

As a rule Nidhis have but one office; only a very few have branches or agencies; the Hospet Jaya Lakshmi Bhāndāra has a sub-agency and three branches; the sub-agency is an agricultural Nidhi, practically independent of the original, but the branches work under the control of the latter. Here again, they resemble the general run of the German and Italian Credit societies.

Administration.—A Nidhi is usually formed by a few intelligent persons, generally officials and professional men, uniting to the number of seven at least, and framing or borrowing a Memorandum and Articles of association; these subscribe a few shares fully paid up, with which to defray preliminary expenses and registration fees; a prospectus is then issued, and a meeting called by public notice to explain the nature and objects of the Nidhi and a list is opened for members. This or a subsequent meeting appoints the directors and office-bearers, who are, as a rule, of course, the original promoters of the Fund.

General Assembly.—Theoretically, the source of power is the members in general meeting; they elect directors, auditors, &c., and the directors report to them annually; in practice the directors and office-bearers, especially secretary, are the real society, being, practically, the only ones cognizant of business and of the affairs of the Fund. When the general meeting does attempt to exercise power, experience alleges that it is frequently used badly and ignorantly; a mass of ignorant voters are won over to dangerous business, to mistaken appointments of directors or auditors, unconscious of the true duties of such officers, or of the proper scope of genuine and safe business. The power in Madras and neighbouring districts is generally exercised on the "one-man, one-vote" principle; hence, the experienced director of many years' standing has precisely the same theoretical value in the meeting as the newest joined lad or the old market woman with a single share. This is the strictly democratic principle adopted in the Popular banks and Credit Unions of Germany and Italy, which is found to work very well; the power thus given to the mass of members, *i.e.*, to the mass of borrowers, tends—but only tends—to prevent any diversion of the aims or funds of the society towards speculation or towards private interests, or any monopoly of the administration for purposes of private gain by capitalist shareholders. In the United States, however, it is common, perhaps general, to allow one vote per share; it is argued by writers of the greatest experience that though the "one-man, one-vote" principle prevents a few shareholders from combining to control the association, yet, on the other hand, it allows ten men holding one share apiece to have the same voting power as ten men holding ten shares apiece (S. Dexter), and it is evidently considered that a universal and equal vote is, in business matters, a dangerous vote. It is interesting that this should be the case in the great republic, and shows a curious divergence between the views of business and of politics. It is right to add that a limitation in the number of shares to be held and votes to be given by each shareholder is recommended; also that another American writer of great experience in Building societies (E. Wrigley) considers that the stock vote (as many votes as shares) is bad in principle, as "it gives the preference to capital over brains and experience; it gives the richer members power over the poorer ones; it tends to destroy confidence, and often leads to fraud and oppression; it is a great aid to dishonest management and the bane of large corporations of the present day." In certain important groups of mofussil Nidhis, it is customary to allow one vote for every share up to ten, and thereafter one for every five; this gives a preponderance of power to wealthy shareholders, who moreover are generally those who mostly attend general meetings; these use the Funds as investments and are often directors. Hence there is a tendency to run these Funds as joint stock companies for the benefit of investors and towards the development of dividends, and this is much complained of by many members, whose complaints will be found formulated below *s.v.* 'Defects.' The complaint is precisely that the Fund, under this principle, falls into the hands of a few people who manage everything with a view to their own interests. Experience seems to tend towards the adoption of a modified democratic method; some Nidhis and many experienced members state distinctly that the "one-man, one-vote" principle is folly, in that the ignorant, unbusiness-like and improvident have the same voting power as the intelligent and prudent business man, with a large stake in the society. To which, however, there is the reply that the poor man is very often as prudent as the rich, that his solitary share may be his all, that he is more likely, therefore, to insist on prudent management free from all speculative bias, and above all that he is more likely to insist on cheap credit rather than aim at high profits. The experience of Europe is in favour of the democratic principle in these societies; even poor members thus learn to take a lively interest in a society where their vote is so important, and it is considered that so long as men do not grow wise in proportion as they grow rich, a Mutual association should adhere to this principle, as more consistent with the co-operative formula that a society is an association of men rather than of shares. It is possible, that, as in some Nidhis already, a middle way may be found, *e.g.*, in one Fund one vote is given for every five shares with a maximum of four votes; in another the maximum is sixteen. Possibly a maximum of five votes, *e.g.*, one for every five or fraction of five shares up to twenty-five would prevent all undue preponderance of wealth while giving to the experienced men, with a considerable stake in the Fund, sufficient voting power to prevent ignorance and inexperience from rash resolutions. The single vote system seems successful in Europe, and is based on the true co-operative principle; the unlimited stock vote is generally condemned. In Madras and in the mofussil some of the most experienced men disbelieve altogether in the existing voting system, whether the individual or the stock vote system. They recommend that the general meeting should not consist of all subscribers, especially when the society becomes a large one; a really representative meeting would, in such case, be too unwieldy to manage, while a door is opened to great abuses whenever matters of importance, elections, &c., are concerned. They recommend either a resort to intermediate bodies, each member of which should represent a group of subscribers, or that the general meeting should consist only of shareholders holding above a certain minimum number of shares (*cf.* the French Crédit Foncier, the Presidency banks, &c.), so that the mass of subscribers have no votes, but enjoy all other privileges. Possibly this latter plan may be advisable in cities with very large societies, but for small societies the individual or the modified stock vote system seems preferable as giving all persons a working interest in the society. It has also been suggested by very experienced and disinterested men, one being chairman of a large Fund directed almost gratuitously, that the executive power of a general meeting should be removed altogether; it should be a mere meeting to receive and adopt reports; the real control should be exercised by a board of control of twenty to twenty-five members, chosen at the first general meeting from the men of highest reputation, who should hold office permanently, all vacancies being filled up by the board itself; this board should control all the operations of the managing committee. Such a board of control was, in fact, in existence, it is said, in the old societies of this presidency, but has for many years been abolished under the ideas engendered by the Joint Stock Companies' Act. The proposal is, to a certain extent, parallel with the practice in the old Land banks of Germany, where the general meeting is of rare occurrence, its place being taken by a council of delegates; it exactly recalls also the universal committee of supervision in Europe, which, in every society, controls the work of the managing board, and safeguards the cause of the society.

It is, of course, open to Funds to frame Articles as they please in any of the above directions.

The directorate usually consists, at least at first, of the most experienced and influential men, retiring, as usual, by rotation, but re-eligible. They are now almost always paid, either by a share in the net profits, after the guaranteed interest has been distributed to members, or by honoraria settled at the general meeting; they usually get sitting fees also. In some the directors are paid at a fixed and often a very large proportion of the profits, in others according to the number of meetings they have attended. In the largest mofussil society working rather as a bank, the president and directors work *gratuitously*, while the secretary, auditors, and appraisers each get an honorarium settled at the general meeting; the staff, of course, is always paid by salary. In Germany the directorate of the Schulze-Delitzsch banks is usually paid both by salary and by a share in the profits; in Italy this was also the case, but Signor Luzzatti strongly recommends—and the suggestion is now largely adopted—that their services be given *gratuitously*; in some of the very largest banks, *e.g.*, Milan, this is pre-eminently the case; in the Raiffeisen and Wollemborg Loan societies *all* services are *gratuitous* except those of the accountant. It seems to be the rule that in these co-operative Mutual Credit societies in Europe, and in the United States, as also in the case of the English Trustee Savings banks and Irish Loan societies under the Act of 1843, the directorate gives its services *gratuitously*; the Schulze-Delitzsch societies are the exception, and the express complaint made against them is that they are tending towards the position of mere Commercial societies, and losing their “mutual” character; the desire for large profits, and consequently larger “ *tantièmes* ” to the directors, is not merely keeping up the rate of interest, but diverting the societies from their true rôle of assisting and guiding the poorer classes. This complaint may or may not be well founded; the desire for profits does bring about exactly such results in general, and there is a very strong feeling among the promoters of Mutual societies that dividends other than fixed, and wages depending on dividends, are a mistake; fixed interest and, if necessary, moderate honoraria for expenses out of pocket, are recommended.

Now it is curious that in the earliest societies of Madras (1852) directors did give their services *gratuitously*; the objects of the Funds were declared to be “mutual benefit,” and the most enlightened and public spirited of the members undertook the promotion and direction of these societies for the public good without reward save that of their conscience. It is now made expressly an item of complaint that a struggle for profits and stipends has replaced the old philanthropic, public-spirited sense of devotion; that the emoluments of directors have been, hitherto, steadily on the increase, while the posts themselves have become the objects of scramble and intrigue, votes being even purchased, it is said, from the ignorant mass of members; some assert that the class of directors is deteriorating, as indeed is probable if office is to be chaffered for. If it is argued that men require pay for increased work, it is replied that by far the most arduous work was done in founding and nursing the societies at their start, not in the mere carrying on of a somewhat greater volume of business; that the later history of the Nidhis does not show a better class of work than the older, while, in fact, the paid directors have often shown the grossest negligence and incapacity. One large and flourishing society, in fact, though already directed at very low rates, has proposed to abolish directors’ fees with the express intention of stopping this divergence from the “mutual” path; the proposal has, however, not been carried; another large society has reduced its directors’ fees by one-third. These facts indicate a growing perception that the initiative idea of the societies has been departed from. It may be useful here to point to Europe where, as in the Popular and Savings banks of Italy, especially Milan, or as in the great Trustee Savings banks and Friendly societies of England, or the Building societies of the United States, an enormous mass of high-class work is done without a thought of pecuniary reward by men of great ability and of engrossing private business, who yet give freely of their scanty leisure.

Directors are responsible for all money belonging to the shareholders, but only occasionally is security demanded from them either direct or in the shape of inalienable shares, as is invariably the case in Europe, where every director and permanent auditor (*censeur*) must hold a number of paid-up shares, which are inalienable, are specially marked in evidence of this, and are deposited in the company’s safe. Only the above-mentioned bank has such a rule: in that, each director, though working *gratuitously*, is bound to hold twenty paid-up shares, value Rs. 1,000, on which he cannot borrow; the secretary (or manager) must similarly hold 100 shares, value Rs. 5,000, which are held by the society as security; the treasurer holds shares and has given other security for Rs. 5,000. Some Nidhis require a certain number of shares as a qualification for the directorate, but there is nothing in the rules to prevent such directors from borrowing on such shares.

There does not appear to be any rule, as is general in Germany and Italy, against directors borrowing from the society; in one Nidhi the directors may not borrow upon the shares held by them as a necessary condition of office. In the Building societies of England and America (with exceptions, *e.g.*, California) and the Nidhis of Madras, the directors have all the rights of ordinary members, whereas in the Co-operative banks of Continental Europe, their position is generally held to entail many duties and responsibilities and to debar them from the privileges of credit, except under special safeguards.

Auditors.—In most Nidhis audit is, of course, a very simple matter, but the larger ones, with thousands of transactions to the value of lakhs of rupees, require most careful auditing. It is usual for the rules to provide permanent as well as special auditors; the former are appointed for a year or term of years, the latter annually; the former are intended to scrutinize the accounts and securities very frequently, *viz.*, daily, twice a week, weekly, monthly, &c., according to the Nidhi; the latter conducts the usual annual examination. Some Nidhis adopt the plan of disallowing any director from being an auditor; in others the permanent auditor is always a director or member of the managing committee. It is a question whether a director should be a permanent auditor; the duty of the latter is to check the operations of the Fund including the work of directors and the observance of the rules; he should have the position of the European “*censeur*” or committee of supervision; this would tend to prevent the scandals which occasionally arise; it is the want of observance of the rules that has ruined many a Nidhi; if the permanent auditor is a man of energy and influence outside the directorate, he will soon find out and check those abuses which follow a lax directorate or an unscrupulous secretary. The special auditor should always be a professional man, whether a shareholder or outsider, and, if possible, should be re-appointed from year to year, so as to become

acquainted with the affairs of the Nidhi. The rules of many Nidhis are singularly defective in the matter of audit and auditors: the practice has been in many, and still may be in some, far worse than the rules; in a case of the present year (1894) valuable jewels on pledge were taken from the safe by an office-bearer (it is curious that he should have got possession of the three separate keys) and pledged elsewhere, but the theft was never discovered either by the permanent or special auditor; ten months after the theft it was discovered by accident, and other defalcations are said to have subsequently been found.

Audit occasionally discloses a considerable number of errors, want of receipts and vouchers, want of stamps to receipts, erroneous descriptions of valuables, confusion among securities, bonds neither cancelled nor returned, though paid up, bills paid without pre-audit, &c. That is when it is well done; in some cases to judge by various and very recent frauds, it is a mere name. There have been in some cases great scandals; jewels and securities returned by a secretary to the borrower during the currency of a loan, and fresh loans obtained on them; valuable jewels dishonestly removed from the safe, and their absence not detected by the permanent bi-weekly or by the periodical auditor over a long period; money paid in but never credited; mortgage deeds and bonds made out in the secretary's private name; money largely misappropriated and represented as balance in hand, or as covered by jewels either non-existent or of trifling relative value, or as covered by goods not brought, according to the rules, into the society's godowns; heavy debts long overdue, and often hopelessly irrecoverable, charged as assets to their full value, and included in the valuation for profits; cheques signed in blank and representing no real transaction. These are specimens of actual frauds, every one of which must have been detected by even decent audit, whether ordinary or special. In one case it is true, the auditor found out the fraud, whereupon the directors threatened resignation if the auditor was not dismissed; he was accordingly dismissed, and a relation of a director appointed. There is an important item in the balance sheet regarding which an absolutely correct audit is essential, viz., the item of profits. In one of the oldest and best Nidhis, a recent audit declared the profits to be (say) Rs. 10,000, but a section of the directors and others claimed that it was Rs. 14,000, a difference of 40 per cent. and a second audit was demanded. The two calculations or estimates proceeded on totally different principles, and one was obviously wrong. There is nothing in the reports to show the method of calculation adopted, and it is clear that a very small individual error in calculating the value of thousands of debts would make a very serious difference. The profits entered in the reports are simply the difference between the aggregate assets and the aggregate liabilities, and there is nothing to show whether the assets have not been overvalued—a most common error in England—or the liabilities understated. The assets of a Building society consist chiefly of the "present value" of the debts due to the society, and there is nothing to show whether these debts have been correctly calculated. A proper audit should see whether the assets and liabilities are properly valued, and this can hardly be done in large societies except with the aid of tables which do not appear to be in use. There is, moreover, evidence that a common fault of Funds is to include debts as assets even when they may be hopelessly irrecoverable, and not paid upon for years; this false valuation has been the ruin of some Nidhis in which profits were declared upon a so-called valuation of assets in which many thousands of rupees were mere paper debts. A strict Building society auditor would detect this, and refuse to allow such debts to appear in the balance sheet as assets.

There is little to prevent the misappropriation by cashiers, &c., of petty sums, e.g., portions of subscriptions; A pays in Rs. 10, gets a receipt for the sum, but is credited in the ledger with only Rs. 8. When the apparent arrear attracts attention, the deficiency is made up from another account, and so on. The examination of pass-books with the ledger does not seem to form part of the audit. But in one society—possibly in others—it is the practice to call in all the pass-books every three or four months, when a special committee examines them with the ledger; if this is done, embezzlement must be at once detected.

It is obvious that independent external audit is absolutely necessary; such audit is universal in Europe; in England the services either of the public (Treasury) auditors or of chartered accountants, is almost universal in public societies, the former being specially available for Friendly, Benefit and Co-operative societies, while in the new Bill (1893) for Building societies, it is expressly provided that one at least of the auditors shall be a professional accountant. In Germany the Land banks have special committees of supervision and audit, and a Government commissioner watches all proceedings and has large powers of inspection; in the Schulze-Delitzsch and Raiffeisen societies, audit is provided by internal arrangement; above all the Co-operative Societies' law itself (1889) now provides very stringent rules for due audit *ab extra*; every Union (group) must provide for the audit by experts of the societies which compose it, and, if the society does not belong to a Union, the local Civil or Commercial Court will nominate an auditor on the request of five members. Similar provisions, though not in the law, are found in Italy and Austria; in France the Crédit Foncier is provided (1) with a governor and sub-governors appointed by the State, (2) with three high financial officers of Government on the directorate, (3) with a committee of "censeurs" with large powers of supervision. When such precautions are found necessary in Europe, is there less necessity for independent, external, skilled audit in India? The opinion of the most experienced Madras Nidhi directors is that without skilled, external supervision, there will, in most cases, be relaxed or lax administration and continual fear of fraud; a Government inspectorate with European supervision is expressly mentioned by them as the remedy. Whether Unions and Union inspectorates, when available, would not be an equally sufficient remedy, may be considered; at present, however, there is neither Union nor inspector. One society remarks that the auditor is annually appointed "among the subscribers who know how to read and write and cipher," hardly a sufficient qualification, but exactly parallel in the case of the early English Benefit societies; in another case the auditors are respectively a pleader and a schoolmaster. In the light of the frauds, negligences, and ignorance displayed in the failures of many societies, it is most important that a system of external audit be imposed upon all societies trading in credit upon funds collected from the public.

Trustees.—These are found in some Nidhis; their position is never defined and their duties are vague; apparently—in some societies—they sign all cheques, but are bound to see that they are issued in consonance with orders properly passed by the president. In one society they are said, however,

to have issued a number of blank signed cheques to the secretary, to be filled up as occasion required. In another society the only duty mentioned in the rules is that of verifying the securities periodically, a very useful duty, if carried out. In one mofussil town their duty is that of keeping the securities, the several keys of the safe being entrusted to them.

Secretary.—This officer, who is usually the best paid in the Nidhi, is really the manager; he has large powers and often still larger influence. He is supposed to be the executive officer who simply carries out orders, conducts correspondence, and controls the establishment; he is often in reality the promoter and founder of the society; he is frequently the central figure, and his opinion is of great influence; with a good secretary the directorate is apt to become lax. He has also certain powers of granting small loans, and in one society is mainly responsible in deciding priority in issuing loans, and thus has great power. In nine out of seventy liquidated funds, the liquidation amounting to bankruptcy was directly or indirectly due to the frauds or faults of the secretary.

The treasurer and staff need no notice; in some cases security is taken where they deal with money or have valuables in their possession, or where the amount of loans depends upon their valuation.

Appraisers are important men; if men of position their time has to be paid for by considerable fees, and thus loans become costly: if they are mere low paid officers it is obvious that the Fund runs risks; in one district it has been stated that many losses have occurred from appraisers accepting presents to overvalue the securities offered when at a distance from head-quarters. Correct valuation is a standing difficulty in the matter of lands, especially when in villages away from head-quarters.

Accounts.—The office accounts seem generally good though various systems are adopted. As they have been started in Madras, they have had the advantage of professional assistance, and the books are usually based on those of the Bank of Madras or of the Exchange banks or on the Government treasury system. Probably these might be adapted and simplified into model forms for the purpose of rural and other Nidhis, if there were a Union of these Nidhis, where experienced directors and secretaries could meet and compare forms. There seems room for improvement in the checks over collection, where the risks are both without and within the office. It is usual now in Madras city to adopt the bill-book system; a series of bills is prepared showing amount and arrears due by each subscriber, and similar entries are made on the pages of a book; the collector takes them round, delivers the receipted bill on being paid, and obtains the initials of the party in the bill book: this serves at once as a check upon the collector and upon the office; the collector must account for the value of the initialled entries in the bill book; the payer sees each month by the demand made, that his payments have reached the office, and the permanent auditor has only to check the bill book with the cash accounts to see that all collections have reached the treasury. One objection is that each member can see in the bill book the state of other members' accounts, and it is suggested that the counterfoil bill system, while simple, would obviate all risks and difficulties.

All accounts ought to be kept by double entry; in one of the best Nidhis, the accounts are on the single entry system, and a succession of auditors have commented upon the unnecessary complexity of the accounts and the great difficulty of tracing errors, one auditor recently remarking that "the auditor after his audit is over cannot, with any certainty, say that the accounts are correct." It will probably be advisable to draw up a model set of accounts for general use.

Reports and Balance Sheets.—These are periodically (one year or nine months) drawn up and a copy of the balance sheet is generally—according to the rules—to be sent to each member. Of course nine-tenths of the members do not understand, even if they can read the account thus presented, and this furnishes another argument for external supervision, not necessarily Governmental, but external, such as that of professional audit or of inspection by Union officers. Where the members cannot provide an intelligent check, such check *must* be imposed *ab extra*.

Articles.—These are often incomplete or redundant: one Nidhi copies bodily the rules of another without even understanding the bearing of many of them. There is great need for a model set of Articles suitable for these Nidhis, and for a commentary explaining their use and meaning. Often, too, the Articles are merely for exhibition rather than for use; the history of many failed banks shows this beyond a doubt. In one case the Articles were good enough, and the rules for audit particularly full, with extra checks upon error and upon departure from the rules; the history of that Fund shows that the Articles were a mere dead letter and the audit a total sham. Real supervision is wanted to see that the Articles are properly drawn and properly observed.

Directors are generally permitted to make bye-laws, provided they are not inconsistent with the Articles; but these bye-laws often amount to new Articles and are therefore illegal, *e.g.*, prescribing and excluding interest on deposits; ordering that the payment of matured shares shall be the first charge on a Fund; ruling that a particular class of persons shall not be admitted to the Fund; ordering that transfers of shares may be disposed of by the secretary; deciding that the Fund shall be entitled to recover a loan at once if not utilized for the purpose specified in the application, &c. These rules may be very good, but they appear to be new additions to the Articles or declarations of policy, and, as such, should be Articles of the Fund.

Funds.—These proceed from the subscriptions of members chiefly, and to a small degree from deposits; the Nidhis do not borrow except by deposits. In one society, which, however, resembles an ordinary bank, there is a capital composed partly of foundation shares, fully paid up, and partly of the ordinary subscription shares.

The funds derived from shares are of course limited to the amount declared by the statutes of the society. These shares have two objects, (1) they are methods of saving and are investments; (2) they are means for (a) obtaining and (b) paying off a loan.

As investments these shares are very good; the lowest fixed interest generally given is 6½ per cent., viz., 1 pie per month per rupee paid up. To this, however, may be added additional profits which in certain Funds amount to about 8 annas per share per annum, equal to nearly 1½ per cent. equated up to the average amount at credit during a term; hence a saving subscriber gets about 7½ per cent. per annum on his savings. These shares prove, therefore, good and, if the rules are observed, a perfectly safe investment.

Their chief function in this country is, however, that of obtaining and repaying loans (*see* 'Loans' *infra*); as a rule only members can obtain a loan, and to become a member a man must take one or more shares; every loan must be a multiple of the share value; *e.g.*, if the matured share value be Rs. 100 and the loan be Rs. 500, the borrower must take five shares; the loan is then repaid by the simple process of regularly paying his ordinary monthly subscriptions, *plus* interest. It is in this insensible and gradual method of repayment that one important advantage of the Nidhis resides.

Deposits.—These are generally receivable up to an ordinary maximum of Rs. 5,000 for any one account, the minimum varying from Rs. 25. In some cases they are repayable at call, but this is rare; notice of fifteen days to one month is usually necessary; cheques are not generally in use, but a form of demand with the pass-book as in Savings banks. Repayment of deposits must by the rules take precedence of all other demands for funds, so that on a heavy run loans would be impossible for a considerable period. In some Nidhis only fixed term deposits for three, six and twelve months are received. Some Nidhis only accept deposits from shareholders; generally, however, they are taken from any person offering. In some Funds directors are bound to or do lend under the name of deposits whenever the Fund is in need of ready money to pay off matured shares, or to meet demands for good loans. Generally speaking, deposits in the mofussil are made in large sums by a few people; they are not the petty deposits of the masses; in some Nidhis a minimum, *e.g.*, Rs. 25 is prescribed for each in-payment. It is, however, said that these deposits are in many cases made by money-lenders; not necessarily professional lenders, but persons who have accumulated or inherited money and utilize it in lending on good security. Some join as directors and deposit funds in order to develop business, so as to obtain profits without individual risks and trouble; others are mere depositors. The connection of money-lenders, at least of this class, with the Funds, is noteworthy, especially as so much of rural money-lending in this presidency is by the monied classes rather than by Marwaris. Interest varies according to term and bank; 5 per cent. for ordinary deposits, 6 or 6½ for twelve months' deposits, are moderate rates and 7½ per cent. is not uncommon; in some societies three months' deposits get 6 per cent., and twelve months' deposits 9 per cent. In one society charitable deposits got 10½ per cent. The ratio of deposits to capital is usually small; the highest proportion, with one exception, is one-fourth of the nominal capital; in many cases it is not above one-tenth to one-thirtieth or even a much smaller fraction of the capital. No limit to the aggregate amount of deposits is generally imposed by the rules; in one Madras case the deposits are three times the amount of paid-up capital, but this is not an ordinary Nidhi, and is purely European or Eurasian. The small proportion of deposits, considering the very good interest paid and the apparent demand for loans, is remarkable.

No special security is offered for deposits; the status of the society *plus* the reserve, *if any*, and any amount still due upon the shares, are the direct guarantees; this latter approaches zero as the shares approach maturity, and where a whole series simultaneously matures, deposits have to be attracted by high interest. Deposits are more readily attracted to societies which lend chiefly on mortgages rather than on personal security; depositors consider such a Fund more solidly established and less risky than those where loans on personal security are the chief feature, while the deposits themselves, being lent on good mortgages, are unlikely to be finally lost. It is probably the absence of material and solid guarantees for the repayment of deposits which prevents their inflow; the interest is far higher than that of Government paper, and the directors of the bank are locally well known; high interest is evidently insufficient *per se* to attract deposits. It is also certain that with substantial and permanent reserve and other guarantees, deposits would be attracted not only in larger quantity but at cheaper rates; with Government paper below 4 per cent., it is difficult to believe that 6 to 7½ per cent. is necessary in Funds, if well managed, supervised, and guaranteed. A small loss of interest on a good reserve would be far more than recouped by cheap deposits. Another reason for paucity and dearth of deposits is the necessary delay in repayments.

The smallness and dearth of deposits, the want of definite security for them, the difficulty of repayment in case of a run, and the disorganization of loan operations when deposits are withdrawn, are among the weak points of these societies (*see* below *s.v.* 'Defects').

Reserve.—This is generally provided for in the rules by an allotment of from one thirty-second of the net profits after deducting all dues to subscribers for repayment of principal and for guaranteed profits; such allotment is usually trifling. It is also usual to provide by rule that this reserve shall be broken up and divided in whole or in part every three or four years; on examining a large number of balance sheets, it is only occasionally that a reserve is ever mentioned, and where found, it is usually extremely small. Small as is the reserve at its maximum (usually only 1 or 2 per cent. of the capital), at certain periods it is either *nil* or infinitesimal. Moreover the reserve is often laid out in charitable investments, probably for the deity or temple which gives its name to the Fund; that is not a legitimate use for a reserve. In one large Madras Fund there is a considerable nominal reserve, but this is merely an account entry, and the amount is invested in the ordinary way in ordinary loans; moreover every year the amount credited to reserve from profits in the fourth year previous, is brought into the profits for the current year and divided, so that there are never more than four years' reserves at credit, and these are not separately invested, but lent out as usual. It seems probable too that the so-called reserve is put out on small and short loans, and yet these are the very loans that involve most risk as shown by experience and by the high rate of interest always demanded; such are not the securities in which a reserve should be invested. This is an unsatisfactory feature; a substantial *permanent* reserve is absolutely necessary, not merely for unforeseen contingencies, but as a part guarantee for deposits, and this reserve should be kept inviolate and in perfectly sound securities. The reserve should, so long as deposits are received, be maintained by annual deductions from profits, before even guaranteed profits are declared, at a given proportion, say, 5 per cent. of the actually subscribed capital, as in the U.S.A. and securely invested in Government or good railway paper. After the reserve is brought up each year to this proportion, the matured shares might, on being paid off, take their share of the reserve, the deficit being again recouped from annual profits. Thus, if, at the end of a year, the reserve was Rs. 10,000 and one-fifth of the existing shares had matured, Rs. 2,000 should be credited to such shares, and the deficit at once made up from the profits of successive years before declaring the amount of net profits divisible for the year. This would keep the reserve full, and yet avoid the injustice of establishing a reserve at the sole expense of the first members or borrowers.

Profits.—In Mutual Loan societies, such as the Nidhis, profits ought to be entirely subsidiary to the main purpose, viz., the cheapening of credit; profits are indeed a legitimate means of stimulating thrift, but must not become the chief aim of a society, especially when all profits are provided solely by the borrowers, and when directors and office-bearers as such, take almost as large a share (usually seven-sixteenths) as the whole mass of subscribers. After providing the fixed profits according to the rules, all other profits should be kept as low as possible, whereas in the report of certain Nidhis, the annual profit is from 10 to 14 per cent.; part of this, of course, goes back to the borrowers, but the bulk is absorbed by non-borrowers, directors, and office-bearers, and is unduly high. This divergence from the true co-operative idea is the besetting temptation of Co-operative societies all over the world; in America one borrowing member furnishes the profits for three investing members and for himself; in Madras the tendency is for three borrowing members to furnish relatively small profits for themselves and for one investing member, and relatively large profits for directors. There can be no doubt but that the men who start these Funds are not generally aware of their co-operative origin and development; co-operation in its modern sense is hardly known in this presidency, and the compulsory registration of the Funds under the Joint Stock Companies' Act causes them to be looked upon simply as Joint Stock societies where profits or investments are a principal object. In all correspondence and in public discussions, these Funds, as well as proposed Agricultural banks, are treated as joint stock companies or aggregations of shares rather than as associations of members co-operating for mutual relief.

Profits arise in this presidency chiefly from an unusual source, viz., the unpunctuality of the members. In England and America profits are obtained (1) from the difference between the interest on money received and that on money lent out; (2) from premia obtained at the auction of loans; (3) from compound interest obtained as against simple interest allowed; (4) from minor sources such as fines, entrance fees, &c. These produce considerable profits which are periodically credited to the shares by some such method as follows: interest at (say) 6 per cent. is first credited to the subscriptions of all previous periods and the remainder is divided among all shares (*see* 'Building societies' s.v. 'Profits'). In Madras, however, it is customary to charge interest at (say) 6½ per cent. on the whole amount of a loan and to credit the subscriptions or repayments with interest at the same rate. Hence no profits can be made out of this chief source, viz., interest on invested funds, for, though a loan of Rs. 100 at 6½ per cent. earns about Rs. 43 in seven years, while counter-interest on repayments amounts only to about Rs. 18, the Rs. 100 itself is a sum invested by members as subscribers and also bears interest at the same rate; hence the interest received and that paid on the principal balance one another, while the counter-interest allowed on the repayment of the loan is balanced by the interest received by the society on the same amount re-invested. The following table shows roughly the facts where a Fund works on capital borrowed (deposited) at 5 per cent. :—

Year.	Capital borrowed and lent out.	Annual amount of subscription or repayment.	Counter-interest, credited only.	Interest received at 6½ per cent.	Total annual subscription and interest.	Interest at 5 per cent. on the capital borrowed.	Net amount available for re-lending.	Interest on amount available at 6½ per cent.	Interest on pair interest at 6½ per cent.	Remarks.
First ...	Rs. 10,000	1,200	40 10 0	625	1,825	500	1,325	The Rs. 10,000 are lent out in 100 loans of Rs. 100 and repayable by monthly subscription of Rs. 1 each per month, paying interest at 6½ and bearing counter-interest at the same rate.
Second ...		1,200	109 6 0	625	1,825	500	1,325	88	5	
Third ...		1,200	184 6 0	625	1,825	500	1,325	166	10	
Fourth ...		1,200	259 6 0	625	1,825	500	1,325	249	15	
Fifth ...		1,200	334 6 0	625	1,825	500	1,325	332	20	
Sixth ...		1,200	409 6 0	625	1,825	500	1,325	415	25	
Seventh ...		1,200	484 6 0	625	1,825	500	1,325	498	30	
Total ...	8,400	1,812 14 0	4,375	12,775	3,500	9,275	1,743	105		

* Hence at the end of seven years the Fund will owe Rs. 10,212, viz., Rs. 10,000 to depositors, &c., and 212 to the borrowers for balance of counter-interest after adjusting their loan accounts; and for repaying these deposits it will have Rs. 9,275 + 1,743 + 105 = 11,123. The compound interest about balances the counter-interest, and the profit is derived from the 1½ per cent. difference between the rate paid for the money lent and that borrowed. At 6 per cent. on the borrowed money the Fund could not pay its way out of ordinary profits; it must seek them from some extraneous source, which it does, viz., from fines. The calculation will be somewhat more favourable than the above, as the re-lending and the interest thereon should be calculated by monthly and not by annual rests. If the amount of Rs. 10,000 is not borrowed, but proceeds from investing members who are allowed 6½ per cent., there can be no profits.

Some Nidhis receive deposits at a lower rate of interest than that received from loans granted, 5 or 6 per cent. being common; such deposits however are usually small or trifling. Nor is profit generally obtained from auction premia paid for loans as in America; Madras Nidhis usually grant loans either by order of priority or by lot, and not by auction.

Profit in fact is generally obtained from fines, entrance fees and minor payments and from profits on withdrawals; in one great Nidhi the amount of net profit, after deducting guaranteed interest,

during three years was below Rs. 15,000, while the sum produced from fines, euphemistically called "additional interest," was above Rs. 10,000; in another Nidhi, the *gross* income in one year was about Rs. 10,000, of which fines amounted to over Rs. 3,000; in another where directors' deposits received 6 per cent., and the interest on loans was only 6½ per cent., the gross receipts from interest were Rs. 864, of which Rs. 275 were penal interest for delays; in another the books for one month showed Rs. 145 as fines alone. In another the gross payments of interest on permanent loans were Rs. 4,200, of which no less than Rs. 3,452 were penal interest. These fines are generally very heavy: from 2 to 6 pies per rupee per month (12½ to 37½ per cent. per annum) are usual rates. Legitimate as fines are when used to secure punctuality, there lies in them a great temptation to use them as a source of income; unpunctuality is apt to be connived at, if not encouraged, because of the profits derived from it. It is a bad augury for the general success of banks that the chief profits of some existing institutions should arise from the unpunctuality of their members.

Profits on withdrawals are legitimate; if a member suddenly desires to remove his capital, it is presumed that he has a profitable use for it, and as his withdrawal is a considerable inconvenience and source of loss to the society, a withdrawing member is usually allowed only a part of the profits credited to his share. This rule is universal throughout the world.

In this presidency, however, withdrawals are unfavourably treated in many chief Nidhis; only the amount actually subscribed up to date is returned, no interest or profits being allowed, unless, in some, it can be shown that the withdrawal is the result of "force majeure" such as a transfer of appointment, when 2½ or 3 per cent. is allowable. In cases of withdrawal by ceasing to pay up subscription, some Nidhis return the bare amount that has been paid up; others return it with a deduction; these provisions are illiberal.

Conversely, profit is unduly sought where, as in many Nidhis, repayment of regular loans repayable by instalments will only be received in advance if the whole interest due to the end of the originally settled period is paid up: this is unusual; six months' interest is ample, especially when money can readily be again lent out.

The division of the profits is open to objection when viewed in the light of co-operative practice in other countries, and displays a tendency to exploit borrowers for the sake of directors, or at least to favour the earning of profits for the benefit of directors. The directors and office-bearers of a society are usually paid sitting fees and a share of the profits; this share may be only one-fourth, but rises to one-half, four-fifths, and in one case to seven-eighths of the whole net profits. This may be good business, but it is not co-operation. Generally speaking, about nine-sixteenths go to the subscribers generally including, of course, directors, and the remainder to the directors and office-bearers.

The system of paying directors by a share of the profits has the advantage of stimulating business, but the very great disadvantage that when so paid, especially by a very large proportion of the shareholders, the directors are apt to consider the society as a milch cow and to squeeze out profits to the detriment of borrowers, and even to the risk of bad business. The desire of directors for profits also tends to the miscalculation of profits; this is a well-known source of danger, and may be illustrated from one Nidhi where a section of the directors claimed that the profits were higher by several thousands of rupees than those disclosed by the audited balance sheet.

The method of ascertaining profits for declaring a dividend, is often faulty, whether from the desire for present profits or from ignorance. The rules are complete enough, but in their application there are gross errors; *e.g.*, interest due but not yet paid, even upon long over-due loans, is credited as a receipt, included on the credit side of the profit and loss statement, and forms part of the "net profit" divided among the members. Similarly in estimating assets, over-due loans are entered in many Nidhis at their full value; the increasing volume of these in some seems to point to the inclusion of possibly irrecoverable debts; these, of course, should have been written down to their real value; it is not uncommon to see several thousand rupees under this head as an asset, of which the value is wholly doubtful.

Profits should be kept low and should return as far as possible to the members; it is legitimate, though not necessary, that directors should receive honoraria for their trouble and experience; but these honourable posts, largely gratuitous elsewhere, should not degenerate into mere sources of income, to be scrambled and intrigued for and to be remunerated in increasing volume at the expense of the borrowing members. Experience, moreover, even in the presidency, shows that those societies are not necessarily the most successful where the rules provide most liberally for the profit of the directors; there has been frequent disaster entirely from the nature of the business accepted with a view to raise profits, and from the nature of the men who have sought office in order to obtain profits. One or two Funds, *e.g.*, the Hindu Pension Fund (Madras) have worked well—the above Fund since 1854—without the directors receiving a single rupee in the way of profits, honoraria, or even sitting fees.

Loans.—The money raised by subscriptions or by deposits is lent out chiefly to members; in Madras city personal security is, in some cases, accepted, but generally only good mortgages and pledges of jewellery or Government paper. In the mofussil, on the contrary, personal security is more common than mortgages, which in some of the largest Nidhis are either expressly excluded, or obtain but a small percentage of the loans, and then only with the addition of a personal surety. The reasons assigned for this difference will be seen immediately, and afford much ground for thought; briefly and chiefly they are that in Madras personal security is shunned because of personal distrust due to a prevalence of fraudulent practices, and to the facilities for bankruptcy, while mortgages are favoured because of a good system of title and of ease in recovery of debts; in the mofussil, mortgages are avoided because of difficulties of title and the effect of the Revenue law for the recovery of arrears, while personal security is accepted because mutual confidence exists between members residing in the same village or town, and intimately known as neighbours. It is, however, curious that even in mofussil Nidhis, mortgages take rank prior to personal security in the sequence of preference, and are granted at lower interest; this is due either to the fact that the rules are borrowed direct from Madras, or to an opinion that mortgages *per se* are safer than personal security; if it is the latter it follows that mortgages are not largely accepted because of the difficulties of title and encumbrances.

The commercial bill is not in use as a method of credit; the cash credit is also absent.

These loans are granted in the usual way, needing no description; there is a committee to receive applications, valuers and appraisers and a decision. Loans are granted to about half or three-quarters of the estimated value of the property if mortgages; to a somewhat higher value if pledges.

Securities are various, viz., paid up or partly paid up shares, jewels, Government paper, land and house property, and personal security, preference being given in Madras city in the order named. In Madras city mere personal security is strongly objected to and in fact generally refused; it was deliberately stated in two large societies, that in that city it is not safe, owing to the facilities for bankruptcy; no respectable person, it was said, will stand security except for very short periods (three months) since the habit of evading debt has grown up. In the margin of the rules of a large bank which has collapsed, there is a pencil note by a director that the ruin of the bank was due to loans on personal security. This is a very unsatisfactory condition, but in rural parts this want of confidence, these breaches of faith, do not exist to a material degree.

The method of repayment is that of the Building societies; suppose a man has one share payable in eighty-four months at Rs. 1 per month; a loan is granted to him for Rs. 100 upon mortgage of a house worth perhaps Rs. 150, this loan he repays simply by his ordinary monthly instalments of Rs. 1 plus interest; at the end of the eighty-four months from the date of his entering the society, his share will, as usual, be worth Rs. 102-8-0, and his debt is therefore wiped off. If his loan is for Rs. 500, he must take five shares. Hence he is able to pay off his debt by small monthly fractions—a very useful plan to those who get monthly pay.

The method of ascertaining title is an interesting point. In Madras town it is easy, for within the limits of the High Court original jurisdiction, the Collector's certificate is used as a title-deed; no one will accept a mortgage without the production of that certificate; consequently, if it is handed over to a creditor for a loan, not only is the creditor sure that there is no previous charge, but he retains full control over any attempt at subsequent dealings. This certificate system, however, is giving way to the ordinary method of registration, and it is said that there is greater difficulty now in dealing with real estate. Moreover one chief Madras Nidhi expressly states—and it is probably the case in the others also, especially those which pride themselves on accepting only secure business—that very many applications are rejected even in Madras from defective title or from inability to prove a clear title. The application forms for loans usually contain very searching and complete questions as to title, encumbrances, family claims, &c., and the rules provide for full additional enquiry by directors commissioned *ad hoc*.

Now it is notorious (1) that there is no registration of title in the mofussil; (2) that even the ascertainment of prior encumbrances is most expensive and somewhat uncertain; (3) that owing to Hindu family law it is most difficult to obtain thoroughly secure title. How is it then that the up-country Nidhis can lend at all on land and houses? There is one simple answer; the borrower is a member of a purely local society having a very limited sphere of action; hence the officers of the society know each member personally and can ascertain his circumstances and the status of his property very easily. The borrower, on the other hand, being a member of this small society, dare not mis-state his affairs for fear, not so much of legal as of social penalties. To borrow money from a society composed of his immediate friends or neighbours on bad security, would be to rob them deliberately, and would expose him to the utmost social danger, a risk that a few men will run, especially Hindus living under the village system. Even if the security be bad, the borrower will, *quid* member, continue paying up his shares—which is all that is needed—for fear of social ostracism. Finally it must be remembered that, all over the world, a villager is unwilling to betray or defraud his co-industrial, his immediate neighbour or casteman, or the co-member of a Benefit society; it is found throughout England and Europe that they will undertake any sacrifices rather than leave an immediate neighbour or co-member in the lurch, so much so that emigrants will remit their old arrears from a distant country rather than undergo the reproach. This feeling is equally strong in the ordinary village systems of India, where brotherhood is still alive and ancestral debts are cheerfully taken up for payment, and this feeling, so apt to die out under the influence of individualism, is revived and strengthened by association in a society. Moreover the societies usually make very careful enquiries from the applicant; the application forms in the best societies require very full statements as to title, as to the number and relation of the co-heirs and their exact interest in the property, and a statement as to encumbrances, if any; he is also made to sign a declaration that his statement is true, while the bond contains a statement by the borrower that he is responsible if any prior claim turns up. In one society which has been started by and chiefly deals with rural members, the examining officer has a printed list of fifty-four questions, dealing in great detail with the family, relations, status, &c., of the borrower, and with the status, title, encumbrances, &c., of the property, the use to which the loan is to be put, the manner in which any prior debt to be redeemed by the new loan, was spent, &c. It is further to be remembered that even a security of insufficient value may rapidly become sufficient, not merely by an improvement, if any, effected by the loan, but by the gradual monthly repayment of the debt; the security remains the same, but the debt is gradually reduced. Moreover in mofussil towns, where the village system is comparatively non-existent, it is not uncommon—in one large town it is said to be universal—to add personal sureties to the mortgage deed, so that the Fund is protected in every possible way. Doubtless in the mofussil, as in Madras, very many applications are rejected from want of a clear title, and, as a matter of fact, mofussil mortgages are comparatively few in number, partly because nearly all the best Funds are in towns, generally of considerable size, such as Bellary, Trichinopoly, &c., where, therefore, the Funds have mofussil difficulties as to title without either the Madras city conveniences or village social guarantees, partly because of other difficulties arising out of the Revenue law which, for arrears of revenue, sells lands free of encumbrances.

In the mofussil, then, the security of a society is (1) title ascertained by direct knowledge and enquiry in a circumscribed locality; (2) a clause in the bond holding the borrower specially bound; (3) the addition of a personal surety; (4) the fear of social ostracism; (5) an actual unwillingness to go back from engagements; (6) the additional bond of membership.

If there were no other reason for the localization of societies this would suffice; no Central society can venture to give loans without cut and dry information as to title; this, in the absence of all

registration of titles, would be prohibitively expensive for all small or medium loans, and most of the applications would have to be rejected; on the other hand, borrowers would have little objection to sharp practice as against a distant and impersonal society.

One great defect in security is the absence of fire insurance. In mofussil towns there is considerable risk of fire, especially where there is no municipality to insist on nothing but tiled or terraced roofs. Most mortgages in the Nidhis of such towns are on buildings and yet these are uninsured. This is one reason why sureties are added; the sureties are practically insurers against fire. In the Ceded Districts the risk is less, for every house has a flat mud roof; in the Tamil districts the risk must be considerable.

Loans are granted generally to members only, but in most Nidhis it is now allowable to lend to outsiders if funds are available, and at increased rates of interest.

Class of Loans.—There are numerous classes of loans, viz., (1) regular or permanent, i.e., loans to subscribers on mortgage, on pledge, on promissory note when Government paper is deposited, or up to 95 per cent. of paid-up subscriptions, on bond with sureties; these are always repaid by the fund system of monthly instalments; (2) temporary or extra, either to members or to outsiders; for short terms usually of three to six months repayable in lump; (3) small lot loans of Rs. 5, 10 or 20 repayable in from one to three months. The following table gives details for the few societies that have supplied figures as requested:—

Society.	Class of loan.	Below Rs.								Above Rs. 1,000.	Total.
		10.	25.	50.	100.	250.	500.	750.	1,000.		
Ten mofussil societies.	Mortgage	5	9	46	420	107	83	11	20	6	707
	Pledge	29	251	436	486	284	108	18	17	16	1,840
	Simple bond or promissory notes ...	43	308	539	378	486	172	51	83	11	2,071
A Madras Town society.	Mortgage	2	2	8	46	124	239	80	94	98	686
	Pledge		3	28	71	70	60	14	4	7	257
	Bonds, or promissory notes	30	109	269	310	311	126	44	15	18	1,232

N.B.—Simple bonds and promissory notes include regular loans on the paid-up value of shares, and not merely loans on mere personal security: this is especially the case as regards the Madras Town society.

It would seem that mortgages in the mofussil Nidhis are few and between Rs. 50 and 500; about half of these are by a single Nidhi in a locality where there is much sugar cultivation and rich land. The simple bonds and promissory notes are the loans not merely on personal security but upon the paid-up value of shares; hence the table is not inconsistent with previous remarks. The heavy Madras figures with the numerous large mortgages show both the greater wealth of the locality, and the facility with which mortgages are effected in the Presidency town, owing (1) to the easy ascertaining of title; (2) the ease of recovering debts under section 69 (c) of the Transfer of Property Act, which is applicable to Presidency towns alone.

Method of allotting Loans.—Since nearly every member—at least three out of four—of an ordinary Nidhi wishes to borrow, there is much competition for loans. Most of the Nidhis seem to grant loans according to priority of application; a list is made, and members get loans in turn; some Nidhis give directors power in case of pressing need, to allot out of turn. It is hardly necessary to remark upon the possible results; the winding-up reports show that officers' and directors' friends are apt to obtain priority, and it is conceivable that if much power is left to a secretary or ill-paid manager, those who obtain his favour in any way, obtain undue priority. Moreover, with the limited funds at disposal, those who are in the greatest need, must frequently fail to get a loan in time to be of use.

Some few Nidhis consequently adopt the auction premium plan, usually that in which the bidder offers a premium of so many rupees for the loan, the highest bidder wins and the premium is deducted from the amount of the loan, with the full amount of which he is, of course, debited.

Some adopt the so-called 'ballot' system; this simply decides the question by lot. At first sight it would seem the best method as avoiding favouritism and the cost of premiums, but it has been largely abandoned in America in favour of the auction system, and the new English Bill of 1893 expressly forbids it in all new societies, because, apparently, persons join societies merely to gamble for the lots, which, if they win, they sell at a high price to those in need, thus realizing a heavy profit which should have gone to the society; in fact a society seems to be often formed by a ring of speculators who gamble for the subscriptions and share the profits.

Interest.—The interest in many Nidhis is high; in some it is, *prima facie*, unnecessarily high; but it must be remembered, in comparing rates with those of money-lenders, (1) that all dealings are, in theory at least, regular and clear and open to complete inspection and audit; (2) that in loans payable by instalments, counter-interest at the same rate is allowed on all instalments, while sowcars, specially under the 'kanthu' system, allow no interest on instalments; (3) that all borrowers of regular loans are necessarily subscribers who share in the profits of the Nidhi, and thereby obtain a further set off against the cost of their loans. For example, a loan of Rs. 100 is granted at 6½ per cent. repayable in eighty-four months (seven years) by monthly instalments of Re. 1 each; in these seven years the borrower will have paid as interest (6½ × 7) = Rs. 43-12-0. But since he has repaid his loan by the usual subscription of 1 rupee per month, on which interest at 1 pie per rupee per month (6½ per cent. per annum) is allowed, he will be credited with $\frac{64 \times 85}{2}$ pias, equal to Rs. 18-9-6: hence for the accommodation of a lump sum of Rs. 100 repayable by monthly instalments over seven years, he has paid about Rs. 25, if interest upon interest is neglected. From this again is deducted his share of the "additional profits" due to him as a member.

The following table from Nidhis in Madras and the mofussil gives a view of the rate of interest:—

Society.	Regular loans.			Temporary loans.			Small lot loans.	One rate for all kinds of loans.	Loans to strangers.	Penal interest on default.			Deposits.							Remarks.		
	Simple loans, pledge of jewels or Government paper.	Mortgage.	Personal security.	Pledge.	Mortgage.	Personal security.				Non-benefited subscribers.	Benefited subscribers.		Non-subscribers.	At call.	Three months.	Six months.	Nine months.	One year.	Two years.		Three years.	Full term.
											Simple loans.	Other loans.										
A	P. Ct. 6½	P. Ct. 7½	P. Ct. 9½	P. Ct. (1) 9½ (2) 7½ above Rs. 500	P. Ct. 10½	P. Ct. 12½	P. Ct. 15	P. Ct. ...	P. Ct. (b)	P. Ct. 25	P. Ct. 37½	P. Ct. 37½	P. Ct. (a)	P. Ct. 5	P. Ct. ...	P. Ct. ...	P. Ct. ...	P. Ct. 6	P. Ct. ...	P. Ct. ...	P. Ct. ...	(a) In H and I the loans are put up to auction, and the premium bid for the loan is an additional charge in the nature of interest taken in advance and is often very heavy.
B	P. Ct. 6½	P. Ct. 7½	P. Ct. 9½	P. Ct. 7½	P. Ct. 9½	P. Ct. 9½	P. Ct. 15	P. Ct. ...	P. Ct. (b)	P. Ct. 12½	P. Ct. 25	P. Ct. 25	P. Ct. (d)	P. Ct. 5	P. Ct. 5	P. Ct. 5	P. Ct. 5	P. Ct. 5	P. Ct. 5	P. Ct. 5	P. Ct. 5	(b) Only temporary and small lot loans are open to strangers who are charged for these at the same rate as members.
C	P. Ct. 6½	P. Ct. 7½	P. Ct. 9½	P. Ct. (1) 9½ (2) 7½ above Rs. 500	P. Ct. 10½	P. Ct. 12½	P. Ct. 15	P. Ct. ...	P. Ct. (b)	P. Ct. 25	P. Ct. 37½	P. Ct. 37½	P. Ct. (a)	P. Ct. 5	P. Ct. ...	P. Ct. ...	P. Ct. ...	P. Ct. ...	P. Ct. ...	P. Ct. ...	P. Ct. ...	(c) Strangers are charged "according to circumstances." (d) Interest must be prepaid by non-subscribers.
D	P. Ct. 6½	P. Ct. 7½	P. Ct. 12½	P. Ct. 12½	P. Ct. 12½	P. Ct. 15½	P. Ct. 15 18½ on default	P. Ct. ...	P. Ct. (b)	P. Ct. 25	P. Ct. 37½	P. Ct. 37½	P. Ct. (d)	P. Ct. 5	P. Ct. ...	P. Ct. ...	P. Ct. ...	P. Ct. 6	P. Ct. 7	P. Ct. 8	P. Ct. ...	
E	P. Ct. 6½	P. Ct. 7½	P. Ct. 12½	P. Ct. (1) 9½ (2) 7½ above Rs. 500	P. Ct. 10½	P. Ct. 12½	P. Ct. 15	P. Ct. ...	P. Ct. (b)	P. Ct. 25	P. Ct. 37½	P. Ct. 37½	P. Ct. ...	P. Ct. ...	P. Ct. 6	P. Ct. ...	P. Ct. ...	P. Ct. 9 per cent. above Rs. 500	P. Ct. ...	P. Ct. ...	P. Ct. ...	
F	...	...	...	...	...	...	...	P. Ct. 6½	...	P. Ct. 12½	P. Ct. 12½	P. Ct. 18½	...	P. Ct. 6	P. Ct. 6	P. Ct. 6	P. Ct. 6	P. Ct. 6	P. Ct. 6	P. Ct. 6	P. Ct. 6	
G	...	...	...	...	...	...	...	P. Ct. 6½	...	P. Ct. 12½	P. Ct. 18½	P. Ct. 25	...	P. Ct. 6	P. Ct. ...	P. Ct. ...	P. Ct. ...	P. Ct. ...	P. Ct. ...	P. Ct. ...	P. Ct. ...	
H	(a) jewels 10½	9	...	9	9	9	...	...	(c)	18½	18½	18½	...	6	...	...	...	9	...	...	...
I	(a)	9	...	...	...	...	...	...	10½	12½	12½	12½	...	...	...	...	...	...	...	...	...
K	9	9	9	10½	10½	10½	...	...	...	18½	18½	18½	...	6	...	...	...	up to 9	...	...	...

The rates vary considerably. A to F and L, M are mofussil Nidhis; G, H, I, K are in Madras. The great difference in interest found in G, H, I, K is noticeable and no good reason has been given. Penal rates are very heavy and are intended to enforce punctuality, but may easily be abused because of the great profit derivable from them. The rates given on deposits are also entered, so as to show the margin of profit. The 'auction premium' system found in certain Madras Nidhis (see H and I) has already been noticed; this amounts to an indefinite increase of interest which may thus depend wholly upon a man's necessity.

Loan Values.—The maximum value of loans to a single person is practically fixed by the number of shares he may hold; since each share is for Rs. 50 or Rs. 100, and fifty shares is the general maximum to be held by one man, Rs. 2,500 or Rs. 5,000 is the maximum loan. The minimum varies from Rs. 5 upwards. The small loans are usually the special 'small lot' loans bearing high interest and for short terms; regular loans are not of less value than one share. These societies are quite capable already of giving considerable loans, while yet adapting themselves to very petty needs; e.g., in one Ceded Districts Nidhi the maximum loan actually granted during the past three years is Rs. 3,200, and the minimum Rs. 10; in another Rs. 1,180 maximum and Rs. 5 minimum; in three other Ceded Districts Nidhis the maximum varied from Rs. 1,500 to Rs. 2,000 and the minimum fell to Rs. 8. In the Nidhis of Tamil districts (mofussil) the maximum loans actually granted were from Rs. 1,000 to Rs. 2,800, while the minimum was Rs. 5. While, however, funds are limited to subscriptions with occasional or moderate deposits, it is obvious that the mass of subscribers must fail in getting loans just in proportion as large loans are granted; one loan of Rs. 3,000 absorbs for the time the funds for ten loans of Rs. 300 each. The following table shows maxima, minima, numbers and annual averages for the last three years in certain mofussil Nidhis:—

Nidhi.	Maximum.		Minimum.		Loans above Rs. 100.		Loans below Rs. 100.		All loans.	
	Possible.	Actual.	Possible.	Actual.	Number.	Average value.	Number.	Average value.	Number.	Average value.
A ...	Rs. 5,000	Rs. 3,200	...	10	313	Rs. 100	173	Rs. 50	486	...
B ...	2,500	1,500	...	50	76	...	19	...	95	...
C ...	5,000	1,180	5	5	102	...	428	...	530	89
D ...	2,500	1,500	...	25	404	...	224	...	628	...
E ...	2,500	2,000	...	50	84	...	12	...	96	220
F ...	2,500	1,500	10	8	89	...	26	...	115	111
G ...	...	2,600	5	6	91	208	22	...	113	194
H ...	2,500	1,000	5	9	...	...	...	...	...	...
I ...	2,500	2,400	...	20	261	...	129	...	390	131
K ...	5,000	2,500	5	5	77	326	40	60	117	236
L ...	...	2,800	...	20	628	404	1,014	50	1,642	185

The average of all loans appears to be about Rs. 166. From another table given below the average appears as Rs. 168 for all loans, Rs. 255 for those above Rs. 100 and Rs. 43 for those below Rs. 100:—

Number of Bank or Nidhi.	Average number of loans.	Below Rs. 100.	Above Rs. 100.	Average amount of each loan.	Below Rs. 100.	Above Rs. 100.
1 ...	486	173	313	100	50	...
2 ...	95	19	76	...	...	...
3 ...	530	428	102	89	...	...
4 ...	628	224	404	...	...	...
5 ...	50	10	40	350	Nil.	350
6 ...	21	5	16	161	43	194
7 ...	96	12	84	220	...	...
8 ...	115	26	89	111	...	...
9 ...	29	5	24	202	37	239
10 ...	30	18	12	187	66	269
11 ...	113	22	91	194	...	208
12 ...	390	129	261	131	...	...
13 ...	117	40	77	236	60	326
14 ...	1,642	1,014	628	185	5	404
15 ...	20	Nil.	20	100	Nil.	100
16 ...	7	5	2	94	42	207
	4,369	2,130	2,239	168	43	255

These, though not selected for this purpose, are among the best and largest in the presidency, so that the statistics are not true averages; they are not complete, and are sometimes incorrect, but are entered as stated, palpable errors excepted. Remarks are needed as follows: in F sixty loans of above Rs. 100 each and eight of below Rs. 100 were given on personal security. H has only been recently started; I is rather a Joint Stock Commercial bank than a Mutual society, and its annual loans average above 3 lakhs, i.e., as much as, till lately, the annual normal Government budget under the Land Improvement and Agriculturists' Acts. But the bank is of purely local and indigenous foundation, and is said to be working extremely well in a mofussil town; it cannot, however, be taken as a type of a true Nidhi.

Duration.—This is regulated by the nature of the loan, not by the use to which it is to be put. All 'regular' loans, *i.e.*, those to subscribers to be repaid by monthly instalments as shares, are granted for the time during which those shares have yet to run; *e.g.*, in one Fund with a term of eighty-four months, the maximum term is necessarily eighty-four months; in another forty-five months; a loan asked for after one year has expired will run only for seventy-two or thirty-three months respectively. This is a rigid rule and most strictly observed; the loan must be paid off by the regular monthly share subscription, or the borrower will be considered a defaulter and treated accordingly. While eminently suited to the classes who chiefly use these societies, such as officials, pensioners, tradesmen, it is obviously ill-adapted to anything like land improvements by ryots for whom the terms are too short, and the monthly payment rule too rigid. There is, however, a method of partly avoiding the former difficulty; during the term of the loan, should the borrower find himself in want of money, he can apply for a new loan, if this is granted, the old loan will be wound up and a new one granted for a new term of forty-five or eighty-four months; *e.g.*, if a man has borrowed Rs. 300 for eighty-four months, and has paid up in three years Rs. 108, and then applies for a new loan of Rs. 300, the sum of his payments, *viz.*, Rs. 108, plus counter-interest, say Rs. 4, will be calculated, and the balance against him struck for Rs. 192. The new loan for Rs. 300 will now be issued, Rs. 192 will be deducted for the balance of the old loan, and Rs. 108 handed over. In this way a man can obtain a considerable sum on the same property by a succession of loans which may enable him to develop an improvement, but he cannot, by this method, obtain any prolongation of the original loan, nor does the method solve the difficulty that the annual payments required are too large for a land improvement or for the building of a house, or the difficulty of monthly payments by a ryot. Suppose a loan of Rs. 300 be taken for one of these improvements, each year the borrower must repay with interest (Rs. 18-12-0 or more) Rs. 36 or 72 according as the term of the Nidhi is eighty-four or forty-five months; this is an impossible rate when the repayment of the loan is sought—as in land improvements—from the net profits of the improvement. For such loans much longer terms and smaller annual instalments are absolutely necessary.

The difficulty as to monthly repayments is variously avoided: in some Nidhis the bad plan is adopted of allowing arrears to accumulate: this is a direct breach of rule and therefore bad in itself; it also teaches unpunctuality, and entails penal interest. Another plan is adopted by one Fund which lends Rs. 100 on condition of repayment of Rs. 125 in forty-five months in five instalments of Rs. 25 at nine months' intervals; this has the disadvantage of high interest (about 12½ per cent.), while, since the period is nine months, the instalments must, on several occasions, fall due at wrong seasons, a fact which entails arrears and penal interest: this is a detail which could be modified. The same Fund will procure implements for its clients if the instalment is raised to Rs. 27, a large increase in the interest, intended to cover the Fund's commission as agent.

Small lot and temporary loans are usually for one to three months, open, however, to one or even two renewals, sometimes at increased interest.

Purpose of Loans.—This is stated generally as for payment of prior debts, purchase, building or repair of houses, purchase of lands, trade, marriages, and payment of assessment; usually the order stated is that given above, and the last-named is only mentioned by one Nidhi. In a *very few* cases is the improvement of lands (digging of wells) mentioned, but the purchase of lands and of cattle are occasionally stated; the redemption of prior debt is common, and in some cases the repayment of a Government loan is mentioned, probably when a loan has been called in for breach of conditions. It is to be remembered that nearly all these Nidhis are in towns, mostly large ones; hence agriculture is seldom represented, and the Government assessments are those due by considerable and absentee proprietors. Nearly all Nidhis expressly state that they do not interest themselves in the purpose for which the loan is required; they look only to the security; this seems to be universal. Even when the form of application contains a query as to the purpose for which the loan is required, it is merely put to guard against any objection by third parties that the loan was granted otherwise than for useful family purposes, or it is, rarely, a relic of a past attempt at control; two Madras societies stated that this control was once customary, and that formerly loans were only granted by instalments, after ascertaining that the money had been used for the specified purpose, probably house-building. This practice seems to have generally died out, and was only intended to safeguard the security given to the Nidhi, as, for instance, when money was granted for repairing a house which was the security for the loan. In this matter the Nidhis have adopted the ordinary commercial practice and fall short of the true co-operative principle of the guided, guarded and controlled use of credit; it is the influence of the society on its members towards prudence and productive borrowing which is one chief function of the German and Italian Credit Unions (*see* 'Raiffeisen' and 'Wollemborg societies,') a function entirely missed by societies which care only for the security of their money and the due return of profits.

Recovery of Loans.—The repayment of regular loans, which are those chiefly contemplated by the Nidhis, *viz.*, those repayable as shares by monthly instalments, is provided for by the instalment system, a very advisable plan for certain classes of people. Delay entails penal interest, and failure for three or more months usually entails liability to exclusion from the society and to the procedure necessary to recover the loan amount when this exceeds the paid-up value of the shares held. There seems to be a great deal of unpunctuality, since the penalties for arrears form usually a considerable source of profit, but in well-managed societies there has been no great final failure to pay, and little or no final loss, owing to the very complete security always taken whether as mortgage, pledge, personal security, deposit of Government paper, promissory notes upon paid-up shares, &c. It is found, too, that a little patience frequently results in full payment; this is expressly mentioned in the annual report of one flourishing Nidhi. In one thoroughly rural terminating Nidhi, though the penal interest due to unpunctuality accounts for nearly a third of the income, there has been only one suit in seven years; there has, however, been some difficulty in collecting, at the winding up, the full balance of dues. Herein lies one of the chief benefits of purely local societies; they can perfectly judge of the *bona fides* and *status* of a borrower, and can decide whether time may not be given under the circumstances. The Madras Town Nidhis report in fact little or no difficulty, except when continued default or failure of security forces them to Court.

Should it be necessary to proceed to recover the arrears by coercive measures, the Presidency town and the mofussil Nidhis are found at once to be on a very different footing. In the Madras town the Nidhis have the right, under section 69, clause (c) of the Transfer of Property Act, to sell the mortgaged property, without the intervention of a Court, after three months' notice to the mortgagor. As the mortgages are very carefully investigated, as titles are clear, owing to the certificate system, and as arrears probably accrue only after a portion has been paid off by the monthly subscriptions, this power enables Nidhis to recover their dues readily, cheaply, and without any balance; one large society has had only one suit for a balance in twenty-two years. Moreover, though Madras Nidhis complain of the cost and delay of the Presidency Town Courts, they, at least, have Courts at their doors.

Another method is adopted by the Madras Town Nidhis to prevent difficulty in recourse to the Courts; the mortgage is made out as a mortgage with possession and the mortgagor then executes a rental agreement, thus holding his property as tenant of the Nidhi; in case of default he can be sued in the local Small Cause Court for failure to pay rent, and promptly ejected. It is not, however, usually found necessary to exercise this power. This corresponds with the provision frequently made in English mortgage deeds and called an attornment clause; an English society in such case takes the position of a landlord, and can, therefore, distrain summarily for the amount due. The provision used to be common in English Building societies, and has been legally decided to be valid. It would provide a summary remedy for mofussil Nidhis if the mortgagee took the position of a landlord under the Rent Act, but this does not seem to be the case; nor have Mofussil Small Cause Courts the power to entertain suits for ejection in consequence of default. It will be seen, then, that mofussil Nidhis are heavily weighted as compared with Madras societies.

Generally speaking, in the mofussil, Nidhis have only the ordinary procedure in the case of debts, *i.e.*, they must file a suit in some Court, as it has been ruled that a mortgagee has no power of himself to sell, even though such power be expressly entered in the mortgage deed; this Court may be 30 miles away as is frequently the case in the Ceded Districts. The mofussil Nidhis, one and all, complain of difficulty whenever they must resort to the law, *viz.*, in distance, cost, and delay. One rudimentary and purely indigenous Nidhi, which lent in sums of Rs. 25, broke up because its members learnt that the cost and delay of going to a Court, distant about 20 miles, was so prohibitive that the directors preferred to abandon debts. It appears that if it is really necessary for Nidhis, especially when at a distance of more than 5 miles from a District Munsiff's Court, to resort to the aid of the tribunals, some simplified procedure must be found; remedies must be speedy and cheap. The experience of the Raiffeisen societies seems to show that the aid of the law is necessary; the influence of societies over their members usually suffices to secure the payment of debts, but then it is just to the fact that the aid of the law is at hand and can be readily invoked, that the societies owe part, at least, of their influence. In villages especially, rustic habits tend to delay, while the rustic mind is quite shrewd enough to see that when there is no cheap remedy, there may be an evasion of liability; hence it is necessary if rural Nidhis are to succeed, that there should be cheap and ready if not absolutely proximate tribunals to enforce just claims. There are several possible methods which will be discussed hereafter (*see* Chapter on 'Law'), and it is only necessary here to point out that the Village Courts of this presidency under Act I of 1889 with ordinary jurisdiction up to Rs. 20, are perfectly capable of dealing with all cases of arrears likely to arise; under the instalment system they have nothing to do with the mortgage or other security; all that the Nidhi would have to do would be to file a suit for the recovery of the monthly instalment whenever it is in arrears; the Court could settle the matter in a week and issue process for the decreed amount on the spot.

Government Intervention.—All societies have to be registered in the office of the Registrar for Joint Stock Companies; they obtain incorporation by this registration and fall under the operation of the Act. The duties of the registrar are simply those of registration, the examination of the articles, the issue of a certificate of incorporation, the registration of any changes, the levying of certain fees, the grant of inspection of documents and of copies, and the writing of an annual report, which, however, is not intended to be more than a skeleton of bare facts. District magistrates have recently (G.O., No. 1882, dated 15th December 1891) been required to make or cause to be made an annual inspection of the offices of the companies within their jurisdictions and a report on the same; the matters for inspection are simply those of sections 63, 65 and 69 of the Act relating to the establishment of a registered office, the affixing of a sign board, the use of a proper seal and designation on all documents, and the placing in public view of a certain statement in the Fund office; they should also, in districts where Nidhis are numerous (G.O., No. 3308, Judicial, dated 7th December 1885), make widely known, probably through their District Gazette, the provisions of sections 82-85 of the Act, relative to the appointment by Government of special inspectors for particular companies on good cause shown by a certain proportion of the members.

The only other Government intervention is that of the receipt of direct taxes under the Income-tax Act and Municipal Act (if in municipalities), of fees at the registration of a society or of subsequent documents, &c., and of indirect taxes in the form of the usual stamp duties and fees for the registration of documents.

It will be seen that Government intervention and supervision is practically *nil*; the registrar has no powers, such as those of the Registrar of Friendly, Provident, Co-operative, Building and Loan societies in Great Britain, or of the Ministers, superintendents, commissioners, inspectors, official directors, Commercial Courts, &c., of the United States and of European countries. They are left severely alone; these nascent and tentative societies groping in an untried path are, in imitation of the great joint stock companies in commercial and industrial England, left to their own devices; the only law governing them is a law copied almost verbally from an English Act which governs and embodies the experience of the commercial companies which had, during many years of English business, grown up to development, but which does not contemplate Mutual Credit or Co-operative societies with variable capital; the duties of the registrar of such companies have been imported without the duties of the Registrar of the Friendly, &c., societies, which alone correspond in England in objects and character with the Nidhis of Madras. In England, direct supervision and control are found increasingly necessary, and are universal in Europe, where the laws are specially framed to include these societies, and Government departments (Italy and Germany) are specially charged with

important duties; in fact for the most complete exposition of Government interference in banking, it is necessary to turn to the United States of America, where the National banking system, now ramified throughout the States, is minutely regulated by the law, and placed under the direct control and supervision of a commissioner appointed *ad hoc*, and where the Savings banks and Mutual Loan associations are placed under the special supervision either of the Superintendent of the Banking department (New York) or of the special Savings bank commissioners (Massachusetts), &c.

Nevertheless in India, where public opinion is almost *nil*, the Native press in its infancy, communications incomplete, the business sense and organization wholly imperfect, and individuals usually too timid, poor and inert to withstand or prosecute influential directors or associations, public banking companies are left to find their own way, and to work after their own methods, and to fail, either simply or fraudulently, without public notice or control. "Laissez libre" is good, but freedom in exchange, or in production, or in contract, does not, under Indian conditions, necessarily result from simply leaving business free, but in taking precautions that it is really free for all, and that all classes can trade or contract under equal conditions; it is certain that if direct care and supervision are needed even in Europe, there must be, in India, at least an equally active *surveillance*, and possibly even stimulation and guidance.

Forty years in Germany have sufficed to found several thousand popular banking institutions doing a business of £150,000,000 per annum; thirty years in Italy have brought into being about 700 such societies, doing an annual business of at least £60,000,000; forty years in Madras have produced only 135, and these are of extremely limited scope and of generally small business outside of Madras town, while their numbers are annually decreasing. Yet the conditions of the presidency are not unfavourable; communications are nearly as good as in much of Europe, better perhaps than in Southern Italy; justice is at least equally free, accessible, pure, cheap and prompt—they grievously err who think that European Civil Courts are models of cheapness and promptitude; there are very many educated men, trained in offices of Government and business, scattered through the country. What seems wanted is *initiative*, and the opinions of the most experienced Nidhi officers is that external impulse is a necessity, that Government must give not only the initiatory impulse, but a continued impulse, combined with an active supervision so arranged as to provide against the abuse of the powers and privileges that may be given, and against undue divergence from the rules, aims and methods of the several societies, while avoiding an irritating and enervating control. This supervision must be paid for by a *pro rata* contribution from the various Funds.

Results.—The question arises as to what these Nidhis have achieved; this may be considered under number, strength, financial position, amounts advanced, the use made of the loans, the effect upon members.

Number.—The following table gives the number and capital of the Nidhis for a series of years:—

Year.	Number at close of year.	Nominal capital.	Paid-up capital.	Percentage paid up to nominal capital.
		rs.	rs.	
1885-86	202	2,34,29,087	54,14,614	23
1886-87	269	2,57,81,140	77,64,064	30
1887-88	262	2,58,41,912	93,47,608	36
1888-89	208	2,44,49,620	96,31,712	39
1889-90	175	2,40,93,254	85,35,300	35.4
1890-91	151	2,85,41,197	75,39,610	32
1891-92	135	2,33,81,933	78,98,519	33.3

The rapid increase of these Nidhis culminated in 1886-87 with 269 societies, and 2½ millions sterling of nominal capital. From that year they have fallen rapidly till, in 1891-92, only 135 are found; whether this is the end of the descent remains to be seen. Above half of the existing Nidhis are in the Presidency town. The table, however, does not show the whole facts; in the earlier years scores were newly started annually, while nearly as many dropped out; the figures are merely the numbers existing at the end of each year and do not show births and deaths. The following table gives a further history and shows the rapid rise and fall in numbers:—

Year.	No. in first year of quinquennium.	No. in last year of quinquennium.
1872-77	20	49
1877-82	54	80
1882-87	93	269
1887-92	262	135

During the five years ending in 1892, no less than 260 Nidhis were wound up, of which 181, or 70 per cent. belonged to Madras town, 87, or 14 per cent., to the Chingleput district, 26, or 10 per cent., to North Arcot, 7, or 3½ per cent., to Salem, and the rest to five other districts. Curiously enough, the Nidhi method has hardly extended to the great Tamil districts of the south.

It is a somewhat disappointing result of so many years' example and work. The most serious feature is that, although considerable success has attained properly managed institutions in Madras City, and in a few up-country towns, hundreds of both Madras and mofussil Nidhis have collapsed, showing either ignorance, mismanagement, want of capacity, fraud, or, as regards mofussil Nidhis, an unsuitability to mofussil conditions, or else external difficulties which require removal. These matters will be dealt with under 'difficulties and defects.'

Financial Position.—The first table in the preceding paragraph coupled with the history derived from the liquidation reports, &c., discloses interesting facts; (1) it is clear from the statistics of nominal capital and from the numbers that a large number of petty Nidhis with small capital sprang up prior to 1888; (2) that these small Nidhis rapidly died out, so that, while in 1891-92 only 262 with 258 lakhs of nominal capital, or one lakh apiece on an average, there were in 1891-92 only 135, but these had a nominal capital of 233 lakhs or nearly 1½ lakhs each; (3) that in 1888-89 the Nidhis reached their highest point of paid-up subscriptions which then fell off rapidly till 1890-91, after which they have begun to rise; (4) from the liquidation reports, &c., it is clear that the elimination of these petty Nidhis is due to inherent weakness, to inability of the directorate to cope with irregularity and unpunctuality, possibly because they were isolated and unsupported, and possessed no special ability to coerce or guide their members in methods of business and even of common honesty. This will be adverted to at length *supra* 'Difficulties.'

But it must not be inferred that small societies are necessarily weak, nor can any such argument be drawn from the statistics *per se*. A Nidhi with few members may be financially stronger than a large one, for the liabilities of these societies increase in a greater ratio than their stability, owing to the decreasing possibility that the directorate should personally know the status and value of the members, and owing to the greater chances of fraud and mismanagement.

Nor is any good inference to be drawn from the ratio of paid-up to nominal capital; these societies at incorporation fix their nominal capital at a purely fanciful amount, limited often merely by the cost of the registration fee; hence a large capital, nominal or paid-up, shows necessarily neither weakness nor strength, but simply more or fewer members, or—since the paid-up capital necessarily increases with the age of the society—a greater number of shares approaching maturity; and therefore greater liabilities on the society; in fact, it is obvious that as shares approach maturity, *i.e.*, as the paid-up capital increases in proportion to the nominal capital, the society finds itself in the difficulty of having to provide very large sums, which is often done by attracting deposits at high interest.

Strength.—Figures are largely wanting, since a great number of the Nidhis to which queries were issued have sent no answer. But twenty of the chief mofussil Nidhis have 5,924 members or 296 each; this is possibly too high as a general average, for the Nidhis in question are the chief examples of mofussil societies. In Madras town there is one with above 3,000 members and in the Ceded Districts another (not included in the above twenty) has 1,400 members, but these are exceptionally strong; the former commands not only the best talent in Madras in its management, but with that management, the confidence of the public, chiefly official and mercantile. It is probable that there are above 3,5000 members in all, each possessing something over Rs. 220 as paid-up capital. This is no had beginning in unaided co-operative effort; it is disappointing, in that it might have been, by this time, in a more advanced stage.

Amounts advanced.—The table above shows that the paid-up capital of the 135 Nidhis is Rs. 78,96,519. As elsewhere shown deposits are small in amount and temporary, and do not greatly exceed the temporary loans, reserves, cash in hand, &c.; hence the amount available for regular advances under the Fund system is practically that of the paid-up capital only, or say 80 lakhs, and the whole of this is usually out on loan.

Now this capital is paid by monthly subscriptions, the shares maturing in from thirty-six to eighty-four months; the average may be taken as five years, so that the annual share subscriptions of the Nidhis probably aggregate about 16 lakhs of rupees. But the duration and the amount of the regular loans correspond with that of the shares, each loan of Rs. 100 corresponding with a share of that value; hence the average 'permanent' (subscription) loan is also five years; consequently the average annual amount available for advance is also about 16 lakhs, to which must be added the accruing interest, &c. Hence something like 20 lakhs is probably the annual amount available as regular advances on shares, mortgages, jewels, &c. This amount is largely lent in the Presidency town, in which about four-sevenths of the Nidhis are situated. Hence the Nidhis, do not, as yet, absorb much of the loan business which, in 1891, amounted for the presidency to 650 lakhs for mortgages alone; certainly not more than from 2 to 3 per cent. of the Madras presidency debt is taken up by them, and not more than 2 per cent. of the mortgages. Moreover, since most of the Nidhis are in towns and agricultural members are about one in eleven, the result to agriculturists is small and to agriculture proper inappreciable.

The number of annual loans of all classes is not known, but the following table gives the figures for sixteen Nidhis, which alone have supplied answers to queries:—

Number of Nidhis.	Average annual number of loans.	Below Rs. 100.	Above Rs. 100.	Average amount of each loan.	Below Rs. 100.	Above Rs. 100.
16	4,369 (273 per Nidhi).	2,130	2,239	Rs. 168	Rs. 49	Rs. 255

The average annual number is unduly high, since the table includes a Nidhi which is really a Commercial bank dealing in short-term loans; this has only 333 members, but accounts for 1,642 loans; if this Nidhi be excluded, the average per Nidhi is 182. This is still too high, as the fifteen Nidhis supplying figures are mostly of the best and largest class. If 100 per Nidhi be a fair average, the loans annually granted by 135 Nidhis would be 13,500; multiplying this by Rs. 168, the average of each loan, the annual loans would aggregate Rs. 22,68,000 on all classes of loans, regular, temporary and small lot.

Use made of the Loans.—A very large number have been used in house-building, showing that the Nidhis fill a position similar to that of English and American Building societies. The payment of old debts is very frequent; marriage expenses are a considerable item, as also land purchase; land improvement and well-digging are very rare. It is stated by most Nidhis that the grant of cheap loans has done much for the help of the members, but the want of funds is frequently mentioned as a

reason for not doing much more. Several Nidhis, especially in the Ceded Districts, state expressly that many of their members have, by joining the Nidhi, "been relieved from the clutches of the "money-lender," and personal enquiry on the spot amply confirms this.

Results upon members.—It is asserted that habits of thrift, foresight, business, punctuality, public spirit have been aroused and strengthened: this is probable. On the other hand, very experienced men consider that cheap money has often begotten unthrift and extravagance, and they consider that to attain their full measure of usefulness, the Nidhis should control, in some measure, the purposes to which credit is put. This corresponds with the opinion and practice of the best European authorities and may be taken as axiomatic; it is not merely cheap credit, but controlled credit that Nidhis should supply. Of what benefit is it to a man that he can borrow Rs. 1,000 for a marriage on no higher terms than Rs. 500 formerly, if it merely leads him to borrow and spend accordingly? "Lightly come, lightly go," is but the record of experience. Nor is it less embarrassing to owe a bank Rs. 1,000 than a sowcar Rs. 500; in case, indeed of the borrower's death, it may be much more so, from its greater amount.

Unpunctuality is much complained of, especially in the case of members who do not draw regular monthly incomes; this is but natural, and is found in Europe and the United States also, among the non-wage earners, such as peasants, shopkeepers, &c. This fact points to the need for an adaptation of the system to such classes; it is *a priori* impossible that societies started for and by official and other stipendiary classes, should suit those whose incomes are of uncertain date or accrue only at certain seasons. Out of seventy societies taken at random, of which the winding-up reports were analysed, no less than forty-two failed solely or chiefly because of arrears; both benefited and non-benefited subscribers made default, but especially the former.

It seems that punctuality is in India the hardest to learn of all business lessons, and, as has been stated, it is probable that unpunctuality is connived at, if not encouraged, by reason of the heavy penal interest which results; in one Nidhi three-tenths of the income was from fines; in another and very large one, the net profits, after deducting guaranteed interest, were practically obtained from this source. Here then is another result of the greed for dividends; if these were fixed and all surplus went to a reserve or to works of utility, it would no longer be the interest of managers to allow unpunctuality, and the Funds would serve the great purpose of instilling the virtue of punctuality into an unpunctual clientèle.

Advantages, actual or possible.—These will have been understood from the foregoing sketch; they are the introduction of co-operative principles and habits, the stimulation of thrift and providence, the inculcation of business habits and punctuality, the cheapening of credit, the insuring, so long as the rules are observed, that the members will, if non-borrowers, get back their money with interest, and if borrowers, that they are secure from all annoyance so long as they pay their dues punctually, and that all dues will be rightly credited to their accounts; business is extended by cheapening loans, and not by entrapping the unwary and ignorant; profits are to be sought by the development of cheap credit and not by squeezing the individual debtor; the interest of all members, but especially of borrowers, is, or should be, the primary aim of the directors, and not the development of large profits for the benefit of the directorate and the non-borrowers. Small savings are duly cared for and receive interest higher than can be obtained in the Savings bank; sums nearly as small as savings deposits are received with the educative benefit of compulsory regularity; petty capital is retained in the neighbourhood in which it is saved, and utilized *in situ*; societies and borrowers are in immediate contact, so that the expenses of enquiry and insurance against risks are reduced to a minimum; debts are repaid by a series of small equal instalments, so that, while the borrower repays with ease, the society can recover in the Village Court, and its security increases in proportion as the debt is repaid; all payments are recorded in the member's pass-book, so that he can note the amount at his credit, or the balance which he owes at any moment; the accounts of the society are, to a certain extent, published, and audit is not only possible but general.

Such are some of the possible benefits of the Nidhi system, and many of these are realized in daily practice, nor is there the slightest room for doubt that these societies, whenever they have been properly worked and supervised, have been of very great benefit to their members in so far as regards the grant of fairly cheap credit, easy methods of repayment, and genuine accounts; it is needless to contrast these advantages with the conditions of private lending.

DEFECTS.—There are, however, defects in these Nidhis; these fall under three main heads (1) defects in constitution, (2) limitation of scope, operation, and influence, (3) divergence from co-operative ideas. Many have already been dealt with in the section on 'Methods.' (See reserve, deposits, profits, loans, audit.)

DEFECTS IN CONSTITUTION—The Secretary.—Undue powers are often granted or too much is entrusted to a paid secretary. In the United States Building societies, which nearly correspond with the Nidhis, stress is laid upon the necessity for all responsible work being done by the directors; the usual plan is to elect annually nine or twelve directors (re-eligible), of whom three or four are appointed in turn for three or four months to carry out at the office all the work; the secretary is or should be the paid manager, but not the controller.

In this country a clever secretary is very apt to concentrate all the powers and functions of the directorate in his own hands; the latter are often too busy with private affairs, too ignorant, too incurious, too unbusiness-like, not to be but too ready to do as they are told, and to sign their names after and even without a superficial glance at the affairs of the Fund; the cleverer the secretary, the easier it is made for the directors, and the more readily do they resign their powers and functions to him. Out of seventy liquidated societies, nine (five certainly and four probably) failed from too implicit confidence in the secretary. This is a radical defect and cannot be combated by the most perfect set of rules; it is a defect which, with several similar ones, demands external—not necessary Governmental—supervision.

Administration.—The methods and cost of administration are also defective. The directors frequently have no real stake in the concern; they need not be large shareholders; they give no security for diligence and good conduct or even for common attention, and are apt to be negligent; far too many are or have been congeners of the English "guinea pig." On the other hand, while lacking both the

enthusiasm and diligence of philanthropic trustees or managers, and the hired activity of well-paid officers, their aggregate fees often amount to an undue share of the necessarily small profit. As elsewhere stated, gratuitous administration by the directorate is almost necessary to the success of mutual aid societies, so as to avoid divergence towards operations aimed at large profits, to strengthen the principle of mutuality, to increase the profits of or diminish the cost of loans to members. A paid staff or establishment is a necessity; an unpaid directorate is a desideratum.

Not only should it be unpaid or granted but moderate honoraria, but it should, as in America and Europe, be led to take an active interest in, and a large share of, the actual work of the society; not merely one or two of the directors, as is usually the case, but all the directors in turn (*see* 'Building societies,' United States). Work which is done personally in America and Europe by men of business and position, acting as directors of great societies, in the way of actual dealing with the individual members and their individual business, is far too often thought beneath the directors of Nidhis, partly at least because the society is considered a mere dividend-paying concern and not as an association of persons to be helped and studied; it is one result of the joint stock as against the co-operative idea: directors are too often mere shareholders of some social position locally, drawing extra profits for the sake of their name, and not even as the reward of extra diligence.

It is advisable that directors should have a considerable stake in the society; they should necessarily hold a substantial number of shares which should be inalienable and unpledged for loans, and should also deposit a fixed sum which should have a paid interest. No director should be allowed to borrow from the Fund, or become security for a loan except under special precautions, as in Europe—when such borrowing is allowed at all—by the vote of a general meeting or by the express permission of the committee of supervision.

The cost of establishment, as usual in small Indian corporations, is apt to be excessive. Nothing in India seems possible, even in the smallest corporations, without separate gumastahs and peons, whereas one secret of European and American success is the utilization of men already occupied in some other cognate business, and who are, therefore, paid merely for the expenditure of their spare time. In the smaller class of Nidhis the pay of a gumastah swallows up much of the profits, while the salary which can be afforded is too small to attract decent men. In one petty Nidhi, for instance, the mere establishment (gumastah, peon, &c.) costs Rs. 22 per month, whereas the clerical work which ought to be done as in America and Europe, by directors at their weekly meetings for the receipt of subscriptions, grant of loans, &c., could be done easily in six hours per week. In another the total interest received in the year was Rs. 508, while its establishment—irrespective of the remuneration to directors and office-bearers—was Rs. 245, in addition to which it paid Rs. 65 for a peon and Rs. 56 as house-rent. True, it was newly established, but it began on an extravagant scale, and its income shows how little was the actual work. If a small Nidhi of 100 members had only one office-day per week, the directors could attend on that day for the transaction of business, office establishment (the village kurnam or other) could be reduced to a minimum, the directors would learn to take a personal interest in the business, unnecessary expense would be avoided, and profits increased or the cost of loans diminished. In America the work would all be done by the directors, with a minimum of hired assistance, and the use of a room once a week. In brief, small Nidhis, which must form the bulk of rural societies, ought to work through an unpaid directorate and by a staff paid only for the use of its leisure; this is in fact successfully done occasionally.

The rules are often good or fair, but their observance is often bad; *e.g.*, valuations of property are often not properly checked whether on the application for the loan or at the annual verification prescribed by some rules; verifications of valuables in the safe are apparently—to judge by several known and recent cases—not closely and frequently checked by the permanent auditor, so that theft and misappropriation are possible: safes are provided with three or four keys for different individuals, but all the keys find their way to one person. There is much need of supervision to enforce the observance of the rules, but there is no committee of supervision to enforce such observance as is universally found in Europe; it is curious that in 1893 an amendment to the rules of the largest Madras Nidhi proposed precisely such a "committee of control" to supervise the work of the managing committee; the result of the proposal is not known.

Control of the use of Loans.—The non-supervision of the use to which loans are put is a defect. The successful Raiffeisen and Wollemborg rural Loan societies in Germany and Italy very rigidly control the use of credit by their members, a control thoroughly recognized in all loans for land improvement in all countries. If Nidhis are, as Co-operative societies, to fulfil their complete rôle, it must be in guiding and controlling the use of credit. But the special defect of these Nidhis in common with their prototypes, the so-called Building societies (really Credit societies) of England and America, is that borrowing is often encouraged by them: in order to make profits and to prevent money from lying idle, it is absolutely necessary that loans should be taken. At present in India this is no great defect, for the borrowers are usually in the proportion of three or four borrowers to one investing member; on the other hand, when they are established and profitable, as in America and occasionally in Madras, they become places of investment, and it is then necessary to encourage borrowing: in America, there are often rules to enforce the taking of loans by members who do not wish to borrow.

In India the reasons for keeping control over the borrowing are (1) the practical necessity for securing the return of the money lent; (2) the profit to be derived from a productive investment, and the necessity for developing production; (3) the high moral and educational purpose which societies serve by such control. There is nothing utopian in the suggestion that credit must be guided, and its use controlled, for it is a practical fact in modern Europe; there is nothing of sentimental or meddling philanthropy in it, for it is promoted and executed by thousands of business men in those countries; there is nothing derogatory or superfluous in the proposal, for that which is found useful, nay necessary, in Europe, can hardly be a superfluity or an indignity in Southern India, nor is there any derogation from men's individual dignity or self-reliance in an association of themselves which, under their own self-made rules, shall teach and help them to raise themselves from poverty to comfort, from dependence on the usurer to independence, from ignorant and reckless or at least careless expenditure to the calculated, provident, and productive use of capital. It is bad and

mischievous to put and keep men in State leading strings: it is the highest art in statesmanship to contrive that they shall control and guide themselves in the narrow path of prudence and organized effort.

Loans are very frequently taken to pay off prior debts, usually usurious; this is, indeed, the primary object of many societies as stated in the Articles, but no trace is found in practice of any society assisting its members in arranging with their creditors. One of the claims most strongly urged by promoters of proposed Agricultural banks is the prior liquidation of debts by Government; in this presidency this may not be needed and has not been claimed. But, since even in this presidency the money-lender and his clients are too often as the spider and the fly, it would be highly advantageous that an attempt at compromise or settlement should be undertaken by the bank whenever a borrower wishes it, so that the experience and influence of the bank might assist the ignorance of the client. Heavy discounts can usually be obtained for cash down: the bank might, though not advisably, claim a portion of this for its trouble. At present the debtor arranges his own terms, and merely borrows from the bank which takes no part in the settlement.

Arrears.—Out of seventy societies, the history of whose liquidation during the past seven years has been traced for this report, no less than forty-two, chiefly in the Madras town, failed because of the arrears due by borrowers. Part of this failure to repay loans is due to the characteristics of Indian society, which often will borrow simply because it can borrow, and without a calculated thought as to repayment and the reproduction of the loan; part is—during the last two years—due to poverty and distress due to seasonal failures, though this is rare, for the Funds were seldom rural; part is due to sheer want of supervision over the use to which the loans were put. It is but inviting bankruptcy if money is allowed to be borrowed without the probability of a profitable return: if a man's income is, *ex hypothesi*, insufficient for his wants and he has to borrow, how can it be sufficient to meet those wants *plus* the amount required for repayment, unless the loan has been so spent as to reproduce itself with profit? It is not mere credit that is wanted in India; credit may easily ruin more than it benefits; cheap and facile credit only tempts to easy extravagance; it has been found even in England (*see* Lord Vernon in the 'Nineteenth Century' for June 1893) that the mortgages of the Land Improvement societies repayable only by long-term annuities, lead to rather reckless borrowing, because the repayment is gradual and unfelt; how much more in this country may easy long-term credit lead to careless expenditure? If even land improvements have been rather recklessly made because of the facility for repayment, how much more may mere extravagance be similarly fostered? The gist of much correspondence and conversation is summed up in the laudatory words of an experienced and enthusiastic subscriber to a large Fund, "Yes, the Fund does much good; a man may borrow Rs. 1,500 and spend it on a marriage, and repay it without feeling it." That is precisely the danger; because he can pay without feeling it, he will often borrow beyond his position or necessity, for any purpose that may seem immediately desirable; hence even Nidhis may actually promote, though of course unintentionally, disaster and even crime. In one mofussil town a recent serious murder is traceable—it is believed—to the heavy indebtedness of the murderer to a Fund, money being necessary to him at any price to clear his debts; an experienced police officer alleged that the indebtedness to the Funds of many police and others on small pay, was such as to cause much trouble. For the sake, then, of the society and for the sake of its borrowers, credit must be controlled, and the chance of arrears or final failure to pay, minimized by insisting on profitable investment of the loans, including, of course, the liquidation of prior usurious debts, and similar useful expenditure.

Part, however, of the arrears is due to legal difficulties in recovery. The bulk of existing societies find indeed little difficulty, because they are generally established in good business localities, where securities are good, where members and loans can be selected, and where there is a Civil Court at their doors. This matter is dealt with above *s.c.* 'Recovery of loans,' and the remedies are elsewhere (*see* 'Law') suggested.

Encouragement of borrowing.—One fault of this class of society is that borrowing is apt to be encouraged. To prevent money from lying idle and to promote competition at the auctions, is obviously to the interest of the society; in terminating societies it is *necessary* to compel either borrowing or withdrawal as the end of the term approaches. Apart from this, however, the mere constitution of the society tends to borrowing, for it is the borrowing member who runs no risk of loss if the society fails; he can but be made to pay up his shares, and this he must do in any case to repay his loan; meantime he has already had in his loan the full value of his shares: *e.g.*, a member has ten shares which will mature at Rs. 100 each; he borrows Rs. 1,000 on regular loan, the contract between himself and the society being, according to rule, that he shall repay his loan by the mere payment of his share subscriptions. It is to be remembered that shares in these societies do not resemble shares in joint stock companies; in the case of borrowers they are simply methods of repaying the loan; in a joint stock company a shareholder who borrows from the society is liable for his shares *plus* his loan; in these societies the shares are simply the means of paying up the loan. The society goes hopelessly bankrupt, and all its share funds are required to repay its depositors. The liquidator collects the share instalments as they fall due; according to the borrower's contract he pays regularly; at the end of the given period he has paid up his shares in full and consequently, according to his contract, he has wiped off his loan: the loan and the shares are not two separable sums; they are one and the same; consequently the liquidator has no further claim on the borrower: he cannot claim upon the loan, for it is paid off, nor upon the shares, for they are fully paid up. A non-borrowing shareholder, on the other hand, will equally have to pay up the value of his shares, which, *ex hypothesi*, will be swallowed up by the failure, so that his membership will result in nothing but loss. In fact the non-borrowing member pays his shares out of his own pocket, and the borrowing member out of the society's. This is an extreme case and ordinarily the non-borrower would obtain, as a creditor, part of his matured share, but the principle is true.* The difficulty is inseparable from the class of society; so long as

* In a U.S.A. Consular Report for 1893 a similar remark is made regarding English Building Societies; after speaking of borrowers the report says, "Losses, if any there be, fall exclusively on the investing (non-borrowing) members." No change has, however, taken place in the way of apportioning losses; these still fall exclusively upon "the investors in permanent societies." (Consular Reports, Vol. XLIII, No. 156, Washington, 1893.)

savings are exposed to the risk of failure by reason that the bank is a credit bank, and gets its profits from lending, so long will its members safeguard themselves by borrowing from it.

In England, though the Building Societies' law is quite different, the result is the same; non-borrowing members pay all losses. The law (S. 14) declares that all non-borrowing members shall be liable, in case of failure of the society, only to the amount which he has paid, or for which he is in arrears; a borrowing member's liability is as regards any shares "upon which an advance has been made, limited to the amount payable thereon under any mortgage or other security, or under the rules of the society." Hence a non-borrower may lose all that he has paid in, while a borrower merely pays back what he has borrowed, as he would have had to do had the society not failed.

In the chapter on 'Law' it is proposed to minimize this difficulty which seems inseparable from the method of repaying loans solely by regular subscriptions to shares, by requiring a separate small contribution in the way of an insurance premium, payable with each subscription by borrowing members; such sums to go solely to a special reserve, the whole of which shall be payable towards the society's losses in case of a winding up. This can however, be provided by the Articles of a society, and need not be a legal provision.

Monthly Subscriptions.—Every society, with one exception (*see* description of Fund A, *ad finem*), requires periodical and regular subscriptions, at least as often as every month. It is obvious that this is unsuitable for agriculturists who have no income other than their produce; no ryot can command a regular monthly income from which to pay the Fund subscriptions. If he is able to pay regularly during the six months succeeding harvest, it is as much as he can do, and he can hardly do this with regularity, as so much depends on his crops and on the markets. Some other mode of subscription must be found. In some societies there are agricultural members, and these, if respectable, are allowed to be behind hand with their dues for some months, paying up at harvest, with, however, penal interest. This is a clumsy and objectionable turning of the difficulty; habitual breach of the rules ought not to be permitted even for a good object.

In the above society (A) the plan adopted is to require the repayment of each Rs. 100 by five instalments of Rs. 25 each at nine-month intervals; this is a convenient method, but the period is bad, since, in each successive year, the repayment date alters, and must therefore, on several occasions, be unsuitable to an agriculturist.

It is said that payments-in are frequently received without the production of the pass-book: this should be strictly forbidden.

Audit.—The necessity for this has been dwelt upon above.

Isolation and want of Union.—One great defect is that each society stands alone, or is actually in competition with others in the same locality. The principle of mutuality or co-operation at all events should be extended, not merely to the members of a society, but to societies as members of a Union, as units in a public organism. Each society would be the stronger for being a member of a Union; an isolated society commands less confidence than one which is recognized by a far reaching Union, which in itself inspires confidence as being at once the outcome, the stimulus, and the visible expression of a great system, organized and controlled by the best practical men of the country, and therefore commanding public support.

What is wanted is a Union of the various Nidhis, formed by the action of the best men of Madras and the mofussil who have had practical experience of the working of the Funds; this Union would advise and assist nascent societies, supply, through trained inspectors and auditors, a very desirable supervision free from the *odium officiale*, give form and stability to the whole system, and inspire public confidence; it would issue a monthly journal devoted to the stimulation of thrift, providence, credit, and co-operative benefits generally, and to the development and criticism of their societies; it would collect information, discuss matters of interest, hold congresses, send out lecturers, and address the authorities in matters of legislation or executive supervision; it would be, at the same time, the instrument by which Government would be informed of the progress, condition and wants of the societies, and through which Government could issue suggestions, aid and information. This and many other purposes including, perhaps, as in Germany and Italy, the function of intermediary between societies with surplus funds, and those requiring them, would be served by a Union or League such as is now found essential both in every European country and in the United States.

Not only so, but it could maintain a general "castelletto," or credit register, in which all persons within the Union area who are likely to borrow or stand surety, would be entered, with the amount for which they are good, so that individual societies could be fairly certain in operations with men outside of their immediate neighbourhood. It would be possible also to add to this a register of actual loans as issued by each society, with the names of borrowers and sureties; this would obviate the trick occasionally played where there are numerous societies in a large town, of one man with the same sureties borrowing to the full value of his credit, from each of several Funds, each Fund being ignorant of the transaction with the other Funds.

Extension.—The societies do not seem to have aroused that enthusiasm and energy which is so marked a characteristic of European co-operation. This is partly due to the fact that they are considered commercial rather than co-operative societies; co-operation in its modern or western form is hardly a name in India, much less an idea, still less an energizing principle. The true Co-operative and Benefit societies of Europe do arouse enthusiasm and energy in a marvellous fashion; the dormant ideas of helping one's self and helping another become, when once aroused, dominant; the Co-operative societies, whether the English Friendly societies, the American Building societies, or the Raiffeisen and Wollemborg Unions of Germany and Italy, become invariably the object of affectionate pride and enthusiasm, but it is difficult to fall in love with a joint stock company or a dividend machine; the joint stock company may fill the pocket, but not the heart. The replies to printed and oral questions are disappointing; the members do not ordinarily take much interest in the Funds, though benefited by them, and there seems to be no active propaganda to tell of the benefits of the system, and to encourage others either to join or to form new societies. It appears that if the methods and benefits of these and similar societies of a more developed character and aim, were more widely and clearly known, and if individual energy were more continuously stimulated to an active propaganda, there

might easily be fifty societies, and those of a more advanced type, for every one now in existence. Energy, perseverance, courage, the deliberate sacrifice of time and labour, tact and local influence, transparent honesty both of purpose and in dealing, business capacity and knowledge are needed to solve the problem. Stress is laid upon knowledge, not only because it is of itself powerful, but because without it there is so much waste of energy in blindly labouring at problems already solved or in process of solution, and because, without knowledge, energy may be positively mischievous as in the case of many an English Benefit society. A stimulated and guided private initiative is needed; these societies are already successful even in the mofussil, though they have never received the slightest external help or privileges or control, and there is no reason why small local societies after the German and Italian patterns should not become universal within a generation.

LIMITATION OF SCOPE—Funds.—The societies are not banks, except in a limited fashion; they do not receive deposits except occasionally and to a small extent; they are financed almost entirely by the subscriptions of their members. Since three out of four members join in order to borrow, it follows that many must either be wholly disappointed or obtain loans years too late. A further result is that the competition for loans under the auction system must be and is severe, the premium ranging as high as 25 per cent. in known cases, so that the cost of a loan is unduly heavy; if external capital were plentiful, this difficulty would cease. If these societies are to succeed, they must be financed by deposits as in the Popular banks of Germany and Italy, or by debentures as in the case of the Land banks, or by savings deposits as in the case of the Savings banks of Germany, Italy and the United States.

The following concrete case shows the defects of the Nidhi as a Credit society. Suppose a Nidhi with 100 members, paying a monthly subscription of Re. 1 each for a term of eighty-four months, guaranteed profits on shares are at $6\frac{1}{2}$ per cent. per annum, viz., 1 pie per rupee per month, so that Rs. 84 paid in at 1 rupee per month are repaid at maturity as Rs. 102-12-6; regular loans pay the same rate of interest—a common practice—viz., $6\frac{1}{2}$ per cent. per annum on the whole loan for the whole term with counter-interest at the same rate on the monthly subscriptions; all borrowers are amongst the members, and for the sake of simplicity, let there be no new admissions; loans are repaid as usual by the ordinary monthly subscription. Then in the first month 100 members pay in Rs. 100, which are at once let out to one of them, A, on loan; at the end of the second month Rs. 100 are subscribed and let out to another member, B, and so on. Thus at the end of twelve months eighty-eight members will be investors and only twelve borrowers; the society is still 100 members, viz., 88+A to L and only Rs. 100 will be received monthly; the only addition to the funds is the interest paid in on the loans, which, in twelve months, will amount to about Rs. 40, not enough for even one further loan. In sixty months there will be about thirty non-benefited, and seventy borrowers. Hence it is clear (1) that members will get loans very slowly, the majority having to wait for years; (2) that the loans even at the above rate cannot exceed Rs. 100 each which is insufficient; (3) that there can be no profit, for the interest paid by borrowers is balanced by the counter-interest, plus interest to investing members; (4) that if only 70 out of 100 wish to borrow, the interest payable by the Fund will exceed that paid to it after about sixty months; (5) that it is thus clear that profits are obtained really from other sources, such as from loans other than regular at higher rates than regular loans, from compound interest obtained, as against simple interest credited, and, especially, from fines; (6) that a properly worked Nidhi ought to pay somewhat less interest than it receives; (7) that for this reason, and in order to give loans quickly free from competition and cheaply, the Nidhi funds ought to be derived chiefly *ab extra* at about 1 per cent. or more below the interest received from borrowers.

Personal Credit.—The experience of Europe is that personal credit is the true form of ordinary agricultural credit when land improvement is not the object of the loan. By 'personal' credit is meant that dependent upon general status, upon character, upon the worth of the individual in every way, whether principal or surety. The loans appearing under this head in the Nidhi tables are numerous; this head however includes also the loans based on the security of the borrowers, partly paid-up shares, and these are merely temporary withdrawals of the sums already subscribed. Madras City societies actually object to personal credit proper, by reason of the facilities for proceedings in bankruptcy, and one large society attributed its ruin to these loans. But it would seem that disaster is rather due to the careless lending on bad security, and especially to loans made through favour; it is not the principle, but its abuse that causes ruin. Several Nidhis in the mofussil—one situated in a small town in the Ceded Districts, and having nearly 1,000 members—deal principally in this class of loan and are prospering; they do not admit mortgages on immovables. Their clientèle is chiefly of the trading class, but, as elsewhere shown, agriculturists' credit is at least as good, and usually has tangible property to strengthen it. This form of credit must be developed, in the form probably of three or six months' bills or bonds with sureties, and with prolongations to twelve or eighteen months.

Want of Development.—There seems to be no power of evolution in the societies. With one or two small exceptions there has been no attempt in forty years to adapt the societies to the needs of agriculture; there has been but one to depart from the beaten track of monthly shares, from the old methods of financing the societies and of granting and repaying loans, from rules laid down by one society and copied bodily by mere imitators. There are so many requirements in agricultural credit, and so many modes of supplying them, that it is discouraging to find nothing original in the methods, nothing new adopted or invented. There seems a want of inventive thought or of adaptability on the part of those who would reform the peasant, his agriculture and his status by organized credit.

The needs of agriculture are not merely for land improvement, nor is a Savings bank his special want, seeing that his land is his best Savings bank; he requires a bank in which he can very temporarily place the surplus value of the crops he has sold, and from which he can borrow short-term loans for pressing needs while his crop is unsold, or longer term loans for a purchase of seed or stock. For this last the Nidhi term of four to seven years is good, but the hard-and-fast rules of the monthly instalment is wholly unsuitable. Nidhis to be successful amongst the ryots must meet these needs. This is not all; these Funds profess to be mutual associations and their rules are modelled upon those of such societies, though they are governed by wholly different laws. Now, in Europe, the marked

feature of a Mutual association, and probably that which chiefly differentiates it from a joint stock company, is its ability to act on its members individually and socially, to promote not merely the organization of facile credit or even habits of thrift and punctuality, but to become the active centre of economic and other progress. Whether the association be an English Friendly society, a Co-operative store—properly so called—as at Rochdale, a German or Italian Popular or Rural bank, a French Agricultural association, or an American Building society, the result in innumerable cases is social development through the power of association; out of the original society or side by side with it, there spring up stores, banks, libraries and reading-rooms, model dwellings, schools, Agricultural or Industrial associations, even trades; the Store society begets a bank, a school, a library or its own workshops; the Agricultural association develops a credit branch and a store; the Popular bank is the origin of a farmers' club, with its stud bull, its meeting room, its agency for stock, manures and supplies, and the like.

But, in this presidency, so far as is known, not a single Nidhi, however large and powerful, has, in the twenty or more years of its existence, ever developed a single by-product, even where its directors and members are among the best in the presidency: a certain portion of the funds has been given in charity or to religion, but in no single case has any subsidiary action been evolved: the associations might be mere joint stock aggregations of capital instead of associations. This is, in fact, probably the cause of this defect; the Funds have only shareholders and not members; they are not groups of *persons* in active association, but groups of accumulations of funds receiving profits. If the true co-operative idea had seized the promoters, the directors and the members of these Nidhis, there could not fail of further developments: like begets like, whether it be money or mutual help.

It is in the hope that a perusal of the methods adopted in other countries may furnish new suggestions to the practical thinkers of the presidency, that this study has extended to the details of the numerous classes of banks and associations in Europe; it is not desired to thrust the systems of other countries upon the presidency, but to supply a study of foreign and successful methods, as also of foreign failures.

DIVERGENCE FROM THE CO-OPERATIVE IDEA.—This has been dealt with *passim* under 'profits,' 'administration,' &c. It has been sought to show that the desire for profits and dividends tends to the exploitation of the borrower by the investor, and to the acceptance of risky business which promises high returns. It is the benefit of the borrower that should be the first study of these Nidhis; the profit of investors is secondary. There should be the idea of beneficent and educational brotherhood, both amongst the members and amongst the societies, and not that of a struggle for profits and a competition for business; it is difficult to reconcile self-seeking with co-operative mutuality.

A note of alleged defects found in practice in the working of the several Funds of a large town, has been voluntarily contributed by a number of the shareholders. The defects are as follows:—

(1) Pursuit of large profits in order to retain investing members; these profits are sometimes irregular and unwarranted.

(2) Monopoly of control of the Fund by a few rich non-borrowing shareholders under the "a stock-vote" system (one vote for each share or five shares); voting should be on the "one-man one-vote" principle.

(3) Negligence of many directors so long as profits are kept up.

(4) Neglect by many directors to attend meetings; sitting fees are small and meetings considered troublesome; hence the Fund is controlled by two or three men, very often all near relations.

(5) Office-bearers (president, secretary, auditor, &c.,) are made too permanent, whence much mischief follows; the secretary's powers should also be curtailed and directors and office-bearers should go out by rotation.

(6) When a permanent loan is taken, it cannot be returned in lump before the expiry of the whole period, unless the interest for the full period is paid.

(7) Secretaries have been known to keep up deposits by their friends at high interest, when deposits at lower interest were available.

(8) The proportion of profits going to the shareholders is too small when compared with that taken by the directors and office-bearers.

(9) When default is made on a loan, additional interest is charged thereon; this and the ordinary interest, even though not paid, are credited as assets, included as profits, and divided.

(10) Private arrangements in the way of favouritism are made with defaulters in the case of overdue loans.

(11) No proper reserve is formed out of profits to meet loans; one should be formed and maintained, and not used for religious or charitable purposes.

(12) Very frequent (fortnightly) auditing is necessary: these auditors (rather supervisors, similar to the committee of supervision, censeurs, &c., in Europe) should also determine the necessity and rate of interest for deposits, examine the position of overdue loans, &c.

(13) Proper notice of general meetings is frequently omitted; the quorum should also be raised for such meetings to prevent undue control by a few men.

(14) Penal interest on loans in arrears should be reduced after half the loan has been paid off.

(15) Rules are often defective: a model set of Articles should be framed by Government.

(16) Annual reports are not generally published, but only balance sheets.

This list of defects, real or alleged, was not in any way suggested, and is therefore apparently the result of experience. It curiously corresponds with defects expressly noted in other countries,

especially in the tendency towards the controlling of societies by one or a few men, towards the maintenance of high rates of profit for the benefit chiefly of investing members, directors, or office-bearers, and towards a neglect of business manifested by those who should be the guardians of the shareholders.

DIFFICULTIES.—Many of these are more theoretical than practical, that is, though seemingly real in law or in argument, they are readily overcome in practice. On the other hand, there are real difficulties which do not exist necessarily, but arise out of maladministration, or decaying energy, or divergence from original aims.

There are difficulties of initiation, of finance, of administration, of law and of society.

Initiatory difficulties are due to ignorance, inertia, suspicion of novelties, distrust of motives. It is needless to discuss them in a country where they are of every-day occurrence, but they are the chief real difficulties.

When men by custom borrow in particular ways and at particular rates, when they know nothing of any other methods, when they are ignorant of the powers of association in such matters, when there is a tropical form of *laissez aller* to be overcome even in those who do know the evils of usury and the methods of combating it, when a departure from custom may be a social crime, when the poor, from an unfortunate history and from ignorance, harbour suspicions hard to overcome, there are difficulties of initiation which can only be overcome by the public spirit, devotion, knowledge, energy, and perseverance of *individuals*. That in fact has been the only way in which these Nidhis have been started; they have been successful wherever these qualities have been brought to bear, and it is by the application of these qualities that they will be multiplied as they might be at this day, since there are—it is stated—numerous men throughout the country, who possess these qualities. If there are, the Nidhis or their congeners will rapidly spread.

Difficulties of internal administration must be met by greater public spirit, more singleness of purpose, less desire for personal profit on the part of the chief members; the work is not a purely business matter; the task of arousing thrift and providence, mutual and self-help among a nation, is semiphilanthropic; wholly philanthropic in its inspirations and aims, practical in its methods.

There must be a Union or Unions of existing and future societies for mutual aid and encouragement, for the provision of inspection and audit, and possibly for aid in finance. But it is probable that Government must, for many years, supply, as in England and in the United States, a considerable amount of direct supervision, verging in some matters on control. This has been dealt with *passim*, both in this section and in the sketches of the several banks and societies of the West.

There has been one further difficulty in administration which has not been mentioned, a real and much felt one. For many years much of the best and most influential mofussil talent has been excluded from assisting the Nidhis, since it has been a rule of Government that no officials should take part in managing such a society. This rule has now been abrogated and it is open to all officials to assist their fellows in this item of public welfare. It is they who can largely afford to assist gratuitously in the directorate, while their example and their business habits, whether as directors or as thrifty and provident members, will go far to establish the societies firmly. A great number are already members, but it is as officers and guardians of the society, that they will be of much use; their position as Government officers will at least tend to prevent fraud.

Difficulties arising from the law are dealt with in the general chapter on 'Law.' Difficulties in matters of the security of loans are various; they arise out of the family system and the absence of registration of title. The difficulty is, for local societies, more in theory than in practice; a Central bank would find them insuperable in all except large business, where the expenses of enquiry would be small in proportion to the loans; small business, such as is most required, could not bear such expenses, and would be rejected. But small local societies, like the Nidhis, find no great difficulty, so long as their business is local; their directors know the status of the borrowers, who are unwilling to or dare not cheat the society, and the declarations taken from the borrowers both in the demand for the loan, and in the bond, act as sufficient safeguards in practice; there are practically no suits owing to disputes regarding title or by coparceners. As regards the action of the Revenue law, very slight precautions will remove this difficulty. (See 'Law' s.v. 'Security of loans,' 'Registration of title,' &c.)

Difficulties of recovery are not real in so far as the machinery available is concerned; the 'Village Courts' provide for all small debts. Such difficulties arise far more largely from the unpunctuality of the members, and the laxity of the administration; if members are allowed to fall into arrears they will do so; it is for the directors to see that arrears are at once sued for in the Village or other Courts, together with the necessary fines, and that defaulters are excluded after three months' arrears, duly demanded every month, the bare subscriptions, if any, being in such case returned without interest or profits. Arrears are due to laxity, and to weak or negligent directors, far more than to the unwillingness or fraud of the members.

The difficulties of finance are considerable. In a poor country the purely investing subscribers are few, and the borrowers many; in most Nidhis the borrowers are practically limited only by the loans available; it is the fact that loans cannot be got that keeps many out of the society; men want to borrow even more than to save. The subscriptions of one investor cannot provide the loans required by three or four borrowers; hence the societies *must* be financed *ab extra*, as in Continental Europe. Even in England deposits are a very large item, being equal to about half of the subscribed capital, though the law prevents this source from becoming excessive, while in Germany, deposits or loans *ab extra* in the Schultze-Delitzsch banks, are to subscribed capital and reserve as three to one. This is about the proportion required in this country, where however no Nidhi even in Madras (with one exception, viz., a European and Eurasian Fund), has deposits equal to one-fourth of the nominal capital, the proportion being usually far lower. The difficulty is that there is no sufficient security for the deposits; depositors are generally members, and *ex hypothesi* investing members. Now if a Nidhi fails, its deposits must be paid up from the share capital, for there is practically no reserve;

hence depositing members would be paid their deposits at the expense of their investments. What is wanted is sufficient security to the outside public to attract outside capital, whether as deposits or as loans on debentures. Suggestions will be found in the chapter on the system proposed for Popular banks in this presidency.

The following description of actual Funds will give an idea of their working :—

- (A) is instituted in a small mofussil town and lends chiefly on mortgages ;
- (B) is in a similar town, but deals chiefly in personal security ;
- (C) is a purely rural Fund in a village, established and worked by villagers. They are selected as working on different methods, and to all appearance of good management and success.

FUND (A).—This Fund was established in 1886 ; it has a Head office with two branches in somewhat distant towns, and 1,444 members holding 3,282 shares of Rs. 90 each, subscribed in forty-five months at Rs. 2 per month. Its objects are the promotion of savings, the provision of good investments, and the granting of loans to subscribers. It enjoys the advantages of a District Munsiff's Court at its doors, and a well-to-do *entourage*, the soil being rich and the staple products very valuable, leading to a considerable commerce ; its operations are limited to the area over which the District Munsiff's Court has jurisdiction, that is, several taluks. Its promoter and secretary is a pushing business man, well known within and outside of the district, and connected with agriculture and trade : its directors are merchants, officials, members, &c. It is not and does not profess to be an Agricultural bank at all, but counts a number of the richer agriculturists or land-owners among its subscribers ; it is far from being a ryots' bank in the sense usually intended by the words 'Agricultural bank.'

Management.—It has the usual staff of directors, secretary, auditors, appraisers, &c., and a paid establishment of about six clerks headed by a manager. Very large powers are given by the Articles to the president and secretary ; for instance these two officers "shall manage all the business of the company and do all things which they shall think fit for carrying out its objects" under, of course, the general control of the board ; it is the secretary who appoints all "representatives" and the establishment, and settles their pay, and these arrangements are binding on the company unless objected to by all the directors "unanimously" ; the nomination of a director is made by the secretary, but confirmed by the directors and general meeting ; in applications for loans the president or secretary first notes his opinion and then circulates the papers to the directors.

Directors.—Each director must deposit at least Rs. 1,000, not withdrawable while in office, and must subscribe for at least five shares ; he must be a person of some position living within the jurisdiction and with good knowledge of persons and property, and may not borrow from the Fund except in the form of simple loans (on the subscribed value of shares), or small lot loans. These rules seem excellent. Six are permanent, a provision of doubtful wisdom ; the rest retire by rotation. It seems that three-eighths of the net profits, *i.e.*, the profits after paying all expenses, and setting aside the guaranteed interest, go to the directors and office-bearers, but the rules appear contradictory.

Members.—Any one may become a subscriber "without distinction of caste or creed" ; shares may be transferred, sold or withdrawn. There were recently 1,444 members holding 3,282 shares ; of these 642 were held by officials, 872 by ryot land-holders, 581 by inamdars, 696 by merchants, and 491 by miscellaneous holders.

Funds—Share Capital.—The present nominal capital is Rs. 3,99,870 in 4,443 shares of Rs. 90 each payable in forty-five months at Rs. 2 per month ; of these 3,282 have been taken up ; the capital may be increased by special resolution. The resulting monthly income by bare subscriptions is Rs. 6,564 which can be at once lent out.

Deposits.—This Fund, however depends largely on its deposits, which it has of late years, attracted in a volume much exceeding that of other mofussil Funds ; recently it had Rs. 95,000 in fifty-seven accounts. Only members may make deposits, and the minimum accepted is Rs. 25 ; the obligatory deposits of directors are Rs. 1,000 in each case. Members within the town have deposited one-third of the total ; persons *outside* of the zone of loan operations about one-half. Five persons have deposited about Rs. 50,000 and get 7½ per cent. for their money, each deposit being above Rs. 5,000 : twenty-two members have Rs. 37,000 paying 6 per cent., and thirty hold the remainder at 5 per cent. With these large deposits the Fund is able to grant loans readily and quickly. There is no *special* security for these deposits ; confidence in the directors and in the safety of their investments, which, of course, are the ultimate security, are alone mentioned as the basis of these heavy deposits. That is insufficient as a permanent basis for security ; so long as the directors deserve confidence, and show ability and discretion in investment, all is well, but there ought to be a material guarantee outside of the ordinary loan investments to ensure permanent confidence.

Terms of repayment of Deposits.—Deposits, if not on fixed term, are withdrawable at any time, and are repayable in order of priority of demand from the monthly collections, all other payments being stopped for the purpose. Directors may also return deposits on fifteen days' notice, and may reduce the rates of interest.

Reserve.—This is *nil* ; there were once above Rs. 3,000 in reserve which the shareholders proposed to divide ; the more prudent opposed this and eventually, by compromise, the amount was sunk in a handsome office building, which has cost nearly double the above. This is a valuable asset, but is not a reserve proper. Formerly, after setting aside the guaranteed profit, one-fourth of the remainder was credited to the reserve : this proportion is now reduced to one-thirty-second, an infinitesimal amount.

Loans.—The following table gives a clear view of the classes and of the interest charged on each class.

Four kinds of loans, *viz.*, (1) simple, (2) permanent, (3) temporary, (4) small lot, are granted to the subscribers, and interest charged at the following rates as marked in the schedule below :—

No.	Description of loans granted.	How repayable.	Percentage of loans granted.	Under what head.	Interest charged per month.	Remarks.
1	Simple ...	Repaid in monthly instalments of Rs. 2 per every share.	96 per cent. of the collections.	Simple	Rs. A. P. 0 8 4	6½ per cent. per annum.
2	Permanent	Do. do. ...	85 per cent. ...	(a) Jewels, &c.	0 8 4	do.
		Do. do. ...	75 do. ...	(b) Land mortgage.	0 10 5	7½
		Do. do. ...	.....	(c) Personal security.	0 12 6	9½
3	Temporary	Repayable in three months unless renewed.	85 per cent. ...	Jewels mortgage, &c., below 500.	0 12 6	do.
				Above 500	0 10 5	7½
				Land mortgage.	0 14 7	10½
4	Small lot	Repayable in one month unless renewed.	.....	For each lot of Rs. 10.	0 2 0	15

There is nothing peculiar in the rules as to loans; they are given in order of priority; loans on land mortgages are, in the case of non-Hindus, further secured by additional (personal) security. Mortgages are the favourite security in this Fund; out of Rs. 10,582, taken as ordinary interest in a given period, two-thirds were from mortgages, one-sixth from loans on personal security, one-ninth from small lot loans. At a recent date, Rs. 1,46,800 were due on mortgage, Rs. 30,346 on personal security, and Rs. 19,000 on temporary and small lot loans; these represented original loans of above 8 lakhs, the remainder having been liquidated. Penal interest in this Fund is pretty heavy; the rates are double and treble the ordinary rates according as the defaulter is a non-borrower or a borrower. Recently the total gross interest of all kinds in a given period was Rs. 12,952; of this Rs. 2,370 or 18 per cent. was penal; viewed in regard to net profits the importance of penal interest is well seen; the profit and loss account shows Rs. 14,299 on the credit side; of this Rs. 4,298 is debited to interest on shares including the counter-interest on repayment of loans, Rs. 4,300 as interest on deposits, and Rs. 1,701 as contingencies including establishment; the balance is Rs. 4,000, of which Rs. 2,370 or 59 per cent. are due to penal interest. Even if the interest on shares is included in the net profit, the proportion is 28 per cent. In a recent period of eight months 356 applications for loans were received; of these 263 were granted. The average loan was nearly Rs. 200. Now that deposits are considerable and subscriptions large, loans can be readily granted; when the fund was young, borrowers had often to wait for very many months, perhaps for years, before getting a loan. The 356 applications represent just one-fourth of the number (1,444) of members, so that about three-eighths borrow each year: many of the loans were, of course, temporary and small lot loans, which, though individually trifling and of short term, represent one-ninth of the total amount out on loan, and are therefore numerous.

Loans are, it is said, only granted after very careful enquiry. Searches in Registration offices are occasionally made at the borrowers' expense, but it is chiefly, almost solely, in the local knowledge of the directors that confidence is placed. It is one of the rules that every director shall be resident within the jurisdiction and be acquainted with the persons and properties with which the Fund may deal, and it is stated that their powers of enquiry, sources of information and local knowledge are so great that "all chance of deceit is utterly prevented": it seems that many of the directors have or had money dealings in their private capacity. It is quite clear that well-managed local societies are practically independent of the registration system.

As regards valuations, these are made by appraisers, and are checked by the directors and by the secretary; 75 per cent. of the approved value is granted.

The directors allege (1) that the overdue loans of only Rs. 2,000 are all well secured and fully recoverable; (2) that in eight years only nine persons have been sold up by decree of Court; that all these were in cases of house mortgage, and not in a single case has land been sold; (3) that in eight years only Rs. 61 have had to be written off as irrecoverable. This, if correct, is an extremely good record. The directors gave the opinion that the ryot borrowers are more honest than town borrowers—a very encouraging opinion and which tallies with other experience.

Profits.—According to the rules, after crediting subscribers with the guaranteed profit, the surplus profit is divided as follows: $\frac{1}{4}$ to the reserve, $\frac{1}{4}$ to the subscribers, $\frac{1}{4}$ to the directors, and $\frac{1}{4}$ to the office-bearers. Directors are paid in proportion to the number of meetings attended.

Other business.—This Fund provides by its rules an insurance and annuity branch, but no transactions have taken place up to date.

Agricultural Fund.—Affiliated to this Fund is an Agricultural bank. The peculiarity of this is that the rules provide for "stock shares," i.e., foundation shares fully paid up: of these, 500 are provided at Rs. 100 each; 125 have been taken up, and the interest on them, which is guaranteed at 6½ per cent., reached 12 per cent. this year. For the first forty-five months (fund period) the interest is only credited; it is expected in this way to make each share worth Rs. 150 by that time; after that period subsequent interest will be paid to the shareholders. It is a method of attracting deposits, which these shares resemble in being *withdrawable*. There are also the usual subscription shares. Deposits proper are Rs. 22,000 including nearly Rs. 6,000 on loan from the head office, for which 7½ per cent. is paid. Loans are granted as follows: each Rs. 100 is to be paid back as Rs. 125 in five equal instalments

at nine months' intervals; this includes the interest which is consequently about 12 per cent. per annum. If the borrower desires it, the bank will buy implements, &c., for him, but in that case he must pay instalments of Rs. 27 each or Rs. 135 in all, being interest at nearly 15 per cent. per annum. This method enables a ryot to pay by simple instalments instead of by monthly subscriptions, but the nine months' period is awkward since payment is due one year in a convenient season, say harvest, falls inconveniently in the next two or three years. The interest is by no means low considering that in the head office the ryot is so well spoken of.

This office is quite separate in accounts, management, liability, &c., from the head office, although individual directors are the same.

The experiment is a new departure, and is one of the very rare cases in which the promoters of credit have endeavoured to suit the wants of ryots.

Supervision.—The directors would welcome Government supervision even of a stringent character, for they feel that it would engender confidence in the stability of the bank and thus develop business.

Fund (B).—This Fund is now about five years old, and has several hundred members and above 2,000 shares. It is situated in a small mofussil town, which has a good deal of external trade, while many of its inhabitants are agricultural. It is on the permanent principle, its full subscription term being forty-five months divided into five sub-terms of nine months each; each share is worth at maturity Rs. 50-6-3 (45 + 5-6-3 guaranteed interest), plus any extra profit which may have been earned. Guaranteed interest is 1 pie per rupee per month, or 6½ per cent. per annum, and the extra profit earned in the first full term was nearly half a pie (3 per cent.) additional. Its reserve is very weak, being only about Rs. 300; it is formed solely from a ⅓ share of the net profits, i.e., of the sum left after debiting the gross profits with the guaranteed interest, and all working expenses.

Members.—These are divided as follows: 19 per cent. are officials, 34 per cent. tradespeople, 27 per cent. agriculturists, and 20 per cent. professional (vakils, schoolmasters, &c.).

Administration.—There are sixteen directors, all of whom must hold shares; no minimum number of shares is prescribed. These draw collectively one-eighth of the net profits—as described above—and this sum is distributed in proportion to the number of meetings attended by each director. From the directors are selected the eight office-bearers, viz., president, secretary, assistant secretary, permanent auditor, two trustees and two appraisers; these eight draw ⅓ of the net profits, the president and secretaries obtaining above one-half of this amount. During a recent sub-term of nine months, the directors and office-bearers drew the respectable sum of Rs. 1,020 in their official capacity.

The president has the usual powers at meetings and is also permitted to pass regular loans on pledge of valuables, as also all simple or small lot loans.

The secretary has very considerable powers, and it seems that it is he that disposes of the above classes of loans after obtaining the president's sanction, that is, he does all the preliminary work and passes the papers with his opinion to the president. Moreover, he issues the regular loans after the directors have passed them, priority being given according to the entries in a register. It is he who receives, registers and circulates applications for shares, loans and deposits; he records his opinion on the worth of securities tendered for loans, obtains the necessary valuations of property, secures the necessary documents, &c., before making payment of a loan, and, generally, manages all office work, including the ordering of payments.

The permanent auditor is one of the directors and receives ⅓ of the net profits. His duties are continually to initial the various collection and cash accounts and registers, and to verify each month the jewels and securities in hand; his audit is thus a continuous audit. But the special auditor in a recent report severely comments on the then permanent auditor and states that he did not even know the names of the several accounts which he was supposed to audit. This is but an additional instance of what is so frequently found, and which has, in a recent criminal case in a mofussil town, been so strikingly exemplified.

The trustees are also required to verify the cash balance, documents and other securities at least once a month; all valuables and valuable securities are kept in an iron safe with four locks, of which the keys are kept by the president, secretary, and the two trustees.

A special auditor, who is usually a skilled accountant from a Government office, is appointed for every sub-term of nine months.

Funds.—These are obtained from the monthly subscriptions to shares, from interest, and from deposits; the former need no description; their paid-up amount at a recent date was Rs. 65,000. Interest is described under 'Loans.' Deposits were recently about Rs. 14,000 in less than ten deposit accounts; 6 per cent. interest is paid. They were attracted to meet the usual difficulty of Building societies, viz., to pay off a mass of matured shares which fell due at the end of the first period of forty-five months; the great bulk of the deposits belong to directors; a large part to a temple. Deposits are repayable at call provided that funds are available; it is said that a large portion is deposited on special agreement. Only two non-members have opened deposit accounts. There is no special security for the deposits, the reserve being only a trifle.

Loans.—These are of the usual classes, both regular, temporary and small lot; secured both by mortgages, pledge and personal security. The peculiarity of this Nidhi is that it objects to land mortgages; it has very few mortgages even of buildings, and apparently none at all on mere lands. House mortgages are only 10 out of 222 regular loans; none is found amongst the temporary loans. All these mortgages are at head-quarters and not outside of the town. Land mortgages are wholly avoided, though the country round is of very rich land, (1) because of the danger of prior encumbrances, (2) because of the danger of collusive sales for arrears of revenue, since revenue sales clear off all prior encumbrances, (3) because of the difficulty of appraisalment. These, at least, are the reasons given on enquiry. Nearly all loans are upon personal security, i.e., upon the bond of the borrower with two approved sureties. Out of 222 regular loans, i.e., loans repaid by the monthly subscriptions, 191 were of this latter class, 10 were mortgages and 21 were simple loans upon the paid-up value of shares.

Temporary loans are granted for three months, and are repayable in lump; there were only 11 of these, of which 9 were on personal security, and 2 upon that of shares. It is curious that not a

single loan was granted, either regular or temporary or small lot, upon pledge of valuables. Small lot loans of Rs. 5 each repayable in sixty days, were twenty-eight in number; not more than Rs. 250 per month can be lent in this class.

Regular loans absorbed Rs. 45,000, temporary Rs. 2,275, and small lot Rs. 665 at a given date. The average regular loan was Rs. 203, and temporary Rs. 207.

Interest.—Guaranteed interest paid to members is $6\frac{1}{2}$ per cent. per annum (1 pie per rupee per month). That paid by borrowers is as follows: $1\frac{1}{2}$ pie per rupee per month ($7\frac{1}{2}$ per cent. per annum) on simple regular loans, and loans on valuables; $1\frac{1}{2}$ pies ($9\frac{1}{2}$ per cent. per annum) on regular mortgage loans, on regular loans on personal security, on temporary loans on pledge of valuables; $2\frac{1}{2}$ pies ($14\frac{1}{4}$ per cent.) on temporary loans on mortgage of immovables and on personal security, and 1 anna per month per lot of Rs. 5 (15 per cent.) for small lot loans. The regular loans are fairly moderate, but the others are somewhat high in their rates.

Penal Interest.—This is heavy; in the case of instalments of regular loans due on the 15th of each month, penal interest is charged at 2 pies per rupee from the 16th to the 25th, and 4 pies from the 25th onwards; the latter rate is 25 per cent. per annum. For temporary and small lot loans double rates are charged from date of arrear. As usual, this source of income is very material, and, in fact, equals the whole remuneration paid to the directors and office-bearers. The great bulk of loans is at $1\frac{1}{2}$ pies per month; this, on Rs. 45,000, is equal to Rs. 3,164 in a sub-term of nine months. Now in a recent sub-term the penal interest aggregated Rs. 1,010 or nearly one-third of the normal receipts; in other words the average interest paid was not $1\frac{1}{2}$ pies but 2 pies per month.

Overdue Loans.—The amount of penal interest is a gauge of the punctuality of members, which is rather poor. On loans on 1,058 shares no less than Rs. 4,282 were overdue, of which no less than Rs. 1,490 was overdue on only 160 shares, i.e., were about nine months in arrear, and Rs. 896 on 57 shares, showing an average arrear period of sixteen months. Moreover, out of 11 temporary loans, due at the end of three months, there were no less than 6 in arrears, of which 4 were overdue for Rs. 1,000 for more than twelve months. Similarly 16 out of 28 small lot loans due in two months, were in arrears, 10 being above six months overdue. This is not a good state of affairs, and either the loans in arrears are not good assets, or arrears are being allowed negligently or for the sake of the penal interest. It is, however, possible that as 27 per cent. of the members are agriculturists, some of the loans having been used in agriculture are not repaid in time, partly because the monthly instalment system is unsuitable for ryots, partly because three-month loans are too short for such purposes. Temporary and small lot loans are granted to non-members; this may account for some of the arrears.

Purpose of Loans.—Trade, agriculture, marriages, and miscellaneous, in the order named. It is believed that the bulk of the loans is taken for trade by shopkeepers and small tradesmen and merchants.

Area of Operations.—Persons within the town and a radius of 5 miles have obtained $\frac{1}{3}$ of the loans and $\frac{1}{3}$ of the amount; the balance has been granted to persons beyond that limit. No mortgages are granted except at head-quarters.

Suits.—Only one suit, but that for a large amount, has yet been filed; it is still pending. The balance sheet shows only this amount as a past due loan; this is evidently erroneous; all overdue loans should be shown under this head, for they are doubtful assets and doubtful in proportion to the period of their arrears.

Profits.—These have been declared for the first period at about 3 per cent. per annum in addition to the guaranteed interest of $6\frac{1}{2}$ per cent. Net profits are arrived at by deducting from gross profits (1) the guaranteed interest, (2) all working expenses other than remuneration to directors and office-holders, e.g., pay of staff, rent, interest to depositors, taxes, and so on; the balance is net profit. Of this, $\frac{1}{2}$ goes to reserve, $\frac{1}{4}$ to directors, $\frac{1}{8}$ to office-bearers and $\frac{1}{8}$ to additional profit to members.

The question is, as usual, how are gross profits determined. Apparently the liabilities and assets are set down and totalled, and the balance is gross profit; this is a very rough method, and is liable to error by inclusion of doubtful assets as good ones, e.g., overdue loans, and of accrued but unpaid interest as actual assets.

General.—The Fund seems to be useful and fairly prosperous, but there are improvements to be effected.

* *Fund (C).*—This is a purely rural Fund, started by intelligent and enterprising village officers and landholders in a village about 20 miles from taluk head-quarters, lying amongst hills, and accessible only by a country road; not one of the directors knows English. The village has no trade and is solely agricultural; its clientele is drawn from the village and its immediate neighbourhood.

It is on the terminating principle, its period being seven years; it lends freely on mortgage and on personal security, its knowledge of its members supplying all needful security; it does not consult the registration registers, nor is it troubled by questions of title, nor by objections from co-sharers or others; the village knowledge and local influence suffice to prevent fraud or false claims. Similarly it has not been troubled by litigation of any sort. It may be said to partake almost of a communal nature.

Its first period recently expired, and the books showed a profit of about Rs. 2,400, which was to be divided amongst directors and members; such share as the directors might then get would form their sole remuneration, as they had drawn nothing for their labour during the whole seven years. There appear to have been no losses, but the directors admitted some unpunctuality, and that the sums forming the profits had not been fully collected. But as there had been no loss, it is clear that the Fund had been of great benefit to all concerned, its loan rates being moderate.

The directors had recently re-organized the Fund for a new period of seven years, but had yielded to the temptation of seeking larger profits by extending its business; instead of dealing only with members residing within the village or the immediate neighbourhood, it was admitting them from distant towns and villages even in other taluks, trusting to local directors and agents for the security

* The full notes taken from the books of the Fund and from the lips of the directors, have been unfortunately lost during several transfers of appointment; hence only general remarks.

of its loans. The result can hardly be doubtful; its directors, however capable locally, are hardly competent to conduct credit business which is scattered over the country side; unpunctuality and bad debts, loss and fraud are almost certain results. It is clearly a case where well-meaning and intelligent men are being misled by the desire for profits, and is a proof of the wisdom of the Raiffeisen principle of absolutely localized societies.*

† *Chit Associations*.—Further information has been recently obtained regarding the Chit associations mentioned at the beginning of this chapter. It appears that in the districts of Tinnevely and Malabar there is now an immense extension of the system; it is becoming so universal that about one-fifth of all registered documents in Tinnevely relate to these associations, which are not confined to men of one common locality, but are established by persons frequenting weekly markets, by groups of women, and the like. The matter is of great importance as showing not merely the necessity for organized, universal, and ready-to-hand facilities for saving, investment and credit, but also the great power of association possessed by the population, and the comparative confidence and honour existing among members, with, however, the evidence of growing distrust—partly because the associations may extend beyond village limits—as shown by the necessity found, in these days, of exacting real and registered security for the fulfilment of contract. It is most desirable to regulate these associations, at least by directing them into safe and systematic working, and above all things, so to develop them that they shall not become mere gambling speculations by groups of semi-detached units, but sound, helpful village or local associations, to which only co-villagers or residents within a given and moderate area shall be admitted, so that mutual knowledge and confidence shall be the basis of operations, and, *ipso facto*, shall develop mutual trust and help.

The original system is said to be of immemorial antiquity, and is simply that described at the beginning of this chapter; it was called the 'head and tail system,' meaning apparently that the benefits extended equally in joint membership from the head—the early winners—to the tail—the less fortunate—who really lose considerably by the transaction in the loss of interest. The originating cause of the system is the necessity for providing on the one hand a mode of stimulating and investing savings, and on the other for obtaining lump sums for purchases of land and jewellery, for marriages, for a trading operation, for the settling of prior debts, &c. There were no Savings banks at the doors of the people, no Credit societies to grant them ready funds on safe conditions; hence the Mutual association, which, crude and rudimentary as it may be, involved the grand co-operative principle of mutual confidence.

The above system still prevails largely where subscriptions are small, *e.g.*, one rupee per month or week, and it will be seen that the first winner has the use of the pool for the whole period, while the last one has paid in his subscriptions for the whole period without benefit and at complete loss of interest till the last drawing; hence developments arose; it becomes necessary partly to equalize benefits, so that those who drew the pool last should not be really losers by their ill fortune. Hence in many associations each winner of the pool gets the amount less a deduction for interest, and this deduction is divided among such other subscribers as have not yet won the pool. This is called the discount system.

But though benefits are partly equalized or losses recouped by this method, there remains the difficulty that, under the drawing system, men who badly need the pool may have to wait for years before the lot falls to them; moreover the shrewder men perceived that out of the necessities of borrowers might proceed profits for the others. Hence the development of the 'auction-chit' system, in which the drawing of lots is abolished, and the pool is auctioned to the bidder of the highest discount, the discount sum being divided amongst the other members as a bonus. It is stated that at the earlier instalments when competition is keen, persons will bid discounts of 60 to 65 per cent., so that they receive only 35 or 40 rupees while bound to repay Rs. 100. This is simply gross usury under the form of co-operation, and is precisely paralleled at the Building society auctions in the West, where discounts of 35 or 40 per cent. may be bid. Moreover it is frequently found that these associations are formed by speculators who, for the trouble of initiating and managing the Fund, not only take their share as members, but the first pool, and sometimes also commissions; they are responsible for the collection of dues, and it is in their name that the members execute documents to the Fund. For, in the modern associations, a winner of the pool is required to give security for regular repayment through his periodical subscription before he receives the sum; this is usually by mortgage of real property, and is therefore registered.

It will be noticed that no interest is payable by members; its place, even in the modern associations, is taken by discounts, and it does not exist at all in the original forms. But penal interest for default is now found necessary; this may be 2 per cent. per month, but rises to 1 pie per rupee per day (180 per cent. per annum) or even to 2 per cent. per day.

The above remarks relate chiefly to Tinnevely associations; those in Malabar are similar in principle and method; it seems, however, that in this latter district all associations are based on written contracts, not on mere oral agreements. The Manager (Kuri-muppan) seems to be held responsible for the due management of the concern and for proper collections; he is given considerable powers.

Besides the ordinary associations above mentioned there are other classes, *e.g.*, benefit funds, in which the association merely unites to subscribe a Fund for the benefit of a friend, who agrees to repay each member in turn as indicated by lot. Moreover associations are not confined to cash subscriptions,

* Since the above was in print, information has been obtained exemplifying both the risks of dealing with non-members, and the class of business apt to be taken up by Nidhis for the sake of profit (see 'Interest,' pp. 254 to 256 *supra*). In one town 100 small cause suits were taken without selection in consecutive order from the file of a District Munsiff, tabulated, and the results forwarded by the courtesy of the District Munsiff, for the purposes of this report. Amongst these suits appear no less than 35 filed by Nidhis, and in 21 of these cases the interest claimed was 30 per cent. or upwards, rising in one case to 42 per cent. This was higher than the average of money-lenders' interest in the remaining suits, though several cases at 60 and 75 per cent. were found among the latter. The Nidhi loans appeared to be generally the small lot loans frequently granted to outsiders. The rate of interest was not only heavy, but seemingly above that provided by the rules; it is possible, however, that penal rates have been claimed in the suits as a matter of contract and not original rates.

Such business appears to be neither safe nor co-operative.

† The information in this paragraph is drawn from communications kindly contributed by the Registrars of Tinnevely and Calicut.

but may club commodities, *e.g.*, jaggery, paddy, coconuts, &c. These are pooled and the pool awarded as though money. Then there are 'Market (shandy)' associations, in which small traders, &c., unite their small subscriptions on market day, the winner thus getting a small capital for trade. An abuse of the system was found to be creeping in in the form of 'lottery societies'; these were purely gambling concerns, in which one man gained and the others lost; they have been properly declared unlawful and prohibited; these, however, are absolutely distinct from the true Chit association, in which the lot is merely used to determine the sequence in which members take the pool.

Of Malabar it is said that associations are becoming universal; "in towns as well as in rural parts, among the rich and the poor, among the landed aristocracy and the agricultural labourers. It is very common among artisans. We can scarcely find an artisan who is not a member of a kuri. Even Cherumars, who form the lowest agricultural labourers, have some kuris among them."

The usual collections in small associations are weekly or monthly; in those where the periodical subscription of each member is from Rs. 20 to Rs. 100, the term is usually half-yearly. Sums of several thousand rupees form the pool half-yearly allotted in some of these associations.

It is said that these associations have materially cheapened money, partly by their competition with the money-lenders, but chiefly by their actual development of capital, *i.e.*, of productive wealth. A man who joins an association must, perforce, continue saving sums which he might formerly have wasted as being small and useless; presently he obtains the fruits of his savings in a lump sum; such a sum is too considerable, too attractive to spend idly, and he invests it in trade or in other associations; hence a comparative abundance of capital, the formation of which is due to the associations, and which competitively seeks investment.

There is much promise in these associations, which show the necessity for, and, in some degree, the results of, savings and credit institutions in absolute proximity to labour.

CHAPTER IV.—LAW.

Preamble.—The following remarks refer almost entirely to the law relative to societies which exist or may arise in the mofussil of Madras, that is, outside of the original jurisdiction of the High Court. Within the Presidency town, company business, and banking in particular, is carried on in general, by a high class of business men, experts in their profession and presumably prudent and sound in trade, there is keen competition tending to careful method; publicity is a necessity, and thorough professional audit a possibility; there is a Chamber of Commerce, a watchful press, and critical public opinion; the clientèle is educated even in business matters; the law is more favourable in many ways, especially that of mortgage, while the judicial procedure is at its highest development. Hence, many of the suggestions intended to safeguard the operations, funds and members of mofussil banks and societies, are needless in the Presidency town, and would there be rightly regarded as unnecessary interference with the freedom of trade. But in the mofussil, conditions are exactly the reverse; the promoters and directors of banking societies are necessarily amateurs in that particular business, being frequently ordinary officials, pensioners, pleaders, &c.; there is no general atmosphere of business, and no competition; real publicity hardly exists, and audit is or may be of the weakest; there is no commercial body to assist and guide societies, no press to publish and criticize results, and to expose shortcomings; no public opinion to pillory offenders, and little public spirit to bring such to justice; social habits, family and general law, and the distance of the regular Courts, are all elements of difficulty in the mofussil. The recent (1893) notorious bank case in Northern India is a striking example of the difficulties and dangers both to mofussil banks and societies, and to the shareholders and depositors, while many other cases, some notorious, some only known locally and to express enquiries, display the need for extreme watchfulness over both the promotion and management, audit and supervision of societies; hence the proposals of this chapter for the amendment of the law for societies in the Madras mofussil.

Owing, moreover, to the ignorance amongst directors and shareholders of business habits and methods in this infant period of Indian mofussil companies, it is necessary to lay down the provisions for societies in the law itself, more strictly than is necessary elsewhere. Obviously necessary precautions and methods are wholly neglected from sheer ignorance of their existence, value or even meaning, *e.g.*, audit, reserve, &c.; and yet it is in this country, where societies are in their infancy, that we have adopted—not even adapted—the English Companies Act, suited to a country where societies are in comparative maturity, an Act, moreover, found insufficient in its precautions, safeguards, limitations and provisions, even for England. Hence the present proposals go much further in positive legislative enactment than the English law; they propose as statute law what in England is the law of judicial decisions, and they impose provisions and restrictions as law which are in England left to the Articles, and consequently in some degree to the option of companies, though, as a rule, the safeguards now proposed to be made law are usually entered in the Articles of sound societies. But in no case has anything been proposed which is novel; every proposal is based either upon some English law, or decision, or Article, or—more usually—on some actual law of Europe or the United States of America, where it is found necessary to provide safeguards by law which the English legislature has either not thought of or has considered unnecessary with the ideas of absolute commercial freedom and with the principle of *caveant sociis*, which is too often a serious error even in England; it is the apathy, ignorance, folly of shareholders that are the cause, even in England, of much disaster.

Concrete illustration will make matters plain. The existing Madras 'Loan Funds' (Nidhis) are simply English Building societies, with certain developments, especially in the matter of pawnbroking, evolved by the facts and requirements of Indian society. Now these Building societies are based upon and governed by a special law in England, the ordinary company law being unsuitable. The original Act of 1836 was entirely altered by the present law (1874), and the present law is still found to require

much modification, wholly in the direction of stringency; more safeguards for the public and for the members, more supervision over formation and methods, is the universal demand. The registrar, who has a sort of supervision, declares in his report for 1890 that the springing up of these societies (by hundreds annually) has largely ceased to indicate a need or a want; their establishment has largely become a mere trade; in too many cases their operations are a mere gamble, while their members are often bound hand and foot by oppressive rules when once they have been ill-advised enough to join. The organ of the societies, which represents the best class, is not behind the registrar in its demands for more stringent provisions, and better supervision, and the press generally (the 'Spectator' in particular) is equally importunate. The result is three amending Bills of 1893, which have not yet been discussed; these embody many of the demands for reform. If this is the case in a country like England, is it likely to be less necessary in India. As a matter of fact, the very difficulties and evils found in England have been rife in Madras, and it is better to begin with a complete law rather than with one which would require perpetual tinkering.

It is further to be remembered that the societies which will be fostered, safeguarded, or guided by the proposed law will deal simply with small popular savings and credit. But it is a rule so universal as to be axiomatic, whether we look at the United States, at England or at the Continent of Europe, that the thrift, providence, and credit of the people, of the masses, shall be the special care of the State, and be assisted and fenced round with all sorts of safeguards supposed to be unnecessary in the case of ordinary trading societies or banks. This is obviously necessary, not merely because the fostering of popular thrift, prudence, and well considered credit are so essential to the welfare of a nation, but because the depositors and borrowers are poor and ignorant, and unable in case of fraud, or even under the ordinary circumstances of a society, to examine for themselves the condition of the society to which they trust; hence the anxious care with which the State surrounds popular thrift, prudence and credit in all countries; hence also the present proposals for a law for India based on the experience of other countries.

Where it is not advisable to lay down hard-and-fast provisions in the law, it should be provided that Government should have power to issue rules which should have the force of law; these would correspond to the "*Règlements*" which in European countries explain and develop the necessarily brief legal provisions.

Scope.—The law of societies in India is singularly meagre and imperfect. There are but two laws, viz., the Companies Act (1882) and Act XXI of 1860; this latter may be disregarded as applying only to literary, artistic, &c., societies. Practically the law of societies is the Indian Companies Act above.

This Act is little more than a transcript of the English Companies Act of 1862, i.e., an Act to regulate joint stock commercial companies; an Act which was at once the outcome of and the directive authority for English joint stock practice; an Act which has required constant amendment and additions, and which is yet so imperfect in the light of European law and in practical working, that its complete amendment, especially in its protective provisions, has long been on the tapis. But even assuming it to be fairly suitable to the conditions of commerce, it does not stand alone as the law of societies; on the contrary, there are numerous laws for various classes of associations; such are the Building Societies Act, the Friendly Societies Act, the Industrial and Provident Societies Act, the Loan Societies Act, the Trustee Savings Banks Act, the Land Improvement Societies Act, and the Land Mortgage Debenture Act, &c.; nor are these laws mere unrepealed survivals; on the contrary, the three first-named are, respectively, of 1874, 1875 and 1876, that is long subsequent to 1862, the date of the main Companies Act, and there have been frequent additions up to the date of the new Trustee Savings Bank of 1891 and the new Industrial (Co-operative) Societies Act of 1893, while the recasting and development of other Acts, e.g., the Building Societies Act, is still (1893) in hand. It is then recognized in England that the law of societies is not covered by the Companies Act. On the European continent the law of societies is much more highly and successfully developed; societies are usually distinguished as civil and commercial, and the latter are governed by more or less scientific codes of commerce, with—usually—separate chapters for the various classes of society, always including a special chapter for Co-operative societies; in Germany, indeed, altogether irrespective of the several special Acts for special classes of societies, such as Land Credit, Savings, and Land Improvement Acts, there is a very lengthy and complete Act of 1869 for Co-operative societies; so also in Austria. In America the practice is not dissimilar; the several States have their own laws for corporations, with either special sections or special provisions, and even special laws for particular classes of society, such as the Building societies, which, in America, are now frequently and more properly called 'Co-operative banks.'

It seems to follow then that in India, so rapidly developing in the methods of the West, and so keenly in need of the organizations which have there been found successful, the laws found necessary in other countries, must be similarly developed. It may be argued that laws follow practice; that when society develops certain institutions, laws are made to suit the needs of those institutions, as was the case in the matter of Savings banks, Building societies, &c., in England, and Popular Credit banks in Germany, Italy and Austria; hence that India may wait till it be seen whether she will develop similar institutions, and, if so, of what kind. The argument is, however, invalid as regards India, and an echo of the opportunist method of legislation and administration. When society is evolving by its own inherent vitality, it may be that there is much to be said for this customary method; societies for savings or for credit amongst the poor were absolutely novel ideas, which had not occurred to practical legislators and statesmen, and had to be evolved in the brains of thinkers and brought slowly into organization by practical workers before law was possible. Hence such societies in Europe have preceded the law. But in India society is developing largely by external impulse and a communicated vitality; at all events, it is utilizing the administrative methods and social discoveries of the West and has all European experience for its guide; hence it is perfectly possible for legislation to precede institutions. For legislation is not merely authoritative, restrictive, or declaratory; its directive, educative, propulsive function is at least equally important; as Mill points out, it is an insufficiently used function of Government which should adopt more of the suggestive and inculcative method than has been generally customary.

However this may be, in the Madras Presidency at all events co-operative institutions are actual facts; not only are the indigenous 'Chit' societies, elsewhere described, almost universal, but there are more than 100 registered Loan Funds (Nidhis) organized after the pattern of English and American Building societies, which are, in their proper development, purely co-operative, and these Loan Funds were, a few years ago, much more numerous, but have died out owing to the want of intelligent, expert, and honest direction, proper supervision, and suitable legislative guidance. Their history is largely one of failure, not from their intrinsic unsuitability, or from their being unnecessary; on the contrary, they sprang up to supply an obvious and notorious need, viz., that of cheap, mutual, organized credit, and they are, in some way, a development of the indigenous 'Chit' associations; they largely failed because their promoters, though often honourable men, were equally often ignorant of the law of societies as it existed, of business and business habits in general, or of the particular methods of co-operative action; too often they were merely usury traps; numbers were simply bogus societies, invented, directed and exploited by one or two swindlers, who promised impossible benefits, paid them, at first, out of the subscriptions, and then bolted with the capital of their dupes. These failures and swindles have worked serious mischief in the destruction of confidence in the organization of credit, yet might have been almost wholly averted had there been a proper law for the governance of these and similar institutions, and for the organization of due checks and supervision over their promotion, foundation and working.

This is not all: the Companies-Act is avowedly an Act for Trading societies of the joint stock pattern, that is for associations of capital with dividends as their object; whatever the benefits to society in general—and they are incalculable—by the development of the Joint Stock Trading society principle, the earning of promotion money for the promoters, of snug incomes for the directors, and of heavy dividends for the shareholders, are the primary objects of such societies. The object is perfectly legitimate, and even praiseworthy, but it is not the highest of objects; man does not live by bread alone, nor does the life of a nation consist in its material wealth, still less in the seeking for wealth; there is a higher plane of associated action, on which association is made the agent for developing the higher though possibly latent qualities of society and of its units, such as thrift, providence, temperance, self-control, and business habits, while to these are added the altruistic virtues of mutual aid and support, faithfulness and honesty, philanthropic * struggle and endeavour.

Such is the object of the Savings banks, Friendly societies, Building and Credit societies, Mutual Assurance societies, and Agricultural associations, &c., of the West; and to those who study their origin, history and operations, there is disclosed a perception of mutual aid in distress amongst millions of members, that gives a new view of social progress, a new hope for social possibilities. These societies, the product of philanthropic effort of the most practical character, have each their respective laws, varying according to country and nationality, but suggesting in each country the ideas and methods of social benefit by mutual help.

Now in India there is absolutely no such law, and the result is that the very societies which in the West are co-operative, in which the direction however skilled and management however laborious are largely *gratuitous*, in which dividends are less sought than mutual aid and friendly help (*of* the British Trustee Savings banks and Friendly societies, the American Building societies, the German Raiffeisen Credit Unions, the French 'Sociétés de secours mutual,' the Italian Popular banks and Wollomborg societies), are in Madras largely devoted to the development of profits and salaries for the Secretary (often the promoter) and the directors, to the cult of those high dividends (*gros bénéfices*) which Signor Luzzatti designates as the great danger even in Europe for Co-operative societies.

As a matter of fact some, even of those societies which in this presidency started on purely co-operative principles, are visibly changing their character; the discussions, largely by investing members, turn upon "profits," and the increase of those profits, sometimes, it seems probable, to the detriment of the borrowers and to the endangering of the society's stability; the rules are altered so as to include outside lending on high interest; in other words risky business is undertaken for the sake of possible profits; directorships are posts of emolument and are the object of keen competition, not necessarily by the best class of men.

There is a further difficulty in this trading and competitive bent of what might be Friendly or Benefit societies, viz., that the establishment of Unions, so all important in this matter, is impossible. While societies are competitive and trading in nature, they will not dream of binding themselves together in a Union for common support and encouragement, as in the case of the American, German and Italian Co-operative banks, and even the Co-operative societies of England; on the contrary, they will view one another with jealousy as rivals in the race for profits. When Benefit societies assume the character of the great English Friendly societies numbering their members by hundreds of thousands, this may be unnecessary; as a matter of fact in these cases the parent society takes the place of a Union, and the branches or lodges take support from it. But where, as in Europe, and as seems the probable future of Madras, societies are small, weak and isolated, it is absolutely essential that they should unite, so that support and supervision may be obtained from within. For this purpose, however, societies must be co-operative and not competitive, and the law should therefore favour such societies.

The scramble for high dividends in Indian mofussil banking is, in fact, a fruitful cause of disaster; a young company starts business, and in order to attract deposits issues a high dividend at once; from this, however obtained,—and there are instances of its being declared from the provision for starting expenses—it is impossible to go back without causing distrust; hence deeper and deeper embarrassment, and the payment of dividends from capital, the exhaustion of the capital, and possibly the payment of dividends actually, as in a recent case, from deposits.

* Not philanthropic in the sentimental sense of the word; on the contrary the co-operative method altogether excludes benevolent well-meaning charity whether grandmotherly or paternal; it utterly rejects charitable crutches whether of the individual or the State. State-help, self-help, mutual help are three methods of progress, of which the first is the least desirable and least successful; the second is the nineteenth century virtue, so apt to develop into a system of competition scientifically labelled "the survival of the fittest," but more popularly as "the 'des' take the hindmost." The third is the co-operative method, of which the credit operations are so largely dealt with in this study as the probable method of the twentieth century.

The legislature should at least suggest if not promote the co-operative idea ; it should not provide a law of societies which deals *only* with Trading societies, and thus give a positive bent to the opinions and methods of societies, which but for the law would probably assume a different development, such as in fact characterizes them in other countries.

Similarly it will be observed that in India there is no law favouring thrift (Savings banks) except that establishing the Post Office Savings banks. The Indian system of Post Office Savings banks is little more than a copy of the British official exemplar, and there is nothing to hint at the possibility of any other than an official system. Yet the official system, while excellent in the matter of security, has grave social and economic defects as discussed *s.v.* 'Savings banks.' Suffice it here to say, that the private or Trustee Savings bank system of England, America, Germany, Austria and Italy is wholly unknown in India, though it would be productive of enormous advantages in stimulating both thrift and rural credit. For, if local Savings banks were formed and attracted local savings, it would be at once necessary to find investments for the savings deposits, and there can be no doubt, from the example of Germany, Italy and America, that local mortgage and other credit would be not only permissible, but advisable, up to a limit of 50 per cent. or so of the deposits. But for the establishment of such banks, a special law or special provisions in the law will be necessary.

In the following pages, therefore, the needs for widening the scope of the Indian Law of societies will, amongst other matters, be dealt with.

Apart however from this particular enlargement, other developments are necessary if the law of societies is to meet Madras needs for Land and Agricultural banks. Various safeguards must be added in the matter of the promotion, formation and working of the companies, especially in the matter of a genuine and thorough audit; special procedure seems necessary for the recovery of debts; the financing of the banks, especially by the issue of land mortgage and other debentures must be provided for; the law and possibly the system of registration will require modification. It will also be suggested that many provisions now left to the discretion of the societies should be made compulsory by entry in the law, instead of in the Articles which, at present, may be of the loosest and vaguest character if schedule A is excluded from adoption. Moreover in all countries—whether those of general non-interference such as England and America, or those where trade is or has till lately been under certain restrictions unknown to England,—companies or associations of the classes now under discussion have invariably been closely regulated; indeed, not only is there a popular demand for closer restrictions and supervision *ab extra*, but the most recent legislation (1891 and 1893) of England is highly regulative and provides for very close external supervision, while that of America, also of the most recent, is, as concerns all Banking, Co-operative, Savings and Insurance companies, most careful in enforcing the most stringent supervision by Government officers. Where the object of societies is to touch the savings of the really poor, to popularize small credit, to democratize trade as by the establishment of small Co-operative or Mutual societies whether for credit or for other distributive needs, to affect the domestic welfare of the actual masses, as in the Benefit, Friendly or Building societies now so common, to popularize thrift and prudence by providing Savings banks, Insurance societies or others affording prospective benefits, to manipulate land whether in matters affecting tenure or in its improvement, it is an absolutely universal rule that special legislation, with special safeguards and limitations, should be resorted to. The law affecting the Land banks, Land Mortgage banks, the Land-renten, and Landeskultur-renten banks of Germany and Austria and the Crédit Foncier of France, the laws for land mortgage and agricultural credit in Italy, the laws regarding Monts de Piété and Positos in France, Italy, Spain and Portugal, the Savings banks laws of the whole world, the considerable and modern legislation on Co-operative, Friendly and other Benefit or Loan societies of England, America, Germany and Europe generally, the Land Acts of England and even the Land Mortgage Debenture Acts of the same country, the Banking and Assurance society legislation of the various American States, are all cases in point. Hence, for India, which, save for the companies law and that affecting the Presidency banks, is almost guileless of such legislation, which largely needs the development of certain classes of such societies, which, of all countries, requires certain restrictive safeguards and positive regulations both to guide and to stimulate their formation, and which nevertheless possesses few of those safeguards such as the stock exchange, the financial and the ordinary press, that in Europe, tend so strongly to keep company development and operations within legislative limits, there must be enactments similar to those which have been found useful and absolutely necessary even in more advanced countries.*

The following points in the development of the law will now be discussed:—

- (1) Classes of society ;
- (2) Promotion and formation of societies ;
- (3) Articles of association ;
- (4) Capital ;
- (5) Dividends ;
- (6) Reserve ;
- (7) Property ;
- (8) Members ;
- (9) Management and Administration ;
- (10) Loans ;
- (11) Audit ;
- (12) Supervision (internal and external) ;
- (13) Privileges ;
- (14) Registration of documents ;
- (15) Disputes.

The Classes of Society.—European law recognizes at least two classes of society not provided for by the Indian law, viz., societies "en commandite" and societies "with variable capital"; of

* Most of the suggestions of the following pages are compiled into a rough Draft Bill intended merely to epitomize the various suggestions.

these only the latter need be here considered. For the societies which are dealt with in this study may all assume the general form of joint stock companies limited by shares, with however—in the case of all Co-operative or Mutual societies—special rules to admit of a varying number and value of shares, and a varying amount of share capital. These societies are provided for in English and American law by the special laws relating to Benefit, Provident, Co-operative and Building societies; in Europe generally by special sections in the general Code of Commerce which—amongst other matters—includes the law of societies; in Germany and Austria by special and elaborate Acts framed for their management. The Indian law does not contemplate the existence of societies with varying capital under which form alone Mutual societies can exist; the Belgian *commercio-legal* description—it is not of course a definition—of a Co-operative society, is “one which has a varying capital, and of which the “shares are not transferable” (inaccessible). As the Indian law recognizes only societies under the Companies Act, and as such societies cannot reduce their capital, including that “paid up,” without special and elaborate precautions, every Co-operative society in India acts illegally every time that it pays up a withdrawing member. Hence it is necessary to widen the law, so as to include, as in every other country in the world, Co-operative societies with varying capital as societies recognized by the law either as a class *per se*, or as a special form of the three classes already recognized. Of course the difficulty as to the reduction of capital only occurs when Co-operative societies are formed as companies limited by shares, there being no restrictions as to capital in the case of unlimited companies or those limited by guarantee (*see* ‘capital’ and ‘shares’ *infra*).

The word “limited” is, as regards companies limited by shares, restricted by sections 7 and 8 of the Indian Companies Act to cases where “the liability of the members is limited to the amount unpaid on “their shares.” In the United States and in parts of Europe it is, however common, especially in the banking laws, to widen the word, so that the liability extends to an *additional* sum never exceeding the nominal value of each member’s shares; thus, if a member held a share of £100, of which half, £50, had been paid up, he would, as usual, be liable for the remaining £50 and, in addition to a further sum, which, according to the law of the particular State, might be from £5 to £100; *e.g.*, the general banking law of New York and of Rhode Island makes all stock-holders, unless specially exempted by charter, liable “to the amount of the par value of the shares held by them *in addition* to the amount “invested in such shares” after the corporate property has been exhausted; in Illinois including Chicago, the new law of 1887 has a provision similar to that of New York; so also in Kansas and Arkansas; in South Carolina the addition is only 5 per cent.; in California the shareholders of all societies are liable as in New York. The National Banking Act has similar provisions. In Europe, Austria, Switzerland and Belgium admit a similar liability; *e.g.*, in certain Swiss banks (limited) the liability of the shareholders extends to twice the amount of their shares; in Austria the law, at all events for Co-operative Loan societies, requires a similar liability. The principle is evidently adopted with a view of ensuring a larger guarantee, greater stability, and very careful management by the shareholders. The method is worth adopting into Indian law. Possibly section 9 referring to companies “limited by guarantee” will cover the case, but the wording of section 9 (*d*) and forms B and C, schedule II, seem to require that a particular amount should be specified irrespective of the shares held, if any, whereas by the method proposed, every member is liable for the full value of his shares and for an additional amount proportionate to such shares; hence creditors have the benefit of a very wide guarantee for their loans.

Promotion and Formation of Societies.—The English law of companies from which the Indian law is almost copied, is frequently under amendment; the latest actual addition is that of 1890, which is an Act to increase the liability of directors and promoters, one remarkable provision—apparently following the general law of 1884, and the Swiss law (section 715)—being that the onus is now thrown on such persons to prove *bona fides* in case of loss to shareholders by reason of an incorrect prospectus. A plaintiff under this Act does not need to prove fraud; he can claim and obtain compensation for damage by any untrue statement in the prospectus, unless the directors or promoters prove, not only that they believed the prospectus to be true, but that they had reasonable grounds for their belief. This is the latest of the provisions intended to protect the public from the frauds attending the reckless foundation of societies, as has been notably the case in England, and was also in Germany subsequent to 1870.

From 1862 to 1890 societies in England were registered under the Companies Act with a nominal capital of £3,970,000,000, but on the 30th April 1890 the paid-up capital of the existing societies was only £775,000,000; allowing for all mere registrations, without further operation, for the difference between nominal and paid-up capital, &c., this shows very reckless initiative. “Hundreds of millions “sterling” have been wasted—to use a mild term—in England alone by the ignorance, recklessness or fraud of promoters, and the Act of 1890 is only one instalment of a series of public demands for precautions which shall tend to ensure careful foundation and sound business.

But it is not merely from fraud and recklessness, but from ignorance that so much danger arises; the state of many Friendly and Building societies, even with special laws, has led to much difficulty of late years; it is declared that numerous Benefit societies are unsound and wholly unable to provide the benefits for which their subscribers pay, having been started empirically by philanthropic but ignorant men. As for the Building societies, a Parliamentary return of 6th April 1893 shows that 1,237 such societies have been founded and ceased to exist since 1874 in England alone, of which 406 have simply disappeared as abortive or failed, irrespective of regularly wound-up societies, and it is asserted by those best informed, such as the Registrar of Friendly, &c., societies, that Building societies are frequently formed without any real demand for their operation, and merely as speculative or gambling concerns or for the profit of their promoters. The result of these failures and misuse of their methods is a popular demand for greater precautions in the starting of such societies.

In this presidency precaution is not less requisite; the chapter on ‘Madras Nidhis’ (Mutual societies) shows that the success of a few and their apparent ability to fill a growing need brought about a “boom” in these societies from the years 1883 to 1888, during which time hundreds of societies were started, but hardly passed the starting stage. Many of these were failures from the beginning and failed from utter want of the knowledge necessary for success. Worse still, a large number are said to have been deliberately fraudulent; impossible benefits—such as 2 rupees for every rupee of

subscriptions—being promised and temporarily granted till the subscriptions were considerable, when the Fund, worked perhaps by a single swindler with a few men of straw, closed its doors; many of them, it is believed, were never registered at all, owing to a defective knowledge of company law by the shareholders. The result has been a marked distrust of such Funds in the several districts where they were most prevalent.

One remedy is in legislation which shall insist on a proper statement of the circumstances attending the formation of a society. Where the clientèle of a proposed society is conservative and suspicious of novel methods, and yet so ignorant and so necessitous that they will readily accept impossible terms, it behoves the law to adopt preventive measures so that the chances of genuine societies may not be endangered. In Germany, Austria, Italy and Switzerland the Commercial Court or the Register-richter examines the circumstances of each proposed society to see if it fulfils the conditions of the law. In Germany, especially, where the supervision of joint stock companies was loudly demanded owing to the bubble period which succeeded 1870, the formation of companies is very carefully provided for in the new Code of 1884. The promoters and the inchoate company are considered rather as having opposed interests before formation, and the law therefore safeguards the public who are to form the company by insisting on complete publicity of all the circumstances attending the proposals for formation.

It may be well to give a brief sketch of the provisions of the German and Italian Codes of Commerce (1884 and 1883 respectively) regarding the formation of companies.

In Germany the promoters of a company are all those who have drawn up the Articles of association, or who have contributed capital otherwise than in cash subscriptions for shares. These promoters are considered as having interests in a certain way opposed to that of the general body; they desire to obtain as large a price for their promotion or concessions, and to retain as large a share of the profits as possible. Hence their dealings with the proposed company are carefully investigated, and must be laid absolutely open. The deed of association must therefore, on pain of nullity, contain every contract to be entered into by the promoters with the company and all the advantages secured to them, the price paid for these concessions, &c. The notice for the subscription of shares must contain, on pain of nullity, the date of the deed of association, which must thus be drawn up in advance, the object of the enterprise, any special advantages secured to shareholders, the amount of the different classes of shares, the name, address and profession of the promoters, the amount of the nominal capital, and the proportion to be paid up not being less than one-fourth. Any matter reserved, which should have been entered, is of no validity as against the shareholders. When the promoters or the public have taken up all the shares, the company may proceed to incorporation; there must be a board of directors and a council of supervision; to these bodies the promoters must submit their report reciting all the circumstances attending the formation of the company, together with original accounts, the deed of association, &c.; these documents are then examined by the directors and council; if any promoter is on either of these bodies, there must be a special further examination by revisors appointed by the local chamber of commerce, or if there is none, by the directors and council together. These bodies and the revisors, if any, must draw up a written report certifying to the correctness of the promoters' statements, and to the genuineness of the company and its objects. These reports with a copy of the deed and Articles of association, of every contract entered into preliminary to the enterprise, the declarations of the promoters, a statement of the expenses of foundation, and the persons who have received or are to receive such sums, a list of shareholders and shares taken by each with proof that the whole capital has been subscribed and 25 per cent. paid up, the documents appointing the directors and all others necessary to explain the formation of the company, must be forwarded to the Commercial Court having jurisdiction with a request for registration of the company. Thereupon, if the promoters have not themselves subscribed all the shares, the Commercial Court at once calls a general meeting of all shareholders to finally decide whether the company should be established. At this meeting the Judge of the Court presides in the interests of the shareholders as against those of the promoters. The duty of the Judge (Register-richter) is not to decide whether the enterprise is sound, but whether the law has been duly observed. At the meeting the directors and committee of supervision make their report upon the enterprise; the vote of one-fourth of the shareholders holding one-fourth of the capital is necessary for the establishment of the company.

The Register-richter then proceeds to register the company, but must first satisfy himself that the Articles are legal and that the entire capital has been subscribed and one-fourth paid up, failing which he refuses registration. If correct he registers the deed and Articles of association, and deposits the other documents in the record-room; an abstract of the deed is also published.

The responsibility of the promoters does not end here; if any false statement or misrepresentation has been made by them, they are responsible for all damages, and the onus is thrown on them of proving that they were unaware that the representations were false or incorrect; in case of an incorrect statement by promoters the law assumes their culpability till they prove their innocence, and that they have acted as good business men throughout. This is exactly parallel with the recent (1890) English law regarding promoters and directors. The liability, except presumably in case of actual fraud, ceases after three years if a general meeting absolves them, but no such resolution can be passed if shareholders holding one-fifth of the capital object. After five years no claims can be made against promoters. Directors and the committee of supervision are similarly responsible, secondarily to the promoters, if their reports on which the company was established were erroneous, misleading or false. In addition to the civil remedy for damages, special penalties of imprisonment and fine are provided.

Such is in abstract of the new German Commercial law on the promotion and foundation of companies; similar provisions have been claimed as necessary in England, and some have already been adopted, while there is a general feeling both in England and in India that more legal attention must be given to these points.

In Belgium a special amending law was passed in 1886 in order to circumvent the frauds practised by the promoters of companies.

In Italy the Commercial Code of 1883, though not so complete as that of Germany, is full of precautions, intended to ensure that companies shall be genuine concerns, solidly based, likely to succeed, and not mere traps to catch public money. The deed of association must be drawn up by a notary

public who, within fifteen days, must deposit the document and the Articles of association in the Civil Court having jurisdiction, or in the Commercial Court, if the Company is unlimited or "en commandite." The Court then verifies the legality of the previous proceedings, and if, after consultation with the Government pleader, it is satisfied, orders the registration and publication of the deed and Articles; publication is by posting the documents in the Court-room, in the Municipal office, and on the notice board of the nearest exchange. An abstract must also be published in the journal of law notices, and the full text in the official bulletin of share companies. The deed of association must give full information of any privileges or rights conceded to promoters, and the value of the contributions otherwise than by cash subscription for shares; promoters may not reserve for themselves a premium taken before profits are divided, or in the shape of paid-up shares, but they may reserve for themselves a proportion of the declared profits not exceeding one-tenth, for a term of years not exceeding five. If the company is started by public subscription a full prospectus must be issued containing the chief clauses, or an abstract of the deed of association, the share of profits to be retained by the promoters, &c.; this must be deposited in the Commercial Court. Subscription lists must contain a copy of the prospectus or of the Articles, and give full details, address, number of shares, &c., for each subscriber, and a declaration required by him that he understands and accepts the prospectus or Articles. All subscriptions must also be authenticated by a notary. Before a company (other than co-operative) can be formed, the capital must be subscribed in full, and at least three-tenths paid up; in the case of insurance companies one-tenth only must be paid up; subscription and payment must be followed by a general meeting which have the usual duties and powers of first meetings, but is not in any way supervised by a public officer.

In India an addition to the Companies Acts of 1882 and 1887 should be passed in terms of the English Directors Liability law of 1890, and the Commissioner of societies (to be described below) who should by law have powers similar to those of the English Registrar of Friendly, &c., societies, or the Commissioner of Savings banks or public Auditors of America, or the Commercial Court of Europe, should satisfy himself, not indeed that the society is likely to be a success, but that it is a genuine *bona fide* society intended to fill an actual need. It ought not to be possible for purely bogus or at least ignorantly and recklessly started companies to establish themselves at pleasure, and to vanish as readily as they originated. The universal European (Continental) rule (*see* 'Directors') that the directors—provisional or permanent—and promoters should hold at least a certain number of shares, which should be inalienable during office, would also tend to ensure the genuineness of an undertaking. For other protective regulations *see* 'Directors,' 'Reserve,' 'Inspection,' 'Audit,' 'Supervision,' 'Registrar,' &c.

The Articles of Association.—At present the law provides (section 37) that a society *may* adopt any or all of the provisions of schedule A (model Articles), and section 38 makes these obligatory on a company limited by shares unless they are excluded or modified by Articles accompanying the memorandum. Hence it follows that a company limited by shares may adopt wholly useless, defective and impracticable Articles, if a section is entered, as is frequently the case, excluding schedule A. While liberty should be accorded to societies, it is not advisable, especially in the case of the classes of societies proposed to be encouraged, to permit them to operate without proper regulations for business and for the protection of their members. The Articles of many societies that have been formed are singularly imperfect and unsuitable; in many cases they have been adopted without the slightest knowledge of their true signification and extent; the very meaning of the word "limited" is often misunderstood; the provisions for audit are defective and even useless; the conditions for loans often read more like the contracts of a usury shop. If societies for popularizing credit are to have privileges, their Articles must be precise and complete, and should duly provide for the protection of members and creditors. Certain items in the Articles should be compulsory, notably those for audit, reserve, appeals to the registrar, the duties of directors, the methods of administration and good management, the investment of the funds, the receipt of deposits and the borrowing of money.

In European law certain matters must, of necessity, be dealt with in the Articles; *e.g.*, in the German law for Co-operative societies (1889) the following subjects are compulsory; the name, locale, object and duration of the society and its business year; the liability of its members, its capital, value of each share, and the minimum amount to be eventually paid up on each share, not being less than one-tenth of its nominal value; rules for the publication in the press of the society's transactions, for the preparation and verification of the annual balance sheet; for the formation of a permanent reserve; for the domiciling (technically) of each member within its circle of operations; for the extension of operations to non-members except in the case of Loan societies in which case it is forbidden; for the entry, withdrawal and exclusion of members; for the conduct of general meetings, and the majority required for special resolutions. Since, moreover, a directorate, council of supervision, and auditors are compulsory by law, the statutes must necessarily contain full rules on these subjects, which are expressly added as necessary entries in the Articles of all societies by the Italian Code of Commerce, together with a complete statement of all the benefits and rights especially conceded to promoters. In Switzerland it is obligatory to state the number of shares which directors are obliged to hold. Doubtless Madras societies do generally deal with such subjects, but not of necessity, and their Articles are often defective and unsuitable; this should now be remedied. It will be advisable also to draw up model Articles modified to suit the several classes of societies (Land banks, Co-operative, Credit and other societies, Savings banks, &c.), and to make them or modifications of them compulsory, certain items being obligatory as above indicated.

Capital.—As mentioned above, the societies which have withdrawable capital have been omitted from Indian law; the limited societies contemplated are those with fixed but transferable capital; those forgotten are the societies with capital restrictedly transferable, but always withdrawable and therefore variable. The capital and shares of a joint stock company are subscribed for either as a working capital or as a guarantee for borrowing; in Co-operative societies the subscription of capital, while serving these two purposes, has in view, at least in certain classes, the enforcement of thrift or the repayment of advances by continuous subscription. The capital of a joint stock company is a fixed amount which cannot ordinarily be reduced or repaid till the company is wound up; that of a Co-operative society is normally reducible not merely by the withdrawal of members, but by the maturing

of the shares, where, as in Building societies, repayment is the expected and intended result of subscription. The nominal capital of a company is a fixed amount, of which the paid-up capital is a definite proportion varying only—in general—according to successive calls; that of a Co-operative society has a fixed nominal maximum, of which the paid-up capital is a proportion which varies, by increase and decrease, from day to day. It is obvious that this class of societies, the importance of which is daily increasing, even in India, must be legally recognized.

In Europe and in America the capital of Banking and Co-operative societies is often fixed by law; in France the maximum capital of a Co-operative society is £8,000, which may however be increased by successive annual votes of a general meeting, and in several of the United States it is £200,000 for Co-operative banks. The maximum is intended to prevent these societies from being exploited by capitalists and speculators. On the other hand, many States, *e.g.*, Massachusetts and Illinois (1887), prescribe a minimum for the capital of ordinary Banking societies, with a view to give them a solid basis; so also the federal law of the United States of America regarding National banks prescribes minima varying according to the population of the locale of the banks. It does not, however, seem in general necessary to fix any maximum or minimum in India for either ordinary or Co-operative Credit societies; the great Benefit societies of England are, in fact, instances of the inadvisability of fixing a maximum, as they work with much advantage and credit.

It is a question whether there should not be a provision in the law that a society which has lost a certain proportion of its capital shall not necessarily be wound up. By the Belgian law the directors of an ordinary Joint Stock society, which has lost half of its registered capital, must submit the question of dissolution to a general meeting; in France a loss of three-quarters brings the same obligation, and even in Co-operative societies the capital must not be reduced by withdrawals below one-tenth; in Italy when ordinary companies lose one-third, the directors must call a general meeting, which must decide whether to dissolve the company, or to make up the deficiency, or to limit the capital to the reduced amount; if the loss is two-thirds, dissolution is *de jure* unless a general meeting agrees to make up the loss, or to trade on the reduced capital. There are similar provisions in the United States of America; *e.g.*, in the National Banking Act, in the General Banking law (1892) of New York, in that of the State of Illinois, &c., any impairment or falling below the legal minimum must be replaced, or the society wound up upon the motion and initiative of the Comptroller of Currency, the Superintendent of Banks or the Public Auditor respectively. There is no such provision in the Indian law, but it seems called for in the interests of investors and of the stability of companies; the worst failures are those where a society has endeavoured to hide losses, with generally a ruinous result, as has recently happened (1893) in Northern India. It is true that the Articles of some companies provide this rule, but it is purely optional; it should now be made obligatory by legal enactment, and very severe penalties provided for any breach of the rule by directors, and for any concealment of the fact by auditors or other supervisors.

There is nothing in the Indian law to ensure that companies shall start on a solid basis of capital; in all European States and in America, the whole capital must in general be subscribed, and a proportion, usually one-fourth or three-tenths, paid up before incorporation is granted; in the United States the capital of a banking corporation must usually be paid up in full before operations commence, or before it is allowed free course; *e.g.*, in Rhode Island State three commissioners appointed by the Government, but paid by the bank, superintend operations until the capital is fully paid up; in the National banks half must be paid up before beginning business, and the balance by monthly instalments of 10 per cent. Similar and even more stringent provisions are found in other States; *e.g.*, the new law of 1887 for Illinois (Chicago) requires that every banking company shall have a capital of at least £5,000 in small towns and of £10,000 in towns of above 10,000 inhabitants; this must be wholly subscribed before a meeting can be convened, and wholly paid up before business can be commenced. The object of course is to provide a solid basis of capital, to ensure that the company is not bogus, a mere speculation of from one to seven impecunious men who are anxious to obtain unlimited funds from others by the mere use of the magic word "company" or "bank." But unless it is further provided that the capital or a portion of it shall at once be invested in Government or other first-class securities, which shall not be alienable or even borrowed upon unless by special resolution of the directors and then only temporarily and upon emergency, the subscription in full of the capital is dangerous as depriving creditors of the security of the uncalled capital. Recent instances in India itself show that a capital fully paid up may entirely vanish by losses, or reckless lending, and that the nominal existence of a large paid-up capital was therefore positively misleading to the public. If there is to be a substantial capital, it should be only partly paid up, or if fully paid up, it should be at least partly invested in inalienable first-class securities, repeatedly verified not merely by the directors, but by the auditors and supervising agencies hereafter mentioned. Directors should also hold a certain number of inalienable shares, stamped with a seal to that effect and deposited in the bank's safe. In the United States it does not appear that any provision is made for the investment of paid-up capital, but its place is taken by the common provision that shareholders shall be liable for an amount in *addition* to the value of their shares, varying from 5 per cent. additional in South Carolina to 100 per cent. additional in New York, Rhode Island, Illinois, Colorado, Kansas, &c.

Of course this provision is needless in the case of Co-operative societies, which are expected to begin in a small way and gradually to increase the number of their members and with them the share capital.

Regarding shares, it may be advisable to limit the interest held by any one shareholder; the Italian Code of Commerce provides that no member of a Co-operative society shall hold shares beyond £200 in value, each share not exceeding £4, a provision exactly similar to that of the English Industrial and Provident (Co-operative) Act, (1876). In Germany no member of a Co-operative society may subscribe for more than one share until he has fully paid up his first share, and so on. The laws of Massachusetts and other States provide that no person shall directly or indirectly possess more than one-half the capital stock of a Banking society. The object of the European provisions is to prevent departure from the co-operative and democratic idea, to restrict the societies to the classes for whom co-operation is specially intended, to prevent a few money-lenders from so uniting in a

sham Co-operative society as to fleece the unwary and ignorant under the guise and with the privileges of such a society, and to prevent a few persons from obtaining a controlling influence in genuine societies and abusing such influence for personal gain; the American restriction is intended to prevent abuses of which the following is an example; a director of a small bank bought out eleven other directors at £300 each, and from the capital and deposits of the bank loaned himself £150,000. The history of the U.S.A. National banks that have failed, as entered in the Comptroller's Reports for 1889-91, shows that in most cases failure was due either to negligence of directors or to a controlling power obtained by the bank president, and others over the use of the funds. The precaution is not needless even in Madras, to prevent a few capitalists from setting up a usury shop under the guise of a Co-operative bank, or to prevent the abuses detailed in the chapter on 'Madras Nidhis.' For certain privileges in the transmission of shares and interest in a society *see* below *s.v.* 'Privileges.'

Borrowed Capital.—This may be considered under the head of 'Deposits' and 'Debentures.' The first question is whether, for any of the societies under consideration, a legal limit should be fixed for indebtedness. The Indian Companies Act fixes no limit, nor does the English Act, but in England the Stock Exchange requires ordinary borrowing to be restricted without the sanction of a general meeting, to an amount which must not be excessive as compared with the share capital, and will seldom be allowed to exceed one-half of the subscribed capital. In India there is no Stock Exchange, and it is more necessary than in England that some limit should be fixed, at least for particular classes of companies and in the mofussil.

In the ordinary laws, whether of Europe or America, there do not appear to be any limits placed upon borrowing, or any proportion fixed between capital (with reserve), and the amount owed to third parties except on debentures, though a limit is usually provided by the Articles of a company. Some of the Swiss banks, for instance, though not Savings banks proper, have deposits more than one hundred times as great as their share capital, and fifty times that of capital and reserve together. As regards land mortgage debentures it is usual to fix a limit of from five to twenty times the amount of the share capital; this is specially the case in the German Joint Stock Mortgage banks; so also in Italy. In Belgium ordinary debentures must not exceed the paid-up capital. In the English and American laws relating to Building societies, of which the Madras Loan funds are chiefly copies, very strict limits are given; the English Act only allows indebtedness of all kinds (deposits, loans, &c.) up to two-thirds of the amount secured for the time being by mortgages from its members in the case of a permanent Building society, and the same amount or a sum not exceeding twelve months' subscriptions on the shares in a terminating society; in America (New York) the amount is limited to one-tenth or one-fifth of its paid-up capital and for terms not exceeding one year, or (Pennsylvania) up to one-half of the subscribed capital.

Deposits.—The danger from deposits is twofold: (1) that when repayable at call they may endanger or even ruin the society if its assets are not sufficiently liquid to allow of immediate repayment of the deposits; (2) that when abundant they may lead the society into ill-secured and perhaps speculative investments in order to make a profit. A third danger arises for Co-operative societies, *viz.*, that they insensibly tend, if successful in attracting large deposits, to become ordinary banks, and to lose sight of the mutual idea with which they were founded; they begin to run after dividends and seek the profit of investing rather than of borrowing members; there have been very notorious instances of these dangers in very recent years, especially among the English Building societies, and in the case of some German Co-operative Credit societies. Unless, therefore, these dangers can be obviated, a rule providing for the limitation of deposits should be legally promulgated. It may be a breach of commercial freedom, but such freedom is not an axiomatic necessity, but merely a modern practice, and while large banks and societies may be left to their own skilled guidance (by no means, in the light of recent experience an infallible guide), the small Credit and Benefit societies which are springing up and will hereafter immensely increase in number, cannot all at once be left to themselves. Either the law, or provisions in legally compulsory Articles, should fix a limit of indebtedness as in the English and American Co-operative banks called Building societies.

On the other hand deposits and loans are absolute necessities if Credit societies are to be really useful; both to provide sources of credit for their members and as methods of encouraging thrift and the useful accumulation of now useless dribbles of capital, deposits must be encouraged.

In the *Crédit Foncier* the Articles provide that the capital shall not exceed £8,000,000 and that the deposits shall not exceed £4,000,000. The actual capital in 1890 was £6,820,000, and deposits were £3,125,000. By the Articles one-fourth at least of the deposits must be placed at interest in the Government treasury, and the remainder must be invested in Government paper, or in loans for terms not exceeding ninety days on good security.

In the National banks of America the actual deposits are to capital and reserve as $2\frac{1}{2}$ to 1; in the German Co-operative Credit banks with unlimited liability and with an own capital arising and gradually increasing from the monthly subscriptions of the members (*Schulze-Delitzsch*) as 3 to 1; in the Italian Popular banks with limited liability and ordinary share capital as guarantee, but with extremely good management and very great consequent credit, as 4 to 1. It might be advisable to limit deposits in local Credit societies in Madras, outside of the Presidency town, to twice or thrice the amount of their paid-up capital and reserve. This suggestion is based upon actual European practice, but tallies with a suggestion made by Mr. A. J. Wilson in his work on 'Banking Reform.'

In the National banks of the United States 15 per cent. of the aggregate value of bank notes and deposits must be held in reserve in lawful money of the United States, in order to meet the calls for repayment; for the first few years till experience is gained, it would be well to provide that in local Credit societies in the mofussil, not less than 10 per cent. of the deposits payable at call should be held in Government paper or other securities approved by Government, and $2\frac{1}{2}$ to 5 per cent. in currency notes or cash. It should also be provided that the Articles should of necessity contain rules regarding repayment of deposits, requiring notice on a sliding scale rising according to amount; this is the Italian plan and the English Building Society Act of 1894 provides that no society shall accept any loan or deposit except on the condition that not less than one month's notice may be required before repayment or withdrawal. This provision is the result of a strong demand for some

such safeguard to avoid the insensate and ruinous rushes which have frequently and recently endangered or ruined societies in which the deposits were locked up in mortgages.

On the other hand, the interests of depositors must be equally safeguarded to prevent the scandals of recent years and the wide distrust which such cause. The law should provide, as proposed for debenture-holders, for the representation of the depositors at general meetings, *e.g.*, by a public officer without the power of vote, and for the appointment of a separate auditor to represent their interests, who shall work with the bank's own auditors and have similar powers; also that a certain number of the depositors should be able to obtain, upon reasonable demand, an inspection of the bank's affairs by a Government or Union Inspecting officer.

Debentures.—It seems necessary to regulate by law the issue of debentures, at least of the class known as 'obligations foncières,' 'Pfandbriefe,' 'cartelle agrarie' or 'buoni di tesoro dell'agricoltura,' which are somewhat similar to those dealt with in the English Land Mortgage Debenture Acts of 1865 and 1870. There is absolutely nothing to legalize the issue of such debentures in India, yet, if Land banks are to be started, their capital should largely depend upon loaned capital of this class. These debentures have been described in full *et cetera* 'Land Mortgage Debentures' (see chapters on 'Land Banks in Europe'); it remains merely to suggest the provisions for legalizing them in this country. The ordinary commercial debenture is simply a mortgage of a company's "property and undertaking" and is issued in India under the laws relating to mortgages. There is in England much present discussion as to the issue of this class of debenture, said to have been "gravely abused," since, on the one hand, companies which have issued debentures enter into other engagements with persons ignorant of such issue, while, on the other, debentures are issued which are not mortgages at all, and are not specifically and preferentially secured. As regards the first difficulty, the only provision in the Companies Act is that requiring the entry of such debentures in a register kept by the company, but this register is not open to public inspection, and cannot therefore protect the public, and one of the suggested reforms is an extension of the law to provide that a copy of this register shall be sent to the Joint Stock Companies Registry office to be there open to public inspection under certain conditions. The second difficulty could be got over by simply refusing the name "debenture" to any document that does not on its face, give a specific charge on the company's property.

But the land mortgage debenture is totally different; it is a special security based upon, and absolutely secured, by (1) the mass of mortgages held by a company, (2) its guarantee capital, (3) its general credit. In no country is it permitted to issue these securities without the most stringent precautions. In England the company must be one devoted solely to the advancing of money on the security of land, including rates, assessments, dues and charges upon lands and real property, exclusive of mines, factories, mills, &c.; it must have considerable capital, only partly paid up; all mortgages on which debentures are to be founded must be registered and deposited in a public Land Registry office, together with a valuation certificate, and a form showing the nature of the company's interest in the security; on these registered documents the society may issue debentures, the total of which must never exceed in value the total securities held by the company, nor ten times the amount of its uncalled capital. As the mortgages are redeemed the company must withdraw its debentures. Conversely, as the debentures are paid off, the company may, on application to the registrar, obtain, *pro tanto*, the release of its securities, provided that the remaining securities fully cover all outstanding debentures. All debentures must be numbered consecutively, and bear full information on their face, of the capital and securities of the company; they must be duly stamped, entered serially in a register kept by the company and in a similar register kept for each company by the land registrar, who must endorse each debenture with the particulars of its registration, without which it is invalid. The minimum value of a debenture must be £50 and the term from six months to ten years, with repayable at any time on six months' notice by either party; transfers are effected by endorsement, but the transfer must at once be noted in the debenture register kept by the company. These debentures are considered as securities in which trust funds may be invested. Quarterly returns are due by the society to the land registrar, showing all the securities held by the company and the number, date and value of all outstanding debentures. The land registrar is thus responsible for ascertaining (1) that the company satisfies the conditions of the law as to its status; (2) that the securities tendered for registration and deposit as the basis of its debentures are good, sufficient and in order; (3) that the debentures are issued in proper form; (4) that they do not in the aggregate exceed the aggregate value of the securities deposited with the registrar. In fact it is in ascertaining that each debenture is based on and covered by a specific mortgage, and in guaranteeing an equilibrium between the securities held by the company and the debentures issued by it, that the registrar is chiefly concerned. It will be noticed that the debentures are repayable at a fixed date, and not by periodical amortization.

The law of 1853 also authorizes a special land improvement company to issue transferable land mortgage debentures based upon charges secured to them for their advances. These debentures are separately based upon individual mortgages or charges, and not upon the mass of mortgages held by the company; they resemble the old form of German Pfandbriefe. They may only be issued under the special sanction, endorsement and seal of the Inclosure commissioners.

The continental debentures are not very unlike the English debenture under the Acts of 1865 and 1870, except that (1) they are for much longer terms; save in exceptional cases, when they resemble the English form, they are issued for not less than ten or more than seventy-five years; (2) they are redeemable gradually—usually every six months—as amortization proceeds for the mortgages upon which they are based; (3) they are for much smaller sums, even as low as £3; those of France are £4; even where issued for larger sums they are usually divisible into "coupures" of £4; (4) they are transferable, when, as is usual, they are made out "to bearer," by mere transfer from hand to hand; even when personal (*nominatif*) the interest coupons are usually "to bearer"; (5) while the bank can call in and pay off its debentures on notice or by purchase in open market, the debenture-holders cannot demand repayment except when their debentures are drawn for repayment.

Certain privileges are granted to these debentures by all laws; being regulated with such anxious precautions, they are in England and in Europe counted as securities in which trust funds may be invested; in Europe they are generally granted favourable rates of stamp and registration duty, and

in France and Italy the holder is entitled to the payment of both interest and principal, notwithstanding any claim by a third party as creditor; the Courts cannot, upon a general decree for a debt, levy execution (*saisie-arret*) upon a debenture, though they may, of course, adjudicate upon it when the subject of dispute. The object is to secure the ready circulation of the debentures and to free the society from legal difficulties and expenses. In the case of the German Joint Stock Mortgage banks the debenture-holders are represented by the conservator of mortgages, who has large rights of supervision for the purpose of guaranteeing that the debentures are based on solid securities; he is assisted by auditors, who are appointed by a general meeting of the debenture-holders, which may, at any time, be summoned by the conservator. This precaution is very notable and important one, and it is suggested that in the Madras *mofussil*, both the depositors and the debenture-holders should be represented as against the bank either by the supervising agencies hereinafter mentioned or by the appointment of a co-auditor fully entitled to act with the regular auditors.

Every country has introduced these land mortgage debentures, but in Europe the debenture is the foundation of land credit; in Germany the outstanding debentures amount to at least £250,000,000; in France the *Crédit Foncier* alone has, including communal debentures, £120,000,000 outstanding; in Austria and Italy they are also abundant. In all countries, moreover, even in England, elaborate legislative precautions are the preliminary to their issue. The reason is chiefly that the landed industry is the most important in each country, especially on the Continent, whether regarded industrially, socially, or politically; on the stability of the landed proprietors, who form the immensely preponderating mass of the population, depends the social and political stability of the country. For these men mortgage credit is necessary, and for this credit, when introduced as a general system, the land mortgage debenture is an essential; and to ensure that this essential shall be readily established, thoroughly marketable, and so absolutely safe that it shall take rank with Government securities in selling price and in lowness of interest, it is surrounded with precautions which have resulted in the establishment of the debenture as a perfectly safe investment, in no way inferior to Government securities, and yet without any actual Government guarantee. For instance, in England the only companies allowed to issue land mortgage debentures are those dealing solely in advances upon land and real property, exclusive of mines and factories; in France it is the same, and in Germany the *Landesbanken* are similarly restricted. Where the newer form of land mortgage (*Hypotheken*) banks are allowed to issue these debentures, it is only under particular precautions as to capital, supervision, and—generally—the assignment of all the mortgage securities to a particular fund which is the guarantee for the obligations, the reason being, that when a bank deals in ordinary commercial paper and transactions which are less thoroughly secured than land debentures, these latter would otherwise take risks measured not by the land securities, but by the commercial and possibly speculative business of the company; the debenture-holders would, in case of liquidation, take rank only as ordinary creditors, without express assignment to a special fund of the mortgage securities which are their foundation.

There is another reason for specially safeguarding these debentures, or at all events a result which was foreseen, viz., that the stability of the debentures affords most excellent investment and thus draws out all classes even of petty savings; the European system of very small debentures or divisions (*coupures*) of debentures renders them accessible to very small investors, who are thus enabled, with perfect safety, to pour out their savings to fertilize the soil, yet retaining perfect ability to obtain their money at any moment by sale of the debentures.

Another advantage of these debentures is, that they enable a bank to finance itself in exact proportion to its needs. If a bank depends upon deposits, it must ordinarily take all that come, and may often be embarrassed with an uninvested surplus, while, on the other hand, it may be subjected to unreasonable rushes. If, however, it depends on debentures, it can issue them exactly as it needs funds or grants loans; it cannot be embarrassed by demands for repayment, and it can, with any surplus funds whether from deposits or otherwise, call in and repay any that are outstanding.

For these reasons it is necessary both to legalize the issue of land mortgage debentures and to safeguard them in the way that European experience shows to be requisite. The points requiring legislation are—

(1) The companies which shall be permitted to issue these debentures; their object, capital, limits of business;

(2) The nature of the debentures, their security, contents, individual value, stamp duties, term, serial character, aggregate limit, method of registration, method of repayment, transfer, &c.

(3) The supervising authority, his powers and duties; the returns to be made to him, the publication of such returns, and the inspection by the public of any returns or registers kept in his office or sub-offices. (*See draft bill.*)

Ordinary Debentures.—The issue of these is not generally provided for in the law; there is nothing even in the French Code of Commerce. But in the newer codes, *e.g.*, Belgium, Italy, Portugal and Spain, rules are laid down by which ordinary debentures based on the general credit and actual property of the company may be issued; they may not exceed in value the paid-up capital of the company, unless they are guaranteed by the deposit in the treasury (*Cassa dei Depositi e Prestiti*) of Government or Municipal paper; they cannot be issued, even when the Articles admit of issue, without a decision of the general meeting, which decision must be published and registered with the registrar, and the directors must further issue a public circular detailing the situation of the company, the value, &c., of the debentures already issued and those proposed, and the guarantee available. The debentures themselves must contain information as in the circular, and a table of payments of principal and interest. All companies issuing debentures must publish a special balance sheet every month. In Spain, credit companies are specially authorized to issue debentures to the amount of debts held by them and represented by good and tangible securities in their possession. By the Belgian law debenture-holders are entitled to have, of right, a copy of the annual balance sheet and profit and loss account sent to them, and they may be present and speak at general meetings, but have no vote. In England it appears to be considered that banking companies should not issue debentures, but other companies issue debentures against their property and undertaking, usually secured by a mortgage deed to trustees of such property or uncalled capital; the debentures are payable on a given date or

within such date gradually by drawings, or without date but redeemable at the option of the company or upon conditions endorsed; each debenture must, by Stock Exchange rules, contain on its face its number, security and authority on which it was issued. But, as mentioned above, the uncontrolled issue of debentures, real or so-called, has, it is alleged, resulted in "grave abuse," and further legislation is called for. It appears that the issue of debentures by companies, credit or otherwise, should be regulated by law in India, in order to avoid baseless issues, to protect other creditors, to ensure public confidence and consequent free investment in these instruments so essential in financing credit companies. The only present law on the subject is section 68 of the Companies Act, which provides for the entry in a register kept by the company of all mortgages and charges affecting the company's property, a description of the properties charged, the amount of each charge, &c. Non-registration entails only a pecuniary penalty on directors, and a disability of the company's officers (holding them) from availing themselves of such mortgages as against other creditors. Only creditors or shareholders can inspect this register, so that the general public is unprotected. The points for legislation are as in the previous paragraph.

By the English Loan Societies Act, 1840, any such society may issue debentures, free of stamp duty or charge, against any sums deposited with them, and these are chargeable on the society's property and assets; they resemble the Italian "buoni fruttiferi a scadenza fissa," for they are not simply deposit receipts, and are apparently transferable though not so stated in the law.

The debentures of the Irish Charitable Loan societies under the Act of 1843 are to be of not less value than £20; they are chargeable solely upon the funds and property of the society, are transferable by endorsement before witnesses at the loan office, and repayable after notice. They are not liable to any stamp duty on issue or transfer, and, up to £50, the society is permitted after due enquiry to pay their value to the heirs of a deceased holder, who may have died without a will and where no letters of administration have been taken out (*cf.* the provisions of the 'Provident Nominations and Small Intestacies Act' *s.v.* 'Friendly, &c., societies,' England).

Dividends.—The chief point for notice is the need for legislating against fictitious dividends, paid not from genuine profits but from capital, with a view to give an artificial and often fraudulent credit to a company, while actually, *pro tanto*, reducing illegally the capital and therefore the security of creditors. Curiously enough the Indian Company law makes no provision against this act and relegates it to an Article in schedule A which, after all, is only permissive. Legal decisions show that either a shareholder or creditor can obtain the intervention of a Court to prevent the act, and directors are personally liable if a company is being wound up. But it seems that the law should distinctly forbid and penalize the act, wholly irrespective of the intention or consequences of the act, and whether the act be fraudulent, as is usual, or not. In Belgium, managers or directors who, by omitting to make a Balance sheet, or contrary to it, or by a fraudulent one, issue dividends not taken from their profits, are liable to a fine of from £2 to £400 and to imprisonment of from one month to one year; the French law is even severer, punishing the act as one of cheating (*escroquerie*), and the Italian Code, while prescribing a special penalty, does so without prejudice to the penalties of the Penal Code.

It is true that if public-spirited, well-to-do, and courageous prosecutors can be found, there may be a successful prosecution under the Indian Penal Code for cheating; this was actually done in a recent bank case in this country; it was held that to issue a false balance sheet in which the assets and profits were falsely stated, and a dividend declared and paid not out of real profits, but out of capital, so that the public were induced to trust their money to it when its doors ought to have been closed, amounted to cheating. But the case took seventeen days, and it is not often that prosecutions of this sort can be undertaken or proved. But, whether or no, it is advisable that public attention should be authoritatively drawn to the matter; there should be a provision in the Indian Act distinctly declaring by statute that the practice is illegal, and absolutely forbidding it; the provision of the standard Articles (73) is insufficient and even misleading, because the Articles are permissive. There should be a heavy penalty attached to the mere fact, whether loss has thereby been caused or not, and irrespective of any penalty to which the directors or others might be liable for cheating if such were proved, or to any civil suit for damages which might be brought.

It is advisable to lay down some law as to profits. In examining the balance sheets, &c., of various Loan societies of this presidency, it has been found that full credit is given for all overdue loans and for the interest due thereon, even though interest has not been received, perhaps for years, and though there may be small chance of recovery of the loans in full. This is an error which may have serious consequences; in some such societies the whole profits for a year or more might be swept away if doubtful assets were excluded. Precisely this practice has been pointed out in the reports and writings of the English Registrar of Friendly societies in the matter of Building societies, and in Building society (Co-operative bank) manuals and reports in America. Section 26 of the General Banking law of New York State is as follows: "Interest unpaid, although due or accrued on debts owing to the corporation or banker, shall not be included in the calculation of its profits previous to a dividend.

"The surplus profits, from which alone a dividend can be made, shall be ascertained by charging in the account of profits and loss and deducting from the actual profits—

"(1) All expenses paid or incurred, both ordinary and extraordinary, attending the management of its affairs and transaction of its business;

"(2) The interest paid, or then due and accrued, on debts owing by it;

"(3) All losses sustained by it. In the computation of such losses, all debts owing to it shall be included which shall have remained due without prosecution, and upon which no interest shall have been paid for more than one year, or on which judgment shall have been recovered that shall have remained for more than two years unsatisfied, and on which no interest shall have been paid during that period."

A similar provision for this country is advisable.

Reserve.—The only provision in Indian law for the formation of a reserve is contained in Article 74, schedule A. This Article is not only permissive in that it is part of an optional schedule, but is permissive in its contents; the directors may set aside a part of the profits as a reserved fund. Accordingly a reserve is, in Madras mofussil societies, usually non-existent; provision for it is often omitted

from the Articles; if existent it is lightly considered or it is weak and even saddled with the proviso that it shall be divided amongst shareholders and directors as soon as it reaches certain proportions, or a given age, usually the profit-sharing period of the society. Hence a permanent Loan society while professing by its Articles to recognize the necessity for a reserve, periodically replaces itself in the position which admittedly is risky, viz., that of having no reserve. It is only in English law that the reserve is thus neglected, at least for Banking Credit and Assurance societies; in European laws it is a universal and absolute rule. In Belgium, section 62 of the code requires for all commandite, Joint Stock and Co-operative societies, an annual apportionment of one-twentieth of the net profits towards a reserve till such time as it shall have reached one-tenth of the capital, which proportion (one-tenth) must be continually maintained by fresh allotments if the reserve should have been reduced by losses, and by the amending law of 1886, directors, &c., who, wilfully reduce the obligatory reserve, otherwise of course than by a lawful application of its funds to cover losses, are liable to the criminal penalties awarded for distributing fictitious dividends (see 'Dividends'). In France the law is similar, but no criminal penalty seems to be laid down. The Cr dit Foncier provides that its reserve shall be considered full when it equals half of the share capital, till which time at least 5 per cent. and up to 20 per cent. of the profits which remain after setting aside 5 per cent. on the share capital, must be carried to the reserve.

In Italy and Portugal the rules of the Code of Commerce are the same, but the reserve must accumulate to one-fifth of the capital, and the fund must be constantly replenished if reduced. In the Italian Savings banks nine-tenths of the profits must go to the reserve till it has reached one-tenth of the amount of the deposits, an amount which is annually increasing. These rules are repeated in the most recent Italian law (1890) relating to land credit companies. In Germany all the *Landschaften* are obliged, by the laws of their foundation, to accumulate reserves, which are now so considerable as to provide a large additional guarantee for their debentures, while the interest arising from them enables the societies to dispense with the former charge to borrowers for the expenses of administration. The new Commercial Code of 1884 requires the formation of a reserve by every company by a 5 per cent. contribution from net profits until it reaches one-tenth of the capital, or more if the Articles so require; if shares issue at a premium the excess is to be devoted to the reserve. This reserve must not be drawn upon except to cover losses, but special reserves may be formed to make up deficiencies in dividends, &c. The law of 1889 on Co-operative societies makes a reserve compulsory, but leaves the mode of formation and amount to be fixed by the Articles, failing which a tenth part of the profits is to be devoted annually.

In Hungary the reserves of the land credit institution are an example of other similar funds; there is a compulsory general reserve always amounting to 5 per cent. of the outstanding debentures and never less than £16,666; there is also a special reserve formed by a deduction of 1 per cent. from the amount of each loan when granted; this is allowed to accumulate at interest to the credit of the borrower, so long as the loan is outstanding; when this is paid off the amount is repaid to the borrower with the accumulated interest. A Government contribution is also held as a permanent reserve. In Europe generally the reserve must moreover be invested in first-class securities and not in the company's business, and one of the express duties of the committee of supervision, and of course of the auditors, is to verify frequently the existence of these securities. In the United States, the National Bank Act provides that every National bank shall, before the declaration of a dividend, carry one-tenth of the net profits of the pending half-year to its reserve, till such reserve shall amount to one-fifth of its capital stock; this reserve must be kept constantly full, and as regards State banks, in case of a deficient reserve, no dividend may be declared till the deficiency is made good, failing which the Comptroller of Currency may compel the association to close its business. In Massachusetts every Savings bank must by law build up a reserve as a guarantee fund, which must amount to 5 per cent. of the whole amount of deposits; there are similar provisions in the law of other States. With regard to Building societies the laws of New York make a reserve optional, but those of Massachusetts compulsory up to 5 per cent. of the capital, i.e., apparently, the nominal capital of all the shares under subscription: the Ohio law also makes a reserve compulsory, but permits the distribution to members of a due proportion of the reserve as their shares reach maturity, a practice contrary to the reserve principle and expressly forbidden by the German law of Co-operative societies, which states that retiring members take no part of the reserve; it is a Fund intended for preserving the stability of the society and ought not to be in a state of flux. The reserve though formed from profits does not belong to the shareholders individually; it belongs to them only as a company, and is intended as a permanent guarantee for the stability of the company and the safety of its creditors; it cannot therefore be considered as the property of the shareholders as such, or drawn upon by distribution simply because it has been formed from profits; it is a necessity for the due working of the company as much as is its office, and it can therefore only be considered as a divisible asset in case the company is wound up, nor can it be diminished except to meet the losses for which it was provided.

As regards banks in general in the United States of America, it will be remembered that there is also, in general, a quasi-reserve or guarantee fund provided by the liability of shareholders in excess of the face value of their shares. In other words, the building up and maintenance of a substantial and permanent reserve is an absolute necessity throughout Europe, and in almost all Banking societies of every description in America; such reserve to be annually added to by a share of the profits which, from perhaps 5 per cent. in some banks, rises to 90 per cent. in the Italian Savings banks.

There is in this presidency special need for a strong reserve in all the societies called *Nidhis* (the English Building societies). As pointed out in the chapter on *Nidhis*, s.c., 'Encouragement of borrowing,' in case of failure of the society it is solely the non-borrowing members who pay all losses; they are liable to pay up the whole value of their shares as contributories in bankruptcy, while, though the borrowing members do the same, it is in their case a mere repaying of what they have obtained as a loan. Hence the non-borrowing member loses (say) Rs. 100 per share, while the borrower merely repays the Rs. 100 which he had borrowed, and therefore loses *nothing*. This is equally the case in England and seems inseparable from the mode of repayment of loans, viz., by mere monthly subscriptions to shares which can be borrowed upon. Hence it is advisable that all such societies should form a special reserve by a special charge upon borrowing members additional to their subscriptions, and of

the nature of a commission or insurance premium; this should be credited to the special reserve, which should be wholly liable for the debts of a society in bankruptcy.

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It should be provided by law that all mofussil societies which receive deposits, whether savings or ordinary, or deal in credit advances of any sort, shall establish a permanent reserve, to be accumulated from annual net profits, from entrance fees, fines, its own interest or other sources, up to an amount not less than 20 per cent. of the ordinary share capital or 5 per cent. of the amount of debentures or deposits, such accumulation to take place within a certain number of years by the setting aside, before the declaration of the annual dividend, of a definite proportion of the profits, differing according to the nature of the institution; that this Fund shall be kept continually full; that it shall not be employed in the business of the company, but shall be invested in securities and in modes to be indicated by rules framed by Government; that its existence in the bank's custody or in that of some public officer on account of the bank, shall be expressly certified to by the directors and auditors, and that it shall not be subject to pledge except temporarily upon an emergency and then only by a resolution of the directors, and that no member shall have any claim upon it unless the society is wound up. Special reserves may, of course, be also formed to meet special needs, or to maintain an equilibrium in dividends, &c., but the general reserve should be obligatory and untouchable except to meet losses.

Property.—By Indian law there is no restriction to the holding of land by companies; this corresponds with the English law as regards trading companies under the Companies' Acts. But there are important exceptions made to this rule, both in England and elsewhere when the societies are savings, banking or credit associations; in England the Land Improvement Company's Act of 1849 limits the holding of the company at any one time to 1,000 acres; the Act of 1853 incorporating a similar company fixes the absolute holding at 50 acres, but allows the company to purchase and improve for the purpose of resale, blocks of land not exceeding 500 acres in the aggregate. The National Banks' Act (United States of America) allows a bank to hold real estate only for its immediate business, and any land which comes to it by purchase in satisfaction of a judgment, debt, or mortgage must be got rid of within five years; the Massachusetts Building Societies law of 1883 has similar provisions, as also Pennsylvania, and the Building Society law of England (1874) provides that any land which comes to a society in the course of its business must "as soon as practicable" be sold. There are similar rules for Credit societies in other countries and States, especially in the case of the Land banks of Germany and Italy, where banks, if they have to buy in land at auction, must sell as soon as possible.

The reason is obvious; the privileges and facilities granted by the law for the recovery of loans would tempt usurers or money-lenders to unite, under the guise of a company, for the purpose not of general credit, but of granting credit with the express view of ultimately obtaining possession of land, by which means a powerfully financed group of men might obtain most undesirable powers over a mass of proprietors and their holdings; this is especially to be guarded against in countries of small proprietors. To give to Indian Loan societies an unrestricted right to acquire and hold in perpetuity the property of their debtors would be to invite the formation of syndicates of money-lenders, so that the position of the ryots as tenants-at-will of corporations, unassailable by sympathies and fears, would be far worse than as clients of the individual money-lender. The danger is real and not imaginary; there is a real risk lest societies professedly and perhaps genuinely intending merely to cheapen credit with profit to themselves and the ryots, should be seduced by land hunger and by opportunity into becoming mere land grabbers; there is a special danger where the societies are liable to be formed of syndicates of sowers, even where the good of the ryots may be prominently proposed; "Timeo Danaos, et dona ferentes."

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Members.—The chief point to be mentioned is that relating to the withdrawal of members and their share of a society's capital. The Indian Companies' Act relates merely to trading companies with fixed capital, and its provisions and those of the Articles in schedule A consequently contemplate transfers of shares and not withdrawals. But the Co-operative societies (Loan and Building societies of all nations) are aggregations rather of persons than of capital, and as it is impossible to keep a member in a society against his will, the law everywhere provides facilities for his withdrawal, and for his receiving at withdrawal his subscribed capital with such share of the profits as the society determines by its Articles. In Europe, especially in the German law of 1889, and in the United States, the laws themselves make direct provision, but in the English societies the subject is merely mentioned as one of those for which the Articles must necessarily provide. Either plan may be followed. The time—e.g., end of the business year—at which withdrawal may take place, the notice to be given, the question of profits, &c., may be left to the Articles, the law merely laying down that an unadvanced member may withdraw, receiving at withdrawal his subscribed capital, less anything then due; such retiring member to have no claim on the reserve.

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of funds towards the close of the share period, when the societies have to keep money in hand to pay off matured shares. This may also be provided for in the Articles, which, by the English law, must provide for the withdrawal and paying off of members. The German law provides for the exclusion of members who have lost their civil rights or who are found to be members of other similar societies (compare the provision in the English law of Savings banks): of course the Articles may provide other cases. The German law also provides that where a shareholder's judgment-creditor has for six months failed to get his decree executed against his debtor's goods, he may compel the society to dismiss the shareholder and make over to the creditor the value of his share. On the other hand, the New York Building Society law (and probably those of other States; *cf.* the general Homestead laws) provides that the shares of a member shall be exempt from execution for debt up to the amount of £120. The propriety of this latter privilege and its extension to India is elsewhere discussed. (*See* 'Privileges' and 'Homestead law'.)

The provisions of the existing law regarding the liability of past members for contributions in the case of the failure or bankruptcy of the society, should be continued, *viz.*, that they shall be liable, if the society is wound up within or year of withdrawal, for all the engagements of the society entered into prior to the date of withdrawal. It has been proposed to do away with such liability; that would be a grave error, for it would induce reckless action on the chance of profits, and then wholesale withdrawal. The right of free withdrawal connotes liability continuing for a definite period. Moreover in the case of Co-operative societies where free and absolute withdrawal is allowed, and not mere transfer of shares to another as in the case of joint stock companies, past members should be liable equally with present members; otherwise as soon as a society's reputation became in doubt, members, however responsible for such bad reputation, would retire wholesale, a matter of comparative impossibility in the case of a joint stock company, where no one would buy doubtful shares. In an ordinary Joint Stock society a past member is only responsible *after* present members, because a member practically cannot retire from a falling society; in a Co-operative society with free withdrawal a man can retire when he pleases, whether the society is falling or not. Hence in every law in the world free withdrawal is accompanied by co-equal liability up to a certain period. In the English Co-operative Societies' Act one year is the period. In the Italian, Swiss and German laws two years and in the French law five years; in the German Co-operative law a withdrawal within six months before a failure is considered as null and void.

Management and Administration.—It has already been suggested that legislative precautions are necessary to ensure that only companies which have a fair chance of success, and are founded on reasonable conditions and with reasonable Articles, shall be started. But it is in the subsequent management of the society that so much goes wrong; the insufficiency of business precautions, the carelessness, greed or fraud of directors and officers, the utter ignorance or apathy of shareholders, have wrecked hundreds of societies even in England and America. For instance the report for 1891 of the Comptroller of Currency, U.S.A. regarding the National banks, gives details of twenty-eight banks which had stopped payment in the year under report; in twenty-one of these cases—if not in all—the failure was due to utter neglect of duty by directors and inattention by shareholders. The business was often left wholly in the hands of a president, cashier, &c., so that funds were utterly wasted or embezzled, usually by so-called loans to the president or his relatives and friends; in several cases the whole capital had disappeared. If these neglects of duty, frauds and abetment of frauds by neglect or worse, take place so freely in America, are not the same likely to occur in India, where the business faculty yet remains to be developed, where, owing to social characteristics, there is a direct tendency towards leaving business, either from undue confidence or from sheer indolence, in the hands of one or two persons, and where publicity is the exception rather than the rule? The history of scores of failed Madras Loan funds amply proves this; that history—for the details of which *see* 'Madras Loan societies'—shows precisely the American causes of failure; business left wholly to the secretary, loans advanced to directors and friends without due security; blank cheques handed over to the secretary; no general meetings; utter neglect of duty by all concerned.

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It is perfectly true that legislation cannot prevent these frauds and neglects, but it may minimize them by proscribing certain formalities and safeguards, and by providing such supervision as will ensure the use of these safeguards; supervision is not intended to relieve the directors and shareholders of their duties, but to enforce attention to those duties, and to ensure the detection of neglect of them. Proper audit and true balance sheets, the real valuation of assets by independent professional auditors, are absolutely necessary; attention to duty by directors and shareholders is, however, the chief point, and though this cannot be secured by legislation it may be assisted; it is, for instance, to make shareholders watchful that a reserve liability, *i.e.*, liability to pay something more than the share value in case of winding up (*see* discussion of the word "limited," p. 277 *supra*) has been proposed in England as practised in other countries. But to assist and stimulate watchfulness, the supervision of experts is desirable; in the United States there are, by the National Bank Act, a body of Government Examiners,—in 1891 there were 30—and the Comptroller of Currency considers that these officers, whose fees are paid by the banks, are "indispensable to the conspicuous success which "has attended" these institutions from the beginning of the system, because they have been able to detect derelictions of duty and to promote sound and conservative banking. This supervision, which is also in vogue everywhere in Europe as regards Land Mortgage and other special banks, is, in the Co-operative banks, provided by the inspectors of the Unions or groups of banks, and the German law of 1889 lays down very full instructions on this head (*see* 'Supervision'); the duties of the English Registrar of Friendly societies are similar, but not nearly so extensive or complete. In fact the belief that Joint Stock or Co-operative societies may be left to their own devices is a mistake, at least where credit or banking operations are undertaken; it is not "Laissez faire," but "Aider à faire" that should be the legislative motto, especially in the inception of such institutions. It is better to run the risk of somewhat restricting the action of societies than of allowing them to perish of anæmia.

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or paralysis; or worse of allowing them to rob and plunder depositors and shareholders at pleasure and generally with impunity. Capital will turn from the risk of loss in undisciplined societies to the infructuous safety of Government paper or to the competition for valuable lands, a very different thing, it may be remarked, from the "investment of capital in agriculture," which is one object of rural banks. One disreputable and alarming case such as that of the 'Liberator' Building society in England or the 'Himalaya bank' case in Northern India may do infinite harm, not merely to the immediate sufferers, but to the practice of fruitful thrift by banking deposits, and to the hope of organized rural credit. It is then necessary to protect the banks against themselves, by an exposition in the law of the duties of directors and members, and by providing means for frequent inspection and criticism, and for the stimulation of members and directors in the paths of sound business; and this will be the more important as the joint stock or co-operative idea takes hold of the people, so that companies spring up, capital flows in, and business becomes competitive. Of course legislation cannot take the place of business capacity; it is the vigilance and prudence of those concerned that form the true safeguard; the law cannot supply these, it can only lend a helping hand.

The various points will be considered in the following paragraphs, especially under 'Directors,' 'Councils of supervision,' 'Loans,' 'Audit,' 'Balance sheet,' 'Supervision and inspection,' 'Government control.'

Directors.—The introduction into India of provisions similar to the English Act of 1890 has already been suggested, viz., the placing upon directors in case of loss by reason of an untrue or incorrect prospectus, the burden of proving their exculpation and non-liability for such loss; they must prove that they believed and had reasonable ground for believing the statements in the prospectus. Similarly by the German Code of Commerce (1884), directors and the committee of supervision are bound to use every diligence, and penalties are laid down for a variety of misdemeanours. In such cases the plaintiff or prosecutor has to prove merely the facts and is not bound to prove the culpability of the directors, &c.; the facts being proved the onus lies on the directors of proving that they were innocent of fraud, or that they are not liable, and that they have acted as good men of business. In the U. S. A. National Bank Act there is a provision (section 118) that if the directors knowingly violate or knowingly permit the violation of any of the provisions of the Act, "all the rights, privileges and franchises of the association shall be thereby forfeited," upon a judgment to that effect being given by a competent Court upon the suit of the Government Comptroller of the Currency; each director is also personally liable for any damages caused by each violation. The section is evidently intended to enforce watchfulness by the shareholders over the action of the directors, since the penalty of violation is shared by the whole association. Probably this section is hardly used, at all events till the violation of the Act or of good management is such that the company is practically insolvent. But its possibility must be very useful as a preventive.

The comptroller, however, complains (Report of 1891) that legislation is required to define without doubt the responsibilities and duties of the directors; they are apt, like many other trustees, to be ignorant of their heavy responsibilities as trustees and agents of the company; they are apt, though trustees, to neglect their trust in favour of private business; they are very apt to use the companies, especially in the case of Credit societies, as a means of getting large loans and credit for themselves and their friends. Many of these powers and duties are already mentioned under 'Balance sheet' 'Dividends,' &c., either in the law or in the Articles, but some require to be specially mentioned.

In all *except* Co-operative societies, directors should be compelled, as in Europe universally, to call a general meeting to discuss the question of the writing down or replacement of capital or of liquidation, when the capital is reduced by loss, &c., below a given proportion of the original sum; this should be made part of the law, and the mere breach of the law should, wholly irrespective of consequences, be punishable by fine, or even by imprisonment when the case is serious. The supervising committee, if any, and the manager should be held similarly responsible; it need hardly be said that an auditor, who did not discover and point out the loss, would not be an auditor worth the name.

It should be laid down that no operation other than that contemplated by the memorandum of association shall be undertaken by the directors, under penalty of personal responsibility for all debts and losses. It should be laid down in the law itself that the directors shall not pay any dividend except from the net profits, or from some reserve specially accumulated *ad hoc* from the profits of past years. It is found advisable in all European and in several American laws to make this a statutory provision (*cf.* the English Railway Companies' Act of 1867) with severe penalties in case of breach; it receives a prominent place in such laws, experience showing that the point must be distinctly adverted to and severe penalties awarded for breach of duty (*see* 'Dividends' *supra*).

It should be provided by law that every director should hold a certain number of shares, and that these should be inalienable during office; this is universal in Europe and in the United States; in Italy the Code of Commerce (1884) lays down that each director shall deposit his shares in the company's safe as a security; that they shall amount to one-fiftieth of the Company's capital, not beyond £2,000 however, and shall be personal. The French Code is similar (as also the special law for the Crédit Foncier), and adds that the shares shall be stamped with a special stamp to show their inalienability. Other countries have similar provisions; the Italian law, however, specially lays down that, in the case of Co-operative societies, this provision may be dispensed with if the Articles so permit. The Swiss law allows the Articles to prescribe the number of shares to be necessarily held by each director of a joint stock company. The Indian Presidency Banks' Act, section 27, provides that every director must hold unencumbered shares to a certain value, and that he loses his office if he ceases to hold such shares. Similarly the National Bank Act of the United States provides that each director must hold at least ten shares, which must not be pledged or hypothecated in any way, and that he must vacate office if this rule is broken; so also South Carolina, California, &c. The universal rule is that a director shall have a distinct and considerable stake in the welfare of the company, that such stake shall not be decreased by any hypothecation of his shares, and, further, that his interest shall be pledged to the company by way of security. In England the Co-operative and Building Societies' Acts provide that every officer who receives or is accountable for money shall give security; it is not quite clear if this includes directors, but, as it is the express duty of

directors in ordinary Building societies to be present and receive money, it seems that they are liable ; a director is an officer (section 16).

It should also be provided that the directors of a bank or loan society, or the undivided members of their families, shall be ineligible for advances from the society, or if eligible, that they shall not receive such advances beyond a certain small proportion of the total loans, and that the loans shall be specially sanctioned by a general meeting on the recommendation of the committee of supervision if such exists. This law is general in the United States and is the result of experience. There is no prohibition of this sort in the National Banks' Act (U.S.A.), and the report of 1891 shows that out of 28 banks which failed in the year, the failure was, in sixteen cases, due chiefly to the large loans to the president, directors, &c. "Heavy loans made to the directors aggregating three-fifths of the capital of the bank," "the president borrowed large sums," "reckless loans to the cashier and his friends," &c., are the remarks made. The Rhode Island Banking Act forbids such loans in the case of Savings banks; the South Carolina Banking Act forbids them in the case of any bank, and a Director violating the rule may be criminally punished with fine and imprisonment. The practice is not specifically forbidden in the special laws of several States relating to co-operative banks, but these are apparently amenable to the general law, and in California it is expressly laid down that no such loans can be made to directors or officers; should such loan be made, the director *ipso facto* vacates office. The Indian Presidency Bank Act, section 63, requires that bye-laws shall be made by each bank, regulating the circumstances under which alone advances may be made to directors or officers of the bank or to their relatives, or to companies or firms with which they are connected. The German law of co-operative societies lays down that no advance can be made to a director except with the express sanction of the committee of supervision, nor can a director be received as surety for a loan without such consent. There is a strongly expressed feeling in England also that directors and officers of Building societies should not be allowed to borrow from the society. The history of the Madras loan Funds shows that some such provision is necessary here; one great cause of failure has been the grant of loans to directors and their relatives on insufficient or worthless security; not merely have the Madras Funds thus suffered, but other Indian banks, and the case of one large failed bank provides an illustration of the danger, several Directors owing, it is said, an enormous sum on inadequate security. It may be argued that to deprive directors of this right to loans would be to prevent men from taking up the post. As suggested, the prohibition need not be absolute, but should be specially safeguarded; directors ought not to be able to grant themselves loans at pleasure and to any extent. But even total prohibition is not unfair nor inadvisable; Directors are accustomed in Madras to make their office a very paying concern, what with salaries, share of profits, sitting fees, &c., and the posts are in certain societies very keenly contested. These advantages ought to suffice. As elsewhere stated, the idea that directors must be highly remunerated for their work, largely results from the nature of the Companies' Act, which contemplates only trading societies; the new co-operative societies should be less grasping at emoluments; in the American, German and Italian societies, especially in the latter, the directors render wholly gratuitous services, as do the Trustees of the Savings Banks of England; the idea of public service for its own sake is too much lost sight of in this country.

A term—in Europe it is six years—might be enacted as the maximum for which directors may hold office, it being provided that they are re-eligible; conversely a general meeting should always have power, as in Continental Europe, to remove directors at any time for proper cause; the Presidency Banks' Act permits this by a "special" resolution, passed by the votes of shareholders, &c., holding at least half the capital; section 65 of schedule A of the Companies' Act also makes this *permissive*. The society should not be allowed to contract itself out of this right by the articles, since directors are merely representatives—fiduciaries—of the society, which should consequently have power to change such representatives, if it has lost confidence in them. It might be well, moreover, to provide that a certain proportion should retire each year and be ineligible for re-election till at least one year had passed; this would prevent loss of continuity and of knowledge, and would at the same time tend to prevent directors from making the bank a "close borough" and to keep them from avoidable neglect, mismanagement or fraud.

Section 57 of schedule A—disqualification of directors—should be made part of the law, at all events for all co-operative societies and societies dealing in credit and banking, or with savings properly so called. The European law is much stricter in its enactments; not only are the general provisions of article 57 usually embodied in the law, but other disqualifications, *e.g.*, the directors must have a certain number of shares or lose their post (see *supra*); in Italy the Commercial Code of 1884 provides that any director, auditor or representative of a company necessarily vacates his office if declared bankrupt, or condemned to a criminal penalty for any offence, or to a police penalty for corruption, forgery, theft or fraud; a very wholesome provision and one not unnecessary in this presidency, to judge by the reports of certain societies.

Committee of Supervision.—A most important organ of societies in Europe is the 'committee of supervision,' who control and audit by a continuous process, the work of the society in general, and of the directors in particular. For a description of their duties in general, see the general section on 'Supervision' as well as the paragraphs in the description of European land and popular banks; for the law actual and proposed see below in this chapter *s.v.* 'Supervision.'

General Meetings.—Properly speaking the general body of members is the source of all power, and their powers are usually exercised at general meetings; it is therefore of paramount importance to ensure that these should be properly convoked and conducted. The rules of the Madras Funds are frequently very imperfect even when they add a clause in the articles excluding the provisions of schedule A from operation. The result is that many important items are left out, *e.g.*, the appointment of auditors, which should always be by general meeting, quorum, polls, proxies, the denial of a vote to a member in arrears, &c. The law should lay down that the articles should provide distinctly on all these and other necessary points.

Loans.—There should be a provision in the law that no society should lend more than a certain proportion of its available funds to one person. In the National banks (U.S.A.) the rule is that no

amount greater than one-tenth of the paid-up capital shall be lent to any one person or firm; this, however, does not include amounts advanced by the discount of good bills. Similar restrictions are found in the Building Society (co-operative bank) laws of the United States; the New York law provides that no member shall hold more than ten unpledged or twenty pledged shares in a series, and Massachusetts not more than twenty-five in all; as the loans are repaid solely by taking shares, this provision limits the loans. The provision of a limit might have prevented the scandal of the recent 'Liberator' case.

As mentioned *s.v.* 'Directors,' there should be restrictions regarding the borrowing by directors.

Audit.—For full details on this essential subject see the general sections on 'Audit' and 'Supervision.'

The internal audit of a society will be briefly discussed *s.v.* 'Supervision;' the legal provisions for external audit remain to be considered.

The Indian law (section 85) makes audit compulsory; "once at least in every year the accounts of the company shall be examined, and the correctness of the last balance sheet and its conformity with the law ascertained and certified by one or more auditor or auditors." Hence the law is satisfied if any person, however ignorant of auditing, or even of accounts, is taken as auditor; in a recent Indian failure, it was admitted that the auditor was absolutely incompetent and merely signed his name; the history of many Madras Nidhis shows that their audit has been a mere farce as proved by the disgraceful and wholesale defalcations that took place unchecked; in English Friendly societies in the days prior to the Act of 1874, the village schoolmaster, as being "conversant with accounts," was often selected in order to satisfy the law. Nor is any method of audit prescribed, nor are the points laid down to which audit should specially be directed, nor is it made obligatory that the articles should, in default of the law, make provisions to ensure a proper audit.

The new German law of co-operative societies has a useful chapter on audit (*see below s.v.* 'External supervision'). European law generally provides in the law itself, for audit by the committees of supervision, *i.e.*, by an internal audit, but the new law, based upon more than thirty years' experience of co-operative societies, chiefly credit, has adopted what a French writer calls "the English practice of audit by an expert outside of the society," *in addition* to the obligatory committee of supervision. The German law provides that there must be "at least once in two years an audit by a *competent* auditor, not belonging to the society." This auditor must, if the society belongs to a Union of societies—one special function of which is the provision of expert examiners—be appointed by the Union; if it does not belong to such a Union, the Court which maintains the local commercial register of societies, appoints him on the nomination of the society, after the nomination has been approved of by "the authorities," who, for this and other purposes, are responsible officers designated for the several localities by the Government. A copy of the auditor's report must be sent to the Union when he has been appointed by the Union, and an entry that the audit has been effected must be made in the register of societies. The committee of supervision must assist at the audit and must explain the results to a general meeting immediately the report has been issued. The Imperial Chancellor is authorized to issue general rules for the forms in which the reports are to be issued; this latter provision is important; when no specific form of return is prescribed, the reports are imperfect, unsystematic, and being based on different methods do not admit of tabulation for comparative purposes. The National bank (U.S.A.) legislation provides for auditors (examiners) appointed by the Comptroller of Currency; section 96 runs as follows:—

"The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall, as often as shall be deemed necessary or proper, appoint a suitable person or persons to make an examination of the affairs of every banking association, who shall have power to make a thorough examination into all the affairs of the association, and, in doing so, to examine any of the officers and agents thereof on oath; and shall make a full and detailed report of the condition of the association to the Comptroller." "But no person shall be appointed to examine the affairs of any banking association of which he is a director or other officer."

These examiners are paid by fees levied on a prescribed scale from the banks examined; there are about thirty of them in regular employ, and the importance of their duties is becoming annually more visible. It is found that it is not the directors who discover improper practices and frauds; indeed it was by the fraud or negligence of many directors or chief officers that so many banks failed in 1891; the discovery was generally made by the examiners whose independent and searching enquiries laid bare the mischief. The duty of the examiners is not the mere audit of the accounts; it extends to an enquiry whether the various provisions of the law have been duly complied with as regards the issue of loans, as to the holding of shares by directors, as to the due disposal of any real estate that might have been acquired; as to the genuineness of dividends, &c. Hence the examination is of a most searching character and comes rather under the head of Government supervision, as the reports are made in order to satisfy the Government Comptroller that the banks are working not merely soundly but legally.

The law of Building societies in England provides that the articles shall prescribe rules for due audit which shall include an examination of all mortgages and other securities, and a Bill of 1898 provides that one at least of such auditors must be "a professional accountant." The Friendly Societies' Act makes annual audit and quinquennial valuation compulsory, and permits the treasury to appoint public auditors and valuers, but the employment of such public officers is not obligatory; the provision in the Co-operative Societies' Act is similar, but if the auditor is not a public auditor, his name, address and calling, and the authority and manner of his appointment must be communicated to the registrar together with a copy of the auditor's report. The Trustee Savings Bank Act (1863) requires that "a public accountant or one or more auditors be appointed by the trustees and managers, but not out of their own body, to examine the books of the bank," and report the result at least once in every half-year; but the new complementary Act of 1891 provides an inspection committee, who may appoint examiners with powers as in the National bank (U.S.A.) system, and who may compel a bank to make sufficient rules for "maintaining an efficient audit"; the very first report of the committee shows the necessity for the new Act. As stated below ('Committee of supervision'), a

continuous audit is found necessary for this class of society, and if this is not provided by the societies in a satisfactory manner, it must be provided for by authority.

It is, however, for the efficiency, not for the mere establishment of an audit that the law must provide; every society provides in its articles for a periodical audit, if only to satisfy the public, but without provision that such audit shall be thoroughly efficient, the provision may be worse than useless; it may be the means of building up undeserved confidence, of lulling wholesome suspicion, of giving a false *imprimatur* of security, a false authentication of fraudulent accounts, and, in consequence, of increasing the inevitable catastrophe; the various recent examples in India and in England are cases in point. It is not, of course, possible to lay down in the law the rules and methods of audit, but it is possible to provide for the making of rules which shall ensure that the authorities, whether within or outside of the society, shall maintain an efficient audit, varying according to the nature of the society.

The Indian law should then provide for the competency of the auditors and the efficiency of the audit. Auditors of the skill and standing of chartered accountants are out of the question for mofussil societies, and will probably be unnecessary for many years since the transactions will be comparatively simple and few. But that they should be trained to the work cannot be questioned, and that they should be independent of the societies is hardly doubtful. Probably men of the Local Fund auditor stamp, or better, of the Assistant Inspectors of Local Fund Accounts from the Accountant-General's office, would fill this rôle. It would be sufficient for the law to provide that the local Government should be empowered to make rules, either direct or through the department or officer who may have the supervision of rural credit, for efficient audit; this would give the necessary elasticity, especially when Unions are formed among the various classes of credit society.

But, since the importance of several points, already mentioned as elsewhere compulsory, is recognized by the Indian law in its schedule A, there is no reason why the Indian law should not equally make them obligatory instead of permissive; e.g., the appointment of auditors by the general meeting and *not* by directors; the eligibility of any person whether member or otherwise, provided he is not a director or office holder, or interested otherwise than as a member; the appointment of an auditor by the local Government if no auditor is appointed by the society; the power of an auditor to examine the directors and others orally and to demand explanations; the duty of the auditors to report to the general meeting, together with any explanations of the directors, &c., that may have been found necessary. Several of these provisions are found in the 'Presidency Banks' Act.' It might be well also to provide that there should always be two auditors, appointed for two years, and retiring in alternate years, with eligibility for re-election; this would provide that continuity of knowledge and familiarity with the society's operations and methods which is so desirable, if not essential, while ensuring that fresh talent and fresh energy might, when desirable, be brought to bear upon the subject.

Supervision.—This section relates to the requisite provisions of the law for that supervision of societies which is found necessary in all countries, but which is practised in very different degrees, and by varying methods. The importance of the subject has been mentioned in the introductory paragraphs of this chapter, and its necessity is taken for granted for mofussil societies in general, and credit societies in particular, both for the protection of the public, for the protection of members, and for the safety and success of the society and the development of its operations. For full details of supervision as practised in various countries see the paragraphs on 'Supervision' under the various classes of bank; for a discussion of the local methods, &c., to be adopted see the section on 'Supervision' in the proposals for this presidency; only so much is entered here as will explain the proposals for legislation.

The supervision is both internal and external as in the case of audit; the internal is that of the members, both as individuals and by committees; external is that by means of the publication of reports and returns, by the action of Unions, and by the operation of public departments or officers, whether on their own initiative or on that of the society or parts of the society.

Internal—Right of Inspection of books by Members.—The Indian law does not provide in its text, but only permissively in schedule A, article 65, for any right of inspection of the books by the individual members, and it has been recently contended in Madras that no individual has any such right. Now the Friendly Societies' Act (1875) and the Co-operative Societies' Act 1876 (now 1893) of England, both recognize this right; the latter Act (1893) provides that any member or person having an interest in the funds of a society shall be allowed to inspect his own account and the book containing the names of the members, at any reasonable hour at the society's office, subject to regulations passed by the general meeting; the society may provide rules for the inspection of other books, but not so as to permit of the inspection of a loan or deposit account of any other member without that member's written consent.

This section, slightly amended from the Act of 1876, is said to have worked very well, not so much by its positive results, as by its preventive effect. Care, however, has to be taken on the one hand that this liberty is not converted into a method of harassing directors, on the other hand, that the books and accounts are so kept that persons of ordinary education can obtain information from them. So useful is the provision that the Registrars, both past and present, of Friendly societies, unite in demanding that the privilege should be extended to Building societies; the right of inspecting books is common to the members of all partnerships; and these societies are but partnerships on a large scale; the mere fact that such inspection is possible will tend to prevent frauds that might otherwise occur. Moreover, since by the size of the partnership, the management is necessarily confined to a few members (directors), there is the greater necessity that those who are not entrusted with the management shall retain the right of ascertaining for themselves how things are going on. The final Bill, however of 1893, does not provide such power, but gives to the registrar, as in section 18 of the Industrial and Provident (Co-operative) Societies' Act of 1893, power upon application by ten members of any society, to send an accountant to examine the books and to report, provided that such members deposit security for the costs and defray the actual expenses. The Registrar may also, of his own motion, with the sanction of the Secretary of State, appoint an inspector where a society for two months

after notice has failed to make or complete a return legally required, or where not less than three members furnish evidence, by statutory declaration of facts which, in the opinion of the Registrar, call for investigation, or for recourse to the judgment of a meeting of the members.

The Trustee Savings Banks' Act (1863), section 6 (7) provides that a book containing a list extracted from the deposit ledger shall be drawn up and examined by the auditors; this list is to contain the amount due to each depositor, each individual being designated not by name but by his pass-book number; this book, duly checked and certified by the auditors, is to be open for inspection by depositors and comparison with their pass-books throughout the business hours of every working day.

The New Jersey (U.S.A.) law of co-operative societies provides "that any member or other person having an interest in the fund of any such society may inspect the books thereof, at all reasonable hours, at the office thereof." The law of societies in Maryland and Virginia provides that persons owning 5 per cent. of the stock may demand in writing from the society's officers a statement of the society's affairs, which must be furnished *under oath* within twenty days, and kept accessible to all shareholders for six months under a penalty of £10, and a daily subsequent penalty of £5 till produced.

The Indian law should contain provision for the inspection of books by members and others having a pecuniary interest in the society, but under proper conditions, which should be prescribed by the articles. It is still more necessary that provision should be made similar to that in the English Co-operative Societies' Act of 1893 regarding the powers of the Registrar upon the application of ten members, or on his own motion in certain cases, to appoint an inspector to examine the books—not necessarily the affairs—of a society. All rural banks, receiving subscriptions from members and deposits whether from members or others, should prepare and keep on view a list similar to that required by the Savings Bank Act.

Committee of Supervision.—Experience in Europe in the administration of societies has resulted in one absolutely universal rule, which is now statutory by the law of every country whether for ordinary joint stock or for co-operative societies, viz., that the directorate and the administration generally must be supervised by a standing committee of supervision (*conseil de surveillance*, *sindaci*, &c.) which is formed of persons outside of the directorate but within the society, and whose sole duty is supervision. This is distinct from and additional to the ordinary audit which should be by auditors *ab extra* and is generally an annual or periodical affair, though, as will be seen, continuous audit is now advocated for Savings, Building and similar societies. The work of the committee of supervision is that of continuous audit throughout the year with additional duties and powers of control. For a full description see 'Committee of supervision' in the chapters on German land banks and on co-operative banks. It is noteworthy that the Co-operative law of Germany, 1889, has expressly introduced as obligatory this organ of administration, which was omitted from the law of 1868; the French law of societies (1867) does not contain such full provisions, but it is believed that the abortive Bill of 1891 was complete on this point. Moreover the "censeurs," who fill this rôle in the *Crédit Foncier*, have large supervising powers (see '*Crédit Foncier*'), and their separate annual report upon the company's affairs, which is based upon their comparison of the directors' balance sheet with the transactions of the year and the position of the society as ascertained by them, is made to the general meeting and is considered with the directors' report.

The Belgian law provides that the general meeting shall appoint these committees, who may be paid, and should hold and deposit with the society a certain number of shares; if, during the year, any of them dies or quits office, the directors must at once convoke a general meeting to supply the vacancy. They have unlimited supervision and control over every operation of the society, they may examine, but without removing, all the books, correspondence, accounts and documents of the society; they receive every half-year from the directors a statement of the financial situation, and are bound to report to the general meeting. They have the same responsibility as directors and may form with them a deliberative assembly. In Italy the committee (*Sindaci*) must not be related to directors even within the fourth degree. They must examine all the books at least once in three months; they must make frequent and unexpected examinations of the funds, and verify, at least once in a month, the existence in hand of all securities and valuables pledged to or deposited with the society; they may convene extraordinary general meetings and must attend all general meetings; they must examine and report on the balance sheet, and, generally, must see that the provisions of the law and of the deed and articles of association are being duly carried out by the directors, whose meetings they may attend; they may also require, that their proposals should be entered on the minutes of meetings, whether those of the directors, or of general meetings. It is to them also that individual members present their complaints against the conduct of directors, and they must forthwith enquire into such complaints, and enter them in their reports to the general meeting, and if they have been made by members jointly holding one-tenth of the capital, they must report on such complaints with their own opinion and suggestions to such meeting. It is through this committee also that the general meeting proceeds against directors for any acts of misfeasance.

By the German law of societies (Code of Commerce, 1884), a committee of supervision is equally obligatory, and very detailed rules enact its powers and duties; the report on the original Bill compares the general meeting to the national electoral body, the directorate to the executive authorities, and the committee of supervision to the Parliament which controls the executive; the importance attached to the committee may be gauged by this comparison. So also the German law of co-operative societies (1889) is equally precise, its provisions being similar to those of Italy, but with additions. Members of this committee are not allowed to have any pecuniary interest in the results of the society's operations, and cannot delegate their powers; no director can get an advance or stand surety for an advance without their express consent. They may temporarily suspend any director pending a general meeting which should at once be convened, and must then take steps for the conduct of business. They are bound to act as honest men of business and are equally liable with the directors to severe criminal penalties; amongst these it is laid down that of a society has been left for more than three months without a committee of supervision, or if the committee has been deficient in number for longer than that period, the directors and, in the second case, the existing committee men

are liable each to a fine of £30 or three months' imprisonment or both. Very severe criminal penalties are attached to false statements of accounts or of the financial situation. Other duties are imposed by the law and still others may be fixed by the articles (*see* the translation in another appendix).

Provision for some such internal committee of supervision should be made in the Indian law. It is notorious that it is in the management of affairs that some mofussil directors have been grievously careless and even criminal, and it is necessary to provide men who shall serve directly as eyes to the shareholders and be the safeguard of depositors, and whose special duty shall be the examination of the accounts and securities, especially as it has been judicially decided that a director is not bound to examine entries in any of the company's books, nor is he personally responsible for the contents of the books, if innocent of any fraud with respect to them. A "continuous audit" in which a professional auditor will, throughout the year, and at least weekly, and without notice, examine any of the accounts, and especially will take the pass-books as they come into the office and compare the previous entries with those of the ledger, is practised in the best English Savings banks, and that this shall be made compulsory by law, or that some similar precaution be taken, is the demand made by the most experienced men, whether Government officials, publicists, or bank officers, both for Building societies and Savings banks. The necessity is proved both by the result of enquiries into failed societies and by the evidence offered before the select committee on Savings banks in 1888 and 1889 and by the report of that committee. The recommendations have resulted in the insertion of stringent provisions for audit in the Building Societies' Bill now (1893) before Parliament, while the powers given under the Savings Bank Act of 1891 to an inspection committee are very extensive. The first report of the inspection committee appointed after the Act of 1891 emphasizes the necessity for a continuous audit; the committee reports that in many instances the statutory requirements as to management have been neglected either through ignorance of the law or through general laxity, some banks, even ignoring their own rules. Now a continuous audit, though possible with great banks holding errors in deposit, is out of the question with small banks. Hence the control must be exercised by an unpaid agency always at hand, and that can be supplied by a committee of supervision as above described.

It should then be made obligatory by law to establish a standing committee of supervision, who should be appointed by the general meeting for a term of years with annual retirements and elections or re-elections, and should exercise powers of examination and control similar to those described in the European laws. The so-called "auditors" or "patrons" or "auditing directors" occasionally found in the Madras Funds are wholly insufficient; they are usually the directors themselves, and the "auditors" are often appointed by the directors, while their powers are ill-defined and often slight.

Appointment of Inspectors.—By section 86 of the Indian law a company may, by special resolution, appoint inspectors for the purpose of examining into the affairs of the company, and these inspectors shall have the same powers as those appointed by Government (sections 82, 85). The reason for making this appointment depend upon a special resolution is not apparent; these "special" resolutions, passed by a three-fourths majority and confirmed at a subsequent meeting, are very difficult to carry. The provision is opposed to the interests of the body of members, and contrasts with the powers given to general meetings by European law. Seeing that the society consists of the mass of members, for whom the society exists, and whose mere representatives the directors are, it would seem a necessary sequence that the members, at a general meeting, should have every facility for appointing inspectors whenever they see fit to enquire into the affairs of their society. If the society is working well, and the directors and officers are honest and diligent, the latter have nothing to fear but every thing to gain; if they are not, it is to the interest of the members to ascertain the fact. An ordinary resolution should suffice. It is noticeable that in Europe, where there is universally a standing committee of supervision, this provision for an *internal* appointment of special inspectors is not found in the law, except that in Switzerland any members have by law the right to call upon the controllers (or auditors) to examine and report upon anything considered suspicious; this right cannot be suppressed or restricted either by the articles or by a resolution of a general meeting; a somewhat similar provision is found in the Italian Code of Commerce.

Right of demanding Government Inspection.—Sections 82, 85 of the Indian Companies' Act provide for the appointment and powers of Government inspectors upon the application—in the case of companies limited by shares—of members holding not less than one-fifth of the shares, or, in the case of a company not having a share capital, of members not fewer than one-fifth of the whole number on the company's register.

If this provision of the law is not to be a mockery to shareholders, it must be altered. There is a Madras Town loan Fund with nearly 20,000 shares and above 3,000 members; under the law, if suspicion, however well founded, were to arise, at least 600 persons would have to sign a petition for an inspection, an almost impossible feat, since probably few persons would be sufficiently aware of the facts or sufficiently bold to sign, especially as the expenses of an enquiry are leviable from the petitioners; even in the mofussil there are societies with above 800 and 1,000 members. Nor does such proportion seem called for in the case of co-operative or provident or benefit societies. In the case of trading companies it may be very important to cast no slur or even suspicion upon its soundness or its credit, but when it is a question of the security of the members and the safety of their little deposits, the risk of undeserved suspicion is small compared with the risk of loss to the members. Moreover, as seen in the case of the Birkbeck Building society or bank, an unreasonable run on the bank, which it was fully capable of meeting, was an excellent advertisement, as showing its soundness and the liquidity of its assets. Similarly an inspection, if found to be causeless, is no bad advertisement for a society, in that it actually promotes confidence by giving a certificate of soundness.

In Europe, though the committee of supervision is by law a universal necessity, there is provision for demanding extraordinary inspection; in Italy, the Code of Commerce (1863) enacts (1) that members holding one-tenth of the capital may call upon the auditors (committee of audit) to examine any matter of doubt, and report thereon to the general meeting which must decide upon the report; (2) that members holding one-eighth of the capital may, if they have good grounds for suspecting the directors and auditors of serious irregularity, state the facts to the Commercial Court, which, after hearing the other parties, may decree an examination of the company's books and the appointment of examiners at

the petitioners' expense; if the inspection finds no cause for suspicion, the report is published; if the contrary, any urgent steps are taken by the Court, and a general meeting at once convoked. In Germany, Austria and Hungary, members representing one-tenth of the capital have the power to demand from the Commercial Court the appointment of special inspectors for the examination of the company's affairs, or of particular facts. In Rhode Island (U.S.A.), any *three* persons, shareholders, officers, or creditors of a bank or of a Savings bank may petition the Governor of the State and obtain of right a special commission with full powers of examination. In New York, Florida, &c., any creditor or shareholder of a bank, having an interest of £200 therein, may make an affidavit to the Circuit Court, and obtain, if thought fit, an examination by a commissioner into the affairs of a society for the purpose of ascertaining the safety of its investments and the prudence of its management; the report is to be published. In New Jersey the chief of the State bureau of statistics of labour and industries must, upon the written request of any five members of a co-operative society, cause an examination of the books and affairs of the society to be made, and a correct statement thereof rendered to each member of the society. By the English Friendly Societies' Act (1875) the Registrar has power to order an inspection of a society's affairs upon the application, supported by evidence, of one-fifth of the members) or of 100, if the society has between 1,000 and 10,000 members; the examination is to be complete, and sworn evidence may be taken. An important point is that the Registrar may order the expenses to be borne by the society, if thought fit. It is significant that, whereas in the Industrial, &c. (Co-operative) Societies' Act of 1876, the provision made was similar to that in the Friendly Societies' Act, the new Act of 1893 provides (1) that the Registrar may, upon the application of any ten members, each of whom has been a member for at least twelve months, appoint an accountant to inspect the books of the society and to report thereon, provided that the applicant shall deposit such security for costs as the registrar may require, such costs being thereafter payable either by the applicants or by the society, or by its officers, &c., as the registrar may determine; the report of the accountant is to be communicated to the society; (2) that upon the application of one-tenth of the members, or of 100 if the members number above 1,000, the registrar may appoint inspectors to examine the whole affairs of a society, call a special meeting, &c.: the inspectors to have full power to inquire upon oath.

There is no similar provision in the Building Societies' Act (1874) and its absence has been much felt: a Bill of 1893 consequently embodies the above provisions of the new Co-operative Societies' Act of 1893, and adds a third, viz., that the Registrar may, if the sworn evidence of only three members discloses facts which seem to call for investigation, appoint an inspector, but with the previous consent of the Secretary of State. (*See* the provisions of the new Act (1894) *s.v.* 'Buildings Societies,' p. 191 *supra*.) The Savings Bank Act (1863) does not provide for this, but that of 1891 provides a standing inspection committee, for which see below *s.v.* 'External supervision.'

It is further to be noted that the Indian law does not provide for the appointment of inspectors except upon the application of "*members*"; creditors, including depositors, are not considered. This is a serious omission; the laws of the United States of America as given above provide for creditors, and in the case of Savings banks, which it is hoped will spring up in India, it is the depositors who are the persons to be considered; there will probably be no "*members*," and if, as in the case of the Italian, Swiss and American Savings banks, there is a share capital, it is insignificant as compared with deposits.

It seems clear that the Indian law should be made more elastic; the word "*members*" should be amplified into "*members or creditors*"; the proportion of members entitled to call for inspection should be lessened; the other cognate provisions, *e.g.*, of the Co-operative Societies' Act of 1893 or the Building Societies' Act (1894) should be embodied in the Indian law, and the powers proposed for creditors should be exercised by persons who are owed or who have deposits of a moderate amount to be fixed by law.

Publicity.—The Indian law contains some provisions on this point; a company must have a registered office, with its name duly affixed outside; its designation must be entered on its seal, on its bills, cheques, official papers and advertisements, &c. Banking, insurance and all deposit, provident and benefit societies must put up in their offices every half-year, a statement of capital, assets and liabilities; companies without shares must send a list of directors to the registrar. All companies must prepare an annual audited and certified balance sheet, lay it before a general meeting, and send a copy to the registrar. A register of members with their addresses and occupations, the number of shares taken, of calls made and received, &c., must be prepared each year at least, and kept in the office, open to the inspection of members gratis, and to the public on payment of a small fee; copies must also be given on demand. A register of mortgages of the property of the company must also be kept and be open, under penalty for omission, to the inspection of any creditor or member.

It is also provided that the articles shall be printed, and a copy sent with the memorandum of association to the Registrar of Joint Stock Companies; also a copy of all special resolutions, and a copy of the order of a Court and minute effecting a reduction in capital. A copy of the annual register of members and summary relating to capital and shares must also be sent to the registrar, and various other particulars relative to changes in capital and number of members. In the case of liquidation, a copy of the order for winding up and of the final order for dissolution must be sent to the registrar.

The above are the chief methods for providing for publicity in the case of Indian companies, and it will be seen that the provisions afford no particular assistance to the public or to the members in the way of insuring that a company has been started on a sound footing, and is being soundly worked. It is not even provided in the law that a copy of the balance sheet shall be sent to each member, nor that it shall be published in any journal; nor is there provided any inspection as to the methods of working or to ensure that the balance sheet truly represents the position of the company.

The European law provides generally for publishing in the official gazette and in various newspapers a notice of the formation of a society, its memorandum of association either in full or in abstract, and various other matters including the annual balance sheet. In the state of Indian mofussil society this provision seems to be useless, the more so, that—in the case, for instance, of the balance sheet—there is nothing to guarantee that it is a genuine one except the certificate of the auditors which may be and

often has been as worthless as the balance sheet, with, possibly, sham or dubious assets, a paper reserve, and sham dividends. All the publicity hitherto mentioned, including that of the European method of journalistic publication, is almost useless if there is no guarantee that what is published is correct. The following section deals with actual external supervision, necessary to provide a fair certainty that a bank is working soundly, and that its figures, as published, are correct figures.

External Supervision.—No special external supervision is provided by the Indian law, except that already noticed, viz., that certain documents must be registered in the office of the Registrar of Joint Stock Companies. This officer has no supervising powers or duties assigned to him by law; he is a mere registering officer, and each year has merely to send a simple tabulated statement by way of report to the local Government. The local Government may make such regulations as it thinks fit with respect to the duties to be performed by the registrar, but it is presumed that this means merely that the Government can make regulations according to which the registrar shall perform the duties assigned by the Act, not that the Government can impose upon the registrar duties not expressly assigned by law, and thus develop the Act, e.g., such duties as those of inspection, arbitration, suspension of disobedient or negligent societies, &c., which are exercised by the English Registrar of Friendly societies and by State officers throughout the United States and Europe. Supervision in this presidency, therefore, is practically nil.

Yet it is in the direction of supervision and control by the executive, or by Courts otherwise than in their judicial capacity, that modern legislation tends for all societies, while for all societies that deal with popular thrift, providence, benefit, banking, credit and insurance, supervision has in all countries always been exercised by the State; this supervision is steadily tending to greater development even in England and America, while experience has just produced a very stringent law in Germany. It can hardly be contended that while State supervision tends to develop in Europe and America, where liberty of commercial as of other action is the popular claim, where the people are more or less accustomed to free and joint action in business matters, and are sufficiently educated in business matters to look more or less after their directors and representatives, and where publicity through a universal press is comparatively complete, such supervision is absolutely unnecessary in a country where joint business action is in its veriest infancy, where organized thrift, banking and credit are practically unknown, where the *clients* will be the peasants and petty traders of the country side, and where the press is only beginning its usefulness. It is assumed, then, that some form of external supervision is necessary and will be provided. That supervision may be non-official or official.

The former is that of Unions of societies. As co-operative or benefit societies advance in numbers and development of plan, they usually co-ordinate the scattered and weak units into groups, and these again into a general Union. The popular banks or loan societies of Germany and Italy are complete examples of this, and Unions exist in England among the co-operative societies. But they require no special law for their promotion: they are merely societies having minor societies as members. But the German law of co-operative societies, based upon the facts of co-operative credit in that country, recognizes these Unions in connection with their special duty of supervision and inspection; its provisions are as follows:—

“51. The organization of every society and its management in every branch must be submitted at least once in two years to the examination of a competent auditor, not belonging to the society.

“52. When societies belong to a Union, the latter will, if it complies with the following conditions, be granted the right of appointing the auditor.

“53. The Union must have, as a distinct object, the inspection of the societies which belong to it, and may also otherwise watch over those of their interests mentioned in section 1, especially the maintenance of mutual relations between the societies. (Section 1 describes the economic objects to which co-operative societies devote themselves, e.g., credit, production, distribution of raw and manufactured materials, the purchase of agricultural, &c., implements, the acquisition of houses, &c.)

“54. The objects of the Union must be entered in its articles, which must show that the Union is likely to be able to carry out the business of audit. The local area of the Union, the number of societies which it will receive as members, must be mentioned, as also stipulations regarding the selection and appointment of auditors, the nature and limits of their audit, the formation, place of business, and powers and duties of the directorate and other organs of the Union.

“55. The right to appoint auditors is granted by the federal council when the Union extends over several federated States; otherwise by the central authority of the State. Any modifications of the articles of a Union must be communicated to the authorities having jurisdiction as mentioned in the preceding sentence.

“56. The directors of the Union must, every January, send the articles with a certified copy of the Government order granting the right of appointing an auditor, and a statement of the societies forming the Union, to the Courts within the jurisdiction of which the several societies have their place of office, and also to the chief authorities who have jurisdiction over the place of office of the Union. (The Courts are those which keep the register of societies and are the same as those which keep the commercial registers, i.e., usually the Commercial Courts. These Commercial Courts and commercial registers are peculiar to Continental Europe. See section on ‘Courts.’ The ‘chief authorities’ mentioned in this section and in 57 and 59 are designated by the Government: in this presidency it would probably be the Collector of the district.)

“57. The general meeting of the Union must be held solely within the limits of the Union. Notice of such meetings with a copy of the programme, must be sent at least a week in advance to the chief authorities both of the district in which the Union holds office, and of that in which the meeting is to be held. The latter authority has the right of sending a representative to the meeting.

“58. The right of appointing auditors may be withdrawn from the Union—

“(1) If it is guilty of acts contrary to the law by which the common weal is endangered, or if it follows other objects than those mentioned in section 53.

“(2) If the Union is unable to fulfil the duty of audit, such withdrawal is pronounced, after hearing the officers of the Union, by the authority which granted the concession, which should at once inform the Courts mentioned in section 56, of the withdrawal.

" 59. When societies do not belong to a Union, the auditor is appointed by the Court (see note in section 58); in such case the society may demand the nomination of the auditor. The appointment is made after the chief authority of the district has given his opinion regarding the person proposed; if such authority concurs with the society, such person should be appointed.

" 60. (Contains rules regarding the fees payable by each society to the auditor).

" 61. The directors must allow the auditor the inspection of all the books and papers of the society, its cash, its negotiable paper, and its goods in stock. The committee of supervision should be invited to assist in this audit.

" The directors must send for entry on the register of societies, a certificate by the auditor that the audit has taken place, and must forward the report for discussion and resolution at the next general meeting, at which the committee of supervision must give any explanation on the results found. The auditor appointed by a Union, must send to the directors of the Union a copy of his report.

" 62. The Chancellor of the Empire is authorized to issue general orders for the drawing up of the audit reports."

Such is the German law which regulates the audit and inspection of co-operative societies by Union inspectors; it is inserted partly to show the care with which the German law endeavours to ensure that the external audit which it enacts shall be genuine and thorough, by competent experts appointed by a central society, whose special business is that of auditing and inspecting its component societies; if Union audit is wanting the auditor must be appointed by the Commercial Court on the nomination of the society to be audited, coupled with the approval of the chief officer of the district. These rules should eventually be adapted for Indian use, to stimulate the formation of Unions and their adoption of this useful rule; direct official audit and examination are open to objections, and are less satisfactory than thoroughly competent inspection by experts who, though independent of each individual society, are necessarily interested in its soundness and well-being, since it is a member of the Union to which the inspectors belong; nor does such inspection give that official *imprimatur* to the society which a Government inspection popularly bestows and which is best avoided if possible. It is however impossible that these Unions can be formed until the societies which are to compose them have been in existence for some years; meanwhile, since external supervision is desirable, some other method must be adopted in order to safeguard the nascent societies and their members. This method can only be that which is universally found necessary, viz., that of official supervision with inspection and audit according to circumstances.

Official Supervision.—This form of supervision is the most common and takes every form from the demand for mere returns to an actual control, it being axiomatic that, where societies deal either with the land or with matters of popular thrift and providence, the legislature must provide close supervision, since, in the one case, the stability of the greatest industrial class and the welfare of the greatest national industry are liable to be affected by defective or usurious land credit, provided possibly by mere land grabbers, individual or organized, while, in the other, the development of some of the chief national and individual virtues, such as thrift, foresight, self-help and mutual help, is bound up with the proper conduct and safety of the institutions. The independence of Government support shown by the German and Italian popular banks is only an apparent exception, for, in the former case, the banks are very closely regulated by a special law based on lengthy and wide experience, which provides incessant supervision by the Commercial Court and even—as in the case of audit—by local authorities, and in the latter the societies are not only most thoroughly supervised and organized under the foresight of their illustrious founder, Signor Luzzatti, but they fall under the jurisdiction of the Commercial Code which, passed in 1884, has expressly provided for the various classes of co-operative societies, which in Italy are considered to hold within them the germ of economic, social and moral progress. Moreover, the Italian Minister of Agriculture, Industry and Commerce is expressly charged with the general supervision of the several classes of banks.

The Italian rules applicable to trading companies in general, irrespective of the special rules for particular classes, such as banks, land and agricultural banks, insurance companies and savings banks, are worth mentioning in detail.

In the first place, the promoters of every unlimited company must send their deed of association and articles, and subscription lists, including a notice of the shares reserved for themselves, to the Commercial Court having jurisdiction, which enters all particulars in the commercial register, and posts up the memorandum in the Court room, in the Municipal hall, and on the nearest exchange. The deed of association and the articles of limited Companies must similarly be sent to the Civil Court which is bound to see whether the company has been lawfully formed and, in consultation with the Government Pleader (*coll. intervento del pubblico ministero*), registers and posts up the above papers. Similar particulars, in abstract, must also be published by the company in the Journal of law notices and *in extenso* with other connected documents (prospectus, contracts, &c.) in the official bulletin of share companies. All extensions and modifications of the company's objects, articles, &c., must be similarly notified. The appointment of directors must be notified to the Commercial Court by a document duly signed by them; and, in case of suspected irregularity, members holding up to one-eighth of the capital may move the Court to order an examination of the company's affairs by special examiners appointed for the purpose, who report to the Court, which can decree any necessary measures. The resolutions of general meetings may be carried to the same Court by any member who considers them contrary to the law or memorandum or articles of association, and the Court may hear and dispose of the matter. Credit companies must deposit in the Commercial Court in the first week of every month a statement certified by at least one director and an auditor, of their position during the previous month. The balance sheet of every company, must, after it has been passed by the general meeting, be sent to the Commercial Court, together with a copy of the auditor's report, and of the minutes of the general meeting for entry on the register and for publication—balance sheet only—in the 'Journal of law notices' and 'Official bulletin of share companies.' In the case of co-operative societies all publications are free of charge, but directors are required to send a special quarterly statement of the members, with their addresses, to the Commercial Court. A Government regulation prescribes the forms of the registers and other administrative matters. It will be seen that the Commercial

Court occupies the position of the Registrar, but has also very considerable powers in certain cases for the protection of members, and demands very important returns. This, however, is not all; by the Government regulation, the "official bulletin of share companies" above mentioned is placed under the Minister of Agriculture, Industry and Commerce, who must publish it at least once a week. In this must be published not only the papers above mentioned, but all notices regarding the issue of debentures for public subscription, the monthly statements required—as mentioned above—from credit societies, the copy of the balance sheet, the deed or order—if appointed by the court—of appointment of liquidators, the final balance sheet of the liquidators together with the auditor's report, and any other matters specially ordered. Every company pays a fee of 80 lire (£3-4-0) for the publication of the Memorandum and Articles of Association, and 30 lire (£1-4-0) for every other document; co-operative societies are exempt from these charges. Every publication must take place within fifteen days of its receipt, and a copy of the bulletin must be sent free to the various Chambers of Commerce, Exchanges, to all the Civil and Commercial Courts of the kingdom, and to each company concerned in any particular issue. The Minister also lays down the forms for the monthly statements required from credit societies. It will be seen that the above Minister is required to look very closely into the affairs of the societies, and to publish very considerable returns and statements for general information. For special societies, such as insurance companies, land banks, &c., the Minister has much greater powers; in the former case he should satisfy himself every three months by means of Inspectors, who must examine the books, that the provisions of section 145 of the Commercial Code and sections 55, 56 and 57 of the regulation are thoroughly carried out, and the Inspectors are bound to prosecute criminally any infraction of those sections, which provide for the investment in State paper of at least one-fourth of the premia received.

It should be noticed, also, that in common with all business entities (*commercianti*), companies must, by law, keep certain books (day-book and copy-book), and make an annual inventory in a special book of all their movables and immovables with a statement of profit and loss; these books must be presented, before use, at the Commercial Court, or to the Mayor, or before a notary, who must number and sign every page, and on the last page enter the number of pages, and the date of the entry; each year the day-book must be similarly presented for countersignature immediately below the latest entry. The Commercial Court keeps a register showing the names of all *commercianti* who have presented their books, the nature of the books, and the number of pages in each; this must be compared with the books at the annual countersignature. The mayors and notaries who have acted as above, are required to send annually a note of their transactions for entry in the Court register. The books kept as above must be written up without blanks, interlineations, marginal corrections, or erasures, and every correction, where necessary, must be so made that the original word or figure shall be legible. Other rules are laid down, but the above suffices to show the supervision maintained over commercial matters and books.

The Commercial Courts have, as such, been recently abolished, but their duties are carried on by the Civil Courts.

One further reason for State supervision, in the matter especially of land banks, is that these banks are universally financed by means of land-mortgage debentures; as these are placed in open market, it is necessary both for the success of the banks and their operations, and for the safety of the investing public, that these debentures shall be solidly and unexceptionally secured. Hence the unusual provisions of the English Land Mortgage Debenture Acts, and the action of European Governments generally.

It does not appear that official supervision can be adequate or definite without legislation. Even if rules framed by Government provided for supervision, such rules would require a legalized basis which does not exist in the present company law, while it is well that societies should know beforehand the general limits within which Government will exercise its powers of supervision, inspection and control. It will be well to lay down in the law the general scope of supervising action, and to issue thereon a body of detailed rules. Full details of official supervision will be found in the section on 'Government supervision' under each class of society; the following remarks merely give the outlines of the more important modes in order to suggest precedents and methods for adoption in this Presidency.

Registration.—The Indian law provides a sort of supervision by insisting that no association of more than ten persons shall carry on the business of banking, and no association of more than 20 persons shall carry on any other business which has gain as its object, unless it is registered as a company under the Act, or is formed in pursuance of some other Act. This is copied from the English Act (1862) which with its amending Acts, is the general English law of association. By this general law publicity is to a certain extent provided, for the articles, balance sheets, &c., must be sent to the Registrar, who reports on them to Government; in this way, the position of a company becomes to some extent public. But the English Friendly Societies' Act (1875), Industrial and Provident Societies' Act (1893), Building Societies' Acts (1836 and 1874), Savings Banks Acts (1863 and 1891), provide registration in another office for the classes of society mentioned, and by far the greatest number of all such societies (more than 30,000) in England and Wales are so registered under those Acts. Such society may be registered at the office of the Joint Stock Companies' Registrar. But registration at the Friendly Societies' office is almost universally chosen, for though it results in the supervision of the Registrar—whereas there is positively none under the Joint Stock Registrar—, there are several privileges attached to it. Moreover societies are aware that publicity develops public confidence; a society known to be under supervision, with its returns under scrutiny and annually published in a report accessible to all, and with the liability of having to undergo a minute inspection by expert examiners should a moderate proportion of the members move the Registrar to that end, attracts public confidence and consequent membership, far more than a society which, by declining publicity, hints that it has something to conceal. Indeed it is a standing difficulty, even in England, that Government supervision or even audit, gives to a society in the popular mind, a species of Government *inprimatur* which it is desirable to avoid; one seriously urged objection to Government audit is the responsibility, real or supposed, thereby thrown upon Government. It appears, however, that the disadvantages are far outweighed, at least in the early stages of progress, by the advantages.

The nature of the Registrar's supervision will be dealt with below.

The Indian law compels all societies of every description to be registered under the Companies' Act, except societies for non-lucrative purposes. As shown in the previous pages, the Act is unsuited for co-operative societies, and is defective in its provisions in many ways. It would be well to draft a fresh law for all Co-operative Mutual Societies, whether for land or other credit, or for mutual assistance, or for deferred benefits, such as provision for marriage, sickness, &c., for guarantee business, &c., and require them to register under such Act which should provide full supervision as in the English and American Acts. Ordinary land and other credit companies would register under the Companies' Act, but modifications are required for the due working of special companies, such as provisions for the issue of debentures, for audit, and for supervision.

Supervision of Land Credit Banks.—Apart from the State banks which, of course, are controlled by Government, these are generally the provincial land banks, which are Mutual Associations, and the ordinary Joint Stock Land Mortgage Banks. The former, especially the older ones, are in Germany largely under Government surveillance; e.g., that of Pomerania is controlled by the Minister for the Home Department, and supervised by a Royal Commissioner, who presides at the meetings of the society; the appointment of the manager and council by the members is subject to Government sanction. The resolutions of the general meetings, except such as affect mere internal arrangements, are subject to the approval of Government, without which they are invalid. Even the ordinary Joint Stock Land Mortgage Banks participate in this supervision, especially in Middle and South Germany where a State Commissioner supervises the administration in general, with a power of veto in case of illegality or irregularity; moreover, it is only by special Government concession and under certain conditions as to capital, &c., that they may issue land-mortgage debentures, and this concession involves considerable direct supervision to ensure the absolute security of the debentures. In the Central land bank (joint stock) founded in 1870, the appointment of the managing directors is subject to Government sanction, while a Government commissioner supervises the operations of the society and countersigns all land debentures; he is paid by the bank.

In Austria all banks or joint stock companies of whatever kind are subject to State supervision; their rules must be approved by, and their balance sheet submitted to officials appointed to examine them. The Austrian Boden Credit Anstalt is founded on the lines of the French Cr dit Foncier; its governor is appointed by the State, and the sub-governors by the Minister of Commerce an imperial commissioner also supervises operations, controls the issues of land debentures, which he countersigns, and watches over the due observance of the articles.

The Hungarian Boden Credit Anstalt is similarly and closely controlled by a Government commissioner, but enjoys certain special privileges; it is an exceptional institution.

The Land Banks of Italy are supervised by the Minister of Agriculture, Industry and Commerce, by means of inspectors, and are bound to send in regularly the resolutions of their boards; the Minister has the power of annulling such resolutions as are contrary to the law or the articles. The banks are also bound to send in every two months a financial statement; also an annual balance sheet and statement of mortgages; each half-year a tabular statement regarding the position of each individual loan must be submitted, so as to check the position of the land debentures. Every week a privileged society must publish in the official gazette and in a newspaper a statement of its operations. The inspectors make an examination every two months of the acts and the books of the bank; they must be present at the meetings of the committee of supervision, forbid all unauthorized acts, and all issues of debentures beyond the amount of loans granted, verify the receipts to be set apart for the sinking fund, supervise the drawings of the debentures which are to be paid off, &c.; their salaries fixed by the State are paid by the banks. This is but an imperfect sketch; the laws of the "Credito Fondiario" and the rules which supplement them are full of the duties of the Government department, for which the section on land credit must be consulted.

The duties of the land registrar in England have been mentioned above, *s.v.* 'Debentures'; suffice it to say that every land debenture and all the documents and contracts on which it is based must be submitted to and registered by him, and quarterly statements showing the securities held by the company, and the number and value of the debentures outstanding. The registrar is responsible for the due conduct of the society in this matter, and for the equilibrium between its securities and its debentures.

Supervision of Ordinary Banks.—It will suffice here to take the provisions of the United States as examples of State supervision; it is commonly supposed in India that in the United States of America the policy of the State is that of non-intervention, whereas, in fact, societies, especially banking corporations, are *r glement es* in a high degree and not without success.

The National banks, which are banks of issue and exchange, are strictly regulated both by law and by the supervision of the Comptroller of Currency. This officer represents the Government, and reports annually in great detail to Congress as provided by section 10 of the law.

His duties and powers are great and various; he registers the articles and memoranda of association, and it is only on his authorization that a bank may begin business, for which he must see that the articles are in order and that 50 per cent. of the capital has been actually paid up, that the directors genuinely own the prescribed number of unpledged shares, and that all the other conditions for business are satisfied; he may withhold his certificate if he is not satisfied with the *status* and apparent objects of the bank. Any increase of capital must be notified to the Comptroller, who must fix the maximum amount allowable for such increase; and it is only on his permission that a bank may redeem its capital. A reserve equal to 20 per cent. of the capital is compulsory in certain cases, and the Comptroller can close any bank that does not comply with this condition, or which allows its reserve to be deficient. He has very important duties and powers regarding the note issue and circulation. In the general regulation of business his duties are equally important; he can wind up, with the consent of the treasury, any bank that does not keep a proper reserve of cash to meet its notes and deposits; he can appoint a receiver to close up business if, within three months after notice from him, a bank which has not paid up or has impaired its capital, has not made the amount good by a *pro rata* assessment on its shareholders; a sworn list, with addresses, of all shareholders must be

annually sent to him ; not less than five reports of condition must be sent to him in each year upon forms to be prescribed by him, verified by the oath of the president or cashier, and attested by three directors ; such reports to show the complete assets and liabilities of the bank and to be published in a local newspaper ; the comptroller can also call for special reports whenever he deems necessary. The amount of each dividend as declared, and of the net surplus in excess of the dividend, must also be reported upon the oath of the president or cashier, the object of this being to prevent the payment of dividends from capital ; all these reports are under heavy penalty for failure or delay. One of the most important duties however is the appointment of examiners to inspect the condition of each bank ; these examiners, who are experts and numbered 30 in 1891, have power to make a complete examination of a bank and all its affairs, and to examine its officers and agents upon oath ; they are paid by the banks on a fixed scale, and report to the comptroller. The inspection is rather an examination of the methods than an audit of the accounts, viz., to see whether the bank is doing sound business and complying with the requirements of the law as indicated in the previous sentences, but audit is not neglected ; every examiner is required to verify every credit and debit balance, to count the cash, and to list and verify the loans and discounts and other assets. They also ascertain the character of and security for the loans, and whether the directors or officers, &c., have too large a share of the loans ; it is, in fact, on the examination made by these officers that the comptroller is able to supervise the working of the banks and to detect any infringement whether of the law or of sound methods of trade. The comptroller has also large duties in the case of liquidation and failure, especially where banks have made default in the matter of their notes, when he may at once appoint a receiver who will take possession of the bank. A bank may also be closed, upon a suit by the comptroller in a competent Court, for any wilful violation by the directors and officers of the provisions of the law, but this power has never been used ; the penalty is too severe.

The treasury has also certain powers for fiscal and other purposes over these banks.

It will be seen that the National banks are under the complete control of a Government officer, not in the actual working of the bank, for which the directors are wholly responsible, but in restraining it from going beyond or disobeying the law, and in preventing unsound business. No doubt this control is due partly to the fact that the banks were started to supply a market for national securities which are deposited by the banks as guarantees for their note circulation, and to ensure sound and solidly based paper currency instead of the miscellaneous paper which had fallen into discredit, but it will be seen below that in the matter of *all* banking, savings, and benefit corporations, the United States are extremely vigilant and impose stringent official supervision. This supervision is moreover paralleled in Continental Europe by the official supervision over land and agricultural credit banks, and in England by that of the registrar of Friendly societies over all provident, benefit and cooperative associations, and by the treasury, through the same registrar and through a new inspection committee, over Savings banks. In fact every special class of credit or deposit society is officially supervised, especially those relating to the land or to national thrift and providence. In Continental Europe, moreover, as, for instance, in Austria and in Italy, all banks and even all joint stock societies are largely under supervision.

Ordinary banks are in the United States of America governed by the laws of each particular State. In New York the banking laws provide a department charged with the execution of the laws ; the powers granted are so considerable as at first to excite surprise in an English reader. Under the recent law of 1892 every bank without exception, *i.e.*, every corporation (society) or person receiving deposits, making loans, discounting bills, &c., is under the supervision of a highly-paid superintendent appointed by Government, his pay and that of his establishment being provided by *pro rata* contributions from the banks. The superintendent appoints paid and expert examiners, and is bound to examine or cause to be examined every bank at least once in a year (Savings banks once in two years) or as much oftener as he thinks fit. "On every such examination inquiry shall be made as to the condition and resources of the corporation, the mode of conducting and managing its affairs, the action of its directors, the investment of its funds, the safety and prudence of its management, the security afforded to those by whom its engagements are held, and whether the requirements of its charter and of law have been complied with in the administration of its affairs ; and as to such other matters as the superintendent may prescribe." Examiners have full powers to compel the appearance of and to swear "any person whose testimony may be required." The report of the examiners may be published in the newspapers.

In case of impairment of capital the superintendent may require the bank to make good the deficiency, and he has powers to enforce his demand under penalty of a suit for insolvency. If the examination above described give reason to suspect that the bank is unsound, the superintendent may at once take possession of the property and business pending the disposal of a suit as above. A similar suit lies against banks which refuse to submit to examination, or which have violated their charter and the law of the State. In this last case the superintendent has also power to direct the bank to discontinue any such unlawful practice or unsafe method of doing business ; failing obedience a suit may be filed.

Any creditor or shareholder of a bank, holding debts or shares to the amount of £200, may apply to the Supreme Court direct for an examination of the affairs of the bank.

Every bank must make a sworn quarterly (for Savings banks half-yearly), report to the superintendent in such form and on such matters as he may prescribe ; failure involves a penalty of £20 per diem, and failure by a bank for two successive reports entails forfeiture of its charter, and compulsory winding up. Moreover, on any failure to report, the superintendent is bound at once to make an examination of the books and affairs of the bank. An abstract of their reports must at once be published in at least one newspaper in Albany, and the full report of each bank in a newspaper of its place of business or in the nearest newspaper.

The superintendent makes a full annual report to the legislature. The law further lays down provisions for the restriction of certain operations, for the calculation of profits, for the making good of losses, &c.

The superintendent has numerous other duties and powers, such as the registration of certificate of incorporation giving all particulars as to the location, capital, shareholders, &c., of the bank ; power

to require a bank to make up its "reserve of lawful money" under penalty of being declared insolvent; the right to receive a deposit of at least £200 to meet penalties or assessments imposed on the bank; the power to bring a suit for any penalty or assessment, &c.

In Rhode Island the governor of the State appoints three commissioners to superintend the organization of every new bank until the entire amount of capital has been fully paid up; these commissioners are paid by the bank. On written request by any three officers, shareholders or creditors of any banks or Savings banks, the governor shall appoint a special commissioner with power to make a complete examination under oath of all the affairs of the bank, and the general assembly of the State, or the governor when the assembly is not sitting, may, whenever it is deemed expedient, institute a similar commission for similar purposes; heavy penalties are enacted for any refusal to aid the commissioners. If the commissioners complain upon oath to the Supreme Court that any such bank is so misconducted that there is danger of loss to the public or depositors, the Court shall hear both parties, and, if necessary, suspend the bank officers and appoint a receiver to wind up affairs. In Massachusetts the governor, with the advice and consent of the council, appoints three commissioners to supervise Savings banks, co-operative loan associations and banks. These commissioners must examine every such institution at least once a year and as much oftener as they please; they must thoroughly examine all accounts and affairs, ascertain the condition of the corporations and their ability to fulfil their engagements and whether they have complied with the law. If necessary they may apply to the Supreme Court which has, in such case, similar powers to those mentioned *s.c.* Rhode Island. The State may make other regulations for the management of these corporations.

In Illinois (Chicago) the recent Act of 1877 provides that a society can only transact banking business after an examination by the State auditor and receipt of his certificate; that a list of all shareholders and of all transfers shall be furnished to him; that at least once in three months, the State auditor must call for a report of assets and liabilities which is to be furnished on oath and published in a newspaper; that the auditor shall appoint, at least once a year, experts to thoroughly examine and report upon the affairs of the bank; that the auditor can, if the capital of the bank be impaired, file a bill for the appointment of a receiver if the capital is not replaced in thirty days.

In Florida the Judge of the District Court may appoint a commissioner to examine the affairs of a bank upon the sworn information of any creditor or shareholder who may have an interest of £200 in the bank. At any time "the comptroller of the State may inspect and supervise the business of the bank, and inspect and examine its books, papers, documents, minutes, and everything pertaining to the acts of the bank. A statement of the amount of the capital stock subscribed, and of the amount actually paid in, and the indebtedness of the corporation, must be published once in six months in the nearest newspaper, and annually in a newspaper printed at the capital of the State. Banks are required to make an annual return to the State comptroller of the amount of capital stock; value of real estate; shares of stock held, absolutely or as collateral; debts owing to the bank; debts owing by the bank; claims against the bank, not acknowledged as debts; amount on which the bank is bound for security, or may become liable; amount of loans and discounts and specie on hand; amount of losses of the bank (if any) charged, and of dividends declared since the last statement; amount and description of securities deposited with the comptroller, and their market value, also date to which interest has been paid."

The above paragraphs sufficiently show the nature of the control provided by law over banking corporations in some of the principal States of North America and the laws of other States, *e.g.*, New Jersey, Connecticut, &c., are not dissimilar.

Supervision of Friendly and Co-operative Societies and Savings Banks.—This group of societies which relate solely to popular thrift, providence and self-help, and embrace millions of members and hundreds of millions of capital and deposits, are naturally the object of considerable State supervision. It is these societies and their congeners, the co-operative or popular banks, which lay themselves out to develop the essential virtues of thrift, providence, self-help and co-operation by providing secure depositories for petty savings, and which invest those savings largely in popular credit. Any serious failure in the security offered and any loss of public confidence would be injurious, not merely to the institutions but to the system, and not merely to the system, but to the habits which the system was intended to develop. Hence it is, that in every country the welfare and security of these societies is the solicitude of the State. In the report of the Massachusetts Board of Commissioners of Savings banks for 1892, the attention of the legislature is expressly called to the danger of allowing trust companies and even National banks to solicit savings deposits. They observe that the Savings banks have rightly been placed very completely under the protection of the State, by a policy broad in scope, careful in detail, and strong in an intelligent supervision; this policy has been highly successful, and it is claimed by the commissioners that the system ought not to be impaired and the habits of thrift discouraged, by allowing institutions less rigidly supervised, to enter into competition with the Savings banks, especially as such institutions are merely commercial societies struggling to increase their business and dividends. The nature of this system will be found in detail *s.c.* 'Savings banks.'

In England the Lords of the Treasury are entrusted with the general regulation of these societies, but the actual executive work is done under their approval, and in accordance with their regulations, by the Registrar of Friendly societies. The duties of this important officer, who is always a barrister with large legal and economic knowledge, are briefly summed up in the following extract from the Guide book of Friendly, &c., societies:—

"The chief public functions of the registrar (without here distinguishing those which are reserved to the chief registrar) fall under the following heads:—

"(a) Registering or otherwise recording the rules, and generally the leading events in the life of the societies with which he has to do (Savings banks excepted).

"(b) In some cases, chiefly under the older Acts, certifying that rules are in conformity with the provisions of the special Acts, or with law generally.

"(c) Receiving and enforcing the sending of the various returns required by law, and in most cases keeping such returns when received.

"(d) Giving official copies of documents in his custody.

"(e) In certain cases determining upon disputes, either generally, as in the case of Savings banks, or under specified circumstances, in the case of societies under the Friendly Societies' Act, the Industrial and Provident Societies' Act, and the new Building Societies' Act.

"(f) Prosecuting for various offences under particular Acts, or in some cases for fraud or misapplication of the funds of societies, or, in some of the latter cases, authorizing prosecutions by members.

"(g) In some classes of societies, authorizing changes of name.

"(h) In some classes of societies, exercising, on the application of a definite minority of members, a limited amount of interference with societies by (1) inspections; (2) the holding of special meetings; (3) if need be dissolution of the society.

"(i) As respects some classes of societies, giving directions for the transfer of certain securities.

"(k) As respects some classes of societies, with the approval of the treasury, preparing and circulating model forms, circulating useful information, and constructing and publishing certain tables.

"(l) In one case only, certifying for exemption from rates.

"(m) Reporting yearly to Parliament.

"But it forms no part of the functions of the registrar—

"To advise members or officers of some 30,000 different bodies as to the best mode of carrying on their business, or as to their legal rights or remedies;

"To interfere of his own motion in the management of such bodies;

"To overhaul their accounts;

"To compel them to follow good advice, or prevent their going to ruin with their eyes open.

"It cannot be too strongly insisted on that the registrar cannot ensure the good management of societies, and that the mere fact of registry affords no guarantee that a society is solvent or even honest.

"But registry affords, to the sensible and honest, valuable help towards good management in many ways, and it does also bring to bear upon the incapable and the dishonest, various checks which are wholly wanting in respect of unregistered bodies."

(b) On (b) it is to be remarked that, in practice, the rules are carefully examined to see if they are in conformity with the law, and workable, and any inconsistencies or palpable absurdities are pointed out; this practice is for the convenience of the societies.

(c) As to the returns it is to be noted that they are to be prepared in the forms prescribed by the treasury regulations or by the registrar, and not in any form that a society pleases. Among these returns is the annual balance sheet which must have been duly audited, together with the auditor's report, and a statement as to who the auditor is, if he is not a treasury auditor. A copy of the quinquennial valuation (Friendly societies only) must also be sent to the registrar.

(h) The inspections mentioned in this paragraph are made under the orders of the registrar upon the application of one-fifth of the members of the registered society, or a smaller proportion if the society is large; the examination is held by special inspectors who are appointed by the registrar and have full powers of inquiry. Under the Co-operative Societies' Act of 1893, the registrar can order an examination of the books on the application of only ten members.

The registrar only awards dissolution upon the application to him of one-fifth of the members (or a less proportion if the society is large), alleging that the society cannot meet its engagements, and that its contributions are insufficient. The registrar may then cause an investigation to be made, for which full powers of inquiry are given to him. Dissolution, if awarded, can only be set aside by a suit in Court.

As regards Trustee Savings banks in particular, the new Act (1891) establishes a central committee of inspection which appoints inspectors to examine the books and accounts of the banks, and to ascertain and report whether each bank has complied with the law and with its own rules as regards its accounts and the conduct of its business. Should the report be unfavourable, the committee report the matter to the National Debt commissioners, who may close the account of the bank or report the matter to the Treasury with a view to obtaining from the High Court the appointment of a commissioner for full enquiry.

The committee may further require a bank to make complete rules for audit; in default may themselves draw up such rules and submit them to the registrar for his certificate.

As regards Savings banks, the functions of the registrar are two only, viz., the certifying of the rules and the determination of disputes between trustees or managers and depositors; these disputes must be referred to the registrar who has full powers of inquiry. The annual balance sheet of each bank is sent to the National Debt commissioners, who may also from time to time require a detailed statement regarding the expenses of the bank.

It may be noted that the inspection committee discovered many instances of negligence in the very first year of their inquiry.

The loan societies under the Irish 'Charitable loan societies,' Act of 1843 are peculiarly supervised; a board is established called the 'Loan fund board' consisting of members nominated by the Lord Lieutenant, who also appoints the paid secretary and staff. The board is not paid, the members serving gratuitously like the trustees of Savings banks. The board have the superintendence of all loan societies under the Act, and has power to ascertain whether these rules has been duly certified and enrolled (by a consulting barrister), and are duly observed, and whether their funds are duly applied. No society can be started under the Act unless the board are satisfied that it is required: the board may cut down salaries and expenses, and demand security from officers of a society; it may demand accounts, and it receives annually, and oftener if it sees fit, from each society, a complete statement of its position, assets and liabilities, profits and losses, in such form as the board may require. The board receives of right, notice of an intended dissolution, and may, if a loan society has not adhered to rules, withdraw its certificate and order its dissolution by its own liquidators, subject only to appeal to the Lord Lieutenant in Council. The board reports annually direct to Parliament.

The co-operative and Savings banks of the United States of America are still more fully supervised by Government officers. As stated above, New York has a special department under a

superintendent to whose inspection and supervision every Savings bank is subject. When a Savings bank is to be founded, a copy of the proposal must be sent to the superintendent, who enquires whether the proposed bank is necessary, whether the population of the locality gives a good chance of success, whether the proposed members are men of trust, &c. If he is not convinced on these points, he may withhold his consent. It is forbidden to invest the deposits in any but Government, State or Municipal bonds, in first mortgages on cultivated lands and buildings up to 50 per cent. of the sale value, and up to 65 per cent. of the bank's deposits; loans may also be given on the deposit of securities. It is the duty of the superintendent to see that these and other provisions of the law are not transgressed. To this end half-yearly reports with the fullest details regarding deposits and investments, and certified by the trustees must be sent to him based upon an obligatory half-yearly audit by a committee of the trustees; he must also examine each bank at least once in two years, and oftener if he pleases, such examination being of the most rigorous description (see *supra s.v.* 'Ordinary banks'); in case of any violation of the law, or mismanagement which would endanger the funds, he can file a suit to close the bank or to remove the trustees. He reports annually to the legislature with such proposals as he thinks fit regarding the administration of the banks. The pay of his department is provided by a levy from the banks in proportion to the deposits.

The methods of supervision in Massachusetts, viz., by three State Commissioners of Savings banks have been partly described *s.v.* 'Ordinary banks,' and will be found in full in the chapter on 'Savings banks'; their powers are similar to those of the superintendent in New York. The law also gives the commissioners power to prescribe a proper method of keeping and auditing the books, while the details prescribed by sections 40 and 41 of the Act for the annual reports by the banks to the board are so full as to give a complete view of the position of each bank, its members, accounts, deposits and other liabilities, the exact amount and nature of its investments under every head, its profit and loss account, its cash in hand and dividends, its rates of interest and the amount of loans at each rate and of various values, its expenses, and many other details.

As regards co-operative banks for which each State provides special laws, some of the arrangements for supervision are as follows. The law of New York provides that every co-operative bank shall annually make a full report of its affairs, under penalty, to the superintendent of the bank department; such report to be made upon oath and in such form and to contain such statements on the affairs, liabilities and resources of the bank as the superintendent may prescribe. The superintendent may also call for any further reports upon the condition and methods of business in the bank. All co-operative banks are subject to the inspection at all times of the superintendent or of his deputies, upon the application of three or more members, and in case of ascertained mismanagement, he may direct any necessary amendment; in case of disobedience, he shall move the attorney-general to proceed against the society as though insolvent. All inquiries are conducted with the same powers and processes both as regards witnesses and documents as in the ordinary Courts; all expenses must be paid by the bank. In Massachusetts the law prescribes that commissioners of Savings banks shall, for co-operative banks, perform the same duties and have the same powers as in the case of Savings banks.

In Italy the Savings banks, also all co-operative land and agricultural credit banks, are under the supervision of the Minister of Agriculture, Commerce and Industry, who has a special department for the "Service of the supervision" of such banks, which send in returns, as prescribed by him, from which are drawn up his monthly and annual bulletins, and the annals of the several classes of institutions.

Suggestions.—In legislating in India for classes of societies as yet unformed or in their infancy, it is open to the legislature to impose their own conditions, for there are no vested interests, no trade customs to be affected. Hence the law may prescribe, as conditions of existence, modes of control, supervision, and administration which would be difficult to impose newly upon a working system or network of going concerns. It may be better to provide, within reasonable limits and perhaps permissively, even more restrictions than may be at once needed in practice, rather than be compelled to add continually fresh rules and amendments of the law. The practice of other and very free and advanced countries such as England, the United States, Germany, &c., show that very considerable powers of interference are not only possible, but advisable and practicable, where such powers are worked with tact, and solely for the welfare of the companies and their members. Only, care must be taken lest the law fetters rather than restrains, or stifles while protecting. In this country there seems a *consensus* of opinion that Government interference should be more rather than less, and however unwilling to add to Government burdens, and Government interference, and however anxious to promote self-help, it may well be that in moderate Government supervision and control will be found the best methods of promoting self-help; *aider à faire* seems to be a necessary method rather than *laissez faire*; freedom of action does not necessarily result from the absence of Government. Societies expressly complain that they are left to grope in the dark, and are either ignorant of or acquire painfully the elaborated ideas and methods which the supervision of Government would suggest; they would welcome supervision moreover, because they feel that their subscribers and depositors are hindered by timidity and distrust, whereas a Government inspection would give them that *imprimatur* of security and status which is necessary to the development of business. Hence in proposing powers of supervision by Government officials, it has been sought to introduce methods, which, though they do not at present exist in India, and though they might be resented by great Indian commercial banks or societies, are all found in greater and more advanced countries, and for societies which are numbered by tens of thousands with millions of members and scores of millions sterling in funds, but which all deal with poor people, possessing little cohesion or power, and little ability or initiative to prevent or redress injury.

The question as to the department or officer who in Madras should exercise official supervision over rural banks and co-operative societies generally, as also the methods which should be adopted, are elsewhere discussed. Suffice it here to suggest that legislation is necessary to give the department or officer due powers of control, inspection and supervision, and that such legislation should take somewhat of the following form.

Provision should be made by law that the local Government should appoint or designate the authority (hereafter called for mere convenience the Commissioner) who should have the supervision of all land and agricultural credit banks working in the mofussil, of all co-operative or mutual credit or loan societies, of all provident or benefit societies, and of all Savings banks other than Post Office Savings banks; that all such societies should be registered in his office, that their articles and changes therein should be similarly registered after examination and certification as to their legality by the commissioner, who should have advisory powers in the case of unwise or unworkable rules, and prohibitory in the case of illegal rules; that all such societies should be required to submit periodical returns of their assets and liabilities, capital and reserve, land mortgages and debentures, profit and loss, at such periods, and in such form as might be laid down by the above commissioner with the approval of Government; that the commissioner should have power to compel the keeping of proper accounts and the making of a proper and efficient audit; that he should by himself or by examiners, inspectors or auditors, have power to examine and if necessary to report upon to Government, but not necessarily for publication, the methods, affairs, books and accounts of any such society; that on such or any inquiry he should have power, in case of proved mismanagement or fraud, to move the Civil Court to wind up the society or appoint a temporary receiver, or remove the directors, and that he should also be authorized to prosecute in the Magisterial Courts for any fraud or other criminal offence, which might come to his notice during his inquiry or otherwise; that upon the application of one-tenth of the members, or of 100, if the society has more than 1,000, supported by a solemn declaration and if deemed necessary, the depositing of security for expenses, an examination as in the previous sentence, should be obligatory, the report on such examination being made to the general meeting, and a copy being sent to the local Government; that he should be entitled at any time, or upon the application of any ten members, depositors, or other creditors of a society, to order an examination by an expert of and a report upon the books and accounts of a society; that upon similar application the commissioner should have power, if he deems fit, to summon a special meeting of the society; that the commissioner should, by consent of both parties, be permitted, but not be bound, to arbitrate in person or by delegate in disputes between the society and individual members, in which case he should exercise the powers of a Civil Court, but should not be bound by its procedure; that disputes as to the right to deposits or funds whether in savings, co-operative or benefit societies to the value of Rs. 500 should necessarily be referred to the commissioner or his delegate, whose decision should be final, with permission to the loser to file a suit in the ordinary Courts, but only against the successful claimant, and that no claim to such funds should be entertained by a Civil Court without the production of the decision of the commissioner; that he should have power, if he deems fit, upon application by a proportion of the members, such as one-tenth, or 100 if the society has above 1,000 members, to investigate the affairs of a society with the view to winding it up, in which case he would exercise the powers of a Court of liquidation, such application to be based only upon loss or insufficiency of funds to carry on the society, or upon mismanagement by the directors or trustees, such as to endanger the funds of the society or of the public; that the commissioner should be bound to report annually to Government on the condition, affairs and operations of the various societies under his supervision, with suggestions for the amendment of the law; that he should publish quarterly statements (bulletins) of the operations of all credit societies and Savings banks from the returns prescribed and received by him; that penalties should be leviable for refusal, neglect or delay by the societies to furnish any returns or reports; that the commissioner should be bound to collect and publish information on the subjects of banking, credit, co-operative, and provident societies, to prepare and issue for the information and optional use of societies, model forms of accounts and documents, annuity and amortization, &c., tables, and, when possible, life tables; and generally that he should, by advice and information, assist societies in their formation, registration, management and union, and especially in making provision for audit by Union or other inspectors, or auditors other than the official examiners.

It should be understood that the word "commissioner" is used simply as a convenient term to indicate the supervising authority, who might, however, be some existing officer, such as the Director of Agriculture, while the authorities for the examination of the affairs, &c., of societies might be special examiners or inspectors under his control; on the other hand, the authorities for the settlement of disputes and claims might be the local Revenue officers, and the authorities for liquidation the ordinary Courts who might be moved by the commissioner through his inspectors. These details should be settled by the rules to be issued by Government.

Penalties.—Should the law provide any or all of these additions regarding supervision, penalties will have to be prescribed for disobedience or negligence in all cases not already provided for by the Penal Code or by the Companies' Act.

Privileges.—Before proceeding to discuss the question of "privileges," it must be reiterated that organized credit will not necessarily, in itself, produce any miraculous improvement in the conditions of indebtedness; credit by companies has its advantages, chief among which are probable freedom from deliberate attempts to cheat the borrower—though not always the creditor or depositor—and to exploit his ignorance and need, together with correctness of accounts and possible cheapness of loans; but it has also its disadvantages such as—in general—inaccessibility to the poor and small men, want of knowledge of their status and consequent refusal of or dearness of loans; mechanical rigidity of rules; inability ordinarily to postpone instalments in time of the borrowers' need; want of that humanitarian sympathy which even lenders often feel; while, if really cheap and facile, it is apt to seduce thoughtless borrowers into extravagance and crushing indebtedness. And while, on the one hand, banking facilities possess the great advantage of attracting and utilizing individual and small deposits which would otherwise be infructuous, they have also the disadvantage of causing by mismanagement and fraud, financial disasters, which not only bring widespread and irreparable loss, but are destructive of public confidence in joint stock or co-operative principles. It is of no advantage to a borrower merely to exchange an individual lender for a lending machine; it is not certain that the credit will be cheaper on the whole, and it is easier to deal with an individual than with a soulless corporation; nor is it certain at all that cheaper credit is, under every circumstance, better for borrowers. Credit too facile is as ruinous as when unduly dear, and may only end in deeper embarrasment. The object in fact of this study is not so much mere organized cheap and facile credit,

but safe and well-regulated, educative, and even protective credit; organization is desirable and should be privileged just in so far as it promotes the best and most lasting interests of the people; special privileges simply to promote the transfer of business from individuals to companies are unnecessary and probably undesirable. Privileges however which assist men to organize locally for self and mutual help, to learn, by actual practice, the true use both of money and of credit, to develop fruitful thrift, educative credit, and industrial improvement, and to replace the money-lending individual by the mutual and mutually protective Association through the natural development in men of innate qualities and existing, if dormant, possibilities, are privileges which should be granted.

Hence in considering privileges, it is entirely a matter of argument whether they should be granted to credit societies simply because their credit is "organized"; not merely is there the danger that privileges will be abused—as in the English loan societies under the Act of 1840, some of which are mere unions of petty usurers who have taken the name of societies to get the privileges granted by that Act—but there is the risk of undue interference with and possible prevention of development on co-operative lines; and still further, of substituting for the local individual who is open to fears and human sympathies, a distant mechanical corporation, careless of the object and results of the debtors, borrowing, inaccessible to fear or human feelings, and operated by men who, however humane in themselves, are, *quod* office holders, mere agents of a body which asks only for dividends, for punctual dividends and for larger dividends. These are not mere theoretical fears; the building and loan societies of England have often lent themselves to fraud and usury of the worst type; the petty banks of Switzerland are often as hard in their dealings as the petty capitalist, or peasant landlord, is all over the world; there have been, perhaps are, Indian societies which are mutual or popular banks in their title only, and privileges have been sought by inchoate joint stock associations which might have made the peasant into a mere producer of dividends as the rack-rented tenant-at-will of a corporation.

It is also to be remembered that privileges are sought in India by proposed joint stock banks to be formed by syndicates of *lenders* (capitalists), who demand very extensive privileges, including the hitherto unheard of privilege of a previous settlement of the debts by Government, and thereafter complete independence of Government, except when they wish to use the Revenue officers as their own bailiffs. Now the land credit history of Europe, which is quoted as a precedent, shows that but few privileges are granted generally, and those either to associations of borrowers, *i.e.*, mutual associations, which work not for dividends, but for mutual aid, and which in fact do not make or divide profits, or else to Government institutions; the associations of capitalists have but rarely many privileges, and on the contrary, are highly taxed. All associations moreover are more or less placed under Government control or supervision in return for, or even in the absence of privileges, and where privileges are granted, as for instance to German joint stock banks and to the *Crédit Foncier* in the issue of privileged land debentures, the supervision is very considerable indeed; supervision is a corollary of privilege. Still further, it must be noticed that the privileges are often necessary in Europe in consequence of circumstances and to remove disabilities which do not exist in India; *e.g.*, in England, land improvement companies get privileges necessary to surmount the difficulties of the peculiar land tenure of England; the Prussian *Landschaften* (which are mutual societies) were intended to support the aristocratic landholders who were ruined by wars; the Hungarian *Boden Credit Anstalt* (also mutual, without dividends, and with only a small foundation capital on fixed interest) would have, without its privileges, immense difficulties in taxation and procedure; the *Crédit Foncier* of France, the only instance where an association of lenders is considerably privileged, is not only a quasi-Government institution, superintended, at all events, by officers appointed by Government, but requires a special procedure to obviate the otherwise insuperable difficulties arising, in the case of a central institution, from the civil law of the country. In other cases the banks, *e.g.*, in Austria, are granted privileges, because they are connected with Government finance, or, as in the case of the *Rentenbanken*, so often quoted, were started by Government as political necessities, to enable the peasants to pay off by small annuities the commuted value of ancient feudal disabilities and charges which had prevented them from being free men in actual fact. No Government has yet ventured to grant special privileges to ordinary independent joint stock banks merely to deal with peasant indebtedness, which is at least as severe in Europe as in India, and probably far severer. Similarly, the stamp duties on commercial paper that are removed or alleviated by French and Italian privilege, are often not met with, or, even when reduced, are still higher than similar duties, in India; *e.g.*, the *privileged* stamp duties on the debentures of the *Crédit Foncier* are far higher than the corresponding Indian stamp duties. There is no succession duty as a general rule in India; the Indian income tax is far less wide in its grasp than in Europe, while its weight of incidence is trifling as compared, for instance, with the corresponding Italian tax (13.60 per cent. and now (1894) to be increased) on "*la ricchezza mobile*" or the Austro-Hungarian tax (5 per cent.) on earnings. The expensive and circuitous methods of the ordinary civil law, as distinguished from the procedure under the commercial law, are nowhere more trying than in Europe; those countries which are under the Code Napoleon and its copies, or draw their jurisprudence from the Roman law, are burdened with "*hypothèques*" which render organized (company) land credit impossible without a special form of "*purge*"; it is actually impossible in some countries to advance money on movables "*sans déplacement*," for the law does not recognize pledge without actual delivery of the goods pledged, so that it is impossible to lend on gathered crops in the barn or on the stock of the farm; in France and some other countries every registered mortgage deed has to be registered afresh every ten years, so that the land and some other banks have to be given a special privileged freedom from this decennial registration, which, of course, does not exist in India.

Hence, in considering the claims for privileges, it is necessary to discriminate very carefully the classes of bank to which privileges may be granted, and the exact necessity for such privileges. In the present section, only those privileges which require legislation will be dealt with.

Nevertheless, as will have been seen, every class of bank dealing with the special subjects of this study has, with one great exception, been granted privileges of some sort or other. The exception is the co-operative loan societies, the German law for which (1889) is full of careful regulations—in themselves a privilege, as tending to compel sound business—but contains no actual privilege. These

are the most successful loan societies in the world, and the absence of any privilege is noteworthy; their history, a history of public-spirited self-devotion, of far-sighted and prudent foundation and management, of steady perseverance, of growth carefully fostered by reformers of action and of business capacity, explains this fact; privileges are of far less importance in matters of local effort than public spirit displayed in action, than faith in one's self, in one's ideas and in one's fellows.

The privileges granted have been occasionally, but very rarely, financial in the shape of an endowment, permanent or temporary, and usually small; a guarantee (very rare) and the use of the Government treasuries for the deposit of funds (equally rare); they are generally fiscal or legal; and will be found mentioned in detail under the several classes of bank or society. The financial privileges need no legislation, but merely an order of Government; fiscal and legal will now be mentioned.

Fiscal.—The Indian Companies' Act requires registration of the company, fees being chargeable on a sliding scale. For a company with a capital of only Rs. 20,000, the charge is Rs. 40 or 0.2 per cent., if Rs. 50,000, Rs. 100; this is a very heavy initial charge upon a small company; the English Act charges only £1 per thousand or 0.1 per cent. up to £5,000. In the United States of America there is in some States, *e.g.*, Pennsylvania, a charge of 0.25 per cent. on the capital of every company, but in the case of co-operative banks, which is the name very properly given to Building societies in another State, *viz.*, Massachusetts, this charge is expressly waived. In the case of the Friendly and Co-operative societies of England, registration is free, and there is a charge of only £1 in the case of Building societies, and £1-1-0 for loan societies and Savings banks. On the other hand there are charges payable on various occasions, such as on applications for inspections, on awards in disputes and for dissolution, &c., for which see another appendix. It is suggested that in the case of all mutual, co-operative and provident societies including Savings banks (as defined in the section on Savings banks) a single fee of (say) Rs. 10 shall be levied irrespective of capital, while for all miscellaneous registrations, acts and duties of the registrar, Government should be empowered to lay down the necessary scale of fees or to remit such fees.

The stamp duties on the memorandum and articles of association are, respectively, Rs. 15 and Rs. 25. The Italian Code following the English laws regarding Building societies, exempts the above from all stamp and registration charges in the case of co-operative societies. The stamp duty may be remitted in the case of co-operative and agricultural societies and Savings banks.

The old Building Societies' Act of 1836 exempted all mortgages from stamp duty; this was amended in 1871 by an Act exempting only mortgages by members of the society, and for sums not exceeding £500. There is no such exemption for Building societies incorporated under the Act of 1874, which are much the most numerous and important. In this class of society, mortgages are however all discharged without reconveyance by simple endorsement on the original bond. It would seem advisable for the encouragement of these mutual and co-operative societies to reduce the stamp duty on mortgages executed to them by their members only, *e.g.*, by entire exemption for documents up to Rs. 20, and by a reduced and uniform rate of 4 annas per 100 rupees, instead of 8 annas as at present. Releases should be universally and necessarily made by endorsement on the original bond with a receipt stamp of 1 anna, and should be registrable at reduced fees.

In Europe the land mortgage debentures of the various land credit banks are specially chargeable with a reduced stamp duty. In France the personal (nominatif) debentures of the Crédit Foncier pay a stamp duty of 0.05 per cent. annually, and a transfer duty of 0.5 per cent. on actual transfer, while debentures to bearer pay 0.2 per cent. also annually but without any transfer duty. It will be remembered that these are "privileged rates" as compared with those of ordinary debentures. In England debentures are charged at 0.125 per cent. if personal with a duty of 0.5 per cent. when transferred, and 0.5 without transfer duties if to bearer. If the debenture becomes in India, as elsewhere, the chief method of financing land and even agricultural credit banks, the stamp income from this wholly new class of documents on perhaps crores of rupees per annum, will be very considerable: at 8 annas per Rs. 100, the duty on a crore would be Rs. 50,000. All mortgage debentures in India pay 0.5 per cent. on issue; the same at transfer, not however exceeding Rs. 5. If these debentures are to be popularized, a consolidated rate on issue paid by impressed sheets or by composition with Government, and a transfer by simple endorsement on a one-anna adhesive label if of Rs. 20 or upwards, would seem a suitable arrangement; it is very important to simplify and cheapen transfer if the documents are to be readily marketable. Transfers by endorsement might even be free of duty as in the case of similar transfers of bills of exchange or promissory notes. It does not seem advisable to lower the percentage rate of stamp duty on issue, since it is proposed to abolish transfer duties; in fact a 1 per cent. rate without any charge at transfer would seem not undesirable on all land mortgage debentures, since the State will have to bear considerable charges in the matter of supervision, and since they will be exempted from registration; even at this rate they will be immensely favoured compared with even the Crédit Foncier debentures; *e.g.*, the French debenture to bearer pays during its average life of (say) thirty years not less than $0.2 \times 30 = 6$ per cent. as transfer duty alone.

These debentures do not seem to be exempted from registration by clause "ff" of section 17 of the Registration Act. That relates only to debentures of the ordinary English commercial type secured by or based on a registered instrument by which a company has conveyed its property or an interest therein to trustees for the benefit of the holders of the debentures. The mortgage debentures known as "obligations foncières" are those proposed in this study; these are secured by a charge on the whole mass of securities, capital, &c., held by the company, and are issued on the credit of the company, special precautions being taken by Government that the debentures are more than covered at any given time by the existing mass of securities; the place of the trustees is taken by the Government officers who supervise the issue of the debentures, *e.g.*, the governor appointed by the State in the Crédit Foncier, or the Government commissioner in the German, Austrian and other land banks. The English Land Mortgage Acts are similar, the land registrar there taking the place of the trustees. It is important to free these securities from the formality of registration; issued as they will be by a society, and under strict supervision, the chief reasons for registration are absent, while it seems practically impossible to register documents of only a few rupees in value issued at irregular intervals, except at an inadvisable and prohibitory cost in time, money and trouble. The function of the

registrar in attesting the genuineness of a document can be served by issuing impressed and printed sheets of a peculiar character and with a special water mark; the issue registers of the society would attest the nature, value, &c., of the debenture in case of dispute, or they might be detached from a counterfoil; the value of each debenture might be expressed upon it as in a Government promissory note.

The above clause of the Registration law should now be enlarged to include land mortgage debentures of this class by words as follows: "or any land-mortgage or agricultural debentures issued by any company empowered to issue such debentures under any law expressly providing for such debentures; or, &c." The word "agricultural" is here used to cover the case of debentures similar to the "cartelle agrarie" or "buoni di tesoro dell' agricoltura" of Italy; see the general section on 'Debentures.'

There are various petty exemptions from stamp duty in the English Friendly, Co-operative and Loan Societies' Acts, but it is not proposed to grant these, as they are not of great importance. It is right, however, to mention that the English loan societies under the Act of 1840 are exempted from stamp duty as regards the notes of hand, receipts, drafts, or any instrument "whatever" required to be made under the Act or the rules of a society. The Irish Act of 1843 is more explicit still, expressly exempting all debentures issued by a society as well as all other instruments or documents whatsoever. It is to be recollected that the societies contemplated by these Acts were "charitable" or friendly; the English Act, however, does not so limit the societies in words, and the result has been unfortunate in letting in groups of usurers to the benefits of the Act. These exemptions should only be allowed where a charitable loan society is found to be a necessity by the controlling authority, which in Ireland is the 'Loan fund board' established by Government; in this country it would be the commissioner elsewhere mentioned.

The exemption in 15 (A) of schedule II of the Stamp Act, appears to provide the necessary exemption for entries in the deposit pass-books of loan societies and Savings banks.

Income Tax.—Any exemption from income tax, if granted at all, should apply only to mutual or provident societies, including of course Savings banks. There is neither precedent nor reason for exempting, as has been demanded, ordinary business companies trading for profit from contributing to the revenue simply because they may produce a secondary benefit to their *clients* in supplying a credit cheaper and possibly less dangerous than the credit supplied by money-lenders; railway companies are not exempted because they supply cheaper, better and possibly safer communication than the bullock cart which they replace, and because they develop a much needed trade and enormously raise the values of agricultural land.

There seems, however, no necessity to exempt any class of credit societies from income tax in this country; the tax is very light and some charge must be made for the cost of the supervision which is proposed, and which, in every other country, is paid for in addition to taxes far more serious than the corresponding taxes—if such exist at all—in this country. Moreover it is clear that mutual credit societies such as the popular and co-operative banks of every description, have it in their power to reduce their income tax to a minimum by simply reducing the rate of interest paid by borrowers whenever profits begin to be appreciable; this indeed is one of their chief objects, viz., the supply of cheap credit, and a co-operative society which has large profits deserves to pay an income tax, since it is, *ex hypothesi*, failing in its object, and is clearly exploiting borrowers for the sake of investors, or is tending to the position of an ordinary trading company; when an income tax of any serious amount is leviable it is a sign that the cost of credit should be reduced as soon as a sufficient reserve has been accumulated. Exemption from income tax would also tend to an abuse of the name and idea of co-operation; small partnerships of money-lenders or capitalists would unite under the name of a co-operative loan society, in order to avoid the tax. The only classes of society in other countries which are exempt from income tax are those Friendly societies in England which assure annuities of less than £30, and co-operative societies so long as they do not sell to non-members, and the number of shares is unlimited. There are also the two Hungarian mutual societies which are exempted from the "Tax on earnings," a tax twice as heavy as the Indian income tax, and one which runs into many thousands of pounds for a single institution. The European co-operative and popular banks, and even Savings banks (Italy), are subject to the taxes which correspond to or take the place of the income tax. All joint stock banks and even the German *Landschaften* are equally liable to this tax. In the United States a recent (1893) Bill has introduced an income tax and has applied it to co-operative banks; the final result is not known.

An indirect reason, moreover, why the income tax should be retained is, that the Collector of the district is, by the Act, required to assess all companies; he thus has an opportunity to examine very closely and personally the balance sheet of each society, and the items that compose it together with any necessary accounts (sections 11 and 12). Though the results of income tax examinations are confidential, the balance sheets of companies are not, so that though a Collector might not be justified, except in the case of detected frauds, in taking any action on the information gained from the accounts, his actual inspection of the balance sheet would give him much useful insight into the position of the banks, while the knowledge that the Collector must himself make the examination and might require the accounts would be a useful deterrent.

Legal—Registration of Documents.—This subject is dealt with in a special chapter (*q.v.*). But it is suggested here that registration charges might be made less onerous as regards documents issuing in the transactions of mutual banking societies, especially in those of small value; releases should certainly be registered at the lowest possible rate in order to encourage their registration, so that encumbrances not in existence might not apparently burden a property.

Other Privileges.—In the Trustee Savings Bank Act there is a peculiar privilege worth considering for similar banks in this country, viz., that if any officer entrusted with money or goods of the bank dies, or becomes bankrupt or insolvent, or has any execution, or attachment or process issued against any of his property whether movable or immovable, his executors, assignees or creditors or the sheriff or other officer executing the process shall be bound, within forty days after demand made by two trustees of the bank, to pay over all monies or other goods belonging to the bank, or any monies due to the bank received by such person in virtue of his office, before any other of his debts is satisfied,

or before the money due upon the execution or process is paid over to the creditor. This privilege makes the Savings bank a first creditor for all such dues even against a prior Court decree. It may be compared with the provision for similar banks in New York; in that State, Savings banks may place 10 per cent. of their deposits in accounts current with ordinary banks, provided that such 10 per cent. does not exceed 25 per cent. of the capital and reserve of the receiving bank; should such receiving bank become bankrupt, the Savings banks are treated by law as preferential creditors to the full amount of their deposits.

Savings banks,—*i.e.*, banks of petty deposit with a limited maximum, in which the trustees and managers obtain no profit from the use of the funds, though possibly they may receive a fixed honorarium, and though the Savings bank may have a guarantee capital bearing a *fixed* interest—and also genuinely mutual co-operative banks, might in this country be granted a similar preferential lien upon the property of their debtors by way of trust or deposit as distinguished from their ordinary *clients* of borrowers: such privilege to be granted by express order of Government in each case upon due proof that the institution falls within the definition of a Savings bank proper or of a mutual co-operative bank.

A notable privilege is that given in certain European (Continental) countries to the debentures of land banks, *viz.*, their freedom from liability to legal attachment. The Italian law of 1885, section 19, says distinctly "the land debentures (*cartelle fondiaria*) and the interest thereon are not attachable (*non sono sequestrabili*)." Similarly in France, section 18 of the law of 1852 regulating the *Crédit Foncier* enacts that no opposition (even it would seem by order of Court) can be made to the payment to the holder of a debenture of either its interest or principal; it is in this sense, "*insaisissable*"; the society is bound to pay the holder notwithstanding any opposition, except in the case of loss or theft of the debenture, and then only it would seem if notice of the loss, &c., has been given to the society. It is obvious that, with this privilege, the debentures are likely to bear a high market price, and this is in fact the case.

The above privilege is not unique; a similar one is granted to shares in co-operative (mutual) banks in the United States. The law of New York provides that "all accumulations upon shares in said association held by any person shall be exempt from execution and proceedings supplementary thereto to the amount of 600 dollars," *i.e.*, no Court decree can be executed upon such shares except as regards any excess above 600 dollars (£120). This principle is one generally recognized in the United States, and is especially visible in the Homestead law; *viz.*, that no person shall be so stripped either of movables or immovables, even by the action of the Courts, that he shall be a destitute outcast, without hope of a fresh start, without a roof to shelter him and with the prospect only of State relief as a pauper, or of casual work as a day labourer. It does not appear however that this exception extends to demands for Government taxes; it is an exemption from Court decrees for debt.

In the case of Savings and co-operative banks there is an additional reason for legalizing some such exemption as in the American co-operative banks, especially in an undeveloped country such as India, *viz.*, the encouragement of deposits and shareholding in such banks. If it were a provision of law that savings either in the shape of deposits or shares in these particular classes of banks up to the amount of (say) Rs. 100 or even Rs. 200 were exempt from attachment for debt by decrees of Court, there would be an immediate flow of funds to them which would go far to solve the financial difficulties attending small and rural credit banks, while the habits of fruitful thrift, of confidence in the deposit of funds with banks instead of in the house wall, and of local administration, would receive a vast development. It is for consideration whether this exemption may not now be added to section 266 of the Civil Procedure Code.

Transmission of shares and deposits.—The expected societies, even of the co-operative types, will possess a capital divided into shares, and will receive deposits; to these shares and deposits there will be numerous claimants by succession, and much litigation, or at least much cost to heirs in establishing their claims, will be the result; for, as the law stands, the societies must, for self-protection, decline to transfer shares or pay over deposits except to persons producing a certificate of heirship or an order of Court, at all events where any dispute or rival claim exists or is probable. The Indian Companies' Act has no provisions regarding transmissions, and schedule A, article 12, merely provides that only executors or administrators of a deceased member shall be recognized by the company; in other words, heirs must take out probate or letters of administration if they desire to succeed to the deceased's property. Now societies, especially of the several benefit and co-operative classes, are necessarily comprised of a great number of poor members and depositors; it is impossible for such people to execute wills or to go through the legal formalities attending succession. Hence the English law has provided admirable rules for "Provident nominations" treated as testaments, and for "small intestacies;" the Friendly Societies' Act (1875) and the Industrial and Provident (Co-operative) Societies' Act (1876 now 1893), the Trades Union Act, as amended by the 'Provident nominations' and small intestacies' Act (1883) and the Loan Societies' Acts of England and Ireland (1840 and 1843), in a smaller degree, provide that adult members (above 16 years of age) may nominate persons to whom their shares or deposits may be transferred at their decease, provided the amount at credit or payable does not exceed £100; such nomination is always revocable or variable during life, and must be entered in a special register. At decease the society must pay the amount or transfer the shares or their value to the nominee. In case of members, entitled to an interest not exceeding £100, dying intestate, the managing committee must decide upon the person entitled by law to receive the amount, and shall then pay such person without requiring letters of administration. All such payments are valid and effectual against any demand made upon the society, or upon the committee, but shall not bar any claimant from his remedy at law against the person who may have received the money. No stamp duties or fees are leviable in any case.

Similar powers of nomination and distribution of intestate assets are granted in the case of depositors in Savings banks. In the case of Building societies the amount is only £50, and no power of nomination is granted to members or depositors, but only the power of distribution of assets by directors in case of intestacy.

The provisions of the several laws will be found in another appendix; similar provisions should be made for the case of members and depositors in Indian benefit and co-operative societies and

Savings banks, the limit being fixed at Rs. 500 or less; precautions would be required for the registration of such nominations in a register to be kept and attested by the directors; no stamp duties should be required.

Privileges in securing Loans.—Promoters of proposed banks claim various privileges not provided by the ordinary law for the safety of loans secured by mortgages; these may be discussed as follows: (a) the grant of priority to the bank's claims; (b) the "purge," a postponement of claims not brought to the bank's notice where priority is not grantable *de jure*; (c) provision for declaring loans to be binding on co-sharers; (d) modification of the Revenue law of sale of land for arrears free of encumbrances; (e) alteration of section 66 of the Transfer of Property Act; (f) changes in the law of registration; this last will be separately discussed (*see* 'Registration').

(a) *Priority of the Bank's claims.*—As already remarked, a bank is not necessarily a panacea for the ryots' credit difficulties; it is a mistake to suppose that credit will become an instant blessing, merely because it is organized. Facile credit, incurious of the use to which the loan is put, may be only a curse leading the ryot into greater extravagance, just as greater security of tenure and increased land values may easily lead the ignorant into heavier indebtedness; hence to give a bank this extraordinary privilege merely because it is a bank, would be a grave error. The claim amounts to this, that when A, a private lender, has advanced, say Rs. 75 upon land worth Rs. 100, the borrower would be able to go to a bank and borrow Rs. 75 more, which the bank could safely lend because its loan would take precedence of A's loan; consequently the value of A's loan would be reduced practically to nothing. No such injustice could be allowed, a foolish injustice, moreover, for private lenders would, as a mere precaution, raise their terms, and as banks cannot hope to supply ryots fully for scores of years, the condition of the ryot and the cost of credit would be far worse than now, just as the Prussian land-owners were the more miserably burdened by Frederick the Great's attempt to relieve them through an arbitrary edict suspending for three years the payment of interest on land debts. Probably the private lenders would combine into so-called "banks" which would possess the greed and hardness of the individual lender without his elasticity, personal qualities and fears.

The demand would not be noticed had it not been expressly put forward in this presidency (Papers in G.O., No. 1324, Revenue, dated 1st December 1884), while answers to questions put for the purpose of this report have contained a similar demand. The demand is "that the advance made on the security of lands by this bank should have priority over other encumbrances except that of Government dues." The claim here is simply that the bank should forcibly be made first mortgagee without any regard to prior mortgages, and without paying off such claims. The fact is that the promoters have not understood that mere loans "on the security of lands" have no special title to precedence, while loans made "for the improvement of lands" have, for the reason, that in the latter case the security for the prior loans is positively increased by the improvement loan, and this security increases as the improvement loan is paid off. Accordingly it is found that the laws of all countries grant priority, even over prior mortgages, to loans granted solely for and actually laid out upon an improvement, and to no others. To land improvement banks only, or to such loans of other banks as are *bond fide* laid out on land improvement, could such privilege be given, and as it would be impossible to distinguish land improvement loans by an ordinary bank from its other loans, it follows that priority *de jure* can only be given to the loans of mere land improvement banks. For the grant of this privilege, *see* 'Land improvement banks.'

(b) *The "Purge."*—This convenient French term expresses the mode by which a person acquiring immovable property, ascertains and, if desired, gets rid of prior encumbrances or privileges subsisting on the property. Under the Civil Code the purge has two results; a purchaser or acquirer—for the power is not given to mere mortgagees—can free his property from all "hypothèques" (charges, liens, privileges, &c.), which burden it, and can also bring to light all unknown charges which might subject him to loss. The former result is obtained, by paying off, after due notice, all registered claims up to the amount of the price to be paid by him for the property which is then freed from all such encumbrances; for the purge of unregistered claims notice is given to register, failing which within a given date, the property is absolutely freed from all such claims.

As regards land Credit societies, however, which, in France, is the Crédit Foncier alone, it is simply the means by which the society, as mortgagee, assures itself of the security of its particular mortgage over all those liens or rights which are called "hypothèques légales."

As regards the bulk of ordinary "hypothèques" an examination of the deeds and a search of Registration office registers is sufficient; most "hypothèques" must now be registered, and full publicity is a mere question of indexing (*see* 'Registration') or of a proper livre foncier or land register. But it is not obligatory to register what are called "hypothèques légales," *i.e.*, charges arising out of the law, *e.g.*, the claims of wives, minors, and incapables, and the society is obliged to use the "purge" to protect itself against these, and since the ordinary method of the Civil Code is very lengthy and costly, a special method has been granted by the special law which established these land credit societies. When the claims are known, a notice is issued to the wife or to the guardian of the minor, &c., to register their claims within fifteen days, failing which such claims will only take rank *after* the mortgage of the society; if they are unknown, a notice is sent to the public pleader, and is published in the local newspapers in which judicial notices are inserted; all claims not registered within forty days yield in rank to the society's mortgage. It must be understood that such claims are not extinguished by the special "purge" of the crédit foncier, but merely postponed to that of the bank. It will be seen that there are two classes of "purge"; one absolute in which the acquirer of property gets rid for ever of all opposing claims, the other temporary by which a particular society obtains priority for its mortgages; the former corresponds to the purge established by Acts such as the Jhansi Encumbered Estates Act, or to the "liquidation" proposed by a Poona syndicate as the necessary preliminary to the establishment of a bank, the other to the proposal of an intended bank in this presidency which desired power to give notice to claimants, known or unknown, and to obtain priority for its claims as against all claims unregistered within the term of the notice.

In this presidency the "purge" is unnecessary for the ascertainment of prior mortgages; all such are in practice, registered, and can therefore be ascertained (*see* 'Registration'), while section

91 of the Transfer of Property Act gives a bank which has obtained an interest in a property, the right to redeem any prior mortgages, even before the expiry of their term unless the deeds of such mortgages expressly stipulate a date before which payment may not be tendered. Such at least appear to be the rulings of the Madras High Court (I.L.R., 2 Madras, 314), and if there is any doubt, it is advisable in the interests of credit, that mortgagors or others having any interest under section 91 of the Transfer of Property Act should, in the absence of an express contract to the contrary, be distinctly given by law the power of redeeming at any time on proper notice. Assuming this to be already the law, it follows that the bank can always redeem existing mortgages and thus obtain the only proper position for a bank, viz., that of first mortgagee.

The "purge" therefore, if needed, is only for enabling a bank to ascertain those indefinite and vague claims arising out of the Hindu family system, and to obtain priority over them. In long term loans of perhaps thirty years' duration, it may easily become the interest of dayâthis, or perhaps of the mortgagors themselves acting through dayâthis, to set up claims as co-sharers, minors, &c.; it is indeed precisely this uncertainty which debar extraneous capital from venturing into rural credit; one large mofussil Nidhi has expressly stated that it does not invest in rural mortgages, because of the uncertainty of title, while the claims set up against *bond fide* purchasers in the mofussil for years after purchase, are well known. The local money-lender has here the advantage that he knows the family either directly or through his other debtors in the village who are probably the monigar or kurnam, and he discounts any risk by heavy interest, much of which is really insurance.

Where banks are really local credit societies as advocated, they will have precisely the advantage of the money-lender, viz., local knowledge, with the additional advantages that their sources of information will be still wider, gratuitous, and even interested, since all will be members of the same society. But in cases where banks cover a larger area, say a taluk, they require a counterbalance if they are ever to compete with, much more supplant the money-lender, and this is found in the "purge." The bank would demand a complete statement from the intending borrower of his own interest in the land, and of all known co-sharers, encumbrancers or holders of privileges over it, with a certificate that his statement is true; a false statement would bring him under the Penal Code for cheating or attempt at cheating. Notice would then be sent to the village where the land is situated, tom-tomed and affixed at the village chavadi, and made known by any other advisable method such as advertisement in the District Gazette. Failing objection, which should be made to the bank and which should be registered by the objector under section 17 (b) (an instrument declaring a right in immovable property) of the Registration Act, the bank should be considered as having, for its own mortgage merely, an indefeasible prior right as against all persons claiming an interest or title in the property otherwise than by instrument registered previous to its own mortgage; in other words, it would obtain priority for its own mortgage during the subsistence of such mortgage. Should this be considered advisable it will be necessary to legislate to that end.

(c) *Provision for declaring loans binding on co-sharers.*—The difficulty regarding co-sharers is universally felt, and it is a rule that the consent of all co-proprietors must be obtained before the loan is granted. That is a standing difficulty in this country, where the claims of sharers are so important; in the absence of the "purge" above noted, some desire that loans should be declared binding on the families of borrowers. Loans for family purposes are already treated as binding on the whole family, when contracted by the managing member. It is not advisable to go further and declare that all loans taken from a bank are binding on the family simply because the loan is taken from a bank. If the loan is for improvements, necessary maintenance, &c., the loan will, in any case, be binding; if it is not for such purposes, it ought not to be binding, for this would at once tend to an extravagant abuse of credit. But it may be well to declare by statute that loans taken for improvements from a bank are to be binding on the family without resort to the "purge," the word improvements being defined for that purpose only, much as in the Land Improvement Acts whether of western countries or of India and to include the redemption of prior family debts, charges for maintenance and education, and for the due working of the estate. So far indeed as loans for actual and permanent land improvements are concerned, such as wells, &c., they should be charged upon the land as under the special well rules of this presidency, and not upon the individual, in which case all formalities, doubts, and difficulties will be got rid of. (*See 'Land Improvement Banks.'*)

(d) *Modification of the Revenue Law of sale of land free of encumbrances.*—This law, as contained in section 42 of Act II of 1864, is a stumbling block in the way of credit and of bankers; on this account some mofussil Nidhis either refuse mortgage loans altogether, or grant them with great caution; it is obvious that if a mortgage is to be wiped out by the mere fact that the land has been sold for Government dues without specific notice to the mortgagee, the risk of total loss of the amount lent is very considerable and must result either in a refusal to lend or in a high insurance premium; as stated in G.O., No. 1324, Revenue, dated 1st October 1884, "notwithstanding the stringent provisions as to the publication of notices of revenue sales under Act II of 1864, it sometimes happens that parties interested know nothing of what is going on, and lose their rights in consequence." That is a very serious fact not merely for the losers but for the public; insurance rates, not based on actuarially accepted data, are based not so much on actual loss, as on the fear of loss and on the excuse of risk of loss. That that fear is really great is shown by the fact that one mofussil Nidhi with a capital of several lakhs, and more than a thousand members, excludes, by its articles, loans on the mortgage of lands, the reason, as stated by the secretary, being the dangers of the Revenue law to a society which has ramifications into several taluks distant from its head-quarters.

It is unlikely that this law will immediately be altered, though it is arguable whether the provision is any longer necessary now that land has a good sale value, at least that part of it which is worth attaching and selling for arrears.

The question, however, is whether land subject to a bank mortgage can be excepted from the rule; if not, what precaution should be adopted to save the bank.

In the case of advances made for land improvement it seems advisable to enter a saving clause in favour of the loan. The advance is made solely to improve the land; the capital advanced is sunk in it, and is a plus-value given to the land beyond that value on which the revenue was fixed, and as the

bank mortgage is, *as hypothesis*, only the value of the amount advanced, even at its maximum, while, under the system of payment by annuities, it is a constantly decreasing charge, there must be an ample margin for securing the Government dues in arrear, which are now at most those of a single year. Hence the charge should be adherent to the land, which should be sold subject to such encumbrance, which, from the fact of the bank holding it as a first charge, will probably be, during such mortgage, the only encumbrance. As a matter of fact the provision will be more preventive than practised; a person who has improved his land will not let it be sold for petty arrears, but the provision will prevent collusive arrears and sales to the prejudice of the bank, whether by the owner or by a tenant who covets the land.

The word "improvement" should also be enlarged to cover the planting of permanent orchards.

In the case of ordinary loans for general purposes secured by a mortgage, there appears no special necessity beyond that common to loans from any source; if the section is repealed for all, well and good; if not, there seems no special reason to favour ordinary loans by ordinary banks as against those by private lenders. Nor does there appear any grave necessity for any special rule of law to secure banks against sales without their knowledge; section 27 requires that notice of attachment, which is the necessary first preliminary of sale, shall be published in the District Gazette as well as in other ways, while section 35 provides that the subsequent sale notice shall be fixed up at least one month before such sale at the Collector's office, at the Taluk cutcherry, at the nearest Police station, and on the land; hence a bank can perfectly protect itself with but ordinary diligence, viz., by subscribing for the District Gazette and by sending an agent periodically to examine the notice boards at the offices. It should, however, be made an administrative rule that both attachment and sale notices should be affixed at the village *chavad* which now exists, or will shortly exist, in every decent village; that a copy of the gazetted attachment notice under section 27 should be affixed on the Collector's and Taluk notice boards, and that such notice boards should be hung up *outside* the door of the offices in a conspicuous place, so as to be legible by and known to all and open to copy without entering the office.

It would be well to add a proviso to section 35 of the Revenue Recovery Act, that sums paid as arrears of revenue by any bank on account of the default of its mortgagor should be recoverable by the bank in any way that its principal debt might be recoverable, while the law relating to the bank should provide that, on the failure of the defaulter to repay such arrears within one year, the bank should be at liberty to call in the mortgage and require immediate payment of the balance of its debt.

(e) *Alteration of section 66 of Transfer of Property Act.*—This section is as follows:—

"A mortgagor in possession of the mortgaged property is not liable to the mortgagee for allowing the property to deteriorate; but he must not commit any act which is destructive or permanently injurious thereto, if the security is insufficient or will be rendered insufficient by such Act.

"*Explanation.*—A security is insufficient within the meaning of this section unless the value of the mortgaged property exceeds by one-third, or, if consisting of buildings, exceeds by one-half, the amount for the time being due on the mortgage."

This section increases the difficulty of granting long term credit, except where the loan is repaid by annuities. In this latter case the security increases as the loan is paid off, so that deterioration is of less moment than when the full amount is repaid only on the expiry of a term; but when the mortgage is granted for a long term, and the mortgagor is not obliged to pay the amount before the end of that term, deterioration is a matter of extreme importance, as the mortgagee may see his whole security vanish. A piece of land is the security for a loan which is spent in liming it, in digging a well, or in draining it; perhaps the security is a coffee estate in bearing; the loan is for twenty years. The lime is used and heavy crops taken out of the land, but no proper manure is added; the soil is hopelessly exhausted and the mortgagee loses his money. The well is dug or the land drained, but the well goes out of repair and falls in, or the drains become choked and useless; the coffee is forced into exhaustive bearing or utterly neglected, and is abandoned at the end of twenty years. It is unlikely that any Court would say that any of these acts or omissions are acts destructive of and permanently injurious to the land; liming is a well-known and legitimate agricultural operation, and the omission to supply a feeding manure would not be construed as an "injurious" act or omission; the well or the drains were made and the omission to keep them in order is not an act of destruction or injury; as for the coffee a man has a right to get as good crops as he can out of the land, and if it is neglected, why the law expressly provides that the mortgagor is not liable for merely allowing deterioration. Section 68 does not cure the difficulty, for clause "b" allowing a right to sue for the mortgage money in case of 'default' by the mortgagor must be read with section 66, by which it is clear that the mere allowing an estate to deteriorate is not a "default," while the final paragraph of section 68 expressly refers to causes "other than the wrongful act or default of the mortgagor."

It is difficult clearly to understand the general European law, but "deterioration" allowed to a mortgaged property seems to give rise to an action for damages; section 2175 of the French Civil Code (similarly in Italy) says that third parties holding mortgaged property are liable to an action for damages for deterioration arising from their negligence to the prejudice of mortgagees, and this seems the case as regards mortgagors themselves. In the case of the Credit Foncier, section 32 of the special law makes "deterioration of the property" a lawful reason for at once selling up the mortgagor, while in every German land bank, deterioration, or even bad management tending to deterioration or to the diminution of the bank's security justifies, after neglect of a notice, the immediate calling in of the loan or the taking of the estate under management. In the various Land Improvements Acts of Great Britain, every owner, who has borrowed money for improvements and thereby given rise to a rent charge for its repayment, is bound, during the term of such rent charge, to keep all the improvements in thorough order, and if necessary to insure any buildings against fire, and is further bound to send to the inclosure commissioners an annual certificate to the above effect; in default he is liable to an action for waste.

In the law required for Land banks, it should be provided that, during the subsistence of the mortgage, whether such mortgage is redeemable by annuities or at the end of a term, the property mortgaged shall be treated by the mortgagor "*en bon père de famille*," as a good husbandman or house-

holder, or as provided in section 108 (c) of the Transfer of Property Act in the matter of lessees; failing such care, he should be liable to immediate repayment of the full amount due.

If it is not considered desirable to alter the law, all land banks should protect themselves by an express provision in the mortgage deed that the property should be maintained in a full state of efficiency, and that all improvements effected by the loan should be maintained in thorough order, failing which the loan should be repayable on demand.

Procedure.—The question of privileged procedure in the recovery of debts by credit banks is one of the utmost difficulty and importance. Given certain privileges of procedure, and banks would everywhere be started; whether such privileges should be granted is the question. Extensive privileges of procedure have been demanded by groups of Indian capitalists as a condition of starting land and agricultural banks, it being assumed by them as axiomatic that such banks will be the economic salvation of the ryot and that they should therefore be granted royal roads to success, i.e., to a large and unembarrassed or at least white-washed clientèle, and to large dividends. Appeal is made in support of these claims to the example of Land banks in Europe, but, as shown above, it is only to the mutual associations working without serious capital and without dividends, to Government institutions, to certain Italian banks and to the French Crédit Foncier, that certain such privileges are granted, and even these privileges are mere necessary ameliorations of a costly and complicated or even prohibitive general law, while the invariable corollary is a very considerable amount of State supervision as well as of State taxation. Moreover they are frequently not privileges at all in the present day when "summary" procedure is common, while the supposed special privilege, as in Austro-Hungary, of proceeding through the Commercial Courts is not special, but is common to all banks and business entities (commerçants) in commercial matters; nor is there anything in the mere procedure of those Courts which is more favourable to parties than that of the ordinary Small Cause Courts in India, except in their power, as regards special banks, to deal with land mortgages and to sell the mortgaged property.

The question however for this presidency is not whether in other countries privileged procedure has been granted by the law, but whether the available procedure does or does not grant all reasonable Court facilities for recovering loans.

Now in this presidency the facilities for the recovery of dues under Rs. 20 are exceptional, and for those under Rs. 50 very considerable; even for sums so large as Rs. 200 the procedure is unusually favourable; there are few countries in the world, whether Continental Europe, England or America, that approach the Madras Presidency in its actual, still less in its potential facilities for cheap, speedy, legal and popular methods of recovering small debts. In Italy the village conciliators are given power to issue decrees up to 100 lire (£4); in Madras a village debt of Rs. 20 can be recovered practically without cost, and in a few days. The Village Courts and the Small Cause Courts of the District Munsiffs are means available in this presidency, which will, for all practical purposes, meet the demands of Rural Credit banks.

Before discussing the Courts it is needful to recollect the class of debts that will form the immense mass of business. The mortgage debts are necessarily those which are, as a rule, highest in individual amount, more book debts and debts on personal security or on simple bonds other than those which it is thought worthwhile to register, being generally of small value. Now in the four years ending 1889-90, the average value of all mortgages, varying from one to about ten years in duration, was Rs. 182; those above Rs. 100 averaged Rs. 321, and those under Rs. 100 (about half the aggregate number of mortgages) averaged only Rs. 44. Hence the class of loans to be dealt with by rural banks and societies in this presidency will seldom rise above Rs. 500, and about half will be very largely below Rs. 100.

Now it has been pointed out that if these banks are to do useful work, the work they have begun to do in Europe, considerable loans must be for long periods, and *repayable by instalments*; small loans for temporary purposes may be for short terms and repayable in lump, but relatively large loans cannot be so dealt with in the interests either of the lender or of the borrower. This is an essential point in rural credit, and banks and organized credit will only succeed in their real mission in so far as this is recognized; in fact the loan funds of this presidency lend chiefly upon the "payment by instalment" principle, the period ranging from forty-five to eighty-four months, and the instalment being usually 1 or 2 rupees per month per hundred. Now one result is that large loans, say, for Rs. 100 to 500 will be granted by future banks for not less than from five to twenty or even thirty years, the instalments being annual or more frequent as may be arranged. Supposing the average loan to be Rs. 200 at 8 per cent. interest, repayable by amortization in ten years by half-yearly instalments; in such case each half-yearly instalment including sinking fund would be about Rs. 15, or, if paid similarly to the revenue kists (four) which would probably be acceptable to the agriculturist debtor, each instalment would be about Rs. 8 payable in (say) four consecutive months. Assuming the worst possible case, viz., non-payment of any part of the year's dues, it would follow that what would have to be recovered would be four successive payments of about Rs. 8, or two of about Rs. 15, each recoverable as soon as it fell in arrears.

Now the Village Courts of this presidency are empowered to try suits of simple debt or contract, or for balance of account up to Rs. 20, or with consent of parties up to Rs. 200; during the past twenty years they have tried more than a million registered suits besides an enormous number of unregistered, informally adjudicated or conciliated cases, the average value of which was about Rs. 9. Hence these Courts are already perfectly capable of dealing with the mass of small business likely to arise from the operation of rural banks, since a suit will lie separately for each instalment due, and each such instalment will probably be below Rs. 10 and certainly below Rs. 20. Not only so, but even large sums—up to Rs. 200—can be similarly dealt with by consent of parties.

So far as ordinary debts on simple bonds, promissory notes, book accounts, and the like are concerned, the Village Courts will have complete jurisdiction, for the total of many debts will be below Rs. 20, while a very large number will be repayable only by instalments usually much below that sum. As regards instalments on debts collaterally secured by mortgage (simple mortgages) there might be some doubt, since Village Courts are not empowered to deal with mortgages. It must, however, be remembered that the suits to be tried will not be suits upon a mortgage deed for the sale of the

mortgaged property which is the method open under the Transfer of Property Act, section 88, for simple mortgagees to recover their principal; they will simply be suits for the recovery of small sums of money which a debtor has contracted to pay periodically, and the fact that these payments contain, in addition to the interest, a small instalment of the principal money, will not make the suit a suit under section 88 for the sale of mortgaged property with a view to the recovery of a principal. The position of the parties is that of simple debtor and creditor in respect of each periodical instalment, and the mere fact that the debt is collaterally secured by a mortgage deed does not make the suit a suit upon the deed, but merely a suit for a sum of money. If this view, however, is wrong, then the Village Courts have no present jurisdiction as regards mortgage debts. But, considering that the plaintiffs will be societies and not persons, that the suits will *not*, in fact, be suits for the sale of mortgaged property, but essentially debt suits, and that the facts can never be in real dispute, it is advisable to enter in the law (I of 1889, section 13) that suits for the recovery of mere instalments of debt due to a bank, company, corporation or society shall be within the competence of a Village Court even though the principal debt be secured by a mortgage, but not so as to include suits for the recovery of the principal debt by sale of the mortgaged property. It should be remembered that, even in England, Land improvement societies can distrain summarily for arrears of instalments of loans which are secured by a mortgage or charge on the land; hence procedure by the Courts, even though only Village Courts, can hardly be considered objectionable.

It is noteworthy that these Courts take about one-quarter of the litigation of the whole presidency, and though the values be absolutely small, yet they are not so relatively to the fortunes of the parties who sue or are sued. Moreover it is to be noticed that in the decade ending 1889 the suits below Rs. 10 triable alike by Village Munsiffs and District Munsiffs, were actually tried by these Courts in the proportion, respectively, of 73 to 27, while since 1886, suits up to Rs. 20 similarly triable, were tried in the proportion of 60 to 40; 61 to 50 in 1893. "In ten years, out of 778,475 suits in which the plaintiffs had a choice of Courts, no less than 530,150 or 68 per cent., *i.e.*, two out of every three individuals, chose to sue in the Court of their Village Munsiff in preference to going to the Court of the "District Munsiff" (Mr. Evans' Report).

It may be objected that these Courts are untrustworthy or incompetent. The figures given above show beyond doubt that these Courts are largely resorted to by the people themselves, while, as a matter of fact, complaints against them are trifling and rare, and chiefly on the ground of irregularity, not of corruption. The figures for the past seventy-five years, but especially those since 1850, show a steady increase of work in these Courts; in 1850 the number tried was 10,960, the highest reached since 1816, from which date till 1883 the number filed steadily rose to 48,967; for the next three years there was an enormous increase, the suits numbering 85,600 in 1885; after that they fell for some years, but are now rapidly increasing; the figures for 1890, 1891 and 1892 are 59,113, 64,129 and 67,651 respectively. As a matter of fact ten persons now sue in the Village Courts for every one that did so fifty years ago. These suits were disposed of by about one-tenth of the whole number of Village Munsiffs, and almost entirely by the Village Munsiff sitting alone; the bulk of the litigation is in the Tamil districts. It is also known that about two-thirds of the suits were in thoroughly rural villages, doubtless of the more important class; a number absolutely large, but not unexpectedly so, were also tried in the towns. It is however in the towns (so-called) and chief villages that rural banks will first be started, and not in the smaller ones. For instance, in 1891, 3,062 Village Courts disposed of 58,073 suits; 88 of these Courts tried 21,219 suits, or 36.5 per cent. of the whole; 1,211 village munsiffs tried from 1 to 5 suits, and 1,066 tried from 6 to 25, and so on: 69 per cent. of the suits were heard but not contested, and 16.7 per cent. were disposed of without trial; only 14.3 per cent. were actually contested. As regards competence, much of the condemnation of these Courts, which is sometimes heard, is based on the fact that their work is done unobtrusively, and that it only comes to notice when complaints are made, so that officers, hearing only complaints, form a bad opinion from ignorance of the amount of real and satisfactory work which does not come to their notice. In 1887 a special report was made at the request of Government by the High Court; in this report it was expressly found by the High Court that the Village Munsiffs were not proved, as a rule, to be incompetent, while in the G.O., dated 10th October 1887, passed upon the report, a more positively favourable opinion was expressed by Government, who observed that for the decision of the business coming before the Village Courts, the qualities chiefly required were common sense, local knowledge and influence. Moreover it is to be noted that these Courts, though subject to no appeal, have been increasingly resorted to year by year, a fact in itself in favour of their competence. It is to be remembered in the first place that all the suits triable by a Village Court are of the simplest character, intelligible by men of ordinary understanding. Moreover in these suits there is seldom any real dispute of fact, and the law is of the simplest; above 85 per cent. are decided without contest. Again it can hardly be doubted that the increase in suits is partly due to the increased education of the Village Munsiff; this is annually improving, and it will soon be rare to find a Village Munsiff who is not conversant with the three R's, or who has not passed the Primary examination. Still further, the new Act (1889) is a most carefully drawn up and very valuable Act embodying not only the best features of the old regulation, but the experience of many years, as concentrated in the opinions of a powerful committee which sat in 1882, and on the lines of whose report the present Act was largely drawn by the Legislative Council after much further consultation and discussion. This Act gives considerable powers of supervision and revision to the District Munsiff, who can withdraw or transfer suits upon good cause shown by either party; the methods of procedure are also supervised by the High Court who prescribe the necessary forms and returns. Moreover, in villages specially notified from time to time, it is permissible to register a body of men capable of acting as assessors, and any party desiring it, can claim that his case be heard by a bench consisting of the Village Munsiff and two assessors, who will thus form a sort of "Conseil de Prud'hommes" for the disposal of local disputes. It is further to be noted that though the hereditary principle is rightly recognized, yet that a Village Munsiff may be removed for incompetence or negligence, and that as the post becomes daily of greater influence, men will have either to qualify themselves or their sons for the post, or give place to other men. Hence it is certain that the Village Courts even as at present constituted, are competent to deal with the great bulk of the work likely to come before them in connection with

the debts due to rural banks within the next ten years, by which time every village munsiff will most certainly be a comparatively educated man; also that in the course of a very few years these Courts will be very considerably developed in numbers and competence; in fact, the establishment of a local Credit or Co-operative society is in itself almost certain to develop the local Court.*

Now the advantage of these Courts is that they are local, and by that fact influential; the judge or the bench is necessarily composed of men of the village, and those generally the chief men; it is impossible for debtors, especially in bank or Mutual Loan society cases, to set up a false defence, and it is practically impossible for decree-debtors to resist the decree. At all events it is proved by the records of many years, by general experience and by special enquiries, that not only are complaints against these Courts an almost negligible quantity, but that decrees are seldom carried out by coercive process, such process, when resorted to, seldom, if ever, going beyond distraint. These facts speak volumes for the justice and influence of the village munsiffs and their decrees, and entirely negative the theoretic assumption that village faction either actuates the decrees or factions opposition to the village munsiff's authority. Complaints against village munsiffs for corruption, partiality or even negligence in their civil judicial capacity, are so rare that most magistrates, though the immediate superiors of the village officers, never receive a complaint of the sort throughout their official career, and very many are almost unaware of the vast mass of petty civil business, tried or conciliated, by these subordinate Courts, so quietly and successfully is it done.

In the case of Co-operative banks, moreover, it is found by experience that members seldom fall wilfully into arrears; they are ashamed of betraying their society and their neighbours, and are anxious to pay all they owe, especially when the institution grows in favour and the people experience its benefits. In this country this feeling is likely to be equally powerful, the more so that a villager who deceives his village society and causes loss to his neighbours is likely to be ostracised, and ostracism is the most dreaded of penalties. Hence the village judges, who will often be mere registrars of admitted and perfectly well-known debts, will have little trouble in making and executing their decrees.

But there are also the immense advantages of economy; there are no court fees, no process fees, no lawyers' charges, no batta and mileage to witnesses, no loss of time to parties in travelling to and from Courts—averaging in distance from 15 to 20 miles—and halting there. The decrees can be executed by the village munsiff on the spot, and as the parties all reside within the village and every thing is known or traceable, the attached property can safely be left with the decree-debtor till the time of sale—should such be necessary—, an advantage in every way. Even the disposal of the suits is speedier than even the small cause suits of District Munsiffs' Courts, thirty days being a fair average as ascertained from many years' statistics, a period capable, however, of considerable reduction.

Mr. Evans, in his report, considers it proved that justice is obtained not merely by the general honesty of the village judges, but by their greater opportunities, due to proximity, of ascertaining the truth; that they are economical not merely in costing little, but in gaining the whole value sued for, whereas in a regular Court even a successful decree is seldom completely satisfied, for much of the expense is of too indirect a character for any Court to allow it as costs, while many a debt is abandoned because of the prime cost and the chances of further loss; that they are accessible and prompt; that they prevent much of the ill-feeling engendered by recourse to the regular Courts, and frequently terminate amicably, and at all events with a minimum resort to trickery, false evidence, and eventual coercive process; that without them a vast number of wrongs would remain unredressed owing to the inconvenience and expense, incommensurate with the value of the suit, which would be caused by resort to the regular Courts; hence their popularity, and in fact necessity.

Exemption from court fees has been claimed by the promoters of proposed banks, on the ground that as court fees fall on the debtors, such relief is a relief to them and not to the bank. The plea is only partly correct; suits are not always successful, nor are decrees always satisfied in full, inclusive of all costs; a proportion of court fees may therefore fall on the bank, either rightly or wrongly. But the claim is practically satisfied by the existence and procedure of the Village Courts, in which court fees and even process fees are, speaking generally, unknown; so far as a bank chooses to sue in the local Court, so far is justice free of charge. Hence the claim of promoters to this privilege as one necessary condition of establishing a bank, need not be considered; either they can sue without incurring court fees or—according to their own statement—the cost of such fees falls on the debtor only. Nor does there seem any necessity for the privilege; to remove court fees would tend to throw a large body of the most petty work into the Courts of the district munsiffs, and would unnecessarily hinder the development of the Village Courts. The object should on the contrary be to relieve the already over-burdened district munsiffs of the work of disposing annually of about 50,000 petty suits which are concurrently cognizable by the Village Courts, and not to further burden them at the expense of Courts which are perfectly capable of dealing with this small work. Even suits between Rs. 20 and Rs. 50, a value likely to be the maximum for all ordinary bank suits, can be tried by Village Courts, and as the facts and figures of all such debts will be evidenced by documents and regularly kept accounts, even such work can be readily disposed of by a village munsiff, who, with the kurnam, daily deals with village account transactions.

It may be worth while to exempt from court fees leviable under schedule I, Article 5, the review by a village munsiff of his judgment, provided in sections 32 and 33 of the Village Courts' Act, and the copy of the decree passed under section 46 of the Act from the fee under schedule I, Article 7, of the Court Fees Act.

Under the present system a plaintiff has full power to file his suit, if of Rs. 20 or less, either in the Village Court or in the District Munsiff's Court, and section 21 of the Village Courts' Act (1889) provides that a district munsiff may, on the application of *either* party, withdraw a suit from a Village Court to his own file and transfer it to another Village Court; section 73 further grants complete powers

* For many of the above remarks and figures relating to Village Courts, the special report, dated 1881, of Mr. H. F. Evans, I.C.S., Judge of Madras, North-West Provinces, has been drawn upon. This report, which most lucidly details the facts of the Madras Village Courts, has resulted, it is believed, in a scheme and law for establishing similar Courts in the North-West Provinces, where they have, as yet, had no existence.

of appeal or revision to a district munsiff in the case of corruption, partiality and misconduct by a village munsiff, or of his having exceeded his jurisdiction, or of his action being illegal or materially irregular, or if his decree is clearly unjust or contrary to law. These provisions give not only considerable latitude to both plaintiff and defendant in determining whether the suit shall be heard by the district or by the village munsiff, but also give large powers of revision to the district munsiff, and considering the excellent way in which suits have hitherto been disposed of by the village munsiffs sitting as sole judges, the provisions of section 9, providing for a bench, seem to be an innovation of doubtful value, and one more likely than not to lead to factionary disputes; the High Court in fact in their special report, dated 8th August 1887, conclude as follows: "If it be resolved to give to the Village Courts exclusive jurisdiction in suits of the character described in the Bill involving sums below Rs. 20, then the right of either party to insist on having his cause tried by a bench may be desirable, but not otherwise." Probably the experiment will be tried very cautiously, and it may be suggested that if powers of conciliation only as in Italy (*see* next section *s. v.* 'Disputes') are granted at first, the benches will become accustomed to combined judicial work. The provision is permissive, not coming into effect into any village till that village has been expressly notified by the Governor in Council.

Whether the jurisdiction of the Village Courts should be made exclusive for suits under section 13 up to Rs. 20, is a question. It is open to a plaintiff to file his suit in a District Munsiff's Court, perhaps 30 or more miles from the defendant's village, so that a defendant would be put to the expense of Court and process fees, witnesses' batta, lawyers' fees, loss of time, &c., in a suit for perhaps Rs. 15 or 20 in which the total cost might easily amount to the value of the suit. That seems hard, but it must be remembered that it is only likely to happen when the bank is a Central and not a Local bank, and that the bulk of the projected work will probably be done by local, *i. e.*, village or cantonal societies, which, for their own sakes, will prefer the Village Courts. Moreover in the present stage of Village Court development, it may be well to retain concurrent jurisdiction to the extent at least of the institution of the suit. But it is regrettable that district munsiffs, who have large powers of revision, withdrawal and transfer, are unable to refer suits below Rs. 20 to village munsiffs, either to the Court of the village in which either party lives or to that of a village immediately adjoining such village. In thousands of cases it cannot be necessary or advisable to waste the time of a district munsiff, and the money and time of parties, in these petty suits, which are frequently not filed in the Village Courts simply because the parties are ignorant of the powers and jurisdiction of the Village Courts, or because vakeels naturally prefer the regular Court at their own head-quarters. The power of reference here proposed should, it is suggested, be inserted in the law.

The development of the Village Court should, it is believed, be now earnestly taken in hand; Village Courts and village conciliators should be the backbone of petty justice, and it is believed that in this matter it is not education that will develop the Courts so much as the incessant direction of attention to them, and, still more, the establishment of those small local Credit or Benefit societies, which are everywhere found to be not merely centres of economic progress, but stimulators of business habits, and of local energy, stir and life; in such case the Village Court, whether a judge or a bench, cannot fail to partake largely of the surrounding development.

It is possible, however, that a development of village benches may be found in Cantonal or Union benches. In France and elsewhere the village is considered too small a unit for judicial purposes, so that the canton, or group of about ten villages on an average, is the judicial unit, its Court being presided over by the Juge de Paix. Madras is fortunate in being able to work successfully with the village as its judicial unit, but it may possibly be that as society and its affairs become more complicated, the "group" may, in quasi-urban centres, take the place of the "village." This is already the case as regards Unions under the Local Boards' Act, and it is possible that such Unions might have local Courts with local benches, especially as such Unions will probably be among the earliest provided with rural banks, in which case suits could probably be heard by such benches without the objection that may attach to a Village Court, *viz.*, that the judge is connected with the bank which files the suit. At present, however, the Cantonal or Union Court is neither in existence nor absolutely necessary.

The difficulty as to a village munsiff trying the suits of a bank in which he is interested is practically provided for by section 16 of the Act.

Section 15 of the Act seems to contain a clerical error, *viz.*, that suits shall be instituted in the Courts of the Village Munsiff within whose limits "all the defendants reside, &c." This bars the filing of a suit in any Village Court when there are several defendants residing in several villages; the wording should apparently be "any of."

On the whole, then, the Madras Presidency is well and sufficiently provided with Courts competent to try the vast bulk of the petty suits likely to arise should rural banks or Loan societies become a general social feature, while these Courts will, under the influence of education, of the business training induced by the very existence of these societies, and of the operation of Act I of 1889, become more and more able to grapple with judicial business. Cheap, certain, accessible, local, and prompt, nothing more seems necessary in the way of assistance in recovering petty debts judicially.

Proposal to make Registration equivalent to a decree of Court.—This proposal was made by the promoters of a projected society in this presidency (G.O., No. 1324, dated 1st December 1884); they desired that a Court be authorized to enforce, by summary process, the terms of any document for the recovery of advances, provided the bank has taken the precaution of registering such documents, and has paid the advance in the presence of the sub-registrar. The proposal was supported by the Collector, and by the Director of Agriculture, but negatived by Government on the ground that "though registration can secure the genuineness of a document, the registering officers cannot settle such questions as the right of the borrower to charge the property, the true interpretation of the document, or the plea of satisfaction in whole or in part. It is impossible to take away from debtors the power and opportunity of raising these questions, and if they are to be dealt with by the Courts before issue of execution on the document, the procedure might as well be by regular suit.

“ Similar objections apply to the proposal of the memorialists to enforce the terms of loans by process under Madras Act II of 1864 or Act VIII of 1865.”

It is perfectly true that the matters mentioned by Government cannot be decided by registering officers, but it is suggested that there is no necessity for such matters being dealt with unless a dispute arises regarding them; in most cases, especially where the bank is a local society, and a man's creditors are his own neighbours, and the debtor is conscious that the loan is a genuine affair and the arrears actually due, there will be absolutely no dispute for the Court or other to decide; the questions alluded to will not be raised. There will, in fact, be no question of the right to charge a property except in the case of mortgages, whereas loans on bonds will probably be very common; the interpretation of simple bonds will present little cause for dispute, while satisfaction will seldom be pleaded when a regular bank is the creditor. In the great bulk of cases the only questions will be (1) the execution of the document, (2) the payment of the money, (3) its repayment or default therein; these will seldom be in dispute as between the local bank and its debtors. Hence, there will be a vast simplification in recovery, if the creditor bank is permitted, on summary proof of the above three points, *e.g.*, on the filing of a verified and sworn petition accompanied by the documents, to obtain from a Court, process against the debtor; such process might be a distraint order against which an objection petition to the Court should lie, as in the case of a summary suit under the Rent Act, or an action in replevin in a County Court; the objection should be heard as a summary suit with small cause procedure. In fact the proceedings would be somewhat more formal than those of ordinary distraint, for the distraint would be made not by the creditor and his agents, but by the Court after being satisfied that there was a *prima facie* case for distraint. Hence, if distraint by the creditor be allowable, *a fortiori* the above procedure, which requires (1) a registered document and publicly witnessed payment, (2) the intervention of a Court, for the summary recovery of arrears. Such summary recovery should only be allowed for arrears of annuities or other periodical payments or for lump sums not exceeding (say) Rs. 50, and should *not* include action by way of eviction from land; such actions should be by regular suit.

A reference to the Italian procedure for distraint will disclose great similarities; that procedure is authorized by the Code of 1866, and is well adapted to cases of debts due to corporations.

Whether the above procedure will be found necessary as the Village Courts develop, or even in their present condition, is a different question; the procedure is a useful alternative.

Summary Process.—But the promoters of banks have claimed other privileged modes of recovery, such as process under the Revenue or Rent laws. The grant of recovery by the revenue authorities will probably not be considered; the objections have been fully stated in the papers embodied in the ‘Correspondence respecting Agricultural banks in India,’ and need not be repeated; moreover, with its unique method of recovery by Village Courts possessed by this presidency, the method of collection by Collector-bailiffs is as unnecessary as unprecedented. Nowhere in the world have Government officers been made the collectors of bank dues, *except* where the banks are State banks, and public institutions necessitated by previous political action as in the case of the Feudal Charge Redemption banks of Germany and the Peasants’ banks of Russia.

In Italy the Land banks are given the right of proceeding for arrears of instalments in the same way as the State proceeds for the recovery of arrears of direct taxes as regards movables only, but such procedure is not through the officers of the State, but by its own officers.

The Old German *Landschaften* have the power granted to them by the laws which founded them, of proceeding by direct distraint of the movables of the defaulters, and by sale through the Courts, of the mortgaged property; but in no case are they entitled to call on the Government executive officers to recover their debts; no legislature has ever granted such extraordinary powers even to quasi-public banks under the supervision of Government; still less to Co-operative banks, and much less to mere joint stock companies trading for their own profit.

The same objection does not apply to the grant of powers similar to those given to landlords by VIII of 1865 for the recovery of arrears of rent. It has been argued that these powers are necessary to landlords because they are intermediaries between the Government and the payers of revenue. This is hardly correct. No doubt Madras zemindars are intermediaries, but the same power is also given to ryots as regards their sub-tenants, provided the tenancy is evidenced by writing. Even were this the sole reason, there would seem no objection to the extension, should it be necessary, of such powers to corporate and respectable bodies, who might fairly be trusted not to abuse their powers. For when a zemindar or petty inamdar, possibly needy and with all sorts of often unscrupulous, ill-paid, subordinates of a very low class, is granted these large powers; when a ryot landlord, who is, all over the world, notoriously and necessarily the hardest, most rack-renting landlord conceivable, and when any little “farmer of the public revenue” has these powers, there can be little *a priori* objection to the grant of similar powers to a corporation often if not usually co-operative, which has no personal interest in harshness, and whose defaulters will, in the case of a Co-operative society, be solely members of itself.

But, as a matter of fact, distraint of movables on the authority of the creditor without process at law is not peculiar to Indian landlords, but is a privilege common in most countries to persons to whom rent is owed or money is due upon a proper document, *e.g.*, upon a bill of sale. The English law of distress, even as amended by the recent Act of 1888, is, in fact, in some ways more summary than that of Madras; goods distrained may be left, even without the distrainee's consent, on the premises; they can be sold in five days; even appraisal is no longer necessary, and there are none of the formalities and precautions provided by sections 16, 17 and 34 of Act VIII of 1865. The law of distress, moreover, is applicable not merely to landlords, but to all companies which have advanced money for the purpose of land improvement for the immediate recovery of arrears of the annuities by which the loans are repaid; in all cases the alleged defaulter's remedy is only by action for illegal, irregular or excessive distress, usually in the County Court, the decision of which is not appealable if the suit is below £20. The French and Italian law is even wider in its permission

to distrain, but is more safeguarded by formalities; that of Italy will be found translated in an appendix.

Whether it is necessary in this presidency where cheap and immediate recovery through the Village Courts is available is a different question. Considering that the banks will mostly be local, and therefore have local influence, their directors and shareholders comprising, probably, all the chief men of the neighbourhood, the Village Courts are likely to be only too ready to act in case of suits filed, and as these suits cost nothing, and as the Courts are on the spot and as their decrees can instantly be executed, it will probably be much cheaper, speedier, less annoying to all parties, and provocative of less friction, if recovery is made legal by suit only rather than through distraint by the creditor. In case of distraint numerous formalities are necessary, including reference to a distant authority such as the tahsildar, appraisement notices, sale commission, &c., and delays and disputes will be numerous; these can all be avoided by the use of the Village Courts.

If distraint is granted or is necessary by reason of the legal incompetency of Village Courts to entertain suits for the recovery of debts eventually secured by a mortgage, it should be limited as in section 52 of the Village Courts' Act; only movables should be liable, with the exceptions mentioned in that section (wearing apparel, bedding, tools, implements of husbandry and necessary cattle, seed grain, &c.), and standing crops should also be exempted. This is now universal law, and similar exceptions have just been made in the English Law of Distress Amendment Act (1888). Greater formalities should also be required in the way of witnesses to the distraint, and with reference to the custody of the property distrained; the Rent Act is very defective on these points when compared with the English, but especially the Italian law.

Should any summary powers or other privileges be granted to banks if it be necessary to proceed against the land itself? It is considered necessary in the case of the European Land banks to grant some privileges in this matter "because of the extreme prolixity and delays of the law" and its officers and the pleaders (commentary on Italian Code of land credit), but in no case are the powers given so summary as those under Act VIII of 1865, and they must be conducted through the Courts, but with arrangements for comparatively speedy action. Comparatively, for the formalities of an ordinary forced sale of land for debt are so long and costly as to be a standing obstacle in the way of ordinary land credit; the mere enumeration of them under the French law fills three printed pages, and even those specially prescribed for the *Crédit Foncier* and considered dangerously summary by French lawyers at the time they were proposed, are still lengthy and costly; the special law requires (1) a demand which, after service, must be registered (transcribed) in the Mortgage Registry office; (2) deposit of the sale notice in the Court before which the sale is to take place; (3) the fixing by the Court of a date of sale, the parties and any other creditors being present if they desire it; (4) three advertisements at ten-day intervals in certain newspapers prescribed by the Court of Commerce; (5) two notices at fifteen-day intervals are to be affixed (*a*) on the notice board of the Court, (*b*) at the gate of the Mayor's office and if the property is a building, on the house; (6) notice of the issue of No. 5 must be made to the debtor and to all other creditors who have got dues registered against the property; (7) the filing of any declarations or objections, followed of course by hearing; (8) the sale, followed by final order; the sale must take place before the Court, or, by the Court's order, before a notary public. The sale price which, in an ordinary Court-sale, is only payable after many delays, is payable comparatively speedily at these special sales, but not so speedily—except as to part—as under the ordinary rules (section 307) of the Indian Civil Procedure Code. It is hardly to be wondered at that, even with this immensely simplified procedure, the *Crédit Foncier* seldom resorts to the sale of lands. It should be noted, however, that land sales are rare on other grounds; all loans are repayable by instalments, and the society proceeds at once for any arrears, which are much more easily realized by the ordinary methods than by the sale of the property itself.

It is to be remembered that by European law (French and Italian at all events) a mortgagee has a right to proceed to this sale of lands without suing and obtaining a decree; the procedure described above is that prescribed for such sale, commonly called subhastation; no suit having been filed or decree given, the procedure is through a Court.

It must also be remembered that property in land is most jealously and rightly safeguarded; delays are not considered undesirable, as the law, interpreting national custom and sentiment, and having regard to the difficulties of agriculturists especially when small holders, and doubtless also with political prescience, is most averse to the forced eviction of landholders, and it can hardly be doubted but that a similar tenderness in dealing with landholders is not less necessary in this country. Moreover a moderate delay often enables a ryot, who is only temporarily in difficulties, to pay his arrears. In fact the expropriation of landowners is one of the last acts contemplated by Land banks; a true Land bank looks to the securing of its annuities, and does not wish to disturb the landowner; if the loans and annuities are properly adjusted at first, eviction should seldom be necessary; *e.g.*, the English laws for the recovery of rent charges due upon lands improved by advances, whether from Government or from companies, look chiefly to distress as the prime method of recovery, and sale and eviction are only entered in the Irish Land Improvement Act of 1847 as regards money advanced by the State. The sale of land for arrears due to a bank is not a power easily granted by any State, but is invariably surrounded with lengthy formalities, even where, as in the case of English and Irish laws, the loan is granted for land improvement only.

There does not then appear *a priori* to be any need for making the sale of land for arrears due to Madras banks any easier than in Europe, least of all where the banks are only banks of ordinary credit, and not Land Improvement banks only. Claims for special facilities are asked for, partly because all loans have been contemplated as repayable by lump sums at the end of a term, when, as is well known, the borrower is very likely to be unprepared to pay, partly because the proposals were those either of theorists who feared difficulties or of speculators who wanted royal roads to dividends.

But the powers given to petty landlords in this presidency, even to small inamdars who, possibly, pay nothing as revenue, might, with modifications, be extended to banks specially authorized by Government. By sections 38 to 40 of Act VIII of 1865 a landlord is empowered to sell a tenant's "interest" in land, after serving on him a written notice with one month's time, a duplicate being sent to the Collector; should no appeal be made within one month by summary suit, or, being made,

be decided against the defaulter, the tenant's interest can be sold under the rules laid down for the sale of movables, viz., by a public officer. It is not the land that is sold, but merely the tenant's interest, so that a purchaser buys subject to all other claims and encumbrances. The law does not state any means for evicting the sold-up tenant, or for placing a sale purchaser in possession, and the provision is very seldom resorted to.

Substituting the District Munsiff's Court for the Collector, similar powers might be granted to banks specially authorized—either individually or as a class—by Government. In Italy every mortgagee—bank or private—has the right of evicting a defaulter as follows: the mortgagee issues a thirty-day notice to the defaulter, and then, without necessarily awaiting the expiry of such period, petitions the Court which has jurisdiction to summon the defaulter for a summary enquiry; the summons must state the full particulars and valuation of the land to be sold; on enquiry, the Court, if it sees fit, orders the sale at public auction; the order contains the particulars of the land, the conditions of the sale, and an order to any registered creditors to enter their claims in Court forthwith; proclamation to a similar effect is sent to the debtor and to the registered creditors, and is published outside the Court, at the village, and on the property to be sold, and is also published, in abstract, in two issues of the newspaper in which official announcements are generally made. After these and other formalities the sale takes place. Practically even the privileged Land banks go through all the above formalities, their privileges only extending to certain minor matters not here mentioned and to the following, viz., that whereas the auction price is usually paid by long drawn out instalments, so much of it as will cover the debt and costs due to the bank must be paid within twenty days, on pain of resale at the auction purchaser's risk.

Similarly in this presidency the bank might be empowered after notice, as in section 38 of the Rent Act, to move the district munsiff by petition with all necessary documents attached, to call on the defaulter to show cause why his right, title and interest in the land should not be sold; should the defaulter fail to show cause upon a summary enquiry, *s.o.*, under the rules relating to small causes, order to attach the land should issue and a proclamation as in sections 287 and 289 of the Civil Procedure Code; thereafter the ordinary rules of the Civil Procedure Code should be followed. So much of the auction price when paid according to section 307, as will cover the claim of the bank as in section 295, should be paid over to the bank forthwith, whether there be opposing claims by third parties or not, subject, however, to the right of such third parties to sue the bank should it have been wrongfully paid to their prejudice.

The above differs considerably from the procedure under sections 38 to 40 of the Rent Act, and from that of the Civil Procedure Code; it contains greater precautions than the Rent Act, while it admits action without previous suit and decree; it permits a summary enquiry, and it gives the bank its dues at once. These privileges should only be granted to selected banks or classes of banks, such as Land Improvement and *bond fide* Savings banks.

In G.O., No. 1324, dated 1st December 1884, it has been suggested that Agricultural banks "might be empowered to sell immovable property mortgaged to them, on their own responsibility as is provided by section 69 of Act IV of 1882" (Transfer of Property Act). This power of selling *without the intervention of the Court* is now legal only when the mortgage is an English mortgage in which neither party is a Hindu, Muhammadan or Buddhist, when the mortgagee is the Secretary of State for India, or when the property or any part of it is situated within the Presidency towns; the power must be expressly conferred by the mortgage deed, and the mortgage must be one of considerable size. In England every mortgagee has now, by statute, the power of selling the property without Court intervention, after the borrower has, for a certain time, neglected to pay the interest due. A Building society usually enters such powers in its rules, which are binding on its members, that is on all its borrowers, and a provision is also entered in each mortgage deed. But no society, thus empowered, is entitled, nor is any of its officers, to buy property thus sold, and there are numerous precautions to secure genuine sales. Under present circumstances it would seem inadvisable to extend these large powers generally to the mofussil; no promoters of a bank have ever asked for this power, and though respectable genuine banks might possibly be gradually entrusted with it, there would be nothing to prevent groups of land grabbers from forming themselves into a Loan society for the express purpose of laying hold of the land. The Transfer of Property Act has so circumspectly introduced this power, and so fenced it with safeguards, that it is evidently a power to be granted most cautiously, and it is wholly unlikely that the law would be at once changed so as to grant to societies calling themselves Land banks, a power so dangerous. So far as is discoverable no such power is granted save as described in the preceding paragraphs in any European country (whether France, Germany or Italy) even to the great privileged Land banks though partly under State supervision. If granted in this presidency it should be by special order of Government in the case of each bank, and it would be equally necessary to provide that no Credit or Loan society should be capable of holding land for more than, say, three years, and that all land acquired by a society should be sold within such time by public auction by a public functionary. Banks, which are intended to assist landed proprietors and are specially privileged to that end, must not be allowed to be the cause of unduly hurried evictions, or to become land grabbers at the expense of an ignorant clientèle.

Bills of Sale.—One of the reforms most eagerly sought in Europe, at least in the Latin countries, is the power of pledging movables which remain in the hands of the pledgor (*le gage sans dessaisissement*); the Civil Codes of those countries recognize no contractual right over movables by a creditor unless he is an actual pawnee in material possession of the goods pledged. Certain "privileges" are provided by law, such as those of the landlord for rent, the seller for the price paid, &c., over movables in possession of their debtor, but movables cannot be pledged unless possession is transferred to the pledgee. One result was the attempt by the law of 1887 in Italy (*see* another appendix) to create a special privilege or charge granted to Agricultural banks (*Istituti esercenti il credito agrario*), by which such banks obtain, for loans granted "to Agriculturists," a special lien, next only to that of the landlord, if any, over all the movables of a farm, including standing crops, harvested produce, stock and furniture. Such privilege results only from a written contract which, to be valid, must be duly registered by the registrar of mortgagees; registration is free of charges. The Belgian law of 1884 (*see* another appendix) is wider in one way, and narrower in another than the Italian law it grants

this privilege, if stipulated for in the deed of loan, to any one lending to an agriculturist, and does not confine the privilege to Agricultural banks; on the other hand, the privilege only extends to such articles or classes of articles and of such values as are mentioned in the document. The document containing this contract must be registered, and the privilege obtains validity and priority from, and according to, the date of registration. After three years (Italy) the privilege lapses unless again registered. Registration is subject to several fees, and the documents to stamp duty, but—in Italy—these are at favoured rates.

The Belgian law considerably resembles the English Bills of Sale Act, by which a lender obtains a lien over goods which are left in possession of the borrower. The English Act permits of instruments "conveying either absolutely or conditionally by way of mortgage *without possession* personal chattels, "giving the grantee an absolute or a conditional power to seize them immediately or at a future time. "The essential element in a bill of sale is the transfer of property in personal chattels, without the "transfer of possession, but with a right of distress" (Macalpin). The Act includes growing crops amongst personal chattels, when such crops are assigned or charged *separately, i.e.*, apart from any charge upon the land on which they grow. Every such bill of sale must be duly attested by a Solicitor of the High Court, who must certify that he has explained the effect of the document to the grantor before execution; it must then be registered with its inventory attached, within seven days, or it will be void; such registration must be renewed every five years. Bills of sale on the same goods take priority "in the order of the date of their registration" and not according to the date of execution.

Under certain old Acts of the Irish Loan societies and under that of 1851 governing the cattle-purchase loans in Canton Thurgau (Switzerland), the societies which have lent money to buy stock for a farm retain a lien over such stock, which may be marked with their seal or brand, and until the loan is paid off the society retains the right of summary distress (Ireland). The document must, in Thurgau, be duly attested and registered by the local Juge de Paix.

In India there is in no law any provision analogous to that of the Bills of Sale Act; probably such documents are valid, and they are certainly common. But, as there is no provision for such documents, there is no provision for their registration, and they are, therefore, not merely outside of the statute law, but are dangerous modes to a lender of placing his funds. At present a bill of sale comes under section 18 (d) of the Registration Act, as an instrument creating, declaring, &c., any right or interest in any movable property which includes "growing crops" (section 3, Registration Act). It is therefore only optionally registrable. Under section 48 of the same Act, such document, if registered, takes effect "against any *oral* agreement or declaration relating to such property, unless where the (oral) "agreement or declaration has been accompanied or followed by delivery of possession"; section 50, however, does not apply to such documents. Hence on the one hand even a registered bill of sale could be absolutely defeated by a subsequent oral transaction genuine or collusive, if the owner of the property handed it over to a subsequent pawnee or friend; on the other hand, though registered, it does not thereby take priority of any previous or apparently previous document, though not registered. Obviously, then, the chances of fraud are so great that a bill of sale is, at present, most dangerous to a lender, who may be defrauded by a sham or genuine delivery to a third party, or by another document, which even if genuine could not have been known to him being unregistered.

This should now be remedied. If banks are to lend freely to agriculturists upon the enormous fixed capital possessed by them in their stock, and if agriculturists while borrowing on their stock are to have the use of their stock, bills of sale must, in the first place, be recognized by the law and placed on a legal footing; this is especially necessary also if ryots are to have the power of obtaining advances upon ripening crops, in order to meet the demands for Government taxes, for rent, for maintenance, &c. Demands made in advance of harvest as in the case of the cotton crops, are a fruitful source of indebtedness, and the sums are borrowed on very usurious terms; if a bill of sale upon a crop could be given, a bank could lend at, say, 8 per cent., so that a ryot would pay interest in annas where he now pays in rupees.

But in the second place bills of sale should either be made compulsorily registrable as in the English Act, and as in the Belgian and Italian Acts, or a registered bill of sale should be given the privilege of section 50 of the Registration Act, viz., priority against every unregistered bill of sale or other document creating a charge over the same property, and over any oral agreement whether accompanied by delivery or not.

In the third place it would be well to follow the Italian rather than the English, Belgian, and Irish law in granting to a bill of sale a charge not merely over specified articles or animals, but to classes of articles or animals. A bill of sale to be useful to an agriculturist, may have to be of six months, a year, or even longer duration, and during that time particular crops may be reaped and sold, cattle may have died and been replaced, an iron plough may have taken the place of the 'pedda madaka' and so on. It should, therefore, be lawful to give, in a bill of sale, a lien over classes of crops, or stock; such power would materially cheapen and facilitate credit, for the lender would no longer have to watch the borrower's disposal of particular items of pledged goods.

Pawnbroking.—An important function of banks in this country of jewel hoards, will be that of pawnbroking. There is no complete pawnbroking law applicable to *small* temporary loans on movables such as the English Act of 1872 applicable to pledges below £10 in value, or the several European laws regarding the Monts de Piété; the only Indian law is contained in sections 172 to 179 of the Contract Act. Certain points seem contrary to pawnbroking practice; section 176 provides that when a pawnee sells the goods pledged for default of payment and the proceeds are less than the amount due, "the pawnor is still liable to pay the balance." That is nowhere else the practice; the pawnee in such transactions advances money on his valuation of the property pawned, and takes the risk of the transaction; he cannot subsequently come upon the pawnor because the valuation was mistaken. Moreover, this provision gives a premium on negligent or collusive sales; the pawnee has no particular interest in getting the full value of the property sold, for he can still go against the pawnor, and it is his direct interest to have the pledged goods, usually jewels or valuables, collusively bought in by a friend or relation.

Nor is there any provision for the proper sale of the goods pledged; in England such sales can only be by public auction, conducted by regular auctioneers and fully advertised, and the price for

which the sale was effected must be entered in a catalogue and certified by the auctioneer; this catalogue and the pawnbroker's sale books may be inspected at any time within three years by the pawnor on payment of one penny, and if any surplus above the debt and interest is found to have resulted from the sale, he is entitled to the refund of such surplus, saving only such amount as may be deficient on some former transaction. In all countries the sale of pledges can only take place by public auction and on the observance of strict formalities, so that poor people may not be damned by the trickery of the pawnors.

As regards the preservation of the pledges, the Indian Act provides that the pawnor shall pay for such preservation. In the ordinary pawnbroking law there is no such provision, except in the case of a special contract, but, *per contra*, the pawnbroker is bound to take all due care of the pledges, and if a pledge is destroyed or damaged by fire, the pawnbroker is bound, on presentation of the pawn-ticket, to refund the value less the loan and interest, the value being by law calculated at the amount of the loan and interest, plus 25 per cent. of the amount of the loan.

On redemption of a pledge the English pawnor is entitled to a receipt for the payment of the amount, and such receipt is not liable to stamp duty unless the interest on the loan is above £2.

A pawnbroker is compelled in England to keep books in a particular form, and to give on receipt of a pledge a printed pawn-ticket which contains all the conditions of the transaction, the rights of the pawnbroker as to charges, sale, &c., and the rights of the pawnor as to redemption, surplus arising from sale, refund of value in case of damage, &c. The importance of the ticket is this; the pawnbroker is entitled to deliver the pledge to any one holding the ticket and paying the amount due, so that the ticket is not merely the evidence of ownership, but, being a valuable security made out to bearer, is transferable from hand to hand, so that a pawnor, unable to redeem his pledge, may sell his ticket, and the purchaser can then redeem the pledge. In case of loss of the ticket the pawnor can make a declaration before a magistrate, which will bind the pawnbroker; this power is printed on the ticket.

The pawn-ticket should be the only document evidencing the transaction, the conditions of which should be printed on it; it should be free of stamp duty for loans up to Rs. 20, and be chargeable under article 29 of Schedule I of the Stamp Act for loans beyond that sum.

Disputes.—It is essential that special provision be made for the special disposal of disputes both between one society and another, and between a society and its individual members. Not only will proper provision on this point prevent much unnecessary litigation, but it will tend to preserve that harmony of relation which is so important, and to prevent that formation of faction which is so fatal to the welfare of societies.

The Indian Company law contains provisions for arbitration which are entirely permissive, and its model Articles contain no rules whatever for the settlement of disputes. Hence, if arbitration is not resorted to, recourse can only be had to the ordinary Courts, unless the parties agree to submit to the verdict of a general meeting or other authority, while under section 28 of the Contract Act, such verdict, not being that of arbitrators, could not be final, but would be subject to the decision of a suit in the ordinary Courts.

In the German *Landschaften* all disputes by members with the bank must be heard by the district board of the bank: from them an appeal lies to the general committee (board of directors), and from them to the select committee, which is the ordinary final authority; a last appeal lies to the general meeting, which only takes place every few years. But so long as these authorities keep within the statute, no suit lies against their decision. Practically, therefore, the jurisdiction of the Courts is ousted as regards disputes between the Land bank and its members.

These rules are not unique; the English Friendly Societies, Co-operative Societies and Savings Banks Acts provide pretty full rules on this matter, while the European provisions in the Codes of Civil Procedure, and special laws for conciliation in industrial matters, supply the want of specific enactment in the general continental law of societies. Since the banks likely to be formed generally in this presidency will, probably be local and co-operative developments of the existing mutual fund system, it is advisable that the provisions of the English law for similar classes of society should be studied.

In the Friendly Societies' Act (1875), it is enacted that the rules *must* provide for the settlement of disputes between a member, or person claiming through him, and the society or any branch or officer thereof, and that the decision thus arrived at shall be absolutely final and without appeal, and not removable into any Court of law, or restrainable by injunction; it is enforceable, if necessary, by application to the County Court. It may be doubtful whether it is advisable to permit societies to rule out absolutely all recourse to law for the decision of a dispute, since such provision delivers members bound into the hands of the society if the rules are not framed on sound and equitable principles, for members, on first joining, will seldom trouble themselves to study, or be capable of appreciating the minutiae of the rules on all points. If, indeed, the rules are carefully and equitably framed, so that the directors—who will usually be one of the disputing parties—of a society may not be judges in their own cause, the provision is not inadvisable, as it prevents useless litigation; the law allows the rules to provide any method of settling disputes, so that good rules may easily be framed, and it should be laid down that the supervising authority should have power to reject rules manifestly iniquitable or absurd.

It is common in England to provide that disputes shall be determined by a Court of summary jurisdiction, or by a County Court, and it is expressly laid down by law that if the rules do not actually forbid it, all disputes may, by consent of the parties, be referred to the Registrar for decision upon payment of a small fee; for such enquiry he has powers similar to those of a Court, and his decision is enforceable on application to a County Court. For India the matter is settled by section 28 of the Contract Act in the sense that the jurisdiction of the Courts cannot be excluded except by agreements to refer disputes to arbitration.

In the Italian Popular banks there is invariably an arbitration committee (*Probi viri, Prud, hommes*) appointed by the general meeting for the express purpose of deciding disputes regarding decisions by the directors on the admission of members, or the issue to members of fresh shares, on the expulsion of members, and on refusals of credit, as well as disputes on matters relegated to them

by special rules, or by order of a general meeting, or by consent of parties. They have power to obtain all information from the officers, are summoned by their chairmen, and from their decisions there is no appeal. They act also as conciliators as well as arbitrators. Probably a rule in the articles providing an independent committee of this sort would be unobjectionable.

The Industrial and Provident (Co-operative) societies may settle their disputes as above in the case of the Friendly societies, but the insertion of rules in their Articles is not obligatory.

In the case of Building societies (Co-operative banks), it is obligatory to provide rules in the Articles for settling disputes in one of three ways, viz., by reference (1) to the County Court, (2) to the Registrar, (3) to arbitration. The rules must choose one of these three ways which alone are legal, but if either (1) or (3) is selected, it is still open to parties to refer by mutual consent to the Registrar, whose powers as to decisions are those of arbitrators. Hence a rule that disputes shall be decided by a general meeting or by the directors is illegal, though a rule may be entered that the directors may act in the first instance as a board of conciliation. In the absence of express provision in the rules, the term "dispute" does not apply to any dispute as to the construction or effect of a mortgage deed, or any contract on any document other than the Articles of the society, nor can they bar any member from his ordinary remedy in Court in respect of such mortgage or contract. The settlement of disputes when settled as determined by the Articles, is binding and final, and cannot be appealed or removed to a Court or restrained by injunction, but the arbitrators, Registrar or County Court may state a case for the opinion of the High Court.

In the case of Trustee Savings banks all disputes between the trustees or managers on the one part and any depositor or his representative in interest or creditor or claimant of any deposit on the other part, *must* be referred to the Registrar, who can inspect any of the books of the bank, examine witnesses on oath or by affidavit, and compel parties to the reference to give evidence; his award is final and without appeal.

For Indian societies of similar character it should be enacted as obligatory that the Articles shall contain rules for the settlement of disputes between a society and its managing committee or officers, and individual members or depositors; that such settlement may be by the general meeting, by a standing board of arbitration, by ordinary external arbitrators, selected either as provided in the Companies' Act or by lot from among at least seven arbitrators provisionally chosen at a general meeting, by the commissioner (supervising authority) or his delegate, or by a committee of arbitration or arbitrators appointed by any Union to which the society may belong, or by the ordinary Courts and by no other means; that whatever method or methods may be selected by the Articles as the ordinary method, it shall always be competent for parties by mutual consent to refer the dispute to the commissioner, who shall have the powers of arbitrators under the Companies' Act; that the settlement by any such method outside of the Courts shall be final, and not subject to appeal or to a further suit in Court, and shall be treated as an award of arbitrators under the Civil Procedure Code.

The provisions of Chapter XXXVIII of the Civil Procedure Code (proceedings on agreement of parties by a case stated) may also be followed in references to the commissioner, who should then be empowered to decide as though a Court. The chapter provides in itself a method not unsuitable for the decision of disputes within societies.

There is a further method of deciding disputes of an ordinary character before taking them to Court, viz., by Courts of conciliation. These Courts have of late been introduced into India by the Dekhan Agriculturists' Relief Act, and have worked well. It is desirable to extend these Courts in one form or other in this presidency.

In France it is provided by Chapter I, Book II of the Code of Civil Procedure, that no plaint shall be receivable in a Court unless the defendant has been brought or attempted to be brought by the plaintiff before the 'Juge de Paix' as a Court of conciliation. The defendant must be regularly summoned by the Court, the summons containing an abstract of the plaint. Parties must appear in person, but a proxy is allowed in case of inability; at the hearing, the plaintiff may amend his claim and the defendant may answer it; if an arrangement is effected a minute is drawn up accordingly; if not it is noted that the parties failed to agree. The agreement has the force of a private contract. One party may proffer oath to the other, and the Court may accordingly receive such oath, or note the refusal to accept the challenge. Parties who fail to appear upon summons are liable to a moderate fine to be awarded by a separate Court after hearing the defaulter. There are certain exceptions to the necessity for this preliminary conciliation, especially those in which the State or State property is concerned, those which are urgent, and those connected with commerce, for which last special Courts with summary procedure are provided.

According to Italian law there are conciliators in each commune, who, on request of the parties, will, if possible, effect an amicable arrangement, their decisions having the force of a decree up to the value of 100 lire (£4); above that value, the decisions have only the force of a contract which may be sued upon. If the decision has a value not exceeding £2, no appeal lies except for want of jurisdiction, and it may be executed two days later; if above that value it is appealable to the Court of the Prætor within ten days. Proceedings before conciliators are to be conducted without formality, and chiefly without written pleadings or answers; in causes below £2 no written memorandum of the proceedings (*processo verbale*) is needed, but only in causes above that value.

There are also in France the well known *Conseils de Prud'hommes* established by law chiefly for the arrangements of disputes and claims for wages, &c., between employer and operative; it is difficult to overrate the value of these Councils as a means, if established in advance, of preventing the development of those disputes between capital and labour which are so unfortunately prevalent. The councils are composed in equal parts of members elected by the employers on the one side and the operatives on the other, the eligibility of the electors and of the members being laid down by law. Such councils, which are of the nature of panchayats, would be eminently suitable in this country for the adjustment of accounts and differences between creditors and debtors; as shown below, they are unnecessary except in towns, conciliation being fairly provided for in the villages of this presidency in the legally unrecognized but very useful village and caste panchayats which are usually headed by the village munsiff. Legal provision is apparently not actually *necessary* even for urban councils of this sort, since resort to arbitration is free to all. But a recognition of such councils by law would go

far to establish them; just as the legal establishment of village munsiffs in Madras in 1816, and the increase to their powers in 1883 led to an immediate development of their work by calling attention to their existence and powers, so the mere permissive legalization of such councils would probably cause their establishment in towns by public-spirited and philanthropic men, such as retired public officials, merchants, &c., to the very considerable alleviation of pecuniary disputes.

These councils are generally conducted gratuitously, though an allowance to the arbitrators is permissible; the electors are all masters and workmen above the age of twenty-five and of five years' standing in their business; those electors who can read and write and are thirty years of age, are eligible as conciliators. The electoral list is made out by the Préfet; the Government formerly appointed the president and vice-president of each council, but the council itself now elects them from its own body. Office is held by the conciliators for three years. There are two chambers to each council; one consisting of two members—one from each class—acts in conciliation and meets once a week; the other, composed of eight members—four of each class—meets at least twice a month to dispose of cases not amicably settled before the chamber of conciliation. No professional advocate is permitted to appear for parties in either chamber, and the costs are almost nominal. Awards are without appeal up to £8; beyond that sum an appeal lies to the Court of Commerce (*q.v.*); they appear to be able to execute their decrees, but the mode is not clear.

In the Bombay Presidency all cases of debt brought against agriculturists must first be taken before conciliators. The Government appoints public conciliators; under section 39 any dispute, in which an agriculturist is a party, may be brought before such conciliator to obtain an amicable settlement; the conciliator then invites, or he may direct, the other party to appear; should both parties appear, the conciliator hears the case but without recording evidence, but if an agreement is arrived at it is reduced to writing. If the agreement finally disposes of the case it is sent to the Court having jurisdiction, and failing objection by either party within one month, takes effect as a decree, from which no appeal lies. If the agreement is for a reference to arbitration the Court proceeds as in sections 523 and 524 of the Code of Civil Procedure. Moreover, it is provided by section 47 that 'no suit' to which an agriculturist residing in any area for which a conciliator has been appointed, is a party, can be filed in any Civil Court, unless the plaintiff produces a certificate of less than one year's date, that the matter has been before a conciliator, and the words 'no suit' has been held to include suits of every nature, and not merely those mentioned in section 3 of the Act.

In this presidency no Courts of conciliation are recognized, but, in the villages, the work of this class done by the unrecognized village panchayats or by the village munsiffs acting not as judges but as conciliators, is immense. Out of about 33,000 village munsiffs only about one-tenth try civil suits, but the statements of experienced officers (*see* Revenue Board's Proceedings, No. 4406, dated 22nd December 1856) and of many village munsiffs themselves (*see* Special Report of 1891 by Mr. H. F. Evans, I.C.S., of the North-West Provinces), as well as common experience, prove that conciliation is, in the case of money and other disputes, the commonest method adopted, whether by the above one-tenth, or by the whole number of village munsiffs acting either alone, or more generally with a panchayat. These panchayats—not to be confounded with those abortive institutions, sought, but in vain, to be established by Regulation V of 1816—or the village munsiff acting as a conciliator, probably dispose of many more cases that might become suits than are decided by the village munsiffs acting as judges, and as these latter decide more than 50,000 suits per annum, the usefulness of these village councils is inestimable. But, as suggested above, a recognition by law of these institutions would probably develop them and their usefulness, such recognition confining itself to a provision in the Village Courts' Act, similar to that of the Italian law of 16th June 1892 mentioned above, omitting or including the provision regarding the effect of the conciliators, award up to a value of, say, Rs. 10. It might also be provided—following the French law—that no suit under, say, Rs. 20 should be filed in a District Munsiff's Court on the Small Cause side, unless an attempt has previously been made for amicable adjustment before the village conciliators. (*See* also section 67, draft bill.)

Usury.—In every country laws against usury have, at some time or other, existed. They still exist throughout Continental Europe, and in the United States; they have been abolished in England, and in India by Act XXVIII of 1855. In France the usury law has been repealed as regards commercial business, but not as regards civil, in which all agricultural transactions are included. It is a curious and noteworthy fact that whereas in 1867 the Prussian Government abolished the laws against usury (Italian 'Annali di Statistica,' III, vol. II.) a general German law was passed anew in 1880 (followed by Austria in 1881), a very strong testimony to the belief in those countries of the need for such a law; the mere survival of a law proves little; its abolition and its subsequent revival is notable.

Now there are two classes of usury law; the old form in which a more or less arbitrary rate, say 6 per cent., is decreed as legal interest; everything beyond that is deemed usurious. That is a very crude and indefensible form, and is productive of much moral mischief from the constant evasion practised. There is, however, another type as exemplified in the new German law, which lays down no such limit, but leaves everything to the discretion of the Courts; it provides that whoever takes advantage of the necessities, the improvidence, or the inexperience of another to obtain unusual terms for a loan, or a rate of interest higher than that ordinarily prevailing, is liable to the penalties for usury; these are a refusal by the Court to enforce the claim, and if a prosecution is considered advisable, fine, imprisonment and the loss of civil rights may be adjudged. A usurer by profession may be punished with imprisonment for *not less* than three months and fine up to £750. A point to be here noticed is that a contract which may be equitable and sustainable under one set of circumstances may not be so under other circumstances, as when a ryot is hard pressed by circumstances beyond his own control, or when he is ignorant of the true meaning and effect of his contract.

The Indian Act XXVIII of 1855, in repealing the usury law, gave, on the other hand, the least possible discretion to the Courts: this Act is still in force, and says plainly, "in any suit in which interest is recoverable the amount shall be adjudged or decreed by the Court at the rate, if any, agreed upon by the parties" so that, if, by the terms of a bond, a solvent ryot agrees to pay interest

at 100 per cent. * per annum, the Court is bound to decree such interest. The Contract Act does not provide a complete abatement of this peremptory wording, for a contract is binding if consent has been freely given, and consent is free if not obtained by coercion, undue influence, fraud, misrepresentation or mistake. It is seldom that a debtor can prove whether *bona fide* or otherwise, any of such vitiating circumstances, while the definition of 'undue influence' does not cover the case of a foolish or hard-pressed ryot under the seductive or persuasive powers of a usurer.

The result is a widespread feeling that many contracts are enforced by Courts which are really inequitable, and it is always objectionable that the law should be such that judges should be tempted to relieve poverty and ignorance by stretching a too narrow law. This feeling took distinct shape in the Deccan Agriculturists' Relief Act, and it is a question whether the general law of the country should not be amended in the direction of the German law (translated in another appendix), e.g., by so widening the definitions in sections 14 to 18 of the Contract Act as to include "undue advantage or the taking advantage of the necessities or ignorance of another to obtain unusual or undue terms for a loan," it being left to the discretion of the Court, upon a consideration of all the circumstances of a case, including the respective position and status of the lender and of the borrower, to decide whether there was undue advantage on the lender's side and whether the terms of the bargain were unusual or unduly favourable to the lender.

This would further involve an alteration of the terms of Act XXVIII of 1855, so that a Court would not only not be bound to award stipulated interest but should be entitled to enquire into the circumstances of the stipulation, and a further power under the Evidence Act, to go behind the bond, and demand a history of each transaction. In this connection the provision of the Civil Codes of all Latin countries is germane; "dans le doute la convention s'interprète contre celui qui a stipulé, et en faveur de celui qui a contracté l'obligation"; (in cases of doubt a contract shall be interpreted in favour of the contractor of the obligation and against the stipulator), and in a vast number of loan cases there must be a great deal of doubt as to the equitableness, perhaps as to the *bona fides* of the transaction.

It is, perhaps, unnecessary to discuss this point in full, since the matter is at this moment (1894) under the consideration of the Government of India, but it is permissible to add that the provision is advised merely as a temporary measure, pending the economic and educational development of the country, and the evolution of a banking, and above all a co-operative banking system. The grand principles of the sanctity and freedom of contract are to be worked up to; at present true freedom of contract is not, or at least is often not promoted but denied by leaving contracting parties free, and treating their contracts as though the results of free and equal higgling. But this new principle in legislation should be expressly recognized as temporary only; it is not good for a nation to accept as a permanent principle, that weakness and ignorance are to be swaddled instead of eliminated. It should be looked upon purely as an objectionable but present necessity; the existence of the law must not mean that usury is a permanent evil from which the law will deliver the foolish and improvident who carelessly place themselves within its attraction, and who count perhaps upon the law to escape from their bargains; it must be taken as an expression of public opinion that the trade of exploiting weakness and need with a view to selfish ends, is not a legitimate civil business; it must strengthen and accentuate public opinion towards a removal of the causes of usury, and towards the introduction of safer methods of credit. In such matters the legislature has directive and suggestive powers which should not be neglected.

It may be argued that such legislation will make credit dearer by intimidating capital and increasing the insurance element in a loan. This is not so, if the law be worked, as it will be worked, discreetly. The law against perjury does not affect true evidence or hinder true witnesses from coming forward, nor will a law against usury affect those who lend on fairly equitable terms, while it can hardly raise the terms of those whose demands are, even now, only limited by what can be obtained. The law will only be repressive of terms which can never be enforced in a Court; it will not affect contracts, which, though seemingly severe, are only in consonance with the risks to be run.

The law will not, of course, repress usury; the laws against theft have not abolished stealing; it is intended merely to bridle and to limit, not to eradicate. For eradication there is but one final method, viz., the establishment of banks. But even that method, though as in Switzerland, it eradicated the usurer, will not eradicate improvident borrowing; that eradication can only take place by a change in the people, and in seeking to bring about this change, the establishment not merely of banks but of Co-operative banks is a most powerful agent. One forcible argument, indeed, in favour of a more restrictive law against usury, is that it will indirectly tend to the establishment of banks; the peasantry will find that banks, with fixed and fair rates, open and honourable in their dealings, will never be subject to the repressive action of the usury law, and will desert the money-lender for the bank, especially when the bank is of their own creation and management.

Accounts.—In the bridling of the usurer there is a method never yet discussed, but of the highest importance, viz., a legal requirement that he shall keep permanent and clear accounts. In going behind the bond, in tracing out the history of a transaction leading up to a mortgage, or in settling an account between a money-lender and his client, it is absolutely necessary to have clear and fairly certain accounts. Those who, in income-tax or other enquiries, have had occasion to examine money-lenders' accounts, know that either the money-lender denies that he keeps any accounts, or that his accounts, when produced, are almost unintelligible, and that there is no certainty that all transactions are entered up; in the South they are very often a mere head load of cadjans on a string, of which any number may be subtracted or substituted at pleasure. It is perfectly true that many money-lenders keep no regular accounts; they are the ryot-lenders, who merely use their surplus wealth in lending to friends, tenants, &c. The following proposals do not relate to them, but only to those who make a trade of money lending and are assessed to the income tax on such trade; such persons, whether urban or rural, sowcars or ryots should keep regular accounts; if it is worth their while to draw people into account with them, they are bound to keep full and clear accounts relating to them. Every public bank is bound, either by the direct rules of the law or by universal custom, to keep absolutely clear

* This illustration is taken from an actual judgment.

books, and to grant pass books to its customers; see especially the regulations of all countries regarding Savings banks, Co-operative banks, Building societies, and the like. Why should a similar trade be less carefully regulated because it is carried on by a private individual who has infinitely more interest in greed and fraud, and infinitely greater power both to commit fraud and to conceal it?

* "Finally, I would remark that if the Courts are to go behind the bond, it is necessary to add a further provision to the law, probably to XXVIII of 1855, viz., that money-lenders shall keep permanent accounts. The matter is somewhat outside the bare questions propounded in the Government order under reply, but is extremely cognate, and seems to me essential. I will, however, merely mention the outlines and not discuss the whole question with which I have dealt in a section of my report on Agricultural banks.

"The Special Deccan Commission, in section 40 of their report, consider that it would be hard to require a creditor to prove the history of the debt 'where no accounts have been kept.' On the contrary, I would say that that is exactly a case where, if the debt appears usurious, the history should be given. When regular accounts are kept, the Court can easily trace for itself the history of a debt, and I contend that in order to render the going behind a bond simple and certain and to render it less necessary, all persons who make a practice of lending money should be compelled to keep regular and permanent accounts in an intelligible fashion: a debt, *prima facie* usurious and without accounts, is a most suspicious transaction. But, in order to prevent the application of this provision to ryots and others who so largely practise rural credit in this presidency, I would limit this provision to persons whose specific trade is money-lending and who are assessed as such to the income tax.

"It is practically universal in Continental Europe to require by the Commercial Code that every trader (commerçant) shall keep certain books, wholly irrespective of those others which may be necessary for his trade. These are generally a day book, showing day by day money due to and by him (ses creances et ses dettes), the operations of his business, his receipts and disbursements under every head; he must also keep a letter file, and each year he must make up in a register kept for the purpose, a balance sheet showing his complete assets, the debts due to and due by him with the value of each such debt. The day book and balance sheet register must be permanently bound books, paged, initialled and sealed each year by the Commercial Court or by the local mayor. The entries must be in order of date and without erasures, corrections or lacunæ, nor must any pages be torn out. The penalty for incomplete or badly kept books is simple bankruptcy; the concealment of books and entries entails fraudulent bankruptcy. These books must be kept for from ten to thirty years, with the vouchers relating to them. The Commercial Court keeps a register of all traders, and notes up each year the date of the production of the books for its visée.

"Such, or similar, are the laws of France, Italy, Spain, Russia—the Low countries, Greece, &c., and to a certain extent of Germany and Austria. It seems to me that in this country where the accounts are absolutely one-sided, where no ryot keeps any pass book or private account, and where consequently the only history of a transaction is with the money-lender, it is still more necessary than in Europe that books should be, as far as possible, clear beyond suspicion, and should contain the whole history of every transaction. With this view I would enforce the keeping of (1) a day book, (2) of a ledger, the former containing entries as they occur, and the second containing the postings from the day book to each individual's account. † The books should be solidly and permanently bound, machine-paged, initialled and sealed by some public officer of position or by the local Court. Every debtor should compulsorily receive a pass book showing principal and interest separately, in which every receipt should be entered by the lender when money is paid in, and the balance due at the end of each year should be struck. Failure in any point should render the contract voidable at the option of the debtor.

"These provisions, though novel, are simple and necessary. Money-lending by professional money-lenders takes in this country, the place of lending by banks; it is a universal trade. No general trade should be allowed without the due keeping of books, especially when such trade is wholly one-sided in the knowledge and generally in the advantage possessed by the parties. The law in England does not interfere with the accounts of private money-lenders, as theirs is not a trade of any importance; it does interfere very stringently with the methods and even accounts of the various Loan, Credit, and Deposit societies, and such interference is continually increasing; in the matter of pawnbroking, a trade parallel with one branch of Indian money-lending, it interferes very decidedly. There is then no *a priori* reason against a very moderate interference with the methods of a private trade in credit which, in India, is practically universal and almost a monopoly, and in which while the clients are poor, ignorant and necessitous, the lenders are well-to-do, influential and skilful. The Revenue officers are compelled to keep for every ryot a complete register (chittah) of his holdings and to give him a copy (puttah); to enter up in a permanent day book (rozu) every receipt; to ledger such receipt against each individual (averza), and to give a written receipt for every sum however trifling; I see no reason why we should not extend to the money lending trade some part of the formalities which we require from our own public officers. It is not a question of interfering with private trade—the usual bugbear in new commercial departures—; it is simply the introduction of a few formalities, essential to due system."

Such are the only legal precautions recommended in the way of bridling the private money-lender; it is not legal provisions, but salutary competition and the development of organized, and above all co-operative credit, which will really render him innocuous by making him superfluous.

Homestead Exemption.—As mentioned in the chapter on Western indebtedness, the United States have unique laws for the exemption of certain property from sale in the execution of Court decrees. Amongst these items are houses and lands up to a certain area or value; the provision may be compared with a similar exemption in the case of deposits to a certain amount held in various provident

* This extract is from a letter to Government by the writer on the subject of usury.

† To this should be added provision that each ledger account should be cast up, the balance struck and entered once every year; at present it is very difficult to ascertain the balance at any given time.

institutions, such as Building societies (Co-operative banks). The provision amounts to a denial of the right of mortgage upon such areas of land, and is intended to prevent the absolute pauperization and expropriation of a debtor. While excellent in this respect, it cannot be doubted that the provision *pro tanto* raises the price of credit, and is therefore one to be most cautiously introduced, if introduced at all, into this country; possibly, however, it may be a useful compromise between the views of those who would take away altogether the ryot's power of mortgage, and those who would leave him to burden himself, his land and his industry, at his own too careless pleasure. A section has accordingly been added to the Draft Bill in the form of an addition to section 266 of the Code of Civil Procedure, exempting houses of a value not exceeding Rs. 50, and lands not exceeding a certain small area, from Court sales for debt, even where such houses or lands may have been specifically mortgaged; provision has, however, been also made for exempting all banks from the operation of the clause when the debt is due for loans granted for *bonâ fide* improvements on the land, and also for exempting altogether such Co-operative and Savings banks as may be specially privileged to that effect by the Local Government. The section is a tentative suggestion rather than a distinct recommendation, since the change in the law would have a very wide effect.

CHAPTER V.—DRAFT BILL.

1. *Scope.*—This Act shall be read as supplementary to the “Indian Companies Act, 1882,” and extends to the whole of the Madras Presidency outside of the original jurisdiction of the High Court, and known as the Mofussil; it shall come into force from

CHAPTER I.

GENERAL.

“In kind,” to meet the need for village credit granaries; see chapter on Recommendations *s.v.* village banks, and “Positos” in the chapter on Popular banks.

2. For the purposes of this Act “*Bank*” means any company of seven or more persons, associated under this Act for the collection of funds, whether in cash or in kind, and whether subscribed, purchased, borrowed, or deposited, which may be used in granting credit; it includes credit societies formed as joint stock companies with a view to the profit of their shareholders, co-operative banks, mutual loan societies, funds, or nidhis of any description lending only to and for the benefit of their own members; any other loan societies; deposit and credit annexes to other classes of association; savings banks in which accumulated funds are loaned out or otherwise invested; banks established for the purpose of land improvement only; central banks formed for the supply of capital to mofussil banks, for the equalization of their funds, and for the issue to them of central bank debentures, although such banks may be established at the Presidency town, and although they do not lend their funds or issue their debentures direct to individual borrowers.

“*Company*” means only companies registered under this Act and no others, unless it is expressly stated otherwise.

“*Commissioner*” means the authority entrusted with the registration of companies under the Act, and with the supervision of rural credit, by whatever designation he may be actually known.

The words “*Limited by shares*” shall permit a liability on the part of shareholders or members in case of liquidation to contribute such proportionate additions to the share amounts as may be prescribed by the memorandum or articles of association. It shall also include, in the case of co-operative mutual or savings banks, a limitation of the liability of non-borrowing members to amounts actually paid or in arrears upon shares, should provision to that effect be made in the articles.

“*Rural*” is to be understood as referring of all persons, things, places, &c., outside the limits of the original jurisdiction of the High Court.

“*Land*” includes all immovable property.

3. Registration may be effected either under the present law or under the Companies Act, but only banks registered under the present

C.L. (Chapter on Law) *s.v.* “supervision.”

id. s.v. “capital” para. 4.

C.L. *s.v.* “Promotion and formation of Societies.”

law obtain the privileges granted therein. Registration may be effected under the condition and with the privileges hereinafter following. No company shall be registered under the present Act unless a general meeting of all shareholders or subscribers shall have been previously held, at which meeting the promoters and directors shall present a written report, stating the objects of the company, a list of the promoters, directors, and shareholders, the prospects of the business, all facts and statistics necessary to prove the reasonableness of such prospects, together with a copy of the memorandum and articles of association. Should the meeting approve of the establishment of the company, the above documents shall be forwarded in duplicate to the commissioner for the registration of the company. The commissioner shall have power to refuse registration if the above formalities have not been complied with. The original documents shall be returned after registration, the duplicate copies being retained by the commissioner.

4. The provisions of the Indian Companies Act, so far as they are not modified or cancelled by the present law, apply to all banks registered under the present law.

All penalties prescribed by this Act shall be leviable in like manner as penalties under the Indian Companies Act.

5. The primary object of each bank registered under this Act shall be the supply of capital to agriculture and rural industries by the promotion of general thrift, to which end it shall furnish credit—

- (1) for the redemption of prior debt;
- (2) for the current needs of the rural classes;
- (3) for the purchase and improvement of land;
- (4) for direct agricultural and industrial developments.

But no loans shall be granted to mines or for mining-purposes or for the prospecting for mines, nor shall any investments be made in such enterprises, nor in any enterprises of a speculative nature.

Credit operations may be (1) the grant of loans on first mortgage; (2) the discount of bills; (3) the grant of loans on simple bond or note either with or without sureties; (4) the grant of loans on pawn or pledge or on bills of sale; (5) the opening of cash or book credits. Loans by means of which all prior mortgages are redeemed are considered as first mortgages. Banks may undertake the supply of goods needed by agriculturists, such as cattle, implements, seeds, manures, food-stuffs and the like, as also the purchase of rural produce.

6. *Inability to hold land.*—It shall not be lawful for the banks to hold land beyond that required for business premises; the temporary acquisition of land as the result of foreclosure, or otherwise on account of a debt, is permitted, but all such land must be sold within three years from date of acquisition. No director, office-bearer, officer or servant of any bank shall be permitted to bid for any lands sold for any dues of the bank.

id. s.v. "property."

7. Articles of Association.—The articles of association must contain

- Definitions ;
- The name and place of office of the company ;
- The objects and area of its enterprise ;
- The nature of the liability of its members ;
- Rules for the rights and duties of members individually towards the company, and of the company towards members individually ;
- Rules for the general meeting, ordinary and special ;
- Rules for the appointment, powers, conduct and duties of directors ;
- Rules for a committee of supervision and audit ;
- Rules for any special committees (as for valuation, discounts, &c.) ;
- Rules for the inspection of books and accounts by individual members ;
- Rules for the appointment of special or regular inspectors for the examination of its affairs and accounts, or, if a union, of the affairs and accounts of its component societies ;
- Rules for the giving of security by office-holders and staff ;
- Rules for the amount of its capital and number of shares ;
- Rules for the increase and alteration of capital ;
- Rules for calls upon shares ;
- Rules for the transfer, transmission and forfeiture of shares ;
- Rules for founders' shares, if any ;
- Rules for the formation and permanent upkeep of a reserve, or reserves ;
- Rules for the securing of proper accounts ;
- Rules for the appropriation of profits and the declaration of true dividends ;
- Rules for preparing the balance sheet ;
- Rules for audit, whether of its own accounts, or, if a union, of the accounts of its component societies ;
- Rules for the obtaining of funds, and therein for the issue and management of debentures, for the receipt, investment, and repayment of deposits, ordinary or savings ; for other borrowings ;
- Rules for the grant of credit, and therein for loans upon mortgage, for loans on other security, for discounts, for cash credit, for dealings by way of pawn, bills of sale, &c. ;
- Rules for the valuation of securities tendered ;
- Rules for investments other than on loan ;
- Rules for operations other than the grant of credit ;
- Rules for the settlement of disputes between the company and its members ;
- Rules for the periodical communication to members, creditors, and debtors, of their credit and debit balances ;
- Rules for such other matters as may be necessary.

Copies of the articles and of all amendments thereto shall be registered with the commissioner, who shall have power to examine their legality and to refuse registration to such as are not warranted by law, and shall also advise, but not authoritatively, upon such as may be considered inadvisable or objectionable, but not illegal. No bank shall commence business without the certificate of the commissioner that its articles have been duly registered and that the other conditions of the law have been duly complied with. Each society shall also draw up rules of business prescribing the details of the methods and forms of accounts, of the conduct of the office, of the inquiries relating to the grant of loans, and of all other matters necessary for the safe and business-like conduct of the company in its various transactions. A copy of such rules, as amended, shall be sent to the commissioner who shall advise upon the details to be observed.

CHAPTER II.

JOINT STOCK BANKS LIMITED BY SHARES, NOT BEING CO-OPERATIVE, MUTUAL OR SAVINGS BANKS.

8. In this chapter the word "Bank" shall refer only to joint stock banks limited by shares, and registered under this Act, and shall not refer to banks of unlimited liability or to banks limited by guarantee or to co-operative, mutual or savings banks, or to land improvement banks under the special provisions enacted for their encouragement.

9. *Share Capital.*—The capital of the bank must be fully subscribed, and at least one-half must be paid up before banking operations begin; one-fourth of all paid-up capital must be invested in Government stock or other securities appointed by Government from time to time, until such time as the reserve hereafter mentioned shall reach the amount of one-fourth of the nominal capital. Provided, however, that such investment shall not be necessary should the Articles provide for an additional liability of the shareholders in the proportion of not less than 50 per cent. of the par value of the shares in case of liquidation, as provided in Section 2 *supra*.

It shall be lawful for a bank to declare by special resolution that any part of its uncalled capital shall not be capable of being called up, except in the event or for the purpose of the bank being wound up; such capital shall be called "reserve capital," and shall not be capable of being charged as security for the purpose of borrowing or of being otherwise dealt with except in case of or for the purpose of liquidation.

10. *Minimum Share Capital.*—No bank referred to in the present chapter intending to issue debentures against such portion of its assets as may be invested in land mortgages, shall possess a share capital of less than Rs. 5,000, of which one-half shall be paid up during the working of the bank.

11. Every loss of capital shall be forthwith reported to a general meeting, to be convoked

C.L. s.v. "capital" para. 4.

idem.

idem.

id. s.v. "capital" para. 3.

for the purpose, and to the commissioner. Such loss of capital shall necessitate the winding up of the bank, unless the general meeting determines to replace the lost capital or to reduce the capital of the bank as provided in sections 13 to 23 of the Indian Companies Act; provided always that such reduction shall not reduce the share capital below the legal minimum required by this Act. It shall be lawful to replace lost capital by a withholding of all dividends till such loss shall have been made good. In case of any failure to comply with the requirements of this section the commissioner may take steps for the winding up of the bank. The commissioner shall have power to appoint inspectors to ascertain the fact of a loss of capital, or whether such loss has been made good, or whether the bank is in a sound working position.

C.L. s.v. "capital" para. 6.

12. No share shall be of lower denomination than Rs. 20, and no shareholder may possess more than one-tenth of the share capital.

id. s.v. "dividends" and "directors" para. 4.

13. *Dividends*.—Dividends shall be paid out of actually accrued profits only, provided that such dividends may be increased or wholly paid out of any reserve specially formed *ad hoc* from the profits of preceding years, and not being the general reserve. The payment of dividends by directors otherwise than as above shall be deemed a misdemeanour irrespective of any specific intention on the part of the directors or whether followed or not by loss to the bank. Directors shall be held personally liable for all such payments, and shall further be liable to simple imprisonment not exceeding six months or to fine or to both, upon conviction before a magistrate.

id. s.v. "dividends."

14. *Profits*.—Interest unpaid, although due or accrued on debts, owing to the bank, shall not be included in the calculation of its profits previous to a dividend.

The surplus profits, from which alone a dividend can be made, shall be ascertained by charging in the account of profit and loss and deducting from the actual profits—

- (1) all expenses paid or incurred, both ordinary and extraordinary, attending the management of its affairs and transaction of its business;
- (2) the interest paid, or then due and accrued, on debts owing by it;
- (3) all losses sustained by it. In the computation of such losses, all debts owing to it, shall be included which shall have remained due, without prosecution, and upon which no interest shall have been paid for more than one year, or on which judgment shall have been recovered that shall have remained for more than two years unsatisfied, and on which no interest shall have been paid during that period.

id. s.v. "reserves."

15. *Reserve Fund*.—There shall be annually deducted from the net profits before the declaration of a dividend such proportion thereof, not being less than 20 per cent., as shall be determined by the directors, for the formation of general reserve fund, until such reserve fund shall equal at least one-fourth of the total

nominal capital of the bank. The reserve fund shall not be divisible amongst shareholders or other and shall be inalienable, nor may it be in any way pledged or borrowed upon. It shall be invested in Government stock, or such other securities as shall be from time to time appointed by Government, and the interest thereof shall be credited to the same fund.

The reserve fund is primarily a guarantee fund for the creditors of the bank, but may be used to make good any losses not covered in any year by profits, which, however, must be first applied in full to such purpose. It may not be used to increase the dividends of any year. The fund must be kept constantly full, all withdrawals being made good without delay.

16. *Other Reserves.*—The articles may provide for other necessary reserve funds which may be used for the purposes indicated in the articles; such are reserves used as a special guarantee for debentures, and for the punctual payment of interest thereon; for insuring borrowers against loss by the failure of land improvements; for recouping any loss by depreciation of debentures or other securities; for supplying deficiencies in fixed interest on shares or loans; for equalising dividends, &c.

Reserves of the first three classes may be formed from special contributions for the purpose demandable from borrowers from the bank; in such case the contribution with simple interest at 3 per cent. per annum may, if the articles so provide, be credited to the final instalment of the borrower's debt.

Public Reserve.—Government may require the formation of a Public Reserve or Guarantee Fund, to which all banks under this Act shall annually contribute an amount not exceeding 0·25 per cent. of their capital. For the purposes of this section the word "capital" shall mean all paid-up share capital, all deposits, and all sums borrowed for the purposes of the bank, whether by loan, by the issue of debentures or otherwise, but shall not include the general reserve. Contributions shall be made and the Public Reserve funds invested under rules to be made by Government from time to time, provided that such funds shall not be invested otherwise than in Government securities. The interest accruing from time to time upon such securities shall be added to the Public Reserve, and shall not be credited to the banks. The fund thus accumulated shall be used solely to guarantee the repayment of any sums lost by Government by reason of any subvention or guarantee, and of all deposits and debentures and of any interest thereon, held by or due to the public in general, by whatsoever bank such deposits shall be held or such debentures shall have been issued, and shall only be drawn upon after the due liquidation of a bank under order of a court.

State charges.—Government may require annually a contribution from every bank registered under this Act, of a sum not exceeding 0·25 per cent. of its capital in lieu of all charges for registration of its Memorandum and articles of Association, for supervision and inspection, for Treasury charges, and for an insurance fund for general purposes.

Appendix, Part I, s.v. "Land banks" *passim*.

C.L. s.v. "deposits;" Appendix, Part I, s.v. "Popular banks" and "Savings banks."

17. *Deposits.*—Deposits repayable at call or at less than three months' notice may be received up to the amount of the share capital and not more, unless with the special authorization of Government. Fixed term deposits for three months and upwards may be received without such limitation, provided always that the aggregate amount of deposits of all kinds of debentures, and of other liabilities shall not exceed the recoverable amount at any time outstanding upon loans and due to the bank, or ten times the amount of the uncalled share capital and reserve, whichever is less.

Banks receiving deposits payable at call, or at less than three months' notice, must hold not less than 10 per cent. of the amount of such deposits in Government promissory notes, or other securities expressly approved by Government and 5 per cent. in currency notes or cash.

Subject to the provision of paragraph 2, deposits may be invested in loans not exceeding three years in term.

The articles of association shall fix terms for the repayment of deposits which shall invariably include a provision that, if necessary, for the safety of the bank, one month's notice or more may be required by the directors for the repayment of deposits at call.

It shall be lawful for a bank to issue receipts against fixed term deposits, made out either "to order" or "to bearer;" such receipts shall then be transferable under the rules hereinafter laid down for debentures and shall be chargeable with similar stamp duty on transfer. Registration under Act III of 1877 shall not be obligatory.

The commissioner shall watch over the observance of the provisions of this section, and it shall be lawful for him either on his own motion or on a verified statement made by not less than ten members, depositors, or other creditors of the bank, to cause an examination to be made of the affairs of the bank to ensure obedience to contents of this section.

It shall be lawful for depositors to be present, but without right of discussion or vote, at all general meetings, and they may appoint or may move the commissioner to appoint for the purposes of the annual audit, a co-auditor, who shall have equal powers with the regular auditor of examining the accounts and affairs of the bank.

18. *Debentures.*—Banks registered under the present Act shall be entitled to issue land mortgage debentures, provided that they have been specially authorized by Government to that effect.

19. The paid-up capital and reserve of banks issuing debentures shall be entirely invested in Government promissory notes or in other securities guaranteed either as to principal or interest by the Government; such securities shall be made out in the name of the commissioner. The interest of such notes shall be paid over half-yearly to the directors for the purposes of the bank. The amount of debentures to be issued shall not exceed twenty times the amount of the paid-up capital exclusive of the reserve.

20. The security for land mortgage debentures shall be (1) the mass of mortgages held by or

Appendix, Part I, s.v. "Popular banks, Italy" (buoni fruttiferi a scadenza fissa).

C.L. s.v. "deposits," para. 6 and "debentures," para. 5.
C.L. s.v. "debentures" and Appendix Part I, s.v. Land banks (land mortgage debentures) *passim*.

secured to the bank ; (2) its capital and reserves. The mass of mortgages held by or secured to the bank shall be considered as the special fund guaranteeing the debentures, and in case of liquidation the debenture-holders shall take precedence of all creditors, except for State dues, upon and to the value of such mortgages.

All debentures shall be issued in series and shall take equal rank whatever their date or series.

No bank issuing debentures in series secured as above shall be entitled to issue debentures against any particular mortgage or property ; any such specific charge shall be considered null and void, and the debentures shall take rank with all other debentures, subject, however, to the proviso contained in section 27.

The par value of the debentures issued shall at no time exceed the amount actually outstanding upon and secured by mortgages.

All debentures as issued shall be registered in such office and under such rules as shall from time to time, be prescribed by the local Government.

The Government shall also make rules for the forms in which debentures shall be issued, for the entries to be made upon them, and for securing them against falsification and against the fabrication of false imitations.

21. Land mortgage debentures shall be personal (to order) or to bearer. Personal debentures shall be transferred solely by endorsement to order, a receipt stamp of one anna being affixed and cancelled on each transfer. The fact and date of transfer and the name and address of the transferee, shall forthwith be communicated to the issuing bank on penalty of a fine of Rs. 5.

Debentures to bearer may be transferred without endorsement and may pass freely from hand to hand without registration or other formality or stamp-duty.

22. When a debenture is to be paid off, its face value shall be paid to the person presenting it; if, however, the debenture be personal, it shall only be paid to the person whose name stands against it in the bank's register, unless sufficient proof be offered of a valid transfer to the presenter by the person so registered, or of a lawful transmission to him by succession.

Notice of alleged loss, theft or destruction of a personal debenture must be given to the bank within seven days of such event together with a statement of the nature of the loss, &c. Failing such notice the bank shall not be bound to issue a duplicate, and may pay the value of the debenture to the person presenting it, subject to the provisions of the preceding paragraph. All expenses shall be payable by the claimant. No action shall lie against the bank for any payment made as above, but only against any person who may have wrongfully received such payment.

When a debenture, whether personal or to bearer, has been defaced, spoiled, or worn out, but is still recognizable, the holder is entitled to demand a duplicate or an equivalent.

The holder of a debenture to bearer may, on proof of its destruction, demand a duplicate or its equivalent upon deposit of proper security, as required in the case of currency notes ; the

holder must pay all expenses. In case of the alleged theft or loss of a debenture to bearer, the alleged owner shall make his claim only against such person as may be found in possession of it; he shall have no claim against the bank, but may notify the bank either directly or through an order of court not to pay such amount pending disposal of legal proceedings against the presenter.

23. Interest shall be paid at the bank on fixed dates and under the rules contained in section 22 for the payment of the value of debentures.

Provided that when coupons to bearer are annexed to a debenture, the person presenting such coupons shall be paid without question, and no action shall lie against the bank for any such payment, but a claimant other than the presenter may notify the bank as in section 22 in the case of debentures to bearer. On the presentation for repayment of a debenture to which interest coupons to bearer have been attached, it shall be lawful for the bank to deduct from the amount of the debenture the value of any unpaid coupons not presented with the debenture. Such coupons shall be subsequently payable without question by the bank to any person presenting them on or after the dates on which they are on their face payable, and no action shall lie against the bank for such deduction or payment, but only against the presenter of the coupon, but the claimant other than the presenter may notify the bank as in section 22 in the case of debentures to bearer.

24. Registration under Act III of 1877 shall not be necessary in the case of land mortgage debentures issued by banks. Holders may register debentures if they so desire, in which case they shall be subject to the ordinary rules of registration, and all subsequent transfers must also be similarly registered. But transfers so registered shall not require any stamp other than that prescribed by section 21 *supra*.

Section 17, *ff.* of Act III of 1877 shall be supplemented as follows: "or any land mortgage or agricultural debentures issued by any company empowered to issue such debentures, under any law expressly providing for such debentures, or".

25. Land mortgage debentures may bear value from Rs. 20 to Rs. 1,000, increasing up to Rs. 100 by any convenient sums, and above Rs. 100 by integral sums of Rs. 50. Debentures of Rs. 20 to Rs. 100 may be sub-divided into coupures; in such case each coupure should thereafter be treated as a separate debenture. A debenture registered under Act III of 1877 may not be sub-divided.

It shall be lawful for the local Government to make such rules for sub-divisions as may seem needful, and for the facilitation of sub-division.

26. Land mortgage debentures may be of any term from one year to sixty years; they may be issued for a fixed term or for a maximum term with periodical drawings for repayment.

Debentures, however, may be recalled and paid off by the bank at any time after six months' notice; such notice shall be issued to the registered holder in the case of personal debentures.

and by advertisement or other method in the case of debentures to bearer.

The bank may also at any time buy up its debentures in open market or by private negotiation. Holders of debentures, which have been drawn or notified for repayment, shall have no claim to interest after the date of notification of the result of the drawings or after six months from the date of the notification of recall in any case other than that of recall by drawing.

The holder of a debenture has no claim to repayment and cannot make such claim before the recall of the debenture by the bank either upon maturity or otherwise as in the preceding paragraph, or upon its being drawn for repayment in the ordinary course of amortization.

Debentures issued in series and subject to repayment in the course of amortization shall ordinarily be paid off at fixed periods, the debenture to be paid off at each such period being determined by drawings. They shall be repaid at par together with any premia that may from time to time be determined as payable. The Local Government shall make rules for the methods and precautions to be adopted in making the drawings.

27. A debenture-holder unpaid upon maturity or upon the drawing of his debenture shall, after demand duly made in writing and failing satisfaction within three months after demand, have the power of placing the bank in liquidation or, at his option, of obtaining a charge upon a particular property, security or mortgage held by the bank and to be named by him; in such case his charge shall take priority of the bank's claim against the said property, security or mortgage, up to the amount of his claim, until such claim be satisfied.

28. It shall be lawful to issue land mortgage debentures below or above their face value, but repayment shall always be at par.

Provided, however, that it shall be lawful to issue a series of such debentures with the promise of repayment at par *plus* a premium, such premium to be of equal amount on each debenture.

It shall also be lawful to declare a premium on all the debentures to be paid off at a particular drawing, provided that such declaration be made before the drawing takes place. But it shall not be lawful to issue debentures repayable with prizes only to particular debentures, the numbers of which are to be determined by lot or chance.

29. Land mortgage debentures of Rs. 100 and upwards shall bear a stamp duty of 4 annas per Rs. 50 or fraction of Rs. 50. Debentures of less than Rs. 100 shall bear a stamp duty of 2 annas per Rs. 25 or fraction of Rs. 25.

30. Banks are also empowered to issue debentures against (1) simple bonds with two or more sureties executed by ryots paying land revenue to Government and in possession of their land, (2) against bills of sale as drawn against the entire present or future movables of a farm, and (3) against bonds secured by a charge upon the *plus* value caused by a land improvement. These three classes of bonds shall be called agricultural debentures.

C.L. s.v. "ordinary debentures," and Appendix, Part I, s.v. Italian Popular banks (buoni di tesoro dell'agricoltura).

31. Agricultural debentures of the first class shall be secured by so much of the portfolio of the bank as consists of simple bonds of the class mentioned, by the capital and ordinary reserve, and by any reserve specially contributed *ad hoc*. They shall not exceed the term of three years, but shall be withdrawable by the bank at any time on three months' notice.

32. Agricultural debentures of the second class may be issued in representation of loans based upon simple bonds and upon the whole produce and stock of a farm and its homestead as hereinafter (section 38) described. They shall not exceed in original the term of one year with a permissible extension up to a total of three years by annual prolongations, and shall be recallable by the bank at any time on three months' notice.

33. Agricultural debentures of the third class shall be issued in accordance with the provisions laid down for land mortgage debentures in sections 18 to 29 *supra*.

34. Agricultural debentures shall be governed *mutatis mutandis* by the provisions of sections 18 to 29 relating to land mortgage debentures and subject to the provisions of sections 30 and 31.

35. Debentures of all classes, the value of which remains unclaimed or to which no valid claim has been set up within three years from the date of its being drawn for repayment or from the date of the expiry of notice of recall or of maturity, shall be credited to the reserve of the bank concerned, after due notice has been published. No suit shall lie against the bank for the value of any such debenture after the expiry of the said three years, but the bank may, but shall not be bound to entertain claims to such sums at any time within the three following years, after which date no claim shall be considered. In case any claim is allowed beyond the expiry of the first period of three years, it shall be optional with the bank to allow simple interest thereon.

Where the interest of any debenture has not been claimed within three years from the date of its falling due, it shall be similarly dealt with, but no claim shall be entertained after the expiry of three years.

Rules shall be made by the local Government regarding the publication of the notices referred to in this section.

36. The debenture system in all classes shall be under the supervision of the authorities to be hereafter designated for the supervision of rural banks. Every debenture shall be covered to its full value by the mass of loans against which it is issued, it shall be entered serially by consecutive numbers in a special register or shall be extracted from a numbered stub with corresponding counterfoil. None shall be valid without the countersignature of the authority to be designated by the local Government for that purpose, nor shall such authority affix his signature without satisfying himself that the debenture is duly covered by the loan transactions outstanding. A duly verified return shall be made by the bank not less often than once in three months, showing (a) the number and aggregate existing value of all loans of each class, (b) the number and value of all outstanding debentures of each class. The accuracy of such returns shall be specially attested by the directors and

by the committee of supervision or audit if such exists, and shall be specially certified by the periodical auditors. It shall be lawful for the commissioner at any time to verify such returns and for that purpose to examine or cause to be examined the whole affairs of the bank. But the local Government is further empowered to make additional rules consistent with the law, and which shall have the force of law (1) to ensure that the aggregate par value of debentures issued shall not at any time exceed the outstanding value of the mass of mortgages held by or secured to a bank and to give due publicity to the necessary statistics; (2) to provide for the issue, withdrawal, and cancellation of debentures; (3) to prescribe a proper form of debenture for the collection of stamp duty chargeable thereon; (4) to facilitate transfers; (5) to facilitate and insure the punctual repayment of interest; (6) to provide for the issue of duplicates in case of loss, destruction or defacement; (7) to control the mode of drawing by lot or otherwise ascertaining the debentures to be repaid; (8) to prescribe the notice to be published before crediting the value of unclaimed debentures and interest to the banks.

37. *Loans*.—No loans shall be granted to any one person or undivided family beyond an amount or proportion of the share capital, in no case exceeding one-tenth of such capital, to be laid down by the articles. Nor shall the loans granted to directors and members of the committee of supervision exceed in the aggregate such amount or proportion. Loans upon land shall not exceed two-thirds of the estimated value thereof, nor one-half if upon buildings.

C.L. s.v. "loans" and "directors," para. 6.

Loans may be repayable either in lump or by instalments.

Provided that the borrower shall always be entitled to repay his loan in whole or in part at any time before the expiry of the term on due notice given, and on payment of a commission as may be stipulated by the articles.

When payable by instalments, a loan shall ordinarily but not necessarily be repaid by fixed annuities comprising interest and sinking fund, according to tables to be drawn up for the purpose under the authority and supervision of Government.

Loans for land improvements only may be granted under the chapter relating to land improvement banks. Releases of mortgages shall be subject to the provisions of section 39.

38. Loans may be issued, for agricultural purpose only, upon the security of the whole present and future stock, furniture and produce of a farm, and with or without the addition of personal securities.

id. s.v. "bills of sale."

For such loans the bank shall acquire, by the issue of the loan, a charge upon such property and produce, present or future, until the satisfaction of the debt. It shall not be necessary for the purpose of granting such loan to obtain delivery or pawn of the property, nor need specific items of property be pledged for it. During the pendency of the loan the pledger shall be regarded as the trustee and manager for the bank of the property covered by the loan, and may not appropriate such property to his sole use.

But he may, with the consent of the bank, sell the produce and alter the specific items of the property, provided that he maintains his stock in proper order and condition, duly cultivates his farm and pays his instalments according to agreement. In case the pledgor alienates his stock without the consent of the bank and without replacing it, or suffers his farm to seriously deteriorate, or abandons cultivation, or fails to pay his dues according to his contract, his loan shall immediately become due, and it shall be lawful for the bank to proceed at once by distraint of the property as upon a bill of sale; the pledgor shall further be liable for the penalties provided for breach of trust.

Every document evidencing such loan shall be duly registered under Act III of 1877, and shall then take precedence over all other charges except (1) for Government taxes or dues; (2) for the rent due to a landlord as described in section 3 of Madras Act VIII of 1865; (3) for debts covered by decrees of court in actual existence at the time of the grant of the loan; (4) for claims arising out of prior charges or claims upon specific items of property, and entered in deeds duly registered, and they shall be binding on all co-sharers in the lands or property contained in the farm. The words "agricultural purposes" entered in paragraph 1 shall be held to mean all purposes connected with the current working, maintenance, and development of a farm, viz., the purchase of seed, manure, implements and cattle, the growth of crops whether ordinary or special including any subsequent manufacture that may be necessary, the planting of orchards, vineyards and similar plantations, the breeding of cattle, and the making of due provision for their maintenance, the payment of revenue to Government, or rent to a landlord as entered in section 3 of Madras Act VIII of 1865, and such other purposes as may be authorized by the local Government. But such purposes shall not include the redemption of prior debts, unless such debts do not exceed Rs. 50 and were incurred for agricultural purposes as above defined; nor shall they include the maintenance of the borrower or his family.

The term of such loans shall not exceed originally one year, which may be extended in total to three years by annual prolongations.

The debt bonds shall be subject to a stamp duty of one-half the ordinary stamp duty. They shall be subject to the provisions of the Registration Act III of 1877, but shall pay only one-half of the ordinary charges.

39. Releases and receipts shall invariably be issued by the bank on the complete payment of a loan, whether applied for by the debtor or not. They shall be in a form to be prescribed by the commissioner, printed and taken from a stub with counterfoil which is to be duly entered up. They shall bear a 1-anna adhesive stamp, and shall be subject to the provisions of the Registration Act III of 1877. When the original debt bond or mortgage deed has been registered, the release must invariably be registered. Registration fees shall be one-quarter of the ordinary fees, and it shall be

lawful to register such release by mere entry, without transcription, on the margin of the original registration entry in a column to be provided for the purpose, the indexes being entered up as usual.

MANAGEMENT AND ADMINISTRATION.

40. *Directors.*—All directors shall retire at the first ordinary general meeting held after the registration of the bank, but shall be re-eligible by the meeting. At every subsequent annual meeting one-fourth or such number as shall be nearest to one-fourth of such directors shall retire, and shall not be re-eligible at the following annual meeting. Directors shall retire by rotation, the first complete rotation being determined by agreement or by lot: in subsequent years those longest in office shall retire. A general meeting shall have power by special resolution to cancel the appointment of any director on sufficient cause being shown.

C. L. s. v. "directors", para. 7.

41. Every director shall hold a certain number of shares in the company which may not be alienated, pledged or charged during his term of office; he shall *ipso facto* vacate office in case of breach of the above rule; concealment of such breach or failure to vacate upon breach shall be punishable on conviction before a magistrate with a fine which may extend to Rs. 1,000.

id. para. 5.

The articles shall declare the number of shares not being less than 1 per cent. of the total capital of the company, to be held by a director, and shall make rules to ensure observance of the above condition.

42. Directors are responsible that no operations are undertaken other than those contemplated by the memorandum of association. Each director shall be individually liable for all damages caused to the company by breach of this rule, unless he proves that the operation was protested against by him and that he communicated the fact and his protest to the general meeting held, if any, next after such operation.

id. para. 3.

43. The provisions of the English Directors' Liability Act, 1890, shall be extended to directors of companies registered under the present law. Directors shall be similarly liable to depositors. They shall be similarly liable to subscribers or depositors in case of untrue balance sheets or other statements purporting to describe the position of the bank.

id. para. 1.

44. Directors who pay dividends except out of profits actually earned or from some reserve, other than the general reserve, specially formed *ad hoc* from the profits of previous years, shall be personally liable to repay the whole of such dividend to the company, saying their right to obtain recovery of any such sums from the recipients of such dividends, and shall be further liable as provided in section 12 *supra*.

id. para. 4.

45. Directors shall be bound to call a general meeting within one month after the share capital has been diminished as prescribed in section 11 *supra*.

id. para. 3 and "capital", para. 3.

Directors who fail to observe the above rule will be liable for all losses caused by subsequent operations, and shall be further liable,

whether subsequent losses or damage to the society or any person occur or not, to a fine upon conviction by a magistrate.

C.L. s.v. "directors", para. 6.

46. Directors and the undivided members of their families shall be ineligible for loans from the bank of which they are directors, except with the express sanction of a general meeting or of the committee of supervision if such exists. Nor can the aggregate of loans granted to directors exceed, on the whole, one-tenth of the nominal capital of the company.

id. para. 8.

47. No person shall be eligible as a director if he has been a fraudulent bankrupt, or has been more than once insolvent, or if he has been punished under any of the penal provisions of this Act, or of the Companies Act, or of chapters VI, VII, IX, XI, XII, XVII and XVIII of the Penal Code, or if he has been dismissed from Government service for any misconduct amounting to fraud, falsification of accounts, bribery, or any other offence involving a serious defect in moral character.

The office of director shall be vacated—

if he, or any partner of his, or the firm of which he is a member, holds any other office or place of profit under the company;

if he becomes bankrupt or insolvent;

if he is punished under any of the penal provisions of this or of the Companies Act;

if he is concerned in or participates in the profits of any contract with the company.

Provided, however, that no director shall vacate his office by reason of his being a member of any company which has entered into contracts with or done any work for the company of which he is director; nevertheless, he shall not vote in respect of such contract or work, and, if he does so vote, his vote shall not be counted.

Any director in office who shall become ineligible through any of the above reasons shall be deemed *ipso facto* to have vacated office.

id. s. v. "Committee of Supervision."

48. *Committee of Supervision.*—Every bank shall form a committee of supervision which shall be appointed by the general meeting. Sections 40, 41, 42, 43 last paragraph, 44 to 47, shall apply *mutatis mutandis* to members of the committee of supervision. They shall be entirely independent of the directors and no director can belong to the committee of supervision, nor can any member of the committee of supervision be a director, nor shall any father, son, brother or undivided member of a director's family be a member of the committee of supervision, and *vice versa*.

The articles shall fix the number of members for the committee, not being less than three and the mode of their appointment.

Their duties shall be detailed in the articles and must comprise—

- (a) the supervision of the affairs of the bank and the operations of directors so far as to satisfy themselves that business is being conducted within the provisions of the law and the articles, but not so as to interfere with the actual management and conduct of business;

- (b) the examination periodically, and not less than once in a quarter, of the books of the bank, in order to verify its transactions and to ensure a proper mode of book-keeping;
- (c) the examination frequently, and without notice, and not less than once in a quarter, of the funds, valuables, securities and stock of the bank, or deposited with them, on pledge, caution or for security, in such way as to ensure that they agree with the books and are actually in hand;
- (d) the examination of the loan accounts and documents so as to ensure that loans are being issued only in accordance with the law and the articles, and especially that loans are not being unduly or irregularly granted to directors and their dependants;
- (e) the comparison of the deposit accounts with the pass books of depositors whenever practicable;
- (f) the testing of the ledger entries of loan repayments with the receipt books given to borrowers whenever practicable;
- (g) the comparison of a proportion of the valuation certificates attached to debt bonds with the securities, whether land, buildings, jewels or other securities;
- (h) the examination in company with the directors of the annual balance sheet and the submission of their remarks upon it to the general meeting;
- (i) such other duties and operations as may appear necessary to the company.

It shall further be competent for a general meeting, by ordinary resolution, to require a report from the committee of supervision regarding any matter relating to the interests of the bank.

The committee shall have power to summon extraordinary general meetings whenever it may seem necessary, and shall summon the ordinary meetings should the directors fail to do so within one month of the fixed time, or within three months after the close of the business year if no time is fixed by the articles.

They shall, if required, assist at the regular annual or other audit, and shall, in any case, add their remarks to the audit report submitted with the balance sheet to the general meeting.

49. *Inspections.*—Shareholders holding not less than one-tenth of the whole shares of the bank or one-tenth of the whole number of members or creditors, including depositors to whom, in the aggregate, an amount not less than one-tenth of the nominal capital is due, may apply to the commissioner for the appointment of the inspectors mentioned in sections 82 to 85 of the Indian Companies Act (1882).

The bank may also appoint inspectors as mentioned in section 86 of the Indian Companies Act (1882) by *ordinary* resolution.

Provision shall be made in the articles for the inspection of books by members at any reasonable time and place, but not so that the ledger accounts of members other than the inspecting members shall be viewed.

50. *General Meeting.*—The general meeting shall appoint and, when necessary, revoke the appointment of all directors and of the committee of supervision. No shareholder in arrears with any call that may have been made upon the shares, shall be entitled to vote at any general meeting.

51. *Audit.*—The local Government through the commissioner shall make rules, which shall have the force of law, for the efficient audit of every bank, and for taking all steps for the safety of the bank, its members, and the public, which such audit may show to be necessary, including the winding up of the bank. Auditors shall not be appointed by directors, but by the general meeting, nor shall any director be eligible as an auditor. The commissioner shall have power to appoint an auditor where no proper auditor is appointed by the bank, or where the auditor has been improperly appointed, or when he considers that a co-auditor is advisable, and such auditor shall have all the powers of an auditor as ordinarily appointed.

The debenture-holders, depositors, and other creditors of any bank shall have the right of jointly appointing a special auditor to represent their interests at the periodical audit. Such auditor shall have the same powers as the ordinary auditors appointed by the general meeting. Any dispute as to the appointment or personality of such auditor shall be referred to the commissioner, whose decision shall be absolutely final, and shall not be open to appeal or to suit in court.

52. *Liquidation.*—The following additions are made to section 128 of the Indian Companies Act (1882):—

- (f) whenever the transactions of the company appear to the court to be of a fraudulent nature or appear likely to cause loss or damage or injury to the public or any class of persons ;
- (g) whenever the capital of a company is reduced by one-third and the shareholders are unwilling to make up the deficiency, or to reduce the nominal capital of the company.

53. The following addition shall be made to section 130 of the Indian Companies Act, viz. :—

“It shall be lawful for the High Court, on proper cause shown, to transfer any case of liquidation from “the Court” as defined in this section to any other Court which, in its opinion, is competent to dispose of the case.”

54. At the end of paragraph 1 of section 131 of the Indian Companies Act, the following words shall be entered, viz. :—

“or by any officer or representative of Government duly empowered in that behalf under this or any other law, or under any rules

C. L. s. v. “external supervision.”

having the force of law which may, from time to time be made by the Government."

55. In paragraph 1 of section 137 of the Indian Companies Act, the words "shall forthwith be forwarded by the company" shall be read as "shall forthwith be forwarded by the company and by the Court" in the case of companies registered under the present Act.

56. The Court or the liquidator appointed by the court shall, in all matters relating to the winding up of a company registered under this Act, permit the appearance of an officer or representative of Government duly empowered in that behalf under this law, or under any rules having the force of law which may, from time to time, be made by Government, and shall consider his views and statements and any evidence he may offer, as though a creditor or contributory of the company under liquidation.

57. The order of liquidation, as mentioned in sections 160 and 161 of the Indian Companies Act, shall, in the case of companies registered under this Act, be communicated to the officer to be designated by Government as having powers of supervision as hereinafter laid down.

58. The notice mentioned in section 176 of the Indian Companies Act, a copy of the account mentioned in section 187, and of the return mentioned in section 187, shall be sent to the officer mentioned in section 56 *supra* in the case of every bank.

59. The voluntary winding up of a bank shall not be a bar to the right of any creditor of such bank, or of any officer or representative of Government duly empowered on that behalf, to have the same wound up by the court, if the court is of opinion that the rights of any creditor or of the public will be prejudiced by a voluntary winding up.

60. *Privileges.*—The following privileges shall ordinarily be granted to banks duly complying with the conditions of this Act, viz. :—

- (1) the privilege of distraint of the movables of debtors in arrears with their dues, such dues to include sums paid by the bank as assessment or rent on behalf of such debtors ;
- (2) the privilege of depositing their strong boxes in the Government treasuries ;
- (3) the privilege of the "purge" ;
- (4) the privilege of the priority of the bank's claims in the case of all loans for land improvement ;
- (5) the privileges, legal, fiscal and other entered in section 38 relating to loans for agricultural purposes ;
- (6) the privilege of the settlement of disputes at a minimum of expense by the Government authority having supervision over companies registered under this Act ;
- (7) the privilege of obtaining, *de jure*, an award by arbitrators on behalf of applicants to the bank for loans for the redemption of prior debts.

C. L. s. v. summary process.

id. s. v. "privileges in securing loans" (8).
id. id. (a)

id. s. v. "disputes."

C. L. s.v. "Homestead exemption."

- (8) The privilege of exemption from the operation of the "Homestead Exemption" clause (o) in section 266 of the Civil Procedure Code for all loans for *bona fide* land improvements.

id. s.v. "Debentures."
id. s.v. "Privileges in securing loans."
 Chapter on "Recommendations."
 C. L. s.v. "Privileges in securing loans."

The following privileges *may* be granted by express authorization of Government for each bank: (1) the issue of the special classes of debenture mentioned in this Act, sections 18 to 36, with the corresponding privileges in the matter of stamp duties and registration rules and charges; (2) the power to sell property mortgaged to the bank without the intervention of the Court; (3) the privilege of subventions or guarantees from the State; (4) the power to take action upon a registered document, not being a mortgage or relating to immovable property as though a decree of Court.

Privileges whether those of the first or of the second paragraph of this section may be withdrawn at any time by Government, should such withdrawal seem advisable.

61. *Distrain*.—Banks may, in case of arrears, distrain the movable property of defaulters in the manner hereinafter laid down, viz. :—

Class I.—In the case of arrears of Rs. 20 and under, the provisions of the Madras Village Courts Act shall be applied. The authorized agent of the bank shall present a written demand signed by the authorities of the bank, together with his power-of-attorney, to the Village Munsif, who shall then execute such demand as though a decree of his court and shall prepare and sign a list of the property distrained. All the provisions of sections 52 to 65 of the said Act shall be applied to distraints of this class. The costs of distraint and sale, chargeable upon a scale to be laid down by the local Government, shall be treated as costs of execution and sale under the said sections.

Objections to the distraint, whether by the defaulter or by any third party, shall be taken by the Village Munsif as a suit under the Act, and disposed of accordingly.

Class II.—In the case of arrears above Rs. 20, the distrainer may proceed as in the Madras Rent Recovery Act, sections 15, 19 to 31 and 35. But the word "Collector" in the said sections shall be read throughout as "District Munsif's Court having jurisdiction."

The provisos of section 52 of the Village Courts Act shall apply to distraints under this class, but the value of the property excepted under clause (b) shall not exceed Rs. 50. The distraint shall be made in presence of the Village Munsif, or, in his absence, of some other village officer, or of two respectable witnesses who shall attest the list of property distrained.

Property consisting of crops on the ground shall not be attached unless ripe for harvest. Cattle and live-stock shall not be removed from the village until the time of sale, but shall be left in care of the Village Munsif who shall make provision for their custody, unless the defaulter gives written security that he will produce them. The Village Munsif, or other witnesses shall attest such security. All property distrained may be left with the defaulter

on his giving proper security for its production.

The distrainer shall send within 48 hours a written notice of the distraint, an attested list of the property distrained, the name and village of the defaulter, the amount in arrear and the date of distress, to the Court of the District Munsif having jurisdiction.

A summary suit shall lie in the above Court against any such distraint for any material irregularity in the distraint or against the distrainer's claim. But no suit shall lie for any irregularity of form or procedure, unless it shall be proved that the defaulter has been materially damaged or prejudiced.

It shall also be lawful for any third person having a *bona fide* claim to the property distrained to file a summary suit before the District Munsif who shall adjudicate upon it.

The procedure to be adopted in the Court of the District Munsif shall be that laid down for the hearing of small causes, so far as such procedure is applicable; he may also postpone the sale of the property if necessary. The order of the District Munsif shall be final.

Provided always that the amount of arrears distrained for does not exceed the sum for which the District Munsif may try suits as small causes: claims regarding larger sums shall be heard as ordinary suits. The District Munsif may, and in the case of cattle, livestock or perishable goods, shall order the return of the property distrained to the defaulter pending disposal of the suit, upon the defaulter giving satisfactory security to the Court, either for the amount distrained for with costs of the distress or for the return of the property distrained; the District Munsif shall also make such order if the defaulter deposits in Court the amount of the distress and costs thereof.

If the defaulter does not appeal against the distraint by filing a summary suit before the District Munsif within 15 days from the date of distraint, or if a suit be filed and decided against him, the distrainer shall at the end of 15 days fix up in some conspicuous place in the village a notice specifying the property to be sold, and the time and place for sale. He shall also cause a proclamation of the intended sale to be made by beat of drum in the village. The sale date must be fixed not less than seven days from the date of notice.

At the appointed time the distrainer shall put up the property to sale by public auction outside of the bank's office, or at the village in which the property has been distrained; the sale may be in lots and shall be knocked down to the highest bidder.

Sales shall in villages where a weekly market is held, be universally fixed for such market days and in all cases between the hours of noon and 6 P.M.

If the arrear with interest and costs of distress and sale be satisfied by the sale of a portion of the property, the distress shall be immediately withdrawn as respects the remainder; any overplus shall be paid to the defaulter.

The distraint notice sent to the District Munsif by the distrainer shall bear a court-fee label of eight annas. Court fees shall be

levied on summary suits before the District Munsif as in small cause suits. No court fees shall be levied on any proceedings taken by or before the Village Munsif for sums of Rs. 20 and under.

Costs shall be allowed to distrainers on a scale to be determined by the local Government.

62. Under rules to be laid down by the local Government, it shall be lawful for banks to deposit their strong boxes in the local Government treasury when not required in use.

63. *The Purge.*—When a bank determines that a loan may be granted, it shall be lawful, for the bank before execution of the mortgage, to adopt, if necessary, means for the postponement to their claim of any claims not already registered or declared.

In such case the bank shall publish a notice containing a statement of the land or property to be mortgaged and the name of the proposed mortgagor, and calling upon all persons to put forward any claims to the property or objections to the mortgage within six weeks. The notice shall be published by affixing a copy at the chavadi or other public place of the village or villages in which the property is situated and in which the mortgagor resides, and by tom-tom in the same village or villages; a copy shall also be affixed on the bank's notice board, and published in two consecutive issues of the *District Gazette*.

Claimants or objectors who appear in person or by representative within six weeks of the publication of the first notice in the *District Gazette*, or who file a suit to enforce any such claim or objection within that period, shall be heard and their claims or objections considered; failing such appearance or filing of a suit, any claims or objections shall be considered as postponed to the bank's claim or shall be considered as invalid and of no effect as regards such claims. But claims so postponed shall be of full force and effect otherwise than as against the bank's claim.

The postponement of the claims of third parties provided for by this section does not apply to the case of any claims by heirs, mortgages or charges whatsoever registered before the expiry of the said six weeks calculated as in paragraph 3. The bank is bound to make the necessary searches in the books of the Registration department to secure itself against claims duly registered before such date.

64. *Land Improvement loans.*—Banks which grant loans under the chapter regarding Land Improvements banks, shall, as regards such loans, enjoy the privileges entered in that chapter including that of priority of their claims over all anterior claims whatsoever.

65. *Privileges allowable under section 38 of this Act.* These are (1) a certain priority of claim; (2) reduction of stamp duties; (3) the reduction of registration charges.

66. *Disputes between a bank and any of its shareholders, debenture holders, or other creditors,* may, by consent of both parties, be referred to the commissioner notwithstanding any provisions in the articles to the contrary.

In cases so referred, the commissioner shall have the power of an arbitrator under the Companies Act (1882); for the summoning of witnesses and documents he shall have the power of a Civil Court, and disobedience to such summons shall be an offence punishable under section 174, Indian Penal Code.

The commissioner's award shall be final and conclusive and shall not be appealable or restrainable by injunction of any Court; it shall be carried into effect by procedure under sections 525 and 526 of the Code of Civil Procedure, and the Court receiving the award shall not be at liberty to modify or cancel it.

The commissioner may, instead of making an award, state a case for the opinion of the High Court and shall pass an award in consonance with such opinion. The commissioner may reject the reference to him, and may order the parties to seek redress in a Court. The commissioner shall have power to refer for disposal or for inquiry and report, any such references to any other person or persons either selected by himself or designated by the rules of Government, or agreed upon by the parties, and such person or persons shall have all the powers and duties of the commissioner, save only that of final decision or rejection in cases referred only for inquiry and report.

The local Government shall lay down rules for the mode of reference by banks or persons to the commissioner, and for the fees, if any, to be levied by him.

67. Arbitration in cases of prior debt.— When loans are sought for the redemption of prior debts, the bank may submit the claim of the prior creditor to arbitration as follows:—

- (1) Application may be made to the local village court to make an award. Such court shall entertain such application as though a suit under the Village Courts Act, and shall call upon the creditor to appear upon a given day for the settlement of the award. Where the claim of the creditor does not exceed Rs. 20 it shall be compulsory upon the creditor to submit his claim to arbitration by the village court upon application by the debtor or by the bank on his behalf, and the court may proceed to dispose of the application in the absence of the creditor upon proof of due service of notice. In the case of claims exceeding Rs. 20 but not exceeding Rs. 200, the village court shall have jurisdiction only upon the written consent of both parties, and upon the conditions laid down in the Village Courts Act, for the trial of suits of above Rs. 20 in value.

Awards under this subsection shall be final and conclusive, and shall not be subject to appeal, nor shall a suit by either party lie thereon.

- (2) Where the claim exceeds Rs. 20, application may be made to the court of the District Munsif who

shall proceed under the Code of Civil Procedure. Where the claim does not exceed Rs. 50, it shall be compulsory for the creditor to submit his claim to such arbitration upon application by the debtor or by the bank on his behalf, and the court may proceed to the disposal of the application in the absence of the creditor upon proof of due service of notice.

- (3) It shall be lawful for the Board of Directors or for the Committee of Supervision of the bank to act as arbitrators between the prior creditor and the debtor without the intervention of a court, provided that the consent of both parties in writing has been obtained. In case of such arbitration, not less than three of such board or committee chosen by lot shall act, and their award shall be final and without appeal nor shall any suit lie against such award in the case of claims not exceeding Rs. 100.
- (4) Where a number of banks may have grouped themselves into a union, it shall be lawful for such union to form a Court of Arbitration for the disposal of claims as between creditors and debtors in which any bank which is a component member of the union may be interested. The members of such court shall consist of an indefinite number not being less than seven appointed by the general meeting of the union, and any claim submitted for decision shall be disposed of by a court of not less than three or more than five members who shall be chosen by lot. Claims shall only be submitted to such court upon the written consent of both parties, and may be of any amount. The court shall be guided by the provisions of the Code of Civil Procedure in the matter of arbitration, and their awards shall have the effect of and shall be dealt with as awards under that Act.
- (5) It shall be lawful for the Boards of Control appointed under the provisions of section 71 of this Act to act as Courts of Arbitration; in such case they shall be guided by the provisions of the above clause (4).

68. Debentures.—Companies registered under this Act shall not issue privileged debentures of the special classes mentioned in sections 18 to 36 without the special authorization of Government.

Rules shall be made by the local Government regarding applications for such privilege, for the conditions as to capital, guarantee, area of operation and the like, under which such privilege may be granted.

69. A bank specially authorized by Government to that end may use the power granted by section 69 of the Transfer of Property Act to sell property mortgaged to it, without the intervention of the Court, and shall not be subject to the limitation contained in paragraph 2 of that section relative to the amount of interest due as a necessary preliminary to the exercise of the power, but shall be otherwise subject to the provisions of that section and to the following, viz.: (a) the original mortgage debt must exceed the sum of Rs. 200; (b) in the case of mortgage debts repayable by instalments including interest and sinking fund, one complete instalment period must have elapsed since the instalment due became an arrear; the dues in arrear must exceed the sum of Rs. 20, and more than half the principal money must be still outstanding on the debt; (c) in the case of mortgage debts payable in lump at the end of a term, interest must be due to the amount of at least Rs. 20 and for the period of at least one year.

70. *Subventions.*—Subventions or guarantees from the State may be granted under such rules or conditions as may be from time to time prescribed by the local Government.

It shall be lawful for the State to grant subventions either by direct loan or by purchase of the bank's debentures.

All subventions granted without interest or at favorable rates of interest, shall, whether principal or interest, constitute the first charge upon the assets of a bank in case of liquidation, and shall be withdrawable on one year's notice by either party; failing repayment of the subvention, it shall be lawful for Government to obtain the liquidation of the bank by application to a court.

Subventions granted at full rates of interest shall not obtain a position of priority.

The guarantee granted by the State may extend either to the principal of the liabilities of the bank or only to the interest due thereon; in the latter case the guarantee shall terminate upon the liquidation of the bank. Any sums paid by the State in pursuance of such latter guarantee shall form the first charge upon the assets of the bank, and shall be paid from any subsequent profits of the bank before the declaration of any dividend to shareholders or honoraria or other fees to directors. Any loss to Government by reason of any subvention or guarantee shall be a charge on the public reserve provided by section 16 *supra*.

It shall be lawful for Government to require that in return for such subvention or guarantee, a proportion of the directors or of the committee of supervision, if any, shall be nominated by Government: such proportion to be fixed by arrangement with the bank.

The power of granting minor subventions, each not exceeding Rs. 100, for the starting of banks, may be delegated to the commissioner, through whom all recommendations for major subventions should pass.

71. It shall be lawful for a court to enforce the terms of any document for the recovery of advances made by a bank specially so privileged, upon the mere production of the document,

Chapter on "Recommendations."
s. 70. "Subventions."

provided (1) that the document shall not be of the nature of a mortgage or relate to immovable property, (2) that it shall have been duly registered, (3) that the money shall have been paid in the presence of the registering officer, and payment certified upon the document by such officer. The court shall treat such document as a decree of court, and shall issue execution thereon for so much of the bond amount with interest and costs as shall be entered in a petition which shall be duly verified by the petitioner for execution, nor shall it be necessary, though permissible, to give notice to the debtor or to permit him to show cause against such execution. But it shall be lawful for the debtor to file a suit to set aside the petition and the order thereon, provided that such suit shall be filed within one month from the date of execution or attempted execution of such order. Such suit shall be heard as a regular or as a small cause suit according to the value of the claim.

C.L. s. 9. "Supervision."

72. *Superrision.*—Banks shall be subject to the supervision of the local Government which shall be exercised by the commissioner for rural credit. The local Government shall designate the officer who shall perform the duties of commissioner under this Act. The office of the commissioner shall be the office for the registration of companies under this Act, and not the office of the Registrar of Joint Stock Companies.

The articles of association shall be sent to the commissioner as required by the Companies Act to the registrar; the commissioner shall examine them, and, if approved, register and certify them as legal. He shall have power to reject articles that may be contrary to law and shall advise upon the propriety of articles when necessary or whenever desired.

All changes in the articles shall similarly be registered and dealt with, together with copies of the resolutions sanctioning the changes.

The names and addresses of all office-holders other than the ministerial staff, shall be communicated to the commissioner with the signature of such office-holders.

No bank shall commence business until receipt of the commissioner's certificate.

All banks shall send in to the commissioner quarterly returns, showing assets and liabilities, mortgage debts and debentures issued, and a complete statement of operations, including the number, value, and rates of interest of loans of each class, the amount of investments in securities separated into classes, and cash uninvested, up to the end of the quarter.

Every year a copy of the annual balance sheet, as passed by the general meeting, together with the report of the auditor, and the remarks of the committee of supervision, if any, and of any reply by the directors, shall be sent to the commissioner in a form to be prescribed by him; also a statement of profit and loss, a detailed statement showing the position of each loan and its present value as an asset on the last day of the year under report, the aggregate amount outstanding on loan, and the aggregate amount of debentures outstanding; the

amount of the reserve and the investments in which all funds have been placed, the number and amount of all mortgages and other loans in arrears of interest for a period exceeding six months prior to the date of the statement; the number and amount of mortgages foreclosed or sued upon during the past year; the number and value of immovable properties held by the bank as the result of foreclosure or other legal process or by purchase on account of debt. An abstract, to be prepared by the commissioner, shall also be issued annually in the *Fort St. George Gazette* and in the gazette of the district where the bank holds office.

The commissioner shall require the bank to keep proper accounts, and shall satisfy himself that such accounts are kept.

The commissioner shall have power to require each bank to make proper rules in its articles of association, for an efficient audit, and shall satisfy himself that such rules are thoroughly observed. Should any bank fail to make proper rules, the commissioner having due regard to the circumstances, business and surroundings of the company, shall make suitable rules which shall then be binding on the bank. In case of wilful neglect of rules the commissioner shall have power to make a proper audit and to charge the bank with the necessary expenses.

Every bank shall be inspected by the commissioner or his delegates at least once in every two years, and as much oftener as may be necessary. On every such examination inquiry shall be made as to the condition and resources of the bank, the mode of conducting and managing its affairs, the action of its directors, the investment of its funds, the safety and prudence of its management, the security afforded to those who have dealings with it, and the due observance of the provisions of the law and of its articles in the administration of its affairs, and as to all such other matters as the commissioner may prescribe. Special regard shall be had in such examination to the state and safety of the capital, to the existence of suitable reserves, to the genuineness of dividends, to the nature and stability of the investments, to the security for depositors, debentureholders and other creditors, to the punctuality and completeness or otherwise of the collection of dues upon loans, to the condition of the various classes of loans as regards arrears, to the action found necessary against property, especially in land, and to the properties acquired or held by the bank by way of attachment or expropriation, to the actual existence, unencumbered, of securities purporting to be in hand, to the correctness of the balance sheet, to the verification of deposit or pass-books with the ledgers, and to the due valuation of the assets. For such examination the bank is bound to place before the examiner the whole of its books, records and securities, and its directors, office-bearers and members shall be bound to answer all questions relevant to such examination.

Upon the application of any five members or creditors of a company, who shall present or

forward an application duly verified as a plaint setting forth facts with any necessary documents in support thereof, which in the opinion of the commissioner demand, warrant, or render advisable an examination of the company's books, the commissioner shall depute an inspector for an examination of the books and accounts.

Upon the duly-verified application of one-tenth of the shareholders, or of 100 if the bank has more than 1,000 shareholders, or of shareholders holding one-tenth of the capital, or of depositors, debenture-holders or creditors holding one-tenth of the deposits, debentures or other debts of the bank, the commissioner may order an investigation of the affairs, management, business, condition and soundness of the investments of a bank.

Nothing in this section shall be held to prevent the commissioner from ordering at any time any inspection whether of the books or affairs of a bank on his being satisfied that such inspection is advisable or in the interests of the bank or of its shareholders, depositors or creditors or of the public.

Inspectors appointed by the commissioners may be officers of Government, professional auditors or others, but shall not be office-holders of the bank. They may, if necessary, be paid upon a scale to be determined by the local Government.

Inspectors shall in their examinations have all the powers mentioned in section 84 of the Indian Companies' Act, 1882.

The result of every examination shall be reported to the commissioner; an abstract of the report shall be sent to each person who may have instigated the examination and a copy of the report with the commissioner's remarks thereon to the bank; the report with the commissioner's remarks shall be laid before the next general meeting, and in case the report discloses material irregularities or risks to the public or to members or creditors, a special general meeting shall be summoned within one month for the consideration of the report and for the adoption of all necessary remedies.

A copy of the proceedings of such meeting shall be sent to the commissioner within one week. Should the directors fail to summon such meeting, or failing the application of remedies, the commissioner shall have power to call a general meeting for the adoption of the necessary steps, failing which he may, if necessary, apply to the court under section 131 of the Indian Companies' Act for the purpose of winding up the bank. He may, if preferred, apply to the court to appoint a receiver for the management of affairs temporarily, or to remove the directors or other office-holders, should the general meeting fail to do so in case of necessity.

Provided that when the bank is a member of a Union established for the purpose and capable of providing efficient inspectors or auditors, the commissioner shall ordinarily confine himself to forwarding the application with his remarks to the directors of such Union who shall take such steps as may be necessary, and shall forward a copy of their

inspector's report to the commissioner. Failing the necessary steps by the Union or by the bank upon the Union inspector's report, the commissioner may act as before provided, and he shall also take the necessary steps when the report of the Union inspector discloses the need for winding up the bank, for the appointment of a receiver, or for the removal of directors.

An authenticated copy of the report of an inspector shall be admissible in evidence as provided in section 87 of the Indian Companies' Act. The commissioner shall also have power to file suits, either through his inspector or otherwise, against directors or others who may have caused wrongful loss or damage to the bank and its members or creditors or to the public. He is also empowered to prosecute in the Magisterial courts for any offence disclosed by the reports or that may otherwise come to his notice, or for any penalty incurred under this or the Companies' Act. For the purposes of this paragraph, the commissioner shall be entitled to the services of the public pleader or prosecutor.

The commissioner shall have power to settle disputes as laid down in this Act. He shall also act as adviser of the several banks in their formation, registration, management and union, and shall for that purpose collect and publish in periodical bulletins, information which may be of use to banks, and shall prepare and issue for the guidance and optional use of banks models of articles, accounts, documents, annuity and, if necessary, life tables. He may, in person or by delegate, preside at the general meeting of any bank preliminary to its formation, if so desired by the promoters, directors, or one-fourth of the subscribing shareholders.

The commissioner shall prepare annual reports on the banks under his supervision, giving all necessary information as to their working, success, and failures, with suggestions for the development of their operation, the amendment of the law or of the Government rules, and on such other matters as may be necessary. The report shall be divided into separate sections for the various classes of bank or company within his supervision.

It shall be lawful for Government to make rules for the appointment and working of boards of control and supervision, to which all or any of the powers of the commissioner may be delegated, save only that the appointment, control, and supervision of the examiners or inspectors shall rest with the commissioner alone and not with the boards. The boards shall report to the commissioner all cases in which they are of opinion that a special examination of the accounts or affairs of a bank is necessary. The members of such boards may be paid honoraria and travelling allowances, such expenditure being met from the contribution, if any, payable under the last paragraph of section 16 of this Act.

Nothing in this section shall be held to interfere with any special methods of supervision hereinafter provided for the several classes of bank or society.

CHAPTER III.

CO-OPERATIVE SOCIETIES.

C.L. "Preamble," and chapter on "Popular banks."

73. *Description.*—A co-operative society consists, for the purposes of this Act, of an association of seven or more persons united with a variable capital and societariat for a common purpose, viz., the common economic benefit of the several members, and of the members only; such benefits are especially—

- (1) the furtherance of thrift and providence;
- (2) the grant of credit to the members;
- (3) the supply to members of raw material;
- (4) the sale on behalf of members of agricultural produce or of manufactured goods;
- (5) the manufacture of goods or growth of produce co-operatively;
- (6) the purchase of food stuffs, clothing and articles, animals or stock required in agriculture or industry, and their retail sale to members;
- (7) the purchase of machinery and its use in common by members;
- (8) the building of houses and purchase of lands for members;
- (9) the carrying out or development by joint action, of an improvement, whether agricultural or industrial.

A co-operative society which receives deposits or which grants or deals in credit, is a co-operative bank.

id. s.v. "Capital."

74. *Liability.*—Liability in co-operative societies may be unlimited, limited by guarantee, limited by shares, or limited to a sum in excess of the shares but restricted by the articles of association to an additional portion of or to a multiple of the share values. It shall also be lawful for societies of the nature of building societies or nidhis, which require the subscription of shares by periodical and regular instalments up to the date of maturity and then repay the shares, to declare by their articles that the liability of their non-borrowing members extends only to the amount actually paid up or actually due at the date of the commencement of liquidation, and that the liability of their borrowing members shall be confined to the complete repayment of their loans with interest.

Building Societies Act (England).

C.L. s.v. "Capital."

Industrial and Provident Societies Act (England).

75. The capital and number of shares of a co-operative society shall be limited by the memorandum of association, and may be increased as entered in section 12 of the Indian Companies Act. Such capital shall be deemed to be the maximum capital of the society, but it shall not be necessary for such maximum to be subscribed at the inception of the society.

The subscribed capital of the society shall be variable according as members enter or withdraw from the society; there shall be no limit either to increase or reduction, save only the registered maximum on the one hand and the necessity for the association of seven members on the other.

The provisions of the Indian Companies Act relative to the reduction of capital shall not apply to co-operative societies.

76. *Shares.*—The shares of co-operative societies shall not exceed Rs. 200 in value; each member must hold at least one share, but none shall possess in his own right, shares to the value of more than Rs. 5,000.

C.L. s. v. "Capital," para. 6.

Every share shall be personal only, and shall not be transferable except under the rules of the society. But every share shall be withdrawable at the will of the holder subject to such rules as may be prescribed by the articles of the society.

The articles of association shall prescribe the value of each share, the number which may be held by any one member, the mode of subscription, and the term within which payment shall be completed.

77. *Members.*—The articles of the society shall determine the qualifications, for membership and the mode of admission, and shall provide an appeal to the committee of supervision, if any, or to the general meeting, in case the directors or committee of admission reject a candidate. No suit shall lie against any refusal to admit a candidate. Every society shall maintain a register of members containing at its head a printed copy, in the vernacular of the society, of the articles of association and showing the name, address, occupation, number of shares and amount paid up thereon, for each member. An abstract of this register showing the total number of members, the number admitted and the number withdrawn, deceased, or expelled during the quarter, the number under each occupation, the number of shares taken up, their total face value, and the total paid up thereon, shall be sent quarterly to the commissioner

id. s. v. "Members."

Each member shall on admission affix his dated and attested signature or make an attested mark in such register opposite his name: before signing, the articles shall be read and explained to him, and his signature or mark shall be considered as binding him to adhesion to the articles.

Each member shall have one vote unless the articles otherwise decide, but in no case shall a member possess more than five votes.

A member shall not be allowed to transfer his shares unless the rules of the society so permit; the articles shall prescribe the rules under which transfer may be accepted.

Members may withdraw at will from a society.

78. The articles shall determine the notice required, and the period, such as the end of the business year or otherwise, at which withdrawals will be accepted. Withdrawing members shall be entitled to the return of their subscriptions, together with any divisible profits which may have accrued thereon and remain unpaid to him up to twelve months preceding the date of withdrawal. The articles shall decide whether such withdrawing member is entitled to any, and if so, what share of the profits of the twelve months preceding withdrawal. A withdrawing member is not entitled to demand the return of his subscription till funds are available, but the society is bound to repay him as soon as possible after the close of the year in which he withdraws; if no demand is made, the amount shall lapse to the society upon the expiry of the period of limit-

ation prescribed by the general law. He shall not be entitled to any portion of the reserve, which shall remain with the society, or to any share in the other property of the society.

Withdrawals shall be noted in the register of members over against the entry of the withdrawing member's name, and his dated and attested signature or mark shall, whenever possible, be taken in a column to be provided for the purpose: such signature or mark shall be taken as evidence of the member's actual withdrawal and of its date, but shall not operate as an acquittance for the value of his shares unless it is expressly so stated, and unless a 1 anna adhesive stamp be affixed for sums above Rs. 20.

79. The signatures or marks of members joining or withdrawing must be attested by two members, one of whom must not be a director.

80. The articles shall provide rules for the expulsion of members in case of misconduct, crime or other sufficient cause. A minute of the reasons for such expulsion shall be maintained by the society in a register to be kept for the purpose.

81. It shall be lawful for decree-holders to obtain an order of the Court to attach any shares of a member or deposits whether of a member or of a non-member, in a co-operative society, subject, however, to the exemption contained in section 85 (13) *infra*. On receipt of the order the society shall, subject to the above exemption, pay into Court such amount as the member would receive on ordinary withdrawal, or the amount of his deposits, but shall, for such payment, be allowed the delay which would have been permissible in the case of ordinary withdrawal.

82. Decease shall be considered as a withdrawal, and the withdrawal value of the deceased member's shares shall be paid to the heirs of the deceased, unless such heir is admitted as a member in his place.

83. The liability of any member, who may have withdrawn or been expelled from a society, shall continue in full force for all engagements of the society entered into prior to such withdrawal or expulsion, for twelve months subsequent to such withdrawal or expulsion, and he shall be considered as a contributory in case the society enters into liquidation at any date within such twelve months, subject to the provisions of section 61 of the Indian Companies Act. But the estate of a deceased member shall not be liable to contribute to the assets of a society in liquidation, whether he shall have died before or after the commencement of liquidation.

84. The provisions of chapter II of this Act shall apply to co-operative banks, except sections 8, 9, 10, 11, 45 and 60, and except in so far as the provisions of the present chapter conflict with the provisions of chapter II.

85. *Privileges.*—Certain privileges shall or may be granted to a co-operative society. The following privileges shall be granted *de jure* to all co-operative banks—

- (1) Exemption of the memorandum and articles of association from stamp duties and from fees on registration with the Commissioner.

- (2) Exemption from stamp duty on the transfer of shares.
- (3) (a) Reduced stamp duties, viz.:— On mortgage deeds and bills of sale below Rs. 100 in value, between a society and its members, one-half the ordinary rates, provided that during the subsistence of any such document or of documents aggregating Rs. 100 on the same property or on the whole property belonging to one owner, the privileged rate of duty shall not be allowed on any further mortgage deeds unless such subsequent deeds have been executed in redemption or cancellation of the prior deed or deeds; (b) on simple bonds below Rs. 100 one-half of the ordinary stamp duty.

C. L. s. v. "Privileges" (fiscal).

- (4) A privileged rate of Registration charges, viz., on registrable documents mentioned in clause (3), a charge of half the ordinary rates. In the case of such documents, it shall not be necessary to transcribe them in full; it shall suffice to enter the names and addresses of the parties, the property charged, if any, the amount of the loan, and its term, the date of the document, and the names of the witnesses.

id. id.

Releases of all mortgage deeds of whatever value between a society and its members, shall invariably be issued by the society and are subject to the provisions and are granted the privileges of section 39 *supra*.

The privileges granted in clause (3) a, b, and the reduction of registration charges granted by clause (4) shall ordinarily have effect only for the first five years after a society has been registered; but such period of privilege may be extended indefinitely by the local Government if necessary.

- (5) The privilege of distraint as entered in section 61 *supra*. C. L. s. v. "Privileges in procedure." (summary process).
- (6) The privilege of placing their strong boxes in the Government treasuries.
- (7) The privilege of the "purge" as entered in section 63 *supra*. id. s. v. "privileges on securing loans" (b).
- (8) The privilege of priority of claims for certain loans as entered in section 64 *supra*. id. id. (a).
- (9) The privileges of section 38.
- (10) The privilege of settlement of disputes by the commissioner as in section 66 *supra*. id. s. v. "disputes."
- (11) The privilege of obtaining *de jure* an award by arbitrators on behalf of applicants to the bank for loans for the redemption of prior debts.
- (12) When any trustee, office-bearer or person entrusted with the money or accounts of a co-operative bank dies or becomes bankrupt, insolvent, assigns his property to his creditors, or is subject to legal process of attachment against his property, he having at the time

Trustee Savings banks Act.
(England).

funds or property of the bank in his hands, the claims of the bank shall have priority over all other claims to the amount of such funds or value of such property and shall be a first charge upon the whole assets of such person, and the executors, assignees or Court shall, on proof of the bank's claim, pay over such amount or make over such property within one month of proof of the claim.

C. L. S.V. "privileges" (legal).
See law of co-operative banks of New York, &c.

- (13) Shares in a co-operative society of more than six months' standing from the commencement of subscription, and deposits of more than twelve months' standing from commencement of the deposit, whether such deposits be those of a member or of a non-member, shall be exempt up to the amount of Rs. 100 in the aggregate from attachment of any description whether by a Court, by Government for its dues, by a landlord for his rent, or by any other creditor or claimant: where the value of such shares or the amount of such deposits, or the amount of both together shall exceed Rs. 100, the exemption shall hold good up to the total of Rs. 100.

Provided, however, that such exemption shall not extend to the claims of the society itself for amounts for any cause due to it by the member or depositor.

- (14) It shall be lawful for any member of a society above the age of 16 years to nominate the person or persons to whom in case of his decease, his shares to the value of not more than Rs. 500, or if his nominee is not admitted by the society, the withdrawal value thereof, not exceeding the same amount, shall be transmitted. Such nomination shall be treated and operate as a will, but probate of such nomination shall not be required. But such nomination shall be invalid if made in favour of a director or other office-bearer, officer or servant of the society or of any relation, servant or dependant of such persons, unless such director, office-bearer, officer or servant is related to the nominating member, either as husband, wife, child, parent, brother or sister, nephew or niece of the nominator.

Such nomination must be made to the directors in writing by the member, and when the directors are satisfied of the genuineness of the application, shall be entered in a nomination register to be kept for the purpose; the entry must be signed or marked by the nominating member, and attested by two members independent of the nominating member and having no interest in the nomination. The written application shall be permanently preserved by the society among its records. The entry in

id. s.c. "privileges."
(transmission of shares and deposits).
cf. Provident Nominations and
Small Intestacies Act (England),
Friendly, Co-operative Societies Acts, &c.

the register shall bear a one-anna adhesive label. The nomination may be revoked or modified at any time with similar formalities, but shall not be subject to modification or cancellation by any regular will or codicil to a will. On the decease of the nominating member, the society shall deal with the case as though one of transfer *inter vivos*, and may admit the nominee accordingly; should they object to the nominee as a member they shall pay him the withdrawal value under the conditions applicable to the withdrawals of members. Such payments shall be valid and binding, and no suit shall lie against the society for any such transfer or payment made *bonâ fide* and in pursuance of a genuine and *bonâ fide* nomination, duly registered and attested as above, but only against the transferee, or the receiver of the money. The society shall make such payment and shall be similarly protected up to the amount of Rs. 500 even though the nominating member possess shares of a greater withdrawal value.

(15) In case of decease without such nomination and without will, it shall be lawful for the society in the case where the withdrawal value of the shares does not exceed Rs. 500, to receive claims from heirs only for the transfer of the shares or for the withdrawal value, and within three months from such decease they shall, unless they have been notified of a petition having been filed in Court to determine the question of succession, decide upon the merits of the several claims and shall transfer the shares or pay their withdrawal value to such claimant or claimants as may appear to be the lawful heir or heirs. Before making such transfer or payment they shall give notice thereof in writing and by beat of drum in the village in which the deceased member ordinarily resided: one month after such notice they may proceed to the transfer or payment which shall be valid and binding, and no suit shall lie against the society or the directors for any such transfer or payment made *bonâ fide*, but only against the transferee or receiver of the money. This provision shall hold good up to the amount of Rs. 500 even in cases where the withdrawal value exceeds Rs. 500.

(16) The provisions of the above three paragraphs 13, 14 and 15, shall hold good in the case of depositors in a co-operative society up to the same amounts.

(17) All correspondence with the commissioner or with Government may be sent post free, under rules to be made for the purpose by the local Government.

(18) The privilege of exemption from the operation of the "Homestead exemption," clause (o) in section

C. L. s.v. "Homestead exemption."

266 of the Civil Procedure Code for all loans made for *bond fide* land improvement.

All or any of the above privileges may be withdrawn or modified by the local Government at any time for any reasons that may appear sufficient.

86. The following privileges may be granted to a co-operative bank upon the express authorization of the local Government, viz. :—

C. L. s.v. "debentures."

(1) The issue of special classes of debentures mentioned in sections 18 to 36 of this Act with the corresponding privileges in the matter of stamp duties and registration rules and charges ;

id. s. v. "privileges in securing loans."

(2) the power to sell property mortgaged to the bank without the intervention of the court as laid down in section 68 *supra* ;

Chapter on "Recommendations."

(3) the privilege of subventions or guarantees from the State ;

C. L. s.v. "privileges in securing loans."

(4) the power to take action upon a registered document, not being a mortgage or relating to immovable property, as though a decree of court ;

(5) the privilege of exemption from the operation of the "Homestead exemption," clause (o) in section 266 of the Civil Procedure Code, for debts due to the bank.

The above privileges may be withdrawn at any time by the local Government.

87. Any of the privileges contained in sections 85 and 86 may, with the sanction of Government, be granted to any co-operative society, and may be withdrawn from such society.

CHAPTER IV.

SAVINGS BANKS.

See Chapter on "Savings Banks."

88. *Description.*—A savings bank is a bank for the receipt of deposits in very small sums from the poorer classes for the sole benefit of the depositors ; the total deposits of each depositor must not exceed a maximum to be fixed by each bank, such maximum in no case to exceed twice the maximum fixed for Post Office Savings banks, and they shall be withdrawable not by cheque but solely through a pass-book. The object of such society shall be the promotion of habits of thrift and prudence, the accumulation of capital and the investment of such capital safely and productively. The words "Savings Bank" shall mean savings banks established under this Act and no other.

89. *Classification.*—Savings banks may be public or private. Public savings banks are those originated and administered either direct by a Government department, such as the Post office, or by a public body, such as a Local Board, Municipality or Union. Post Office savings banks are excluded from the provisions of the present Act.

Private savings banks may be either joint stock banks with a guarantee capital limited by shares and receiving interest, or trustee

savings banks in which the trustees or managers provide a guarantee up to the amount entered against their names, but derive no benefit whatever from the funds deposited in the bank, save only such fixed interest as may be allowed upon any endowment or guarantee fund and such necessary expenses as may be provided by the articles for the charges of management, and draw no allowance except for the remuneration of the necessary establishment exclusive of such trustees or managers.

In this Act savings banks established and managed by some public body, with or without the guarantee of that body, shall be called Public Savings Banks; private banks with a guarantee capital shall be called Stock Savings Banks, and private banks managed by trustees shall be called Trustee Savings Banks.

90. Savings banks shall have the benefit of this Act under the conditions and with the privileges hereinafter noted.

91. *Foundation.*—No savings bank shall have the benefit of this Act unless its foundation has been previously approved by the commissioner. Every savings bank, approved by the commissioner, shall use the English words Savings Bank as part of its title. But no bank other than a Post Office Savings Bank, which shall be founded subsequent to the date of this Act shall use the words "Savings Bank" as the whole or part of its title, whether in English or in any other language, unless its formation shall have been approved by the commissioner and unless it shall be founded under the provisions of this Act. Nor shall any bank other than a Savings Bank or Post Office Savings Bank, founded subsequent to the introduction of this Act, receive savings deposits. For the purpose of this section savings deposits shall be taken to mean sums below one rupee for each transaction.

Provided that subscriptions or payments to co-operative banks under Chapter III shall not be deemed savings deposits referred to in this section even when below one rupee.

Intending founders shall make an application to the commissioner, stating the object of the foundation, the area of operation, the capital, if any, to be raised, or of any endowment, guarantee or foundation fund, the maximum and minimum rate of interest to be allowed to shareholders, the number, names, status and address of trustees or managers and the security offered by them, the rates of interest to be allowed to depositors and the proposed employment of the funds, the draft articles of the bank, and all other necessary information as may be demanded by the commissioner.

92. No public savings bank shall be started unless the founding body shall provide to the satisfaction of the commissioner a guarantee for the due performance of its engagements. The commissioner may demand the formation of a guarantee foundation fund to be dealt with as in section 93 following.

93. No trustee bank shall be approved by the commissioner unless the trustees are at least ten in number and are men of approved position, reputation for honesty and capacity,

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and such as possess public confidence. Trustees shall also subscribe a sum of at least Rs. 500 each, which shall serve as a guarantee fund and shall be invested in Government promissory notes in the name of the commissioner for the time being, the proceeds thereof being paid to the trustees for their own use. The guarantee fund shall be liable for all ordinary losses to depositors, but only after the exhaustion of the reserve fund and all other assets. But the amount deposited by each trustee shall be the first security against any defalcation or breach of trust, or for any penalty due by such trustee.

The said guarantee fund may be repaid to the trustees generally from the net profits so soon as the reserve has reached a minimum of 10 per cent. of the deposits, such reserve not being less than double the guarantee fund.

The position of a trustee is personal and shall not be transferable; he shall be eligible to remain in office during good conduct and except under the contingencies mentioned in section 47 *supra*.

On the occurrence of a vacancy the remaining trustees shall, within one month, elect a substitute to be approved of by the commissioner.

A withdrawing trustee shall receive the value of his subscription as soon as the incoming trustee shall have paid in his share.

The share of a deceased trustee shall be paid to his heirs; in case of doubt as to the proper heir the trustees shall have recourse to the provisions of section 85 (15) *supra*, and their decision up to the full amount of the share of the deceased trustee shall be final and not subject to suit or appeal as against themselves.

94. A stock savings bank shall have a capital divided into shares; the capital shall not be less than Rs. 5,000, and the value of each share shall not be less than Rs. 10.

The whole capital must be subscribed, and half must be paid up before sanction is given by the commissioner for the commencement of business; the amount paid up shall be invested in Government promissory notes, in the name of the commissioner, and the annual proceeds shall be paid over to the directors for the use of the bank. The remaining amount of capital shall be paid up within twelve months and similarly dealt with.

The shares may be transferable or non-transferable and may bear interest not exceeding 6½ per cent.

The share capital shall be liable to make good any losses to depositors, but shall not be drawn upon until the reserve and all other assets have been completely exhausted.

It shall be lawful to repay shareholders the whole or any part of their shares or share values when the reserve shall have reached the amount of 10 per cent. of the deposits, not being less than twice the amount of the share capital.

The guarantee subscriptions of trustees in a trustee savings bank, and shares to the value of Rs. 200 for each shareholder in a stock savings bank shall not be liable to attachment, sale, or any process by any Court or by the

State or otherwise except in the case of liquidation or for making good any loss for which such guarantee fund or share capital is responsible.

95. The articles shall provide for the matters mentioned in section 7 of this Act so far as such are applicable.

They shall also provide according to the nature of the bank, for the powers, if any, of the public body or institution which founds the bank, for the number, subscription, amount, powers and duties of trustees, for the times at which the bank shall be open for transactions, for the receipt and withdrawal of deposits, and for the necessary checks to be observed therein, for the various maxima and minima in the matter of deposits, for the rate of interest on deposits and for the payment of extra dividends thereon from profits, for the regulation of pass-books and for their renewal or otherwise in cases of loss or destruction, for their transferability or otherwise, for the notice required for withdrawals, for the rate of interest to be paid to shareholders, for the disposal of any profits not distributed to depositors as in works of public utility, for the classes of securities or loans in which deposits may be invested, and the proportion of the deposits which may be invested in each such class, for the preparation and making available to depositors of a half-yearly list of balances at the credit of each depositor, for a frequent comparison by the committee of supervision and by the auditors of the pass-books and the ledger.

96. It shall be lawful for Government to contribute towards the first working expenses of the bank, on such conditions as may be necessary.

97. The provisions of chapter II of this Act shall be applicable, so far as may be, to savings banks. But no savings bank shall issue debentures.

98. *Profits.*—Net profits after paying the expenses of administration and any taxation shall be primarily devoted to the building up of a reserve to which the provisions of section 15 shall be applicable, save that until the reserve shall have attained the amount of 10 per cent. of the deposits in the then current year and of twice the amount of the foundation guarantee or share capital, at least 75 per cent. of such profits shall be credited to the reserve. In calculating the net profits the interest on the reserve shall not be included in the general assets, but shall be credited solely to the reserve until the abovesaid 10 per cent. shall have been attained. From the remaining 25 per cent. the interest on the foundation or share capital shall be paid, any surplus being paid to the reserve.

When the reserve has attained the amount of 10 per cent. of the deposits for the current year, any surplus may be used in granting improved benefits to depositors, or in reducing the cost of loans granted by the bank, or in works of public utility within the area of the bank's operations, or in any such operation other than the grant of dividends beyond the dividends fixed by the articles, that may be approved of by the commissioner.

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99. *Inspection.*—The commissioner shall appoint inspectors for the examination of all savings banks of the several classes. Each savings bank shall be inspected at least once a year and as much oftener as may be deemed necessary. For such inspections, the inspecting officers shall have all the powers and duties mentioned in section 72 *supra*.

100. *Returns.*—Every savings bank shall send in to the commissioner weekly returns showing the receipt, withdrawal and balance of deposits in its hands at the end of the week, the investment of such funds in each class of security or loan, and the balance of cash in hand. Such return shall be certified by two of the trustees or directors, of whom one shall be the President, and shall be countersigned by the Treasurer. The return shall also certify that the various securities held by the bank as entered in the register kept for the purpose, have been duly inspected and verified by the trustees during the week, and that they are actually in hand and unpledged and are correct with the register. The commissioner shall prescribe the necessary form and contents of the return, and shall have power to call for any details that may seem desirable.

A half-yearly return shall be made by each savings bank to the commissioner containing (1) a balance sheet duly audited in a form to be prescribed by him; (2) a statement of profit and loss; (3) a statement containing the following particulars with such others as the commissioner may from time to time prescribe, viz., the amount of deposits and all liabilities of various classes; the number and deposits under each of the various classes beginning with Rs. 10 and under; the number of accounts at beginning and end of the year, the number newly opened and the number closed; the amount paid in and the amount withdrawn during the year, the rate or rates and amount of interest paid on deposits; the expenses of the year including those of administration, taxation, &c.; the various classes of investment of the funds whether in securities or loans or otherwise, with the amount invested under each class; the rates and amount of interest received under each class; the number and value of mortgage and other loans of various amounts beginning with Rs. 20 and under; the number and value of loans, distributed according to terms of repayment beginning with three months and under.

The commissioner shall call for such further particulars or explanations as he may consider necessary. In case of delay or omission to furnish any statement or a proper statement the commissioner shall have power to send an inspector who shall prepare the same.

101. *Administration.*—Public savings banks shall be administered by a committee of directors. The articles of association shall determine the number of such directors to be nominated by the founding body or institution, and the amount of control or supervision to be exercised by such body or institution. But the funds of the bank, including any endowment fund granted by the founding body or institution, shall be absolutely distinct from the

funds of such body or institution, and shall be subject to no interference, control, claim, or use by such body or institution, nor shall such body or institution have any right as such body or institution to any profits obtained by the bank.

Provided, however, that the trustees or directors may grant any sum from the surplus profits mentioned in the second paragraph of section 98, for any works of public utility or benefit under the control of or being carried out by such body or institution.

Private savings banks shall be administered according to the terms of their articles of association.

102. Depositors shall be permitted to be present at general meetings and may bring any matter affecting their interest to the notice of such meeting, but shall have no power of vote.

They may also in writing bring matters to the notice of the directors or committee of supervision, and the directors or committee of supervision shall report at the general meeting their action on such application and the results of any inquiry in all cases where ten or more depositors shall have made any joint application regarding the officers or administration of the bank, or when any depositor has impeached the security of the funds of the bank, or the advisability or validity of any investment, or the correctness of any return, or the legality of any action or resolution of the directors, trustees or others.

Depositors have the right of addressing the commissioner upon any matter affecting their interests in any bank, and such application shall be under the same conditions and have the same effect as an application in the preceding paragraph.

Depositors shall have the right of appointing an auditor as representative of their interests, who shall take part in the periodical audit of the bank's operations, and shall enjoy powers equal to those of the auditors appointed by the shareholders.

103. Whenever a bank is open for the receipt or withdrawal of deposits, not less than two directors or trustees shall be present and shall take part in every transaction relating to such receipt or withdrawal so as to provide a double check upon each transaction, and one at least shall append his initials to each pass-book and ledger entry made at that time in token of the correctness of such entry. The rules of business shall contain full instructions for the necessary checks and for the accounts to be entered up and scrutinized on each occasion of deposit or withdrawal.

No deposits shall on any account be paid in at any time other than at the business hours of the bank, or at any place other than the recognized and notified office, or to any person other than the person appointed for the receipt of such deposits in the presence of the responsible trustees or directors.

No deposit shall be received without the production of the pass-book, and every receipt shall be duly entered therein under the initial of at least one trustee or director. Deposits may be remitted by money order made in favour of the trustees, but the pass-book must

accompany the remittance, and shall be initialled as above before return to the remitter.

Applications for withdrawal of deposits shall be similarly dealt with.

Pass-books shall be made out only in the name of the depositor, whose signature, if he is able to write, shall be taken in a register kept for the purpose. No repayment shall be made to a depositor unless the trustees are satisfied of the identity of the depositor or of his assignee.

It shall be lawful for a depositor to transfer his pass-book and interest in the deposits to any person, except to a trustee, director or paid officer of the bank unless such trustee, director or officer is related as a near kinsman to the depositor. Transfer shall be made by simple endorsement in the pass-book in presence of the trustees at the office of the bank whenever such bank is open for business, and the transfer shall then be noted in the register and accounts of the bank, and the transferee shall thenceforward take the place of the original depositor. The endorsement shall require an adhesive stamp of one anna if the amount transferred is of Rs. 20 or upwards.

It shall be lawful for a bank to issue pass-books assigned to persons other than the depositor should the depositor so wish. In such case no deposits shall be withdrawable by the depositor except with the personal concurrence of the assignee, and in case of the death of the depositor shall be payable to the assignee.

At least 30 per cent. of the deposits, and the whole of the guarantee fund or share capital and the reserve, shall be invested solely in Government securities and in securities guaranteed by Government; the remainder may be invested in first mortgages on land or buildings with the exception of theatres, mines and factories; in securities and loans upon securities approved by the commissioner, in bonds with sureties, in the discount of good bills with sureties, in cash credits collaterally secured either by first mortgage or by two or more sureties, and in loans to co-operative societies, banks or associations constituted under this Act. No speculative investment shall be permitted, nor shall any investment other than Government or Railway securities be made outside of the revenue district in which the bank is situated.

Every pass-book shall be returned to the bank for inspection and comparison with the ledgers one month before the preparation of the annual balance sheet and shall be returned to the depositors immediately after comparison. Such comparison shall also be made by the trustees or directors, and especially by the committee of supervision or permanent or other auditor as often as possible during the year when such pass-books are given in for the purpose of deposits or withdrawals.

In the case of banks open more than twice a week for business and for more than three hours on each occasion, it shall be lawful for deposit and withdrawal business to be effected in the presence of one trustee or director, provided that the second person required for the double check is a paid officer in receipt of not

less than Rs. 20 per month and has given security for not less than Rs. 500.

104. Investments of funds including loans shall be determined by the trustees or directors assembled in meeting and not otherwise. The payment of dues upon loans shall be subject to the checks and conditions sanctioned in section 103 in the matter of depositors.

105. *Privileges.*—The privileges of co-operative societies in section 85 shall be granted to savings banks, but shall not be limited to the term of five years from foundation.

The privileges granted in section 86 (2), (3), (4) and (5) may also be granted by the local Government.

All the above privileges are subject to withdrawal at any time by the local Government for reasons which may appear sufficient.

106. *Disputes.*—Disputes not involving criminal charges between the bank and depositors shall not be taken in the first instance to a Civil Court, but shall be carried to the commissioner for disposal, who shall have the powers of an arbitrator under the Civil Procedure Code to dispose of the same, and his decision shall be final and not open to any appeal, or to any suit in Court otherwise than by reference to the High Court in its capacity of Court of Revision.

Provided that the commissioner may state a case for the orders of the High Court, and shall pass a decision in accordance with such orders.

Provided also that the commissioner may reject the reference to him for disposal, and may order the parties to seek redress in a Court, and such court shall then have jurisdiction upon production with the plaint of the commissioner's order of rejection.

Provided also that such applications to the commissioner may be referred to any other person or persons either selected by himself or agreed upon by the parties for disposal or for inquiry and report, and such person or persons shall have all the powers of the commissioner with the exception of the power of final decision or rejection when the case is referred for inquiry and report.

CHAPTER V.

AGRICULTURAL ASSOCIATIONS.

107. *Description and Objects.*—Any seven or more persons may unite in an agricultural association. Such association shall have for its sole objects the advancement of agriculture and of the agriculturist, and may undertake or promote any of the following objects, viz. :—

- (1) the purchase of all stock and other requisites for agriculture and the retailing thereof solely to members of the association;
- (2) the collection of produce from the members of the association, and the sale thereof for the benefit of such members;
- (3) agricultural credit;
- (4) agricultural assurance;
- (5) the establishment of Benefit or Friendly funds;

See chapter on "Agricultural associations."

- (6) the provision of stud cattle ;
- (7) the employment of veterinary experts ;
- (8) the study and development of agriculture, including the establishment of reading-rooms, lectures, museums, experimental fields and the like ;
- (9) the development of agricultural education ;
- (10) the study and representation of matters affecting the agricultural industry and its development ;
- (11) arbitration between agriculturists ;
- (12) the carrying out of projects of irrigation, drainage, plantation or other agricultural developments by associated action.

108. *Scope.*—All agricultural associations shall be co-operative and mutual ; no business operations shall be undertaken except for the benefit of members, and all profits, after providing for the necessary reserves, shall be divided among the members according to their shares. But the benefits from objects included in section 107, clauses (6), (7), (8), (9), (10) and (11) may be extended to non-members.

The provisions relating to co-operative societies may be adopted by associations under this chapter, and shall be so adopted by associations dealing with the objects mentioned in section 107, (1), (2), (3), (4), (5) and (12).

109. The articles shall declare the specific objects of the association, and shall provide for all such matters entered in sections 7, 77, 78 and 80 of this Act as are appropriate to this form of society, and for such matters as are special to it.

110. Withdrawal from the association shall be permitted at any time, but the liability of the withdrawing member shall continue for all debts due by him to the association, and he shall continue liable for the space of one year for all debts due by the society incurred before his withdrawal.

111. An association under this chapter if not dealing directly in credit, may acquire immovable property in its corporate capacity, without limit as to area or term of occupation.

112. An association shall retain a preferential lien over all stock provided on credit under section 107, clause (1) for members until complete satisfaction of its claim, nor shall any member sell, dispose of or in any way charge such stock to the detriment of the association or without its permission. The provisions of section 38 of this Act shall apply *mutatis mutandis* to goods supplied on credit under section 107, clause (1).

113. *Credit.*—No association shall deal in credit direct, unless it shall have adopted the provisions of chapter III. But any association may promote the grant of credit by establishing a credit branch or annexe. The members of such branch must be members of the association and, further, must be expressly elected or otherwise admitted as members of the credit branch. The branch shall take the form of a co-operative bank, and shall be subject to the provisions of chapter III ; its assets and liabilities, shares, business, accounts and balance

sheet, shall be distinct from those of the association.

The above provisions apply to associations establishing Benefit or Friendly funds, and Assurance branches.

114. *Privileges.*—Associations not falling under chapter III, shall or may be granted certain privileges, viz., those contained in section 85 (1), (5), (6), (10), (12), (17). They may also be granted subventions by the State whether in the form of loans, or of grants for first working expenses, premiums, grants-in-aid of exhibitions, museums, libraries, schools, experiments or experimental plots, the provision of stud cattle and the like.

They shall be considered as persons eligible for loans under the Land Improvement Loans Act and Agriculturists Loans Act.

115. *Supervision.*—Associations shall be subject to the provisions of section 72 so far as such may be applicable.

CHAPTER VI.

LAND IMPROVEMENT BANKS.

116. *Objects.*—The sole object of land improvement banks shall be the grant of credit for the permanent improvement and amelioration of landed property, through—

- (1) the bringing of waste lands into cultivation;
- (2) the irrigation of dry lands, whether by tanks, channels, wells and the like, including the levelling of land for the purpose;
- (3) the draining of lands, and their embanking against floods;
- (4) the afforesting of lands including therein provision for hedging and enclosure;
- (5) the plantation of orchards of fruit trees expected to last at least 20 years;
- (6) the erection of permanent buildings for the housing of the owner or occupier of the land, or of his labourers, or of his stock;
- (7) the provision of roads or tramways for the development of the estate.

117. Such banks may be either joint stock or co-operative, and shall be regulated by the provisions of chapters II and III, respectively, subject to the provisions of the following sections.

118. *Loans.*—Loans may be granted up to 75 per cent. of the existing value of the land to be improved. During the progress of the improvement, the borrower may demand a further loan or loans up to 75 per cent. of the estimated value of the amount spent upon the improvement.

Loans may also be granted at the outset up to two-thirds of the estimated value of the land including the intended improvement, but in such case shall be advanced only by instalments at the discretion of the bank, and after due inspection and valuation of the progress of the work.

Provided that if the improvements be roads, tramways, or buildings, such loan shall not exceed one-half the value of the land and of such roads, tramways or buildings.

119. Repayment of loans shall be solely through equal annuities including both principal and interest, but it shall be lawful for the borrower to repay at any time the whole or any part of the loan not being less than 10 per cent. of the outstanding balance, in which case he shall be liable to pay a commission not exceeding 1 per cent. on the whole balance.

The bank cannot demand repayment of the loan otherwise than by the stipulated annuities except in the following cases, viz. :—

If the borrower or his successor in interest does not conform to the terms of his contract after notice by the bank;

If the land or the improvement is allowed by the owner or possessor materially to deteriorate, so as to lessen the security of the bank;

If the land is sold for debt or for arrears of revenue or rent;

If the borrower becomes bankrupt. In any of such cases the bank may proceed to sell the land forthwith without the intervention of a court subject to the provisions of 69 *supra*.

120. All loans granted solely for land improvements under the provisions of this chapter and *bond fide* spent thereupon, shall form charges upon the land itself and shall follow the land notwithstanding any changes of possession or ownership; section 42 of Madras Act II of 1864 shall not apply to such charges. Such loans so spent shall, moreover, when registered, form first charges on the land and its crops notwithstanding any prior charges whatsoever whether registered or unregistered save only (1) dues for revenue; (2) dues for rent owed to a landholder as defined in the first clause of section 1, Madras Act VIII of 1865, (3) dues payable to Government for prior loans under the Land Improvement Loans Act and Agriculturists Loans Act; (4) dues payable to the same or any other bank for loans for similar improvements to the same land. They shall be absolutely binding on all co-sharers, heirs or successors to the land, any contract to the contrary notwithstanding.

121. During the pendency of the bank's charge upon the land the owner or possessor of the land, shall be bound to maintain the improvement in full working order, and he shall, at least once in a year, certify to the bank that the land and improvement are in complete order, and the bank may inspect such land and improvement. Failure to maintain the land or improvement in good order shall entail the immediate recovery of the loan should the bank so desire.

Bills of Sale.—As it is understood that a bill on this subject is being prepared in the Imperial Legislative Council, no remarks are required. (*See* chapter on "Law.")

Usury.—The above remark applies also to this subject, viz., the modification of Act

XXVIII of 1855, and, concurrently of the Contract and Evidence Acts.

Money lenders' accounts.—The necessary details for this proposal are entered on the last page of the chapter on "Law" in Appendix I, and need not be here repeated; the proposal does not immediately affect the organization of banks.

Homestead Exemption.—The following addition shall be made to section 266 of the Civil Procedure Code:—

(o) In any district to which this clause shall be extended by the local Government Gazette, no house or land in the occupation of an agriculturist shall be liable to sale in execution of a decree,

Provided that such house shall not be worth more than Rs. 50, and that such land shall not exceed in area two acres of dry land, or one acre of garden land, or one half acre of wet land, or such area, not exceeding the above limits, as shall be laid down by the local Government in the local Government Gazette.

The above exemption shall hold good although the said house or land shall have been specifically pledged or mortgaged for the debt upon which the decree has been obtained.

Provided further that the above exemption shall not apply to a decree for debt on a loan for *bonâ fide* improvements on the said land and due to a bank by the said agriculturist, or to any decree for debts due by such agriculturist to such co-operative or Savings Banks as may be specially privileged to that effect by the local Government.

For the purposes of this section a house or land shall be deemed to be in the occupation of an agriculturist although in temporary possession of a usufructuary mortgagee, or though held by an agriculturist subject to a clause of attornment in the deed of mortgage.

Various.—Several other suggestions will be found in the chapter on 'Law,' especially on pages 308 to 315.

C. L. s. 1. "Homestead exemption" and "Chapter on European indebtedness."

CHAPTER VI.—REGISTRATION.

There are two principal methods of passing the title to or recording charges upon land, viz., that by registration in public offices and that by mere deeds. In the former system,—that of Prussia and of the Torrens Act (Australia chiefly),—the private deed is of no use or validity except as evidence of the terms of the contract; it is the entry in the public register which alone validates the transaction or the succession; hence under such a system every person interested in or fact relating to a property must, of necessity, be entered, whether it be the names of co-sharers or encumbrancers, a sale, a mortgage or a 'privilege' such as the right of a landlord. The method of recording such titles or encumbrances is simple in the extreme; a folio is devoted to the parcel of land (estate, farm, or field) in which are entered its description, owner, history of his title, and all other material facts; every change in the status or ownership of the parcel, or any charge upon it, must at once be entered in the folio, and nothing is valid till such entry. Obviously, then, it is only necessary for an intending purchaser or creditor to turn to the folio and ascertain by a single glance, whether he can safely buy or lend.

The other system is that of England, where registration is nothing, but the deed everything, so that the ascertainment of title is lengthy, costly and wholly uncertain in its results. It is also the system of India, but matters are here mended to some extent by the Registration Act, which compels the registration of all documents relating to immoveable property of Rs. 100 and upwards; all documents of sale or mortgage below that sum are optionally registrable, but—by the Transfer of Property Act—sales and usufructuary mortgages of less than Rs. 100 need not be committed to writing, and are therefore not subject to registration. The result is that while, owing to the absence of registration of title and the peculiarities of Hindu and Muhammadan laws, it is almost impossible for an outside purchaser or creditor to ascertain title, it is possible, by searches in the registration offices to ascertain whether land is encumbered or charged, there being, however, two principal difficulties even in this, viz., (1) the provisions of the Transfer of Property Act above alluded to, (2) the cost, labour, and uncertainty of searches in the indexes. The latter difficulty is now under removal by the substitution of new forms of Index (G.O., No. 199, Revenue, dated 10th March 1894); and by the proposal to compel the entry of the survey number of the fields in all documents; the former can only be eliminated by an alteration of the law as apparently proposed by the Government of Madras in the G.O. above mentioned.

There can be no doubt to a student of European land transfer and credit, that the Prussian or Torrens system of registration of title with its validation of all successions and transactions by entry in the land registers, is the system of the future, and must eventually be introduced into this Presidency whether in its present or in a modified form. The matter is partly dealt with by the present Inspector-General of Registration in his letters concluding with that entered in the G.O. above mentioned, but it is one of immense difficulty, owing principally to the intricacies of the Hindu and Muhammadan laws as to co-sharers, the status of lands, viz., whether acquired or ancestral,—the former becoming ancestral in the second generation,—and the rights of managing members. Its discussion has consequently been omitted from the present report, since, to deal adequately with the subject, would require much special knowledge and lengthy treatment, such as cannot easily be afforded in a report upon banking credit. Still, it would have been needful to discuss the matter with some fulness, had it appeared necessary that, for the purposes of introducing rural credit, that system, or some similar one, should be adopted. This, however, does not seem to be the case. As elsewhere shown, the main credit to be granted in this Presidency, at least for years to come, will be very small, continuous, short term credit, with a moderate number of mortgages; in some districts where cheap credit is badly needed, mortgages are hardly found at all. Such credit, including all the small mortgages—below Rs. 100— which form half of the whole number, and many of the larger mortgages, can most conveniently or even solely be granted by village banks; these banks by their local knowledge and influence do not require the registration offices as preliminaries to loans; the directors are fully acquainted with the status and title of the borrowers, who, moreover dare not, from their position as co-members of the bank, and still more as co-villagers, defraud the bank by concealing encumbrances or otherwise. The Nidhis are proofs of this fact; even where the operations of the Fund extend beyond the precincts of a single village, the directors, one or more of whom reside in each village, are able to ascertain the title, &c., of the borrower without difficulty, and can grant loans without danger or refuse them without undue hardship to the borrower.

Moreover, it is easy to secure mortgages not merely by a clause in the loan deed, rendering the borrower responsible for any defect,—a useless entry when the strongest sanction for honesty lies in the possible ostracism by co-members and co-villagers,—but by the coupling with the borrower of personal sureties, who will certainly refuse to act if they are not personally aware of the status and title of the borrower, and of the freedom of his estate from encumbrances. The private money-lender lends freely on mortgage without consulting the registration offices, and the village banks will have still larger and more interested sources of accurate information. It is only a Central bank, i.e., one having a taluk or more as its area of operations, that may require to use the registration offices, and the establishment or usefulness of these does not appear probable.

Hence it has been thought unobjectionable to postpone the discussion of a development of the Registration system for a more fitting opportunity and with more complete knowledge.

CHAPTER VII.—RECOMMENDATIONS.

It remains to consider what form of institution is best adapted in this presidency for rural credit, the difficulties in the way of the banks and the best means of promoting them and their well-being. The postulates of credit mentioned in the general chapter on 'credit,' viz., proximity, the security of the lender, and facility and safety to the borrower, will be assumed, as also the correctness of the axiom that credit must be based on thrift, that is, that the thrift of lenders shall provide the funds for the use of thrifty borrowers.

The form of the banks.—No central bank, not even a district bank, can satisfy the conditions of "facility" and 'proximity,' when the borrowers are the village folk the great mass of whom hold lands assessed at less than Rs. 30, nor can they look at rural credit business when the loans are, as in this presidency, the petty loans evidenced by registration, court and other statistics. The vast bulk of all loans are below Rs. 50; even mortgages below Rs. 100 number half the total mortgages and average only Rs. 44; the records of the civil courts tell the same tale, since, in this presidency, for 1893, no less than 59·4 per cent. of all suits, exclusive of those in village courts, were for sums below Rs. 50 including the interest claimed; if village courts are included, the proportion is 68·9 per cent. Again, including village courts which tried 61,000 suits, the percentage of all suits below Rs. 20 was 45·25 per cent., so that nearly half of all suits were below Rs. 20. This being so, it is clearly useless for any bank outside a very small circle, to think of supplying the country side with the credit it needs. Nor is it conceivable that the borrower could obtain from such a bank either facile, cheap or safe credit; the expenses of enquiry, the risks of loss on petty loans to unknown persons, would preclude facility, while the element of safety would be largely wanting since 'safety' requires that the destination of the loan shall be a productive one, that it shall be used in production or towards economy, and that money shall only be borrowed for such purpose. Credit banks cannot and do not enquire the purpose of a loan provided the security is sufficient, whereas it is of the essence of village credit that the lending institution shall be a powerful aid to the borrower in checking extravagance and in suggesting useful outlay.

Nor is it possible that State banks should satisfy the need for rural credit. Still less than central banks can they satisfy proximity; their agents indeed may be amongst the people, but a paid agent is merely a machine to pay out, to receive, and to enforce hard and fast rules; the loans might be made secure to the lender, but solely by the overwhelming powers reserved by the State creditor, while the safety of the borrower, except as regards loans similar to those under the Land Improvement and Agriculturists' Loans Acts, would fail of being met, since the State can hardly influence the individual in the matter of prudence in his individual actions. The borrower need not be thrifty, nor would the loan proceed from voluntary savings but from the national taxes, unless the State deliberately utilized the funds of the Savings banks in such loans. But it is difficult to see how the State could ensure that its loans should be granted only to thrifty persons and for productive use, unless they were limited, as now, to improvement loans; this, however, is not what is meant by 'rural credit.' There are, further, overwhelming objections to general State credit; such are the enormous amount of necessary business with the consequent abnormal development of a bureaucratic agency which, *ex hypothesi*, would interfere in the daily affairs of every man's life; the gigantic sums required for the supply of general credit; the development of the habit of leaning upon the State, and of identifying it with the prosperity and misfortune of the people; a tendency to regard the State creditor as a money-lender, who, especially under the popular delusion of the State's illimitable wealth, could bear to lose individual debts; the odium attached to the State as enforcing, as it would be bound to enforce, rigid punctuality and complete repayment of dues; the political objections to a State assuming the position of general creditor with the consequent temptation by its debtors to general repudiation; the interference with private trade and the stifling of all efforts at self-help.

Central banks and State banks being thus found objectionable, it follows that what will be chiefly required for the credit work of the Madras districts, are small, local, locally worked institutions on the lines of the European village institutions; it is Village banks, not District or even Taluk banks that are required. It does not appear probable that institutions like the great Scotch banks will ever arise to send out their thousand branches and agencies into every village; the genius of the people and the absence of a note circulation by banks, seem to rule out this possibility. In the absence of great institutions with the peculiar ability of the Scotch banks, the only alternative is the local Village bank which satisfies the postulates of proximity, security, and facility, and, in one form or another, is found in thousands of instances in Europe and America; such are, the small Swiss Joint Stock banks, the Popular banks and Loan societies, the Savings banks, Building societies, Positos, &c. In one form, moreover, viz., that of the co-operative Village bank, it satisfies the final postulate of true credit, viz., that of 'safety' to the borrower.

The decisive advantages of village banks are as follows: (1) their absolute proximity to the borrower; (2) their ability to excite local confidence and consequently to draw in local capital; (3) their exact knowledge of their clients and their influence over them as co-villagers; their consequent ability to prevent fraud and to dispense with searches in Registration offices; (4) their power of making the smallest loans and of undertaking operations, however petty, in consonance with village custom and individual needs; in fact, of *giving preference* to small business; (5) their ability to dispense with any prior general liquidation of debts such as has been demanded as a preliminary to the establishment even of Taluk banks; they would ascertain in each case the borrower's prior debts, arbitrate with the creditor for a favourable settlement for cash down, pay down the sum settled, and accept the debt as due to themselves; (6) their ability to work cheaply, almost gratuitously, and thus to provide cheap credit; (7) their retention of local capital and of all profits thereon, within the village, and, in the case of co-operative societies, their retention of all profits for the members and borrowers; (8) their ability to act as agents and brokers for their members in the sale of produce and purchase of necessaries; (9) their capacity of acting as village granaries, lending grain for maintenance and seed in ordinary years from their own resources, and, in times of distress, from those resources supplemented by State or other grants; (10) their ability to act as intermediaries between the State and the individual, whether in matters of loans for land improvements, cattle, &c., or in other agricultural or industrial developments, or in times of seasonal stress; (11) their power of influencing borrowers towards the true use of credit, and of watching the utilization of loans in accordance with contract; (12) their ability to prevent fraudulent defaults and collusive sales of property, and, in cases of default, to utilize advantageously the small properties accepted as securities for loans; (13) their tendency—in the case of co-operative banks—to group themselves into unions for mutual development, instruction, inspection, and audit; (14) their steady, educative influence in matters of thrift, association, and self-help, by their continuous presence in the village, by their continuous object lessons, and by their frequent, though small, calls upon the activity, thought, and service of their members; (15) their tendency to develop high forms both of individual capacity, of public life, and of national character.

These Village banks, then, may assume several forms: they may, as Joint Stock banks, imitate the 'minuscules sociétés anonymes par actions'—the tiny Joint Stock banks—of Switzerland, with their little knot of capitalists and their share capital of a few hundred pounds; they may possibly assume the form of the State aided Communal banks of Alsace-Lorraine; they may be Savings banks in origin, dealing in credit merely as a mode of placing their funds either directly to borrowers or indirectly through loans to credit banks; they may be Nidhis either of the present or of a developed type, developed in their power of safely attracting capital, and of giving long-term loans; they may be village granaries storing surplus grain at harvest, and lending it out among the ryots for seed in the cultivation season; they may be agricultural associations with credit annexes, a most desirable form of institution; or finally, and most desirably, they may be true co-operative societies and banks, operating through, for, and upon the members, stimulating and collecting their savings, calling forth habits of thrift, economy, and prudence, guiding their outlay into productive channels, giving them credit for productive and useful purposes, promoting co-operative dealings in sale or purchase, and stimulating activity, union and associated action among the too isolated units of village life.

Difficulties in the way of banks.—While it is desirable to develop the suggestive and educative functions of the law and of the executive in the matter of thrift and credit institutions, and to give, by law, certain privileges to societies established to promote national thrift, providence and productivity, it is to be remembered that neither the existing law nor the Government, nor the state of society, offers any actual obstacles to the establishment of any class of bank or benefit association; if the law does not suggest, it does not prevent; if the executive does not help, neither does it hinder; if the conditions of society are not all that can be desired neither are they specially unfavourable. The German co-operative law assists and promotes co-operation, but co-operative banks and societies existed before the law, and the law is the result, not the cause of their existence. Yet the obstacles presented to the formation of such societies in Europe in 1850 and succeeding decades were not less but greater than in this presidency at the present time. The law regarding societies was restrictive, while the executive looked askance at all associations; non-trading societies were suspected of being political clubs, and even the Schulze-Delitzsch Associations were attacked by the police authorities as not warranted by law; no Joint Stock Company could be formed in Germany—until the new commercial code of 1884—without the express authorization of Government; in France no associations of artisans or agriculturists were possible until the law of 1884, which modified the Revolutionary law against trade guilds; the English law in the matter of trade unions is well known. Fiscal burdens in Europe were and are extremely heavy; stamp and succession duties, income-tax and other charges, together with—in Italy—a charge for Government supervision, are a real burden. Communications, viz., the railroads, post and telegraph, were, in 1850, inferior in Europe to those now existing in this presidency; the press was but developing; education was generally backward, the peasants not only poor and burdened by usury, but suspicious and conservative to the last degree, while their land tenures could not compare in some countries with that of the Madras ryot; the Courts were not and are not purer, prompter, or more accessible than they are in this presidency; the people, the peasant masses, were but beginning to be considered as factors in the State.

Here in Madras there are few such obstacles; the right of association is absolutely unhampered; for any purpose whatsoever men may unite unquestioned; stamp duties, though a burden, as are all fiscal charges, are lighter than in Europe, and are no hindrance to trade; the income-tax is only half of the similar tax in Europe, exclusive of England, and is far less sweeping in its actual incidence, owing to the numerous deductions allowable under it, while the minimum income chargeable is higher, when the comparative value of money has been allowed for, than that generally-chargeable in Europe; succession duties among the people generally are unknown, so that shares and deposits in societies pass undiminished to heirs; communications are good and very cheap; the press is becoming a power and may at once exercise most beneficial functions in the matter of societies; education, though backward, has reached in a high form, a very large number of men who are spread throughout the country, while the assistance of an immense number of men, trained in the service of the State, is available; justice is fairly pure, prompt and accessible, and the Village Courts provide a resort for small debts unequalled in the world; the commercial and social ideas of the West are, through the press and other communications, absolutely open for the imitation and guidance of the East, so that the errors and difficulties of pioneer societies may be avoided; the peasantry are not unaccustomed to combined effort, while the Government ryots, possessing their land in perpetuity, and with, at worst, a settlement lasting nearly twice as long as the Scotch leases which have made Scotch farming what it is, with full transfer and mortgage rights, and not unskilled in their hereditary art, are in status fully the equal of the ordinary German and Italian peasant amongst whom co-operative societies have so splendidly flourished.

What is wanted more than the mere administrators is the men of initiative, enthusiasm, and prescience who will introduce the idea and force it into practical shape; men of intelligence, philanthropic intention and foresight, full of zeal for reform, persistent in effort, and ready to work out, though on the humblest lines, the details of the future systems. It was only by the most devoted and unwearied effort, not merely in lecturing and writing, but in working at the details of an actual society, correcting errors, introducing improvements, encouraging the faint hearted, that Schulze-Delitzsch and Raiffeisen, Luzzatti and Wollemborg, forced their ideas into public recognition; it was the unwearied efforts of one or two men who made English Savings banks what they are; it was the few artesian pioneers who at Rochdale laid the foundation of British co-operative distribution; it was one or two enthusiastic men who, when the law of 1884 legalized Agricultural Associations in France, preached and guided the idea with such fervour that within 10 years, above 1,200 such associations, with above a million members, have already sprung into existence. Similar men with similar enthusiasm are needed for this presidency; men who, living among the people in the small towns and villages will actually work out their ideas into practical shape. This is already in actual process to some extent; the Nidhis, without legal or executive assistance, have made for themselves a certain position by the efforts of a few intelligent men; that which is lacking is the advent of men who, with wider knowledge of method, with larger ideas of co-operation, with greater enthusiasm for the general spread of ideas regarding national thrift, providence, mutual and self-help, and productivity, will apostolize the movement by

giving the labour of their life to the working out of the problem not on paper but in fact. The difficulty seems great, but—*solvitur ambulando*—; each theoretical difficulty falls when attacked in practice. Theoretically, for instance, the question of title and encumbrance is considerable; that difficulty does not exist in reality as the Nidhis have proved; no local society fears such dangers, for it has perfect knowledge of the borrowers, while the borrowers dare not deceive the lenders who are their own friends and neighbours.

It will, however, be well to describe in somewhat greater detail the objections which have from time to time been raised in regard to the establishment of banks. In the course of this study various reasons have been suggested as hindrances or difficulties in the way; these may be classed under the heads of social, commercial, fiscal, and legal; it is significant that not a single correspondent has raised any difficulty as arising from the executive.

Social are (1) want of initiative; (2) novelty and absence of *māmul* and ignorance of banking methods; (3) ignorance of the co-operative idea; (4) inability to adopt association as a working system; (5) want of men of devotion and enthusiasm who will apostolize the movement.

Commercial are (1) general ignorance of the facts relating to rural credit and needs; (2) unattractiveness of rural business to commercial circles; (3) timidity of capital in venturing on the unknown; (4) failures of previous attempts; (5) want of men who will manage rural banks; (6) difficulty of attracting capital; (7) difficulty of attracting customers; (8) absence of trustworthy agents, and difficulties and cost of supervising and paying them; (9) risks of bad business by want of trustworthy inspection, &c.; (10) difficulty of dealing with an immense mass of petty work and loans; (11) unbusiness-like habits of ryots; (12) opposition of the money-lender; (13) the hope of obtaining large privileges; (14) difficulties due to prior debts; (15) difficulty felt by ryots in getting annual loans if property is mortgaged to a bank; (16) difficulty both to ryot and bank when an important improvement results in failure; (17) difficulties of giving loans for improvements on unimproved land; (18) difficulty of granting credit of all classes by the same institution; (19) want of supervision.

The *Fiscal* difficulty is the weight of taxation, stamp duties and other charges.

Legal are (1) doubts as to security by reason of the family system; (2) doubts as to title by the absence of a system of registration of titles; (3) doubts as to prior encumbrances by the absence of proper registration indexes; (4) difficulties in the recovery of debts, such as delays, cost, uncertainty &c.; (5) the provision of the revenue law by which property sold for arrears is sold free of encumbrances; (6) difficulty due to periodical revision of assessments; (7) difficulty in the way of lending to *Zemindari* ryots.

Social difficulties.—These are real ones; when the banking idea has absolutely no place in the rural mind, when hoarding in walls and roofs is universal, savings and deposit banks unknown, the habit of getting in the idle money of the public for productive distribution wholly foreign to the customs of the country, credit on fixed terms and by fixed rules undreamed of, indebtedness in the sense of living on the advances of a money lender or broker habitual, and the rural population suspicious of all that is not according to custom, there will be great difficulties in fostering the ideas and methods of banking institutions. Still more must this be the case where a country has suffered from centuries of trouble, where each village formed a *municipium* and every one outside of the village was a possible enemy, where communications were bad or non-existent and external trade almost unknown, so that all wealth was concentrated in the self-contained village, and wealth if it left the village, left it permanently in submission to external force. In such a country private hoarding will be customary and adhered to pertinaciously; money will rarely be invested even in Government loans, since Eastern Governments have been used to borrow but not to return; no confidence will be placed in companies—again a Western invention—or banks outside of the village. Hence as mentioned above, it is men of initiative and devotion who are required to preach and push the new idea, but above all, to sit down quietly and work it out in his own immediate neighbourhood. It is not true that internal village association is an unknown idea; on the contrary, communal life is still strong in the villages, and in many matters affecting agriculture, village festivals and the like, associated action is habitual; there are numerous men who in the villages daily deal with matters much more complicated and difficult than the mere granting of small loans to neighbours, as for instance the regulation of the water-supply to the fields from the tank, especially when water is scarce and claims are opposed.

But the objections apply far less to the establishment of village banks than to that of central banks; association is common among villagers, and can be trained to the new method; money will flow into a village association which would not be trusted to an outside or, at all events, distant society; the villages which are already proved capable of establishing 'chit' societies and Nidhis, can establish other savings and credit associations.

Commercial difficulties.—These objections are also valid in some degree when viewed from the standpoint of urban capitalists who seek investments for their funds in banking ventures. The banks contemplated by such persons are the central banks of large capital and extensive operations, spread over thousands of square miles and having, as clientele, a selection from the richer classes. Obviously to such banks the petty business of the millions of small folk must be unattractive; each operation needs a separate enquiry by paid agents; the charges of such agents, the risk of unfaithfulness or rashness, the smallness and uselessness to the bank of the security offered, the difficulty of recovering or suing for such petty loans, the immense risk of loss by the mass of petty transactions with unknown, obscure and probably unpunctual borrowers, the actual cost of each enquiry and the preliminaries to each transaction, in other words, the absence of proximity and security to the bank, entirely prohibit the engagement of business men and trading capital in rural credit.

But these difficulties, which are not only genuine, but which are precisely those which have prevented the small folk of Europe from access to banking credit, and which have deterred the abundant investment capital of Europe from finding its way to the peasant farmer, do not apply to village banks; the villagers are perfectly acquainted with their need of capital and credit and with the operations for which credit is needed; there is no mass of demands from unknown persons on ill-known security, but simply the requests of a few persons whose status, property and needs are perfectly known to all; there is no need of agents, for the work is at their doors; the borrowers cannot make default for that would

mean social ostracism and ruin; the village court is at hand for all dues or delays; if there is final failure, the lands and property of the defaulter are precisely those which are most in demand by the co-villagers; the capital of the bank, even if attracted from without, is retained and spent wholly within the village; there are no periodical withdrawals from the village of capital to meet the demands for increasing dividends of shareholders and directors, but merely the fixed interest on the deposits or debentures. As for the management of the banks, the men of the village are as competent to deal with these individually small and simple matters as with the more complex questions involving rival claims to lands, to water, or to village honours, or involving the numerous accounts demanded by a modern administration; the success of many village Nidhis proves this, and as the idea roots and spreads, supervision and extraneous assistance will not be wanting. As for the opposition of the money lender, the experience of Italy, Switzerland, and Germany proves that this is of no avail; the bank will always oust the usurer, nor is any complicated process necessary; the bank lends the money, possibly arbitrates between creditor and debtor, the debtor pays off his debt and gradually repays the bank at 6 instead of 60 per cent. It is, perhaps, in this point that village banks are so successful; there is no need for a general liquidation of debts over a taluk, no white-washing of an extensive clientèle by Government and the delivery of the clientèle bodily, to the bank; there is simply the individual debtor who comes with his usurious account to the bank, gives an inventory of his property which is perfectly well known to the bank directors, borrows the money and pays off the usurer; there is nothing heroic, nothing extensive or difficult, but a quiet, gradual extinction of debts, debtor by debtor. What is needed is simply the little village bank started by prescient, enthusiastic men of business, who will assist the villagers by personal effort and devotion; the rest is easy.

What has largely delayed the starting of banks is the idea that they must be the work of capitalists in the ordinary sense—the sowers, the men of means; that they must be at least Taluk or District banks, so as to command cheap capital. It is from this cause that extensive privileges have been sought, such as prior liquidation of debts, a prior State interference on an overwhelming scale, an experiment in State intermeddling of the gravest character, all to the end that certain capitalists might make sure of starting the bank as a going concern with a big whitewashed clientèle delivered by contract into their hands, with a monopoly of business in the taluk, and Collectors as their bailiffs; it is the idea not merely of central banks, but of handsome dividends that has misled suggestions and public ideas into the wrong direction: the humble village bank, with its clientèle literally at its doors, and developing local credit not as a means of earning dividends for distant, outside shareholders through unheard of privileges, but as serving the needs of the members of the bank, will by its establishment, brush aside all the difficulties hitherto put forward by promoters in the hope of obtaining wide privileges and correspondingly handsome dividends. The village bank, again, removes the difficulties mentioned in (15) and (18); these village banks, can give all classes of credit, since the transactions are all on a small scale and with perfectly well known clients; a village bank can readily give an advance for maintenance upon a growing crop, or a loan for the purchase of stock upon which, by a bill of sale or privilege (see 'draft bill') it will have a prior claim, even though the farm lands may be under mortgage to the bank.

The difficulty mentioned as (17) is serious; all that can be said is that, as in the Scotch banks, a loan in the form of a cash credit can often be given to a ryot whose general status and, especially, character are good, and with this the improvement can be effected advances being drawn only as the work progresses; the special well rules under the Land Improvement Act are applicable, with the additional securities that the character of the applicant will be a factor in the disposal of the application, and that the due application of the loan, and the progress of the improvement can be immediately and frequently supervised by the bank directors.

Difficulty (16) is also serious; it occasionally happens that a well is dug at large cost but fails; a tank is made but breaches; a tree is planted, but the soil proves saline or unsuitable. Even in this case, however, the bank is covered by the security it has taken and the borrower bears the loss; he is no worse off in borrowing from a bank than from an ordinary lender, while the terms of his loan are probably much less onerous. Moreover the risk can be minimized, and, if transactions are numerous, even eliminated by a proper method of insurance, by which the ryot can be indemnified for his loss or freed from his debt on payment at the time of the loan, of an insurance premium, which may be deducted as a percentage from the loan amount.

The want of supervision has, however, been a real difficulty; very many Nidhis have been started and fallen into ruin, not so much from fraud but from sheer business incapacity or negligence, which might have been prevented by extraneous advice and assistance. Control is not necessary; on the contrary the principle of self-help demands autonomy, but autonomy and self-help do not preclude advice or even assistance. In the case of co-operative credit societies this is provided by the Unions of societies, which provide examiners for audit and for general assistance, supply information, and even arrange for pecuniary support by way of loans from the richer to the poorer banks by the intervention of the Union. But till such Unions are formed the State may supply the want, every care being taken to avoid such support as will weaken rather than strengthen. Moreover, State supervision is not undesirable even as a permanency; it is not only found in Continental Europe and in England, but notably in the United States, while in England the supervision of co-operative, building, friendly Societies, and savings banks in an increasing degree, is an actual and most modern fact, as in the savings Banks Act of 1891, the Building Societies Act of 1894, and the proposed (1895) legislation for Friendly Societies.

While village banks are thus indicated as a means of turning the difficulties which do exist, it is suggested that other banks are not impossible; banks, especially for mortgages and for land improvement, which can lend sums of Rs. 500 or Rs. 1,000 are desired for the larger class of farms, and then, beginning in their immediate neighbourhood, can extend their operations through their members, after the fashion of the German Land Banks, provided that dividends are not the primary object of the banks, but mutual credit. It is difficult to conceive of a central bank,—using the word central to mean even t. taluk,—which should succeed in earning sufficient dividends in the first few years of its existence by means of its necessarily small transactions; mutual banks might succeed, and might be encouraged by Government with subventions or guarantees, so that the expensive and troublesome State loans for land improvement might be gradually abandoned.

The difficulty of financing the banks, of attracting capital is usually considered serious; it was so considered in Europe until the village banks solved the question by simply starting; they have never lacked for capital even when working in usury ridden tracts. Doubtless the general principle of unlimited liability has operated to attract capital, but the Italian Popular banks are not founded on this principle but on that of a share capital. This matter is dealt with in a separate section below.

Fiscal difficulties.—These are not serious; as a charge upon the banks they are simply the stamp duties on the memorandum of association, the charge for registering the memorandum and articles, and the income-tax. Should the banks borrow either by debentures or otherwise they are liable to pay the stamp and registration duties on the bonds. It is proposed that for village banks on the co-operative principle these charges for registration of the memorandum and articles should be entirely abolished, as also the stamp duties on the same documents, and that stamp duties and registration charges on loans below Rs. 100 issued by the banks be reduced by one-half; for loans taken by the bank, e.g., by the issue of debentures, a very slight alteration is made, to favour the issue of debentures of small amount. For village banks on other principles, no particular concession need be granted, except in the matter of debentures as above. It is not proposed to remove the income-tax, especially as it will be within the power, as it is within the duty, of all mutual or co-operative banks, to avoid the tax by reducing the cost of loans, so that profits chargeable to the tax will not exist.

Legal difficulties.—The first five are fully dealt with in the chapter on 'law' and in the draft bill, and in the chapter on 'Registration.' The sixth is not a serious objection; it is not found that the periodical revision has any effect upon the sale or mortgage value of land in private transactions, the fear, expressed in theory, as to the result of such new assessments, being eliminated in practice by the knowledge that no considerable or ruinous enhancement will take place; moreover the margin which every bank provides for such and other contingencies by the difference between the actual value of land and amount lent, sufficiently covers such risks, especially when added to the fact that all long time loans are, *ex hypothesi*, to be repaid by instalments on the sinking fund principle, so that the margin between the amount due and the actual value is often very large. Further it is to be noted that as the settlement period is 30 years, only loans taken in, perhaps, the last decade will be affected, and it will be open to the banks to discount any risk of depreciated security by widening the margin between the loan and the market value.

The seventh difficulty cannot be got rid of by any banking device. Suffice it to say that it only exists as regards mortgages, and for those only in a very limited degree, mortgages and transfers being, practically, as feasible and complete in the southern zemindaris as in the Government lands. As regards ordinary loans on general status, village banks in zemindaris will be exactly in the same position as similar banks in Government villages.

But, while there are no insurmountable obstacles in the way of establishing banks, the way may be made smooth and easy by the operation of the law and of the executive authorities. These matters are specially dealt with at length in the chapter on 'law,' and in the draft bill, to which readers are referred; a few remarks are necessary regarding the provision of capital, the due management of the institutions, and the supervision desirable or necessary.

Capital.—The capital of a bank is either a working or a guarantee capital; it is either paid up, subscribed, or merely guaranteed. A bank, however, if it is to fulfil its complete functions, does not rely on its own subscribed capital for its operations; its efforts are directed to attracting outside capital which may amount to many times its own capital, and this attracted capital is the source of its usefulness; it encourages thrift by getting in useless hoards and petty savings; it promotes productivity by utilizing these funds in loans. A bank which deals with its own subscribed funds only is defective in both ways; it does not fully promote savings, and it wastes its possible opportunities in granting credit. Herein lies a cardinal defect of the Nidhis and of all societies of that type; they depend almost entirely on the monthly subscriptions of their members; they promote thrift only among their members; and they can grant loans only from the insignificant sums thus gathered in, with the result that, since three out of four members desire to borrow, such borrowers are forced to wait their turn, often for many months, by which time the opportunity has passed or they have been driven to the money lender. Using their capital in loans and as a rule without a reserve, they have no tangible security to offer for deposits, which, consequently are not found except occasionally, and always to a very moderate amount.

Capital, on the contrary, should be used chiefly as a collateral guarantee for deposits and debentures; it may, in such case, be either paid up, subscribed or merely guaranteed. In America, it is usual for the banking laws to provide that the whole capital of a bank shall be entirely paid up before operations can begin—a precaution to ensure that the bank is a *bond fide* institution, and not a mere fraudulent trap. The bank is then compelled to invest a proportion—10 per cent. in New York with a fixed minimum—in certain securities which are deposited with the Government Superintendent or Commissioner of Banks as a collateral security for depositors and creditors. But the law of the several States also provides, as a rule, that the shareholders of banks shall be liable, in case of liquidation, to a further amount or addition to the par value of their shares; in New York, it is an additional amount equal to the full value, so that a shareholder for 1,000 dollars must first have paid up his full share subscription, and in case of liquidation is liable for a further sum of 1,000 dollars. This gives immense additional security; the whole capital may be wasted and yet the full nominal capital is available as security; the rule also tends to interest shareholders in the operations of the company. Here the Nidhis are again defective; all losses must come upon investing, i.e., non-borrowing members only; these are liable in case of liquidation for the remaining balance on their shares, and thus lose their whole investment, whereas borrowing members, though they must also pay up the full value of their shares, merely, in so doing, repay their loans, and thus lose nothing.

A further method of using capital as a guarantee is to provide that part of the capital shall not be called up except for liquidation; this 'reserve' capital provides an excellent security.

Guarantee capital is either that which is contemplated in the Companies Act when the partners agree to guarantee a given amount, or is that so general in the Mutual Land and Popular banks of Europe, viz., the liability of all members in all their property for the engagements of the society. In

this case there need be no paid up or even subscribed capital; a member becomes liable, even if there is no such thing as a share, by mere membership, as in the case of the ordinary partnership associations. Of late years the co-operative law of Germany admits, for co-operative societies, a liability limited to a proportion or to a multiple of the share capital held by the member in addition to the original; this corresponds with the American method above noticed. This latter method does not appear to be recognized by the Companies Act, and it is recommended that in order to secure depositors and creditors, and thereby to attract outside capital, the word 'limited' shall be extended so as to admit of societies with a capital of any of the above descriptions.

There is a class of capital in use in Europe for the establishment of mutual and Savings banks, which is not generally found elsewhere, viz., that of 'founders' shares.' These widely differ from foundation shares in English companies, which are preference shares and tend to absorb dividends, while the 'founders' shares' are really subscriptions at favourable rates of interest or without interest, intended either to provide the first working capital of a bank, or to form a reserve in the early days when no reserve has been accumulated; sometimes it is a mere guarantee fund either for the good conduct of the subscribers or for the safety of the depositors, as in the Italian Savings banks. It is not improbable that in this Presidency, where the unlimited liability of Europe is improbable as a principle of association, the well-to-do might find founders' shares a method of assisting the establishment of banks without involving any loss or any serious risk; founders would, by their position, as well as by their subscriptions, have a weighty vote in the management of affairs, and would tend to secure safe methods of business.

The question arises whether these several methods will provide the capital required for the working of the village banks.

The experience of Europe is that village banks with unlimited liability, and the Italian and Austrian popular and village banks with liability limited by shares, obtain abundant capital partly from the ordinary public, partly from savings banks. In this country there are no data: the Nidhis are not established for deposits, and have little tangible security to offer for them; they do, however, in some cases obtain deposits, but these are usually either the money of the directors or of a few personal friends; they are not the deposits of the public (see 'Nidhis,' *s.v.* 'deposits,' and Nidhis A and B *ad finem*).

Nor is there in this country that mass of middle-class investors, or of salaried artisans and others who form the small investment holders of Europe and England. There is a great deal of hoarded capital in the country, but being chiefly rural, it will be attracted but slowly, although village banks will attract more readily than large outside banks. The savings, however, of the official and professional classes are considerable, and now that Government paper yields only 3½ per cent., banks known to the investors, in whose directors they have confidence, and which offer 5 or 6 per cent. to investors, will probably attract considerable sums. There is no doubt, moreover, that if 6 per cent. can be obtained, the funds of many so-called money-lenders, that is, of persons who now lend out money, not necessarily on usury, will flow into the banks.

It is to attract such funds that the guarantee offered by the share capital must be considerable in quality; the capital of the Nidhis is the feeblest possible guarantee, for it is largely paid up and all invested in loans of indeterminate value, while there is no reserve; an ordinary share capital, either wholly paid up and part invested in first-class securities, or only partly paid up and part retained as an inalienable and unpledgable reserve is better; the same, with the American plan of a further liability of shareholders in addition to and proportionate to the value of their shares—a plan not very dissimilar from that of a share capital limited by guarantee, as in the Companies Act—, is a still better guarantee for the attraction of investments; and where, as should be made obligatory by law, a strong reserve is formed and invested only in first-class securities, there is every ordinary guarantee for capital, in the absence of that unlimited liability which is made the keystone of the German co-operative societies.

State subventions.—It may, however, be advisable, possibly necessary, for Government at first to assist the nascent banks either by subvention or guarantee. The subvention may be either assistance in working capital, or a mere guarantee fund, to be placed as an inalienable reserve at the credit of the bank, or it may be both, as in the Swedish Mortgage Bank.

Subventions are extremely rare in Europe, and those banks which formerly obtained them as initial aids to working, usually because they were originated by simple executive order, are not now favoured in this way: the Land Banks of Prussia have no State subventions. Nevertheless, some such aid may not be undesirable; it was thought necessary to assist the French 'Crédit Foncier' in this way, and it has been asserted by M. Christophle that the Company surmounted its initial difficulties by this aid; similarly, small initial subventions are occasionally given in Austria to Raiffeisen village banks, and in Switzerland to societies for providing agricultural cattle. In this Presidency the subvention would serve not merely as an assistance but as a recognition of Government approval.

It is recommended that Government should allow to societies small subventions not exceeding Rs. 100 for initial expenses repayable without interest in a period not exceeding three years; the Commissioner should be empowered to grant such sums. Subventions may also be granted as a reserve, not exceeding 25 per cent. of the paid-up capital, but as cash would not, in such cases, be handed over, assistance in the form of a guarantee would serve the same purpose. It is not recommended that the State should ordinarily grant large subventions as working capital; the practice would require immense sums annually, would encourage unsound working, careless lending and easy spending, would militate against the doctrine of self-help, discourage thrift and the collection of idle hoards, foster the idea, already too prevalent, that the State is to be responsible for the prosperity and the misfortunes of the people, and place the State in the politically objectionable position of general creditor.

But there appears no objection to moderate pecuniary aid especially in the early stages of operation, the State might subscribe a certain number of founders' shares, or purchase a proportion of the debentures, with the proviso that such advances should be gradually paid off within a given period; all money should be lent at full business rates, with every item for interest, insurance, cost of supervision, loss of credit by borrowing, profit, &c., duly included. The repayment should be provided as a first charge from profits after the provision for a general reserve and should take precedence of even the payments of interest upon the members' share capital; or such shares may be sold to private persons attracted by the interest offered. It should be made a condition of Government subvention that ordinary

shares should be under subscription to at least twice or thrice the amount of the subvention, and that Government should have not merely the right of inspection of the bank's affairs, but of nominating a proportion of the directors or committee of supervision.

The cost and risk to Government would be practically *nil*. If the maximum term of such loans of Rs. 2,000 be ten years, then, if as many as 1,000 new banks are started each year, the maximum aggregate out on loan in any one year would be 200 lakhs, or 20 lakhs per annum; if repayable, as would be the general rule, by gradual amortization, 100 lakhs would meet the whole demand, since payments out would be met from repayments. As the average loan would probably not exceed Rs. 1,000, fifty lakhs would probably suffice.

Fifty lakhs or even 100 lakhs on loan are a trifle; nearly the former amount was recently lent within three years under the Land Improvement Act. Moreover, as Government can borrow at $3\frac{1}{2}$ per cent., and, *as hypothesi*, lend at 6 per cent., the difference— $2\frac{1}{2}$ lakhs on 100 lakhs—will provide not only the cost of supervision, &c., but a contribution towards an insurance fund.

Such loans would, however, be perfectly secure, for, especially in the form of debentures, they would be first charges upon the whole capital and assets of a bank, including the whole mass of loans due to the bank. The State habitually grants loans under the Land Improvement and Agriculturists Loans Acts; those loans are secured only by the assets of a particular individual or by a particular investment or operation; in lending to banks the State is secured by a definite and publicly known capital, by a reserve, by the mass of investments and operations. In lending to an individual it is most difficult for the State to ascertain the true loan value of a given plot of ground; it is the borrower's interest to get as large a loan as possible on the smallest possible security. In lending to a bank, the State lends on a mass of loans on which the bank has made or will make all the detailed enquiries, and in which the bank, for its own safety and from its own local knowledge, will have avoided advances beyond the real loan value, provided always that the bank is dependent mainly on resources derived from the funds of its members and depositors, and not on the Government subventions. Moreover, State subventions imply State supervision, which may, in addition to that exercised by the Commissioner as a general duty, be provided by the appointment of directors or members of the committee of supervision on behalf of Government. Further, the State will certainly set aside annually in its books from the interest received on its loans a contribution to 'insurance,' from which fund it can meet any losses, while the draft bill provides for a special public insurance fund to which all banks may be compelled to contribute, and on which the State subvention would be a charge.

Similar subventions may be granted from time to time when necessary either to develop a useful class of operations, or in times of seasonal stress when the State would otherwise endeavour to lend to individuals for improvements or under the Agriculturists Loans Act. The difficulty of ascertaining and appraising, at such latter time, the security offered by thousands of candidates, is well known; it would, though considerable, be infinitely less in lending to going banks of proved status with a respectable clientèle.

It should be a departmental rule that the funds from which Government proposes to grant subventions, should be a fixed sum, at the disposal of the Commissioner, and devoted solely and continuously to that end; all payments out should proceed from the fund, and all repayments should be universally re-credited to it, together with all interest. Moreover, the difference between the cost of borrowing at $3\frac{1}{2}$ per cent., and the interest received, viz., 6 per cent., should, on due calculation, be allotted to the several heads, viz., cost of borrowing and loss of credit, cost of supervision, insurance, and profit; the sums received should be regularly and continuously ledged under these heads, so that Government could ascertain in a few years whether its operations were resulting in loss or gain to the State, and adjust its rates accordingly; probably the $2\frac{1}{2}$ per cent. difference would be found more than ample as banks develop. The accounts should be placed under the control of the Accountant-General in the usual way.

A State guarantee may be given either by way of guaranteeing a minimum interest on the shares, debentures or deposits of the bank, or by guaranteeing the engagements of the bank up to any fixed sum or proportion. If interest is guaranteed it should be provided that any charge thereby incurred by the State should be an absolutely first charge upon all subsequent net profits until full recovery, nor should any dividend to shareholders or honoraria to directors be payable until such satisfaction, while in case of liquidation, the State debt should take precedence of all others. Without such precaution there would be a direct encouragement to slovenly business and immense probable losses to the State.

As a guarantee for the engagements of the bank the State would be liable only in case of liquidation and to the amount fixed in its agreement. This method of guarantee need be little dangerous; the provisions proposed for general supervision, supplemented by those for the representation of Government on the directorate of the bank, will prevent any great risk of serious loss, while it will be easy to charge a small percentage as 'insurance,' usually by requiring the bank to subscribe to a public insurance fund as a condition of the guarantee. There can be no doubt but that a guarantee up to 10 per cent.—with a fixed maximum—of the amount of the bank's capital including debentures or deposits, would attract money freely from the public; it would be regarded as a quasi-State bank, under the patronage of Government, while as a matter of fact, the 10 per cent. cover would suffice in any decently-managed bank, and under the proposed supervision, to cover any margin between the value of the loans and other assets, and the value of the liabilities.

Nevertheless, the assistance of Government, whether by guarantee or by subvention, should avowedly be temporary or occasional; State nursing is in general only allowable in the infancy of institutions, and seeing that self-help is of the essence of the proposed banks, extraneous aid, however popularly demanded, should be gradually withdrawn at the earliest possible dates. Such withdrawal should be hastened by provision in the law for the rapid and compulsory formation of a substantial reserve; this should be a first charge or a share of the profits after paying working expenses, until the reserve reaches a sufficient proportion of the liabilities, varying according to the class of institution. The matter of compulsory reserves has been dealt with in the chapter on 'Law' and in the draft bill.

Special reserves.—There are, however, two forms of reserve requiring special mention: one a reserve belonging to the bank, from which may be recouped any losses due to the failure of improvements, the other a public guarantee fund formed by the State from *pro rata* contributions from each bank.

The first is intended to meet a well-known difficulty; a ryot wishes to dig a well but is deterred by the chance that he will meet no spring, or he digs the well and finds it a failure; or he plants an orchard and finds the soil saline; in such cases he is usually a ruined man, and both he and his neighbours are discouraged from thrift and enterprise by the loss. If he borrows from a money-lender he must, of course, pay his dues or be sold up; if he borrows from a bank, it cannot forego the loan; even Government cannot and does not do that. But by the simple plan of insurance, a fund may be formed from which the lost capital may be replaced, so that the bank can forego repayment and write off the loan. If each borrowing member pays a small percentage on his loan, varying from a very small contribution for ordinary loans to a larger one for land improvement loans, this reserve could readily be formed.

The second reserve is probably novel in practice, but has been recommended in banking proposals in the United States and is believed to be a project of President Cleveland. This guarantee fund is a State reserve which is to be formed by an obligatory contribution from every bank in operation; the funds are to be invested in Government securities in the name of the Commissioner, and accumulate at compound interest. From this reserve will be met all losses caused to Government by the failure of banks which have received a Government subvention or guarantee, as also all losses caused to creditors in the matter of deposits and debentures. Under the supervision and under the new law now proposed, it is believed that there will be comparatively few failures, and that a very moderate contribution from each bank will provide a fund which, in a few years, will be powerful enough to secure both the State and the public against all losses; this will place the banks in a very secure position and one eminently calculated to attract public money.

Borrowed funds.—The methods of borrowed capital, viz., that derived from deposits and debentures, are sufficiently dealt with in the chapter on 'Law,' in the draft bill and *passim* in this appendix.

A method of financing long-term loans in small local banks which have no wide market for their debentures requires mention. It has been found possible in Europe to establish central banks for the sole purposes of accepting the debentures of the small banks and issuing to the small banks an equivalent of Central debentures. In this way it is sought to satisfy the conditions of cheapness and proximity; the central bank, though it cannot ascertain the position of petty, individual borrowers at a distance, can, by its examiners, easily ascertain the general solvency and capacity of a local bank; it can, therefore, lend with fair safety on the paper of such bank, while its own credit, based on its large guarantee capital and reserve, and published balance sheets, enables its own debentures to be placed at the cheapest possible rates upon the money markets of the great cities. On the other hand, the small local bank though, by its insignificance, it cannot place its paper, however well secured, on the best terms, is able to deal safely and in detail with its individual borrowers. Hence the small bank when it effects its loans, however small, issues against them its own debentures, which it despatches to the central bank with the papers of the loans; the central bank on examining these papers, issues, if satisfied, its own debentures against the debentures and loan deeds of the local bank which it retains in its possession; all that the local bank has to do is to sell the central bank debentures and reconp itself for the funds advanced to its borrowers.

The method is, of course, similar to that adopted for short-term loans upon bills; the small bank discounts the bill of the borrower after acceptance by him and by his sureties ('drawers in case of need') endorses it, and negotiates it with some other bank, and thus replaces itself in funds.

While it is impossible to start such a bank until the local banks shall first have come into being, it is not impossible that large existing banks may find it within their power to accept this rôle: small well-secured village banks with properly invested guarantee capital and reserves possibly with a Government subvention or partial guarantee, certainly with some degree of careful supervision, should be able to command good credit with the Madras Bank, as do the Popular Banks of Italy with the banks of Naples and Sicily, or with the Savings banks; the Bank would provide examiners to see to the genuineness and security of the original loans granted by the small bank, and to the steady amortization of the loans, and to the proportionate withdrawal of debentures; there would be an incessant efflux of small debentures from the Bank, an influx of repayments to the small bank, with a consequent reduction of its debts to the Bank and a corresponding withdrawal of the Bank's debentures.

If the Madras Bank cannot undertake this operation, it might, to a certain extent, be undertaken by Government until such time as a central bank could be formed for the purpose. But since the Madras Bank can, through its local branches with their solvency registers (*castelletto*), lend to individual borrowers, it cannot be impossible for them to deal with societies of carefully secured capital, and well-judged loans.

Privileges.—These are sufficiently discussed in the chapter on 'Law,' and, as proposed, are entered in the several chapters of the draft bill.

Administration.—This is dealt with in the chapter on 'Law;' all that need be here pointed out is the necessity for economy. If village banks are to be a success, if the principle of co-operation is to be developed, not only must large ideas and expensive establishments be abandoned, but the administration must largely become gratuitous. One of the most striking points about the various popular banks and societies of Europe and America is the cheap or gratuitous administration.

As regards the directors and managers, the great mutual Land Banks of Prussia were originally administered almost, if not quite gratuitously, and at this day the honoraria and fees are extremely low; the duties of members are considered more than rights to fees. A cardinal principle of the Raiffeisen banks is absolute gratuitousness of administration; the Italian Savings Banks are managed by committees of trustees who not merely give their services gratuitously, but run all the risks of loss and subscribe a guarantee fund without a penny of remuneration; the directors of the Milan Savings Bank, dealing in deposits and investments by millions sterling, receive absolutely nothing for their delicate and difficult services; the foundation principle of the great English Trustee Savings banks is similar; in America, the Building Societies, at least of the small local type, are usually managed, even to a large share of the account and clerical work, by unpaid directors. Wherever the true co-operative principle is found, there is also found gratuitous or nearly gratuitous management; where the joint stock principle is admitted, the stipends of directors become a leading feature in the accounts. Yet those who know the history of the institutions mentioned above, will not venture to say that they are the worse managed because they are gratuitously managed; mistakes, negligences, fraud have occurred,

but on no greater scale, to say the least, probably on a much smaller scale, than in the dividend earning societies. The point has been dealt with in the chapter on 'Nidhis' in which the desire for dividends is killing out the original co-operative idea: it is not merely a question of economy but of radical principle.

As regards establishment, common sense suggests that petty societies, struggling to extend small and cheap credit to their members, should economize to the utmost in offices and establishments. In America the local Building societies will hire the use of a room once a week, where the directors will meet and, after discussing their subjects, enter upon the public business of the society; much of the work is done by themselves, three or four or perhaps a dozen directors taking monthly or quarterly turns; they receive the money, enter it in the accounts, receive applications for and issue loans, and so forth; only the ordinary clerical work is done by a paid clerk, who is usually a man in other business, willing to give his spare time for some modest remuneration. In this way a society with only a few thousand dollars in shares, and one or two hundred members, can be managed almost without expense. In Germany and Italy the same thing is found; the use of the village hall (*chavadi* or union office) is hired or obtained *gratis* for the weekly or fortnightly meeting; the work is done by the directors with the aid of the village Secretary (*Karnam*); the whole expenses are a few francs per annum.

The contrast with Indian habits is remarkable; if a little society in this Presidency is started, whether a *Nidhi* (*see* the chapter on 'Nidhis') or a literary or recreation club, the first thing is to engage a clerk and the next a peon, and, even though it may largely exist on charitable donations, Rs. 15 per month are spent on services which are unnecessary and could be rendered by the members with slight attention. Establishment, an office, and directors' honoraria are the apparent objects of many societies whatever the articles may put forward as the aims of the society. The village bank should borrow a room or hire it for occasional use; the *karnam* or schoolmaster or some other official should be paid a modest fee for occasional services; the directors should be content as in Europe and America, with fees, if any, of the most modest description. It is recommended that village banks should be taught to place economy in the forefront of their principles.

Loans.—On this subject there is not much to be recommended; certain precautions which it is desirable should be entered in the law are mentioned in the draft bill; modes of recovery and other privileges are also entered both in the chapter on 'Law' and in the draft bill. A few words are necessary on the period, interest, and repayment of loans.

Period.—The cardinal sin of most mortgage loans in this country is not the high interest but the short term; not only are the expenses of a mortgage great, but it is preposterous that a loan for a land improvement, for the purchase of land, the building of a house, the education of a son, should be made repayable on demand or in from one to three years, or that a loan for the purchase of cattle, iron ploughs, and the like should be demandable in a year or at any moment. Capital sunk in improvements or in farm stock can only be replaced from the profits of such improvements or stock, and loans should therefore run, for the above purposes, for from three to thirty or more years; the latter period is recognised by the Land Improvement Act and the rules under it; in continental Europe the term of Land bank mortgages may run to seventy-five years, and the bulk of such mortgages are contracted for terms much above thirty years though often repaid at earlier dates. In this Presidency the average term of mortgage without possession is between two and three years and though such mortgages are doubtless renewable, yet the renewal costs at least the expenses of the fresh document and registration, and probably harder terms.

Private money-lenders cannot usually grant long terms; it is only banks that can grant this facility, and only village banks on the Raiffeisen principle, find themselves able to grant loans up to ten and even twenty years. That is not quite sufficient, but Raiffeisen banks are not constituted as land mortgage but as Agricultural Credit banks; for longer terms there should be a land mortgage branch with different arrangements.

Repayment.—Almost more important than the period is the method of repayment. Since capital sunk in improvements or stock can only be replaced from annual profits, repayment ought to follow the same rule; hence repayment should be in instalments for all loans except those taken for merely current needs, such as maintenance, seed, crop expenses, &c. That is precisely what a private capitalist will not ordinarily do; he will indeed, especially under the 'kanthu' system, receive his loan in instalments seldom extending over a year in the aggregate, and certain mortgages are also so received; the latter however are exceptions, and this kanthu system is an ingenious device for making an enormous interest seem moderate. But a bank can easily receive its loans by petty instalments on the sinking fund principle, since it deals with a large number of clients, and those rural banks, such as the Raiffeisen societies, which expressly look to the welfare of their clientèle, make this rule imperative for all except short term loans, and even for them provision is made by establishing a Savings bank branch in which all sums, however petty, can be deposited at interest till the due date of the loan.

Interest.—While cheap and facile credit is the *raison d'être* of the banks, promoters need not be too anxious at first to reduce interest to its lowest point; it is more important to place the banks on a secure footing by establishing a solid reserve than to cause a rush of business which could not, perhaps, be financed, at the very beginning. With a substantial reserve capital will be attracted both on account of the material guarantee thus provided, and by reason of the moral guarantee that the bank is being conducted prudently; as deposits and capital are attracted business can be extended, credit gradually cheapened, and the reserve still further augmented. Nor is it quite wise to make credit too cheap at first; borrowers must learn the use of credit and the value of foresight before capital is made too cheap. The German and Italian Banks began with fairly high rates and reduced them as business established itself and profits were found to be unnecessarily high. It is to be remembered that in dealing with a bank, all that is demanded of a borrower is the plain interest entered in his contract; his payments are rigidly credited to him, with due counter-interest in the instalment plan, and no effort is made to entangle or defraud him; still more so is this the case when he is a member of a co-operative society which not only endeavours to assist him, but returns all surplus profits to him, and not to share-holders. When, however, the creditor is a money-lender whose private accounts are often the only evidence of the loan, its amount, and the repayments, when renewals, often promoted by the

lender, are frequently on unnecessarily high terms, and where there are unexpressed commissions, deductions and dues or duties expected, the mere interest is but a part of the real burden. Hence 8 per cent. by a bank will often be less than half the burden of a money-lender's 12 per cent.

It is probable that at first there should be at least a 2 per cent. margin between the cost of money to a bank, and the cost to borrowers; if a bank can borrow at 5 or 6 per cent., its loans should cost 7 or 8 per cent. to borrowers. When banks are really village banks, and especially when they are co-operative, this margin should suffice for working expenses. Assuming Government interest to be $3\frac{1}{2}$ per cent., with 2 per cent. addition for insurance, cost of borrowing, profit, supervision and other expenses, $5\frac{1}{2}$ per cent. should cover the cost of a Government subvention; interest at $1\frac{1}{2}$ pies per rupee per month or $7\frac{1}{2}$ per cent. per annum should suffice for the cost of loans to the borrower; if deposits are paid at the rate of 1 pie per rupee per month or $6\frac{1}{2}$ per cent. per annum, loans should at first, cost not more than $1\frac{1}{2}$ or $1\frac{1}{4}$ pies per rupee per mensem, i.e., $8\frac{1}{2}$ or $9\frac{1}{2}$ per cent. per annum; these rates both for deposits and loans would probably be reduced as profits and a reserve accumulate, and as deposits attain volume. Ordinarily, $1\frac{1}{2}$ per cent. margin between the cost of money to a bank and that of its loans to its borrowers, should amply suffice so soon as the bank has established a position of security through its reserves: if the bank is large with numerous operations it has large expenses; if it is small its expenses are or should be trifling, but so is its income: hence the margin must be similar whether the bank is large or small. But the small bank is more likely than the large bank to be co-operative, in which case all surplus profits return to the members, i.e., to the borrowers.

Supervision.—This has been fully dealt with in the chapter on 'law,' and in the draft bill. There is no ground for fearing that with the supervision proposed, the Government will be required to take the whole oversight of the management and administration of the societies, as supposed in a recent debate upon certain proposals to amend the Companies Act; the supervision is not more than that undertaken in the various countries of the West, including England and the United States, where, as elsewhere pointed out in detail (see chapter on 'law' and this appendix *passim*) a very great amount of supervision is expressly provided by law, and is continually on the increase.

The whole purport of this study has been to suggest *self-help* and management so far as is possible, but this is not necessarily procured by leaving societies to themselves; that may merely mean leaving swindlers to prey upon the ignorant, the well meaning but untaught to blunder into bankruptcy, the growth of distrust in association, the failure to supply rural banking credit of the best or of any types. It is not the duty of Government to see that companies are so managed as to return respectable dividends, but it is their duty to see that no removable hindrance shall debar the shareholders from obtaining their legitimate profits or the members from attaining the full benefits of association. Further, the objects of rural credit societies are, eminently, *not* the mere earning of dividends, but the development of the nationally requisite principles of thrift, providence, productive accumulation and distribution, the benefits of association, the development of industries and especially of agriculture. It is believed that State supervision is not only universal, but universally necessary when such are the objects in view; it is not interference in the affairs of the banks or a placing of societies in leading strings, but the fostering and safe-guarding of such conditions as shall favour growth and spontaneous development; it is far from that bureaucratic intermeddling such as is described in the *Times* of January 16th, 1895, in regard to Russia, where "banks are not allowed to manage their own affairs, but have to lend their funds only for such purposes as are approved by Government," i.e., by the bureaucracy. On the contrary, this study proposes to provide what is well expressed in Italian, viz., the 'vigilanza' not the 'ingerenza governativa,' watchfulness not intermeddling.

Such supervision is universal; even in England and as regards commercial companies, supervision, or at least a legal check upon fraudulent promotion and management, is provided by law, and is being sought in a considerable degree on Continental lines; still more so in the case of insurance and banking societies, and in a much greater and increasing degree where the institutions of popular thrift and providence are concerned. Where the West finds such supervision desirable and necessary, the East must not shrink from a moderate participation in it.

Under this head comes the question of audit; it is impossible in a mere general study to lay down the principles of a proper audit and the methods in which it should be carried out; it may suffice to say that at first the system of Government examiners or inspectors under the commissioner is recommended, as is usual in the laws of the United States, whether for the National, State, ordinary, savings, or co-operative banks. As a body of auditors is formed by experience, especially in towns, the Government inspection may slacken, though it cannot cease; the National banks of the United States are thoroughly kept under the inspection of the Comptroller by means of his examiners, notwithstanding private audit by the banks, and it is expressly claimed by the Comptroller that it is through his examiners that departures from sound banking are discovered and prevented. Co-operative banks will, it is hoped, form Unions, one special duty of which will be the provision of proper inspection and audit.

Resumé of Recommendations.—It is suggested, then, that while there is no real obstacle in the way of establishing banks, it is the part of the State to assist their progress by smoothing the road and by lending a helping hand; *aider à faire* rather than *laisser faire*. For the purposes of general credit it is not large or central banks that are wanted, for petty individual credit would be impossible through paid agents; the smallness of the loans required and their universality, demand local village banks, whether of the joint stock or co-operative pattern; preferably the latter. There are indeed difficulties to be got over; the social difficulties arising from the habits of the people are the most serious; commercial and financial difficulties are not serious in the case of village banks; fiscal are light and can be alleviated; legal are provided for in the draft bill. For these banks the preliminary essential is the initiative of men of devotion, knowledge and perseverance, who will both preach the idea and put it into actual practice; village administrators will not be found wanting as shown by the success of Nidhis in villages or small towns, and by the habitual ease with which village administration is carried on; capital will probably flow in, at first slowly afterwards more rapidly, if the banks are thoroughly local so as to encourage local deposits, and if they are provided from the outside with

a guarantee of reserve capital followed by the accumulation of a reserve; in this matter the assistance of Government with subventions for initial and early working expenses and a reserve, or with a guarantee, will be advantageous; with this capital loans of long and short term with special facilities for easy repayment may be granted, at a rate of interest not necessarily very low but thoroughly equitable, and capable of gradual reduction as the bank gains experience and stability. A certain amount of external supervision, not amounting to interference or control, but tutelary and preventive, should be provided, at first by Government, followed by a partial withdrawal from such supervision as the banks provide, through Unions or otherwise, the means of self-inspection. The administration must be as nearly gratuitous as possible in order not merely to enhance the pecuniary profits of the bank and to cheapen loans, but to ensure the development of the co-operative idea of friendly, mutual help. To these village banks and especially to those of the co-operative type, privileges may be usefully granted, especially in the method of the safety and recovery of debts, and—in the co-operative banks—in the exemption of certain amounts from Court process and in the provision for provident nominations to shares or deposits. For all details the provisions of the draft bill may be consulted.

Village banks, with cheap or gratuitous administration, co-operative in principle, financed by deposits and debentures secured upon the capital, reserve, and loans, granting long term mortgage credit, repayable by amortization, as well as current short term loans on personal credit, with external supervision as an equivalent for certain privileges, are the chief desiderata of the Presidency. To these may be added village granaries for lending and receiving in kind, as well as small village joint stock banks, savings banks, agricultural associations, and co-operative societies other than banks, while the larger classes of banks whether taluk or district may find useful spheres of operation. All co-operative banks should be linked in groups to a central Union, while, for financial purposes, all banks should be affiliated to one or more central banks, such as the Madras Bank, which would issue readily marketable debentures in place of the local banks' debentures, and would re-discount their endorsed bills.

THE VILLAGE BANK.

The bank might be either co-operative or joint stock; its objects should be distinctly stated,—*e.g.*, that of providing for thrift and credit,—and its area of operation prescribed. In either form it would be "limited by shares," either in the usual acceptance of the word or with the wider meaning proposed in the draft bill; it would be open of course to make the bank unlimited as in Europe or limited by guarantee, as by the Companies Act.

The capital should consist of a moderate number of small shares, perhaps from 100 to 1,000 of Rs. 10 each, with a proviso that no member should hold more than one-twentieth of the whole number. The instalments by which the shares should be paid up should be prescribed by the articles, care being taken to suit the conditions of agricultural incomes. Ordinary shares should bear interest; in joint stock banks this would take the form of dividends; in co-operative banks only moderate fixed interest, as determined by the articles, should be allowed.

Shares should be subscribed in full for a joint stock bank; for a co-operative bank this is not necessary, as the bank consists of members not of shares. A certain proportion should at once be paid up; probably one-fourth to one-half in the case of joint stock banks. If shares are not largely subscribed and partly paid up in a co-operative bank, it will be necessary to resort to founders' shares in order to obtain capital at the start, since, under the limited liability system, there will, in the absence of a considerable subscribed capital, be no sufficient guarantee for the deposits. The proceeds of the founders' shares may be used as working or, preferably, as guarantee capital. Provision should therefore be made for founders' or guarantee shares of, say, Rs. 100 each, bearing a fixed interest of about 6 per cent. and not withdrawable but transferable. If the founders' shares are only used as a guarantee they need not be paid up in full; only a portion must be paid in cash and the other portion in bonds which may be cashed at need; or instead of shares the 'founders' may guarantee a cash credit with a bank upon which the bank may draw and make repayments as convenient; in both these cases interest would only be due by the bank on the cash payments or drawings.

If it is found possible to obtain a Government subvention or guarantee, this may be used as a reserve, or as first working capital and the share proceeds and deposits for subsequent operations. In any case, the beginnings must and will be slow.

A reserve should be compulsory, and formed from the beginning by a percentage, say, 10 or 20 per cent. taken from the profits before any dividend is announced; in the case of co-operative banks, allowing only fixed interest on the shares, a further allotment should be made to the reserve, to which also should be paid all entrance fees, and any commission specially intended for the reserve. There might be special reserves, especially for the insurance of borrowers against failures of their improvements; these would be filled by special contributions or by the allocation of surplus profits.

Members.—A member should only be admitted upon the decision of an entrance committee (directors or others) with appeal to a general meeting in case of refusal. If elected he should sign a declaration that he will abide by the rules of the society; his name, address, and status, should be carefully entered in a register in order that the guarantors of the society, whether Government or other, may know the quality of the components of the society. Election to the society is necessary since its safety depends on the character of its members. Similarly, a member should be liable to expulsion in case of bankruptcy, failure in his obligations toward the society, or punishment for a serious offence. In a co-operative bank a member has the power of withdrawal at any time on due notice, but such withdrawals will not operate to exclude him from liability as laid down in the Companies Act. No member should be allowed to have a preponderating influence in the society, for which purpose the number of shares to be held by one man should be limited, whether in a joint stock or co-operative bank. In case of co-operative societies it should be provided by law that subscriptions or deposits up to a certain moderate amount should be exempt from Government or Court process, except for sums due to the society itself; also that members should have the power of nominating successors to such shares or deposits up to a certain amount; and that in case of intestate death, the directors should have power to pay such amount to persons adjudged by them to be heirs, failing Court injunction to the contrary.

(See draft bill which is based on English provisions in co-operative and benefit societies and Savings banks.) These latter privileges are not proposed for ordinary joint stock banks which are simply trading concerns, looking to the profits of shareholders which are derived from third parties, namely, the borrowers, whereas in a co-operative society it is the members who are themselves borrowers, actual or potential.

Holders of founders' shares or guarantors should, *ipso facto*, be members.

General Meeting.—Every shareholder or member should have the right of vote; in a joint stock society the individual (one man one vote) or the stock vote (one share one vote) system may be adopted; in a co-operative society either the individual vote or a limited number of votes should be the rule, in order to keep the society an association of men and not of money, and to keep each member interested in the society. For this latter purpose a small fine may, as in Europe, be imposed on members who, without good excuse, omit to attend the general meeting. Proper rules should be made for quorum, subjects, and powers of the meeting, and for the calling of extraordinary meetings.

Provision should also be made for the presence or representation of depositors and other creditors, who should be allowed to state their views but without the power of vote. They should be entitled to bring subjects before a general meeting under the usual rules for subjects.

Directors.—There should be a moderate staff of representative men, fully acquainted with the affairs of the village, and with the members of the society. They must have a considerable stake in its well-being, and should be possessed of a minimum number of inalienable shares during their term of office. It is a question whether they should be allowed to borrow from the society; the evils of large borrowing by directors as exemplified in the U.S.A. National banks and in the Nidhis of this country, have been great; in the European societies it is common either to forbid such borrowing altogether, or to allow it up to a certain moderate amount only, and only under strict precautions such as the consent of a general meeting or of the committee of supervision; the latter plan seems most desirable, since the benefits of credit are or should be the most valuable of those attaching to a society. They are usually forbidden also to be sureties for other persons' debts except under the same precautions. There can however be no objection to credit obtained by the pledge of movables.

In the Italian Popular banks and in all Raiffeisen societies, in many if not most of the small U.S.A. Building societies, in the Trustee Savings Banks of England and Italy, and in many others, absolute gratuitousness of service is laid down as a rule of the society. This has been derided as preposterous when proposed for India, probably because the critics have been misled by the incessant harping upon the one string of profits. Whatever rules may be laid down for joint stock banks, where, it is true, profits to shareholders and honoraria to directors are the mainspring of action whatever the ostensible object of the society, the race after profits is out of place in a co-operative society, which should either rule out honoraria altogether or allow only expenses out of pocket; this, in a village bank, will be practically *nil*, and herein lies one of the great advantages of petty banks; in the great Landshafthen, although they started with similar ideas, they have been forced to allow moderate honoraria and allowances because of the distances to be travelled, and the compulsory and difficult nature of the duties and enquiries to be undertaken.

The directors should be sufficiently numerous to undertake the executive duties personally; the U.S.A. Building societies' plan is to divide the Board into perhaps three portions, each of whom undertakes the executive duties by short turns, such as the receiving and investigation of applications for loans, the receipt of subscriptions, and so forth. But in a small village bank, this may not be necessary.

Rules should be made for the appointment, powers, and duties of directors, and for their removal. The general meeting should have power, on due cause shown, to remove a director, and such removal should *ipso facto* result from misconduct, &c., such as would give cause for the expulsion of a member, as also from the parting with or pledging his shares below the required minimum.

Committee of supervision.—Experience shows that shareholders usually take little part in the affairs of a society, and it is invariable therefore on the Continent to provide by law a popular committee whose special duties are to act as controllers, inspectors and auditors. The committee is appointed by the general meeting to watch over the interests of the shareholders; they hold frequent meetings, examine the work done by the directors, and can, for obvious misconduct, suspend any or all of the directors, but are then bound to summon an extraordinary general meeting. It is their special duty to watch over the issue of loans and the security taken, to verify the accounts, cash and securities in hand, to examine the balance sheet before it is submitted by the directors to the general meeting and to forward it with their remarks to such meeting. No one is allowed to be a member of such committee if related (in Italy in the fourth degree) to any of the directors. In other words, while the directors are the immediate executive, the committee of supervision is the parliamentary council of control, the general meeting representing the electoral body. Such at least is the German view of the committee which is dealt with in detail in the Code of Commerce and in the special co-operative law; in Italy the committee (*sindaci*) are rather internal auditors and examiners than actual controllers.

Other committees.—In the Italian Popular banks it is usual to appoint other committees when the bank develops in business, such as discount committees, whose special duty is to keep up the *castelletto* or register of solvency, and to examine with this and other aids, all applications for the discount of bills; another committee is that of arbitrators (*proviviri, prud' hommes*) or men of position and trust, to whom disputes between the society and its members may be referred and who, in the absence of the general meeting, hear appeals from the directors' orders refusing admission, decreeing expulsion, rejecting applications for loans, &c. In a village bank these latter committees are not needed.

Accounts.—It is impossible to prescribe, except in a regular manual, proper forms of accounts; for a village bank with only a few score of members' loans and accounts, the greatest simplicity is possible, such as a day-book, personal ledger for subscriptions, deposits and loan accounts, receipt or pass books for each member, a minute book, a register of securities, and the like. It is expressly stated in many of the Madras Nidhis, that the accounts are on a faulty system and extremely complicated, so that, as one auditor of a very large fund complained, the auditor was never sure, after the most careful examination, whether he had arrived at a true balance sheet or not. They should be kept in such a

way that the amounts payable by each member on each meeting day should be known beforehand and placed in an extracted list for the information of the directors on duty for the day; this is an important aid to punctuality.

The balance sheet required some care in preparation; it is simple enough in form, but the items require careful investigation; there is a special temptation in joint stock companies to keep up the reputation of the society by declaring profits at all hazards, and never below that of the previous year: hence the inclusion, as may be seen without trouble, of past due debts in balance sheets and of interest and payments due to the society but not yet recovered. This is wholly wrong; many over-due debts are valueless, some are only good for a part of their nominal value, yet all appear in the balance sheet at their full face value; cases are known to the writer where past due loans secured on property so badly appraised as to be below the value of the loan, appear as full value assets; in some cases absolutely nothing, whether principal or interest, has been recovered for years. In the draft bill a section has been extracted from the New York banking law on this point, and in the model articles of the German banks there is a provision as follows:—"All uncertain debts must appear in the balance sheet only at their probable value, and all non-recoverable debts must be excluded." This is common sense but is apt to be entirely neglected; the result may easily be a wholly fictitious dividend, where there should have been a deficit (*cf.* section 14, Building Societies Act, 1894 (England)).

It is well to have a balance sheet drawn up at frequent intervals by the directors; these should be posted up in the office on each business-day.

Audit is a question which demands attention; it is not the difficulty of the audit, but the ensuring that it shall be genuine. Glaring instances are common of auditors who only sign their names to whatever is put before them on the ground that they have confidence in the directors, as though their express duty were not that of ascertaining whether the directors are worthy of confidence and are placing true accounts before the society; in some places valuable securities have been abstracted, but never missed by the auditors, while such matters as money paid out by the secretary or others without any authorization, are not attended to. It is for this reason that, at first, Government examiners are necessary; men of the position of Local Fund auditors will suffice for the audit of village banks. As co-operative societies develop they will organize themselves into unions with union inspectors for the auditing of accounts and examination of affairs.

Office business.—For village banks it will always be possible to conduct this with the minimum of expense. Most villages have a place where the villagers are accustomed to transact their business either with the Government officials (*chávadi*, *Pilliarkovil*, *Reddi's verandah*, &c.), or in many places, there is now a Union office; any of these, preferably a public and communal place of resort, such as the *chávadi*, will suit. The safe for the temporary custody of property and cash will ordinarily be with the *Reddi* who should always be an official of the bank, it being understood that money and valuables are not to be retained there; ordinarily cash will be paid out in loans as soon as it is received; any surplus and all valuables on pledge, securities, &c., should be lodged in the nearest Government treasury. This is advisable since village banks cannot well collect and retain valuables which, however, can be sent by the usual methods to the taluk treasury.

The methods of business will be of the simplest and have been sufficiently indicated under 'directors,' &c.

Examination of affairs.—This is a different matter from the mere audit of accounts, and is intended to show whether the transactions on which the accounts are based, are genuine and safe; the balance sheet may give the true abstract of the accounts, the accounts may show correctly the in- and out-payments; the further question is whether the assets shown in the accounts are of their nominal value. This is an important matter; many a fund which should have prospered has fallen solely because of the dishonesty or incapacity of its appraisers or directors; a house worth Rs. 1,000 has been valued at Rs. 2,000 and a loan granted for Rs. 1,500; saline land valued as though fertile; flimsy jewels as though solid; past due debts of no actual worth taken as assets of full value. So also it is found that directors and their friends obtain the greater share of the loans; and too often the security given is the less, as the position of the borrower in the society or in influence with the directors, is the greater.

While the honesty and care of the directors must be the chief safeguard of the society and while the very smallness and local character of the bank must tend to prevent such frauds, it is obvious that an outside supervision is advisable. This is provided in the Companies Act by the provision for inspectors to be appointed by Government, but this will not suffice as the formalities are too considerable. On the European continent it is partly provided for by the committee of supervision who, though members of the society, have nothing to do with its management, and are not allowed to be related to the directors. In England a provision for the examination of the books of the society is entered in the law for co-operative societies: this was ineffective and by the Acts of 1891 (Savings banks), 1893 (Co-operative societies), 1894 (Building societies) larger provision with fewer formalities is made for obtaining such inspections. Similarly in the United States it is claimed by the Comptroller of National Banks that by his examiners he is able to detect and, still better, to prevent fraud or mismanagement, and to promote sound business; honest directors welcome the aid of experts, while to the dishonest they are a terror and a check.

What is necessary in Europe and America, is not less necessary in India. It is for this purpose that the auditors of the commissioner should have power not merely to audit the accounts, but to examine and verify the affairs of the bank, to examine and test the securities, and to bring to the notice of the society as well as of the commissioner any irregularities they may find; *e.g.*, had there been such examiners, a recent case in which jewels of high value were taken from the safe of an urban *Nidhi* and feloniously misappropriated for about a year by an official of the society who had irregularly obtained possession of the three keys of the safe, would have been impossible.

Funds.—Based upon the share and guarantee capital, actual or subscribed, the working capital should consist of funds drawn from the savings of the public whether members or others. In the absence of unlimited liability by which every member pledges the whole of his property for the obligations of the bank, the subscribed capital must take the place of a guarantee only, and the deposits or debenture loans must be the sources from which it grants credit. In Europe the Popular and Village banks

usually possess borrowed capital on an average in the ratio of three or four to one of own capital; the older banks probably have such capital in a greater ratio. If fair interest be offered it is probable that profits will be sufficiently attracted and for Village banks this will probably be more convenient than debentures, unless long-term mortgage loans are granted freely. Deposits at call should be accepted only in moderate quantity or with the proviso that they should be repayable only as funds become available or—better—upon notice varying in ratio with the sum withdrawn. Deposits on fixed term for three months and upwards should be the mainstay of Village bank finance; at 6 per cent. interest these should flow in readily enough; the Post Office Savings banks show largely increased deposits even at about 3 per cent.

If the law permits deposit receipts to be transferred from hand to hand, they will be the more readily sought after, since a depositor in need of money before due date could simply sell his note; this is the principle of the Italian "buoni di tesoro dell' agricoltura." If it does not so permit, an addition might be made to the law to that effect.

It will be well to open a savings branch for each society in which any one, member or other, can deposit petty savings at any moment, irrespective of his subscriptions or dues upon loans. If frequently happens that a man finds himself with a little cash in advance or in excess of his dues; if he is unable to deposit this he is apt to spend it uselessly, especially if a very small sum such as two or four annas. If, however, there is a savings branch, he can deposit his surplus and place it out of danger. Such savings branch should be separate from the credit bank, so that outside savings may not be endangered by bad credit business, but would of course be managed in the same office, and probably by mostly the same directors.

Debentures.—The continental Land bank usually finances itself by the issue of mortgage debentures issued against other loans; each loan in fact is in the German system financed by a debenture or debentures to the value of the loan, and as the mass of loans is repaid the debentures are paid off. The Popular banks do not generally use these debentures, but the Loan societies of England and Ireland under the Acts of 1843 and 1840 respectively are empowered to issue debentures against their loans of all sorts, a very useful provision. The debenture has several advantages over deposit receipts; (1) they may be for extremely small sums and may be divided up into fractions; for instance they may be issued for Rs. 32 and divided into four coupures (sections) of Rs. 8 each, on which interest at 6½ per cent. would be exactly half a rupee per annum; deposit receipts are usually for larger sums; (2) they are readily transferable while the deposit receipt is not; (3) they are first mortgages secured by the whole property and assets—including the mass of loans, &c.—of the bank, and would take rank in liquidation before deposit receipts; (4) they would rise above or fall below par according to the status of the bank. A currency of small debenture coupures would be a welcome addition to the circulating medium of the country. Within the village or its immediate neighbourhood the debentures of the local bank would soon be accepted as good securities, but to obtain a wider market and therefore to reduce their rate of interest they would require the intervention of a larger bank; this has been dealt with above, *i.e.*, 'borrowed capital.'

Debentures in continental Europe are usually withdrawn by lot; though issued upon the grant of a particular loan they are not secured by that loan only but by the whole mass of loans and other assets; hence they are paid off not on the repayment of the particular loan for which they were issued but by lot; if they are current below par this gives an additional value to them and tends to raise them to par, since they are paid off at their face value. It is unlawful in this country to make them repayable with lottery prizes, but it is not illegal or otherwise objectionable to make them repayable each with a fixed premium; this is merely the capitalization of deferred interest, with the advantage to the creditor of being paid in a lump as a bonus, as soon as the debenture is drawn for repayment; the method greatly assists the popularity of the debenture.

Loans from Government have also been dealt with above; the first working capital or a reserve, and a fund for the initial expenses might be provided by Government, the former at full market interest including a charge for insurance, costs, profit, &c., the latter at favorable rates. Beyond this the grant of Government funds is not generally recommended.

Loans from other banks are advisable; in Italy one great function of the Savings banks is the grant of loans to small credit societies; in Germany the separate savings branches of the Raiffeisen societies are beginning to supply all the funds needed by the original credit branch. The Bank of Madras could probably utilize some of its funds in financing small banks when assured of their solvency and good management; the mass of village banks' loans would be the security to the Madras bank for its advances; it might in fact purchase the debentures of the village banks and thus assume the position of mortgagee.

The rate of interest must at first be at least 5 per cent. in order to develop the habit of depositing and investing, and of trusting the banks; probably in rural banks 6 or 6½ per cent. is the rate which will prove attractive. The Nidhis give 5 (rarely), 6, 6½ up to 9 per cent., but it is to be remembered that they are not organized for deposits and have no good material security; they are not banks of deposit but subscription societies; 6½ per cent. interest on money borrowed and 7½ or 8½ per cent. on money lent seem probable rates.

The bank should reserve to itself a right to close deposit accounts or to repay debentures at any time upon short notice; from the date of expiry of the notice no interest should be allowed save that in the case of debentures recalled the interest should run to the end of the current half-year.

Loans.—These may be of many classes; dead loans, discount of bills, cash credits; they may be regular loans, or small lot loans for poor persons on ordinary or favourable interest; they may be secured upon mortgage, pledge, bill of sale, or personal security; they may be of short or long term and payable either in lump or by instalments; they may be large or small, and payable in cash or in kind.

Probably for some years the ordinary dead loan will be the most common; but it is suggested that there are advantageous modifications. The Schulze-Delitzsch plan of granting a loan is generally upon the bill or note of the member backed by one or more sureties; it is for three months only but renewable twice or thrice. The Italian plan is similar, though the loan is often granted at once for perhaps one or two years, but is only issued upon three months' bills which must be renewed every quarter; this enables a bank to withdraw the loan by refusing renewal if the borrower has misused the

loan. A further advantage of granting the loan by a negotiable bill is that the bank can rediscount it if in want of funds; this, however, would be useless unless the bank is affiliated to or in correspondence with the Bank of Madras, or some exchange bank.

The cash credit has been adopted from the Scotch banks into the German and Italian Popular Banks; it is very suitable for land improvements; for the borrower, because he only draws what he requires from time to time; he repays to credit of his account as into a Savings bank, any sums which he may receive; he is charged with interest only upon the amount at his debit; he obtains a larger loan of longer term because the money is not a dead advance from the bank's capital; it is advantageous to the banks since they are continually receiving in-payments; they can watch the progress and objects of expenditure and can gauge the results by the existence or absence of in-payments, and they can close the account at any time upon notice. Cash credits granted up to a certain maximum solely for agricultural or industrial developments, for an indefinite term but made up every half-year with power of closure at any time upon a month's notice, would be a valuable addition to the methods of Indian banking.

The security tendered either for loans or for cash credits may be real, chattel or personal. The mortgage loan in Madras is much resorted to even for current needs, as especially in Tinnevely, and may be made very cheap; fiscal charges may be reduced to one-half; the bank, provided with simple printed forms could relieve the borrower of all expenses for writing and attesting the documents; in the case of loans by a bank, it might be possible to simplify registration formalities and expenses, whether in reducing the number of witnesses at the registration office, or by requiring only inscription, *i.e.*, the making of a memorandum of the nature and contents of the document,—instead of verbal transcription; registration charges might in fact be halved; loans below Rs. 100 need not be registered and could be made safe against subsequent registered loans by the mortgagor giving possession to the bank and by an attornment clause becoming the temporary tenant of the bank. Village banks would find mortgages an absolute security; they would know the exact value of the land, they could watch the mortgagor's subsequent dealings with it either by improvements or in allowing deterioration; they would certainly become aware of any attempt to raise a fresh loan upon it; it could not be sold by revenue process without their knowledge; if sold for their own dues they would be secure of repayment since, being on the spot, they could prevent collusive sales and could, if necessary, buy it in with a view to subsequent resale; while a mass of good mortgages forms by far the best security for debentures. The small mortgage, relieved of part of its fiscal and other charges, would be a very desirable security for village banks. Chattel credit is twofold, *viz.*, either by actual pledge or pawn, or by bill of sale or corresponding charge. The pledge should be an important form of security in this country of jewel hoards; but except in or near towns so that the valuables may be securely deposited either in a treasury or elsewhere, there is a serious difficulty for the bank in finding safe storage of valuables. It is recommended that rules be made by Government permitting the storage of sealed boxes, for the contents of which, Government will not be responsible, within treasury strong rooms or in police stations.

The more important function of an Agriculturists' Bank, however, is the making advances upon property which remains with the borrower. The advance upon crops, or on general status, is the habitual method of this country, and only requires to be re-organized by law. The bill of sale is not provided for in Indian law; so also is the case in continental Europe where the absence of such provision is much felt; its place is taken by securing certain 'privileges' by the special laws made on proposed for agricultural credit. A bill of sale, *i.e.*, the pledge without delivery of a man's movables, including growing crops, cattle and stock, &c., is a most useful form of credit and has the advantage in England of bringing with it the right of summary distraint. Village banks should freely adopt this form of credit especially when the law shall have formulated the bill of sale, and arranged for its registration as though a mortgage. (*See chapter on 'Law.'*)

The true credit however is personal credit, *viz.*, that based on what is technically known as 'character,' *i.e.*, general status, solvency, reputation, &c. It is that which is so largely used in this presidency, as in India generally; one man, whether professional or ryot, lends to another not upon any particular pledge but upon his mere promise or bond; an immense number of village transactions are purely oral, or evidenced by mere entries in accounts, or by an un stamped and invalid *cadjan chit*. The form usually found in Europe is the bond or note with one or more sureties, and one reason for the habitual use of the three months' note or bill is the necessity for a short term when the credit is based on a solvency which may change in that time. In this presidency some of the *Nidhis*—one a very large and flourishing one in a small town; see *Nidhi B* in the chapter on '*Nidhis ad finem*'—grant credit almost entirely in this form, although its transactions extend for some miles beyond the society's headquarters. Schulze-Delitzsch expressly advocates personal credit with sureties on the ground that it promotes mutual confidence and assistance and this promotes that social union which is so desirable. Whether this is so or not, it is certain that the form should be largely adopted by co-operative credit societies, while it is attended with but slight expenses.

The promissory note is of course possible for small sums and short terms when the status of the member is well known and his stake in the society considerable.

The necessity for granting credit of sufficiently long term has been dealt with *passim*; loans for land improvement, house building, and the development of a farm require credit of from one to perhaps fifty years. In such cases the instalment system of re-payment is an equal necessity for the sake of the bank and of the debtor; for the bank that it may gradually re-compose its working capital from the repayments of the several loans, for debtor to enable him to repay his debts by slow amortization, from the annual proceeds of his improvement, and to remove from him the possibility of spending his surplus instead of saving it.

The instalments, however, should be at considerable intervals, suited to the income of the agriculturist; a weekly or monthly repayment is usually impossible to a ryot who has but one season of incomings; for long term agricultural loans instalments during three or four months of each year are suitable.

There should be a maximum for loans; it may be well that the general meeting should fix a limit for the amount to be granted on particular classes of loans to individual borrowers, and for each separate loan. For instance, it might be necessary to say that only a certain proportion of the capital should be issued on mortgages; that no member should be granted credit, whatever the security offered, for more than so many hundred rupees; that no individual loan shall exceed so much. It is obviously

advisable that the loan power of the society should not be absorbed by a few persons, and that a particular loan on particular security should not, should it fail, endanger the society's credit.

It is a question whether a distinct preference should not be given by the rules to small loans; in the Italian Popular banks it is usually laid down as a rule of management that small loans shall have the preference; the banks are avowedly started for small folk and the object is to reserve or keep as many persons as possible out of the hands of the usurer, not to obtain large dividends with the greatest possible ease. Hence small loans, notwithstanding their difficulties, get the preference, and it is to be noted that they bear the same interest as the larger loans. So also in the Raiffeisen societies, the loans are, on an average, for such petty sums that even in India, where money is four or five times as dear, they would be ordinary.

In this presidency the Nidhis usually provide for a number of 'small lot' loans, issued in sums of Rs. 5 or 10, usually for three months; it is, however, from these loans that the Nidhis make large profits, the rates of interest sometimes amounting to 25 per cent. per annum and even higher, on such loans. This, if the Nidhi were really co-operative, would be unheard of as a rate, and reads rather like the usurious exploitation of the poor. If a village bank has merely the men of its village for its clientele it can and should lend small sums on the same terms as large; its *raison d'être* is small loans, and these should have the preference; if properly lent for proper purposes to members only, they are perfectly safe, and need not therefore be charged at high rates. When the records of the Small Cause and Village Court suits are perused, it is seen at once that the loans of this presidency below Rs. 10 are numbered by lakhs annually; of the debts which come to Court about 104,000 (45 per cent.) are below Rs. 20; hence if a village bank is to do its work it must be organized for and expressly deal as a primary object not only with loans below Rs. 50, but below Rs. 20 and even Rs. 10; it will generally be better to lend five persons Rs. 20 each than two persons Rs. 50.

There is in fact in Italy a special class of loans called "*prestiti sull'onore*"; these are very small loans, seldom exceeding £2, drawn from a special fund usually accumulated from profits and lent to poor but honest persons upon favourable interest, as to a poor workman to buy a set of tools. It is found that there is very slight loss indeed upon these loans, which are in considerable use and of much benefit. It is true that the method savours of charity; it is not however a charity which enervates but one which invigorates; a man is given thereby a hope and a chance, and a charity which turns a hopeless, resourceless pauper into a working man is not an economic error; 'lame dogs' can be cured as well as kicked. But such loans cannot justly be given until the bank has provided a *special* fund for the purpose, and one great benefit of the co-operative system is the devotion of profits to the accumulation of resources for this and other purposes.

It is suggested that special attention be paid to the establishment of *Positos* or *Monti Frumentarii*, that is, Village lending granaries. The European names indicate the purpose of these granaries; they were accumulations (*Monti*) or stores (*Positos*) in which the surplus grain of the villages was deposited; the exact origin of the stores is not known, but as they were all permanent endowments belonging to the villages, they probably originated in *pro rata* contributions from the various villagers; the fund once formed maintained itself by the continual influx of repaid loans, waste and losses being made good by the interest charged, loans being granted by the struck measure and repaid by heaped measure. Similar village granaries in this Presidency would have the double value of providing food in famine years, and maintenance and seed in ordinary years; if exhausted in famine times, they could be replenished by a Government grant-in-aid from the savings which would be effected by the general existence of such granaries.

In a village of 100 families of five members each, cultivating 500 acres of food and other crops, there might be 30 families requiring loans for seed and maintenance during, say, 6 months of the year; for this purpose, at lb. 1½ of grain per head per diem, exactly 15 tons of grain would be needed, representing a capital of about Rs. 750, if the grain be taken as *ragi* or *cholum*. Such a contribution, whether in grain or in money, could easily be made by the other seventy families in the course of one or two good years; by lending out the grain at the rate of 11 pounds returned for 10 lent, the 33,000 pounds of grain would be maintained intact, and a surplus left for division, either in kind or in cash, among the contributors. This rate would be only two-fifths of the current money-lenders' rates, to which latter must often be added a commutation of the repayments into cash with the lent grain calculated above, and the repaid grain below the market rate. The granary would preferably be the property of a co-operative society, composed of the chief villagers and of the borrowers, and would involve the smallest possible cost and difficulty in management, while it would at once get rid of one of the most crying evils of village usury. It would probably soon develop a branch for the supply of cattle and implements, and for the sale of the produce of its members, and thus become a co-operative society of the highest usefulness.

In its status as a mere granary it would however largely fulfil the idea of those members of the Famine Commission who advocated public granaries for the relief of the people in famine years; had that proposal included one for the lending of the grain in ordinary years, and the management of the granaries by a village society and not by Government, it can hardly be doubted that the idea would have taken hold of the public imagination. As a rule, not more than one-tenth of the population of a district are likely to come under relief, and these granaries would provide the mere food for that proportion for six months of the famine period, that is for just that period during which the pinch of distress is severe. When supplemented by Government grants and private charity, there would be almost complete provision for mere food supply, while granaries of this pattern would not involve that State interference to which the other members of the commission rightly objected (*Report Vol. I, paragraphs 160—164*). The stocks of grain would, as already stated, be replenished from the next harvests by means of Government grants-in-aid obtained from the immense savings which would accrue to the State in the matter of relief. If it were found possible to feed the people by the direct efforts of Government in a famine period, these granaries would excellently provide the stores of grain for seed and maintenance needed during the cultivation season immediately following the actual famine, or they would act as a reserve to supplement any temporary failure of supplies.

As already suggested in the more general portion of this chapter, interest need not be too low at first; it is better to start with rates that will be remunerative, than with such as will result in failure;

it is easy to reduce but not to enhance; better to have a surplus than a deficit provided that the surplus is wisely provided for by the rules or by the good sense of the bank. Interest on borrowed funds at about 6 per cent. and at about 8 per cent. on loans, will probably be found equitable and sufficient; 9 or 9½ per cent. (1½ pies per rupee per month) should be the maximum on any dues. In many Nidhis the rate is 6½ per cent. for all 'regular' loans, and in some, especially the largest and most flourishing of all, there is only one rate for all loans, viz., 6½ per cent., but this is in the Presidency town. Even in such Nidhis the borrowed funds receive interest at 6½ per cent., profits being derived from other sources. It must be remembered that in a bank there will be no fraudulent accounts, no demands outside of the interest; hence 9 per cent. to a bank is usually much better than 9 per cent. nominal, to a money-lender.

Profits.—Whether the bank be joint stock or co-operative, it is essential to devote a large share of the profits to building up a reserve. It should be obligatory by the articles, as is proposed in the draft bill, to credit a certain percentage to the reserve until it shall bear a considerable proportion to the share capital or to the mass of liabilities. The remainder would in a joint stock bank be divided as usual, but in a co-operative bank, only the interest fixed by the articles should be credited to the members' shares; this might be at the rate of 4½ or 4¾ per cent. per annum (two-thirds or three-fourths of a pie per rupee per month). There should also be permissive provision in the articles for the devotion of any surplus profits to such work of general utility, whether for the benefit of the society as a corporation, or of the village, or of any public body, as might be decided by the general meeting, e.g., the building of an office, the digging of a well, a donation to a hospital, and so forth. Such utilization of the funds would be a valuable education in public spirit; the mere provision in the articles would be suggestive.

Other suggestions for surplus profits are the formation of a fund for loans upon trust (*prestiti sull'onore*); of a provident fund for the benefit of the employes; of a fund for insurance against special losses, as on loans for land improvement where the improvement fails, or for the purchase of cattle when the cattle die; of a fund for improving the interest upon small savings. The first and third have been adverted to above; the second is necessary only if the bank develops in size; the fourth is very important as highly provocative of thrift amongst the very poor or young. The increased interest on small savings may be given either by an increase in the next annual interest, or by a general *pro rata* bonus addition at the end of the year, or by premia to those who have amassed a certain sum or made the most frequent additions to their amount during the year, or who have otherwise shown special prudence and thrift, as in the productive employment of savings.

SPECIMEN ARTICLES OF A CO-OPERATIVE VILLAGE BANK.

1. This society shall be called the Village Bank of _____ . Its registered office shall be situated within the village.

2. *Objects and scope.*—The objects of the bank shall be the encouragement of thrift, the collection of funds, and the lending of such funds to members. Such funds may be either in cash or in grain. The bank may also purchase goods necessary for the maintenance and industries of its members, and may also collect the produce of members and place it upon the market for the benefit of such members.

The bank shall not engage in any speculative operations, or in trade other than as implied in the foregoing paragraph, nor shall it deal with persons other than members except in the matter of the receipt of deposits and other funds, and except as regards the purchase and sale of goods and produce for the benefit of the members as above mentioned, or except in so far as these articles expressly provide.

No loan shall be granted to any person for other than a useful or productive purpose; the clearance of prior debts, the purchase, improvement and cultivation of land, the purchase of stock, manure, seed, the execution of a contract or work, the building, repair or furnishing of a house, the education of children, advances upon crops for maintenance, shall be the primary objects of loans, and none shall be granted for the purchase or manufacture of jewels or articles of luxury, for marriage expenses, litigation or for other unproductive outlay.

3. *Members.*—Every person whether male or female above the age of 16 years residing in the village shall be eligible as member under the rules hereinafter laid down.

Any person desirous of becoming a member shall apply in writing to the directors who shall enter his name upon an application register if such application be supported and attested by two members of the society. Such application shall be disposed of within one month by the directors. No reason shall be assigned for the rejection of such application, but appeal may be made to the Committee of supervision and arbitration, and to the general meeting.

Every person accepted as a member must sign or affix his mark to a register of members, such signature being attested by two members, one of whom shall be an office-bearer. The register shall contain the articles of the bank, the name, father's name, address, and occupation of each member, and shall also state the lands held by him within or outside the village.

Every person shall, on signing the above register, be deemed to have become a member of the society, and shall be bound by all its rules, and be liable for its obligations as hereinafter provided.

Every member shall subscribe for at least one share, but no member shall subscribe for more than 25 shares. He shall, upon admission pay an entrance fee of 4 annas, which shall be credited to the reserve.

In case of liquidation each member shall, if necessary, be liable to contribute an amount not exceeding 25 per cent. of the par value of his shares, in addition to any amount still remaining unpaid on his shares. Shares shall only be withdrawable or transferable according to the provisions of these articles.

Any person desirous of subscribing a founder's share or shares or of becoming a guarantee for the bank, shall present his application to the directors, who shall dispose of his application as though an application for ordinary membership, and shall require his signature to the register of members, and he

shall thereupon be bound by its rules, and be responsible for its obligations and debts to the extent of his share or shares or of his guarantee.

Any member shall have the right to withdraw at will upon giving three months' notice of his intention to withdraw. Such withdrawing member shall be responsible, as before withdrawal, for the debts and obligations of the bank incurred before the date of actual withdrawal, until one clear year from the expiry of the business year in which he withdraws. Withdrawal within six months prior to the liquidation of the society shall be considered null and void.

A withdrawing member shall be entitled to receive the value of his subscriptions as a member, but shall not be entitled to any share in the reserve, or to any dividend for the year in which he shall withdraw. The bank shall pay the value of the shares to the withdrawing member as soon as possible and at latest within three months after the expiry of the business year in which he withdraws, but shall not be bound to do so at any earlier date. On withdrawal due to causes beyond the member's control, such as transfer of appointment, a member may, if the directors see fit, receive his subscriptions in full together with half the dividend due for the year in which he withdraws.

A member shall be liable to expulsion from the society by vote of a general meeting if he is in arrears beyond three months with his subscriptions or with his other dues, and has been three times warned of his arrears; if he has compelled the bank to resort to judicial or executive process against him; if he has wilfully disobeyed the rules of the bank or been guilty of any fraud towards it, or if he becomes bankrupt, or if he has been convicted of an offence of a grave nature under the Penal Code, or if he has been guilty of conduct, as a member, inconsistent with his duty towards the society, or if he be a habitual drunkard or spendthrift or living on public charity.

Any member who may have been expelled from the bank or who shall have permitted his membership to lapse by default shall, as regards his liability for the obligations of the bank, be considered as a withdrawing member.

Decease shall be considered as withdrawal, but the heirs of the deceased member shall not be liable as contributories in case of liquidation, but only for the payment of any monies or funds due to the bank.

A member shall not be entitled as of right to transfer his membership by transfer of his share or shares, but may do so with the consent of the directors; in case of refusal an appeal shall lie to the Committee of supervision or arbitration. An application for transfer shall be treated as an application for admission to membership, and the transferee shall be treated as such applicant, unless he is already a member of the society. The transferor shall be liable as though a withdrawing member.

In cases of decease the directors shall not be bound to admit the successor to the deceased as a member, but shall, in case of refusal to admit or in case of refusal to become a member, pay the value of the deceased's subscriptions as in cases of withdrawal. In disposing of claims to the shares of deceased members, the directors shall within three months pay such amounts as are due after satisfying the claims of the bank, to the person or persons found on enquiry by them to be the proper heirs, or to persons nominated by the deceased under the provisions of the law, or to persons who produce probate of a will or letters of administration, or a certificate of heirship.

4. *General meeting.*—An ordinary general meeting shall be held not less often than once in six months; the directors and Committee of supervision shall have power to summon an extraordinary meeting at any time, and they shall be bound to do so within fifteen days of notice in writing given by one-tenth of the members and containing the subjects to be laid before such meeting. Notice of meetings shall be given by tom-tom in the village and by written notice affixed at the village chavadi or other place of public resort, at least one week before the proposed meeting. Ordinary meetings shall be held on the 1st January and 1st July of each year.

Every member of the bank shall have the right of attending every general meeting, and it shall be his duty to do so. Any member who shall fail to attend two consecutive meetings without good excuse shall be liable to a fine not exceeding 2 annas. Proxies shall only be allowed in case of absence from the village or in the case of females.

Every member of six months' standing, of either sex, and above the age of 18 shall have one vote and no more (or one vote for every five shares, not exceeding five votes in all). But no member shall be entitled to vote, though he shall be bound to attend, if he is in arrears for more than fifteen days with any dues to the bank.

The meeting shall be presided over by a chairman elected at each meeting for the purpose.

No subject shall be voted upon at any meeting, of which the above notice has not been given, but it shall be permissible to discuss any subject without taking a resolution thereon.

At the annual general meeting the directors shall lay the annual balance sheet and report before the meeting and take a resolution thereon: such report shall be accompanied by the auditor's report and the remarks of the Committee of supervision, and the result of any examination made by the Government inspectors.

The general meeting shall elect the directors, the members of the Committee of supervision, and the auditor or auditors. It shall have power to remove, by special resolution, any of the directors or committee for good cause shown.

The general meeting shall also decide appeals against refusals by the directors to admit members or to transfer shares: it shall decide the maximum amount to be granted on loan to any one person and in any one loan; it shall decide applications by directors or members of the committee of supervision for loans other than on pledge of movables; it shall determine the amount to be borrowed for the purposes of the bank, and shall decide the rate of interest to be charged on each class of loan, and shall have power generally to alter the Articles of Association.

One-fourth of the members shall be a quorum; all matters shall be decided by simple majority, save where the law requires any other majority.

Depositors and debenture-holders shall have the right of attending meetings and of taking part in the discussions even if not members, but unless members, shall have no power of vote. But they shall have power jointly to appoint a co-auditor who shall have the powers of an ordinary auditor in the examination of the accounts.

5. *Directors.*—The Board of Directors shall consist of nine members, who shall be elected by the general meeting for three years and shall be re-eligible; one-third of the directors shall vacate office each year, those retiring in the first two years being designated by lot, and those subsequently according to date of election. Any vacancy may be temporarily filled by the Board and the Committee of supervision until the next general meeting.

The board shall elect from amongst their number a chairman who shall preside at these meetings which shall be held on the and of every month for the transaction of public business, and as often as may be necessary for other purposes.

Every director shall hold at least five shares which shall be inalienable during office, and must not be borrowed upon. All services shall be gratuitous, nor shall any part of the profits be divided amongst the directors but they shall be entitled to expenses out of pocket, if any, incurred in the society's business.

No director may borrow from the society's funds by way of personal credit, but, with the approval of the Board and of the Committee of supervision conjointly, may obtain loans upon the pledge of immovable or movable property.

No person may hold or continue to hold the office of director who shall have been insolvent, or compounded with his creditors, or been convicted of any serious offence under the Penal Code; in any such event the Director shall *ipso facto* be deemed to have vacated office. A director is also liable to exclusion if he fails, without good cause, to attend a meeting of the directors for two consecutive months. The general meeting shall have power, by special resolution, to remove any director from office.

All matters for disposal at a meeting of the directors shall be decided by majority, the chairman or presiding member having a casting vote. No director shall have any vote in any matter affecting his personal interest or responsibility.

The directors shall make rules for the conduct of business at their meetings, and shall enter all rules, and minutes of all resolutions and proceedings in a bound register to be kept for the purpose. They may also make bye-laws consistent with these articles.

The acts of the directors shall be binding upon the bank unless and until rescinded by a general meeting, and every individual director shall be responsible for the acts and resolutions of the board unless he shall at the directors' meeting have formally expressed and recorded his dissent, or unless, if absent from the meeting, he shall express his dissent not later than the close of the next subsequent meeting.

The duties of the Board of Directors shall be (a) to receive and decide upon all applications for admission as members; (b) to receive and decide upon all applications to make or withdraw deposits, all applications for loans, all repayments of loans, and all matters connected with receipts into and disbursements by the bank; (c) to settle and alter the rates of interest to be charged and allowed, and any commissions to be charged; (d) to inspect and audit the accounts, to examine annually the valuations of property, to check the securities in deposit or held by the bank; (e) to draw up the annual balance sheet, and to propose the distribution of the profits; (f) to appoint and pay the clerical staff; (g) to perform all acts connected with the administration not especially assigned by these articles to the general meeting or some other organ of the administration. All deposits and in-payments shall be received and payments made after the close of each meeting of the directors and on such other fixed days as shall from time to time be settled by the general meeting. For such receipts and payments at least two directors shall be present, and shall personally receive and enter or cause to be entered in the several registers the deposits, subscriptions, or dues, and shall give receipts for the same, and shall likewise make all payments duly authorized beforehand by the directors at their meeting. At the close of each such sitting the directors shall draw up a statement showing the position of each loan outstanding, the amount at credit of each depositor and a total showing gross assets and liabilities. This statement shall be in a form capable of continuous additions throughout the year, the results of each sitting being added to those of the previous sitting. In such statement the names of debtors and creditors (depositors, &c.) shall not be mentioned, but only the number as entered in the pass-book of such debtor or creditor. The statement shall be accessible to all members in the office during all working hours. They shall be assisted in their duties by the clerical staff of the bank, but shall be personally responsible for the correctness of the entries. The directors shall take up these duties by monthly turns of two, one director retiring from duty in each month.

The work of the directors shall not be delegated to third parties, save only the clerical work of the office, nor shall decisions be made by the directors upon circulated papers, but all business shall be done in actual meeting, for which no proxies shall be allowed.

In determining the rates of interest to be charged and allowed the directors shall be limited to the maxima and minima settled by the general meeting from time to time.

It shall be the duty of the directors, who may claim the assistance of the Committee of supervision, frequently to examine the security of the bank's investments, to enquire whether the loans granted have been expended as agreed upon, and to ascertain whether there has been any deterioration in the security accepted by the bank or in the status of the borrower or his sureties. In case of any breach of the agreement, of any deterioration in the security held by the bank or in the status of the borrower or his sureties, the directors shall take any necessary steps to secure the bank. The directors shall be entitled to call in forthwith any loan which may have been expended in breach of contract, or in which the security may have become so materially deteriorated that the safety of the loan is endangered.

The proceedings of each meeting of the board shall be read out and confirmed at the next subsequent meeting.

Bye-laws.—The directors shall draw up bye-laws not inconsistent with these articles, for the conduct of office business and of directors' meetings, for continuous audit and inspection of the accounts, for the due receipt and disposal of the funds, for the receipt and disposal of applications for loans, for the due valuation and scrutiny of securities, whether real, chattel or personal offered for loans, for the preparation of the annual balance sheet for action under section 85 (14, 15 and 16) of the Draft bill, and for such other matters as may be necessary. All bye-laws shall be appended to the articles, and shall be open to the inspection of all members, any of whom may present his

written objection to the same, which, if the objection be not admitted and acted upon, shall be laid before the next general meeting.

6. *Committee of supervision.*—Three of the members of the society shall be elected by the general meeting to form a Committee of supervisor; none shall be eligible who holds less than three shares. They shall hold office for three years and shall be re-eligible, one member vacating each year. Their services shall be entirely gratuitous and the provisions relating to directors regarding profits, eligibility for appointment and for holding office and for borrowing from the society shall apply to the members of this committee.

Their special duties shall be to maintain a general supervision over the accounts and affairs of the bank, to ensure that the directors observe the rules and limits of business as laid down in the Memorandum and Articles of Association, to examine and report on the balance sheet, to vote with the directors in case of loans demanded by members of the board or committee, or in case of misconduct by any such member, and by themselves to hear any complaints or appeals made by members or applicants for membership or creditors of the bank against the action of the directors. An appeal shall lie from their decision to the general meeting. Not less than two members must be present at any sitting in which such complaint is heard and decided.

The committee shall be entirely distinct from the Board of Directors, and no director or any director's father, son, or brother shall be a member of the committee.

In case of the discovery of any misconduct by any of the directors or others, the committee shall report the matter to the Board of Directors, and, if necessary, shall summon a general meeting, and may, in serious cases, affecting the management and safety of the bank or of the public, report direct to the commissioner or local board if any, for the necessary action. The committee may conjointly with the Board of Directors suspend any director and appoint a substitute, but shall in that case call a special general meeting within one month for the consideration of their action and the disposal of the complaint.

The committee may at any time invite an examination of the affairs and accounts of the bank by the commissioner or his inspectors, upon a written application assigning sufficient cause for such examination.

7. *Disputes.*—Disputes between the bank and its members shall be disposed of by the Committee of supervision with an appeal to the general meeting, the decision of which shall be final except as provided in section 66 of the Draft bill. Members refusing to abide by the decision of the general meeting or of the commissioner shall be liable to expulsion from the bank.

The above paragraph relates only to disputes between the bank and its members as such with reference to the interpretation of the rules or bye-laws, and the conduct of business, but not to disputes relating to contracts between the bank and members as creditor and debtor.

8. *Clerical staff.*—The general meeting shall from time to time determine the number and pay of the staff to be employed, but the appointments and removals shall be made by the directors. The general meeting shall be bound to observe the strictest economy in the decisions on this matter.

Every person appointed on the staff must be or become a member, and may be required to give security if necessary. Their eligibility to hold or to continue to hold office, and to borrow from the bank shall be the same as laid down in the case of directors.

9. *Audit.*—In addition to the internal continuous audit to be maintained by the directors and Committee of supervision, there shall be once in every year an independent audit by an auditor annually appointed for the purpose by the general meeting. No director or other office-bearer shall be eligible as such auditor during his term of office, or any person interested otherwise than as member. Such auditor may be remunerated on a scale to be determined by the general meeting, and shall be re-eligible. If no such auditor is appointed, or if no person shall be available for the duty, the directors shall, within one month of the close of the business year, move the commissioner to appoint an auditor, and the commissioner shall thereupon make the necessary appointment. The depositors, debenture-holders and other creditors may appoint by joint agreement a co-auditor who shall be entitled to carry out the audit of the bank's accounts and affairs in conjunction with the regular auditor, and shall have similar powers and duties. The auditors shall have access to all the books and accounts of the bank, of which a list shall be put before them, and shall examine all the items of receipt and expenditure, funds and effects of the bank and individual accounts, and shall verify the same with all accounts and vouchers relating thereto. They shall also personally inspect the mortgage deeds, securities and valuables belonging to or in custody of the bank as securities for their loans or other investments, and shall certify that they have so done, and if found correct that they are in agreement with the accounts, and shall report any disagreement or deficiency. They shall have power also to call for all explanations or information from the directors or others, and shall record a note as to the nature of such information or explanations, and whether such information or explanations were satisfactory. They shall expressly and explicitly report upon all items which disclose defects, frauds, or grounds for suspicion, and their report shall be laid before the general meeting with the explanation of the directors and the opinion of the Committee of supervision.

10. *Funds.*—These shall proceed from the subscriptions of members with entrance fees, from founders' shares, from Government subventions, from deposits, from debentures, from other borrowings if necessary, from the interest and commissions derived from loans, &c.

11. *Shares.*—The share capital shall be divided into 1,000 shares, each of the value of Rs. 8; no member shall possess more than 25 shares. The value of the share or shares may be paid up in lump, or by instalments at the discretion of the directors; such instalments must aggregate at least Rs. 2 per share per annum.

Interest shall be paid at 1 pie per rupee per mensem on the amount paid up; fractions of a rupee shall not bear interest. No interest shall be paid over to the member until he shall have completed the subscription of his share or shares, till which time all interest shall be credited to such share or shares.

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The directors shall make rules for the conduct of business at their meetings, and shall enter all rules, and minutes of all resolutions and proceedings in a bound register to be kept for the purpose. They may also make bye-laws consistent with these articles.

The acts of the directors shall be binding upon the bank unless and until rescinded by a general meeting, and every individual director shall be responsible for the acts and resolutions of the board unless he shall at the directors' meeting have formally expressed and recorded his dissent, or unless, if absent from the meeting, he shall express his dissent not later than the close of the next subsequent meeting.

The duties of the Board of Directors shall be (a) to receive and decide upon all applications for admission as members; (b) to receive and decide upon all applications to make or withdraw deposits, all applications for loans, all repayments of loans, and all matters connected with receipts into and disbursements by the bank; (c) to settle and alter the rates of interest to be charged and allowed, and any commissions to be charged; (d) to inspect and audit the accounts, to examine annually the valuations of property, to check the securities in deposit or held by the bank; (e) to draw up the annual balance sheet, and to propose the distribution of the profits; (f) to appoint and pay the clerical staff; (g) to perform all acts connected with the administration not especially assigned by these articles to the general meeting or some other organ of the administration. All deposits and in-payments shall be received and payments made after the close of each meeting of the directors and on such other fixed days as shall from time to time be settled by the general meeting. For such receipts and payments at least two directors shall be present, and shall personally receive and enter or cause to be entered in the several registers the deposits, subscriptions, or dues, and shall give receipts for the same, and shall likewise make all payments duly authorized beforehand by the directors at their meeting. At the close of each such sitting the directors shall draw up a statement showing the position of each loan outstanding, the amount at credit of each depositor and a total showing gross assets and liabilities. This statement shall be in a form capable of continuous additions throughout the year, the results of each sitting being added to those of the previous sitting. In such statement the names of debtors and creditors (depositors, &c.) shall not be mentioned, but only the number as entered in the pass-book of such debtor or creditor. The statement shall be accessible to all members in the office during all working hours. They shall be assisted in their duties by the clerical staff of the bank, but shall be personally responsible for the correctness of the entries. The directors shall take up these duties by monthly turns of two, one director retiring from duty in each month.

The work of the directors shall not be delegated to third parties, save only the clerical work of the office, nor shall decisions be made by the directors upon circulated papers, but all business shall be done in actual meeting, for which no proxies shall be allowed.

In determining the rates of interest to be charged and allowed the directors shall be limited to the maxima and minima settled by the general meeting from time to time.

It shall be the duty of the directors, who may claim the assistance of the Committee of supervision, frequently to examine the security of the bank's investments, to enquire whether the loans granted have been expended as agreed upon, and to ascertain whether there has been any deterioration in the security accepted by the bank or in the status of the borrower or his sureties. In case of any breach of the agreement, of any deterioration in the security held by the bank or in the status of the borrower or his sureties, the directors shall take any necessary steps to secure the bank. The directors shall be entitled to call in forthwith any loan which may have been expended in breach of contract, or in which the security may have become so materially deteriorated that the safety of the loan is endangered.

The proceedings of each meeting of the board shall be read out and confirmed at the next subsequent meeting.

Bye-laws.—The directors shall draw up bye-laws not inconsistent with these articles, for the conduct of office business and of directors' meetings, for continuous audit and inspection of the accounts, for the due receipt and disposal of the funds, for the receipt and disposal of applications for loans, for the due valuation and scrutiny of securities, whether real, chattel or personal offered for loans, for the preparation of the annual balance sheet for action under section 85 (14, 15 and 16) of the Draft bill, and for such other matters as may be necessary. All bye-laws shall be appended to the articles, and shall be open to the inspection of all members, any of whom may present his

written objection to the same, which, if the objection be not admitted and acted upon, shall be laid before the next general meeting.

6. *Committee of supervision.*—Three of the members of the society shall be elected by the general meeting to form a Committee of supervision; none shall be eligible who holds less than three shares. They shall hold office for three years and shall be re-eligible, one member vacating each year. Their services shall be entirely gratuitous and the provisions relating to directors regarding profits, eligibility for appointment and for holding office and for borrowing from the society shall apply to the members of this committee.

Their special duties shall be to maintain a general supervision over the accounts and affairs of the bank, to ensure that the directors observe the rules and limits of business as laid down in the Memorandum and Articles of Association, to examine and report on the balance sheet, to vote with the directors in case of loans demanded by members of the board or committee, or in case of misconduct by any such member, and by themselves to hear any complaints or appeals made by members or applicants for membership or creditors of the bank against the action of the directors. An appeal shall lie from their decision to the general meeting. Not less than two members must be present at any sitting in which such complaint is heard and decided.

The committee shall be entirely distinct from the Board of Directors, and no director or any director's father, son, or brother shall be a member of the committee.

In case of the discovery of any misconduct by any of the directors or others, the committee shall report the matter to the Board of Directors, and, if necessary, shall summon a general meeting, and may, in serious cases, affecting the management and safety of the bank or of the public, report direct to the commissioner or local board if any, for the necessary action. The committee may conjointly with the Board of Directors suspend any director and appoint a substitute, but shall in that case call a special general meeting within one month for the consideration of their action and the disposal of the complaint.

The committee may at any time invite an examination of the affairs and accounts of the bank by the commissioner or his inspectors, upon a written application assigning sufficient cause for such examination.

7. *Disputes.*—Disputes between the bank and its members shall be disposed of by the Committee of supervision with an appeal to the general meeting, the decision of which shall be final except as provided in section 66 of the Draft bill. Members refusing to abide by the decision of the general meeting or of the commissioner shall be liable to expulsion from the bank.

The above paragraph relates only to disputes between the bank and its members as such with reference to the interpretation of the rules or bye-laws, and the conduct of business, but not to disputes relating to contracts between the bank and members as creditor and debtor.

8. *Clerical staff.*—The general meeting shall from time to time determine the number and pay of the staff to be employed, but the appointments and removals shall be made by the directors. The general meeting shall be bound to observe the strictest economy in the decisions on this matter.

Every person appointed on the staff must be or become a member, and may be required to give security if necessary. Their eligibility to hold or to continue to hold office, and to borrow from the bank shall be the same as laid down in the case of directors.

9. *Audit.*—In addition to the internal continuous audit to be maintained by the directors and Committee of supervision, there shall be once in every year an independent audit by an auditor annually appointed for the purpose by the general meeting. No director or other office-bearer shall be eligible as such auditor during his term of office, or any person interested otherwise than as member. Such auditor may be remunerated on a scale to be determined by the general meeting, and shall be re-eligible. If no such auditor is appointed, or if no person shall be available for the duty, the directors shall, within one month of the close of the business year, move the commissioner to appoint an auditor, and the commissioner shall thereupon make the necessary appointment. The depositors, debenture-holders and other creditors may appoint by joint agreement a co-auditor who shall be entitled to carry out the audit of the bank's accounts and affairs in conjunction with the regular auditor, and shall have similar powers and duties. The auditors shall have access to all the books and accounts of the bank, of which a list shall be put before them, and shall examine all the items of receipt and expenditure, funds and effects of the bank and individual accounts, and shall verify the same with all accounts and vouchers relating thereto. They shall also personally inspect the mortgage deeds, securities and valuables belonging to or in custody of the bank as securities for their loans or other investments, and shall certify that they have so done, and if found correct that they are in agreement with the accounts, and shall report any disagreement or deficiency. They shall have power also to call for all explanations or information from the directors or others, and shall record a note as to the nature of such information or explanations, and whether such information or explanations were satisfactory. They shall expressly and explicitly report upon all items which disclose defects, frauds, or grounds for suspicion, and their report shall be laid before the general meeting with the explanation of the directors and the opinion of the Committee of supervision.

10. *Funds.*—These shall proceed from the subscriptions of members with entrance fees, from founders' shares, from Government subventions, from deposits, from debentures, from other borrowings if necessary, from the interest and commissions derived from loans, &c.

11. *Shares.*—The share capital shall be divided into 1,000 shares, each of the value of Rs. 8; no member shall possess more than 25 shares. The value of the share or shares may be paid up in lump, or by instalments at the discretion of the directors; such instalments must aggregate at least Rs. 2 per share per annum.

Interest shall be paid at 1 pie per rupee per mensem on the amount paid up; fractions of a rupee shall not bear interest. No interest shall be paid over to the member until he shall have completed the subscription of his share or shares, till which time all interest shall be credited to such share or shares.

The bank shall be entitled to repay upon one month's notice, the value of any share or shares held by a member in excess of one share; should the member desire it and the affairs of the bank permit it, the directors may permit such shares to be retained at half rates of interest.

Any member may withdraw from the bank any shares in excess of one share upon giving notice; such withdrawals of excess shares shall be considered and treated as though withdrawals from membership under article 3 *supra*.

A member may also transfer any shares in excess of one share, and the provisions of article 3 *supra* in the matter of transfers shall apply to transfers under this article.

12. *Founders' shares.*—These shall be limited to 100 in number of the value of Rs. 80 each; any number within the maximum may be subscribed whether by one or more persons, but no single share shall be subscribed for by more than one person. They shall be payable in lump or by instalments of one-eighth each per month or per quarter at the option of the subscriber as entered by him in writing at the time of first subscription. Interest shall be payable thereon at 1 pie per rupee per month on the amount paid up and shall be paid over to the subscriber. The bank may repay at any time without notice the amount of any share in which the subscriber has failed to observe the conditions of his agreement. The directors may intimate on one month's notice that further instalments on shares not fully paid up will not be required till further notice, and any sums paid in after receipt of such notice shall bear no interest until the directors intimate their readiness to receive further instalments.

The bank may also repay any or all of the shares held by any subscriber upon three months' notice, and no share shall bear interest after the expiry of the three months, unless repayment is delayed by the bank itself.

A subscriber may withdraw the whole or any of his shares upon giving notice as follows: one share to five shares on three months' notice; any larger number at six months' notice; shares shall not be withdrawable at smaller intervals than three months between each set of withdrawals.

Transfers of founders' shares may be made at the option of the subscriber, but all such transfers shall be intimated with full particulars regarding the transfer to the bank.

13. *Government subventions.*—The directors shall apply to the commissioner for a temporary loan of Rs. 100 for first working expenses, and for a regular loan of Rs. 2,000 as first working capital. The terms of such loans shall be arranged by the directors with the commissioner, but the interest payable by the bank to Government for the regular loan shall not exceed 6½ per cent. per annum.

14. *Deposits.*—These may be received from any person whether a member or not. Deposits shall be either ordinary or savings deposits.

Ordinary deposits may be either at call or on fixed term. Ordinary deposits at call may be paid in by sums not below Re. 1 on any office day. They shall bear interest at seven-eighths of 1 pie per rupee per month (5½ per cent. per annum), but no interest shall be allowed should the deposit not reach or should it fall below Rs. 10; nor shall broken periods of any month count towards interest.

Deposits at call may be received up to any amount should the directors see fit to accept them, but the directors shall have power to refuse deposits without assigning any reason; they shall be repayable at any time by the directors on fifteen days' notice, after the expiry of which date they shall bear no interest; they may be withdrawn in sums of not less than 1 rupee by the depositor on any office day, at not less intervals than one week, but the bank shall have the right to delay repayment of sums above Rs. 20 as follows: sums of Rs. 20 to Rs. 50 after one month; from Rs. 50 to Rs. 100 after two months; larger sums after three months. These deposits shall be paid in and withdrawn only by means of a deposit pass-book which shall show all receipts and withdrawals and shall be signed by the directors on duty in case of receipt of deposits; every withdrawal shall be signed by the depositor and initialled by the directors on duty. No deposit shall be received by any person other than by two directors, and at the bank's office within office hours; any person receiving or withdrawing deposits otherwise than as provided by this clause shall be expelled from membership, nor will the bank be responsible for any sums which do not appear in the pass-book.

Deposits on fixed term may be received at any time if approved by the directors. The minimum term for such deposits shall be three months and the maximum three years, and they shall bear interest at from 5 to 6 per cent. per annum according to duration. These deposits shall be received in sums of Rs. 10 or multiples of Rs. 10 and not otherwise. Every such depositor shall receive a temporary receipt signed by the directors on duty pending disposal of his application to make the deposit; on final acceptance of the deposit he shall be granted a receipt taken from a stub with counterfoil, duly signed by the chairman and by the directors on duty if the sum exceeds Rs. 100, or by the directors on duty if below that sum. Deposit receipts will be paid only to the actual depositor or to his proxy and at due date. The depositor may apply for the return of his deposit at any time; the bank shall not be bound to comply with his request, but should it do so it will pay no interest for the six months prior to demand; it shall also be entitled to the delay mentioned in the preceding paragraph (repayment of ordinary deposits, during which period no interest will be allowed). The bank may grant a loan upon such deposit receipt.

15. *Savings deposits.*—Savings deposits shall be of two classes, ordinary and petty.

Ordinary savings will be received at any hour that the office is open. No savings deposit must exceed Rs. 10 paid on any one day, or Rs. 200 during one year, or Rs. 1,000 in all, exclusive of interest; any excess above Rs. 1,000 will be transferred to ordinary deposits. All payments in and withdrawals shall be governed by the rules relating to ordinary deposits at call, save that in-payments and withdrawals may be made in sums of not less than 2 annas.

Interest on savings deposits shall be granted at 1 pie per rupee per month (6½ per cent. per annum) upon the amount in deposit, but no interest shall be granted until the deposit reaches 1 rupee, nor upon any fraction of a rupee, nor for the month in which money is deposited or withdrawn upon the amount so deposited or withdrawn. Interest will be added annually to the balance of each amount, for which purpose each depositor must present his pass-book at the bank within the month of ; failing such presentation, the interest will be entered on the next occasion on which the pass-book is presented. The amount of the interest can be drawn by the depositors, but only as an ordinary withdrawal after the entry has been made in the pass-book.

Petty savings will be received on any working day in sums of a quarter anna to Rs. 10 and may accumulate up to the sum of Rs. 20 when they will be transferred to ordinary savings. They shall bear interest at 1 pie per rupee per month ($6\frac{1}{2}$ per cent. per annum). The bank will further grant from surplus profits, if any, such sums as bonuses either to all such accounts or to accounts selected for continuity of saving, as may be decided by the general meeting.

The rules of the Post Office Savings banks of July 1894 as regards "persons who may deposit money (Rule 5)," "limitations as to opening accounts" (Rules 6, 8), "powers to withdraw money and limitations as to withdrawal" (Rules 14, 15), "how to open an account" (Rules 18, 19, 20), "modes of depositing money" (Rule 24), "mode of withdrawing money" (Rules 26, 27, 28), "closing an account" (Rules 33, 34), dead accounts (Rules 37, 38, 39, 40) shall, *mutatis mutandis* and subject to the requirements of the sections of the law regarding Provident nominations and small intestacies, be applicable to all savings deposit accounts in this bank.

In the case of loss, deterioration or spoiling of pass-books, the bank will grant a fresh one on payment of one anna.

* 16. *Debentures*.—The bank will issue land mortgage debentures in representation of its mortgage loans under the sections of the law relating to such debentures. Each debenture shall be for Rs. 25 and shall be issued in the forms and under the rules framed by Government for such debentures. The rate of interest and period of debentures shall be determined by the directors from time to time. They shall be repaid at par upon half-yearly drawings by lot, or upon six months' notice to any holder, or they may be re-purchased at the current rate in the market.

The amount to which debentures may be issued shall not at any time exceed nine-tenths of the amount of mortgage loans outstanding and not otherwise pledged or charged by the bank, and a statement of the aggregate amount of outstanding debentures and of the outstanding loans upon which they are secured, shall form an item in the monthly and annual balance sheet.

17. *Other borrowings*.—The directors are for the purposes of the bank empowered to borrow money or grain to an amount not exceeding such sum and at such rates as may be fixed at a general meeting.

18. *Loans*.—The bank will advance money, to members only, upon first mortgage of lands or houses, upon pledge of movables, upon bills of sale, upon personal security, or upon a combination of such securities. No loan shall be granted for more than twice the nominal value of the shares held by the applicant. All applications must be made in writing to the directors who may reject the application without assigning reasons. An appeal shall lie to the Committee of supervision, but no further.

Every loan contract shall contain a provision entitling the bank forthwith to call in the full unpaid amount of the loan with all dues or to demand additional security (1) where the member has been expelled from the society, (2) where the security tendered to and held by the bank, or the status of the borrower and of his sureties, shall have so deteriorated as to endanger the safety of the loan, (3) where the borrower has wilfully and materially departed from his agreement as to the objects and character of the expenditure of the loan amount.

All property forming the security for any loan shall be managed and treated by the holder, whether the borrower or the bank, with all due care and skill.

Upon the grant of a loan the borrower shall receive a pass-book in which shall be entered the principal amount due, the rate of interest, the amount, date, &c., of every instalment due whether of principal or interest, and such other particulars as may be necessary for the information of the borrower; every payment made to him or by him on account of such loan shall be entered in such pass-book and signed, attested or initialled as provided in article 14 *supra*, in the case of deposits. The pass-book shall be balanced on each occasion, so that the borrower may at all times be aware of the amount due by him. All entries shall be made in figures and in writings.

19. *Mortgage loans*.—No loan shall be given on the mortgage of property beyond the limits of the village.

An applicant for such loan must submit a written application specifying the property tendered as security, its approximate value, his title-deeds, if any, his claim to be regarded as the owner, a statement of all co-sharers, and a certificate given by himself that the property is unencumbered. The directors shall verify the statements of the application, and, if necessary, shall proceed to a valuation of the property. The enquiry shall be made in the presence of the head of the village and of the karnam who shall, if members, attest the valuation certificate and the minutes of the enquiry. A notice shall, if necessary, be affixed at the bank office and at the village chavadi inviting any objectors or prior encumbrancers to put forward their claims.

A loan may be granted to the amount of 75 per cent. of the estimated value if the property be land, and of 60 per cent. if the property be a house. No loan shall be given upon a thatched house. All persons whom the directors consider to be interested in the property shall execute or attest the bond whether members or not.

A mortgage shall be considered as a first mortgage if the loan is used to pay off all prior encumbrances, and the directors will adopt any necessary means for the redemption of such encumbrances with the proceeds of the loan from the bank.

Mortgages shall be granted for terms not above thirty years, and shall be repayable in lump or by instalments, as may be arranged, provided that all loans of more than three years' term shall be repaid by instalments together with the interest on the sinking fund principle.

The interest on mortgage loans shall not exceed the rate of one and one-third pies per rupee per month, or $8\frac{1}{2}$ per cent. per annum, and may be less at the discretion of the directors.

20. *Pledge of movables*.—The bank may lend upon jewels, Government promissory notes or securities guaranteed by Government, and such other classes of valuables as may from time to time be decided. All property submitted as security shall be valued by appraisers, and loans may be granted

* This section is only entered in case the bank should be authorized to issue debentures, which at first will probably be seldom.

thereon not exceeding 75 per cent. of the estimated value, or 90 per cent. of the face value if Government promissory notes or of the market value of securities guaranteed by Government. The directors shall make rules for the safe custody of property deposited as security for loans.

Interest shall not exceed 8½ per cent. per annum and may be less at the discretion of the directors.

No loan shall exceed the term of one year, but may be renewed at discretion.

21. *Bills of sale.*—The bank will lend upon the pledge without delivery of property in the possession of a member, such as the cattle, stock, and produce, including standing crops of his farm, any machines or plant used in his trade or manufacture, or instruments or tools used by him in his profession; but not upon jewels, furniture or other movables of the house or family.

The applicant shall, in such case, give in writing an exact inventory with description and valuation of the proposed securities, and, should the directors accept his application, shall execute a bond granting the bank a charge upon the said property, and shall bind himself not to remove, sell, convert or otherwise apply to his own use or to any use other than that of his business and of the repayment of the loan, any of the articles so pledged without the consent of the bank. The directors may require the applicant to give one or more sureties for the due fulfilment of the contract.

Loans may be granted for the purchase of farm stock, implements of trade, &c., upon the security of the cattle, &c., so purchased, though not actually in the borrower's possession at the time of execution of the debt bond and payment of the money, provided that the borrower shall provide one or more sureties, members of the bank, and accepted by the directors. Such stock, &c., so purchased shall be subject to the provisions of paragraph 2 of this article. Should the borrower so desire, the directors may supply stock or goods required by a member for the purposes of his trade, industry, or profession, and such stock or goods shall similarly be subject to the provisions of paragraph 2 of this article up to the amount spent upon them.

Interest shall not exceed 9½ per cent. per annum or 1½ pies per rupee per month, and may be less at the discretion of the directors. If granted at 9½ per cent., the difference between 9½ per cent. and 8½ per cent. or part thereof may be refunded to the borrower without interest, on the full repayment of the loan, such difference being treated as insurance till such repayment.

No loan on such security shall exceed the term of three years, but may be renewed.

22. *Loans upon personal security.*—These may be either with or without sureties.

Loans may be granted on the mere promissory note of the borrower up to nine-tenths of the amount paid up on his shares or of his deposits, whether ordinary or savings. No such loan shall exceed one year in duration.

A loan of any amount within the rules may be granted upon a bond executed by a member with one, two, or more sureties, each of whom must be a member of the bank.

Such loans shall not exceed a period of six months, but may be prolonged by successive similar periods to two years.

Loans on the sole note of the borrower, otherwise than in paragraph 2 of this section, may be granted to an amount not exceeding Rs. 20 for each loan, should the directors approve of the application and of the status of the candidate. No member shall be admitted to more than one such loan in any one year, and each such loan must have been fully and punctually repaid before application is made for another such loan. Not more than Rs. 500 shall be out at any one time upon such loans. Payments may be made by instalments, and repayments may be received by instalments of not less than one-fourth of the loan at intervals not exceeding one month. The repayment of the loan shall be begun not later than six months from the date of the grant of the loan or of the first instalment thereof.

Interest on all the above loans shall not exceed 9½ per cent. per annum or 1½ pies per rupee per month and may be less at the discretion of the directors.

23. *Cash credits.*—Loans may be granted as cash credits instead of as dead loans; they may be secured upon mortgage, bill of sale, pledge of movables or personal security or upon a combination of such securities. Such loans shall specially be granted for carrying out a specific enterprise such as the improvement of an estate or the execution of a contract. Cash credits may be opened for any term not exceeding one year, but may be prolonged indefinitely by successive periods. The borrower shall be entitled to draw such sums as he may need to the extent of his credit, and may pay in such sums as he may choose at any time; interest at 1 pie per day per Rs. 25 or fraction of Rs. 25 shall be charged upon the balance at the borrower's debit; the borrower's account shall be made up half-yearly and communicated to him.

The bank shall have the right to close a credit at any time on one month's notice if it is dissatisfied with the borrower's operations; no amount shall be paid out after the date of issue of such notice. The borrower shall be required to pay in the amount at his debit on the expiry of the month's notice.

24. *Trust loans.*—Upon the formation of a reserve for the purpose, loans may be granted from such reserve to poor persons in sums not exceeding Rs. 10 for each loan. Such persons need not be members of the bank, but must, if non-members, be recommended by two members, who will be held responsible for any default by the borrower, who must execute a promissory note payable on demand. The loan may be repayable in any convenient way, but at latest within the period of one year. Any misuse of the loan shall entail an immediate demand for the repayment of the loan in full. Interest shall be payable at half a pie per rupee per month on the amount outstanding in each month. These loans shall only be granted to poor persons, residents of the village, of good character and hardworking, and for purposes of production, business, or economy. Not more than three successive loans shall be granted to a non-member, who, if of good character, should be induced to join as a member.

25. *Grain loans.*—The directors shall, when necessary, purchase at the harvest season such stock of grain as will probably be required for loans to members during the cultivation season, subject to a maximum to be fixed by the general meeting, and shall take the necessary precautions for its safe custody till required.

From such stock loans may be granted to members for *bond fide* maintenance and the expenses of cultivation, in quantities not less in value than 1 rupee or multiples of 1 rupee on each occasion and not exceeding Rs. 24 in the whole to any one member.

No promissory note or bond shall ordinarily be required from members for such loans, which shall be evidenced by entries in the bank's accounts, to which end a separate page in a grain credit register shall be opened for each borrower, whose signature or mark shall be taken on each occasion of borrowing.

Grain loans shall be repayable in money or in kind, as determined by the borrower at the beginning of the loan.

If repayable in money, the borrower shall, on the occasion of each advance, be debited in the ledger with the value of such advance calculated at the then current village rate, to which shall be added interest at 1½ pies per rupee per month from the date of each advance to the date of repayment.

If repayable in kind, the quantity borrowed shall be repaid together with an addition of one additional measure for every ten measures borrowed, or if the amount borrowed has been issued by struck measure, it shall be repaid by a similar number of heaped measures. The grain repaid must be of the same kind and quality as that borrowed, and thoroughly clean and well dried; failing the observance of this condition the loan shall be repayable in cash calculated as in the preceding paragraph.

All advances shall be repaid within one month after harvest.

26. *Penalties.*—All borrowers shall pay their dues, whether interest or principal, punctually. The bank will be entitled to proceed against any borrower upon failure in his contract, but it will be open to the directors to grant time for good cause shown upon application. A borrower failing in three successive months or on three occasions during the pendency of a loan to pay his dues, shall further be liable to expulsion from the society.

The directors may proceed to recover the bank's dues by all legal process, whether by distraint or suit in Court, or by sale of any pledged property.

In lieu of proceeding to the cancelment of the contract and the recovery of the principal, the bank shall be entitled to receive and to recover by process in court or by distraint, the contract interest together with any fines that may be imposed by the directors not exceeding in any case half the ordinary interest due by the contract. Fines shall not however be made an ordinary source of income; directors shall enforce punctuality by notice, by advice, and finally by resort to Court or to executive process, and shall not connive at unpunctuality as a source of income through fines.

27. All members, creditors, and debtors of the bank shall be entitled to a quarterly statement of their accounts with the bank, showing their balance at credit or debit. Such statement shall be made up for the quarters ending with the last day of March, June, September and December, and shall be issued within one month of such dates. The statement shall be made out in the form of a general list of balances extracted from the ledger, showing consecutively the balance at credit or debit of each person, all names, addresses and other means of identification being omitted, save only the number of the member in the members' register, or of the pass-book held by such member, creditor, or debtor in virtue of his dealings with the bank. Such list shall be signed by the chairman and by at least one other director, and by at least one member of the committee of supervision, and shall be open for inspection by any member, creditor or debtor at any time during office hours.

The directors shall also be bound to grant to any member, creditor or debtor all reasonable facilities during office hours for the inspection by such person of his individual account in the ledger, or of payments made by and to him as entered in any other books of the bank, provided that such inspection shall in no case extend to any account of or items relating to any other person.

Any member, creditor, or debtor, shall have the right of calling the attention of the directors, or of the committee of supervision, or of the auditor to any item relating either to himself or to a third person, or to the bank as a corporation, and to require an examination of such item by the directors, committee or auditor; failing satisfaction he shall be at liberty to bring the matter before the general meeting or before the commissioner.

Every pass-book, whether a deposit or loan pass-book, shall be submitted to the bank in the month of . . . , for verification with the ledger and for a duly attested entry in figures and in writing, of the sum at credit or debit of the holder of the pass-book. The pass-book shall be returned to the holder within 15 days of its receipt by the bank. Any error or supposed error noticed by the holder should within 15 days of such return, be brought to the notice of the directors or of the committee of supervision.

28. *Profits.*—In the calculation of profits, only dues actually received shall be entered as receipts; credit shall not be taken for accrued interest not yet paid. Past due loans or instalments shall be entered at their probable value only, and not at their nominal value; all dues on which neither principal nor interest has been received for one year, and for which no decree has been obtained shall be altogether omitted. But in calculating liabilities the bank shall debit itself with the full value of all debts owed, and of interest and other dues accrued but unpaid up to the date of closing the accounts, notwithstanding that such interest shall not be actually payable till some date subsequent to that of closing the accounts.

From the gross profits thus arrived at shall be deducted (1) the cost of administration, including all taxes and Government dues other than dues upon subventions or subscriptions to shares or debentures, (2) the fixed interest due to members on their ordinary shares; the remainder shall be net profits.

From the net profits shall be set aside (1) at least 25 per cent. for the general reserve, until such reserve shall equal one-half of the share capital or one-tenth of the deposits, debenture issues and other borrowed funds whichever may be the greater; (2) such proportions or amounts as may be allotted from time to time by the general meeting (a) for any special reserves or insurance funds, (b) for trust loans, (c) for the encouragement of small savings, (d) for any operation or matter tending to the development of the bank, (e) any fund intended as a provident fund for the paid staff of the bank, (f) for any work of public utility. Any surplus shall be paid to the reserve.

29. *Reserve.*—The bank shall provide from the beginning a sufficient reserve to meet probable losses; such reserve shall accumulate till it reaches one-half of the nominal capital or one-tenth of the total liabilities whichever shall be greater. The funds of the reserve shall be invested solely in Government promissory notes, or in a Government Savings bank, or in shares or debentures of State Railways or Railways guaranteed by the State; the interest on such investments shall be credited to the reserve.

All entrance fees, fines, commissions and all accidental profits shall be credited to the reserve.

This fund shall not be divisible among the members, nor shall any retiring member have any claim upon it, but it shall belong to the bank solely in its corporate capacity: in case of voluntary liquidation any surplus shall be invested in the name of the commissioner as a nucleus for a future bank in the same village, or shall be utilized in some work of public utility, such as an endowment to a hospital, the erection of a school-house in the village, the digging of a public well, and the like.

Business losses shall be met from the reserve unless they are debitable to a special reserve; such losses must, as quickly as possible, be made good, the reserve being kept constantly full.

A due share of the profits shall be expended in forming a special reserve from which the founders' shares or guarantors' bonds may be paid off. A further share shall be devoted to the formation of an insurance fund to which shall be debited all losses to the bank on account of the failure of operations, death of stock and other similar losses in matters for which loans have been granted; for the more rapid accumulation of this fund a commission of 1 per cent. upon the capital amount of each loan shall be deducted at the time of granting the loan; such commission to be credited to the borrower without interest, in the last instalment or on repayment of the loan, unless such failure or loss shall have occurred, in which case the loan shall be written off and the commission retained by the bank.

30. *Surplus funds and cash.*—All surplus funds and cash in hand beyond such amount as is needed for daily expenses, shall be paid into the nearest Government Savings bank or treasury, if so permitted by Government.

31. *Stamps and forms.*—The bank shall provide itself with a stock of forms for the use of members, borrowers and others having dealings with it. It shall also obtain from the Collector of the district the right of vending stamps to members only and for the purposes of the bank, and shall maintain a sufficient stock of the necessary stamps.

32. *Other operations.*—The general meeting shall, from time to time, decide what operations may be undertaken for the benefit of its members other than the receipt and lending of funds, and within the scope of the association, and shall frame the necessary articles for the effectual carrying out of such operations.

33. *Union.*—The general meeting shall have power to determine whether the bank shall become a member of any union that may be formed for grouping co-operative banks in order to the better carrying out of the objects of the bank.

TABLES.

RESULTS OF THE EXAMINATION OF 83,427 REGISTERED DOCUMENTS OF THE YEARS 1889, 1890 AND 1891 IN 146 OFFICES OF TEN DISTRICTS OF THE PRESIDENCY.

Class of document.	Year.	Profession of lender.		Profession of borrower.		Purposes of loan.								
		Hyola.	Others.	Hyola.	Others.	Settlement of prior debts.	Land improvement.	Purchase of land.	Purchase of cattle, seed, &c.	Payment of lists.	Renewal of debts.	Marriage, festivities and other unproductive purposes.	Not stated and indefinite.	Miscellaneous.
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Mortgages of Rs. 100 and upwards	1889 to 1891.													
	No.	24,023	12,479	31,111	5,891	15,008	487	1,919	333	255	921	4,313	12,867	399
	Percentage ...	65.81	34.19	65.23	14.77	41.16	1.33	5.28	.91	.69	2.49	11.62	35.25	1.09
Mortgages below Rs. 100	1889 to 1891.													
	No.	22,558	10,558	27,270	5,846	9,686	437	1,038	302	298	736	4,430	15,369	226
	Percentage ...	8.81	31.88	82.36	17.65	29.25	1.32	3.13	2.72	.89	2.98	13.38	46.41	.68
Simple bonds	1889 to 1891.													
	No.	9,241	4,128	10,027	3,342	3,701	252	285	434	175	216	1,701	6,130	473
	Percentage ...	69.18	30.82	75.01	24.99	27.69	1.89	2.13	3.25	1.91	1.62	12.72	45.85	2.54

Class of document.	Year.	Term of payment.							Amount of loan.						
		On demand.	No term.	Below 6 months and 6 months.	Above 6 months and not exceeding 1 year.	Above 1 year and not exceeding 2 years.	Above 2 years and not exceeding 3 years.	Above 3 years and not exceeding 5 years.	Above 5 years.	Rs. 25 and below.	Above Rs. 25 and not exceeding Rs. 50.	Above Rs. 50 and not exceeding Rs. 100.	Above Rs. 100 and not exceeding Rs. 200.	Above Rs. 200 and not exceeding Rs. 500.	Above Rs. 500.
		16	17	18	19	20	21	22	23	24	25	26	27	28	29
Mortgages of Rs. 100 and upwards.	1889 to 1891.														
	No.	10,026	3,225	953	7,327	4,467	4,235	2,955	1,764			9,489	13,866	9,430	3,712
	Percentage ...	28.88	9.23	2.72	20.97	12.78	12.12	8.45	5.05			25.93	37.99	25.84	10.17
Mortgages below Rs. 100	1889 to 1891.														
	No.	9,241	2,565	1,542	8,521	4,321	3,334	1,458	536	5,074	16,575	11,456			
	Percentage ...	29.32	8.14	4.89	27.04	13.71	10.59	4.62	1.70	15.32	50.05	34.59			
Simple bonds	1889 to 1891.														
	No.	2,004	890	1,734	4,138	1,778	1,237	756	433	1,683	4,235	4,089	2,086	1,327	549
	Percentage ...	15.45	6.86	13.27	31.90	13.71	9.54	5.83	3.24	12.05	30.32	29.27	14.94	9.49	3.98

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RESULTS OF THE EXAMINATION OF 83,427 REGISTERED DOCUMENTS OF THE YEARS 1889, 1890 AND 1891 IN 146 OFFICES OF TEN DISTRICTS OF THE PRESIDENCY—cont.

Class of document.	Year.	Rate of interest.							Rate of penalty.								
		6 per cent. and below 6 per cent.	Above 6 per cent. and not exceeding 9 per cent.	Above 9 per cent. and not exceeding 12 per cent.	Above 12 per cent. and not exceeding 18 per cent.	Above 18 per cent. and not exceeding 24 per cent.	Above 24 per cent.	Not stated (including grain).	Miscellaneous.	6 per cent. and below 6 per cent.	Above 6 per cent. and not exceeding 9 per cent.	Above 9 per cent. and not exceeding 12 per cent.	Above 12 per cent. and not exceeding 18 per cent.	Above 18 per cent. and not exceeding 24 per cent.	Above 24 per cent.	Not stated (including grain).	Miscellaneous.
		30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45
	1889 to 1891.																
Mortgages of Rs. 100 and upwards.	No. ...	1,085	4,396	18,404	6,930	1,303	280	4,098	11	75	404	1,937	5,908	2,785	616	24,409	879
	Percentage ...	2-97	13-04	50-42	18-99	3-57	.77	11-21	.08	.21	1-11	5-31	16-17	7-68	1-69	66-84	1-04
Mortgages below Rs. 100	No. ...	460	1,127	12,693	9,006	4,034	1,380	4,398	18	38	90	561	4,098	3,790	1,870	22,208	462
	Percentage ...	1-39	3-40	36-33	27-19	12-18	4-17	13-29	.05	.11	.27	1-69	12-28	11-44	5-65	67-07	1-39
Simple bonds ...	No. ...	809	798	5,713	2,674	851	233	2,409	84	83	136	1,085	2,509	1,964	760	6,630	302
	Percentage ...	4-55	5-97	18-73	8-01	2-38	1-74	18-01	.63	.63	1-02	3-11	10-77	14-69	5-68	49-60	1-51

TABLE OF 623,944 REGISTERED MORTGAGES OF 1890 AND 1891 DISTRIBUTED ACCORDING TO DURATION.

Nature of the deed.		1 year and less.	Between 1 and 2 years.	Between 2 and 3 years.	Between 3 and 4 years.	Between 4 and 5 years.	Between 5 and 6 years.	Between 6 and 7 years.	Between 7 and 8 years.	Between 8 and 9 years.	Between 9 and 10 years.	Between 10 and 11 years.	Between 11 and 12 years.	Between 12 and 24 years.	No term.	Total.	Average mean period in years.		Remarks.
																	Exclusive of column 16.		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	
Simple mortgages of Rs. 100 and upwards.	Average of 1890 and 1891 ...	40,680	18,207	14,560	7,010	5,302	2,173	1,158	906	583	891	347	456	3,079	16,777	1,12,129	2.58		
	Percentage ...	36.28	16.24	12.98	6.25	4.73	1.94	1.03	.81	.53	.79	.31	.41	2.75	14.96	...			
	Minimum number of mortgages ...	20,340	18,207	29,120	21,030	21,208	10,865	6,948	6,342	4,664	8,019	3,470	5,016	36,948	33,554	225,731			
	Maximum number of mortgages ...	40,680	36,414	48,680	28,040	26,510	13,038	8,106	7,248	5,247	8,910	3,817	5,472	73,896	50,391	3,51,389			
Simple mortgages of Rs. 100 and below.	Average of 1890 and 1891 ...	43,466	15,158	9,821	3,577	2,388	880	397	292	190	263	129	312	2,546	17,306	96,736	2.05		
	Percentage ...	44.93	16.67	10.16	3.69	24.7	.91	.42	.30	.21	.27	.14	.32	2.63	17.89	...			
	Minimum number of mortgages ...	21,733	15,158	19,642	10,781	9,552	4,400	2,382	2,044	1,592	2,387	1,290	3,432	80,552	84,612	1,59,487			
	Maximum number of mortgages ...	43,466	33,316	28,463	14,308	11,940	5,280	2,779	2,336	1,791	2,630	1,419	3,744	50,920	51,918	2,52,310			
Mortgage with possession of Rs. 100 and upwards.	Average of 1890 and 1891 ...	4,066	3,345	8,116	3,797	5,376	2,461	1,980	765	1,020	1,418	679	4,536	5,184	4,566	47,309	6.14		
	Percentage ...	8.59	7.07	17.16	8.03	11.96	5.20	4.19	1.62	2.16	2.99	1.43	9.59	10.96	9.85	...			
	Minimum number of mortgages ...	2,033	3,345	16,232	11,391	21,504	12,305	11,880	5,355	8,160	12,762	6,790	49,896	62,208	9,132	2,32,993			
	Maximum number of mortgages ...	4,066	6,690	24,348	15,168	26,880	14,766	13,860	6,120	9,180	14,180	7,469	54,432	1,03,680	18,698	8,14,537			
Mortgage with possession of Rs. 100 and below.	Average of 1890 and 1891 ...	4,507	4,036	10,275	3,981	5,279	2,440	1,968	717	817	1,487	640	8,822	5,573	5,276	55,798	6.38		
	Percentage ...	9.09	7.21	18.41	7.05	9.46	4.87	3.93	1.29	1.46	2.98	1.15	15.81	9.99	9.46	...			
	Minimum number of mortgages ...	2,253	4,066	20,550	11,793	21,116	12,200	11,808	5,019	6,536	13,383	6,400	97,044	66,876	10,552	2,89,594			
	Maximum number of mortgages ...	4,507	8,132	30,825	15,724	26,896	14,640	13,776	5,736	7,863	14,870	7,040	1,05,862	1,11,460	15,828	3,82,150			

ABSTRACT OF THE FOREGOING TABLE.

	Mortgages.						Indebtedness involved.				Total.	
	Rs. 100 and upwards.			Rs. 100 and below.			Rs. 100 and upwards.		Rs. 100 and below.			
	Simple.	With possession.	Total.	Simple.	With possession.	Total.	Rate per deed.	Amount.	Rate per deed.	Amount.		
							Rs.	Rs.	Rs.	Rs.		
Minimum	No.	226,731	232,998	458,724	159,487	289,594	449,081	326	14,95,44,024	44	1,97,59,564	16,93,03,588
Maximum	No.	861,389	314,597	665,926	252,310	382,150	634,460	326	21,70,91,876	44	2,79,16,240	24,50,08,116
Mean	No.	288,560	273,765	562,325	205,898	335,872	541,770		18,38,17,950		2,38,37,912	20,71,55,802

Explanation.—This table gives the mortgages of 1890 and 1891 distributed according to duration. It shows (1) that between 50 and 60 per cent. of simple mortgages are for expressed periods below 2 years; (2) that the average duration of simple mortgages is below 2½ years; (3) that the average duration of mortgages with possession is about 6 years; (4) that about 10½ per cent. of simple mortgages and 9½ per cent. of usufructuary mortgages are without expressed term, and are, therefore, probably repayable on demand.

The table is further intended to display the aggregate number of mortgages, and their aggregate value, existing at any moment. The number of mortgages for the year (mean of 1890 and 1891) being distributed according to duration by yearly rests, the possible minimum and maximum number of mortgages of each period is arrived at by multiplying the number in the first line of the column by the smaller and larger figure, respectively, for the period, e.g., simple mortgages above Rs. 100 of between 4 and 5 years' period are 5,302; multiplying this number by 4 and by 5, gives the numbers of 21,208 and 26,510 respectively, the former being the minimum and the latter the maximum number of mortgages of this class and period which could possibly be in existence in the year, say 1891, in question. The net result is tabulated in the "Abstract" table. The method, of course, is rough, but must yield a fair approximation to the truth. It follows that in the year 1891 there were not less than 9,07,805, not more than 13,00,386, and probably about 1,104,095, mortgages in existence, less those paid off before expiry of the term, valued at not less than about 17 crores, not more than 24½, and probably about 20½ crores.

The numbers have increased of late years to some extent.

LIST OF GENTLEMEN AND ASSOCIATIONS TO WHOM QUESTIONS WERE
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 " Madras Land-holders' Association, Madras.
 " Triplicane Literary Society, Madras.
 " Madras Graduates' Association, Madras.

Kistna District.

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Bellary District.

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Anantapur District.

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 Rev. A. Gostick, Mannárgudi.

Trichinopoly District.

- M.B.Ry. Thandavaraya Pillai Avergal, Ayampoliem.
 „ S. Subbramaniam Shastriar Avergal, B.A., Banker, Thiruvanskoil, Trichinopoly.

Madura District.

- M.B.Ry. R. Ramasubba Aiyar Avergal, B.A., B.L., Madura.

Tinnevelly District.

- M.B.Ry. M. R. Ramakrishna Aiyar Avergal, B.A., B.L., Tinnevelly.
 „ O. Murugesam Pillai Avergal, B.A., Tinnevelly.
 „ R. Anantarama Aiyar Avergal, B.A., Srivilliputtur.
 „ V. Venkata Rac Avergal, Ettiyapuram.
 „ W. Ganapathia Pillai Avergal, Ettiyapuram.
 Rev. A. Margoschis, Nazareth.

Coimbatore District.

- M.B.Ry. S. P. Narasimulu Nayudu Avergal, Coimbatore.
 „ I. Bhashiakarloo Nayudu Avergal, do.
 „ Thiruvengadaswami Mudaliar Avergal, do.
 Rev. Henry Little, Karur.
 „ C. Rieger, Erode.

Salem District.

- M.B.Ry. C. Venkatachariar Avergal of Kadathur.
 The Salem Zemindars' Association, Tirupatūr, Salem.

South Canara District.

- Rev. Frohnmeyer, Tellicherry.

Bellary District.

- The Jayalakshmi Bhándára (Limited), Hospet.
 „ Main Bazaar Fund (Limited), Bellary.
 „ Bellary Cowl Bazaar Public Mutual Benefit Permanent Fund (Limited), Bellary.
 „ Cowl Bazaar Hindu Permanent Fund (Limited), Bellary.
 „ Bellary Brucepettah General Fund (Limited), Bellary.

Anantapur District.

- The Penukonda Mutual Benefit Permanent Fund (Limited), Penukonda.
 „ Tadpatri Hindu Benefit Permanent Fund (Limited), Tadpatri.
 „ Uravakonda Kalikadevi Bazaar Sakala Janopakara Dhana Sahaya Nidhi (Limited), Uravakonda.
 „ Anantapur Mutual Benefit Fund (Limited), Anantapur.

Kurnool District.

- The Kurnool Public Fund (Limited), Kurnool.

Nellore District.

- The Nellore Permanent Hindu Mutual Benefit Company (Limited), Nellore.

Chingleput District.

- The Mambalam Kasi Viewanadha Sahaya Nidhi (Limited), Mambalam.
 „ Chingleput Dhana Sekhara Nidhi (Limited), Chingleput.
 „ Conjeeveram Parasparopakara Saswatha Nidhi (Limited), Conjeeveram.
 „ Mount Hindu Mutual Benefit Permanent Fund (Limited), St. Thomas' Mount.
 „ Alandur Sri Anjeayaswami Jananukula Nidhi (Limited), Parethwaukam.
 „ Thiruvothiyur Sri Sivasubbaramaniaswami Dravya Sahaya Nidhi (Limited), Thiruvothiyur.
 „ Tinnanore Kothandaramaswami Dhana Sahaya Nidhi (Limited), Veppambedu.

North Arcot District.

- The Wandiwash Koottu Chattu Dhanasahaya Nidhi (Limited), Wandiwash.
 „ Srinath Gudiyátam Chaturvarnia Samayanookula Porul Sahaya Nidhi (Limited), Gudiyátam.
 „ Sri Vannimanagaram Sakalajana Manovanjetha Dravya Sahaya Paksha E'la Nidhi (Limited), Vannimanagaram.
 „ Sathvacharry Jana Sahaya Nidhi (Limited), Sathvacharry.
 „ Kangayanellore Sahala Janopakara Maha Nidhi (Limited), Kangayanellore.
 „ Panapakam Sakala Janopakara Nidhi (Limited), Panapakam.
 „ Vellore Sri Sarvajjanopakara Nidhi (Limited), Vellore.

South Arcot District.

- The Cuddalore Hindu Permanent Fund (Limited), Cuddalore.

Trichinopoly District.

- The Trichinopoly Hindu Savings Bank (Limited), Trichinopoly.
 „ Trichinopoly Jennore Hindu Permanent Fund (Limited), Trichinopoly.

Madura District.

The Madura Paksha Dravya Sahaya Nidhi (Limited), Madura.

Coimbatore District.

The Bhaváni Vara Dravya Sekhara Sahaya Nidhi (Limited), Bhaváni.
 „ Coimbatore Janopakara Nidhi (Limited), Coimbatore.
 „ Coimbatore Swadesa Dravya Sekhara Nidhi (Limited), Coimbatore.

Salem District.

The Salem Town Bank (Limited), Salem.
 „ Edapady Janopakara Vara Porul Sahaya Nidhi (Limited), Edapady.
 „ Sankaridrugam Chanda Sahaya Vara Dhana Sekhara Sahaya Nidhi (Limited), Sankaridrug.
 „ Salem Dhanopakara Nidhi (Limited), Salem.

Madras.

The Pursewaulkam Hindu Santhaha Sanga Nidhi (Limited), Pursewaulkam.
 „ Egmore Benefit Society, Egmore.
 „ Permanent Investment, Saving and Lending Society (Limited), Madras.
 „ Chintadripet Deposit and Loan Fund (Limited), Chintadripet.
 „ Madras Deposit and Benefit Society, Madras.
 „ Mylapore Hindu Permanent Fund (Limited), Mylapore.
 „ Pursewaulkam Hindu Jananukula Permanent Society (Limited), Pursewaulkam.
 „ Madheva Sidhanta Ounaktini Nidhi (Limited), Triplicane.

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