

BOMBAY

THE CO-OPERATIVE MOVEMENT
IN CHINA

*(Report on Observations made during a trip to
China, 1934-1935)*

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APPENDIX I

SAMPLE OF THE ENUMERATION SLIP.

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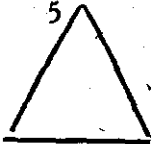
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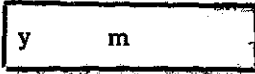
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(2)

to the financing agency, there can be little fear of concealment. The Inspector himself visits a certain number of the societies in each year, and will soon discover which of his organizers is neglecting his work or mis-stating the facts. And if it be argued that the Inspector also, a university graduate who has passed through a post-graduate special course in Co-operation in economics and is hoping for promotion to the post of Registrar or Assistant Registrar, may connive at the dishonesty of an organizer, I do not myself believe that this will often happen, or that if it does, the evil can long escape detection. Societies which are in bad order will soon cease to repay their loans, and a special inquiry will obviously follow.

In my opinion, therefore, every society in China, primary or secondary, should be annually audited by an organizer or by a special auditor. The auditor should submit a report on a printed form,²² and the society should pay an audit fee. Such fees should be paid to the institution which employs the organizers or auditors, not to the auditor himself.

There will be no difficulty in teaching the organizers, during their ordinary period of training before appointment, to carry out their simple duties and prepare or check the simple balance sheet, which will suffice in a village society. Their accounts are usually very elementary, and no more is necessary.

BANK FINANCE AND STATE FINANCE

Audit arrangements of this kind, together with a more intensive training of the higher co-operative staff, would reassure

22. Such a form of audit report for a credit or supply society, with a form of balance-sheet, was included in my lectures delivered at the University of Nanking.

the banks. The system of advancing State money to the societies should then, wherever possible, be replaced by loans from commercial banks; preferably to unions rather than to village societies. Such money as the State has already provided or may for any reason hereafter provide, should be devoted to two objects:

- (1) The training and maintenance of organizers, Inspectors, and auditors, or the grant of subsidies to private bodies, such as the Famine Relief Commission, which are fit to undertake these duties. Small organisations in narrow areas should receive no subsidy. They are usually less efficient, and should support themselves or be merged in larger organisations;

Co-operative Banks and Treasuries

- (2) The development of co-operative Banks.²³ The creation of a Co-operative Treasury has been considered by several provinces, and might lead towards an independent Co-operative Bank. Such a Treasury would receive all the money which a government may have supplied to the movement in any province, and also any surplus money which might from time to time be idle in the *hsien* co-operative unions (or, in the absence of a union, the primary societies); and would lend this money out to the unions or the societies of the province, just as a bank would do. Each society and union, whether borrowing or not, would take a share in it (by annual instalments if

23. i.e. banks, of which the members are co-operative societies. I do not mean Farmers' Banks or Agricultural Banks.

necessary), and at least half of the Directors should be drawn from the Directors of unions. The other Directors might be appointed by the government or by the banks which had placed money in the Co-operative Treasury, and the representation of the unions on the Directorate would be gradually increased, as the shares held by the societies increased and the representatives of the unions became more experienced in management. The primary societies would be represented in the general meeting by their unions, which would cast votes according to the number of societies affiliated to each, or the number of members in those societies. Such a semi-co-operative Treasury, becoming more and more co-operative from year to year, might eventually be transformed into an independent Co-operative Bank. Where the State money lent to the co-operative movement in any province is not enough to justify the creation of a Co-operative Treasury, the unions may be financed by the commercial banks. There is no need to force the growth of a co-operative bank, wherever the necessary advances can be obtained from a commercial bank on equitable terms.

State money should be applied in the first place to the training and maintenance of staff, and only the surplus, if any, should be advanced as loans to unions or societies. The same applies to the Famine Relief Commission. State or other funds intended for the training and maintenance of staff can be deposited at interest in a commercial bank, and only the interest be expended from year to year. The commercial bank will then be the more willing to finance the co-operative movement.

UNOFFICIAL INSTITUTIONS

4. Official and unofficial agencies for co-operative work and development.

European observers tend to criticize adversely the large part played by the State in the co-operative movement of non-European countries. The remark is made that "there is no co-operative movement, but only a co-operative *policy*," i.e. the initiative is that of government, not of the people. Such a comment, if intended, as it often is, to be depreciatory, is unjustified, and need cause no concern to the Chinese government or to Chinese co-operators. It is, in the first place, less true of China than of Japan, India, or even certain parts of Europe, since the experiment of Co-operation in China was first made by non-officials, of whom the Famine Relief Commission in Hopei and Professor Hsieh in the Yangtse valley deserve special mention. It would be absurd if, in a period of urgent reconstruction, the government were to ignore so potent an instrument of national welfare as Co-operation, when unofficial experiments have proved it to be effective. In the second place, there would be no impropriety if the government of China were, without a lead from unofficial bodies, to decide on introducing an idea which was novel to its own people but had been found relevant and fruitful in other lands. Critics do not condemn the building of State railways in China, or of a State system of modern education, on the ground that such action proceeds from an official policy, not from a popular movement. An official policy of Co-operation merits no more condemnation than a policy of railway-building or of education.

LIMITED FUNCTIONS OF THE STATE

For reasons of practical expediency, on the other hand, a government which grants contracts to private persons for the construction of roads and railways, and recognizes and subsidizes schools under the management of private persons or institutions, without insisting on direct State management in every case, should not feel itself bound to establish official agencies for the promotion of Co-operation, when a private body is willing *and qualified* to do the work. The functions of the State in respect of Co-operation should be (1) to legislate; (2) to arrange for the training of staff: through co-operative or educational institutions which are willing and qualified, or by direct action if such institutions are lacking; (3) to make obligatory, by means of regulations, the employment of *trained* staff by bodies which organise co-operative societies; (4) to arrange or control the terms on which co-operative societies are to be financed by commercial banks or other agencies; (5) to ensure that an annual audit of every society is conducted by a competent auditor. It should be noted that the national government of China has performed the first of these functions, has occasionally taken steps in the direction of the second and fourth, and has overlooked the third and fifth. Instead of adopting this policy of education and control, the national and the provincial governments in China have engaged themselves, with the most patriotic intentions, in the business of organizing societies through official organizers and financing them with official funds. Such a policy is inevitable and right only when and so far as there is no unofficial organisation, willing and qualified to organize, and no unofficial financial agency willing and qualified to finance. Such unofficial bodies were indeed lacking in a number of provinces at the time when

the government decided that co-operative societies ought to be formed. The use of official organizers and official money was thus unavoidable in the first stage. But there has been little attempt or inclination to foster or utilize an unofficial organisation at a later stage. On the contrary, there has grown up a kind of official vested interest in the co-operative movement, which is regarded as an important asset to the credit of the government, in evidence of its progressiveness and of good will, and is therefore retained in official hands. And where, as in Shensi province, this attitude has been altered and an unofficial organising agency has been utilized, sufficient measures have not been taken to train the staff, control the terms of finance by the banks, or audit the societies. Such measures were, for instance, urgently necessary and were regrettably omitted when the Famine Relief Commission was invited to undertake the distribution of relief funds in the Yangtse provinces after the flood.

Unofficial bodies of the necessary status and calibre do not exist everywhere; and in my opinion those which exist are defective, whether in respect of training of staff, adequacy of funds, or certain features of their co-operative policy. But these defects could be made good by a government which should provide for the training of staff and the employment of competent men when trained, and should insist on audit, and control the arrangements for financing by banks. A subsidy would naturally be granted to the unofficial organizing and auditing agency, and the Registrar or the Co-operative Commission or Bureau would retain no unofficial *organizers*, and only a minimum number of Inspectors and auditors, who by sporadic visits to a few societies from time to time would collect evidence to show whether the unofficial agency was justifying its grant by doing

good co-operative work. Such an indirect control would be much cheaper for the government than direct organisation through a large cadre of co-operative officials.

UNOFFICIAL WORK UNDER OFFICIAL CONTROL

It would, moreover, produce better results.²⁴ Co-operation is not merely an economic machine, but also a moral education. The co-operator is at his best when he is doing as much as possible for himself and is being continually encouraged to do more; but the encouragement must come from trained men, who will show him the right method and dissuade him from the wrong. A large number of co-operative societies in China are either over-ridden and apathetic, or unbusinesslike and rash. The fault does not lie with them. Where no unofficial agency exists, the provincial governments, and the Co-operative Commission in the central government, would be wise to assist in its formation.

CO-OPERATIVE INSTITUTES

Since primary co-operative societies are now to be found in many provinces, and the idea of local unions is gaining acceptance, there will be no longer a necessity for forming new organising agencies of individuals, such as the Famine Relief Commission and the various Mass Education groups. These institutions were needed before the beginning of a co-operative movement, in order to give it a start; but they naturally work (as does every official agency also), from above downwards, whereas a truly co-operative institution rests on the primary

24. I do not mean that the societies under unofficial bodies are at present better than those of the official departments. Some are better, others worse. But they *would* be better, if governments aimed at de-officializing, and at the same time insisted on sound work by the non-officials.

societies and their unions and comes into being from below upwards. The primary societies of every *hsien* or other local area should form a union, and the unions of every province should create a provincial co-operative body over their own heads. In my memoranda and lectures I have called this body the Provincial Co-operative *Institute* in preference to using the name of Provincial Union or Federation, because the representatives of the local unions may be unable to handle the more technical questions, which are sure to arise from the wide expanse of a Chinese province, without the aid of a few individuals of higher qualifications and experience. In my opinion, therefore, the Directors of the Provincial Institute should contain a majority of union representatives, while the minority should consist of individuals, elected jointly by the delegates of all the unions and by the individual members (if any) of the Institute in general meeting. The minority should also include one nominee of the provincial Registrar of Co-operative Societies. The functions of this Institute would be to employ all the organizers, Inspectors and auditors of the province (except the few officials whom, I have suggested, the Registrar would retain for his own purposes), and to submit to the Registrar all applications for registration, and all proposals for deregistration and liquidation, which were forwarded to the Institute by its employees, together with all inspection reports, audit reports, or special papers which the Registrar might desire to see. It would be financed by (1) annual contributions of the individual members, if any. *Shares* would not be required; (2) a fee levied annually on every society for supervision and audit, and assessed on the capital or turnover²⁵

25. Not on the surplus. There may be no surplus in a bad year, but there must nonetheless be an audit, and all the more supervision.

of the society; and (3) an annual subsidy from the provincial government. Possibly also the commercial banks might be so long-sighted as to make an annual grant. The Institute, if it employed good Inspectors and organizers and carried out a proper audit, would render the money of the banks much safer in the hands of the societies and unions than it now is. The quality of the staff should be secured by official regulations; if unsuitable men were recruited or retained, the provincial government would withhold or reduce the subsidy.

The Institute will not finance the unions or the societies. I have proposed the creation of Co-operative Treasuries, which will in reality be only semi-co-operative but will gradually be converted into true co-operative banks. Such treasuries or co-operative banks, or in their absence a commercial bank, will finance the unions or (where there is not a union) the primary societies in accordance with the information supplied by the Co-operative Institute (inspection and audit reports etc.). If a commercial bank claims to send its own Inspector to examine any union or society which is indebted to it or wishes to borrow, it should enjoy the right to do so. But if the staff of the Institute is efficient and well trained, such a duplication of function will soon be found unnecessary; and a *co-operative* bank or Treasury will avoid it from the first. The Treasuries and the co-operative banks will seldom, if ever, be in a position to dispense with aid from commercial banks. The latter will in fact find the outlet for their money increasing as the co-operative movement becomes more highly developed, and will lend with more assurance, and therefore at lower rates of interest, to a large and well-managed institution. It is safer to lend \$10,000,000 to a co-operative treasury or bank than \$1,000 to each of 10,000 tiny societies.

A NATIONAL CO-OPERATIVE INSTITUTE

Throughout these proposals the province has been regarded as the unit of co-operative organisation. A National Co-operative Institute may perhaps be born in the future, but it would be a grave mistake to set it up before the Provincial Institutes are on their feet and active. There is great scope for the China Co-operators' Union as a body of educated individuals who study Co-operation at home and abroad, take part in teaching it by publications or lectures, and discuss in their own meetings the principles on which the problems of Chinese Co-operation may be solved. But the eventual National Co-operative Institute should be based on the Provincial Co-operative Institutes, and through them on the unions and societies. The premature creation of a National Institute, not based on the societies themselves, will hamper the healthy growth of a democratic movement of Co-operation.

MORAL AND SOCIAL CO-OPERATION

In the preceding pages I have given a brief account of the growth of Co-operation in China, of the three forces which contribute towards the strength of the growing movement, and of the four main points at which the present system is unsatisfactory, with proposals for its improvement. I turn, in conclusion, to an aspect of Co-operation which has less relevance—though by no means entirely irrelevant—to European or American conditions, but should receive careful attention from Asiatic and African nations. The violent shock delivered by Western ideas, even more than by the material side of western civilisation, to the whole structure of Eastern and African civilisations has shaken the old traditions, and it is now a platitude to say that China, and countries in a similar position,

have to evolve a new life, based so far as possible on what is good in the old customs, but absorbing also the better elements of the new. As every student of social changes knows, an amalgamation of old and new is by no means easy; often also it seems to have no permanence, and either the older or the newer parts of the amalgam drop away until the entire work has to be done over again. The weaknesses of such a combination are due to (1) the fact that much of the reconstruction is carried out by official order only, and (2) the fortuitous and unguided way in which old elements are rejected and new elements accepted by the public when acting unofficially on its own account. Thus a progressive government may pass laws in favour of social reform, which it is unable to enforce because popular opinion does not yet demand the reform or the laws. Instances of such legislation, and of such a lag in public opinion will readily occur to the mind; labour and agrarian reform present peculiar difficulties. At the same time the public itself, which consists of a host of individuals each acting independently or following his neighbour, may flock to see films full of sob-stuff or crime, simply because there is no *organisation* for providing better amusement or education.

THE NEW LIFE MOVEMENT

Governments may attempt to guide or to check the currents of public taste, as the New Life Movement does in China; and an enlightened government should certainly not disclaim responsibility in the matter. But the disadvantages of all official action in the moral field are (1) that it is possible at times to check a popular movement in the wrong direction, but very difficult to guide it in the right direction, and (2) guidance in a preferred direction, if it is to be effective, must be sup-

ported by force and sustained for a long time: a treatment to which the public will only submit if freedom be completely suppressed. It is for these reasons that the New Life propaganda, excellent as its precepts are, fails in certain cases to have a lasting effect. Negative orders of authority, whether prohibiting walking in the roadway or permanent hair-waving, are enforced for a while or sporadically, but may at any moment be forgotten when the attention of authority is occupied elsewhere.

COMPULSION AND VOLUNTARY ACTION

A lasting social reform and a national reconstruction are, I suggest, only to be attained by positive and voluntary action of the public, and there is always a danger that authority, using the negative and compulsory method which alone is in its hands, may defeat its own object. China is too large for the lives of the population to be altered by official action, before the people themselves are consciously in favour of the change; and the right road forward is to form, by propaganda and without compulsion, groups of men and women who wish to make a specific improvement in their own conduct or conditions, to recognize such groups and provide trained advisers for them at the public cost, and to legislate in such a way as to facilitate their proceedings. This is Co-operation. It is the policy adopted by the Chinese government and other governments²⁶ in the economic field; and in view of the rapid reconstruction taking place in Chinese moral and social life, the Chinese

26. Communist and Fascist governments are an exception; but I do not think China will become Communist, and the Kromintang, though resembling a Fascist Party in some respects, does not claim to govern the whole life of the individual or the State.

government would do well to follow the same path by promoting voluntary Co-operation in the moral and social field. Japan and India, British Malaya, Java and (in Europe) Yugoslavia have achieved notable successes, and though China need not exactly imitate any other country, it is a mistake to ignore the moral and social uses to which Co-operation has been put by other races. It is a question of remaking the character and habits of the people, or rather of assisting them so to re-make themselves that they can face and solve the problems of their national and personal lives. Government cannot succeed alone. Compulsion cannot succeed alone. Even patriotic or group propaganda will not suffice, for the propagandists may be imperfectly trained, and in any case their teaching will be of little value unless the pupils have learned to act for themselves and are really willing to do so. There must therefore be a *recognized* group of citizens who wish to live the new life, their association must be *protected* by law, it must be *voluntary* and it must be assured of the help of a *trained* adviser. And this is precisely a co-operative society. Certain forms of social and moral Co-operation may be mentioned.

THRIFT SOCIETIES

Reference has been made above to the urgency of teaching thrift in China. It may be objected that the Chinese is already thrifty, almost to excess. I do not agree. The Chinese farmer, and sometimes the urban labourer and clerk, practise parsimony more often than thrift. Parsimony is a refusal to spend, and may be combined with a neglect to save when the opportunity occurs. Thrift is a regular allotment of (preferably) a stated sum to a saving fund, which is to be spent on a

prudent and often foreseen object.²⁷ Apart, then, from the tiny savings which every member of a co-operative credit society should make in each month, as I have described on a previous page, there should be, especially in the Chinese towns, co-operative savings societies of clerks or others who receive a regular income. The manner of operating such "thrift and loan" societies cannot here be explained in detail.²⁸ Their general object is not to grant credits out of money borrowed from a government or a bank, but to induce savings, which each member may temporarily withdraw for an approved purpose but which he must refund by instalments to his own credit account in the society. Thrift societies of this kind are active in British Malaya and India, and are eminently suitable to China. Men and women of today must learn to use foresight and to abstain from idle but tempting expenditure. Urban surroundings and petty luxuries are seductive, and the great majority of men and women lack the resolution, in the absence of a pledge to a thrift society, to put aside the money for a wiser object. The pledge strengthens them, and builds up a character which China needs.

MEDICAL SOCIETIES

The essence of a co-operative society is a voluntary pledge to obey certain rules. When a member has entered the society by his own wish, he is thereafter bound by those rules so long as he remains a member. He is free to resign, but if the society, in order to attain its stated object, must engage a

27. The Hui is thrift, but in a perverted form because the expenditure is very frequently wasteful.

28. See my published lectures, delivered in the University of Nanking.

specialist employee of any description, or must invest capital in buildings, the members may be bound by the constitution to continue their annual contributions, or to leave their share-capital with the society, for a certain number of years. I should like to see co-operative hospitals or medical societies established in China on such a footing. Co-operation for purposes of medical attention is successful in Yugoslavia, and also in Japan, where Dr. Kagawa is one of its many advocates. India, too, has a few co-operative hospitals and several thousands of co-operative health societies. It should be realized that the objects of a co-operative medical society or hospital cannot be secured by attaching this function among others to a general purpose society. If real interest is to be aroused and maintained, there must be a separate Board of Directors and a separate balance sheet. All readers will agree that better medical attention is needed in Chinese villages. If 20 adjacent villages, each containing 100 able-bodied workers, agreed that each man should pay \$1 per annum for (say) 10 years, they could with this annual income of \$2,000 employ a young medical graduate, who would charge a low fee for home attendance on members, or no fee at all, and a higher fee for non-members. The members themselves could build him a comfortable house in rural style, and supply him with free fuel and a free servant. A young graduate from a medical college would welcome such a start in life. Or if 2,000 men preferred an old-style physician to a modern doctor, they should not be debarred from registering a society to employ the physician. Medical services in the countryside cannot in the near future be provided by the Chinese governments, the area being too vast; but a co-operative network might cover the ground at a minimum cost, and confer a great benefit on China.

ARBITRATION SOCIETIES

Another type of moral Co-operation, which has been useful in India, is the Co-operative Arbitration society, the members of which pledge themselves to carry no disputes to a law court but settle them all through arbitrators appointed by the society. The principle is that of the well-known agreements between merchants in China and throughout the world, and should not be regarded as startling or novel. Litigation has not yet become the curse in China that it is in India, but there are signs of an unpleasant increase of it among certain classes. The establishment of peace and order, the construction of roads, and the improvement of the law courts make litigation easier. It is not practicable to settle very involved and technical questions by co-operative arbitration, but the small quarrels, often between women, which give rise to big quarrels and bitter enmities, may be settled in the village, so that the evil does not grow.

Two points should be noticed with regard to co-operative arbitration, and indeed to every kind of moral or social Co-operation. (1) The society should be separate. In a village of 100 households there may be only 20 or 30 members of a credit or a sale society; these societies therefore cannot arrange arbitration for the people, women as well as men, who are not their members. The society must extend over all, or nearly all, the households in the village, including the women. If this is not the case, the members may have quarrels with non-members, and be unable to settle them. (2) The society should be registered. If not, it will be unable to enforce the awards of the arbitrators, and may be defied by a losing party. The

government can by regulations under the co-operative law grant power to local courts to enforce the awards of arbitrators in such societies without hearing evidence or trying the case. The rural welfare centres, which have been formed in Kiangsi province by collaboration between the provincial authorities and the National Economic Council, have encouraged voluntary arbitration among residents of the surrounding villages, and their influence in this respect will be good. But they have registered no societies, and their awards can only be enforced by public opinion, which may be effective in 99 cases and fail in the hundredth. There is a danger that the method of arbitration may then be discredited.

EDUCATIONAL SOCIETIES

Educational co-operative societies are another branch of moral and social Co-operation. Such a society may be organized by a group of parents, who wish to engage a teacher or hire a building for the education of their children in a village in which the government cannot yet provide a school; or by a group of men or women who wish to become literate or to pursue their own further education. Mass education associations should consider this means of making permanent and independent the voluntary schools which they frequently set up. Educational societies exist in Java and in British India; possibly also in Japan. It is desirable to register an educational society separately, rather than to entrust the charge of a school to another type of co-operative society. The people who are interested in education may not be the same as those who wish to arrange a joint sale of cotton or wheat, and the Directors will be men and women of quite a different type.

BETTER LIVING SOCIETIES

"Better Living" co-operative societies originated in India, and are there multiplying very fast. Their object is to unite by a common pledge the persons who wish to adopt a certain good custom or repress an evil custom in their private lives. The main object in India is the limitation of expenditure on marriages and funerals. The society prescribes certain limits of outlay, by standards which are suited to Indian conditions, and imposes a fine on members who spend in excess of the limits. Regulations issued by the government under the co-operative law assist the Directors to recover a fine thus imposed. It is a matter of common knowledge that some (though not all) Chinese are extravagant in their expenditure on marriages or funerals, and are often moved to be extravagant by fear of their neighbours' opinion if they spend less. But if expenditure of the neighbours is likewise limited, no man will think ill of another for not spending more. Clearly therefore a better living society must

- (1) Cover the whole group of neighbours, in a village or town, who are affected by each other's opinion. In a village this means that all or nearly all the villagers, men and women, must be members;
- (2) Be registered, in order to be able to enforce an order of fine against a member. An unregistered group will effect nothing;
- (3) Be separate from other kinds of co-operative activity, such as credit or purchase or sale, since it needs a special type of Directors, who have moral force but may not be good financiers or men of business.

A better living society need not, of course, concern itself only with extravagant expenditure. It may deal with the problems which occupy the New Life movement, such as those of narcotics and stimulants, behaviour in the public streets, personal dress, spitting etc. As I have pointed out on an earlier page, moral improvement by compulsion is seldom permanent. It would perhaps be better to organize co-operative better living societies of men and women who consider and accept (or reject) a proposed reform, and then bind their members to carry out the reforms which a general meeting (not a Board of Directors) has accepted

But (1) membership should be voluntary;

(2) the general meeting should have real power to modify or reject a proposal which is favoured by the leaders of the movement. There must be no intimidation;

(3) the constitution of the society should provide for the imposition of fines by the Directors (not by an outside authority) on defaulters, and the government should pass regulations to facilitate the recovery of such fines.

The movement might not be spectacular, but more effective and permanent, and I feel sure that it would, in the end, make a larger contribution to the regeneration of China.

C. F. STRICKLAND.

September 15th, 1935.