

The present volume includes the writings and speeches by late Professor D. R. Gadgil on Co-operation during the period 1952-70. Prof. Brij Narain Memorial Lectures delivered at Chandigarh in 1960 which form Part I of the volume present an overview of the co-operative movement in the developed and the underdeveloped world and discuss the role of co-operation in the transformation of economic society.

For Prof. Gadgil, Co-operative Commonwealth appears to be the only path for development under Indian condition. In his words, "...Where resources and opportunities as related to numbers of persons are extremely limited and there exists a great deal of stratification and privilege with mutual suspicion and distrust, it is highly dangerous to encourage the spirit of competition and rivalry. In a crowded society with highly restricted opportunities, the development of society as a whole requires the most careful mutual adjustment, constant reiteration of the need for co-operation.... For this, if for no other reason, the philosophy of co-operation alone appears appropriate to present day India".

The writings on the development of co-operative institutions in India, particularly in the field of agricultural credit and marketing, the issue of Government participation and assistance, the question of training and education for co-operators, the role of co-operation in development planning etc. brought together in Part II, provide a deep insight into the operative problems in the development of a co-operative social order. The sugar co-operatives, a dynamic element in the transformation of rural society, is the subject of discourse of Part III. The exposition of the development of the sugar co-operatives in Maharashtra, the analysis of the problems faced by the co-operatives during the formative stage, the discussion on long-term national sugar policy have gained an additional dimension because of the active association that Prof. Gadgil had with the movement for over two decades. The potential of co-operation as a pragmatic tool for economic transformation of Indian society runs as the central theme through Prof. Gadgil's writings on co-operation. Students of planning and co-operation will find these writings by an eminent academician and an ardent co-operator of special relevance.

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**WRITINGS AND SPEECHES OF
PROFESSOR D. R. GADGIL
ON CO-OPERATION**

Writings and Speeches of Professor D. R. Gadgil on Co-operation



Gokhale Institute of Politics and Economics,
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FOREWORD



WE are publishing the writings and speeches of Professor D. R. Gadgil brought together in suitable volumes. In 1961, the Institute published a collection of his writings entitled *Planning and Economic Policy in India*. In 1972, we brought out a revised and enlarged edition of the same which includes his important writings and speeches on the subject upto the time of his joining the Planning Commission. Last year we published another volume entitled *Writings and Speeches of Professor D. R. Gadgil on Planning and Development (1967-1971)* which includes his writings and speeches on the subject during the period he was the Deputy Chairman of the Planning Commission. The present volume brings together his writings and speeches on Co-operation, a field in which he made major contribution to policy and practice both.

The volume is divided into three parts : The first part consists of Prof. Brij Narain Memorial Lectures which Professor Gadgil delivered in 1960 at the Punjab University. The lectures are available in a separate publication of the Punjab University. Nevertheless, we thought it would be appropriate and useful to include them in this volume. We are grateful to the Punjab University for giving us permission to do so.

Professor Gadgil made pioneering efforts in the field of sugar co-operatives. He was instrumental in setting up the first sugar co-operative in the country and he guided the movement in its initial stages until it was established on a firm and sound footing. The third part of this volume includes his writings and speeches on this subject. The remaining speeches and writings on co-operation make the second part of this volume.

With the publication of this volume, there remain now to be brought together only some miscellaneous writings and speeches of Professor Gadgil. We shall include these in another volume which will be the last in the series.

His writings and speeches in Marathi are already published in two volumes.

The publication of this volume was held up because of non-availability of paper for some time and later because of its prohibitive cost. We are grateful to the Education Department, Government of Maharashtra, Bombay, for supplying at a special price the paper for this volume.

Gokhale Institute of
Politics & Economics,
Poona
March 31, 1975

V. M. Dandekar
Director

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PART I

TOWARDS A CO-OPERATIVE COMMONWEALTH

Prof. Brij Narain Memorial Lectures 1960

Lecture I

ORIGIN AND SPREAD OF CO-OPERATIVE ACTIVITY*

I AM extremely grateful to the authorities of the University of the Punjab for inviting me to deliver the Brij Narain Memorial Lectures. I had the good fortune of being acquainted with Prof. Brij Narain. He was a careful analyst, an acute thinker and an inspiring teacher. Above all, he was a man of great seriousness of purpose and nobility of character. I am very glad to have the opportunity of paying my homage, in the form of these lectures, to his memory.

The subject I have chosen is concerned with the objectives to be attained and the values to be pursued through the process of economic development that is being attempted at present in our country. The term Co-operative Commonwealth has been very frequently used since independence in India to describe an aspiration evidently shared by large numbers of peoples, parties and public leaders. No specific reference to it is made in the directives of state policy embodied in the Constitution of the Republic of India. The ruling political party has also specifically defined the immediate objective of its economic policy in terms of a socialist or socialistic society. The structure of this socialistic society or its general characteristics are yet ill-defined and the terms Co-operative Commonwealth and socialist society are often used as if they were synonymous. It is at the same time true that the term socialist society evokes a more positive response, including strong opposition, than the term Co-operative Commonwealth evokes. Socialism carries with it special ideological and other associations. This does not appear to be the case with co-operation and the implications of the phrase Co-operative Commonwealth are rarely discussed in concrete terms.

Socialism directs attention prominently to problems of the ownership of the means of production and of the distribution of incomes. In both these contexts, the situation of poor and underdeveloped countries attempting planned development is seen to be very difficult. The problem of the concentration of economic power, which is one of the most difficult in modern industrial economies, assumes a particularly intractable form in underdeveloped economies undergoing

* Delivered at the University of Punjab, Chandigarh and published by the Punjab University Publication Bureau, Chandigarh, 1961.

industrialisation. It becomes specially difficult to deal with it when the state is initiating and activising development efforts. In all capitalist economies concentration of economic power has almost inevitably increased, at least, in the initial stages of development. Secondly in view of the extent of poverty it appears difficult in these early stages to adopt measures of social service or security which are mainly used to redistribute incomes in industrial societies. Therefore in a country like India little progress can be expected to be made in the near future with specifically socialistic measures. Moreover, with us the more pronounced imbalances are as between agricultural and industrial and the urban and rural sectors and the most disadvantaged classes are not so much the urban workers as the smallest peasantry and the landless labourers and even more the elements in the countryside which have not yet been fully absorbed in the settled agricultural population. These weak elements are also those which cannot exercise any political power and for which none of the usual institutional or organisational devices thrown up by industrial societies could prove appropriate. The usual contents of a socialistic programme may thus not have much relevance for us in the immediate future. In the circumstances, it is useful to turn to the other generally accepted route, that of "co-operation", and see what it holds in store for us. I consider that the ideas, the practices and the philosophy associated with developments in co-operation in the world during the last century and a half are capable of yielding, on a proper examination, a socio-economic programme which would prove not only of immediate application but also of lasting value to India. In this course of lectures, I have set myself to the task of surveying briefly these developments and adducing from them the essential characteristics of a Co-operative Commonwealth and the path of progress towards it.

In the first of these lectures, an attempt will be made through brief sketches of the history, structure and the working of co-operation in countries in which it developed first and flourished most to indicate the chief characteristics of co-operative activity and the extent and direction of its spread. In the second will be examined the history of co-operation in the less developed countries, where the effort has been sponsored largely by governments. Particular attention will be paid to India in this lecture. In the third lecture an attempt will be made to arrive at an overall judgement in relation to the limits of expansion of 'co-operative' activity, to suggest an appropriate broadened interpretation of the term Co-operative Commonwealth and to discuss the attitudes and institutions relevant to this.

In this first lecture, I confine myself to a small number of selected cases. I have neither the time nor the competence to undertake a review of the history of co-operation in different countries of the world.

That is also not necessary for my purpose; for, my aim is to indicate the salient characteristics of the 'co-operative' movement and identify its main fields of success. This I shall do by selecting for comment a small number of countries in which the most important and the most significant developments appear to have taken place.

It is natural that such a survey should begin with England. In that country the co-operative movement was first established and in it co-operative activity was able to secure at an early date, substantial footing in some areas of economic activity. It is not only in terms of action but also in terms of thought that England has precedence. One may look upon modern co-operation as born out of the conditions created in the early stages of the industrial revolution. The co-operative movement was, in one aspect, essentially a reaction; it represented an attempt to find the way out of the situation arising out of the evils of the new industrial society. The problems of industrial society first attracted attention in the country in which the industrial revolution began. This is emphasised by the life and work of Owen who is generally regarded as the father of co-operation. I am not concerned directly with the ideas of Owen and the early socialist thinkers. It is rather with the practical and lasting form, which emerged after a considerable measure of experimentation on the part of Owen and the Owenites, that we have to deal. It is generally agreed to-day that the beginning of co-operation may be placed in 1844 with the opening of the store by the Rochdale Pioneers in Toad Lane. The Rochdale Pioneers laid the foundation of what was later to be the almost spectacular achievement of a British consumers' co-operative movement. The Rochdale Pioneers were industrial wage workers and they were workers living in the new urban surroundings created by the industrial revolution. However, the problems that they set themselves to tackle, in the first instance, were not related to the new productive activity in which they were engaged or the problems, currently tackled by another movement, of relations of labourers with industrial employers. They began with the more limited problem of fighting the exploitation through which traders, small and large, were making their living difficult. It was the problem of making their money go as far as possible in providing for their needs and the requirements of their families. This problem they decided to tackle through joint action of people similarly circumstanced. It has been pointed out, there had been many a precursor to the store of the Rochdale Pioneers. The Rochdale Pioneers claim distinction because not only did they successfully meet the challenge of circumstance by the establishment of a viable shop or stores, but, in doing this, they also established, it appeared, permanently, principles and practice of co-operative action

which were later on to have worldwide influence. Prof. Cole summarises in the following way the ideas expressed by the Rochdale Pioneers and embodied in their rules and their practice:

“These ideas were: first, democratic control, so that each member should have one vote, and not as in trading companies a number of votes corresponding to his investment of capital; secondly, open membership, so that anyone — at least up to a certain total number — could join the Society on equal terms with the original members; thirdly, a fixed or limited interest on capital subscribed to the Society; fourthly, the distribution of the surplus, after payment of interest and collective charges, in dividend to the members in proportion to their purchases; fifthly, trading strictly on a cash basis, with no credit; sixthly, selling only pure and unadulterated goods; seventhly, providing for the education of the members in Co-operative principles as well as for mutual trading; and eighthly, political and religious neutrality.”¹

I shall comment briefly on some of these ideas. Firstly, whether rich or poor, all contributed in a limited and almost equal measure to the capital of the society. There was an upper limit to the amount of share capital that a member could contribute. No person could have a specially large holding in the capital of the society and as interest given on capital was kept deliberately low no special benefit could accrue from investment in the capital of the society. In this and in the rule that every member should have one vote irrespective of the number of shares he held and the capital he contributed, was embodied the original distinctively egalitarian bias of the co-operative movement.

Connected with the idea that capital should earn only a fixed and a low rate of interest was the practice established regarding the disposal of surplus. In the light of prevalent socialist theory, the difference between receipts and expenditure was not, as in capitalistic undertakings, called profit. It was called more significantly ‘surplus’ and after deduction of the charge in relation to interest on subscribed capital and certain allocations to reserves, etc., the remaining was redistributed to members of the society as dividend. This redistribution was made in relation to the purchases of each member from the society or store. Thus, the co-operative element was emphasized. As members came together for performing an economic activity or rendering an economic service co-operatively, each was made to benefit from co-operative activity or service, to the extent that he made use of or participated in the co-operative effort.

Another important characteristic of early established practice was that trading was for cash alone. This, though raised to the rank of a

¹ Cole: *A Century of Co-operation* (1945), pp. 63-64.

principle, did not necessarily flow out of co-operative socialist philosophy. It was, however, an important practical lesson learnt from the current situation. The hold of the moneylender-trader on artisans and labourers was made secure by the practice of buying on credit; and improvidence was encouraged by the easy terms on which credit was made available by some types of private shop-keepers. To enforce the need for provident behaviour, trading for cash was strictly adopted by the early co-operative stores, and was universally adopted later. This rule has been strictly adhered to in the English co-operative movement to this day, except for such departures as flow out of certain modern usages, such as delivery at the residence of a member, of commodities like bread and milk, and the adoption, in cases of certain durable consumer goods, of the system of hire-purchase.

The co-operative store was in those times only one of various types of co-operative endeavour, such as co-operative village communities, self-governing workshops, labour exchanges, all seeking to challenge the basis of the growing capitalist system and to prove by experiment the possibility of a better alternative. The uniqueness of the Rochdale Pioneers lay in their having built upon experience of previous failures and chosen a line of action which, in contemporary circumstances, offered the greatest possibility of success, and in incorporating their ideas in terms of rules of conduct for the members and the store, which, while fully and correctly embodying the philosophy of co-operation, also made for practical success of the movement. When the storms of the second quarter of the 19th century died down, the co-operative store remained as the single concrete achievement.

The stores or rather the consumer co-operative movement spread rapidly in England during the second half of the 19th century. The growth took many forms. The number of retail societies grew, the individual societies increased their number of shops and the shops covered a wider variety of goods. Membership, however, remained almost exclusively working class, so, in the main, also leadership, especially local leadership. But much more important than the proliferation of societies and shops was the next step taken by the movement, that of entering into wholesale trade.

The wholesale society was organised by member retail societies and its business grew rapidly on the basis of the established retail outlets. With growth in size and activity one thing inevitably led to another and the wholesale society found itself establishing overseas depots, acquiring by degrees a merchant fleet, venturing out into co-operative banking, and above all, undertaking direct productive activity. The productive activity was naturally launched in those lines in which the demand from members of the retail stores was the widest, most stable and most standardised. Within a few decades of their establishment, British wholesale societies came to run flour

mills and factories for the manufacture of cocoa, chocolate, boots and shoes, cloth and clothing and soap and furniture.

Organization of the wholesale society was based on the same principles as that of the retail store. The wholesale society is formed by and is owned, in the main, by the retail consumer societies. However, the membership also includes some agricultural and workers' production societies. The shareholding of the consumer societies is related to their membership, and voting in the wholesale is connected with the total purchases made by the retail societies from the wholesaler.

In entering into various new activities the British wholesale societies acted no differently from any other integrated trading concern, which tried to acquire control over part of the source of supplies of the goods it marketed. As British wholesalers they have relations, perforce, abroad and have to interest themselves in imports on a large scale. The co-operative wholesaler does not invariably deal with other co-operators, producers and traders in foreign lands, but he has considerable connections of this sort. The co-operative is not in a position to deal only with co-operatives because some types of commodities required by members are not supplied by co-operative agencies, and also because members of retail societies may prefer particular types or brands which are available only from private traders or producers. Thus in the trading deals of the co-operative wholesalers, while general preference might be exhibited for dealing with other co-operatives, there is no inviolable rule, and members' preference or economic interest may lead to dealing on varying scales with private producers and traders.

In the same way, the retail stores do not invariably buy all their supplies through co-operative wholesalers; for one, all types of supplies required by the stores may not be available with co-operative wholesalers. There may also be instances where because of difference of terms or consideration of convenience, a co-operative store may deal with a private supplier rather than with a co-operative wholesaler. Membership of a wholesale society on the part of retail stores does not give rise to any obligation enforced or enforceable.

The entry of wholesale societies into the field of production raised logically problems regarding relations of consumer co-operatives with producers' organisations and with workers' in productive enterprises. However, at an early stage in this debate, in England, the view became established that the consumer co-operative society looked, essentially, to the interest of the consumer. The original view had been more comprehensive. Even the Rochdale Pioneers had looked upon the consumer co-operative store as the first among many other kinds of co-operative activities and had included in their original rules the item of the establishment of 'a self-supporting home colony of united interests'. As the movement developed

this approach was definitely given up and complete consumers' control was consciously preferred. The entry of the co-operative wholesale society in production, did not, in these circumstances, substantially modify, the system of production, or the socio-economic relations within it. The wholesale society was not, in the event, any different from any other wholesaler who acquired possession or secured ownership of farms, factories or workshops for acquisition of the goods in which he traded.

Both members and non-members can buy from the shops maintained by consumer retail societies. Ordinarily a non-member at an early stage of established dealings with the stores would be asked to become a member by subscribing to shareholding. The shareholding is ordinarily of a small denomination such as one pound.

The traditional practice of British co-operation in relation to pricing has been to sell at market prices. The surplus that remains by conducting sales at market prices, after deducting the fixed interest charged on capital and allocation to reserves, is distributed as dividend. The acceptance of the policy of charging market prices, in early days, proved useful by providing a firm guide to the practice of co-operative stores. In later years it was not changed as English co-operative societies never became so dominant in any sphere as to be able to act as price leaders. Also, when co-operative retailers obtain their supply either directly or indirectly from private producers or traders, whose services and supplies are available equally to private traders, they have no special advantage over private traders in ability to fix a price. The proportion of co-operative production in any particular line has also been rather small of total British production, with the result that co-operators have usually been content to follow market prices.² In relation to other aspects of price policy also namely prices paid to co-operative producers or the payment of wages, the co-operative consumer societies have never attempted to follow a policy different from that of private enterprise. The wholesale co-operatives are considered as good employers but no more than that.

The progress of the consumers side of the British co-operative movement was remarkable already before the beginning of the 20th century. In the first two decades of the 20th century the progress was kept up to a considerable extent. The progress of the retail societies was exhibited not only in the total value of sales that they made from year to year, but also in the proportionate share of sales of co-operative retail societies, in the total national expenditure on goods and services. It has been estimated that whereas the share of co-operative:

² Cf. F. Knox: *The Co-operative Movement and Monopoly in Britain* (1957).

retail societies in England, of the total expenditure on goods and services was roughly about 3 per cent in 1900, it stood at nearly over 5 per cent in 1920. The rate of this progress since 1920 does not, however, seem to have been rapid. The share stood at nearly 6 per cent in 1938 and it is understood that 20 years after 1938, this share was not larger than 7 per cent. It would thus appear that since 1920 the retail co-operative movement in Great Britain has not made much headway against the other competing agencies in the field.

Recent analysis has shown that the share of co-operative retail sales of all commodities and services has not increased at a rapid pace in recent years, and the field of co-operative sale continues to be distinctly circumscribed. The share of co-operative sales is and has been the highest in milk, meat and poultry, bread and confectionary, groceries, provisions, fish, fruit, vegetables and household stores. It has thus been most important in food and household stores. Next to these it is significant in coal. In the other lines, amongst which are clothing and footwear and household durables and chemists' goods, the proportion has been low and has not increased substantially of late years. The main point to be noted is that in the U.K. where the retail movement has very strong working class backing and has derived much strength from it, it seems to have entered a stage where it is no longer buoyant and that the business remains confined, in the main, to a limited range of goods of general consumption.

Similar evidence of lack of significant progress in recent years appears in the operation of wholesale societies. The bulk of their supplies is obtained by retail societies from the wholesale societies and a limited proportion from the other societies. The producers' societies supplied only one per cent of the goods required by co-operative retail societies. All of this was in non-food goods. Thirty per cent of the total supply of goods to retail societies came from sources outside the co-operative movement. The supply made by the wholesale societies was only to a limited extent from their own production. The productions of the wholesale societies as a proportion of the total co-operative retail sales in certain lines in which they undertook production, were 16 per cent. These lines were food, including tobacco, cloth and footwear, household textiles, furnishings and hardware. It has been remarked that whereas wholesale societies have maintained their position as general food wholesalers to the retail societies they appear to have lost ground in non-food goods, especially in furnishings, hardware and electric goods. In these in particular, the retail societies obtained in recent years a high proportion of their supply from outside the movement. This, it has been pointed out, is a sign of weakness of their competitive position. Because, there has been a large increase in productive capacity since before the war;

and a number of factories owned by the co-operative wholesale societies are now required to remain under-utilised.

This survey of the co-operative movement in Great Britain emphasises that while it is strong and has wide coverage it is no longer growing at a significant pace and its development has not been in the direction of all-embracing or comprehensive co-operation. The Co-operative Independent Commission, whose survey, furnishes the data adduced above, points out, for example, that in relation to the British movement the desire to establish an industrial system based on co-partnership in working and control or profit sharing cannot be taken as a motive for embarking on production. This leads the Independent Commission to observe in its report (1958) that such concepts or any general desire to increase the sphere of co-operative activity cannot serve, so far as production by the wholesale society is concerned, as guidance to correct production policies. The Independent Commission, therefore, in fact, recommends that it would be advisable for the co-operative movement in England to narrow the range of output and the number of separate lines of production and invest such resources in capital as it has, more and more in an improvement of the efficiency of retail outlets and wholesaling practices.

The English co-operative movement as the first and as formulating basic principles early has been treated in some detail. I shall now deal more briefly with instances from some other countries.

In terms particularly of ideology and philosophy the contribution of France was notable in the early decades. Beginning with Saint Simon and through Fourier French ideas gave rise to great many efforts in the direction of experimentation in co-operative living. Some of these experiments were conducted in the New World, in rural communities. Others were attempted in Europe itself. In the direction of co-operative operation in particular spheres, the most interesting departure in France was that in connection with co-operative Workers' Societies or workshops. The co-operative workshops in France came into sudden prominence during the revolution of 1848 when Louis Blanc, who was a convinced co-operator and a disciple of Buchez, became Minister. In the circumstances, co-operative workshops, were started and maintained with state help; they inevitably collapsed very soon after the end of the revolution. But the impetus and the idea remained and through the activity of a philanthropist, an industrialist and idealist like Owen, M. Goudin, a co-partnership modelled on Fourier's Phalanstery was established, and has continued to function to this date. The exceptional case, however, has, in fact, proved the general rule about the difficulty everywhere of establishing, workers' producer societies. Workers' societies are organizations of poor producers usually confined to a single craft or

trade; they labour under the handicap of inadequate finance; and the producer workers have no knowledge and skill in merchandising. Therefore, except when supported by others, they find it difficult to carry on. Also with the large division of labour and sub-division of processes in modern industry, workers in a single craft or skill cannot usually stand on their own. Therefore, wherever they have succeeded, they have usually been supported in finance and by a guaranteed market from outside. This has happened in France largely through continued help of the State to a number of co-operative workshops. The French Government, for example, patronises, to a large extent, the workshops of makers of precision instruments or of tailors and clothiers. The English Consumer Co-operative movement stands in similar relation to co-operative workshops, which in England, are chiefly confined to cloth, boots, shoes and printing.

In Germany, the movement initially got established in the field of credit—rural and urban. In the field of rural credit, Raiffeisen, Burgomaster of a group of Rhineland villages, first demonstrated the practicability of village peasants' securing credit through going security for each other. The problem he faced was that of a peasant body which was continuously dependent on the merchant-usurer and which could not rise out of poverty and squalor because of continuously living on the border and facing risks of agricultural production. Owing to the great poverty of the original members of the society, the society started with no subscribed capital. It should be noted, however, that in many instances, the initial funds of the Raiffeisen societies came from outside and were derived, probably, from the philanthropy of people like Raiffeisen. This perhaps explains the position held by outside depositors in the theory of Raiffeisen societies. The model rules of Raiffeisen societies state "that the object of the society is to improve the situation of its members both morally and materially" and the chief way proposed for doing this was "to obtain through common guarantee the necessary capital for granting loans to members for the development of their business and household." The fundamental concept is thus common guarantee which was based on the mutual knowledge and confidence of neighbours towards each other. Unlimited liability flowed out of common guarantee; for, as has been pointed out, the rule of unlimited liability was not, properly speaking, an innovation for the times. Unlimited liability was the universal practice for business undertakings in Germany in Raiffeisen's days. It was, in fact, the rule in all the countries relating to partnership and other mutual undertakings before the introduction of the concept of limited liability in legislation relating to public companies. Loans were made for particular purposes, and the purpose had to be productive. Loans were for either short-term or medium-term; no long-term or mortgage loans were made. All loans

were further made on the basis of two securities. Profits were not distributed but were put to reserve. This would create a fund from which future loans could be made and eventually, it was expected, the rate of interest could be lower.

When the number of village societies began to multiply, the village banks were linked together in a federal type of organisation. It later became possible to adopt a uniform system of book-keeping and inspection and pool resources so that the more prosperous societies and regions could help the less prosperous ones and the federal idea could expand in the direction of setting up regional and national organisations and banks.

Another development at an early stage was for members to join together for joint purchase out of credit obtained from the society. The conversion of a money loan or credit into loan in kind was thus obtained and this gave rise to merchandising organisations. At the village level merchandising may sometimes be undertaken by village banks, but at least at higher levels the organisation formed for the purpose was separate from the regional and other banks.

While in rural Germany, Raiffeisen was thus establishing a model for village credit societies, Schulze-Delitzsch was doing almost the same for industrial workers, and artisans, in German towns. Because of the difference of circumstances, the credit organisations built up by Schulze-Delitzsch began with a minimum of share subscription by members. Though initially based on the principle of unlimited liability these town banks adopted limited liability as the German law developed and allowed it. Also, as was more appropriate to urban surroundings, membership or participation in societies was not restricted to men personally known to each other; the town banks were encouraged to build up fairly wide membership. But with the Schulze-Delitzsch banks also personal security was held important and loans were made, mostly in small sums and for productive purposes. The German urban banking system progressed to regional and federal advisory organizations and Audit Unions but did not evolve any federal banking system. Also, the Schulze-Delitzsch Banks were averse to receiving any aid from Government as this might lead to Government control. The Raiffeisen system did not share this point of view.

“A later development on the part of the industrial groups was the setting-up of their own wholesale organisations, quite distinct from the banks, and engaged in buying the raw materials of industry and the stock-in-trade of retail businesses on behalf of their members. Immediately before the Second World War, German private shop-keeping was strongly organized on these lines, with the express purpose of strengthening the individual trader against multiple shops and consumers’ co-operatives. To some this will seem a perversion

of co-operation, but from the German point of view, strengthened by the National Socialist outlook, the small shopkeeper was in a position no different to that of the small farmer and was equally entitled to obtain credit or buy raw materials through his co-operative society."³

Fay, taking a general view of the German situation wrote as follows, in 1908 :

"Germany is the model country for co-operative credit, and in Germany the co-operative credit association has been the parent of every other form of co-operation. But in the town the connection is in a sense unnatural, the mere accident of history, and it is already weakening and breaking up before the differentiation of industrial evolution. In the country the connection is natural and permanent. The study of agricultural credit includes the study of the whole of agricultural organisation; but agricultural credit may mean two different things—the credit which is built upon the village bank of individual farmers, and the credit which starts from those same men organised into a society for the supply and disposal of agricultural commodities. Finally it must be borne in mind that although the most intricate part of the credit problem is the superior structure erected upon the credit unit, yet the unit is by far the most important thing of all. It is by this unit that the intelligence and hearts of the people are touched and transformed from weak ignorance to sympathetic strength."⁴

Sale societies handled a somewhat more complicated business than the supply societies. The procurement of a largely uniform supply and its distribution in accordance with the needs of the cultivator was not technically a difficult business especially with large developed markets. As regards sale, on the other hand, the problems were apt to differ from commodity to commodity, and the pooling and assembling of produce, its transport to the market, subsequent storage, preservation and related problems, were much more complicated than the problems of distributing supply. Therefore, sale developed not overall, but in particular directions in which co-operative sale had distinct advantage. There was one aspect of sales activity in which the need to co-operate and the advantages of co-operation became particularly marked. These were branches of agricultural production in which more or less elaborate processing of the produce was necessary before it could be properly marketed. It is, therefore, in relation to processing that the earliest and the most remarkable development took place in agricultural industry. What has been called agricultural co-operative production developed in the first instance,

³ Digby, M., *The World Co-operative Movement*, (1948), pp. 76-77.

⁴ Fay, C. R., *Co-operation at Home and Abroad* (1948), 5th Edition, p. 62.

chiefly in relation to livestock production. Co-operative dairying, co-operative cheese making, co-operative bacon curing were some of the main lines in which co-operative agricultural production developed.

The earliest and most successful of such development was in Denmark. In explaining the early establishment and spread of co-operation in Denmark, it has been pointed out that Denmark is a country more or less of middle class democracy, with a well-developed trade unionism and an egalitarian farming structure. A peculiarity of Danish co-operation is said to be the great strength of the rural consumer co-operative movement. Traditionally, Danish co-operation has developed through developing a society for each special purpose rather than having a multi-purpose local society covering all or many activities. Another extremely important feature of Danish co-operation on which, to a large extent, its success is said to depend is that the co-operative society transacts business only with its members and that its members accept the obligation to do all their business with the society. The obligation is in the form of a contract and during the period of contract, it is strictly enforceable and enforced. Danish co-operation in this matter has, therefore, developed through incorporation of obligation of doing business with the society in the principles of the formation and operation of a society, instead of generally depending on the loyalty of members. Denmark also offers an example of an old movement slowly developing a multitude of forms over time and not having a highly integrated or rationalised structure. This structure has been described as, on the whole, a decentralised structure which is not fully integrated according to a central plan but is well integrated vertically in many federated commodity societies and to some extent horizontally in inter-branch arrangements. The basic units are many types of local societies and these have been co-ordinated through inter-branch and intra-branch developments and by the formation of federal societies. The management committees of all higher organisations are elected in such a way as to represent different areas or classes of membership. It has been said that the firm base of the small local society and the binding contract keep the Danish movement in a healthy state.⁵

Denmark was the first of the Scandinavian countries to develop co-operative activities on a large scale. Norway and Sweden exhibited considerable co-operative activity only during the 20th century. However, the development of co-operation in all the Scandinavian countries and in Finland has today reached roughly a similar state of growth. In all these countries, the agricultural sector is now dominantly co-operative. In activities like the sale and processing

⁵ Cf. *Year Book of Agricultural Co-operation*, 1958. P. G. Gorst : "The Structure of Agricultural Co-operation in Denmark."

of milk, meat, eggs and fish, the co-operative societies are overwhelmingly important and conduct most of the business. It is, however, the peculiarity of Denmark that its consumer movement is distinctly rural-oriented and has, therefore, close and cordial relations with the rural producers' movement. In other countries, the farmer movement and the consumer movement are not very closely linked together and in some cases difficulties have been created because of lack of co-ordination.

Co-operative activity in industrial production has been noticed above in connection with the co-operative workshops confined chiefly to artisan industry and small-scale production. Reference was also made to it in connection with the operations of the British wholesale societies. The latter stemmed from out of the requirements of their wholesale business. Apart from co-operation of industrial workers or production activity flowing out of needs of numbers of consumers' or farmers' societies deliberate entry into the field of industrial production may be made by a co-operative which is not directly related to any economic activity of its members. The main case where such deliberate entry has been effected into industrial production by co-operative leaders appears to be that of Sweden. Here, the impelling force appears to have been the desire to break monopoly. The Swedish co-operative movement had evidently come up against monopoly price fixation by private interests in a number of contexts. The co-operative consumer organisation had set up bakeries, in part at least, to combat the high price of bread and the movement had entered into production of fertilisers, to force down the exorbitant prices that were charged for them to farmers. In both these cases, the activity might be termed activity closely related to the operations of the consumer or the agricultural producer societies. However, there were instances in which the co-operatives felt impelled to enter into lines of production in which the connection with interests or demands of their membership was not equally close. Thus, during the thirties there was formed the famous Scandinavian co-operative for production of electric bulbs, undertaken by an international Scandinavian co-operative formed under the leadership of Swedish co-operatives. Co-operatives also took up the production of cash registers and, at one point, it appeared as if the movement was set to enter in a large way into the industrial production field.⁶ This, however, has not happened to any remarkable degree. The field covered by industrial production in Sweden is undoubtedly somewhat wide. There are said to be more than 40 industries owned by the co-operative movement and these include in

⁶ Childs, M. W., *Sweden: The middle way* (1936), Chapter III.

addition to food, china and porcelain, light bulbs, rubber footwear and other rubber products, paper, washing machines and fertilizers.⁷

The ability of co-operatives to combat monopolies is obviously connected with the extent to which they control production in particular directions. It has been estimated that there are 9 commodities in which the Swedish co-operative movement produced over 25 per cent of the national output and four more in which it produced between 10 and 25 per cent.⁸ The Swedish co-operative movement also is one which because of its anti-monopoly stand has adopted an active price policy as one of its foremost aims. With all these developments the manufacturing capacity in the co-operative sphere in Sweden has not been put even as high as 5 per cent of total national capacity.

The foregoing illustrative accounts of co-operative development have all been drawn from developed industrialised countries of North and West Europe. This is chiefly because the largest progress in co-operative activity and the greatest experimentation and innovation in it have been made in these countries. Also, it is in relation to movements in these countries that the main body of principles and practices recognised as co-operative has grown.

I do not intend to say anything about development of co-operation in the communist countries. This is mainly because co-operation in the communist countries is used as an instrument of economic transformation whose ultimate aim is a communist society. Co-operative effort is, in this instance, treated merely as a stage in the path of the creation of a communist society. Experience regarding co-operative developments which are never looked upon as permanent or stable is not helpful in our enquiry.

There is however, one case in relation to which an exception might be made. Yugoslavia professes herself to be a communist state. However, it has allowed developments in agricultural and industrial co-operation on lines which are not materially different from conditions in western Europe. The experience of Yugoslav co-operation may thus have lessons of some importance for us. A few peculiarities of recent developments in Yugoslavia may be noticed. From the time of the retreat from collectivised farming, peasant workers' co-operatives which were important in earlier days have greatly diminished in importance in Yugoslavia. The dominant form of co-operation is the general co-operative which has a specific local area of operations and a very wide range of functions.⁹ These include farming, artisan workshops as also catering consumer retail trade and various social services. All these functions it undertakes in addition to the ordinary

⁷ Hook and Rieberg, *Economic Life of Sweden*, 1956, p. 110.

⁸ *Co-operative Independent Commission Report*, U.K. (1958), p. 187.

⁹ Cf. Account of the "Kikinda Agricultural Co-operative" in *Collective Economy in Yugoslavia*, *Annals of Collective Economy*, April-Sept., 1959.

basic functions of an agricultural society, that is those of agricultural credit, supply, marketing and processing. This large combination of varied activities centred in a single society is said to have raised the problem of efficiency. A loosely integrated multi-sided activity will raise not only problems of efficient operation but also of complexity of relations of the general co-operative with the different strata of its members. The relative backwardness of the country and the attempt to undertake a large variety of activities simultaneously appear to have led to this position.

The co-operative administrative structure is formed on the lines of the general administrative structure of the country, that is the organisation is in terms of the locality, the district, the republic and the federation. Another peculiarity of the Yugoslav situation is that the trading functions of the district and republic unions have not fully developed because of the vestiges of the older system of the state marketing of agricultural products. The business of the co-operative marketing unions is also affected by large prevalence of direct sales by farmers on markets in towns and cities. A third peculiarity of the Yugoslav movement is the great importance of national banking and the credit arrangements. There appears to have taken place no full development of co-operative credit, with the result that local co-operatives are subjected to dual control, one by the national bank and the other by the district co-operative union. Finally a special development of the Yugoslav situation stems from the principle of workers' participation and control to which great importance is given in Yugoslav economy. Because of this principle, there is a high degree of staff participation in the working of Yugoslav co-operatives and wherever a primary co-operative conducts a specialised trade or production activity, the workers employed on such activities have membership within the co-operatives and are represented on its administrative organs. Competent observers fear that this may result in a situation in which a conflict of interests emerges as between agricultural members who supply materials or sell materials to a trading or processing co-operative and the working staff members who run that co-operative. Whatever these conflicts may be and however they are solved, it is clear that in this context at least the Yugoslav structure, because of its basic slant, has given fuller weight to older co-operative principles than has happened in the rest of the world.¹⁰

Finally, as a special, very modern development, one may notice the co-operative movement in Israel. The movement in Israel started under special difficulties and hence called forth among the pioneer Jewish settlers qualities of high idealism. The original basic structure represented by the Kibbutz, is a throw-back in a sense, to the

¹⁰ Cf. *Year Book of Agricultural Co-operation*, 1956. P. G. Gorst : "New Co-operative Developments in Yugoslavia."

Utopian socialist community experiments of the early 19th century. The distinctive feature of the Kibbutz was complete abandonment of the institution of private property. All lands are collectively owned and property and production and supply of consumption goods are also collective. All adult members in collective undertakings work without payment and all their needs are supplied without payment. Children are the responsibility of the group and are looked after by members elected and trained for the task. Thus women members are freed from domestic duties and work on land and in a variety of collective services.

The Kibbutz was essentially an instrument of early pioneering effort, and made much headway in the Jewish settlement of Palestine until the establishment of the independent state of Israel. The Kibbutz may be looked upon as a special instrument created by force of a special situation. Its success might also be taken to exemplify possibilities for the future. At the same time, it has also happened that as soon as the specially difficult circumstances, in which the Kibbutz was established and grew, passed the growth of the Kibbutz tended to slow down significantly. After the establishment of the State of Israel and with the need to absorb a large number of new immigrants, types of farming co-operatives other than the Kibbutz began to rise. The main difference between the Kibbutz and the newer farming co-operatives was that these others were based on relatively independent farm families and did not take the form of a collective communal settlement. In many, the step taken was towards a group in which each family lived separately but in which the means of production were held and the farming was carried out collectively; in still another set of co-operatives each family not only lived independently, but also farmed its allotment independently. Co-operation in production, in this case, is limited to the common ownership of certain assets. All produce is marketed and also supply purchased co-operatively, but in relation to both individual farming as well as family living, the members act as independent units. The new developments have played an extremely important part in the rapid absorption of new immigrants and appear to have been necessary for the purpose.

Another important characteristic of Israel co-operative movement is the large part that co-operation plays in industry and industrial production. The agricultural co-operatives have to some extent themselves branched out into industrial production. This has specially happened in the full collectives, the Kibbutz, which have to find work for all members of all families. Most of these industrial undertakings are on a small scale and were initially developed on the basis of some specific relation to the agricultural aspects of the Kibbutz activity. However, a number of activities of considerable industrial importance have also grown up among the Kibbutz such as manufacture of brick,

plywood, asphalt, etc. and others more connected with agriculture such as canning and the manufacture of jams and preserves. There also exists a large number of workers' production co-operatives. These workers' co-operatives are to be found particularly in the smaller unit industries as that of food, bakeries, wood and metal working, cloth and foot-wear, printing, paper and building materials. Even in Israel it has been found this is not a form of co-operation highly suitable to large-scale, highly-capitalist undertakings and that these types are particularly vulnerable in economic depression.

The Kibbutz as well as producers' co-operative societies have been facing a problem which is the result of continuous heavy immigration of unskilled workers. The Kibbutz do not, on principle, employ hired workers. At the same time, with the productive resources they command, they are under pressure to absorb immigrant workers. The producers' co-operatives are faced with the perennial problems of increasing membership without demanding an excessive entry fee while, at the same time, protecting the relative share of their older members. Already in a number of co-operatives, the question has not found solution and hired workers who have no means to become full members equal the number of members themselves.

The most remarkable feature of the co-operative situation in Israel is, perhaps, the dominant part played in it by the General Federation of Labour. The General Federation of Labour which represents the united membership of workers' organisation in the country has as its counterpart, for managing co-operative industrial activities, a registered body called General Co-operative of Jewish workers in Israel. The two bodies are in membership precisely co-extensive and the executive organs of the General Co-operative are responsible to the executive committee and the General Council of the General Federation of Labour. Most of the labour, industrial, transport and building co-operatives are subsidiaries to this General Co-operative. The guidance given to individual primary societies by the General Co-operative is mainly effected through audit unions to one of which each larger co-operative is affiliated. In the case of the larger and more important types such as central societies of the movement, the control of the General Co-operative is exercised by means of direct representation on the management boards of these societies.

I may conclude this survey by drawing attention to certain important characteristics of the growth of co-operative activity. It will be noticed that not all forms of co-operative activity have grown even in all the countries included in the above survey. Co-operation in agricultural activity had a somewhat late start in England and is still limited in extent and coverage. On the other hand, the consumer movement is weak in a number of countries where the agricultural sector is fully co-operative. The structure of co-operatives and the

principles and practices adopted in their organisation and operation are also apt to vary widely. This matter of co-operative principle will be discussed at greater length later. But the fact of variation and that this has led to bitter controversies among co-operative theoreticians and practitioners within each country may be noted here.

Within each country again it is only certain classes or occupational groups that seem to take to Co-operation and not others. Some general characteristics of members of such groups and classes are readily observable. In the first instance they are all relatively weak as independent, individual units. Co-operation may indeed, in modern economies, be a necessity for such units; and it is also the weak who are likely readily to think in terms of accepting voluntary restraints which are necessary accompaniments of successful co-operative activity. It is, on the other hand, clear that if the weak are far too weak they would neither think of co-operation nor could pursue it consistently. The position of the co-operating units must not be so bereft of strength for even a co-operative effort to raise them above the minimum level. It is, therefore, not among the most disadvantaged or the poorest strata that co-operative activity arises spontaneously or without much external guidance and help. It grows, spreads and prospers only among those who have already risen above a certain minimum position and have some strength to withstand adverse reactions and to risk possible failure.

Even so, it is notable that most early thinkers, and many later ones, in co-operation emerged from outside the social strata which undertook and organised co-operative activity. It is also true that in many cases initial concrete assistance was afforded to the movement by those outside it; but these ideas and aids might be considered as no more than sparks necessary to start the conflagration. External elements took no great direct part in guiding or assisting later developments. Also, in most of these countries the state did not sponsor and assist these movements, excepting in France, in which agricultural credit organisations received substantial monetary help from government and the workshop movement had obtained State patronage.

All this is merely to emphasize that a certain basic minimum level of security and well-being was essential before a voluntary co-operative movement got established and spread. These conditions were, for the larger part, until recent decades, obtainable only among the western European countries. Even among these countries unfavourable circumstances retarded developments. Thus the spread of the co-operative movement in Ireland is fairly closely associated with the land legislation of the last quarter of the 19th century which created a large body of relatively viable small farmers. One may also relate the steady growth of the movement to the increase in economic

well-being of farmers and industrial workers in recent decades. It is suggestive that the largest advances made and the largest fields occupied are in countries like the Scandinavian, where recent increase in national income accompanied by relative equality in its distribution and an active social security policy on the part of the state have been most notable.

In the rich colonies of the new Continents the movement was not equally prominent. This has been explained as being a "reflection of the easier condition in the new countries, with resources not fully tapped and a vigorous competitive capitalism which, for many obscure its hardships."¹¹

The relative position of the socio-economic classes is well brought out in the finding of a survey relating to the strength of Consumers' Co-operation in England in the middle of the thirties.

"So far, co-operation has appealed mainly to the superior sections of the working-class. It has made less appeal to the poorer sections of the community and not very much to the main body of middle-class consumers."¹²

A review of the place of co-operation in National Economy in different countries of the world written in 1950 emphasises the unequal progress of the co-operative movement due to the disparity of basic conditions. It describes the situation quantitatively in the following manner:—

"To sum up, in the economically advanced countries the consumers' movement affects one-quarter to one-third of the population and carries on 10 per cent to 20 per cent of the national retail trade. Progress in the past ten years has been fairly rapid. Agricultural co-operation affects perhaps two-thirds of the farm population and handles anything from 40 per cent to 90 per cent of the more important agricultural commodities. Progress in countries where co-operation developed early has been relatively slow in the last ten years. In the economically undeveloped countries the proportions of co-operative membership and trade are much lower, but progress in the last ten years has been very rapid, although not wholly spontaneous, owing much, as will be seen, to the needs and the initiative of the state."¹³

¹¹ *Year Book of Agricultural Co-operation*, 1950. "The Place of Co-operation in National Economy", p. 4.

¹² Carr-Saunders, Florence and Peers: *Consumers' Co-operation in Great Britain* (1938), p. 524.

¹³ *Year Book of Agricultural Co-operation*, 1950. "The Place of Co-operation in National Economy", pp. 9-10.

Lecture II

GOVERNMENT-SPONSORED CO-OPERATION — OBJECTIVES AND CHARACTERISTICS

THE world review of Co-operation in 1950 from which a quotation was given at the end of the last lecture makes clear that the progress of the co-operative movement was relatively slow in countries that are now described as underdeveloped and that the special part played by the state in the movement distinguished it from that in the developed countries. I shall now turn my attention to this division of co-operative activity. Introduction of and encouragement to co-operative activity by authorities of these states were, in most cases, the results of a realisation on the part of the authorities of the state that certain economic classes required urgently to be aided and organised and that the most appropriate type of organisation, in the context, was on co-operative lines. In many instances, direct government intervention and assistance preceded attempts to establish co-operative activity as a measure of relief or of reconstruction. Usually, recognition of the fact that mere direct government assistance could provide no permanent solution or bring about lasting improvement led to resorting to co-operation. However, in all these cases what was established and developed was greatly different from co-operation as recognised and practised in western Europe. Co-operation in these countries was, at least initially, a formal apparatus or an organisational device for giving effect to state policy. Ordinarily, the initiation of co-operative effort or the setting-up of co-operative organisations was undertaken as part of a specific official programme and was related to other complementary measures. For example, state-sponsored co-operation had origin in a number of countries in policies for combating the depression in the thirties and it grew during the war in connection with controlled distribution of commodities and other similar measures.

I proceed to describe the world situation in regard to this type of co-operation by reference to specific developments in Mexico, S. Italy, Turkey and Japan. I shall begin with the land reform movement in Mexico. This had origin in agrarian revolutions of the second decade of this century. In the 30's the recreation of the ejidos, *i.e.* "co-operative farming estates", was accepted as a permanent form of land tenure and government took steps to vitalise and establish the Reform. Apart from the active part taken by government in giving effect to

land reform measures and creating and organising the ejidos, assistance in every other way was given to them by government departments. The main source of official influence and encouragement outside the agrarian department and the Ministry of Agriculture was the specially set up National Bank of Ejidal Credit. The following extract from a recent account brings out clearly many interesting points in relation to the operation of this government-sponsored organisation and its connection with the new rural effort.

“At an early stage, the Bank had to decide whether to attempt to serve ejidos all over the country even in the most isolated areas, or whether to concentrate and make a success of a smaller group. Only about half the ejidos have credit societies, and not all these borrow from the Bank. In the early years, one third of the loans granted were in a single region, and it was only gradually that the Bank’s operations spread elsewhere. This decision was probably wise, since it is common experience that an unqualified local success attracts more imitators and leads to better results than thinly-spread semi-failures.

The costs of administration remain heavy. Most of the credit societies are too primitive to draw up a general plan of cultivation, and not sufficiently strong-minded to discriminate between capable and incapable members who ask for loans. As a result, the Bank tends to scrutinize individual applications instead of making block loans to their society. Further, as members cannot be trusted to spend their loans on the purposes for which they were intended, the Bank makes them, as far as possible in the form of supplies and equipment. It has often to undertake the recovery of individual debts. Finally, the Bank not only lends money, but has set up agricultural experiment stations, investigated agricultural problems and published informative literature, thus becoming the principal agency for the guidance and development of the ejidos.”¹

The Mexical Ejidal Bank was set up in the thirties. Fifteen years later land reform in South Italy is also found to resort to government-sponsored, compulsory co-operation. The following extract from an article by Sir Malcom Darling describes the reasons for the adoption of this approach:—

“Mention of the new co-operative societies brings me to my special interest in the Reform. Unlike Bavaria where the voluntary principle is strictly adhered to, every grantee, however little land he receives, must join the local society formed to help him and remain a member of it for at least 20 years. It is now an accepted fact that the small holder cannot hope to hold his own in the modern world without some organisation, governmental or co-operative, to supply him with his

¹ F.A.O., *Co-operatives and Land Use*, 1957, pp. 18-19.

professional requirements and provide him with marketing facilities and cheap credit. If this is the case with the owner who has long been used to depend upon himself, how much more must it apply to those who in greater or less degree are accustomed to depend on a landlord for the ways and means of cultivation and in times of stress for help. The labourer is especially vulnerable. In some countries reform has done little more than substitute the State for the landlord. The change, as I found in East Pakistan, is not always welcome to the cultivator, who has even less liking for the impersonal control of an official than for that of a landlord who can be pressed. In any case the rigidity of State control, combined with security of tenure, is more likely to produce a static than a dynamic peasantry. In Italy it was realized that if production was to be increased, this danger must be avoided, and it was thought that the only sure way to do so was to organize the grantees in co-operative societies and to leave them no option in the matter."²

Not only are the co-operatives compulsorily set up but also they are expected, at least for the first ten years, to be carefully guided by the Land Reform Agency. This situation is described as follow:—

"Agency and society are as parent and child. To secure parental control, in each society the Agency holds as many shares as the law allows and is represented on all its committees. Following practice in Italy and Germany, there is one to manage, and another to supervise its affairs. The third settles disputes. The Agency further 'indicates' how the first committees should be constituted, and it also provides the services of a secretary. The swaddling clothes, therefore, are not of too light a texture. "We must command the members was the frank admission; in Emilia it is different; here they are ignorant."

"To be successful," writes Professor Bandini the President of the Maremma Agency, "the reform must make available . . . a flexible and prompt organization of credit. This undoubtedly is essential, but the organisation should be on a co-operative basis. At present it is the Agency that feeds the societies and their members. Spoon-feeding and swaddling clothes go inevitably together."³

Our next illustration will be from Turkey, in which the existing co-operative structure was raised chiefly on the basis of legislation in 1935. The following extract from a report made in 1950 by M. Maurice Colombain sets out the main features of the solution:—

"Certain historical reasons account for the special conception of rural credit and marketing societies registered under the 1935 laws. The original object of these societies was the organisation of agricultural produce for export, in order to put a brake on speculators

² *Year Book of Agricultural Co-operation*, 1956. Sir M. Darling, "Land Reform in Italy and Egypt", pp. 7-8.

³ *Ibid.*, p. 10.

and to improve the lot of the producers. The marketing societies were to ensure the collection of produce and its transport to the Unions. The Unions were to take charge of all subsequent operations. The Agricultural Bank and the Credit Societies were to finance the schemes by the grant of credit for production, and by advances on produce."

"It was considered that the best way to succeed was by building up a large and powerful organization, as quickly as possible. For quick action, the super-structure of the organisation came first, *i.e.* the Unions, and the law provided for them to be organized 'in exporting centres'. The result was that the Unions had to arrange for the organization of most of their member-societies. At the same time, the Agricultural Bank had to multiply its branches, its agencies, and also the rural credit societies. Certain efficient methods — at least for a time they appeared efficient — for the rapid organisation of primary societies were evolved, in view of the need to build on a large scale and to deal with a considerable quantity of produce. Finally, in order to strengthen still further the organization, and to concentrate its work, all Unions, wherever possible, dealing with different kinds of produce — as in Smyrna — were merged into one large body. At the same time the Ministry of Economics, with the Agricultural Bank, was entrusted with the appointment of the managers and staff of societies and with power to give effect to the decision of the general meetings."⁴

This extract may be supplemented by some additional quotations from M. Colombain's report in order to emphasize not only the similarities with the Indian situation but to bring out succinctly the characteristics shared by this type of co-operative activity over large numbers of under-developed countries. M. Colombain emphasises that the fundamental weakness of the machinery evolved from the 1935 legislation is that "it is purely a machine" and that "the machinery is not only no concern of the members; it is directed from outside." He adds, "the inertia of the machinery, the need to put it into motion from outside, sometimes blindly from far off, the mixture of responsibility and the intervention of the state in the day-to-day affairs of the societies, lead inevitably to slow action, late, inopportune or contrary decisions, interference by local politicians, in a word to confusion." In his opinion, the Turkish experiment had "evolved a hybrid and incomplete instrument unfitted today for the work for which it was designed. It is not sufficiently supple, agile or dynamic for a commercial enterprise. It has not the order, stability or the powerful resources of a State organisation. Nor is it endowed with the

⁴ *Year Book of Agricultural Co-operation, 1953.* M. Colombain: "Main Principles of Co-operative Development", pp. 60-61.

strength, cohesion and voluntary discipline of the co-operative institution." And "these difficulties appear to have resulted from the superstructure having been built up before the foundation and owing to the need for immediate action on a broad front and the latter could not thereafter be built up gradually."⁵

We may, finally in contrast, look at developments in Japan where there was undoubtedly a great deal of government participation and direction, but in which apparently the difficulties of building up the foundations have not been experienced to the same extent. The following extract from a recent publication will be found extremely interesting in relation to the general developments of Agricultural Co-operation in Pre-1945 Japan:—

"The chief feature of the save-the-farmers policy (adopted in 1930) was to loan funds at low interest and to maintain prices of agricultural products, and to put the programme into effect the co-operatives were used. The policy of the government was named "The Plan for Economic Recovery of Farming and Fishing Village" and in the plan there was an item saying that the policies should be carried out through the co-operatives in each village. In this way low-interest funds were brought to the village through co-operatives and prices of rice, cocoons and other things were autonomously sustained by the co-operatives.

"In harmony with this the Co-operative Union made a five year plan for the expansion of co-operatives, and immediately tried to put this plan into practice. The plan aimed at spreading co-operatives throughout the villages and winning more members so that more farmers might come to realise the usefulness of co-operatives. At the same time it was necessary for co-operatives to improve their management and stabilize their finances, but upon receipt of government aid the co-operatives in farm villages showed rapid development. So it is not too much to say that Japanese agricultural co-operatives became stabilized as a result of the worldwide agricultural panic. This development of agricultural co-operatives encroached upon the business of merchants and at last a movement called the 'Anti-Co-operative Movement' was started by the Japan Chamber of Industry and Commerce.

"Also, within the agricultural co-operatives, there was an element which necessitated changing the character of the co-operatives. Since the promulgation of the law for co-operatives, the co-operatives had been under the guidance of the government, and the government's policy of working through the co-operatives to tide the farmers over the panic had been intensified. By the time of the Sino-Japanese

⁵ *Ibid.*, pp. 61-64.

incident and World War II the Japanese economy was gradually coming under government control and the government intended to use the village co-operatives to extend governmental control. For that purpose the government ordered that the agricultural associations and co-operatives be merged into the Agricultural Society. All the villagers became members and they were not free to withdraw. The executives of the co-operatives were appointed by the prefectural governors. That meant that the co-operatives in the villages became virtually one governmental organization and lost their independent character."⁶

There could have been few cases of more complete government action and control in relation to co-operative movement than that of pre-war co-operative movement in Japan described above. This situation was altered radically with the Post-War Occupation and the agricultural co-operative law in 1947 fully established the principles of a free co-operative movement. The fundamental principles now established were that the organisation of the co-operatives should be based on the free will of the members, that the management of the co-operatives should be democratic and that while capital should be raised as far as possible by members themselves, there should not be too many shares held by individual members and the dividend per share will not exceed the ordinary rate of interest. It might be expected that a movement in which there was a sudden switch over from full compulsory membership and government direction and control to the adoption of democratic co-operative principles would disintegrate to a very large extent. This was all the more to be expected because difficulties during the war especially in the later period had led to a considerable degree of disorganisation of economic life in Japan. However, agricultural co-operatives registered under the new law covered effectively the entire countryside and transacted a great deal of total agricultural business even before 1950. Already in 1949, because of the possibility of each farmer joining more than one society, the total number of farmer members of co-operative societies in Japan was substantially larger than the estimated total number of farm houses in the country. The development was undoubtedly helped by government control over pricing and procurement of particular commodities, especially rice. The fixing of the price of rice and other agricultural products and operation of the rice procurement and loans finance system through co-operatives must have greatly helped to keep up the cohesion in the movement. In 1950 more than 95 per cent of rice and sweet potatoes were marketed through the co-operative societies and the bulk of the supply of fertilisers, chemicals, agricultural implements as well as tyres, tubes,

⁶ Yoshio Hoynden : *Co-operative movement in Japan* (1958), pp. 19-21.

sugar and kerosene obtained by the agriculturists was obtained through the co-operative societies.

Careful observers felt in 1950 that the agricultural co-operatives establishment of which had been encouraged as one of the most effective instruments for democratising Japan's rural community, were lacking in stability because of the very quick progress that had been made.⁷ Subsequent developments proved that these fears were not well-founded. In spite of rapid progress Japan's agricultural co-operation continued to improve in quality. The number of agricultural co-operatives in 1957 was larger than before and these were dominated by the multi-purpose co-operatives dealing with credit business. There are approximately 10,000 local communities (cities, towns and villages) in Japan and for the last few years there have been about 13,000 of these multi-purpose credit societies established. All farmers are said to participate in these societies. Government control of rice continues; it is collected by co-operatives as authorised rice dealers and payment to farmers is made by the co-operatives on behalf of the government. Other activities have also increased and the proportion of the share of co-operatives in both marketing and purchases of all kinds of produce is larger than it has ever been before. It is interesting to observe that though the agricultural co-operative movement faces a number of new problems its stability is no longer doubted. The new problems to be tackled are defined as "establishment of comprehensive and systematic links between co-operative business and combined planning of co-operative activity, expansion of business activities in accordance with a yearly programme, with emphasis on the reform of management, promotion of the voluntary co-operative spirit of the members leading to stronger co-operatives and the consolidation of the farmer's economy. The main problem of farmers' economy is conceived of a better and more rational plan of productive activity for each community and it is reported that the preparation and establishment of suitable programmes for the development of each village is proceeding actively from the bottom.⁸

The only comment that need be made on the highly contrasting pictures of Turkey and Japan is that the differentiation has little to do with presence or absence of government action. Government action was not responsible for the results in either case. It is the basic structure of the rural community that was responsible. Whereas in Japan, there have existed for centuries, strong homogeneous rural communities with an established tradition of co-operative communal work,

⁷ *Year Book of Agricultural Co-operation*, 1950. K. Aoki, Japan.

⁸ *Year Book of Agricultural Co-operation*, 1958. K. Aoki : "Agricultural Co-operatives in Japanese Economy".

most of the underdeveloped countries are characterised by an absence of such communities today and by the disorganisation and disintegration of such traditions and practices relating to community feeling and work as might have existed in the past.

I shall now turn to co-operative developments in India. It is not necessary in these lectures to make any detailed review of the history of the co-operative movement in India. My purpose will be served if I recall only the relevant salient features of this history. At the outset, the earlier phase of Indian co-operative history has to be distinguished to indicate a contrast with the situations which have been described above. In all these other cases, co-operation was an instrument of active official policy and this official policy was concerned with all-round economic development or with specific measure of economic reform. Whether it was land reform, marketing organisation or the progressive development of the total economy, co-operation was used in these countries as an instrument and as part of a total scheme. Co-operative activity was allied to positive programmes in other directions and was fully co-ordinated with them. For the larger part of the history of the co-operative movement in India this was not so. It is true that co-operative activity was established in India on official initiative. The report of Sir Frederick Nicholson and the Acts of 1904 and 1915 form the basis of the movement. Commenting in the early 30's Sir Horace Plunkett said that with the exception of a few genuinely co-operative cases, the movement in India was due to the zeal of the Registrars or some other philanthropic individuals. He added "It was not so much a movement as a governmental policy".⁹ While this description is, in the main, correct and the history of the movement till recent decades was essentially a history of the results of political policy and official action, it is necessary to remember the severe limitations on that policy and on that action till 1947.

Official policy in India till 1947 was not directed towards either overall economic development or any set of specific economic measures in which co-operation figured as an item or of which co-operation was conceived of, as the instrument. Official policy confined itself chiefly to the setting-up of co-operative societies. The setting-up of the co-operative societies and the appropriate legal provisions and organisational structures were themselves treated as the ends of official policy; presumably, it was hoped that co-operative societies so set up under official guidance and with official inspiration would begin soon to act as co-operative societies formed voluntarily in the more prosperous countries by members of more secure groups, and would function successfully.

⁹ Hough, Eleanor M., *The Co-operative Movement in India* (1932), p. 221.

The policy was naturally the only policy that could be adopted by a colonial government which had some paternalistic bias. By the beginning of the 20th century, this bias had crept into British administration in India. However, that bias was not related either to transfer of political power or to making aid available or adopting appropriate policies which could bring either a state of economic security or start economic development. Therefore, whereas paternalism or the disposition towards it led officials to sponsor the establishment of a co-operative movement, an economic programme for the State was absent and policy measures which were essential as supports for the development of a co-operative movement in a poverty-stricken and insecure rural economy were not forthcoming.

This may be explained further by reference to the history of the co-operative movement in India before the 40's. The movement appeared to develop rapidly in the decade after the first world war, because this happened to be a period of relatively rising agricultural prices and of prosperity among some rural areas and classes. Because of this and because of the feeling that the movement was government-sponsored, funds from certain urban and rural strata became available, and the number of societies and their operations grew apace. With the depression, however, the movement suffered a severe check. In terms of number of societies, of members and of volume of business the movement remained stagnant till 1937-38. What was more significant was that the check given by the depression laid bare the fundamental weaknesses of the movement. In most countries the depression led to measures of radical financial reconstruction and wholesale liquidation. It is not too much to state that in a large number of provinces in India, even the fillip and the improvement in the situation brought about during the Second World War and after, were not sufficient to revive the movement and that in some, the policies adopted during the period of liquidation and financial reconstruction left a mark on the structure and operation of co-operatives which is still discernible.

Notable differences in developments from Province to Province were noticed in this early period. These were due partly to differences in economic structure and circumstances but also partly to official personnel and policy. In most accounts of co-operation in India, the provinces of Bombay, Punjab and Madras were usually mentioned as showing the soundest and most hopeful developments. But even as between these, certain important differences appeared in the course of history. The Punjab had a succession of exceptionally able registrars of co-operatives and showed what could be done in favourable circumstances in a predominantly officially-guided movement. The peculiarity of Bombay and Madras history, on the other hand, was the relatively much larger participation by non-official leaders

of the movement in its growth and direction. As a result, experimentation in Bombay and Madras was more varied and though the results of efforts were more uneven than in the Punjab, there appeared from some points of view more vitality and internal strength in the movements of these states.

By and large, however, the co-operative movement remained insignificant in all states in relation to the totality of rural life, and in all the more essential aspects of agriculture, credit, supply and sale, the co-operative movement took little effective part.

A specially remarkable feature of early Indian developments had been the emphasis on the credit society. This has been justified as being natural because the problem of agricultural indebtedness was stupendous and in the absence of a suitable machinery for agricultural credit, the economic and social influence of the moneylender and the evil of indebtedness were greatly aggravated. That may be a perfectly valid reason for starting with the agricultural credit societies, but it was not a valid reason for stopping with them. The real valid reason for stopping with them was that any further action would have raised, logically, problems of economic policy. Attempts at extension of business of supply on the one hand or of marketing and processing, on the other, would have encountered difficulties which could have been resolved only by appropriate official policy re: development of agriculture. It has been shown above how the raising of the co-operative super-structure in Turkey was centred round the decision to improve marketing of agricultural produce. The aims of economic policy in Japan in the rural sphere were even more comprehensive. A state or government that was not in a position to take a positive view regarding requirements of policy in this sphere could not, in thought or action, go effectively beyond the credit society unsupported by government funds; and the attempt to create a credit structure unrelated to other activities and requirements was bound to fail.

All this was brought out not only by the collapse of the movement in many states during the depression, but also by the reaction of governments to that collapse. Governments of Indian provinces were not impelled to counteract effects of depression, as were governments in all self-governing, dominantly agricultural countries which were hit by the depression. These latter attempted to protect the position of agriculturist producers by some insulation of the market, some stabilisation of prices and some measures of moratoria and other temporary reliefs. In India, the other measures were nowhere considered and the problem of moratoria and burden of debt was actively considered only by the government in Uttar Pradesh. Some tentative, largely ineffective, action was taken in this state in the early 30's. Elsewhere it was only when the popular Ministries under the new

political constitution came into power in 1937 and after, that the problem of adjustment of debts was tackled.

It is necessary to emphasize this aspect of Indian co-operative history. Co-operation in India was no doubt for many decades officially sponsored; but it was only the setting-up of co-operative societies that was so sponsored and for which arrangements were made. Economic policy needed in the poorer countries with a backward peasantry to make co-operation succeed and forge ahead was entirely ignored. From this point of view, the real history of modern developments in co-operation in India may be said to date only from 1945. The two committees appointed by the Government of India, almost simultaneously in 1945, looked to the future and faced a series of questions.

The first of these, the Agricultural Finance Sub-Committee was not directly connected with co-operation. It was a committee which enquired into agricultural debt and was asked to prepare a programme for a system appropriate for the total finance of agriculture. Inevitably, it took notice of co-operative developments. Two or three points regarding the recommendations of this committee might be noticed. In the first instance, the committee emphasized the need for a positive approach to the problem of rural debt. In its opinion measures such as the regulation of moneylenders or the mere encouraging of co-operatives were not sufficient. It insisted that the only way to undermine the position of the moneylenders was to provide an alternative source of credit, for all creditworthy cultivators. The moneylender's hold on the people was based on his monopolistic position and the ability to resort to another source had to be created for breaking this monopoly. The Committee's attention was, therefore, directed to the setting-up by the Government of an appropriate institutional system which would function all over the country as the alternative to moneylenders. It recommended the creation, in this behalf, of a number of semi-state Agricultural State Credit Corporations.

It is not necessary to enter into any detail of the recommendations or their merits. It is important to note, for our purpose, the manner in which the Committee treated the co-operative structure. In this connection, it laid emphasis on two points. The first was that co-operative developments in India were so uneven that no system of agricultural credit could be raised uniformly in all states on the basis of co-operative activity. Secondly, it pointed out that Indian co-operative leaders had felt very keenly about the preservation of the principle of voluntarism in the operation of the movement. That is, they insisted on each co-operative society's being entirely free to decide what to do and whom to serve and not being made to fall into a plan. In view of these two features of the current situation the committee

could not recommend the co-operatives to be adopted as the instrument for planned supply of universal credit. However, it recommended that in any state in which the co-operative movement was reasonably strong and in which the non-official co-operators agreed to take on themselves certain responsibilities and to function as an instrument of national policy, the setting-up of a State Agricultural Credit Corporation would be unnecessary. In such a case, by a suitable re-organization of the co-operative structure, a financial organisation capable of providing sufficient credit to all credit-worthy agriculturists in the State could be raised.

This matter has been explained in some detail as it is crucial in a proper appreciation of later developments in Indian co-operation. The recommendations of the Agricultural Finance Sub-Committee were generally disregarded both by the Government of India and by most states. In no state was the idea of setting up an agricultural credit co-operation seriously taken up. However, in Bombay State, non-official co-operators in discussing the recommendations of the Committee took a momentous decision. The Bombay Co-operators agreed to accept the responsibilities involved in the co-operative movement becoming an instrument of implementing official policy and agreed to undertake reorganisation appropriate to this end. The entire history of co-operative developments in Bombay subsequently must be interpreted in the context of this decision and its consequences. This history of reorganisation and development in Bombay assumes importance because the recommendations of the Rural Credit Survey Committee regarding the new integrated co-operative structure are, to a large extent, based on the experience of Bombay, following the re-organisation in 1948.

It is necessary to explain further the special relevance of the Bombay experiment to the work of the Rural Credit Survey Committee. The Rural Credit Survey Committee was preceded by a Conference of Co-operators of Bombay and Madras held at the invitation of the Governor of the Reserve Bank and the Rural Credit Survey originated in the recommendations of the Conference. Planning for economic development had been launched in the country, when the R.C.S. Committee began its work and also Indian non-official co-operators had modified their earlier stand and had agreed to adopt co-operation as an instrument of planning. Inevitably, therefore, the R.C.S. Committee adopted an essentially co-operative approach to the problems under its consideration. Once this had been done the two main features of the R.C.S. scheme viz. state initiative and state sponsorship and the integration of credit with sale and supply and processing followed equally inevitably. In all countries in which economic development programmes had been successfully implemented through state-sponsored co-operation the approach evolved had been basically

that incorporated in the R.C.S. Committee's recommendation. In India the reorganized co-operative credit system in the Bombay State afforded the only instance of a co-operative movement which had voluntarily reorganized itself in order to provide a generalised system of credit and to fulfil a state programme and which had formulated an appropriate programme of schemes of lending for different terms of credit and for integrating the system of credit with purchase, sale, marketing, processing, etc. Therefore, though many individual features of the Bombay experiment had been anticipated elsewhere the R.C.S. Committee could exemplify the total approach only from the Bombay experiment.

I shall not spend any time on an itemisation of the R.C.S. recommendations but shall proceed with an account of later history. The programme of action suggested by the R.C.S. Committee was relatively quickly adopted by the Union and State Governments and considerable progress has been made with its implementation. During the last two years, however, it has experienced difficulties because of confusion of thought and vacillations in policy in the Planning Commission and the Central Government. It is necessary to comment on some of these controversies to indicate and assess possibilities regarding the future.

One of the main points of emphasis of this series of lectures is the great variety of forms that co-operative activity is apt to take and the need for recognising how differing principles and practices will be found to be appropriate for various circumstances. It was possibly a by-product of the generalised series of all-India recommendations that the R.C.S. Committee made that various state Governments and the Reserve Bank put the implementation programme in a common frame which came to be interpreted rigidly. The R.C.S. Committee had itself stressed unevenness of conditions and need for adjustments; but in administering a scheme over large areas and under pressure this is apt to be lost sight of. It is likely that some of the current controversies arose out of a somewhat rigid implementation of the recommendations. Others, however, appear to be based on fundamental misconceptions and it is necessary to comment on some of these misconceptions.

I choose for comment, two. The first is the idea that Government participation in the share capital of a primary is wrong in principle and will lead to government domination of the movement; and the second, that the only type of primary society to be established is that which attempts all functions and is confined to a single village.

Firstly, the matter of government participation : It is not possible for a community of poor agriculturists to raise funds initially required for starting a co-operative society out of their own resources; in exceptional cases where agriculture is secure and well developed

and the grip of the moneylender-trader is relatively weak external aid may not be required. Elsewhere, rapid and planned development must be initiated with considerable external help. Conditions of underdevelopment, poverty and backwardness, all denote current inadequacy of resources of both finance and personnel. That external assistance in both these respects, from those more fortunately situated is urgently required by the underdeveloped is universal experience. The small-sized village in India represents inadequacy of resources in an extreme form and all programmes of its development must, therefore, seek to supply the needed assistance from outside and to integrate this weak unit meaningfully with the rest of the economy. In the circumstances, to talk of depending on internal resources from the beginning is tantamount to condemning, as in the past, all the poorer and moneylender-dominated areas to permanent stagnation. Government participation is here required for widening initially the owned resources base and to start developments. Whether this will lead to official domination or not depends on the tradition and temper of local officialdom and the strength and quality of non-official workers. Where the latter is found inadequate, official dominance will exist even with little or no government assistance.

Therefore, government participation by way of subscribing to the share capital of a society ought not to be confused with official domination of the movement. Even in British times the development in various provinces was not uniform in the latter regard. Today, there are a number of states where the resources of the credit movement are mainly derived from the Reserve Bank of India, where the distribution of funds by the primary is largely through government or bank officials and where such development as appears to take place is through the pressure of community project or other administrative agencies. In many of such areas, there is no government participation in the share capital of primaries, but the movement is essentially officially-guided and dominated. On the other hand, in the Bombay State, for example, the entire co-operative banking structure has, during the last ten years, obtained large funds through subscription of share capital by Government. The raising of the structure of sugarcane co-operative factories has also been possible only through government participation in the share capital. However, in both these contexts, as I can vouch from personal experience, official dominance is absent. Official assistance and technical help are always available but the main formulation of policy as well as the conduct of daily operations has remained essentially in non-official hands.

The other important controversy has been in relation to size, areas and functions of the primary society. It is difficult to see how a dogmatic approach can be justified in this context and how a single uniform solution could adequately cover the total Indian situation.

It appears clear, in the first instance, that co-operative societies must be looked at essentially as business organisations and must be primarily designed and constructed to carry out particular business activities. They ought not to be confused with the purely political or administrative organisations like Panchayats. It will happen, as often happens in all contexts, that the groups of people who lead the Panchayats and the co-operative organisations are the same; but this ought not to lead to confusion between legal and financial or other provisions under which a Panchayat acts and must act and the constitutional structure and business operations of a particular co-operative society.

In relation to conduct of co-operative business, it is difficult to see how a single organisation can perform all functions or a rigid type of a single area organisation can satisfy all needs in every context. The co-operative business organisations must be appropriately designed to be able to carry out a number of different functions. Co-operatives of producers have obviously to be formed in a way entirely different from that of the co-operatives for marketing or for credit. An artisan co-operative such as a co-operative of leather workers or weavers has to be composed of a number of artisans of the same type and may cover a number of contiguous villages or be confined to one, depending on the concentration of the workers. On the other hand, if most of the lands in a village come within the fold of co-operative farming, it may be found desirable, in a normal-sized village, to form, say, three or four co-operative farming societies, rather than bringing all the lands into a single society. Similarly, a processing society such as the cotton pressing, ginning or the rice milling must, to function efficiently, draw its supplies, from a large enough area to give it sufficient business throughout the year or the season. For this purpose, it must spread its membership over a wide area. In another context, a sales society can operate only where there is habitually a large congregation of traders. No doubt where there is an important element of assembling or grading and storing before transporting the produce to the market village, a village society may act as a useful subsidiary or supplement to the main sale society; but it can never function as the sale society in itself. The same reasoning applies to purchases; purchases, say, of fertilisers cannot profitably be made independently by a village society, but most of the larger village societies can act as distributive agents for an efficient federal purchasing organisation formed on the basis of a larger area. Credit, similarly, must be related to efficient handling of the credit business. This has two aspects; one is the processing and scrutinising of applications, disbursement of funds or of materials in lieu of money, insistence on marketing through co-operative

channels, and recoveries. All this suggests an essentially local organisation in which knowledge of operations of individual members assumes importance. At the same time, a certain turnover is essential before a primary credit society can operate efficiently. Therefore, unless there is going to be a perpetual subsidising of administrative expenses of the societies, the size of a credit society must represent a certain minimum turnover.

All this again will not give a uniform answer regarding the area coverage required in each context. Where operations of agriculture are intense and heavy and crops such as sugarcane predominate, even a hundred farmers may be able to sustain a credit society, *i.e.* in a small-sized village. On the other hand, where farming is largely insecure and is of the type of non-monetised, subsistence farming the turnover per farmer would be very low. In extreme cases of this sort, no extension of area alone would serve the purpose and subsidisation may be necessary till considerable agricultural development takes place.

The whole question is further complicated by the possibility of combining a number of functions in particular cases, at the village level. Credit operations may be combined with agency operations for sale societies and local distribution or with consumer store business. With such combination, multi-purpose village societies may prove viable. It needs, however, to be remembered in this context that it is usually only at a fair-sized village with a relatively central location that assumption of variety of functions becomes possible or profitable.

The upshot of all this is, that it is impossible to lay down, it is in fact dangerous to lay down, hard and fast rules. Large size is not an objective in itself, but excepting in the poorest and most backward areas, viability is or should be. The aim of combining everything in one society is impracticable. At the same time, at the primary level, a number of functions that can usefully be performed through one paid agency and one managing committee ought to be so combined. Therefore, policy should be defined in terms of broad objectives and desirable operations and the actual working-out of details should be left to individual states, being in fact adapted to the circumstances of agricultural business of each type of region.

I may now turn to a review of the progress during recent years. In the first instance, it is clear that even today after years of planned effort unevenness in co-operative development remains marked. The greatest difference is in relation to the efficiency and strength of primary and of district-level units. Everywhere much more finance is routed through co-operatives than before, and attempts have been made in all states to erect a co-operative super-structure. To a large extent, however, the super-structure operates on government guarantee and participation of government officials and their supervision

at a number of stages in a number of activities remain essential. That would not be a serious matter if it could be said that the movement, as a whole, and the individual operating units were showing signs of growing in strength. This, however, cannot always be said with confidence.

In relation to all state-sponsored co-operative effort there is paramount need to bear constantly in mind M. Colombain's warning about the possibility of the raising of the super-structure itself making it impossible to build up a proper primary structure. In co-operative economic activity it is the primary unit that is by far the most important. All the other units and the entire super-structure whether in terms of credit or production or sale or supply have a single major purpose, that of making the functioning of the primary fully successful. No understanding of either the strength or limitations of co-operative organisational effort could be obtained without appreciating this fundamental point. While, therefore, it may be legitimate to think in terms of a super-structure somewhat artificially created and maintained while the primaries are allowed to grow and gather strength, if the maintenance of this super-structure or any policy connected with it makes it impossible to bring healthy and strong primaries into being such a policy should be considered self-defeating in the long run.

It is possible to interpret current opposition from some states in India to the idea of a large society as being perhaps meaningful in this context. The formation of larger societies in areas where primary societies have been functioning for some time already and where the co-operative spirit has had time to grow may be all to the good. However, in a state where there has been little experience or common knowledge regarding the formation and operation of primary societies and where the co-operative idea itself has to find acceptance there might be serious objections to making a beginning with a large society. Beginning with a large society in such a context may mean beginning with a unit which holds no possibilities of functioning as a cohesive, socio-economic democratic unit.

In this connection it appears important to bear in mind the background of the recommendations of the agricultural finance sub-committee, and to enquire whether an immediate effective organisation of agricultural credit and marketing must invariably and in all circumstances be linked with the building-up of the co-operatives. If one recognises as basic to the Indian situation, that large areas in India are not only co-operatively undeveloped but have hardly any societies or co-operative membership, the system of supply of production credit for such areas may have to be designed, at least in the short-run, as apart from the normal programme of development of co-operative societies. A programme of co-operative development is undoubt-

edly of great importance in relation to future well being. There is, at the same time, no reason why the immediate objectives of supplying credit adequately or marketing efficiently should be made to wait entirely and completely upon co-operative developments which may lie well in the future. In such a context, the problem of the supply of credit and of a marketing system or processing organisation to meet all cultivators' basic needs and to protect their interests must be dealt with as an immediate short-term programme which fully takes account of co-operative institutions and organisations, wherever they exist, but which also is able to operate in the absence of a co-operative institution or co-operative membership. The only requirement that would be essential in relation to such a short-term programme would be that no feature of it conflicts with the requirements of the long-term co-operative development programmes. It may be useful in this context to follow the operations and experience of the Egyptian Agricultural Bank.

To turn back from this digression, the main tests that we formulate regarding progress in co-operation and rural reconstruction are whether the co-operative and other structures that are raised, function widely and successfully and whether they promise to lead to the permanent establishment of a growingly self-reliant co-operative structure and above all strong primary societies. In relation to growth in economic strength and usefulness of the co-operative structure the most important handicap, today, appears to be the absence of sufficiently strong and well-co-ordinated official complementary action.

Though government is supposed to be engaged in planned economic development, there is yet serious lack of policies that will result in a proper development of rural resources and organisations. Ever since the days of the Saraiya Committee (The Co-operative Planning Committee 1946), for example, great stress has been laid by all on the programme of agricultural price stabilisation. The entire government policy in relation to agricultural prices during the last decade has been full of contradictions and weaknesses and has created great difficulty for the cultivators and the co-operative movement. Government policies relating to market regulation and to co-operative processing have also not been fully vigorous and active. In relation to processing plants there already exists, in many directions, redundancy in the private sector. As has been often urged, it is, therefore, necessary for government to make provision for acquisition by co-operative societies of private plants if development of the co-operative sector in this sphere is expected. Marketing continues to be entirely the preserve of the private trader and the hold of the private dealer on even committees of regulated markets is such that these are not able to enforce their own regulations. Unless government policy is firm and active in relation to bringing marketing and processing of

agricultural produce, as early as possible fully into co-operative channels, the future of the entire integrated structure of rural co-operation remains in jeopardy. It is clear that unless much greater political power is exercised by rural interests and the hold of the urban capitalistic class, whose foundations rest on moneylenders and rural traders, is reduced, these policies cannot be expected to be adopted and pursued.

It is not possible to emphasise sufficiently the vital role of co-operative marketing and processing and of its close relation with the operation of the credit system. It may be noted in this context that credit and marketing co-operation has made headway chiefly or only in some areas where the more valuable commercial crops are grown and where agriculture is relatively secure. The integrated structure has a wider and more secure base in such areas and also local leadership is more readily available in them. With valuable commercial crops co-operative organisation of marketing and processing is found to be less difficult. However, what is now patchy and unstable must be made secure and widespread and this is not possible without a co-ordinated and vigorous official policy. The problems are neither new nor complex. All that is required is for Government to generalise the approach that it seems willing to adopt in practice only under certain inducements, as for example in the latest Ford Foundation Scheme for increasing agricultural production.

Finally, one may consider what prospects there are of an early establishment of a co-operative movement which is self-reliant and has strong primary units. It is obvious that in this connection the crucial element is that of non-official workers and local leadership. At present Indian co-operative leadership is drawn from among those who have, in the main, experience of conduct of co-operative organisations at the district, regional or apex level rather than at the primary level. The present leadership comes chiefly from among urban classes not directly associated with the conduct of even primary marketing and processing societies. It is obvious that until the primary rural strata put forth stronger leadership, the full flowering of the movement may not take place.

At the same time there appears no need to despair. With further growth of educational facilities, greater activity in local administration, greater decentralisation of power in government, local leadership may come to acquire greater experience and greater understanding and would be able to assert itself. When this happens a basically strong co-operative movement may have grown.

As I have called ample attention to defects of the current situation it is only right that I should also indicate what might be considered as hopeful manifestations. Because of limitations on personal knowledge the illustrations below are all taken from Bombay State. I feel

sure they could be matched by other examples from other states where the movement is doing relatively well. The co-operative banking structure in Bombay State has always been relatively self-reliant; it showed this quality even in its programme of reconstruction during depression. Since the reorganisation of 1948 the structure has shown its vitality by the manner in which it has watched the progress of new developments and pursued its programmes consistently. One of the most important features of recent history has been the part played by the State Apex Bank in the creation of District Central Banks and the considerable measure of success achieved in this direction. This has shown firstly, that when healthy District Organisations come into existence they can call forth greater effort and perform much greater service than even an efficient State organisation. Secondly, that when deliberate attempts are made in this behalf appropriate local leadership is usually forthcoming.

There are also notable examples of emergence of leadership in the primary field. To my mind, the most instructive of these is the growth of the cotton sales and ginning and pressing societies in South Gujarat. This movement has grown over almost four decades from small beginnings. It owed its initiation to an authentic rural leader, Shri Purushottam Patel. It has grown by stages and evolved through actual experience and has now consolidated its hold in such a manner that a very large proportion of total production of cotton from this rich agricultural region passes through the co-operatives. Some features of spontaneous indigenous growth with firm rural roots are also to be observed in the movement which has led to the establishment of a large number of sugar co-operative factories in Bombay State. It is thus clear that with a favourable environment primaries, well-established and healthily functioning, could grow in India. That this should happen has to be the endeavour of all, and everything that helps and hastens the process must be supported.

In relation particularly to the growth of primaries and local leadership an important gap in India is absence of deliberate effort undertaken for this purpose. This is specially in evidence in relation to the organisation of co-operative education. Of recent years a large effort has been made in the field of co-operative training. The Reserve Bank, in particular, has been very active in the implementation of the recommendations of the R.C.S. Committee in this behalf. However, almost all this effort has been directed towards the training of officials of the co-operative movement or of managers of co-operative institutions.

Education of the rank and file of the membership in the principles of co-operation and related educational activity has been, since its origin, reckoned as one of its most important responsibilities by the co-operative movement. Little has been done in this regard in India

and what little has been attempted suffers from the fatal defect of all endeavour in India, centralisation. Therefore, it is not enough merely to recognise that education of members is a vital and urgent necessity, it is also necessary to see that its organisation and conduct are not connected with direction from Delhi, and are entrusted, in the main, to decentralised bodies in various homogeneous geographic regions. It would be highly desirable indeed to connect this activity, if possible, with the working of the more active co-operative organisations themselves. At present, these consider that their only responsibility is to contribute to the funds of the State Institute or other organisations set up for the purpose. Apart from such contribution, which is ordinarily imposed by the bye-laws, it is necessary to induce all the larger organisations, whether primaries or at the district level, to organise educational and cultural activity directly for their members. I would also put in a plea, in this context, for encouragement of research in two related fields; firstly, in relation to the economics of the operation of co-operative societies, and secondly, in what has been called the Sociology of Co-operation.

Currently, the greatest obstacle in the way of progress of co-operation in India is the situation in relation to direction of co-operative policy at the centre. This is high-handed and perverse and is at the same time weak and vacillating. The most important feature of the situation is that co-operative policy is no longer made in the co-operative way. The situation in this regard has steadily worsened. In British times the policy was made essentially in the Provinces and since the twenties each change was effected only after examination by Committees in which active non-official co-operators had an influential and honourable place. I have already referred to the two important committees of 1945; these had both non-official chairmen. An elaborate series of conferences in the states and the Centre and at both official and non-official levels preceded the formulation of the programme following on the report of the R.C.S. Committee of Direction. Recently, however, all regular procedures have been abandoned and policy decisions are announced oracularly.¹⁰ How they are made, it is difficult to ascertain. This has had a disheartening effect on non-official workers in the states and created confusion in official ranks. Moreover, the policy decisions thus oracularly stated or hastily formulated and forced upon Councils or Conferences are all interpreted as of uniform application all over the country. Nothing could be worse for the healthy growth of the co-operative movement than this imposition of decisions from above unrelated to local experience

¹⁰ This was the situation towards the end of 1959. During 1960 with the appointment of the V. L. Mehta Committee and its report there was some improvement.

or local thinking. The great requirement today is exactly in the opposite direction; it is for active, vigorous, diversified experimentation. This is necessary, above all, in new fields of endeavour such as that of co-operative farming. Of course, the manner in which the decisions are announced and the known fact that they are liable to equally sudden changes, lead to no action being taken or being possible, even in the supposedly new directions. But this, though perhaps it saves the country from some very costly mistakes, merely stabilises confusion as a permanent state.

To sum up, though the existing coverage of co-operative activity and its total performance in India is not impressive, it does not appear that the general structure of the movement or its lines of development are basically unsound. Rapid future development and the ultimate establishment of genuine co-operation depend on the fulfilment of two requirements. These are sound and vigorous complementary official policies in the fields of agriculture and small industry and the encouragement of experimentation and of decentralised local leadership in co-operative activity. If these are forthcoming there is no reason why the rural economy of India should not in an overwhelming measure be soon covered by healthy co-operative effort.

Lecture III

CO-OPERATION AND THE TRANSFORMATION OF ECONOMIC SOCIETY

THE previous lectures describe briefly the history of the development of co-operative activity in different contexts and its present coverage and structure. In the light of this, I proceed to discuss, in the first instance, the essential nature of co-operation, as at present understood, and the limits of its expansion. I shall subsequently try to relate the existing and future co-operative developments to the interpretation of the term Co-operative Commonwealth and the possibility of the achievement of this goal.

An attempt is often made to indicate the essential nature of co-operation by reference to what are called "co-operative principles". A co-operative orthodoxy has been built up and in many debates and controversies, a reference to such "principles" is presumed to settle the issue. The principles as laid down by the Rochdale Pioneers or as exhibited in the original Raiffeisen societies are among those most often invoked. However, special types of co-operatives have also evolved their own principles for which they often claim universality. The bitter and, in retrospect, sterile controversies between the followers of Raiffeisen and Schulze-Delitzsch in Germany during the 19th century emphasise the dangers of the approach through a definition of pristine principles. However, it may be useful at this stage to have a brief look at some of the more important principles to find out their varying implications and the degree of generality of their application.

We may turn for this purpose to the main Rochdale principles. These were open membership, democratic control, dividend on patronage and limited returns on capital.

The principle of open membership was directed, in part, towards emphasizing the political and religious neutrality of co-operators. Though most of co-operative pioneers were moved by great faith, they considered co-operative activity as essentially secular and insisted on keeping the admission free from all restrictions in terms of religion, sects, etc. Open membership may also be linked to keeping the value of the shares low so that even the poor could join co-operative organizations. An apparently simple principle as that of "open membership" is discovered on examination to create difficulties in the context of many types of co-operative activity and does not prove

universally applicable. A consumer store may have little difficulty in operating upon the principle of open membership. All those likely to apply for such membership would be residents of a neighbourhood and if they desired to shop with the society or store regularly, there was no reason, especially when the trading was only on cash basis, why anybody should be refused membership. When, however, one thinks in terms of the original type of the Raiffeisen credit society, open membership is no longer important or relevant; it would not be even an acceptable principle. Where emphasis was placed on the formation of a group in which all members knew each other, each other's business and character, membership could, obviously, not be open. It would be a necessary privilege and responsibility of existing members to be fully selective regarding new applicants and entrants because it was on the basis of mutual personal knowledge that the society operated. (While thus open membership as a principle was inappropriate to the original Raiffeisen credit society, the peculiar composition of membership of that type gave rise to the principle of "unlimited liability". Unlimited liability, in its turn, though very important and indeed vital to this historical type was very far from being a principle of universal or even general application.)

Open membership may also have to be interpreted with caution in other contexts. It may be important for the smooth working of a type that members of the society share certain economic characteristics and it may even be necessary to exclude specifically some others. If, for example, moneylenders and traders are allowed to join a rural credit society, it might result in the operations of the credit society being warped and its resources used to benefit the very classes whose undesirable activities the society was seeking to eliminate. Moreover, in no case could one have open membership in the sense of indefinitely extended membership. Limits to size of operations or numbers of members may have to be laid in most units of economic activity so as not to carry operations beyond a certain desirable level of size or scale.

On the other hand, in economies which are attempting to develop according to a plan and in which the co-operative is accepted as an instrument of planning, the concept of open membership may acquire a new meaning and an additional dimension. If, for example, government uses the co-operatives as agencies for providing credit to certain classes of agriculturists, a society formed for this purpose would have to be open to all members of those classes within the area of the society. In this context different 'co-operative' principles may appear to be in conflict. On the one hand, it may be contended that a co-operative group being voluntarily formed, should not be compelled to admit a person whom it did not like; on the other hand, government policy would fail if an instrument set up to implement it were thus

at liberty to limit operations of that policy and to prevent particular persons from enjoying benefits that national policy decreed should be available to them. An opposite, but in a sense a complementary aspect is exhibited in provisions for compelling members to join a society. Thus in many land reform or land settlement schemes it may be insisted that each beneficiary in the scheme must join a co-operative society. Here not only has a society, so set up, to accept all members of the class as members of the society, but every person who aspires to join the class is compelled to become a member of the society.

The principle of open membership thus proves acceptable in practice only with diverse interpretations and many reservations. The important residual element that appears to retain universal validity is that membership should not be refused in a co-operative society to persons for considerations which are not relevant to the operation of that society, *i.e.* its membership should not be denied for reasons such as political opinions, religious faith, etc. which presumably have nothing to do with the operation of the society. Even this is not necessarily universally accepted. It has been often held that an important feature making for a smooth working of societies was that members of societies all belonged to one caste or community. Formerly, there were in India many societies explicitly confined to members of a caste or community and some of these societies worked well. It is widely felt today that the adoption of such a base militates against the building-up of an open democratic society. However, it has to be remembered that co-operative organisations exhibit, in the main, characteristics of the social *milieu* of which they formed a part. Whether, in fact, membership of a co-operative was really open or not and whether the conduct of its operations was influenced or not by considerations of community, political opinion or religious faith would depend greatly on the composition and temper of the society in which it operated and of which it was a manifestation. There is little doubt that the Kibbutz derived its strength from its homogeneity and from the great fervour regarding establishment of the Jewish Home by which its members were informed.

The principle of democratic control, the Rochdale Pioneers incorporated in the rule "One-man-one-vote". There has been general formal acceptance of this principle in most types of co-operative organisations all over the world. The vote in a co-operative is related not to exercising influence in the general affairs of a community, but to exercising it in the business activities of a particular economic organisation. The one-man-one-vote principle in such a context may have the result of minimising the influence of the rich and of preventing concentration of control; it may also not have any adverse

effects so long as the membership of the society was fairly homogeneous. The principle may not, however, be fully appropriate if there is some element of heterogeneity or of conflict of interests within the membership. In a society in which both buyers and sellers of a product were members, there might arise conflicts which could not be resolved on the basis of one-man-one-vote principle. Also, in many federal organisations, the difficulty of balancing of interests would have to be solved through special devices. Some qualification of democratic control has also to be introduced where co-operation has been sponsored by state authority. Where considerable initiative and assistance is available from the state, some powers of supervision and control are inevitably retained by the state.

Prescribing a low value for the qualifying share for admission was also related to open membership and democratic control. The value of a share is related to the volume of owned capital needed to initiate the co-operative activity. An activity which did not require a great deal of such capital and in which many could participate might be started with a low qualifying amount. However, such conditions might not always be obtained. In certain types of, say, producers' organisations high requirements of initial owned capital and limited potential participant membership may coexist. In such case the minimum contribution of an individual member may have to be placed at a high figure. Moreover, in such organisations great importance is attached to the building-up of reserves and other capital assets for ensuring stability and for adding to strength and efficiency. As a result, the older expanding organisations face a problem in relation to the terms of admission of new members. Older members are naturally reluctant to admit new members, who have not contributed at all towards building up the organisation, on the same terms on which the original members came in.

Perhaps, the most important operative principle framed by the Rochdale Pioneers was that of giving dividends on purchases. This may be more widely phrased as that of distributing the surplus in relation to the volume of individual member's business with the society rather than in relation to his investment in the capital of the society or on any other basis.

Like open membership and democratic control this principle is well-nigh universally accepted in theory. However, its practical import is not the same everywhere. It may prove of high significance in the working of a co-operative store, but it might have little relevance in the operation of a primary credit society. Also, the importance of the principle gets limited to the extent that a co-operative transcends the character of a mutuality and functions as a fully independent economic entity. This point may be amplified with reference to two

possibilities. The first is the extent of transactions that the co-operative organisation has with non-members and the manner in which it treats the earnings derived from its transactions with non-members. The second, and a related point, is the provision made by the co-operative for reserves or for new capital formation. To the extent the transactions with non-members prove profitable to the co-operative, an element of gain not connected with mutual business of members is introduced. Even more fundamental, if the co-operative thinks in terms of capital accumulation, over a period of years, providing continuously for activities in the future, it takes on the character of an entity planning for itself and operating in terms of its own business and its own future rather than being merely a convenience or device for the better operations of the business of members.

This brief discussion of some basic co-operative "principles" illustrates how the original formulations get transformed during the course of the development of co-operative activity over many decades in different fields and in varying circumstances. Such an examination of principles also provides guidance in distinguishing between the essential and non-essential elements in their form and content. While this throws light on "co-operative" values and objectives it does not explain or indicate the extent of coverage by co-operation of various fields of economic activity. Consideration of the latter question has to begin by reference to the essential and original nature of a co-operative organisation.

Essentially and in origin all co-operative organisations may be considered to be mutualities formed, by independent units of economic activity, to undertake in common certain activities related with their functioning as economic units. Logically, the mutuality would act on the basis of leaving no profit to itself. Consequently, it has been argued that a co-operative is a non-independent economic entity and strictly speaking the individual co-operative organisation is not even a separate firm.

The independent units of economic activity coming together to form a co-operative may belong to all types. They may, for example, be consumer units such as households, or entrepreneurial units such as agriculturists, or artisans or they may be labourers who hope by association to achieve a common purpose such as forest labourers coming together to exploit a forest or quarrying labour coming together to work a quarry, or road or building labour coming together for executing a contract.

This definition of co-operative activity would not bar divergent types of economic units coming together for jointly undertaking some activity. For example, prospective depositors and borrowers could come together to form a banking organisation or producers of cotton

and handloom weavers could join to set up a co-operative spinning mill. In the same way, a co-operative could have among its membership varying forms of economic units, such as individuals and associations. In the operation of the more complex organisations special problems relating to possible conflicts of interest in shaping policy or relative weightage in administrative influence etc. might arise; this would, however, not affect their co-operative character.

The view or definition of co-operative activity imposes also a limitation on its possible scope. The limitation arises from the basic requirement of a number of independent economic units coming together for a common purpose. Where an economic activity is not capable of being carried on this basis it cannot presumably be brought within the co-operative fold. The primary co-operative organisation has to be formed as a local group. Co-operation spreads over the sphere of banking through the federal organisation of primary credit societies or of small unit banks. Where such basic decentralisation of activity is not conceivable, co-operative activity proper cannot begin. Road transport based on small owners of road vehicles could be co-operatively organised, but this would not be possible with a railway system. Complex integrated systems of public utilities catering for the generality of the public are thus not appropriate to this form. Similarly in those activities, especially, mining and manufacturing activities, in which the unit of production is large and activity cannot be appropriately or conveniently initiated by a body of independent producers or consumers the co-operative form cannot be established. Such is the case with a large part of the field of modern industry. This would lead to the conclusion that while co-operative organisation offers an eminently flexible and adjustable mechanism to independent small-scale units for obtaining, in a wide variety of contexts, the benefits of large-scale operation, it appears to have no large place, in particular, in public utilities and modern industrial production.

In practice, however, the term co-operative is currently used to cover a number of establishments which are not mutualities. The largest and the most important class of these are establishments owned and operated by co-operative organisations which are themselves formed on the basis of a mutuality. These mutualities build up capital reserves or otherwise acquire resources to undertake new types of economic activity mainly to extend the scope and efficiency of their original operations in other fields usually related in some way to the main business of the mutuality. However, the organisation of this extended business is not itself in the form of a mutuality but in the form of an ordinary establishment owned by the co-operative organisation instead of by a private individual or a company.

Some theoreticians have attempted to justify description of such extended activities as co-operative through putting forward the theory of the sovereignty of the consumer. In their formulation producers as such have no independent existence, and producer organisations are all to be absorbed by the consumer wholesale societies.

Protagonists of the consumer movement in the United Kingdom also lay similar claim to overall superiority to developments through the consumer approach. A reasoned statement of the view is to be found in the following passage:

“The ideal of universal co-operation could best embody itself in forms which involved no inherent conflict of interest. Thus the plan of co-operation among producers, which was exposed to the conflict of sectional interests, lost ground before the idea of co-operation among consumers for the satisfaction of their wants. The simple device of dividend on purchases offered at once a practical way of avoiding earlier difficulties and discussions about the destination of accumulated funds, a means of eliminating profit, a method of accumulating savings for the extension of co-operative enterprise, and a sovereign plan for creating the assured market upon which further growth depended. The loyalty and community of interest thus created made possible the whole system of democratic control, directed by inspired and unselfish leadership, which makes the co-operative movement different from any other form of economic enterprise in the modern world”.¹

The claim made in the statement is exaggerated. The claim is valid so far as it concerns the operation of the consumers' societies, etc. in the field of trading. The exaggeration comes in when it is claimed that this approach avoids the conflict of sectional interests or that it eliminates profits and at the same time provides a method of accumulating savings. As long as the co-operative acts strictly as a mutuality the simple device of dividend on purchase has great merits. But when it accumulates funds and comes to own other enterprises the problems of distribution and of reconciliation of conflicting interests inevitably emerge.

The problem of distribution does not appear important in the era of dispersed small-scale economic entities, when co-operators are concerned chiefly with preventing exploitation and are guided by market prices in relation to all operations. However, with the increase in size of units in modern times and with co-operative organisations

¹ Carr-Saunders; Florence, Peers, *Consumers' Co-operation in Great Britain* (1938), pp. 514-5.

attaining, in some fields, even quasi-monopolistic positions the problem has to be explicitly recognised. That co-operatives are not immune from taking a partial view of problems becomes clear from experience in a variety of contexts. It has, for example, been noted that the dominance of the movement by Consumers' Societies has had the consequence of hampering the growth of Producers' Societies and of Agricultural Co-operation in England and that in Ireland the Irish Agricultural Organisation Society led by Sir Horace Plunkett had to fight for control of the creameries and their own marketing against the persistent opposition from the C.W.S.²

Like a Consumers' Wholesale Society a general co-operative or a labour organisation could also enter into fields of production and related economic activity. The most important example of such development is to be found in Israel. Of all the capitalistic economies, the largest part played by co-operation today is in Israel and in Japan. A brief discussion regarding developments in these two countries would be found useful for highlighting some important problems related to the extension of the field of co-operative activity.

Israel is one of the few countries where not only are the credit, marketing and processing of agricultural activity almost entirely in the co-operative field, but also a very large proportion of actual production activity in agriculture. As of today, outside communistic countries, Israel appears to be the only country in which co-operative farming is being carried on to a significant extent. The second important feature of the co-operative movement in Israel is the fact that in the non-agricultural sectors also co-operation both in the narrower and the wider meaning is extremely important. National income accounts for the year 1956 indicate that in most sectors of Israel's economy co-operative enterprises contributed considerable proportion of the total product. Roughly 35 per cent of the product in each of transport, commerce and finance was contributed by co-operative enterprises; 45 per cent in building and public works, 64 per cent in agriculture, and 19 per cent in industry small and large; and it was calculated that 28 per cent of the total national product was contributed by co-operative enterprises.³ This is most impressive. It would

² Cole, G. D. H., *The British Co-operative Movement in a Socialist Society*: 1951, Chap. VII.

It is important in this context to notice that Russel in his famous essay explicitly recognised the possible diversity of interest between consumer and producer between county and town, etc.: *The National Being: Some Thoughts on Irish Policy* (1916).

For a full account of the stresses within the party and government of the Co-operative Commonwealth Federation in Saskatchewan and the restraints imposed by the Capitalist framework, see S. M. Lipset: *Agrarian Socialism* (1950).

³ Guelfat, L., *L'economie Ouvriere en Israel*. (Institut de Science Economique Applique).

thus appear that the economy of Israel comes most near to being called a co-operative commonwealth. It is necessary, however, to be careful in this context, regarding the use of the term co-operative enterprise and to distinguish between the two types of the co-operative activity particularly in relation to industry. In Israel itself it is usual to use the term "the collective sector" or "the labour sector" for the more inclusive general class. This class includes all co-operatives proper, that is co-operative organisations organised as mutualities according to the definition discussed above as one division, and as another division all economic enterprises, the financial institutions, factories, construction companies, transportation companies, hotels, etc. owned by the general co-operative association and other large central co-operatives. The term 'labour economy' derives from the fact that a large part of the spread of co-operative activity is the result of the initiative and efforts of the General Federation of Labour (Histadrut). The instrument created by the Histadrut to co-ordinate individual co-operative efforts and to act as a holding company for its economic enterprises was the General Co-operative Association of Jewish workers in Israel (Hevrat Ovdim). Every member of the Histadrut belongs automatically to the Association, membership of which is open only to Histadrut members. The Association is constituted as a primary co-operative society at the national level and has no share capital of its own other than the nominal sum required for legal incorporation.⁴ Whereas in the field of agriculture the predominant form of organization through which the Association enters the field is the individual co-operative society; in the spheres of building industry and finance it is represented primarily by commercial companies which it fully or partly owns. In the field of building and construction the leading contractor for the construction work is the Solel Boneh, the building and contracting organization of the Histadrut. In industry the complicated nature of the picture is brought out by the following quotation:

"Four main avenues are followed by Hevrat Ovdim in the course of industrial expansion, each with its own specific character. The most important instrument of industrial development in the labour economy is provided by Solel Boneh, whose organizational machinery is being modified to include increasing provision for heavy industrial enterprise. Many of its industrial subsidiaries are controlled through 'Koor', a special holding company formed for this purpose. The central wholesale societies, Hamashbir Hamerkazi and Tnuva and other central insti-

⁴ *International Labour Review*, May 1960, A. Becker: "The Work of the General Federation of Labour in Israel".

tutions like Yachin-Hakal have also developed ancillary industrial undertakings of some importance. Secondly, the labour co-partnerships and primary producers' co-operative societies play a significant role in the light industry of the country. The third way in which co-operators participate in industry is through the Kibbutzim, many of which undertake industrial enterprise in addition to agriculture. And finally, Hevrat Ovdim directly, or through Solel Boneh and its other institutions, in conjunction with private capital has initiated a network of important joint industrial enterprises."⁵

The case of Japan stands on a somewhat different footing. In Japan, in the post-war period, the vast bulk of the economic activity of farmers and fishermen has become co-operatively organised. The extent to which co-operative activity is established in small industry and commerce in Japan is also very large. Small enterprise in Japan, it is said, itself makes a very important contribution, nearly 60 per cent of the total, to the output of industry. The coverage by co-operative enterprise of the field of small industry and commerce is not as complete as that of agriculture. However, even in small industry and-commerce it plays an extremely significant role. The history of the industrial and trading co-operatives has been similar to that of the agricultural co-operatives. They stem from trade association of a compulsory nature formed in the Meiji era. These changed into co-operatives and were gradually transformed through the 30's and 40's and became organs for implementation of control policies of the government. The co-operatives of today have succeeded to the tradition of the trade association and still retain characteristics of these; they have as well many purely co-operative characteristics. Apart from this element the small enterprise and commerce co-operatives are distinguished by the fact that they are not, as in many other countries, co-operatives of producers, i.e. of industrial workers joining together in a co-operative workshop or other productive business. They are co-operatives, that is co-operative associations, of owners of small independent industrial establishments. They are, in fact, therefore, associations of small traders and industrialists rather than co-operatives in the generally accepted sense of the term. In interpreting this aspect of Japan's development, an interesting problem relating to classification is inevitably raised. A number of farming units who are members of co-operatives are entrepreneurial units employing a considerable amount of capital and hired labour. If a co-operative dairy—of fairly substantial dairy farmers—or a co-operative sugar factory of sugarcane farmers of whom some may

⁵ Malkosh, Noah, *Co-operation in Israel*, (1954), pp. 47-48.

operate on a very large scale is legitimately called a co-operative, it seems difficult, in principle, to deny the term to Japan's co-operative associations or trade associations of small industries and commercial enterprises. Indeed, this leads to an obvious and a natural query which comes next : When does such a co-operative association cease to be a co-operative association and become a combination ? It becomes clear on raising this question that the term co-operative is, in ordinary usage, sought to be confined to associations of the relatively weak. It is when the relatively weak come together for a given enterprise that their action is called joining together in co-operation. When the same or similar action is taken by the relatively strong, it would be ordinarily called combination.

The result of the discussion is to raise doubt regarding the inclusion in the class 'Co-operative' of some organisations and activities that appear to be widely recognised as such. The doubts were raised above in two particular contexts. In the first instance is an activity—not itself organised on co-operative lines—to be included in the class co-operative only because a co-operative organisation owns and operates it. The activity is not a mutuality for common purpose formed by a number of independent economic units but only owned by such a mutuality. In its working also it would not exhibit any co-operative principles. It has been often pointed out by writers on co-operation that factories owned by the British C.W.S. do not differ in any aspect of, for example, policies relating to financial or labour relations from those owned and operated by joint stock companies. This is also the case everywhere else, whether in Sweden or in Israel. The distinction is recognised by all concerned and the industrial producers' co-operative organisations are concerned with maintaining their essentially co-operative character. This is well exemplified in the following quotation related to producers' co-operatives in Israel :—

“On the one hand the producers' co-operative is not a highly suitable form of organisation for large-scale heavily capitalized undertakings of the type which can weather the various storms of the economy, while on the other hand the societies which remain small are hard-pressed to meet the elementary capital obligations of continued operation. In addition to those financial difficulties which impede the progress of the producers' co-operatives, they are faced with the perennial problem of increasing their membership without demanding an excessive entry fee, while at the same time protecting the relative share of veteran members.

While the required capital contribution of new members of agricultural societies is met by public funds in the form of long-

term loans to the expanding society, there is no such public support of the industrial societies, the expansion of which is considered the concern of the labour co-operative movement alone. In the producers' co-operatives the question has not yet found solution, and hired workers who have not the means to become full members of the society which employs them, now generally equal the members in number...".⁸

No such problems are held to arise in relation to industrial concerns owned and operated by, for example, the Solel Boneh, presumably because these are not taken to be "co-operative" in the proper sense of the term.

The Yugoslav solution of this problem appears logical. In Yugoslavia the ownership of all producers' organisations is vested in workers and membership in all co-operatives is open to workers or other related interests. This approach would intensify problems in relation to reconciliation of conflicting interests in the shaping of policies. However, this might not be a major difficulty. What makes the Yugoslav approach not generally relevant is that it can be adopted only in a Communistic Society. The transition in that country has been twofold. The first process has been that of vesting all means of production in the nation or the community; the transfer to the appropriate body of workers could come about later only because the first step had been taken. In the non-communistic societies there is no way by which workers could obtain ownership of the production apparatus. If a fully diffused ownership of the means of production could be assumed, the Yugoslav liberalisation of policy regarding the grant of membership to all concerned in co-operatives may prove useful. But in a predominantly capitalistic economy as soon as a co-operative ceases to be a mutuality and takes the form of a continuing capital-conscious organisation it cannot fail to partake, in a large measure, of the operational and other peculiarities dominant in its environment. Moreover, except in specially favourable conditions as those in Israel no large extension of even such co-operation in the field of modern industry is likely.

The other problem raised above was that of the difference between a co-operative organisation and a combination. This also involves questions not of organisational structure but of attitudes and end-objectives. And it is to these that special attention has to be paid in discussing the concept of a Co-operative Commonwealth.

I propose to confine deliberately what I say relating to the concept of the Co-operative Commonwealth to conditions and possibilities in India of the near future. The review so far has indicated that while

⁸ *Ibid.*, pp. 52-53.

co-operative activity does not cover all aspects of economic life and has limited significance in most highly industrialised societies, it could assume great importance in underdeveloped economies. In these economies, in agriculture and other primary production and in small industry and transport the co-operative way is not only available but is eminently suitable. This is also true of co-operation among consumers; consumers are, again, ordinarily small and weak units. Obviously such co-operative activity will acquire strength only when the consumer is keen on making small economies in relation to his purchases and when he is ready to accept common standardised commodities for this purpose. Trading in specialised goods, in limited markets may not easily come within the co-operative sector in a general way and most non-standard, miscellaneous activity may fall through the co-operative net. But this is, possibly, no very large loss.

When a society as a whole becomes rich and prosperous, so that the weak elements are no longer numerous, co-operative activity may appear to lose its importance. For example, increasing prosperity may well be the basic reason of the relative stagnancy of the British consumer co-operative movement in recent decades. Prosperity is, however, not likely to affect producers' co-operation in the same way so long as the individual production unit remains relatively small-scale.

The importance of co-operation to a society which is poor and in which weak economic units are overwhelmingly large in number, cannot be over-estimated. However, in many of such societies for co-operation to succeed, it is necessary that it should be initiated and nursed by external effort and that co-operative activity should always be supported by appropriate government policy in relation to economic security and economic progress. Not only is the number of economic units very large in underdeveloped countries, but there exists in them great disparity in strength between the weak and the strong, between urban and rural sectors between those based on modern techniques and the units using old techniques and between those operating on a small scale and the large-scale modern business.

Moreover, in countries engaged in development planning there are two particular reasons why co-operative organisations should be encouraged to spread widely. Planning, in the ultimate analysis, can be effective only through action of each individual unit of activity in the economy; so that unless the planned target and the pattern of behaviour called forth by plan-requirements are communicated effectively to each individual dispersed unit, the success of the plan cannot be guaranteed. This involves the creation of organisations which can act as intermediaries in the two-way process of communicating planning decisions down to units and communicating reactions of the units to the planning authorities. The experience of

the depression and the two wars has emphasised the need for setting up organisations in all fields of activity to give effect to government plans and regulations. Combinations of even large-scale units have been encouraged to bring about uniform implementation of government plans in their regard. The need for meaningfully organising the very numerous body of agricultural and small industrial producers in a country like India cannot then be over-emphasized in the context of planning. It is only when these producers get organised in a co-operative structure of their own that one can expect both to learn more of their wishes, their capacities and their potentialities and to be able to communicate and interpret to them the overall decisions to get proper implementations of the plans from them.

Secondly, co-operative organisations could be relied not only to implement the plans more effectively but also to carry them out with greater scrupulousness, care and honesty. Co-operative organisations, particularly when there is an element of government sponsorship in their initiation, are amenable to public direction, and are subject invariably to public audit. Also, policy decisions even in their internal affairs are taken, by and large, in an open manner. They are also in other ways more amenable to public opinion than private organisations. Therefore, especially in those countries, *i.e.* all under-developed countries, where private enterprise does not ordinarily play the game in relation to government regulation or planning the existence of a large co-operative sector is very greatly to be desired.

These considerations amount to a powerful plea for the active sponsoring and spread of co-operative activity not only among the bulk of farmers and artisans but also among every type of dispersed economic activity as in fishing and in forestry, in quarrying and in transport, in public works and in construction. Indeed, such a policy may be thought of in our situation as the most effective manner in which not only more effective performance is guaranteed but also social security and welfare is provided for.

Even so, all this falls far short of the image conjured by the term Co-operative Commonwealth and I now turn my attention to the final task of defining the wider interpretation of the term. We have seen that if one follows the definition of the 'co-operative' as a mutuality the possible coverage of co-operative activity becomes limited. Also, while the ownership of production enterprises by co-operative organisations or Labour Unions may have some advantages, such ownership does not affect the basis of their operations in the general context of the working of a capitalist system. On an examination of generally accepted co-operative principles it has been found that almost none have universal validity and that in relation to all of them it is necessary to examine the particular situation before they are applied. They would be of great help in indicating the broad outlines

of what might be called the co-operative system of values but do not furnish by themselves information relating to the structure and procedures of a co-operative commonwealth. To the extent the co-operative organisation on the pattern of a mutuality is feasible within a modern industrial society the Co-operative form would be favoured in a Co-operative Commonwealth. However, as this is not feasible universally or even in all strategic spheres in modern societies, the essential features of a Co-operative Commonwealth have to be built up independently of the concept of a mutuality.

To give an adequate answer to the problem as posed above it is necessary to look not only to the established co-operative principles but also to what might be called co-operative history and co-operative philosophy. It is important to note that the co-operative gospel and co-operative experimentation emerged through a revolt against contemporary manifestations of early capitalism and the attempts were in the first instance directed towards creating not a new type of institution within the capitalistic framework but the basis of a new society. The first experiments, therefore, took the form of establishing small closed communities whose structure and operations were all modelled on co-operative principles. What were later to be derided as Utopias might thus be regarded as amongst the earliest of scientific social experiments in the modern era. The efforts to withdraw from the contemporary world and establish whole communities based on independent principles did not succeed; and though some isolated co-operative communities continue to function and, to a limited extent, to follow the old models these cannot be taken as seriously influencing either current thought or practice.⁷ As a result of the failure of the early co-operative communities attention was turned towards building up special institutions which would have the effect of mitigating some of the hardships of the capitalist system for some classes among the depressed or the disadvantaged. However, the provisional adoption of such a limited aim did not, for at least the early pioneers, involve giving up the idea of the ultimate reconstruction of the entire social fabric on co-operative principles. This is clearly indicated, for example, in the original statement of the Rochdale Pioneers. In time, the aims appeared to have narrowed and co-operators came to reconcile themselves to acceptance of the co-operative organisation merely as an institutional type within a capitalist society. To some extent some even began to maintain that co-operative organisations necessarily required the framework of a capitalist society.

It has happened at the same time that in the early stages of the growth of all communist economies, that came into being after 1918,

⁷ Infield, H. F., *Co-operative Communities at Work* 1947.

resort was had on a large scale to setting up co-operative organisations. And though in most developed communist systems co-operative organisations appear no longer important, in the Yugoslav system, in particular, the co-operative form appears to have gained an important and permanent place. In this context it becomes necessary to bring together a number of strands from thinking and action in diverse co-operative manifestations for obtaining an idea of the essentials of the structure of a Co-operative Commonwealth. The wider interpretation of the concept of Co-operative Commonwealth has to draw upon all sources viz. the aspirations and motivations of co-operative idealists from the days of Owen to those of the Kibbutz, the principles incorporated in co-operative practice and the diverse forms of organization that co-operation has taken in many countries and for different purposes. The attempted synthesis has also to take a note of the fact that it is the structure and basis of a new or transformed society that is being considered and not the operation of a sheltered area within a capitalistic or socialistic society. Inevitably, in considering the question in the Indian context both experience of recent developments in India and traditional values of Indian society will have to be given due weight.

In relation to the structure of productive organisation or economic organisation in general, the emphasis of co-operation would be on operating, as far as possible, through small independent units. These units would co-operate together for achieving economies of scale and for other mutually beneficial activities. The co-operative could take a variety of forms and its extent and coverage would differ from group to group. It may, for example, be held advantageous for groups of uneconomic farmers to advance as far as joint farming in the direction of co-operation, while the viable farmers might be content only with co-operative credit, supply and processing activity. Whatever that may be, co-operation would emphasize dispersal and decentralisation of activity and would put the small independent enterprise and the primary co-operative unit at the centre of the economic picture. This is consistent with the origins and continued motivation of co-operative activity as being concerned with the protection and strengthening of the small and the weak.

On the operational side, co-operation would be distinguished by the view it takes in relation to incentives. Belief in co-operation implies accepting the possibility or the established fact that men are not guided in their work solely by hopes of material gain, that they recognise the importance of group and social obligations and are ready to accept voluntarily limitations on expectations and rewards and to exhibit restraints in behaviour patterns in pursuit of economic gains, that non-economic incentives such as social recognition and opportunities for social work are of value in motivating them,

and that efficiency and sound business are compatible with a regime of deliberately limited economic incentives. Another important operative aspect of co-operation is its deliberate divorce of control from ownership. This is related, in part, to the attitude of co-operation towards incentives; it is also related to the belief that control of economic activity arising out of concentrated power and in pursuit of private gain has serious disadvantages, and that control operations which are connected only in part with hopes of such gain can both be efficient and socially beneficial.

Other aspects of co-operative values may be brought out through reference to the universally accepted concepts of equality and democracy. Though not insisting on any rigid or mechanical formula relating to equality, co-operation with its insistence on small units, with its anti-monopolistic attitude and its philosophy of control obviously favours great diffusion of ownership of resources, and where such diffusion of ownership is not possible, will insist on the diffusion of power. Because of its attitude towards economic incentives and emphasis on fair sharing, it would obviously favour a relative equality in distributive shares. In particular, co-operation discourages high rewards associated with the ownership of capital. It looks for savings being formed through deliberate joint social effort rather than through offer of high incentive rewards to individual savers. While not advocating the abolition of property, it would, therefore, insist on keeping its share of the national product at as low a level as possible. Further, believing as it does in the power of non-economic incentives and the individual's sense of social obligations, its scale of remuneration to individual effort could not exhibit wide differentials. Above all, its emphasis on educational and cultural values and on the responsibility of the social group for not only protecting but grading up the quality of individual members would also make for an egalitarian outlook, though it is obvious that equality in this case is achieved not as a condition precedent but as a result of the practice of co-operation.

In the same way, co-operation is essentially democratic. Its philosophy of control and its principle of open membership indicate that the co-operative order will be an economic democracy in which privilege in any form will not be countenanced. In its operative aspect it exhibits a special slant in this regard. This is the insistence on the centrality and importance of the primary and the local group. Co-operation is thus against concentration of control not only in the sense of concentration in the hands of a few individuals or a small group, but also in the sense of concentration at a point or in a stratum in a structure. Co-operation stands for a diffusion of power through the whole structure through its insistence on what is best called "federalism". The autonomy of the primary and intermediate groups

is carefully guarded, though minimum requisite power is always available to the central organisation and the top strata.

The acceptance of co-operation also involves the idea of fair sharing of gains through mutual adjustment and understanding. The possibility and actuality of independent co-operative organisation of all kinds of economic interests make possible a meaningful articulation of the points of view of different groups and avoid the facile assumption that often leads to identification of national interest with a particular view and requires that other groups' points of view should not be pressed. On the other hand, co-operation while accepting thus openly the possible conflicts of interest of groups, regions, etc. must by its very nature make arrangements for a peaceful settlement of all possible differences of opinions and their reconciliation.

In relation to attitude towards the state, widely differing views have been expressed. It has, for example, been suggested that state-sponsored co-operation is no co-operation at all. Such a view is tenable only if co-operation is equated with some particular manifestations or organisations in Western Europe during the 19th century. However, no uniform view of the matter was taken by all European co-operators even in the early days. The Chartists, the political group most closely linked with early English co-operation, identified the state, as they found it in their own days, with the capitalist and exploiting elements and it was natural for them to take an anti-state point of view. However, as is well known this was not the point of view of early French co-operators. The Raiffeisen credit system also differed sharply from the Schulze-Delitzsch in its attitude towards the state. The attitudes of all these were coloured by their particular experience and it is but proper that we in India take a view that is suited to our circumstances and requirements. With a state which pursues programmes of planned economic development and which avows full faith in co-operative values, no sense of antagonism need be entertained. In fact, the state can, if properly oriented, be considered responsible for impregnating co-operative values in spheres in which actual co-operative organisations may not be established. This is the only way in which a completely co-operative Commonwealth can be brought into existence and can be made to function. Voluntarism, in such a context, would mean not keeping away from the state and its organisations, or refusing state aid for co-operative effort in appropriate contexts, but insisting on relying on own individual and mutual co-operative effort to the largest extent possible. Where needed, especially in view of the backwardness in techniques and organisations and the paucity of resources, state help should be fully availed of; but this should, however, be only to the extent that is required and is beneficial and only for the necessary period.

The insistence from the earliest days of co-operative effort on the responsibility of the group for social security and educational and cultural uplift of the members would indicate that co-operative philosophy sympathises with the evolution and approach of the welfare state. In the wider and most generalised spheres, where security and welfare cannot be achieved through mutual help, state intervention is welcomed. It should be emphasized, in this context, that when one talks of the co-operative commonwealth, one is thinking in terms that are radically different from those of the older isolated mainly self-sufficient co-operative communities. As within these co-operative communities, whether old or new, social control and direction were pervasive and fully accepted; it was only in the relations of the co-operative communities to external social groupings or overall political authority that a certain aloofness was exhibited. When thinking in terms of a Co-operative Commonwealth and the transformation of the whole society through co-operative philosophy such dualism in attitudes is inappropriate. There has to be as much acceptance of the wider political or social organisations as of the immediate co-operative primary group. This follows from the logical assumption that the overall social or political organisations will be as much informed with the co-operative spirit as the small primary groups. It is from this point of view that state-sponsored co-operation ceases to be a contradiction in terms. While thus fully accepting the role of the state, the limitations of the role become equally clear. The sphere of the state can be negatively defined as that in which co-operative forms or their extensions cannot get established. So that whatever can be performed by co-operative organisations or their regulatory activity need not be brought within the sphere of state activity or control.

It could be said that co-operation differs from socialism in not laying the same emphasis on public ownership of means of production. Where the ownership of means of production can be highly diffused, or where it can be placed into the hands of co-operative groups of small independent units of operators, it would be so retained in a co-operative order. However, in view of the anti-monopoly attitude of co-operation and its insistence on divorcing control from ownership, co-operation would favour the placing of, at least, the control of large-scale oligopolistic undertakings, chiefly in the hands of public authority. Co-operation, possibly, differs from socialism also in the view taken of the operations of economic society and of the incentives needed for this, as it would appear that in this matter of incentives, large numbers of socialist thinkers and socialist economies do not differ radically from capitalism or capitalists. Co-operation would, perhaps, also differ from socialism in not attributing the same overwhelming importance to the state and its activities,

as some socialists and socialist economies would appear to do. Because of its insistence on decentralisation, on small units, on federalism and on voluntary effort co-operation would obviously favour a much less than overwhelming role for the state. The basic difference of co-operation from capitalism and capitalistic society would seem to lie in the insistence of co-operation on taking a moral view of economic activity. Co-operation insists on incorporating the concepts of justice and of social obligations into the structure of economic society and recognising moral values as being a non-separable part of the operation of economic life and activity. In doing this, its whole attitude towards incentives, controls, ownership, etc. is marked out sharply from that of capitalism.

What is the relevance of this abstract description of the characteristics of a Co-operative Commonwealth to the existing situation in India? It is difficult to describe this situation with clarity and precision. The directive principles of state policy contained in the Constitution of India have a welfare or even a socialistic bias. The political programme of the ruling party and the outlines of the 5-year development plans refer to progressive realisation of a socialist society. However, except for sporadic extensions of the public sector and some features of labour legislation there is little positive that is being undertaken in this regard. On the other hand, the concentration of ownership and control in the sphere of modern business, the distribution of incomes, especially in the urban sector, the manner in which the regulating policy of the state operates, the standards of profits, remuneration and consumption of business and urban classes all show a pattern characteristic of a highly uninhibited capitalistic society. The 'so-called' mixed economy is mixed only in the sense of a small portion of it coming within the ownership or operation of the state. In the way it operates and in the standards of values and behaviour that it exhibits the economy belongs to a crude and early capitalistic type. Even in relation to specific forms of co-operative organisation, there appears a curious reluctance to transfer strategic activities, such as those of the processing of agricultural produce speedily to co-operatives of farmers. Except for a limited acceptance and operation of the policy of encouraging co-operative rural credit, in all other aspects of state policy there is clear acceptance of competitive capitalism. Even in the operation of establishments in the public sector the traditions of British rule persist and in all economic affairs—public and private—policies, measures and values deriving from competitive capitalism hold sway. It becomes necessary, therefore, to examine the merits and propriety of these.

It is important to note, in the first instance, that belief in competition is no longer based on any acknowledgement of its efficacy in working. It is increasingly recognised that in economies even like

that of the U.S. the competitive system as such does not appear to work. Economists are currently employed in seeking explanations of how exactly the American economy, for example, operates; while they differ in their particular constructions all are agreed that it is no longer competition that dominates modern industrial production and large modern organised business. The influence of large corporations on the one hand and of organised labour in equally large unions on the other underlines the eclipse of competition. Government intervention through various fiscal, monetary and physical controls, the determination of agricultural prices, the whole series of social security programmes, the expansion of the public sector, etc. render the concept unreal. Therefore, while for small limited markets and in the short run competitive pricing may have importance in the larger decisions, for the long term, its operation is unclear.

Especially in relation to the division of the product of industry the operation of competitive market forces appears to have little relevance. This is not a recent phenomenon. In the history of modern economies after they became industrialised, all major changes in the distribution of the product of industry, which have successfully given workers or peasants a larger share and a more secure base of operation, have come about not through the working of the competitive economic system but through political forces and change, gradual or revolutionary. The various landmarks in this process such as factory acts, wage regulations, protection to unions, price supports, social security and welfare measures, the coming of all these has shown up the failure of the competitive system in relation to distribution. Even economic theory is no longer prepared to hold that the prices of factors such as rates of wages or of interest or of profits are determined as prices in the ordinary competitive market.

In other directions also competition may be said to be losing ground. From the side of social psychology, it is being more and more firmly established that the working of a social group improves greatly under a general co-operative situation as compared with that in a competitive situation. Prof. F. H. Knight pointed out, many years ago, that the most notable value implication of competitive economic life on the production side is its appeal as a competitive game; that it reveals notable shortcomings even when considered purely as a game and that there is a certain ethical repugnance attached to having the livelihood of the masses of the people made pawn in such a sport, however fascinating the sport may be to its leaders. Prof. Knight also calls into question from the standpoint of ideal ethics the predominance of the institutions of sport or action motivated by rivalry.⁸

⁸ Knight, F. H., *Ethics of Competition and Other Essays* (1935).

It may be noted that even in its early days the concept of competition as the main force in operating an economy was held suspect. Mandeville's famous formulation "private vices, public virtues" underscored the basic difficulty. Even apart from the ethical angle the possibility of a mass of unco-ordinated autonomous entities operating naturally in such a manner as to produce beneficial social results always strained the imagination, and some kind of invisible hand had always to be postulated.

Though the theoretical status and the proved operational efficiency of competition are no longer rated high, its hold on the imagination of Western societies appears to be yet great. It is reported, in particular, to have a very powerful hold on American society. In all activities and manifestations, in business and in academics, in behaviour patterns in production as well as in consumption, American society is supposed to be largely governed by competitive psychology. During post-war years this has been apparently reinforced by certain extraneous considerations. The need to maintain that capitalist society was efficient and to avow a social philosophy which was diametrically opposed to that of communism greatly and, evidently artificially increased the prestige of a system of thought which had suffered considerable setbacks earlier during the depression.

We are, of course, concerned here primarily with ruling concepts in Indian society. There is considerable difficulty in talking or writing about the working of Indian society. This flows largely from the lack of homogeneity both in its composition and its thinking. In particular, it is difficult to identify a set of value systems as attributable to Indian society as a whole. A society which has been stratified into castes with particular attitudes and values, associated especially with particular castes cannot be described as holding a uniform set of values. To the extent the caste hierarchy was dominated by the Brahmin and Kshatriya elements the value systems of these two might, in some measure, be said to represent the value system of Indian society; but even this would not be a correct statement in so far as the large financial and trading elements were never fully identified with the highest castes. The imposition of foreign rule for long periods also made for a considerable degree of confusion in this regard. Developments of the last 150 years have further complicated the situation chiefly through influence of western values. Even so, it cannot be said that capitalism or the competitive psychology has had general acceptance or is rated highly in India today. At the same time, such indigenous efforts as have been made to create a new or revised system of values in relation to modern socio-economic life have hardly succeeded. The efforts of Mahatma Gandhi and Vinoba have been directed so entirely to the more austere and self-sufficient aspects of economic life that they lose relevance in relation to the

continuing modern problems. In particular in relation to industrialism and modern large business which present everywhere the most intractable problems there is very little except by way of general retrogression that these philosophers have to offer. There is, however, one strong strain in most current trends; this is a suspicion of state activity. The 'Sarvodaya' attitude towards the state has given support, indirectly to the plea for non-regulation which modern business in India has been only too ready to adopt. The great fear of bureaucratisation entertained, not unjustifiably, by the Indian socialists has led to the same result. In a word, the present situation both in relation to leaders of society and intellectuals and the masses of the people is one chiefly of confusion and, particularly, in relation to state activity one of ambivalence. In these circumstances, modern business has found it very easy, especially during the last decade, to lay emphasis on free enterprise and the virtues of competition in a way which would ordinarily be held as surprising.

In reality the Indian economic system is even further away from the competitive model than the American or Western European. The Indian economic system is more riddled with inequality, privileges and monopolistic entrenched positions, than any other. The normal difficulties of obtaining diffusion of the gains of development and progress encountered in a non-integrated backward society are intensified in India with its system of hierarchical castes and communities. This leads to a concentration of modern business in the hands of a few communities and to continuous growth of their gains and their power, leading to a serious imbalance within society. Also, in the operation of the Indian competitive system unrestrained, uninhibited competitive behaviour is more nakedly evident than anywhere else. In strict logic, a competitive system, whether looked on as a game or a war, must lead men to resort to all methods and practices which can be adopted without inviting immediate retribution or correction. It has been claimed that in societies like the American, tendencies towards unrestrained behaviour on the part of entrepreneurs have been modified through increasing acceptance of social restraints by later generations of industrialists. The economic history of India, on the other hand, exhibits the continuous rise in importance of business communities who have set up successively lower and lower standards in this regard. In short, the operation of competitive business in India cannot today be considered as being ethically or socially an attractive phenomenon; economically it is of doubtful competence.

The real danger of prevalence of the present situation is the general corruption that it breeds within the body politic. There is little doubt that the power of modern business is responsible to a large extent for corruption amongst politicians, amongst officials and amongst

professionals and intellectuals, and that urban society in India, in particular, is, through these influences, in a highly corrupt state. The real danger of this development lies in the explosive situation that it builds up. With great emphasis on development expenditure, opportunities of gain arising from which are limited to certain classes and communities, the economic and political power of these grow apace and when their corrupting influence is recognised more and more by the people, social leaders lose more and more of their moral influence on the masses or the lower middle classes. These, if they do not experience any elevation of their circumstances must begin to question the very basis of the system and of the order. Such a situation may lead to a revolution if sufficiently strong leadership is found, otherwise to mere chaos.

There is no reason why we should adopt the principles of the so-called liberal economy and competitive capitalism. They have never been incorporated in our traditional values and whatever their relevance to Western Society they are highly unsuited to our present circumstances. It is no longer even held that for attaining efficiency or technological progress a competitive society is alone effective. The progress made by the communistic societies under entirely different structures belies any claim in this regard. In a society in which resources are unbounded and a frontier always open the evil effects of a competitive psychology or attitude may not appear on the surface. However, where resources and opportunities as related to numbers of persons are extremely limited and there exists a great deal of stratification and privilege with mutual suspicion and distrust, it is highly dangerous to encourage the spirit of competition and rivalry. In a crowded society with highly restricted opportunities, the development of society as a whole requires the most careful mutual adjustment, constant reiteration of the need for co-operation, and a stern discouragement of unsocial selfish behaviour of anyone at the expense of another. For this, if for no other reason, the philosophy of co-operation alone appears appropriate to present-day India.

It remains to indicate briefly what I consider to be the immediate practical implications of the acceptance of co-operation. I do not give any weight, in this context, to the current avowal of socialistic aims, as obviously neither in the sphere of production nor distribution do these appear to affect practice. Socialistic views are also widely held in the country, in combination with the Sarvodaya philosophy. Co-operation has many values in common, with this philosophy. They, however, seem to differ in two important respects. The first is the much greater concern of co-operation with rapid economic development as an important objective and with practical business; the second is the emphasis of co-operation on organisational effort. In fact, it might well be said that co-operation is essentially a philosophy

or ideology of organisation. It indicates a special way of organising economic activity so as to make it both efficient and beneficent. Sarvodaya, on the other hand, apparently distrusts all organisational effort and is, therefore, inevitably unable to tackle practical problems. Results of Sarvodaya effort thus remain marginal or almost non-existent though Sarvodaya philosophy has evidently a wide vogue.

The actual mixed economy of today is neither socialistic nor infused with ideals of Sarvodaya, but grossly capitalistic. In terms of practical policy, acceptance of co-operation will mean, in the first instance, a full implementation of the programme of sponsoring and establishing co-operative activity in all spheres where it is appropriate. Today, a co-operative programme is accepted in the abstract. In fact, however, government policy does not fully implement it. It is well known, for example, that in the entire field of marketing and processing of agricultural produce, the activities of private traders are, in a large number of instances, deliberately directed against the establishment of co-operative effort. Even when such obstructive efforts of private agencies are expressed through bodies like the Regulated Market Committees, the state has taken no preventive action. It has been, for many years, pointed out that the transfer of processing activity from traders to co-operatives is crucial not only to co-operative development, but also to such policy objectives as stabilisation of prices. Such a transfer from established processors to new co-operatives, however, requires many-sided, simultaneous government effort. This has been completely lacking. In fact, there is reason to believe that the effort has been deliberately sidetracked. Obviously with the acceptance of co-operation, all this will change. Co-operatives will, it is expected, be also accepted more and more as agencies in all kinds of public operations. If properly co-ordinated and articulated, this will get over many of the difficulties of detailed local operation by corporations in the public sector.

As within the public sector the acceptance of co-operation, apart from the use of co-operatives as agencies in diverse contexts, will chiefly affect systems of payment and incentives. As at present, the public sector seems to be unable to evolve within itself an appropriate system for this purpose. It is necessary for the poor economies planning development to evolve such a system. To describe the problem briefly, whereas at the lower ranges of activity, the labour market in India is highly overstocked and remuneration to labour is low, at the highest range the labour market is linked with the international economy and has its operation and standards influenced by those of the most affluent countries. The reconciliation of the conflicting situations presents a problem which will be insoluble unless there is a wide and voluntary acceptance, at the highest levels, of

self-imposed restraints as required by the total capacity of the national economy. However, there can be no general acceptance of the attitudes that this calls for unless the whole philosophy of incentives and of market pricing of services valid under capitalism is thrown overboard.

The large majority of the constituents of the private sector are small-scale. All these could be brought within the co-operative sector itself. As pointed out above, doing this, however, appears difficult in relation to the very large units in modern organised business which usually take the form of large public corporations. These large private business corporations and their executives are today, in India, the chief exponents and the major influence making for the acceptance of ideas and practices appropriate to competitive capitalism. In spite of the obvious historical origin of their possessions and fortunes in state and social support and in quasi-monopolistic exploitation, they oppose all, even mild, moves in the direction of egalitarianism with cries of expropriation and talk of incentives needed by them either for continuing productive effort or for channeling it in particular lines and the standards of living and of remuneration appropriate to themselves. Acceptance of co-operation will involve a categorical rejection of all such claims. In a Co-operative Commonwealth, rights of property will be acknowledged only in so far as their exercise can be beneficent. Wherever there is danger of concentration of power so that it is possible for a few to behave in an unsocial manner a correction must be provided. Therefore, even if some concentration of ownership is tolerated, control must be divorced from ownership. It becomes necessary, from this point of view, to treat all corporations above a certain size or controlling productive resources of a given magnitude or holding any strategic positions in the economy as corporations informed with public interest. Such corporations must have open procedures and public accounting systems.

In this context, it is necessary to refer to the growing importance, in India, of government financial institutions such as the Industrial Finance and other similar Corporations, the State Bank, the L.I.C., etc. Through all these organisations acting together a considerable measure of public financial interest has already been created in most large Indian Corporations. This devolves an important responsibility on government, one side of which was emphasized by the Mundhra affair. When we look at it from the point of view of a co-operative philosophy it appears necessary that government should exercise its financial power and participation in order to obtain effective control over the total modern corporative sphere. The least it could do in this matter is to insist on open above-board public accounting and audit

systems, and the ability to detect promptly and to prevent all un-social activities on the part of owners, directors and managers of these corporations.

Finally in the administrative and political sphere, co-operation will be seen to be very closely linked with federalism. An unfortunate tendency observable during recent decades is the waning of the importance of federalism. Possibly this is directly due to the rise of communism. A fight with communism has given rise to a centralising tendency in democracy which pushes greatly into the background the older federalist trends. Centralisation leads essentially to authoritarianism and to bureaucratisation and ultimately to non-democratic practices and attitudes. Co-operation by insisting on the actual operation as far as possible in the economic sphere with the local primary, small-scale scattered units reinforces the federal political ideology in the strongest possible terms. It, thus, not only seeks to establish economic democracy but is also an essential factor in the working of political democracy.

I have, I am afraid, attempted too much in this series. But whatever the extent to which I have succeeded in conveying my thoughts I should reiterate my belief that the Indian situation, political and economic, requires today a categorical rejection of competitive philosophy and psychology and the assertion of a belief in co-operation. Such an act of assertion followed by the implementation of a programme of concrete logical action is alone likely to lead us out of our present situation.

PART II
CO-OPERATION AND ECONOMIC DEVELOPMENT

A NOTE ON CO-OPERATIVE FARMING

1. *Environment*

IN studying an experiment in progress like that of co-operative farming in China it is necessary to take account of all the components in the situation in judging of reasons of success or failure. I feel that enough attention is not usually paid to the influence of environment on the success of a programme. In evaluating success of co-operative farming on a nation-wide scale it is necessary to note two environmental aspects in particular. There is, firstly, what I might call the climate of opinion; this includes attitudes on the part of the public or of particular sections of it and of Government; and this determines effectiveness of declared governmental policy. During the British regime the co-operatives were treated merely as one element in a total *laissez faire* economy. Today, even though the avowed policy is changed the attitudes are materially what they were during the British regime. In view of the great disparity in strength between the individual units in the agricultural economy, the fact that the attitudes have not changed is extremely important. It is well known that in the "regulated markets" of Bombay State a large part of legal provisions are not observed even in the letter and that Government has found it impossible to enforce their observance. This has happened in all cases because of the enormous strength of the trading community and their resistance to all practices which would result in weakening their hold. The progress of, for example, marketing co-operative societies is everywhere impeded by deliberate action overt or secret taken by trading interests. Nowhere are Government, its officials or members of the public seen to treat such action on the part of private traders as unsocial. Practices which are undoubtedly unfair are openly indulged without fear of any kind of public displeasure or disfavour of government. We had bitter experience of this even in the establishment and licensing of co-operative sugar factories. A society in which the rich and the privileged classes are not afraid of openly exercising all their influence and power in favour of attaining their private interest and against the rise of new forms such as the co-operative, cannot possibly expect the new forms to flourish and to spread quickly. Unless the strong and the rich begin to feel that the exercise of their power in their own private interest

will be reckoned as unsocial, rapid co-operative development must be despaired of. A corollary of this exercise of their power by the rich traders etc. is seen in the attitude of officials at all levels. Whether in the licensing and the operation of ration shops during the war period or in the working of productive and marketing co-operative enterprises later, the favouring of private organisations directly and indirectly by the bulk of officials at all levels and the consequent handicap to co-operatives are within the experience of all workers.

Another aspect of the total environment is equally important. This is the operation of the economic system with particular reference to prices and markets. In any economy where market conditions and prices are liable to rapid and large fluctuations the speculator and the large trader have obvious advantages. Individual small producers or small producer organisations operate under a handicap in such conditions. On the contrary, where prices and market conditions are kept comparatively stable the co-operative endeavour of small men has much larger chances of success. This has been the experience in war and other times of control of all types of economic activity. Consumer shops were not difficult to manage during the war period. Because, apart from a minimum efficiency and honesty they did not require on the part of individual shops, the assumption of large risks; the comparative failure of co-operative trading in cloth when faced with large fluctuations in the open market, emphasises the same lesson. In the sphere of small scale industry it has been pointed out that continuously increased and efficient production could be assured only if a guarantee of demand at minimum market prices is forthcoming. In all spheres of co-operative producer organisations, especially where the individual producer is small and the total co-operative unit is not in a position to assume large risks, success would be possible on a large scale only when the markets are comparatively stable. It is presumed that in China with very considerable State trading and regulation, Farm co-operatives do not face widely fluctuating markets. Stability in markets and prices affects not only conditions of sale of the finished product but also conditions of purchase of materials etc. When the cost-price structures and relations are comparatively stable the producer and his organisation can devote all attention to the efficient organisation of production. In the alternative state of circumstances, production activity is at a handicap and the trader and the speculator naturally flourish.

2. Organization and Operation

When a co-operative farming society is set up it faces the initial problem of the acquisition of land and equipment. In terms of organisation the first problem, therefore, is that of the inducements offered for joining co-operatives with one's land and equipment. There

might be some compulsion or quasi-compulsion; that is some persons or classes find it necessary to join co-operatives if they are to remain in farming or in cultivating possession of the whole or part of their lands. The compulsion exercised through law or through administration policy in relation to joining co-operatives must play a large part in their rapid formation. Secondly, inducements must be held out especially to the smaller cultivators. These may not obtain certain concessions, privileges or assistance expect through co-operative farms. If the concessions, privileges and assistances are so routed and are seen to be immediately beneficial they would act as powerful inducements to join co-operative farming, particularly if individual farms large or small find it difficult to continue its business.

In the organisation and operation of the co-operatives difficulties are likely to arise in relation to the conduct of business and the distribution of the product. Initially, it is important to ascertain the area of discretion allowed to and the extent of responsibilities thrown on the primary co-operative, as also the extent of assistance afforded to it. Without a certain minimum of resources in terms of land, livestock and equipment a co-operative farming society is not likely to succeed. What are the steps taken to ensure that this minimum is always achieved; does government guarantee the minimum of land resources and does it ensure supply of the minimum of capital resources and what are the means of ensuring that government targets or government guarantees in this regard are, in fact, fulfilled.

Next there is the question of the conduct of operations through the year, viz. planning and utilisation, determining the techniques and executing the annual plan. Here, obviously, the requirements are both in terms of technical and administrative ability. How is the technical guidance provided, are crop plans made on same uniform prescribed pattern, what are the agencies of supply of improved seeds, implements etc. and who gives the needed training in new methods. The enquiry has to concern itself with at least, two aspects; one is the organisation for making available trained personnel for administrative establishments, for example, managers and accountants and the technical personnel needed for planning and improvement. The other is the procedure by which it is ensured that each co-operative will adopt a plan which is of a minimum level of technical competence and that the plan will be executed with minimum efficiency. The evolution of standard plans and adoption of uniform procedures for operation may, for example, be one approach.

Similar considerations apply to the pattern of distribution; whether any rents are paid for land and if so how are they determined; what is the manner in which the labour programme is drawn up; how is the produce or other income shared; how are the various relative valuations made. All these are problems in relation to which standard

procedures and norms for a set of uniform conditions can be evolved; if they are so evolved and enforced a considerable proportion of the difficulties currently faced in the day to day administration of many co-operatives would vanish. For, it is the exercise of discretion and arriving at decisions in relation to problems such as these which is the source of a number of quarrels and discontents.

In this connection the standard procedure followed for arriving at all decisions deserves to be studied. With us the ordinary procedure of a Panch Committee means considerable dilatoriness and a certain amount of inevitable log-rolling where important interests within the society are involved. It would be important to observe if these are avoided in the Chinese pattern and if so how. To what extent does the General Body, if any, exercise real control; how is the day-to-day executive authority exercised and what are the sanctions which make for the smooth running, of the daily operations. Do outside experts, State officials, or party members play an important part in solving or eliminating the problems of organisation, administration and operation that are encountered in India? If so, are their positions built into the legal and administrative structure or is it due only to general conventions and understanding? It is likely that with a largely controlled and regulated economy problems of disposal of the product such as marketing, processing etc. are not as important in China as in India. Even so, some technical and administrative problems must emerge in this sphere even in China.

Problems which have been raised above in relation to the organisation and operation of the primary society will be matched by similar problems in the total structure of co-operative organisations. Here, the most important aspects to study would be the hierarchical structure of co-operative bodies, the element of federalisation, if any, in the structure and the extent of discretion at each level compared with the extent of authority exercised from above. The relationship of the co-operative structure with the machinery of government at all levels; the routing of government directives if any, or the communication, formally or informally, of implications of State policy for co-operative operation need to be made clear. Also, the extent to which these relations are lubricated by financial and technical assistance rendered by governmental machinery needs to be looked into. Here the training of personnel, the supply of personnel and the filling of the key positions in the co-operative structure with either State servants or party personnel all these must be clarified for gaining a real insight into the operation of the societies.

Lastly, I would draw attention to the problems of replication. It has been our experience in India that an initial successful experiment is quickly copied nearby in similar environments. The slowness of our progress is due largely to the fact that we have no plan of

deliberate experimentation fully backed by social approval and State assistance and further that we have no means whereby successful experiments are studied and reproduced later over larger and larger areas. The process of replication involves isolation of important elements in successful experiments in the structural and operational model; and it is the simplification that has to be reproduced, with necessary adaptation to circumstances, over all regions. A study must be made of both these processes. Firstly that of incorporation of a simplified model of the essential elements in a successful experiment and secondly the procedures, the administration, the agency, the assistance and the propaganda, that all are needed for successful replication in a variety of co-operatives on a large scale. It is only when this has been done that it would be possible to say whether the Chinese experience has something that we can immediately put to use or not.

POLICIES RELATING TO THE DEVELOPMENT OF CO-OPERATION IN INDIA*

It is difficult to comment on the report of the working group. This is because the reasons which led the National Development Council to adopt the particular resolution on co-operation are not clear to me. It does not appear that the reasons are clear to the members of the working group themselves. They are evidently doubtful regarding the proper and full meaning of the various parts of the resolution and also as to the definitive programme that is implied in the resolution. However, their attitude towards the resolution is that towards an oracular pronouncement which they diffidently try to interpret but whose possible inconsistencies, misdirection or ineffectiveness they dare not examine.

In the circumstances, I think it would be useful if, instead of commenting on the curious document produced by the working group, I offer brief, general observations upon what seems to be an impossible position into which policy relating to development of co-operation in India has got itself. In common with other matters of policy, attention is directed towards particular aspects of governmental socio-economic policy when difficulties are faced in implementation of existing policy or are created by any development of the situation. It is when problems and difficulties become acute and are identified that they are enquired into. An investigation or an analysis may suggest causes and explanation and also possible remedies. These remedies will usually be tentatively applied or tried on a small scale and when proved fruitful will be incorporated in principles and practices of general policy. None of these stages seem to have been gone through or even contemplated before the production of the N.D.C. resolution on co-operation.

The history of co-operative policy during the last 15 years may be said to begin with the appointment of two committees in 1944-45; one was the Co-operative Development Committee and the other, the Agricultural Finance Sub-Committee. Following the publication of the reports of these committees, steps were taken in many States in a variety of directions. The report of the Rural Credit Survey Committee, appointed by the Reserve Bank of India, contains a full

* Note submitted to the National Development Council, February, 1959.

account of most of these. That report, on the basis of one of the fullest factual enquiries ever undertaken in recent times in any country, embodies a generalised set of recommendations. These were considered by the Board of the Reserve Bank of India and submitted to Government. They were, in turn, the subject of many conferences, at official and non-official levels, in the States and at the Centre. As a result, a comprehensive policy relating to co-operation was formulated and has presumably been in operation throughout the country. It is expected of any policy however carefully thought out and implemented that it would, in practice, raise new difficulties and problems. Therefore, it was not unexpected that in subsequent years, complaints should be made and difficulties would arise. In these circumstances, the proper procedure is to investigate the nature of difficulties and to ascertain whether they rose out of any defects of the policy itself or of its implementation or interpretation. This would have indicated directions in which modifications were required and not only would the proper remedies have suggested themselves, but also the reasons behind the changes would have been made clear to the public at large. Nothing of this sort appears to have been done, at least to my knowledge. The results of no enquiry, investigation, or analysis are available to the public in this behalf. If anything has happened, that has been in discussions at the Planning Commission or other closed circles and remains buried in official files. This development leads me to comment on another sinister aspect of recent developments.

Ever since the appointment of the MacLagan Commission, it was the practice of even the British government, in the sphere of co-operative policy, to appoint committees of enquiry which always had an important representation of non-official workers in co-operation. The Committees which shaped post-war policy were also appointed by the British Government and these consisted mainly of non-officials and had non-officials as Chairmen. On the state level, one may claim that in the Bombay State, for example, non-officials have participated even more than officials in co-operative policy making in a history spreading over more than 20 years, say from the Mehta-Bhansali Report to the Report of the Crop Loan Evaluation Committee of the Bombay State Co-operative Bank published in 1958. The basic continuity, the analytical approach, the background of field experience and the importance attached to non-official workers and leadership, all are fully evident in this history. The working group, of which the report has been circulated, was, in contrast, a body consisting entirely of officials; and in discussions of co-operative policies subsequent to the formulation of policy on the Rural Credit Survey report, no important representatives of non-official co-operators have been called in for consultation.

So much in relation to what appears to be the most alarming feature of the present situation; which is that co-operative policy is made not after rational, scientific study and full uninhibited participation of non-officials and officials in all States but by fits, starts through personal predilection or prejudice in Delhi. I may add some brief comments on what appear to be the main controversial points involved in the NDC Resolution and the report of the working group. The first is a question of size, area and functions of the primary society. I cannot see how any dogmatic approach can cover the total situation in this regard.

It appears clear to me, in the first instance, that co-operative societies must be looked at essentially as business organisations and must be primarily designed and constructed to carry out their particular businesses. They ought not to be confused with purely political or administrative organisations like Panchayats. It will happen, as often happens in all contexts, that the groups of people who lead the Panchayats and the co-operative organisations are the same; but this ought not to lead to confusion between legal and financial or other provisions under which a Panchayat acts and must act and the constitutional structure and business operations of a particular co-operative society. Secondly, even vaguely planning functions such as that of producing crop or production plans for the village, whatever that may mean in concrete terms, ought not to be confused with co-operative organisation. Here again, it may be good to have co-operative organisations represented on planning authorities at various levels; but this must not lead to mixing up the two organisations.

Coming to co-operative business proper, it is difficult to see how a single organisation can perform all functions or a rigid type of a single area organisation can satisfy all needs in every context. The co-operative business organisations have to carry out a large number of different functions. Co-operatives of producers have obviously to be formed in an entirely different way from that of co-operatives for marketing or for credit. An artisan co-operative such as a co-operative for leather workers or weavers has to be composed of a number of artisans of the same type and may cover a number of contiguous villages or be confined to one, depending on the concentration of the workers. But if most of the lands in a village come within the fold of co-operative farming, it may be found desirable in the normal sized village to form, say three or four co-operative farming societies rather than bringing all the lands into a single society. On the other hand, a processing society such as cotton pressing, ginning or rice milling must, to function efficiently, draw its supplies, from a large enough area to give it sufficient business throughout the year or the season. For the purpose, it must spread its membership over many contiguous villages. In another context,

a sales society can operate only where there is habitually a large congregation of traders. No doubt where there is an important element of assembling or grading and storing before transporting the produce to the market village, a village society may act as a useful subsidiary or supplement to the main sale society; but it could never function as the sale society in itself. Similar reasoning applies to purchases; purchases, say of fertilisers from Government cannot be made independently by a village society, but most of the larger village societies can act as distributive agents for an efficient purchasing organisation formed on the basis of a larger area. Credit, similarly, must be related to efficient handling of the credit business. This has two aspects; one is the processing and the scrutinising of applications, disbursement of funds or of materials in lieu of money, insistence on marketing through co-operative channels and recoveries. All this suggests an essentially local organisation in which knowledge of operations of individual operators assumes importance. At the same time, a certain turnover is essential before a primary credit society can operate efficiently. Therefore, unless there is going to be a perpetual subsidising of the secretaries of the societies, the size of a credit society must represent a certain minimum turnover.

All this again will not give a uniform answer regarding the area coverage required in each context. Where operations of agriculture are intense and heavy crops such as sugarcane predominate, even a hundred farmers may be able to sustain a credit society, *i.e.* in a small sized village. On the other hand, where farming is largely insecure, non-monetised and subsistence farming the turnover per farmer would be very low. In extreme cases of this sort, no extension of area alone would serve the purpose and subsidisation may be necessary till considerable agricultural development takes place.

The whole question is further complicated by the possibility of combining a number of functions, at the village level. Credit operations may be combined with agency operations for sale societies and local distribution or consumer store business. With such combination, multipurpose village societies may prove viable. It needs, however, to be remembered in this context that it is usually at a fair sized village with a relatively central location that assumption of variety of functions becomes possible or profitable.

The upshot of all this is, that it is impossible to lay down, it is in fact dangerous to lay down hard and fast rules. Large size is not an objective in itself but excepting in the poorest and most backward areas viability is or should be. The aim of combining everything in one society is impracticable. At the same time, at the primary level, a number of functions that can usefully be performed through one paid agency and one managing committee ought to be so combined. Therefore, policy should be defined in terms of broad objec-

tives and desirable operations and the actual working out of details should be left to individual states being in fact adapted to the circumstances of agricultural business of each type of region.

Considerable controversy has also arisen in relation to government participation. The proper view in this regard is that government participation should be forthcoming where resources that can be raised by members of the societies themselves are inadequate in particular contexts. In a primary society, for example, the need may arise in two different contexts. In a poor backward area people may be unable to raise funds initially required for even credit or multi-purpose societies in central villages. On the other hand, in developed areas the undertaking of important functions as that of processing or warehousing may require government subscription of share capital.

At the same time, government participation by way of subscribing to the share capital of a society ought not to be confused with official domination of the movement. Even in British times the development in various provinces were not uniform in the latter regard. Today, there are a number of states where the resources of the credit movement are mainly derived from the Reserve Bank of India, where the distribution of funds by the primary is largely through government or bank officials and where such development as appears to take place is through the pressure of community, project or other administrative agencies. In many of such areas, there is no government participation but the movement is essentially officially guided and directed. On the other hand, in the Bombay State the entire co-operative banking structure has, during the last ten years, obtained large funds through subscription of share capital by government. The raising of the structure of sugarcane co-operative factories has also been possible only through government participation. However, in both these contexts, as I can vouch from personal experience, official dominance or interference is completely absent. Official assistance and technical help are always available but the main formulation of policy as well as the conduct of daily operations have been essentially in non-official hands.

It has been contended that the establishment of small village societies will lead to such a mobilisation of internal resources as will make external help unnecessary. This is an entirely illusory belief. In areas like South Gujarat, developments such as of co-operative cotton ginning and pressing have been taking place gradually over decades without much external aid. These represent the exceptions. It is only where agriculture is secure and already well-developed and the grip of the moneylender-trader interest is relatively weak that external aid may not be required. Elsewhere, rapid and planned development must be initiated with considerable external help. However, once development fructifies devices can be found to step up internal

savings and dispense progressively with external aid. This has been the experience, for example, of the older established co-operative sugar factories. To talk of depending on internal resources from the beginning is tantamount to condemning, as in the past, all the poorer and moneylender dominated areas to permanent stagnation. Government participation is, thus, required for widening initially the owned resources base and to start developments. Whether this will lead to official domination, or not, depends on the tradition and temper of local officialdom and the strength and quality of non-official workers. Where the latter is found inadequate, official dominance will exist even with little or no government assistance.

There is another vaguely formulated idea current, that a small all-purposes society will help stepping up agricultural production. Detailed analysis of the existing situation will show that this has no adequate basis. Agricultural production lags behind because of a number of reasons such as insecure tenure, unstable prices, an oppressive marketing and processing system, backward technique, failure of seed, fertilisers, etc. supply of inadequate resources which may mean inability to maintain irrigation sources, implements and bullock power adequately and to purchase in time and sufficiently, needed materials or labour. All these and other defects have to be dealt with specifically and appropriately. An adequately articulated and integrated co-operative structure can alone provide for the total programme in this behalf. Atomistic, all-purposes village societies are not only no panaceas but will, in fact, prove a hindrance in the way of building up the proper remedial programme.

Conditions of underdevelopment, poverty, backwardness, all denote current inadequacy of resources both in finance and in personnel. That external assistance in both these respects, from those more fortunately situated, is urgently required by the underdeveloped is universal experience. The small sized village in India represents inadequacy of resources in an extreme form and all programmes of its development must, therefore, seek to supply the needed assistance from outside and to integrate this weak unit meaningfully with the rest of the economy.

All this is not to deny that a large new programme of intensified co-operative activity is what the country needs most at this juncture. For the major part of the field of economic activity, co-operation must soon become the dominant form. In the context of this requirement existing developments are seen to be highly insufficient. But building up the new programme should not begin by throwing the baby out with the bath water. What is required is to utilise to the fullest what has been already achieved and what promises results and to think out clearly and step by step the variegated, multi-tiered

and adjustable structure that alone can meet the needs of the situation. This is a task in which the participation of every co-operatively conscious element in the country, wherever located and in whatever position, must be invited and encouraged.

To sum up, as a result of a number of personal prejudices and preconceived notions, which have never been adequately discussed in the public, co-operative policy in India finds itself in a sorry state. It is high time it was recognised (i) that future developments must take into account the achievements and experience of the past, (ii) that there is enormous variety in conditions and stages of development within the country; and that these rule out a rigid, uniform approach and call for regional adaptation and adjustment and (iii) that no adequate policy can be formed, in any context, in the absence of full public debate and of the co-operation of non-official workers.

SOCIO-ECONOMIC FACTORS UNDERLYING LEADERSHIP PROBLEMS IN CO-OPERATIVE ORGANISATIONS*

PROBLEMS of leadership of co-operative organisations are similar to a considerable extent all over the world. However, the underdeveloped countries show certain peculiarities of social and economic structure which condition, in a special manner, problems of co-operative leadership among them. Features which specially distinguish the underdeveloped countries from the industrially advanced countries are, poverty with its concomitants of low standards of living and of education, and a traditional social structure adapted to older social and economic conditions. A hundred years ago, at the time when co-operation was first making headway in countries of Western Europe, conditions in them bore some similarity to existing conditions in underdeveloped countries. They had large proportions of population still engaged in agriculture; the peasantry in most of them was still at the mercy of the moneylender-trader; conditions of living and work in their growing cities were unsatisfactory and the labour class was heavily exploited. A notable feature of the situation in the underdeveloped countries today is the large extent to which in movements like that of co-operatives or trade unions outside leadership is in evidence. In the initial stages of the co-operative movement in Europe also leadership came essentially from outside as in the persons of Owen and Raiffaisen.

Poverty, backwardness and an antiquated social structure gravely hamper the progress of co-operative organisations and the emergence of co-operative leadership in the underdeveloped countries. The classes and groups in these countries who have a significant saving potential or have clear comprehension of the possibilities of progress and possess opportunities to take advantage of these, are usually sharply separated from the others. They occupy the spheres of modern business and industry of the professions and government service in which there are ample opportunities and all that is needed is aggressive individual effort and group patronage. On the other hand those who are not economically well off, socially privileged or educationally well-equipped cannot make any progress or improve their positions without special effort and assistance. Inevitably, im-

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provement of the conditions of the poor and backward classes in the underdeveloped countries, cannot be initiated by leaders among themselves and if perchance, some such leadership emerges the effort cannot advance far without considerable external assistance. This external aid and assistance has been given, by and large, by government authorities.

In colonial regimes, initiative in relation to co-operative activity was almost invariably taken by government and its officers. There was a special reason for this. It was that the operation of colonial regimes themselves resulted to a large extent in putting down growth and activity of natural leaders in indigenous society. The need to maintain an alien regime necessarily led to discouragement of any large upsurge of spontaneous activity among governed societies as this might lead eventually to agitation for change in the colonial regime. This made it inevitable that government officers supply, in the main, leadership in co-operative organisations. For obvious reasons, such official leadership could not lead to any substantial progress or achievement. The growth of co-operative organisations would have a logic of its own which would in time impinge on government policy. As economic policy was largely inflexible in colonial regimes, there was a natural check on the growth of co-operative activity. Moreover, in these circumstances, progress in any activity or regime depended largely on the zeal and competence of individual officers and was hampered, apart from other reasons by lack of continuity in leadership. In the more intelligently administered colonial regimes, limited scope was left for the emergence of non-official leadership side by side with leadership of officials. However, even in such regimes, the sources of such non-official leadership and its quality were subject to grave limitations. Such leadership could emerge only from groups within society which were loyalists or, who were, at least, not militantly opposed to the colonial regime. This was because, on the one hand, it was not possible for such regimes to entrust leadership of potentially powerful co-operative organisations to members of hostile groups and, on the other hand the militant groups would ordinarily not find it worth their while to engage in work with highly limited political effectiveness. As a result, it happened that the militant parties whose representatives in most cases came into power, after the cessation of colonial rule, were not usually associated during that rule with the early origins or growth of the co-operative movement.

With the attainment of independence, there was no reason why any section of non-officials should keep away from co-operative activity; but the attainment of independence did not materially change the situation in other respects. The handicaps of poverty and backwardness continued and the need for government sponsorship and

assistance for initiating and developing co-operative effort among the peasantry and other backward strata was as urgent as before. Also government action now became even more all-pervasive and its spread met with less criticism, than before. Because of the closer identification of people with government and because of the orientation of policies of most newly independent governments towards development planning, official encouragement of the co-operative sector became readily accepted and in the new context, co-operatives were generally agreed upon as the most appropriate agencies through which large numbers of types of plans should be implemented. As the new governments took a much more positive view of their responsibilities than their predecessors, not only the urgency but also the field and types of effort required were greatly increased.

With all this, in the initial stages at least, reliance on government officers also continued. To the extent that colonial regimes had discouraged the growth of indigenous self-reliant leadership and had directly or indirectly fostered habits or attitudes of dependence on government, there was no alternative readily available. Also, to the extent that the older structure and traditions of societies did not allow for ready emergence or growth of leadership suitable for modern co-operative business, the disappearance of the colonial regime did not immediately prove a corrective. The combination of these two sets of circumstances led and leads in part even today, to a continuation of the dependence on government officers as providing initiative and continuous direction for the growth of the co-operative movement.

However, this may be taken as representing an essentially transitional stage. The older disadvantages of official leadership continue even in the post-colonial era. Further, government officers in the new independent states suffer from a continuous diminution of authority and prestige, as the power and prestige of politicians and other non-official leaders grow. The immediate problem in co-operative leadership in all newly independent countries is, therefore, that of rapidly dispensing with leadership of government officers in co-operative activity and establishing a pattern of non-official leadership from among the people themselves. Apart from the general problems arising out of poverty and backwardness, the special problems faced in the emergence and operation of co-operative leadership stem from the stratified social structure and the many divisive factors in the older societies. These differ in their manifestations from society to society and my account is related to conditions in India and, more particularly, those in Maharashtra. In India the dominant social factor to which attention has to be paid in every context, is that of the caste. Added to this are other related features of our society such as the division between religious groups, the distance between urban and rural societies and

as special corollaries of the above the privileged and isolated position of the classes from whom professionals and administrators are drawn and the differentiation of the trading communities from the rest of the societies and their intense sense of cohesion. All these features of our society have striking results in relation to problems of co-operative leadership. I shall attempt to deal with a few of these.

The first is the provision, badly needed in relation to the poor and the backward, of pioneering leadership from outside these classes. In India, because of the caste structure and because of the cleavage between urban and rural society, leadership from among those who are competent and well-off is not readily attracted towards this work. The classes such as the intellectuals, professionals, administrators or leaders in trade and industry from among whom leadership for pioneering in the co-operative field could most easily come are not, sufficiently, in close or continuous touch with the peasants, artisans or labourers or their problems. Few among them, therefore, possess close understanding, of the problems or have intense feeling regarding the conditions of the backward and poorer classes to whom leadership has to be provided. On the other hand, the backward and the poor classes are not always in a position to welcome such leadership from outside when offered. They have stored experience of the past, and lasting memories of oppression, exploitation or at best of neglect or indifference of the urban and the advanced castes and classes towards the problems of other elements in society. The memories of the past and also current and continuing evidence of exploitation, or neglect of these other classes engender feelings of distrust and suspicion among those to whom outside leadership is offered. The lack of sympathy and of trust among those who might be in a position to afford pioneering leadership and those in whose behalf it is to be exercised create grave difficulties relating to leadership. The distrust and the lack of sympathy are not, it may be noted, transitory phenomena, but are rooted in the structure and operation of our hierarchical and caste society.

Our social structure affects not only the attitude of peasants, labourers and other backward classes, towards external leadership, but also influences the degree of internal cohesiveness of these groups. The most important factor, in this context, is the division of these classes among a number of closed groups. In a few regions in India, peasant society may be found relatively homogeneous, i.e. the bulk of the peasantry in the region may belong to a single large caste or related sub-castes. In the large majority of the regions, however, this is not the case; so that the peasantry in different parts of a region may belong dominantly to one caste with minorities of other peasant castes or in all parts of the region the composition of peasantry by caste or community might be highly mixed. The division among diffe-

rent caste groups of varying strength, of say, peasant society in a region may have considerable influence over the operation of co-operative leadership. This is because loyalty to caste and suspicion of those belonging to other castes intrude into this area. As a result, members in a co-operative society may tend to back leaders from their own caste or community without reference to the quality of these leaders in relation to the work of the co-operative. Also, the leaders and those in authority would show favouritism, in the administration of the society, towards members of their own caste or community. A cooperative, if it has to succeed, has to be operated as an essentially open organisation, that is in admission to membership and in the conduct of affairs of the co-operative society differentiation between member and member should not be made in relation to any factor that is not relevant to the working of the society. This is difficult to achieve in a caste society which is composed of a number of relatively closed groups with little intimate social intercourse among members of the different groups. In such a context leaders who will take a consistently non-partisan view of co-operative affairs do not readily emerge nor are members of co-operatives ready to accept with equal enthusiasm and trust good leaders irrespective of the caste or the community to which they belong.

In areas where the social composition is relatively homogeneous or where the membership of a primary belongs to one group the problems indicated above may not come to surface at this level. However, they have to be faced at the higher and more comprehensive stages i.e. wherever members of different caste or community groups have to join together in co-operative effort either primary, secondary or federal and in all integrated efforts and systems.

Another aspect of our traditional society is its hierarchical structure. The different closed groups, castes or communities, are usually ranked in an order which traditionally indicates socio-economic status. In such a society the groups ranking higher find themselves privileged in relation to those that rank lower and it is expected that those who rank lower will differ in most matters to those who rank higher. Traditional attitudes and expectations of this type create other problems for the working of co-operative societies. The working of a co-operative assumes equality of all irrespective of community or class. Where the hierarchical ideas derived from the older structure persist (and they are very persistent and pervasive) the democratic functioning of co-operatives meets with a real difficulty. The situation is further complicated by existence within regional and group societies of hereditary positions of leadership in the village, the region, the guild etc. These were traditionally associated with certain families and were expressed in certain forms of social precedence, some of which may continue to the present. Members of such families or

holders of the traditional positions may, and do, expect recognition of their status and the resulting complex of attitudes may get reflected in the working of even a co-operative society. The position of Chairmen, Managers, members of the Boards or Committees of co-operatives may come to be expected as matter of traditional social right by members of the higher ranking groups and families and holders of hereditary offices. It may not occur to the rest to question these claims and if somebody questioned them he might not find general support. To some extent all this may not affect more than the formal arrangements in the co-operative organisation. However, it is capable of influencing in an adverse manner even the working of these organisations. Positions not only of formal status, but even of real authority may continue to be engrossed by certain groups or persons and they may prove incompetent or dishonest or both; public criticism may yet not be vocal or effective because of the association or continuing influence of traditional attitudes or sentiments. Also, there might be an unequal distribution of benefits of operation of the co-operative. This is all the more likely as in a number of cases social ranking and economic strength go together. In the circumstances, the co-operative system may operate even within the class, say, of peasants for the special benefit of those higher in socio-economic gradation rather than as an egalitarian force. The situation would be particularly aggravated where groups which are extremely dissimilar in socio-economic status and partly antagonistic to each other live side by side; for example, in common organisations of caste Hindus and untouchables or of those of settled agriculturists and members of aboriginal tribes.

It is, in such contexts, that the much canvassed concept of "natural" leaders needs special examination. It is easy and usual to identify "natural" leaders, with traditional leaders, without remembering that traditional leadership is intimately associated with the hierarchical and hereditary aspects of the older social structure. Reliance on natural or traditional leadership in this case, would be beneficial only if the natural or traditional leaders accepted fully the values of an open and democratic society and worked for their active implementation and articulation in the operation of co-operative organisations. Otherwise, their influence may not prove helpful and may indeed warp co-operative organisations from their real objectives and purposes.

Another aspect of traditional society is the high degree of specialisation of occupations and the tradition of ignoring interests and skills outside a narrow range. The functioning of a co-operative even at the primary level requires from its leaders a certain awareness of social purpose, some administrative ability and a business outlook. Awareness of social purpose was not absent in the older societies.

In fact, paramountcy of group interests was usually taken for granted in these societies. This traditional emphasis could prove an asset to the functioning of co-operatives except for the fact, already noted of the somewhat limited interpretation of the concept of group loyalty and group interest. The intervention of colonial rule everywhere, made for a break in the older administrative traditions and did not provide a suitable substitute on any wide scale especially in relation to administration in a self-governing group. The administrative tradition of the colonial rule was and had to be essentially authoritarian. To this extent administrative experience would be generally lacking. However, this handicap would be got over with independence when, in due course self-governing political and other organisations proliferated rapidly.

The requirement of a business outlook would be more difficult to meet in a general way. A self-sufficient peasant economy does not breed a business outlook and to the extent that many occupations and pursuits in the older society were oriented away from a market economy business outlook would be lacking in them also. The resulting handicap would be felt not only in the case of classes such as peasants, artisans, or labourers, but also at the level of secondary urban organisations. This is because in the older society the scholar, the administrator and the businessman, were not only functionally differentiated but also usually belonged to rigidly separated castes. The scholar may have high ranking, but would remain poor with no experience of business and money dealings and with an attitude of near contempt in relation to those whose main vocation was finance and trading. The trading and business communities on the other hand, had a highly developed business outlook and were extremely proficient in their own lines, but they possessed, on the whole, little of a tradition of a broad social purpose or of an integrated social loyalty. Therefore, to the extent that leaders in the secondary organisations came from castes with administrative, professional or scholarly backgrounds, they might show an understanding of co-operative principles and an enthusiasm for them, but little appreciation of administrative techniques and almost no aptitude for practical business. On the other hand, if they derived from business communities they would, in the main, not show a high social purpose and would, in addition be more distrusted by the backward communities. Problems of leadership at even the secondary level thus prove difficult because of the special requirement of a combination of social purpose with aptitude for practical business.

Problems arise also in connection with relations of leaders of the larger co-operative organisations with the salaried, administrative and technical staff of these organisations. Apart from such aspects of

the situation as are universal, the special difficulties in Indian conditions arise from the lack of mutual contact and the resulting distrust and suspicion of each other. This is due to the fact that ordinarily the salaried administrators and technicians and the leaders of the co-operative organisations belong to different strata in society and to different closed groups.

At present leadership at the level of secondary organisations is being provided to a large extent by the urban and professional classes. But the extent of this provision is neither adequate nor very effective. The development that holds most in store for the future is the rapid growth of educational facilities in small towns and in the countryside which is raising the level of education in rural society. This together with the gradual increase of effective political power in the hands of the farming community should have the effect of stimulating the emergence of adequately qualified and sufficiently numerous body of leaders from among them. It appears highly likely that in the near future the peasant classes will provide leadership in increasing proportions not only at the primary but also at secondary levels.

In the ultimate analysis, problems associated basically with poverty and backwardness could be solved only by total socio-economic progress. Except in the case of a revolution the process of development is likely to bring about not a sudden change in the conditions of all but only a gradual improvement of conditions of stratum after stratum. However, even a partial improvement of the condition of some among the older poor and backward groups could make for a significant widening of the field from which leadership could emerge. And such a widening might be highly preferable to a continued restriction of the potential of leadership to small urban groups as before. The widening of this potential in relation to the top strata among peasantry and artisans has special significance. Both caste and economic conditions function as divisive factors in India today. The urban higher caste leadership suffers from handicaps on both accounts in relation to peasants and artisans. The possibility of leaders coming forth from among the better off peasants and artisans has importance because, in the first instance, they would not labour under the disadvantage of caste differentiation. Secondly, in the prevailing atmosphere of insistence on progress towards a socialist society and the rising importance of mass vote in politics, leaders from among them, the richer strata of peasants etc. are likely to realise the need of functioning so as to achieve the broader objective.

Finally, there is one aspect of co-operative leadership in India today to which I should like to draw special attention. At present there is an almost entire lack of emphasis in India on training and education of non-official leaders in basic principles of co-operation. The co-operative way has become so associated with economic development

and co-operative organisations are so much looked upon as instruments of economic planning that the aspects of instrumentality of economic betterment and of efficiency in operation are almost exclusively emphasised. There is little attention given, side by side, to the aspect of the co-operative as deliberately giving a second place to individual profit and emphasising progress of the group as a whole and, in the larger context, as seeking protection and growth of the interests of the poorer groups in society. It is true that in an under-developed society it is particularly important to insist upon attention being paid to the economic calculus and economic rationality. But it is common experience that the lesson of the pursuit of aggressive self-interest is very easily too well learnt and in the result the old restraining social influences and group loyalties are broken down. It is desirable that this should be allowed to happen.

Further, in the erection of a co-operative structure attention to basic principles, the proper division of labour among the different sides, the mutual relations of the primary, the secondary and of the higher federal organisations, meaningful coordination and integration of different types at all levels attain very great importance. No proper understanding of these or appropriate articulation of principles could be achieved except through impartation of training and education in basic principles of co-operation. The lack in India in this regard is grave in relation to the general body of members at both primary and secondary levels and specially in regard to leaders of co-operatives at these levels. Serious misdirection of effort at all levels is evident today because of the very uncertain and unclear grasp by all including the official leadership, of principles fundamental to the formation and operation of co-operative economic activity.

DEVELOPMENT OF CO-OPERATIVE MOVEMENT*

THE Souvenir presents the record of the growth and functioning of an organisation over fifty years. It would not be inappropriate to say that the history exhibits development of co-operative activity, qualitatively as well as quantitatively, of an order somewhat exceptional in India. The organisation has undoubtedly been fortunate, in the men it found to serve it. A remarkable succession of able and public spirited businessmen of Bombay city from Sir Vithaldas Thackersey to Shri R. G. Saraiya shouldered the heavy responsibility of being Chairmen of the Bank for almost the whole of the fifty-year period. It obtained for the major part of that period, the services as Managing Director of one who is rightly regarded as the doyen of the movement in India today. His successors as Managing Directors were also able men who, for the most part, had been trained within the Bank and had served the Bank in many capacities before they took over the highest charge. The Bank has also had associated with it as directors eminent men both in the academic world and in public affairs. The eminence of these may be indicated by pointing to Professor V. G. Kale and Shri Bhaskarrao Jadhav as representatives of the two spheres. The Bank has been equally fortunate in having obtained men of high calibre to work on its staff and the Bank's staff at all levels has been specially marked for the spirit of service and team work which it has consistently displayed. It is perhaps right in this connection to mention in particular Shri Deodhar who was a valued assistant of Shri Vaikunthbhai Mehta throughout almost all his years of service, as an outstanding and a notable example of dedicated service and able administration.

The history of the Bank has, however, a great deal more to show than record of able and devoted service at all levels. The most unique feature of the history is perhaps the consistent leadership that it has displayed in developments in the co-operative field. A notable early example was the policy adopted by the Bank during the crisis which the co-operative movement all over India had to face during the depression of the early thirties. It was the understanding and helpful

* Foreword to the Golden Jubilee Souvenir of the Maharashtra State Co-operative Bank Ltd., Bombay, 1961.

manner with which the Bank then dealt with societies and individuals which not only enabled the co-operative movement in the State to get over the very difficult times without grave mishaps but also securely laid the foundation of the confidence and prestige that the Bank has enjoyed in a special degree and, it is hoped, continues to enjoy to this day.

It is possible to claim that a number of developments of not only State but all-India importance have had their origin, in part at least, in thinking and action at the Bank or of people connected with the Bank. From the Bhansali-Mehta Report and the BADR Act with its co-operative crop loans and government guarantee there is seen to be continued effort at thinking and experimentation. The personnel of the two important post-war committees, the Agricultural Finance and the Co-operative Development Committee, was connected with the Bank and the Bank played an important role in getting the crucial decision of Bombay non-official co-operators forthwith accepted by the Government of Bombay as its policy to reorganise their structure and undertake on behalf of the co-operative movement and organisations the onerous responsibility of playing a crucial role in planned rural development. The radical re-organisation of the structure of the Bank undertaken at this time and the policy of transferring business at the district level gradually to district banks, deliberately fostered for the purpose, have amply proved their propriety and value in subsequent years. In all this the Bank has been fortunate in the close relations it has been able to establish with the Reserve Bank at both the policy and administrative level.

It would be absurd to claim that the history of an organisation over fifty years shows no ups and downs and that no mistakes were made or that opinions about particular developments are not likely to vary. However, it is expected that, in the main, there will be general agreement that the Bank's performance shows consistently high level of competence and that its leadership has been marked by qualities of both integrity and imaginativeness.

Another feature to which attention of readers of this chronicle may be drawn is the gradual transition in control and leadership within the Bank which reflects important socio-economic developments in the country. On the one hand while the Bank has divested itself gradually of direct operations at the district level, it has shown increasing interest in developments in the rural industrial and marketing fields and sponsored new activities in them. With the full development of the federal structure, the active participation of leaders of district movements in the affairs of the Bank has steadily increased. The history of the last fifty years may be seen as exhibiting a movement from an initial stage where the metropolis took leadership in

developments throughout the State to a point where district leaders arrive at the metropolis to participate fully in the Bank's affairs and show the ability to conduct the Bank's business with competence. It is because the organisation exhibits continued vitality and ability to be in the van of progress, in this manner, that I feel no hesitation in predicting for its future as useful and brilliant a career as in the past.

FUTURE OF CO-OPERATIVE CREDIT*

THE task of writing about the future of co-operative credit is not an easy one, particularly because it involves, as a necessary preliminary, prediction regarding structural developments in the economy in the future. In the circumstances, it may be useful to begin with a rapid review of developments in the co-operative movement over the last fifty years. The co-operative movement in India was started under official patronage as a form of voluntary economic organisation which could provide an alternative to the moneylender-trader in the rural economy. The movement, at this stage, lacked any real base. It was a movement which was neither understood at the village level nor fully supported and actively sponsored at the official level. The essential difficulty of its position was underlined by the depression of the 30's. The almost countrywide collapse of the movement was evidence both of lack of firm foundations and of effective official support.

It was only with the coming of the Second World War that the movement entered into a phase of relative stabilisation. This was chiefly because Government found co-operative organisations useful instruments for implementation of economic policy in rural areas and began consequently to pay attention to the structure and operation of the movement as a whole. The change brought about in the economic condition of some classes of cultivators through rise in prices of agricultural products, was another important factor. This made it possible for the first time to think in terms of a significant proportion of cultivators, at least in some regions, being freed from the moneylender-trader system and foreshadowed the possibility of substantial resources being ploughed into the movement from the rural areas.

In the post-war period, the widespread adoption of slogans of socio-economic equality and the decision to take up planning completed the change. A national government which was not wedded to the doctrine of *laissez faire* and which talked of planning in order to achieve a socialist society naturally thought of the co-operatives as important agencies for the purpose. There has been a continuous increase in emphasis on co-operation and co-operative organisations in each succeeding five-year plan and the goal of the co-operative commonwealth is more and more generally avowed.

* *Co-operative Maharashtra*, Bombay, 1961, pp. 15-20.

While all this is important, it must be remembered that developments in the field lag far behind ideology and slogans. Many aspects of government policy especially those related to pricing, marketing, and processing of agricultural rural products hamper developments of co-operative activity and there is little evidence of a consistent drive towards attainment of the co-operative commonwealth or even of an effort to think out the concept in concrete terms. Even so the last twenty years have brought about a change in co-operative structure and ideas which might be well termed revolutionary. Today it is becoming progressively more true to say that co-operation is not just an alternative form of voluntary organisation in a *laissez faire* society, but a broadly accepted way of life, especially for the rural areas.

Problems of co-operative credit and developments in the co-operative field have to be placed against this background. Another set of considerations that are important in projecting the future are those relating to specific developments in the operations and approaches of co-operative credit organisations during the last twenty years. It may be stated as a broad simplification of co-operative history that co-operative credit two decades ago was a matter of making some additional resources available to cultivators chiefly in relation to their holdings of property in land and not significantly related to their requirements as producers or consumers. It came to be gradually realised that the concept of co-operative credit affording an alternative to the money-lender-trader system could not take shape as long as the structure of co-operative credit was not rationally designed and could not meet all the needs of the cultivators or other operators that were being met by the moneylender-trader system. The attempt to raise a logical or rational structure of co-operative credit involved programmes of action in three different directions: conceptually, so that the total field of credit was meaningfully analysed and related with relevant aspects of economic activity; organisationally, in terms of articulation and implementation of the conceptual scheme at various levels, and financially, in terms of resources for giving effect to the programme based on the schemes and the organisation designed for establishing a well-nigh universal system of co-operative credit.

The whole effort that has gone into an analysis of co-operative credit into various types of loans with appropriate purposes, extent, terms and conditions, etc. has had the objective of building a logical system. Organisational effort has had two important aspects: one was the superstructure which in the initial stages is particularly important and the other the primary organisation on which necessarily all co-operative activity is based. Today, in spite of some controversies we have arrived at a general agreement on the essentials of the analysis and the main elements of the structure of organisation. The

various strata in co-operative credit organisation, their roles, functions and relations with each other are matters of accepted national policy. So also basically is the structure of the primary units, of various types of co-operative activity. Moreover, starting as an agent of the state, the Reserve Bank has accepted the ultimate obligation of finding resources that are needed for finance in the co-operative structure.

In considering future developments it is necessary to give careful consideration to conditions which compel resort to external agency for the bulk of financial resources. The rural economy in the moneylender-trader stage, was essentially an economy stabilised at what might be called the underdevelopment equilibrium. The moneylender-trader exacted a heavy price for his services from the cultivators such that the cultivator in most regions was left with no surplus with which economic development could be initiated. The moneylender-trader was not interested in or did not see any prospects for additional investment on his own account in the rural economy. He was ordinarily not in a position to raise resources on his own account except through the exploitation of cultivators to which there were obvious limits. The rural moneylender-trader provided essentially a link with the financial and commercial structure of the towns; he was the rural agent of this structure. He shared in a humble way, such surpluses as accrued in the economy the whole of which this structure absorbed.

The *raison d'être* of the co-operative credit system is to break through this and to start a process of development through enlarging the surpluses in agricultural production and keeping it in the hands of the cultivators. This involves not only a planned programme of development but also that the surplus generated through the planned productive activity is, at all stages, retained within the co-operative system and distributed by that system, in a socially meaningful and beneficent manner. It is this that justifies the initial emphasis on the productive use of resources, on the one hand, and on the other, on making resources available, in an ample measure, to every unit in a position to make productive use of them. The whole purpose and meaning of the crop loan system were so conceived. The crop loan is, however, only the beginning. For, the moneylender-trader system was an integrated comprehensive system and its replacement has to be complete. Otherwise, the operation of the older system in any part could defeat ends and purposes of the co-operative effort. The cultivator's needs for seed and manure may be met but not those for bullocks and implements; his production needs may be met but not those for consumption; he may not have to go to the moneylender-trader for a loan, but may still have to resort to him for marketing or processing his produce. If at any of these points

the moneylender-trader system continued it would powerfully affect the rural economy and the prestige and efficacy of co-operative system could be endangered or, at least, weakened. This is in fact the situation which, in part at least, is met with all over India today. The crucial role of processing in the co-operative system stems from the integrated character of total operations. The integration of economic activity is exhibited at higher levels also. Therefore, not only is it sufficient to organise all sellers of produce in co-operative marketing organisations, but also to provide if possible, within the co-operative system buyers for these products. Thus through organisation upto a point or level, the co-operative system comes up against difficulties at the next point or higher level and must go ahead if it is to continue to function and to progress. This creates an apparently insatiable demand for increasing supply of personnel and financial resources from the expanding co-operative sector.

At the establishment of a primary co-operative credit society, the bulk of whose members are marginal cultivators, the extent of resources internally available must prove insufficient for the needs of the situation. Even for the class of primary producers, as a whole, the low level of their existing operations and resources makes an injection of outside resources necessary for both balancing and developing their economy. The continuing need for financial resources of rural co-operatives is the result of a process which may be analysed into three necessary elements. Firstly the prevention of exploitation; secondly, the investment of fresh resources so as to begin development and thirdly, the requirement to grow steadily into an integrated system for a developing economy. It is from these points of view that the need for continuous additional finance of the growing co-operative structure in future decades must be projected.

Conceptually, it might be said that this is not an indefinite process. There is bound to come a time when the fullest opportunities of agricultural development have been exploited and the credit system has been linked with marketing, processing, transport, etc. co-operatives and has also established itself at the wholesale national level and is linked with the consumer and producer co-operatives. At that level, the savings available in the agricultural economy may be so large that they cannot be absorbed within the agricultural occupation. When I was in Japan in 1957, I was told that already in the more developed parts of Japan, especially of the South and West, the savings available within the co-operative credit system were not only enough to provide finance within the system for the undeveloped areas of the north and the east, but also that during the part of the year, the Apex Credit Co-operative was able to place large funds with the money market in Tokyo.

I do not look forward to such development at an early stage in any state of India. Even in states like Maharashtra and Gujarat where considerable progress in development of co-operative credit has been made, we are far from satisfying fully the needs of the agriculturists in their productive activity. We have a very long way to go until we cover fully the fields of marketing and processing in rural areas and are able to establish links with counterparts in the industrial and urban field. Therefore, while we may look forward to a larger proportion of internal demand being satisfied with supply of internal resources, in particular areas, the development as a whole will require funds from outside for a considerable time.

Apart from this, there is another reason to project continued requirement of considerable funds for rural investment in a planned Indian economy oriented in certain agreed directions. The concept of surplus funds becoming available from rural areas is linked with the notion of saturation of opportunities in these areas; this in its turn is connected with a preconceived idea regarding location of economic activity. The saturation of opportunities in rural areas is assumed because it is taken for granted that all growing industries will be located in towns. However, a large number of current developments and most considerations regarding proper future arrangements emphasise the need of planning as much industrial development as possible within the rural areas themselves.

This in the ultimate analysis, is the only course that can lead to balanced growth and even terms of trade. Wherever surplus is produced beyond the requirements of immediate investment in agriculture or even before reaching this stage investment in rural industry is logically indicated. From this point of view, to the plan of covering within the co-operative system, credit, marketing and processing of agricultural products must be added the plan of rural industrialisation to the largest extent possible. It is generally agreed that modern industrial activity generates more surplus than other types of activity. Therefore, not only for freeing the countryside from dependence on outside financial resources but also freeing it from other types of dependence also the best way is to concentrate on utilising all surpluses in rural industrialisation.

In the present context of Indian conditions all this may appear as far-fetched. I hold, however, that it is well within bounds of possibility and what is lacking to make it a reality is a sound co-operative structure and imaginative leadership. Provided our primary units become viable and competent there is no reason why the extra resources now being routed through the credit system should not generate ample surplus. The other important requirement is, of course, that of careful planning and leadership in this direction. In the

Indian situation, for a variety of reasons, it is the credit organisations and the co-operative banks in particular which find themselves in the position of commanding resources and prestige and power. Therefore, these alone can give leadership. Rather, in view of their historical development and present situation responsibility of leadership devolves on them. If they interpret the purpose of a co-operative credit organisation broadly enough and take the lead both in designing and planning future developments and in implementing and financing them there is no reason why developments should not be quick and what appears today as a theoretical, distant goal should not fructify within a reasonable time.

This sketchy survey should serve to emphasise the need to consider future developments in the co-operative credit field in close relation to the programme of developing an integrated and all embracing co-operative system. In relation particularly to rural credit and economy it brings out the reasons for present dependence on outside financial resources and assesses prospects for its continuance in the future. Finally it shows that independence, in the sense of being able to operate and progress on equal terms with others, could be achieved by the rural economy only through pursuit of a programme of integrated development of economic activity with special emphasis on industrialisation. Finally, it is stated that in existing Indian conditions the responsibility for giving the lead in all these respects devolves naturally on the main co-operative credit organisations.

PROSPECTIVE DEVELOPMENT IN CO-OPERATIVE FINANCE*

A NUMBER of issues of policy are emerging in co-operative developments in India. One of these is the problem arising out of the concept of the crop loan and its definition and implementation. It should be noted that the crop loan emerged as a device which could take co-operative credit a step beyond the stage which it had reached previously. At this earlier stage, whether explicitly related to the value of owned land or not, the credit of a cultivator depended largely on his real assets and the loan was made for a twelve-month period and was renewable. There was no explicit linking of the loan or its size to the purpose of utilisation; also fairly severe limits on loans to individuals and to societies as a whole were laid down. The result, almost-universally, was that in no case could the credit extended by co-operative societies to an individual member serve his needs fully. The co-operative credit system could not, in the circumstances, hope to replace, even theoretically, the moneylender-trader system.

Crop loan system

The crop loan sought to transform the situation in two directions. First, by shifting the emphasis from real property to the crop as security, it brought in even pure tenants as potential borrowers, and secondly, by relating the size of the loan to the requirements of business, it emphasised productive purpose. Incidentally, it did away with the older, highly restrictive limits on credits to individuals and societies. The new basis, however, resulted in an exclusive emphasis on the requirements of production credit and benefited most those classes and groups whose requirements of this type of credit were relatively large. Therefore, in considering the operation of the existing crop loan system, it is necessary to distinguish between defects which are inherent in it and those that are incidental to the operation of the system and are remediable.

In relation to the latter type, the main problems are of ensuring that the loan is used for the purpose for which it is granted and that repayment is assured at the time of, or soon after, the disposal of the crop on which the loan is secured. The system of giving a large part

* *Maharashtra Co-operative Quarterly*, January 1964.

of the loan in kind is part of the design to ensure proper utilisation. Theoretically, it should not matter if a cultivator uses any part of the total resources available to him for either production or consumption needs as long as both are satisfied. The objection to the entire loan being given in cash lies in the danger of insufficient resources being utilised in production, through diversion to non-production needs. The successful formulation of a system of division, in cash and in kind, of crop loans assumes the possibility of isolating items of production inputs which are universally required and whose normal level could be generalised and incorporated into a system. It further raises the problem of ensuring timely supply from reliable sources. The cash and kind division also leads to the concept of instalment. This is itself another device to secure proper utilisation. However, the division of a loan into cash and kind components which are themselves given in instalments implies a close adaptation of the division and instalments to requirements of cultivation and an efficient operation of the administrative loaning and supply system. Thus the crop loan system, whatever its originating impulse, becomes with proper development an elaborate system which goes far in the direction of supervised credit.

On the side of repayments, the crop loan implies establishment of congruence between maturity and disposal of crop and the recovery of the corresponding part of the loan. As the charge is on the crop, the repayment has to be closely linked with disposal of the crop. Where such linkage is possible within the overall co-operative system, the crop loan system can work fairly successfully. Where this is not so, there should at least be a logical insistence on repayment of an appropriate part of the loan at a time not too distant from the time of the disposal of the crop on the security of which such loan was extended.

Logically, a developed crop loan system thus involves a full analysis of the credit requirements of a cultivator according to crops, times and types; an appropriate administration of the cash and kind supply and recovery through sales or immediately after. If such a system can be administered in the required detail, it would also make available data needed for its proper structuring and also data needed for continuous agricultural and operational improvements.

It has to be realised in fact that even in the case of the co-operative sugar factories, where all the conditions needed are satisfied, neither is the system operated in detail nor are the data collected, analysed or utilised as required or desired. The main initial contribution of the crop loan system has been that of loosening the fetters of the older structure and enabling co-operatives to meet more fully the credit needs of the cultivators. In actual administration of the system, for the most part, the total borrowings continue to be treated

as one lump sum, with little pretence at providing supply only when needed. On the other hand, the recovery, instead of being tied to each crop and its disposal, is expected on the average at the end of the agricultural year.

This should not lead one to ignore the very real advance in the functioning of co-operative credit brought about by the acceptance of the concept of the crop loan. An essential objective and stage in co-operative progress is the replacement of the moneylender-trader system. An effective inroad in the field occupied by that system was made possible through the crop loan idea. This enabled fairly adequate credit being given to large groups, such as substantial farmers of commercial crops and this made a dent in the moneylender-trader system of a size and quality which was otherwise unimaginable.

Inadequate of the system

This partial initial success of the crop loan system has itself brought into the forefront a large number of complex problems. The numerous defects pointed out in the operation of the crop loan system all derive from insufficient progress in its logical implementation.

The implementation requires that a fuller understanding of the implications of the crop loan system must be achieved among all connected with the co-operative credit system, viz., among borrowers as well as among those who direct and conduct operations of financing agencies at all levels. Even more importantly, it requires considerable enlargement and improvement of the staff of the financing agencies. The required collection and field scrutiny of information, the preparation of elaborate individual loan papers, the administration of loans and their recovery at appropriate periods would not be possible without this step being taken. This conclusion raises two important issues: (1) whether the considerably increased expenditure on staff is financially and otherwise possible for co-operative financing agencies at all levels and in all tracts, and (2) whether in the future development of the co-operative credit system the administrative tasks resulting from such elaboration could or should all be sustained by the co-operative financing agencies alone. Before dealing with these issues, it may be useful to turn to problems outside the strict application of the crop loan system.

The report of the Committee of Direction of the Rural Credit Survey of the Reserve Bank of India, on which the present policies are largely based, did not adequately deal with a set of questions. In the main, these are the problems of subsistence and uneconomic farmers, the problem of consumption loans and the problem of the co-operatively backward States. An important finding of the Rural Credit Survey was that the larger and the more intensive developed the agricultural production activity of the cultivator, the larger proportionately was

his need for production credit. The crop loan system could on this account, meet more or less fully the needs of the more substantial cultivators in most areas, where important commercial crops were grown. This class of cultivators had usually some resources of their own and the crop loan limit for them worked out on a generous enough scale, to satisfy all normal credit needs. The manner in which the share-holding contributions by cultivators to a number of processing factories in Maharashtra were met through crop loans indicates the extent of the margin which, on an average, was made available through crop loan limits to substantial cultivators. On the other hand, the smaller cultivator and the cultivators who grew the less costly crops, because of soil or climatic conditions, did not equally benefit from the crop loan system. This was because production credit needs played a relatively small part in their total requirements of credit.

Creditworthy and non-creditworthy farmers

The Rural Credit Survey Committee also ignored the distinction between the creditworthy and non-creditworthy farmers which had been drawn by the Agricultural Finance Sub-Committee of 1945. In doing this, the Rural Credit Survey was following the example set by the Bombay State Co-operative Bank in its policy resolution of 1948. The distinction between the creditworthy and the non-creditworthy made by the earlier Committee is, no doubt, important; but it has significance only if concurrently a programme of rehabilitation of the non-creditworthy is devised and implemented by the State. In the absence of such action, the distinction loses meaning because the co-operative credit organisations themselves are in no position to undertake a rehabilitation programme or to give special assistance. The Board of the Bombay State Co-operative Bank was faced with this problem in 1948 when it came to define the amount of loan to be advanced under the crop loan system to various classes of cultivators. In doing this through linking the quantum of the loan to the acreage under crops, the Board decided not to exclude any farmer, however small. This was because the definition of a class of farmers below a certain level of holding, etc. as non-creditworthy would only have resulted in denying all credit to very large numbers of small holders. This would obviously have been unfair and contrary to co-operative developments so far. Therefore, no differentiation was made in the application of the crop loan system among the various types of cultivators by size of holding or business.

Of course, the crop loan system itself led to wide variations in the amounts of crop loan to which an individual farmer was entitled. The small holder got a loan which was related only to the small number of acres of his crop acreage, and if he grew only cereal and pulse crops, the amount of the crop loan to which he was entitled was small

indeed. It was presumably argued that this small loan even the un-economic farmer would be able to repay. The natural consequence of this arrangement, to which however not sufficient attention was given, was that the credit obtained by these classes of cultivators was very inadequate. For requirements of credit other than those for agricultural production, the crop loan system made no provision; therefore, this system, however elaborately or properly administered, could not deal adequately with the credit problem of these classes of cultivators. The Rural Credit Survey did pay some attention to consumption aspects, but the recommendations that it made, viz. that of practices modelled on the Chit Fund were obviously not likely to meet the needs of the small farming community. It should, therefore, be not a matter of surprise that the present policies are found to be inadequate to deal with what have been termed the weaker sections of the community.

The Crop Loan Evaluation Committee of the Bombay State Co-operative Bank tried to get over, in part, the difficulty by expressly including expenditure on subsistence of the farm family during the off-season as a part of the overall crop loan limit. This was tantamount to broadening the concept of the crop loan and almost to changing its character. It can be argued that if a farm family incurred cash outlay to feed itself during the off-season, this was as essential to growing the crop as any production expenditure. Moreover, if this necessary outlay led the family to contract debt from another credit agency, the operation of the crop loan system was put in danger. However, the acceptance of such reasoning meant adopting a view of the crop loan which related the loan to the broader requirements of the farm family rather than to the direct production credit required by the crop. Another problem raised by this procedure was that of the relation between the loan and the proceeds obtained through sale of crops. As long as the crop was strictly limited to the direct inputs required for growing the crop, the presumption was that the total value of the crop would be normally much higher than the crop loan limit. Once other expenditures such as those on subsistence of the family are counted in, the assumption can no longer be regarded as generally valid.

Consumption needs of farmers

If the co-operative structure is to serve fully the small or un-economic farmer class and to liberate it from the moneylender-trader system, it must make credit available for all the production and consumption needs of the farm family. However, if this is done, the security and repayment base of the crop loan system become non-applicable; for example, it is highly unlikely that the proceeds

of sale of farm produce by the small farmer will cover his total requirements of credit. However, it is equally true that no alternative base is readily available, at least not one that can be put in a generalised form. The difficulties are obvious. The small or uneconomic farmer, almost by definition, is not only an agriculturist producer but also obtains income from a variety of other sources. Neither supply nor recovery of the loan is in this case related to the comparatively simple calculations regarding type of crop grown and its returns, which can be put into average generalised forms. The problem would be less difficult, if the other resources of income could also, in some way or another, be linked with the operation of the co-operative organizations. If the supplementary income sources were, for example, livestock or artisan industry, a separate assessment of requirements and possibilities of repayments could be made for each activity and combined together. (This would, of course, require detailed individual assessment and programming). Where the other source of income is wage income or remittance, its definition and evaluation become much more difficult. The financial problem of the weaker sections of the rural community then becomes in large part the problem of consumption finance of wage earning class. As defined above, it is also the problem of production finance of miscellaneous activities about whom no generalised procedure can be formulated. It is thus not only fraught with more risk but requires for administration a much more detailed and individualistic approach. In a sense, therefore, developments required for this purpose are in the same direction of supervised individual credit. Ultimately, the only development that can help substantially in this matter is a more close-knit organization of the weaker sections themselves such as of the small farmers in types of co-operative farming or co-operative bullock or labour sharing units and of wage earners in labour contract societies etc. The only sure way of helping weaker sections of the community is trying to spread the network of co-operative production and labour activity among them.

Even apart from the special needs of the small farmer, the problem of consumption credit needs now to be tackled explicitly by all financing agencies. It may be recognised that the only base for such credit is that of actual or potential savings. No system can be built in rural India on expectation of voluntary savings. However, it may be noted that it is now a general practice for co-operative financing organizations to make regular deductions for contributions to capital. On the analogy of these, in addition to or in part replacement of these, compulsory non-withdrawable deposits could be created. A certain measure of consumption credit could be given on the ultimate security of such deposits. Such a device is necessary even for the more substantial farmers for the period for which a farmer is not entitled to draw

on production credit lines. This does not mean that the emphasis on production needs or objectives is forgotten or lessened, but that it is recognised that a credit system which claims to be universal must provide within itself for all needs in a systematic manner.

Problem of overdues

Attention may be paid, at this stage, to the problem of overdues which is engaging greater and greater attention in recent years. There are two aspects of this question which need to be considered. In relation to the crop loan system, there is the problem of the failure of the crop. This problem, — it has become clear during the last ten years — is of serious dimensions in parts of Maharashtra. In a number of districts, crops have failed in certain areas in successive years. With such failure, full recovery of loans becomes difficult. It is inevitable that the greater the progress made by co-operatives towards supplying adequate finance, the greater will be the extent of non-repayment in the event of failure of a crop. As yet no procedures have been fully established to deal with this question. It is necessary to elaborate these procedures and to arrange both for proper enquiry and prompt extension of relief in the event of a significantly serious failure of any crop. The better such a system of relief is, the more insistent can be the demand for fullest repayment in normal circumstances.

A question which has never yet been considered in this context is the possibility of a measure of relief extending beyond postponement of repayment. Co-operative banks and societies are expected to look specially after the weaker among their members. At present, co-operative banks give rebate to good customers and this is right. They yet do not give any rebate in interest to those who are visited with failure of crops in successive years. It would at least serve as a valuable gesture if it was possible to do something in this direction in the more serious cases. The risk fund necessary to give more substantial relief in the worst cases to which the Rural Credit Survey Committee referred, needs also to be set up.

The other point that needs consideration in connection with current overdues is the concept of complete repayment at a point of time with reference to which overdues are defined. It was no doubt necessary in the earlier stages of the development of the co-operative movement to guarantee that at an appropriate time in the year the cultivator worked off his loan completely. It is proper also that the practice of fictitious repayments and early renewal is discouraged. However, when the co-operative becomes the only source of finance for a farm family and when the total loan operations become large, the question may be raised as to whether it is proper to expect that an account will be completely cleared at one particular point in the year. It is

necessary in this context to look realistically at receipts and expenditure flowing in the economy of the individual cultivator. If during the production season the borrowings and the production outlay of the cultivator are increasing, at the end of the production season he has not only the repayment but the accumulated consumption expenditure needs to meet. It is well known how consumption outlays in rural India go up in the post-harvest seasons. If the co-operative system, in fact, fully finances the cultivators, the outlays on consumption needs which he has in part to meet out of the proceeds of sales of crops are a feature for which some allowance must also be made. Suppose, for example, that in a fully elaborate system of supervised credit allowance is made for a certain outlay on important consumption items by the farmer in addition to his requirements for different production purposes, it would then happen that at no time in the year would his account ever be brought to zero. The banking account of a company with continuous production operations is never expected to be fully repaid at any one point of time. A good banker watches the accounts to see that they are active in an appropriate manner and that in the slack season, if there is one, outstandings are brought down fairly low. There is, however, no insistence on complete clearing of debts in the renewable limits. When progress is made in the direction of giving full credit and covering consumption needs together with production needs, a revised view of definition of overdues may have to be taken. The present formula of complete repayment leads to the need of artificial adjustments in many cases and, therefore, a more satisfactory index of the behaviour of accounts may have to be established. This again is something which indicates the need for a greater elaboration of administration of credit in the direction of supervised individual credit.

It will be evident from the above that I do not take an alarmist view of the increase in the volume of credit and do not agree with the position that it is necessary to withdraw from the crop loan concept. Current developments may have some undesirable features but they are basically in the right directions. At the same time, they present a challenge and it can be met only by thinking out carefully in advance the principles and procedures of future action. As set out above, the main requirements are a fully elaborate implementation of the crop loan system and a comprehensive definition of co-operative credit which will take account of all needs of all classes. It has, further, been indicated that these developments are possible only if a much more detailed administration and supervision of credit reaching down to the individual family is provided. Experiments with some variation on the crop loan theme are being currently made in some districts of Maharashtra. These relate chiefly to an increase or decrease of the crop loan limit in individual cases to bring about a closer

linking of co-operative credit with marketing. This together with increase in the number of processing units may help better performance. There is also the possibility, in some areas in Maharashtra, particularly in the areas of co-operative sugar factories, not only to elaborate the working of the crop loan system but also to watch closely its effects on production and to use it as an incentive to greater productive effort. However, all this experimentation has scope chiefly in areas of intensive cultivation of commercial crops and will not help to solve the problems of the uneconomic farmers and of the predominantly foodgrain areas. Moreover, in these latter contexts and areas the resources of the financing agencies, both the primary societies and the District Central Banks, are among the lowest.

Supervised credit

Appreciation of this situation raises the issue of the extent to which financial agencies can, and may be expected to, act by themselves in further elaboration and experimentation. The development of a detailed system of supervised individual credit has significance not only for financial operations but also for the entire process of development planning. Therefore, all agencies must help in an appropriate manner in the process. In this context, beginnings have been made in Maharashtra in two directions: first, in the joint planning and implementation of annual targets by the Co-operative Department and the Co-operative Banks; second, attempts are being made to co-ordinate fully the work of the co-operative central banks and the co-operative land development banks. But the work must go much farther. It must take in all development agencies in the field at the block and the district levels. Theoretically, something of this sort is presumably being attempted in the package district plans. In practice, very little has been accomplished anywhere. The view still appears in general that making a large loan is a development activity, while recovery is a purely financial one. Unless this attitude is changed and the total operations of the financial system are looked upon as integral to the development plan and a shared responsibility of all, no further progress appears possible. Also, it is only in this manner that the personnel required for the working of an elaborate system of supervised credit could be made available.

All the above assumes a certain minimum development of the co-operative structure. Admittedly, this is non-existent in a number of States in India. The problem of future developments in these States must be considered, at least initially, somewhat apart from the programme sketched above. It must be considered a serious lacuna in the post-Rural Credit Survey programme and perhaps of the R.C.C. recommendations themselves that this problem was not separately tackled. The main difficulty in this context is the great weakness of

the primaries. Therefore, a beginning has to be made with building the structure, so to say, from the top. The situation has, so far, led merely to perpetuation of the control of co-operatives at all levels by the State and its officials. A breakthrough requires conceptualisation of an alternative practicable approach. I have not sufficient knowledge of conditions in these States to think through this problem. However, I shall put forward an idea merely to illustrate what I mean by an alternative approach. It may, for example, be taken for granted that it is impossible at this stage to build up directly co-operative primaries in sufficient numbers. In this case, the District Central Bank may be taken as the initial operative unit on building up of which energies are concentrated. The main and vital requirement is that this should be attempted to be directly built as a genuine co-operative organisation. And it should be the main task of this organisation to promote, supervise and direct the operations of primaries so that they grow up in time as genuine co-operative organisations. In the transition stage, as happened in all States formerly, the central bank could deal even with individual cultivators in the absence of a proper primary structure. A good deal of improvisation and unorthodoxy may be permitted provided a genuine co-operative nucleus is created and it works in the direction of proliferation of its activities. Without some such operational approach and concept, the present stalemate in many States appears likely to continue indefinitely.

Finally, some observations may be made in relation to the role of the Reserve Bank in future developments. The Reserve Bank has been an active agent in promoting the development of co-operative organisations during the last decade. It has done this according to a set pattern and through its inspecting mechanism and the terms and conditions of its financial assistance. The success achieved has been remarkable, but it appears as if the limit of advance, according to this pattern, through these means, has been almost reached. Those who shape co-operative policy of the Reserve Bank have to address themselves to two sets of questions. First, what is the new orientation of policy to be? This has to be decided jointly by non-official co-operative opinion and the authorities, viz. the Governments of the Union and States and the Reserve Bank. The present note has been chiefly concerned with problems of future policy.

The second issue, which must be determined mainly by the Reserve Bank itself, relates to the change in the approach and methods of the Bank. On this only some general observations can be usefully made. First, it appears clear that it is no longer appropriate to adopt and operate a uniform all-India policy. Possibly, adoption of some aspects of even the earlier programme, e.g. the large-sized society, was too generalised. Henceforth, different programmes of action must be

evoked for different States in accordance with their existing condition, and the history of the last decade. This will be possible only with a changed approach on the part of the Reserve Bank and its officials. Today, the co-operative organization and Governments of States study the terms and conditions of loan, assistance, etc. of the Reserve Bank only for achieving the greatest formal compliance so as to obtain the largest measure of assistance. The Reserve Bank is able to do little even if it is fully aware of the frequent large difference between the reality and the facade. The situation can be met only if there is real understanding between the Bank and the non-official co-operators and Governments of States. No doubt a general framework of policy and of generally applicable terms and conditions of financial assistance will have to be retained. But with this broad frame, programmes of immediate action for each individual State or region will have to be formulated and for implementing these appropriate short-term adjustments in the general scheme will have to be offered or allowed in individual cases. Reserve Bank officials must have informal contacts with, and intimate knowledge of, those in charge of co-operative organizations and must be able to function in an informal advisory capacity.

A REVIEW OF CO-OPERATIVE BANKING IN MAHARASHTRA*

It may be useful on this occasion to do what is conventional i.e. to review the progress made by the Co-operative Banking System in Maharashtra during the last 25 years. It is also important and necessary to trace the evolution of the existing co-operative credit structure in the State and to assess its performance. I believe the latter to be necessary as it is apparent that there exists, among even the most highly placed, considerable misunderstanding about the functioning of the co-operative credit system, about the magnitude and spread of its operations, the services it renders and their relative cost.

The task of reviewing the history during the last 25 years is rendered difficult by reason of the many changes in the jurisdiction of the State. The most important of these were, consequent upon the merger of states at the time of Independence and the two important reorganisations in 1956 and in 1960. Barring a core of districts in Konkan and West Maharashtra the present composition of the area of the State is radically different from that in 1939. A number of important areas have, during the years, been cut away and new ones have been added. The difficulty of presenting a continuous statistical picture need not, however, come in the way of a qualitative assessment of the progress made and of its direction. For the major part, events in most constituent areas, old and new, have moved at a similar pace and in similar directions.

By any test the changes that have taken place may well be called revolutionary.

All measures of size of operations at the level of the State or of the District indicate a growth in terms of resources and of operations which is phenomenal. There have been important changes also in the nature of business. The effects of the agricultural depression of the early thirties were still observable in the situation in 1939. Agricultural loans were stagnant and though they recovered gradually, especially after the end of the war, the main progressive element of business of the co-operative banking system in the forties was that of loans to individuals on the security of agricultural produce.

The situation was basically changed on the reorganisation of the Co-operative Banking system in Bombay State which took place in

* *The Bombay Co-operator*, November, 1964, pp. 3-7.

1948. Loans to individuals were deliberately discouraged and with the gradual adoption of the crop loan system large and rapid progress in agricultural loans became possible. The Reserve Bank of India gave its support to the new approach after the informal conference convened by it in 1951, and the approach was greatly elaborated and was embodied in national policy as a result of the acceptance by government of the recommendations of the Committee of Direction of the Rural Credit Survey.

The structural changes recommended by the Committee of Direction had also been anticipated by the reorganisation of the Co-operative Banking system in Bombay. In 1939 the apex bank performed the functions of a district bank in many districts. The Policy of encouraging the formation of a district bank in each district was adopted at the time of reorganisation in 1948. However, because of the accession of new areas and the merger of the Vidarbha Bank it took more than a decade for the new pattern to be fully established. Today, it may be claimed that the ideas and policies discussed in the report of the 1945 committee, accepted in the Bombay in 1948 and elaborated by the R.C.S. in 1954 have had sufficient time and backing to show their full results in the organisation and working of the co-operative credit system in Maharashtra.

The structure is a three-tier structure consisting of the primary rural and urban societies at the base, the district-central banks at the intermediate level and the State Co-operative Bank as the apex. A peculiarity of the operational picture needs to be immediately noticed. This is that while the large bulk of the deposits in the system are received by the District Central Banks and the State bank, the advances to individual producers and businesses are made, for the most part, by the primary societies. External funds made available to the system, mainly by the Reserve Bank of India, are routed via the Apex and District Banks to the primaries. In judging of the propriety of the structure it becomes necessary to bear this peculiarity in mind.

The co-operative credit structure, like all genuine co-operative activity, is intended essentially for assisting the poor and the weak to gain in economic strength. As the poor and the weak in our economy are extremely numerous; and form in most places and occupations the large majority, units which are intended to serve them must also be numerous and dispersed. The need for this in the rural areas is indicated by such formulations as "a society for each village" or the more recent formula "a society for each area of 3,000 population". In towns also primary societies are organised, in the main, for specific locations or groups, and, therefore, tend to be small and numerous. Urban banks have been established and are flourishing in some districts of Maharashtra, but even these are small as compared with commercial banks. Numerous, small and dispersed primaries thus

essentially characterise the co-operative sector and these are the instruments needed to provide credit to persons and establishments, to the large majority of whom, no other institutional source of credit is available.

Almost by definition the dispersed, small primaries cannot operate successfully by themselves. They are not, they cannot be, banking business units and they lack resources. Their application to a District Central Bank to provide them with banking business nucleus, fulfils a large number of purposes. Inspection, supervision, banking service and above all finance are thus made available to the primaries. The State Co-operative Bank performs the extremely important functions of tapping the resources of the money market, of serving as balancing centre, of serving as the needed liaison with the Reserve Bank, of being in fact the central piece round which the whole co-operative credit system is organised and by which it is operated. I may mention in this connection the recent active development of the mutual arrangement and remittance schemes built up and instituted by the Maharashtra State Co-operative Banks' Association and operated by the Maharashtra State Co-operative Bank.

While the co-operative credit system has three tiers, as the primary societies doing credit business are not banking establishments, the co-operative banking system itself has only two, namely the State Co-operative Bank and the District Central Banks. In a purely technical sense it may be argued that these two tiers are absolutely necessary for obtaining funds from the Reserve Bank for the co-operative credit system; for, without them it will fail to satisfy the requirement of two good signatures of the Reserve Bank. But the case for the existing structure does not rest on any narrow technical base. An organisation at the apex, is, therefore, indispensable. Would it be possible to dispense with either District Banks by having the apex deal directly with primaries or could it be possible for the District Banks to disburse credit at the village level and thus dispense with the primaries. The first alternative has been tried in this state in the past. In early stages of co-operative development when the total business is small and the number of non-official workers is small such arrangement may even be necessary. However, it has obvious limitations. Today the business of the District Central Co-operative Banks in Maharashtra is large. Some of our District Banks have larger business than the Apex Co-operative Banks in some states in India. The business is constantly growing and continuous new developments require a live local leadership. The operation of district banks in Maharashtra has convincingly shown the value of decentralisation at the district level. Local deposits have been attracted, local developments fostered and the banking system has been able to build up an intimate and live contact with the primaries.

The choice of the District as the intermediate area has been justified in other ways also. It is large enough to hold the potential of adequate business on development and small enough to call forth local enthusiasm and to ensure local contacts and knowledge. As the District is the basic unit of the country's administrative structure a co-operative structure on that level has been found very convenient. It is no exaggeration to say that only because the organisation of co-operative banks in Maharashtra had been completed, on the basis of one bank serving only one district and the whole of it, was it possible for the Maharashtra Government to take the decision to appoint district co-operative banks throughout the State as bankers of the Zilla Parishads. And because all co-operative banks form a system the service of this banking system as a whole, including that of the apex bank, is available to each Zilla Parishad even though its banker is the particular District Co-operative Bank.

The basic approach to co-operative developments embodied in the system is underlined by the emphasis on increase in the number of rural branches of the District Co-operative Banks. The number of total branches of the 25 District Co-operative Banks in Maharashtra on 30-6-1964 was 560. The Maharashtra State Co-operative Bank has 17 branches all of which are located in the cities of Bombay and Nagpur. There are only a few places in which the district co-operative banks have more than one office and the total number of independent cities; towns and the villages served directly by the co-operative banking system in Maharashtra is today 550. This large and growing number of branches is instrumental in bringing banking service near to the primaries and maintaining contact with them and supervision over them. Theoretically, it would be possible to think in terms of managing all these branches and business from one centre. However, there would result undoubted loss in efficiency. Even the State Bank of India whose clients are relatively large establishments and whose business and procedures are more standardised and have much less of the element of the local and the agricultural has found it necessary to increase the number of circles to keep down the number of branches managed by each circle. It has also delegated large powers to the local boards in each circle. Much more important than the fear of inefficiency, however, is the complete denial of co-operative objectives and aspirations and defeat of the co-operative spirit that such centralisation would involve.

The main goal of co-operative effort is to organise economic activity and render service so as to benefit the weak and the poor and to do this as universally as possible. However, an equally essential objective is to achieve this goal through means that will teach all to be self-reliant and co-operative. A democratic pattern with emphasis on decentralisation and federalism is thus the only one that suits the

co-operative sector. The operation of this pattern is fully exemplified in our banking and credit system. The apex bank receives deposits and does banking business for all types of clients; however, it makes advances to primaries only within its direct area viz. Bombay City. Elsewhere, it lends only to central financing agencies, viz. the 25 District Central Banks and the Sholapur Industrial Bank, to other apex co-operative institutions and, for special reasons and with mutual consent, to such primaries as the co-operative sugar factories within the jurisdiction of the District Central Banks. The District Central Banks in their turn lend almost entirely to primary societies within their jurisdiction. These primaries may be industrial, trading, transport, etc., organisations engaged in these types of activities or they may be rural multi-purpose service societies, among whose chief activities is credit business or other types of credit societies such as salary earners' societies or urban banks. The overwhelmingly large part of borrowings by individuals in the co-operative sector are from these primary credit societies rural and urban, or urban banks.

The co-operative banking structure in Maharashtra operates to collect resources for the finance of all types of co-operative non-credit activities and for supplementing, usually in a large way, the resources of co-operative credit societies in financing their members. Incidentally it renders banking service to large numbers of individuals and organisations outside the co-operative fold. In this it fills a special gap in the large number of places which have no banking facility excepting the branch of a district co-operative bank.

Because the vast majority of our population lives in villages any system wishing to provide universal service becomes essentially rural. The co-operative credit structure in Maharashtra has attained universal area coverage and more than 95 per cent of the villages have been provided with service of a rural society and these societies have together a membership of more than 20 lakhs. The membership is not nominal. A recent survey has shown that nearly two-thirds of members of co-operatives borrow whereas the proportion is only about half among the rural population, in general, in Maharashtra. The amount of average borrowings is a little over Rs. 200. This figure can be looked at from two points of view. On the one hand, it shows, again on the evidence of recent survey, that the co-operative system provides much the larger part of the requirements of its members for short-term and intermediate credit; on the other, it emphasises the relatively small size of the average loan which has to be administered by the co-operative credit system.

The dimensions of the present operations of the rural primaries, fifteen lakh transactions of an average amount of Rs. 200 in every nook and corner of the State, has merely to be indicated to make it obvious that the District Central Banks are in no position to dispense

with the primaries and undertake this business directly. Past experience with the disbursement of rural credit, of government and of other agencies, has also underlined the need of a responsible local agency for handling business at the village level.

I shall not enter into the argument relating to costs, except to note a few points. The bulk of the funds of the co-operative banking structure are derived from its constituents and the public like that of any other system. It also receives concessional finance from the Reserve Bank for agricultural credit. The State Co-operative Bank received this finance (before the recent increase of the Bank rate) at $2\frac{1}{2}$ per cent and passed it on to the District Central Co-operative Banks, at a pooled rate of $2\frac{3}{4}$ per cent. The pooled rate is applied to the additional sum usually not large which the State Co-operative Bank has itself to find to make up the total requirements of agricultural credit of the District Central Banks. The average borrowing rate of the District Central Banks for raising their normal resources is over 3.5 per cent. The concessional finance of the Reserve Bank thus lowers the average costs of total available funds to the District Central Banks by at least 0.75 per cent. The cost of management of the apex co-operative bank in 1963-64, was 0.8 per cent and 0.5 per cent as related to total outstandings and to total working capital respectively. The corresponding figures for the District Central Banks were 2 per cent and 1.4 per cent. The rate of interest charged by all the rural primaries to their borrowers throughout the State is 7-13/16. This compares very favourably for loans with similar administrative burdens and costs. The rates charged by the State Co-operative Bank and the District Central Bank to the non-credit co-operative societies for their various operations also compare favourably with those of the larger scheduled banks.

Have I been labouring the obvious? The doubt has kept on recurring constantly while penning this article. At the same time, I have been impressed with the undercurrent of hostility to co-operatives exhibited in highest quarters in recent months, by the fantastic claims that because some organisations have experimented a little in a small number of villages they can do better than the co-operatives with a record stretching over decades and by the systematic campaigns of interested parties. All this has impelled me to take this opportunity of presenting a summary statement regarding our objectives and achievements. Financing the development of a strong co-operative marketing and processing structure, including the 20 sugar co-operatives, and spreading co-operative credit and helping land mortgage banking so that more than half the borrowings of the rural population in Maharashtra are now made from co-operatives is an achievement, not unworthy of record in the progress made by this country since Independence.

It is only proper that I should supplement my statement with two sets of observations. In the first instance, though I feel that our performance does not merit denigration, none of us have reason to feel or sound complacent. We have gone some way but we have still larger way to go. We have been able to do something for the substantial and middle cultivators in Maharashtra. Fifteen years ago even these categories were unfree and heavily burdened. However, it is equally obvious that the small cultivators, the landless labourers, the rural artisans, the numerous categories called the "Weaker sections" have received little help from the co-operative credit or other systems. Theirs is a specially difficult problem of rehabilitation, in the solution of which co-operative workers must play their part. It is also true that our procedures and our operations require considerable improvement. The high proportion of overdues, the failure to link marketing with credit effectively, these and others are worrying problems and they will keep us busy and anxious for many years to come.

Secondly, I would like to refer in gratitude to certain elements and authorities to whom a large part of such success as may have been achieved is due. Above all there is the large body of unofficial workers throughout Maharashtra particularly in the rural areas. The upsurge of this talent has been truly remarkable and I consider it as our most valuable and rewarding input. Next, the Government of Maharashtra deserves our fullest thanks for cordially wholehearted support with, if I may say so, no strings attached. We began the new era under specially favourable auspices, with one who had nursed co-operative banking in the State for thirty-five years, from infancy to manhood, as the Minister for Co-operation and Finance. Later cabinet ministers have shown full understanding and sympathy and have been unobtrusively helpful. Last, but in no way the least, has been the support of the Reserve Bank of India. Ever since the informal conference in 1951 the authorities of the Reserve Bank have exhibited special interest in co-operative development and the direction and pace of progress in co-operation in the whole country have been largely determined by their active leadership in the cause.

CO-OPERATION IN INDIA—RETROSPECT AND PROSPECT*

THIS lecture is the first of a series of discussions on Co-operation that are to follow in this capital city. Educating citizens of the capital to respond appropriately is very important for obvious reasons. Hence the National Co-operative Union of India has taken upon itself the responsibility of not only education in the formal sense of the word but of stimulating thinking and initiating discussions on vital issues connected with co-operation in India. It is in this context that, I initiate this series. I have chosen "Co-operation in India—Retrospect and Prospect", as the subject of my talk; my intention is to cover in a rapid review the last fifteen years of developments in the field of co-operation; to pose some of the immediate problems facing us as Co-operators; and to suggest lines of future development.

I shall take a very broad view of my subject; I shall not dilate upon individual aspects of co-operative activities or deal with problems in any particular sector; I intend putting before you certain ideas against the background of the objective that the generality of our leaders profess—the creation of a Co-operative Commonwealth in the country. I shall confine myself to the general problem of transformation of society which is implied in setting before ourselves the idea of the Co-operative Commonwealth and to consideration of what sort of foundation has been laid, basis prepared and progress made on this behalf during the last 15-20 years. I consider that modern development in Co-operation began not more than 20 years ago; to be more specific, I would say that they date from the Reports of two committees viz., Agricultural Finance Sub-Committee and the Committee on Co-operative Planning. Both these reports were forward-looking. They looked forward to the post-war world, though they were written during the war. Though not fully seized of the post-independence situation, looking as they did a long time ahead, they naturally made suggestions and put forward thoughts, that were probably more comprehensive than anything that had gone before.

* Text of the address delivered at the inauguration of the National Co-operative Study Forum (NCUI) New Delhi, on May 6, 1965. Published in *Indian Co-operative Review*, July, 1965, pp. 481-88.

Committee on Agricultural Finance

Take first the Committee on Agricultural Finance. The basic contribution made by this Committee is its definite statement that no negative approach such as the regulation of money-lenders was going to be of any use in dealing with the vast problem of supplying agricultural credit to the rural population and that the only way out was to develop an alternative agency to the money-lender-trader system. Only a positive approach which sought to create an institutional agency which potentially could take the place of the money-lender-trader system, in every context, in every place in that comprehensive manner, could serve the sort of needs that they visualized as facing State policy in the future. At that time the Committee did not find it possible to commit itself to the statement that co-operatives would serve completely in every place. And I would ask you to recollect why it thought this way. It was because of two quite different reasons. One was, of course, the rather inadequate spread of co-operation over the country as a whole, very uneven, not very effective in many parts or if effective, only in a small measure in some other parts. But another reason, which is important now to remember, was that the Committee then knew that a large number of co-operators in the country did not think that co-operation could or should be made to serve as an instrument of planned effort. At that time there was a strong group of orthodox co-operators in the country who thought that co-operation was so largely a voluntary organisation that it could not be an agency or an instrument of planning. And you will find, therefore, that the Committee was obliged to recommend that every where the State itself should be the provider of universal finance for credit-worthy agriculturists and that this should be done by a Corporation set up by the State. The Committee merely added a rider that in those States in which co-operators thought that they could serve as an instrument in any official policy, they could, if they were willing, so transform their organisation as to undertake this responsibility. And where they appeared to be competent enough to undertake this task on a State-wide basis, it should be entrusted to them. This is an important aspect of the Report to remember.

Committee on Co-operative Planning

The Report of the Committee on Co-operative Planning broke new ground in one or two ways. It adopted an integrated view of co-operation. At least so far as the rural economy was concerned, it took the view that co-operative development must be considered as one pattern. The various aspects of co-operative activity in relation to the agricultural economy in general supported each other and taking a partial view of any one of them was neither sufficient nor desirable in the long run, and therefore, we have to make progress,

or attempt to make progress on all fronts. I believe, it was also the first Committee which emphasised the importance of official economic policy for future development in this regard. I think, it was the first Committee which, for example, took up such questions as stabilization of agricultural prices in relation to the general economy of the cultivator. So it is round about this time that new developments started in co-operation. In other words, it is the Reports of these Committees that first put before the Indian public and the Indian administrators certain views which are now generally accepted; but these were views which were relatively new at that time, and it is from these that we really begin.

State Agricultural Corporations

Let me trace the history of co-operative development a little further. In one particular context you may say that the broad recommendation relating to State Agricultural Finance Corporations, by the Agricultural Finance Sub-Committee, was generally ignored. But in one State, viz., Bombay the co-operators took it seriously. They considered the setting up of a provincial credit corporation as a serious threat to their activity and passed a resolution in their representative body asking Government to treat the co-operative as the substitute for the provincial credit corporation and expressed their readiness to reorganise their co-operative institutions within that State. A train of events followed. Government itself took their resolution as seriously as the co-operators took the recommendation of the Committee. It was all due to a favourable conjunction of circumstances that all this had happened. As a result in 1948-49 we had the reorganisation of the banking and credit system in Bombay on new lines making co-operatives responsible for the supply of all agricultural credit. It is these developments that mark out the post-independence era.

Rural Credit Survey Report

The next landmark is quite obviously the Report of the Rural Credit Survey by the Committee of Direction appointed by the Reserve Bank of India. This Committee, taking stock of what had happened during the previous 5-10 years, made a series of policy recommendations. The subsequent development was extremely exceptional as also extremely beneficial; exceptional in the sense that the Committee having analyzed basic questions of policy at a certain depth and made recommendations, these were treated by the Government and the monetary authority so seriously that policy was deliberately formed on their basis. It was also a very happy circumstance, that the major part of the responsibility for the implementation of policy evolved

on the basis of the Report, was attached not to a governmental organisation but to an authority slightly outside the immediate purview and operations of the Government, namely, the Reserve Bank of India. It was fortunate that the Government after the publication of the Report definitely accepted the recommended policy and pursued it steadfastly without being unnecessarily preoccupied with political cross-currents either in the States or in the Centre.

I am not saying that developments were entirely free from defects. Most of you are familiar with the repercussions of the report on co-operative developments because of the great controversy on the question of large vs. small sized co-operatives. And those who know some of these repercussions realize that it was not all easy sailing. But I am just emphasizing the important fact that the Reserve Bank of India was in charge of a large part of this co-operative programme. The credit programme was by definition, by the earlier definition of the Co-operative Development Committee, and by the larger programme later evolved by the Rural Credit Survey Committee linked with the developments in marketing, processing, industrialization and so forth. Thus a whole programme, veering around credit, gave a solid foundation for action by the Reserve Bank of India, which was thus able to initiate and control developments in co-operation in the rural economy.

Recent Trends

I do not want to go into a larger number of details of the history of co-operative developments during the last 15-20 years. Most of you are familiar with them. A few facts stand out. The Rural Credit Survey Committee estimated that only about 3 per cent of the total rural borrowings were accounted for by the co-operatives. A similar survey conducted by the Reserve Bank of India some years later gave a rough estimate of 10 to 12 per cent. A recent estimate regarding the percentage of co-operative credit has been placed at nearly 20. Moving away from a mere 3 to 4 per cent of something like 20 per cent in 10-12 years is not bad progress. But what is even more important is that in three or four States the percentage of co-operative credit exceeds 35. And where this is so, it assumes a major role in rural economy.

The other developments are not equally well integrated or remarkable if we think in terms of an overall countrywide picture. However, in certain areas, these developments have been very significant. If you take some industries—say the cotton processing industry in South Gujarat, this is almost entirely in the co-operative fold. Or take sugar co-operatives in Maharashtra. By now, well above 55 per cent of the total production of sugar in that State is in the co-operative fold. If you take some of the dairy developments such as the one near

Anand, you will find a similar story of remarkable achievement. Or if you take, say, the plantation crops, you will find a number of districts where co-operatives run by people's efforts — certainly aided by Government but largely dependent on the efforts of local co-operators — have established themselves in such a manner that even certain minor spheres of rural economy are, if I may coin that phrase, completely co-operativized. It is in this context that I want you to consider how in the near future one can secure complete co-operativisation of the rural economy. Is it or is it not possible to do so? Are there any insuperable obstacles in the way? Is the ideal of rural economy being completely co-operativized, impractical? These are questions which I suggest we have to ask ourselves and answer. As I said in the beginning, I am not thinking of co-operation as a movement aiming at establishing co-operative forms of organisation, I view it as a movement aiming at establishing a co-operative form of society. If that is our aim, its practicability depends on the possibility of all activities in a sector, sphere or area, being completely within the co-operative fold. I consider it quite practical. I consider, for example, that the agricultural credit mechanism should and can be completely within the co-operative fold. Credit mechanism is the most important in the whole of our economic structure — because (a) credit-finance is all-embracing as it is required for every type of activity and (b) unless we break through on the credit front, no progress in establishing a co-operative development plan is possible. Take for instance, processing, marketing or other similar activity; all of these revolve round credit activity which is universal. It is the universality of the credit activity that makes for its close association with the basic unit of co-operation i.e., the primary society. This is a thought I would like to put very strongly before you — namely the universality of the primary unit and the need for basing it on co-operative credit.

If we adopt this view of co-operation as an integrated and mutually supporting set-up with a strong credit base, then marketing, processing or any other activity will automatically fall in its proper place. If you have marketing without the credit base that will never last for any length of time. On the other hand ultimately, credit itself will have to be linked closely with marketing and processing. Further, in the integrated rural economy co-operativization will be of little avail in a developing economy unless we think of the co-operative as an instrument of rural industrialization. I want to sound the note that there is enough in the last 10 or 15 years of history and experiences of the co-operative movement to make it possible for us to see that real co-operative development helps developing a viable rural economy. If we put all our efforts in this direction I see no reason why our ultimate goal should not be within our reach. If an

experiment has proved successful in some areas and regions, there is no reason why it cannot be tried in other areas as well; and replication of results in similar contexts, should be easy.

Perspective

Replication has been established in many areas in this country. Replication is comparatively an easy matter, provided we have willingness and proper leadership. If this is so, in what terms does one think of the future? What are the challenges? What are the programmes and possibilities? What in the ultimate analysis can be our hopes? I have my faith in the concept of a co-operative society, that functions essentially in a co-operative economy. And by a co-operative economy I understand an economy in which the competitive spirit and competitive practices are given necessarily an inferior place. Co-operative behaviour I suppose to be the only way in which a backward economy has the possibility of peacefully forging ahead. Looking at the situation from this point of view, I feel that there are two or three very large problems that we face. The first big problem, the biggest one is the unevenness in the development of co-operation in the country. That in my opinion is immediately an urgent problem and we have really to look into the reasons for this unevenness and what we can do to get over it.

Ultimately it is a question of transfer of ideas, of attitudes, of experiences and of technology. The problem is one of transfer of experiences not from one civilization to another or from one type of society to another, but of transfer within the same economy, within the same types of societies, within the same sort of people, within similar levels of education, similar aptitudes, attitudes and so forth. The co-operators must sit up and take serious notice of this challenge. The regional disparities present a challenge to all regions, and to leaders in developed areas as well as to leaders in under-developed areas. I think there has not been enough thinking in this particular context. For example, the National Co-operative Union and other co-operative leaders have been putting forward the panacea of de-officialization to solve everything. But how could deofficialization begin unless there are non-official leaders? What is it that blocks progress in the direction of emergence of non-official leadership? Is it fundamentally a problem for national leadership or is it only a particular context—social or economic—that is blocking it? One development that has been bothering co-operators lately is the emergence of considerable adverse criticism against co-operatives. If you carefully analyze this adverse criticism, you will find that at the back of it stands our failure to achieve on a wide front the results expected of co-operators and the co-operative movement. Officials, ministers

and others hailing from different areas have different images; different experiences. And if you want the whole of the country to accept your point of view there must be enough universality in co-operative performance to carry conviction. At present, performance varies from State to State. If you go to a minister, with the plea of, for example, export licences to co-operatives, he may tell you: It is all right for your State, but what about others? Unless such questions can be answered satisfactorily, one cannot hope to make progress.

Our basic problem, in my opinion, in the immediate future, is to take stock of what we think we have achieved in specific sectors, in particular regions throughout the country and to put these results together. In other words, the first aim should be to see that in the process the entire rural economy becomes essentially co-operative economy. We should next be able to prove that because there is a co-operative type of society, development in the country proceeds more efficiently, more quickly in the direction of socialism, and the results are superior to possibilities in any other direction. Such a demonstration has to be on all fronts. It has to be in terms of efficiency of operation, in terms of quickness of the pace of development and in terms of total social results.

Taking a limited view, co-operative organisation enables relatively small units to come together so as to take advantage of large scales, better techniques and so forth. However, co-operative activity also means limitation on dividends, non-aggrandisement of the individual, non-aggrandisement of a strong unit at the expense of the weaker, a universal co-operative attitude in all activities. Such co-operative attitude has to extend to all sectors; it should be all-embracing. I personally think that in particular contexts co-operators have proved that in terms of efficiency, in terms of speed of development, in terms of better social results, they have enough to their credit. The difficulty in my opinion is that the co-operators themselves do not take the total implication of these isolated facts seriously. We use terms like co-operative commonwealth, but I do not think that we fully internalise their meaning. I am not saying that we do not understand it. What I mean is that we do not fully internalise the import of the universal co-operative spirit. It stands for not only certain attitudes between members of an organisation, but certain attitudes between people and organisations in the total economy.

Our immediate problem is the transfer of experiences from region to region from sector to sector and the formulation of an integrated concept of a co-operative social order. The other concrete problem which will be very important for the future is to realize the role of co-operative activity in the development processes particularly in the context of rural industrialization. Rural industrialisation is the basis of all developments in our economy. To what extent is co-operation

a means of rural industrialization? To what extent can it help to solve both the technical and the organizational problems? It is imperative that as co-operators we take clear view of these and other relevant questions in the context of a progressively developing economy. If you are able to prove that we have progressive viable and workable programmes of industrialization which could retain the basic co-operative character of the economy then I think you have a strong case.

I have not yet found any class or group of people so unresponsive that a demonstration of real co-operative activity did not, when they came into contact with it, convince them. This is my experience. All groups, officials, ministers, etc., are open to conviction. The responsibility of co-operators is to think out and work their problems and to do this as integratively as when you think of a co-operative society. Considering what we have achieved during the last 10-15 years, there is no reason to doubt that a great deal more can be achieved in another 10-15 years. What we have to prove to the people is that there is an idea of co-operation that is basically different from that of others. I am deliberately putting it in this way because the term co-operative may mean many things. Co-operation in USA means one thing, in Russia another, in China a third thing. Again in Scandinavia it is different. And it is yet another thing to India. If we are going to frame our ideal in the form of a socio-political commonwealth concept, this is radically different. Because in most other attitudes or contexts, the co-operatives are mere alternative forms or instrumentalities. In the sense in which we are thinking of co-operatives here, this is not merely an alternative form of agency or instrumentality but it is a characteristic of a whole society. We want to form a society which can really be described as the co-operative commonwealth. This makes it incumbent on us to think basically of the full implications of what we want to try to develop. I would urge that these problems, connected with these basic concepts, should form the subject matter of discussion at meetings of the National Co-operative Forum.

REVIEW OF JOWAR PROCUREMENT THROUGH CO-OPERATIVE ORGANISATIONS*

THIS meeting is being held to pass under review the work of co-operatives in Maharashtra under the scheme of monopoly procurement of jowar of the Government of Maharashtra. While our main concern is with the past and prospective role of the co-operatives, in so far as this has to be examined against the background of the operations of a food policy, some reference to the latter is also called for. It is necessary, for example, to understand the context in which the jowar procurement scheme came to be adopted and the form and conditions in which it may continue.

The Foodgrains Enquiry Committee of 1957 found that many of the shortcomings of policy or execution were due to the strong popular preference for total decontrol of foodgrains, "a preference that was not unshared in the highest levels of the administration." It is difficult to say definitely how popular opinion shaped in the period since 1957; however, it appears clear that the highest levels of administration in the country continued to exhibit a preference for *laissez faire* after 1957 which lasted at least till 1964. The Foodgrains Enquiry Committee of 1957 recommended strongly in favour of "stabilisation of prices of foodgrains" and of the "socialisation of the trade in foodgrains." To proponents of *laissez faire* the socialisation of trade in any basic community was anathema; the key to an understanding of the policy of the Central Ministry between 1957 and 1964 is that its single consistent objective was to bar any progress towards socialisation. The stabilisation of prices fell a victim to this policy; for, its implementation necessarily required substantial progress in the direction of socialisation of trade.

The availability of PL. 480 imports made it possible for the Central Ministry to act according to its preferences. These imports, chiefly of wheat, could be used to supply the needs of the chronic deficit areas and to deal with any arising emergency. It was, at the same time, realised that nothing could be achieved if they were distributed entirely through trade channels. While, therefore, wheat products were routed through regular trade channels *via* the flour mills,

* *Review of the progress of the implementation of the Jowar Procurement Scheme by Co-operative Organisations in Maharashtra State*, The Maharashtra State Co-operative Bank Ltd., Bombay, 1965.

wheat for consumers was issued through fair price shops. The elaboration of the system of fair price shops was an important and consistent policy measure of the post-1957 period. The formation of rice and wheat zones was also a device which least disturbed private trade in foodgrains. It was expected that the combination in a zone of surplus and deficit States would maintain the total complex in equilibrium through most periods. The licensing of traders, the calling of returns and the announcement of minimum and maximum prices were formal measures which were never known to have inconvenienced any traders.

In the predominantly wheat areas PL. 480 imports could have a powerful impact on supplies and prices of foodgrains; in the millets areas the supply of imported wheat especially in towns was expected to reduce the demand for millets and keep millet prices in check. In the predominantly rice areas imported supplies were not sufficient to feed fair price shops. Some internal procurement of rice, therefore, became inevitable. This was made through a partial levy on rice mills. Such a levy did not involve any elaborate administrative arrangements as of procurement from farmers. It did not also harm trader interests; for, any loss suffered because of the price at which government procured rice, could be easily recouped through adjustments in prices of quantities remaining with the trade.

It was a simple policy structure which assumed, following the prejudices of those at the highest levels of administration, that private trade would deal with most problems of supply and distribution for most parts of the country, and that official policy had to look after only a small number of areas and locations and be ready for emergencies. For these a system of fair price shops and a continuous stream of PL. 480 imports should prove adequate. Building up buffer stocks could have no special place in this policy. For maintaining a large buffer stock necessarily meant turning it over and this implied considerable dealings by the State in the fields of both purchase and sale of foodgrains. Obviously also the policy led to an increasing dependence on the stream of imports, because the policy ruled out any effort in the direction of deliberate and economic management of the supplies by the State and its price implications put a damper on internal production of foodgrains.

The policy failed with a crash in 1964. Even in earlier years it had been subjected to severe strains. Through this period State Governments had come to rely on central supplies to see them through all difficulties. Even if a State Government had wanted to adopt a policy of rigorous management the policy of the Central Government was such as to discourage this. At the same time the centre could not command the plentiful supplies required to meet all demands at all times. There were thus frequent breakdowns, much local distress

and periods of varying prices. Ultimately there came the country-wide failure of 1964. In the circumstances, each State was forced to improvise a policy. In Maharashtra, a deficit State, the crisis was specially severe. This was emphasized by two features of the situation; firstly, the distress was much greater in the rural and small town areas, in the economy of which fair price shops and central supplies were not important. Secondly, prices of millets soared to unprecedented heights entirely unrelated to prices of rice and wheat.

The Government of Maharashtra was forced by events to recognise the need to undertake control and management of internal supplies of foodgrains. Millets are perhaps more important in the food economy of Maharashtra than that of any State and it was, therefore, natural for the State Government to think in terms of a scheme for the procurement and distribution of supplies of the dominant millet viz. jowar.

The total situation in relation to food policy is yet unclear. Whether a basic national plan will be formulated or whether the policy will be essentially state-based, whether socialisation of trade will be pursued or reliance continue to be placed on private trade are, for example, questions which appear still unresolved. While stabilisation of agricultural prices continue to be avowed as aim of policy the Agricultural Prices Commission's latest recommendations relate only to minimum prices. Little attention is yet paid to basic relationships between nature of arrangements for procurement and distribution, the scale of these operations and the price levels that can be maintained. The uncertainty at the centre is reflected in the States. Thus while the procurement aspect of the jowar scheme was publicised early, policy regarding distribution is yet unannounced. However, we proceed on the assumption that a long term policy will gradually emerge and that it will serve national social objectives and will have a consistent framework. It is in the context of this assumption and the history sketched earlier that the work of co-operatives in Maharashtra is presented for consideration and review as pointing to a potentially valuable agency in the formulation and implementation of national policy.

The Government of Maharashtra in formulating its Jowar policy took the unique decision of entrusting its implementation to the "co-operative system" within the state. The term co-operative system is being deliberately used. Formally the main agent of Government policy was the Maharashtra State Co-operative Marketing Society; but it was understood that all the other types of co-operative organisations would join the total effort. It was also understood that for all stages between purchase from the producer at the local centre to final sale to the consumer through fair price shops, the responsibility for handling, storage, transport, etc. would be that of one or other

type of co-operative organisations. Moreover, this was not considered merely as an organisational arrangement. It was assumed that Government desired to entrust the total responsibility of managing this state-wide business to the co-operative sector as such and the response from the co-operatives came in that spirit. Some illustrations may bring out what is implied by the use of the term co-operative system. The large purchase operations, involved very heavy finance and accounting responsibilities. These were borne entirely by the co-operative banking system. There were two important aspects of this. Firstly, making available the finance required at various levels and various stages of transactions at the state level, at the district level and at the village level and for purchase, for storage, for wholesalers and for retailers. All these were undertaken by the State Co-operative Bank and the District Co-operative Banks operating in a highly co-ordinated manner. Secondly, the making of returns, physical and financial, the maintenance of accounts and their periodic collation, etc. required large trained staff which the marketing organisations did not command. The co-operative banking system made this available to the marketing agencies through deputing competent personnel in considerable numbers at the capital and in all districts and localities.

The vertical integration within the marketing system was also of great importance. The work of purchase was ultimately carried on at nearly 800 centres, but the responsibility of all this was concentrated on the Apex marketing organisation. This concentration of responsibility meant that a failure at any centre, was a failure that had to be made good by the apex marketing organisation. This was in a sense specially useful for government because government had not to deal separately with hundreds of scattered centres. It did throw great responsibility on the apex, but it was good for building up of the co-operative system. It made co-operators at various levels, as a body, realise the crucial importance of efficient operation at each centre. This is an important requirement of all public or quasi public sector operations. When an individual unit in a private sector fails, the failure is considered as the failure of an individual. If a unit in the co-operative or public sector fails that is considered as the failure of the sector. This severer test is justified because the social purposes which these sectors seek to fulfil can properly be fulfilled only by universal performance.

While there was concentration of responsibility on the State Marketing Society, the actual operations were highly decentralised, so that the purchases at a centre were usually the responsibility of a particular taluka society acting as the agent of the State Marketing Society. With the subsequent opening of sub-centres, the responsibility of assembling supplies and taking them to purchase centres came

to be shouldered even by multipurpose societies in some of the bigger villages.

It is obvious that operating through the co-operative system as such requires as a pre-condition certain minimum co-operative developments. For example, reference may be made to the large growth in financial strength of the district central co-operative banks that has taken place in all parts of Maharashtra during the last ten years and to the policy of the opening of numerous branches of district central banks in each district. There were more than 550 places in Maharashtra where at the inception of the jowar purchase scheme a branch of a district co-operative bank existed. This underpinning of the co-operative banking structure was an important element in the rapid building up of the frame of purchase organisation. The availability at the purchasing centre or very near to it of a banking office which could supply money for purchases, receive sale proceeds and keep accounts was an extremely important factor in making for ease of operations. The previous intensive development of the purchase and sale system was also of the utmost importance. The large variety and number of already existing organisations at the primary level made it possible for the Apex Marketing Societies to select an appropriate agent for purchases at each of the nearly 400 centres, initially selected for jowar purchase. In the ultimate analysis, all such developments assume a certain minimum level of experienced leadership for the conduct of operations which is ready to accept responsibilities in new directions at the local level.

It is obvious that even in the relatively favourable pre-conditions of Maharashtra the setting up of operations for purchase of jowar by the co-operatives required enormous effort and very considerable improvisation on the part of the non-official leaders and officers and employees of co-operative organisations at all levels and in all places. The Government of the State took, if one may say so, a calculated risk in entrusting the operations to co-operatives as a system; the co-operatives on their part asked for such responsibility being entrusted to them and worked in an integrated fashion to discharge it to the best of their ability. It is not for me to evaluate the performance. That some mistakes were made, that improvisation did not always succeed and that there were certain local failures may be taken for granted. I may, however, claim that taking into account all the circumstances the responsibility has been discharged satisfactorily enough for Government to continue with the basic arrangement in case the policy decision to continue with the jowar purchase system this year is taken.

I may in this context, refer to the question of costs. I would like to emphasise that the costs of operation by the co-operatives are fully met within the system. The co-operative system operates under strict

regulation and discipline of its own and under public audit so that what might be termed, the manoeuvrability in operations, open to the private sector is not permissible to the co-operative. On the other hand, as compared with the operations of Government departments: the fullest costs of operations, including all the overheads, have to be borne by the co-operatives. In judging of the costs of co-operative operation these two important aspects have to be taken into account. I have little doubt that, in the long run, in the context of public operations, of the nature and order of the jowar procurement scheme, the co-operative system will not only prove to be able to operate in an efficient and responsible manner at all levels from the capital to the village, but will also prove, on an average, to be less costly than any other. I have deliberately referred to the long-term; for, the co-operative system even in Maharashtra has not immediately the amplitude of resources in capital and personnel necessary for investment in storage, equipment, recruitment and training of personnel etc. that are needed to conduct operations on this scale and in such detail with the fullest efficiency and economy for merely a year or two. If, however, Government asks the co-operatives to prepare themselves to undertake the work on a long term basis it will find them equipping themselves for the task with alacrity and seeing that the cost to the producer and consumer of this preparedness on their part is kept as low as possible.

I would emphasise that the co-operatives in undertaking the responsibility also aimed at the highest standards of performance; in terms of correct weightment, prompt payment in cash, service as near to the door of the cultivator as possible, grading and quality control, storage conditions, rational movement and distribution as far as this was under their control, and appropriate financial practices and accounting checks. While the standards set on all these accounts were high, I cannot claim that the performances were ever or uniformly high. We lacked experience and the time and other resources were in short supply. However, we hope that within a short time the performances could be greatly improved and the standards set attained. If policy decisions are indicated for a long enough period in advance, considerable resources even for capital investment as for storage could be found and scientific systems, on such accounts, built up.

We felt that a public review of our operations may serve at least two useful purposes. In the first instance, there is unfortunately too little considered discussion of government policies at an appropriately high level. There is undoubtedly a great deal of critical writing from day-to-day, but little discussion taking a long term view of the evolution of policy and its operation. It was felt that the review arranged for today may prepare the way for such a discussion.

Secondly, I consider that the Maharashtra experience has considerable significance for all-India policy also. It appears safe to assume that for many years to come distribution through fair price shops and fairly substantial procurement of internal production for part of such distribution will continue to be an important feature of government operations in all States. The Ministry of Food and Agriculture together with the Food Corporation of India will operate at the all-India level, arrange for imports and their distribution and will either formulate and operate a basic national plan or arrange for inter-state trade and the balancing between surplus and deficit States. In the operation of this food policy each State will ultimately have to reach down to the smallest producer. The operations will, therefore, have to be as well spread in the districts as the jowar procurement operations. I have a feeling that in time the patent defects of operating through a levy on millers will become clear in the rice areas and more direct contact with producers will be sought to be established even in these areas. The guaranteeing of a support price to all cultivators in all areas and procurement of grain from farmers are detailed operations of an order which it is impossible to contemplate any Central Ministry or the Food Corporation undertaking in each State. I would humbly suggest that experience in Maharashtra this year clearly points to the co-operative system of each State as the most appropriate agency for the purpose. It can be ubiquitous, can be made efficient and it can operate at relatively low costs. At the same time it can keep social objectives of policy fully in view and fulfil them adequately. As the co-operative system within a State it can undertake varied assignments for the State as a whole and at the same time, act as an autonomous system on its own. Its structure and autonomy guarantee open public operations; that it is a State system guarantees due attention to State interests. It is thus a system which the State Governments, the Central Ministry or the Food Corporation should have no hesitation in using as their agent. At the same time, its operation will fulfil the cherished national objectives of decentralisation and encouraging local leadership.

What is contemplated above requires a minimum development within the co-operative sector and readiness on the part of authorities to treat it as system and respect its autonomy. The co-operatives can discharge their responsibilities in an adequate manner if their point of view is regarded and respected. In this context, I have to draw attention to one large gap in last year's arrangements. No mechanism was provided through which the views of the co-operative system as a whole in relation to the larger policy and operational matters could be communicated to the authorities of the State at the highest level. I have every hope that the gap will be appropriately filled during the ensuing year.

THE ALL-INDIA STATE CO-OPERATIVE BANKS' MUTUAL ARRANGEMENT SCHEME*

ON behalf of the Federation of State Co-operative Banks, I have great pleasure in welcoming Shri T. T. Krishnamachari, Finance Minister, who has kindly agreed to perform the inauguration ceremony in connection with the All-India State Co-operative Banks' Mutual Arrangement Scheme. I am also happy to welcome the distinguished guests who have honoured us by accepting our invitation to the ceremony. The development of co-operative banking in India has been very rapid during the last ten years. The pace of the advance may be indicated by a set of figures. The working capital of the State Co-operative Banks in 1954-55 was Rs. 47.6 crores; it rose to Rs. 281.5 crores in 1962-63. The corresponding figures for the co-operative central banks were Rs. 73.7 crores and Rs. 400.1 crores.

We acknowledge with gratitude the part that the Reserve Bank of India has played in this development. This has been notable in two directions. In the first instance, for implementing Government policy in this behalf, the Bank elaborated a programme of establishment of institutions and of administration of co-operative credit and supervised its progress in the various states through a number of regional offices spread throughout the country. Secondly, the concessional finance that it has made available for agricultural credit has greatly helped the development of co-operative banks in all States. That the volume of co-operative credit is now of considerable significance in the economy has been indicated by the proposal of Government to bring co-operative banking under fuller regulation and supervision of the Reserve Bank of India. I may note that, in principle, the Federation of State Co-operative Banks has recognised that, as the size of business handled and of credit extended by co-operative banks increase, these are bound to be subjected to discipline similar to that enjoined on other parts of the monetary system. The Federation has urged that in the formulation and enforcement of these regulatory provisions, the special characteristics and requirements of the co-operative banking system should be duly allowed for and that the advantages, as that of deposit insurance, available to

* Inaugural speech delivered in Bombay on August 21, 1965.

others be also extended to the co-operatives. I am glad to state that the Finance Minister has recognised the relevance of our point of view and that he has given ample assurances to the Federation in this behalf. I feel sure that within the new legislative set-up, co-operative banks will continue to obtain the measure of financial assistance and of sympathetic and helpful guidance from Government and from the Reserve Bank of India that has proved so fruitful in the recent past.

Ten years ago, the spread and development of co-operative banking in India was fragmentary and uneven. Because of the policy accepted by Government and implemented by the Reserve Bank of India, State Co-operative Banks at the apex of co-operative banking structure have been established for each state and there are banking organisations, called central banks, for a district or part of a district covering almost all the districts in the country. It is true that even today the development is not uniform. However, it is felt that the joining together of the apex banking organisations in a federation and initiation of schemes of mutual assistance will greatly strengthen the existing structures and help quicker development in areas where co-operative banking is relatively undeveloped.

I may, in this context, draw attention to some special features and functions of the co-operative banking system. The co-operative credit system is a three-tier system. In each State, there is a State Co-operative Bank at the head of the system and district banks, which cover usually an entire district, at the next level. The base of the system is made up mainly of the primary village credit societies or service societies. Only a small number of societies at the primary level are recognised as banks. In the main, these banks at the primary level are confined to urban areas and are usually called urban co-operative banks. There have been some attempts to form rural banks, but these are in the early stages. Urban Co-operative banking has developed chiefly in a small number of States and even in these its spread is yet very uneven. The rural credit primary has spread much more evenly in the country and has always been the dominant type of co-operative society.

Co-operative banks at the district and state levels do not usually deal with individuals. Their main function is to supply finance to other co-operative societies. In 1962-63, the State Co-operative Banks made loans to individuals amounting to Rs. 5.7 crores; the amount of their loans to societies in the same year was Rs. 208.4 crores; the corresponding figures for the Central Banks were Rs. 3.4 crores and Rs. 288.7 crores. A part of the loans given by the State Banks and the Central Banks to co-operative societies goes to non-credit institutions such as marketing, processing, industrial or consumer societies, but the bulk of it goes to primary credit societies agricultural and

non-agricultural (including urban co-operative Banks). The characteristics of this business may be brought out by reference to some statistics, relating to the operations of primary credit societies. As on 30th June 1963, there were 211 thousand primary agricultural credit societies in India with a membership of 217 lakhs. Of the total membership more than 104 lakh members made borrowings from their societies during the previous year and the average loans advanced per borrowing member was Rs. 246. The non-agricultural societies consist chiefly of employees credit societies and urban banks. These together cater to the credit requirements of small traders, government servants and other wage and salary earners and other similar categories of urban and semi-urban residents. The number of non-agricultural credit societies on 30th June 1963 was 12,850 and their membership was 55 lakhs. They had deposits of over Rs. 115 crores and the loans advanced by these societies to members during 1962-63 amounted to Rs. 166 crores. I adduce these figures to emphasize an important characteristic of the co-operative banks. The co-operative banks function mainly to serve the needs of the primary credit societies and the primary co-operative credit structure is essentially dispersed and widespread and is intended to serve the needs mainly of small men.

The co-operative credit system is the only well-nigh universal institutional credit system in rural India. It caters through a larger number of organisations to larger number of people than any other institutional system even in urban India. This dispersed and wide coverage of the co-operative credit system is reflected in the locational distribution of the offices of co-operative banks. In 1963 commercial banks in India had 5495 offices located at 1860 places; the corresponding figures for co-operative banks were 2360 offices at 1864 places. The number of places served by co-operative banks was larger even though their number of offices was almost half that of commercial banks. The feature is emphasized by the distribution of offices of the two classes among places with differing population. The All-India figures do not bring out the contrast fully as co-operative banking has not developed equally in all states. The figures for Maharashtra in which both commercial banking and co-operative banking may be taken to be well-developed are more instructive. In 1963 commercial banks had 691 offices at 169 places in Maharashtra and the co-operative banks 673 offices at 483 places; and while the commercial banks had offices at 115 places with a population of less than 25000 the corresponding number of places with co-operative banks was 385.

Another essential characteristic of the co-operative structure is that it is predominantly democratic in its working and federal in its organization. It is based on large numbers of primary units formed in relation to the concept of the neighbourhood or of the bond of common

economic activity, all with a relatively small membership. It is essentially a mutuality and the conduct of operations at the primary level is chiefly in the hands of the persons or groups whose needs are sought to be met through it. The procedures are democratic and operations decentralised. Because of the small size and dispersed locations of the primary units a federal organisation with successive tiers becomes a necessary feature of the co-operative structure. The higher tiers are intended to carry out functions that the primaries cannot fulfil for themselves and are also intended to provide for operations on a scale larger than that within the competence of the primaries. Each successive tier in the co-operative organisation has thus the responsibility and the purpose of providing services and tapping resources which are appropriate to its type and location. This rational division of operations and functions makes it possible for the system to provide extremely widespread detailed service to masses of members at costs which are relatively low. Undoubtedly the large input of competent and enthusiastic voluntary service that co-operatives at each stage are able to command is an important factor in keeping these costs low.

Another special feature of the co-operative system to which I would draw attention is its role as an instrument of national policy, or to put it more accurately its position in the programme of national social reconstruction. This has become specially prominent during the last decade. For the reorganisation and strengthening of the rural economy in all parts of the country, the co-operative system has proved the most suitable. In some important aspects of urban life also, such as distribution of necessaries to the mass of consumers it is being found necessary to strengthen existing co-operative agencies and to establish new ones. It has been increasingly recognised that for all programmes which try to ameliorate the conditions of the weaker classes and categories working through co-operative organisations, is inevitable. I may make it clear that in this evolution of national policy the co-operatives have not remained passive. They recognise the significance of the trend of thinking which emphasises co-operative endeavour as the main instrument of national, moral and economic reorganisation and the responsibilities that this throws on them. To cite instances from only one State; the co-operative banks in Maharashtra have accepted the promotional role especially in relation to rural industrial development; they have initiated significant experiments in helping the weaker sections in society such as rural labourers and artisans, small farmers and residents of backward areas and they have undertaken surveys to consider ways of bringing the weaker elements in the urban population within their fold.

All these developments throw increasing burdens on the co-operative credit system as finance is an essential ingredient in every part of economic activity. In part the new responsibilities are administrative and operational and make demand on our resources of personnel on our ability to experiment and on our ingenuity in unravelling complex situations. However, in some contexts considerable additional finance is also required. I may cite as a typical example the potential part that co-operatives may play in a rational food policy, i.e. in building up a system which begins with purchases from the smallest producer and ends in distribution to the small consumer. The building up and operation of such state-wide systems will require greatly increased additional resources. I may note parenthetically that in many states the success gained by the co-operatives in augmenting their own resources has been notable during the past decade. However, when responsibilities thrust on them by national policy increase suddenly additional resources required cannot be found within the system immediately. Such situations are especially likely to arise during the early stages of development. They require special examination and consideration on the part of government and sympathetic treatment of monetary authorities. It is at the same time true that no system can function soundly which has to seek outside financial help on every important occasion. Co-operators are aware of this. They therefore try to augment resources and to utilise them economically as far as possible essentially through increasing the coverage and intensity of mutual help and co-operation. The India State Co-operative Banks mutual arrangement scheme is an important initial step in this direction.

An inevitable accompaniment of decentralised working with small primary unit at the base and the tiered federal structure of the co-operative system is that there are limitations on each co-operative organisation in relation to both area and operations. It is not possible within the co-operative sector to create large combines of either the horizontal or the vertical type. The whole approach includes existence of large unitary organisations operating over the whole country and undertaking multifarious activities. This handicaps if one considers it as such, of the structure makes it necessary to take special measures to coordinate activities as between particular types of societies at different levels and also to coordinate effort between various types of societies at various levels.

The federation of State Co-operative Banks is an organisation intended primarily for protecting and furthering the interests of the State Co-operative Banks. Though this is its primary objective it follows from the fact that each Co-operative State Bank is at the apex of the co-operative credit system in each state, that the activities of the federation are necessarily oriented towards strengthening

widening and making more efficient the operations of the entire co-operative credit system. An important aspect of this work is to provide for activities on an all-India scale for which no apex credit institution in the co-operative sector as such exists today. At the very first meeting of the Board of the Federation held some months ago, decision was taken that the Federation should attempt to undertake such activities and services as would lead to further integration of the co-operative credit system for the country as a whole and would not only strengthen co-operative credit units but also increase their utility, their business and their efficiency. The scheme which the Finance Minister has kindly agreed to inaugurate today, is the first of such steps.

We were encouraged to undertake this through the success of the scheme which has been operating in Bombay State and in the successor state of Maharashtra for many years past. The measure of the magnitude of transactions involved may be illustrated by some figures. In 1962-63, in the mutual arrangement scheme of Maharashtra, the number of drafts presented was 45,664 and the number of bills 51,084 and the value of the total volume of transactions was Rs. 924 lakhs. The Maharashtra scheme includes within it all the District Central Banks with their branches as well as a large number of primary banks. The all-India mutual arrangement scheme of banks which is being inaugurated today, will cover the 21 states and union territories. In these the State Banks have 80 branches and have 387 Central Co-operative Banks, affiliated to them. It is expected that the scheme will have a coverage of about 488 places throughout India, in the initial stages. This scheme will enable any Central Co-operative Bank in any state to issue demand drafts payable at the counter of any state co-operative bank or its branches or any central co-operative bank in the country. Another important business that will be brought within the scope of the scheme is the collection of bills and cheques. Because of the complexity of such a scheme and the lack of experience in working it, it is being confined, in the first instance, to branches of the State Banks and to the main offices of the Central Co-operative Banks. The branch offices of the District Central Co-operative Banks have not been brought in at this stage, nor has any effort been made to include any urban co-operative banks within the scheme. However, it is hoped that as we gather experience, and are able to devise means to get over difficulties, larger and larger coverage of business and of places will be possible.

The mutual arrangement scheme in Maharashtra with which are joined some co-operative banks in Gujarat and Mysore States covers as many as 883 banking offices and more than 800 separate locations. The area of the country covered by this scheme, represents only about 1/8 of the country. If co-operative banking spreads all over

India with the same full coverage as within this area, we may expect within the next decade, nearly 5 to 6 thousand separate locations within the country covered by offices of co-operative banks. It is hoped that by the time this happens it will be found possible to embrace them all either directly in one scheme or with one all-India scheme and sub-schemes for each state. Moreover, if, as we hope, the primary credit societies themselves continue to widen their net and field of service and to begin to cater for the needs of those categories of the weak and small men who are not included in any institutional service today, the co-operative credit system will cater for the various needs of and will have in its membership the bulk of the population of India.

The Board of the Federation felt that the Finance Minister of India, Shri T. T. Krishnamachari would be in a specially advantageous position to appreciate the magnitude of the problems that we face, the significance of our aspirations and the importance of the step that we are taking, and that therefore, it would be most fitting that the scheme should be formally inaugurated by him. We are extremely glad that he responded to our invitation and I have great pleasure on behalf of the Board of the Federation to request him to perform the ceremony of inauguration.

REFLECTIONS ON A CO-OPERATIVE SOCIAL ORDER*

I CONSIDER it a privilege to have been invited on this occasion. It is the completion of the first year since the passing away of Shri Vaikunthbhai and to have to deliver a lecture in his memory was an assignment which I could not possibly refuse. I am deliberately not going to say anything about Shri Vaikunthbhai, nor is it very easy for a person like me to talk about him. It is also not necessary because I take it that the majority here was well acquainted with him personally and personally acquainted with his work. His has been a substantial and valuable contribution in Indian socio-economic thinking and practice. I believe with him that the co-operative way holds out promise of development, in relation to concrete achievements in the modern world and the reconstruction of modern society, on lines of much greater conformity with our traditions and thinking than any other. Vaikunthbhai's life was for the greater part spent in establishing co-operative organisations in what might be called an essentially hostile environment and therefore, his pioneering work did not appear to lead to the building up of as many solid edifices as could result from the work of his successors who build on the foundations laid down by him. The work was nevertheless extremely valuable. Moreover, apart from being an able practical banker and co-operative worker, Vaikunthbhai whom I always considered as essentially an intellectual, was interested continuously in theoretical formulations about co-operation, among other things. He was greatly attracted by the idea of an essentially egalitarian decentralised society and the two main planks of his practical work and theoretical thinking were on the one hand co-operation and on the other village industries. These, from the point of view of the structure of an essentially egalitarian modern society merge together. It is because of this, and because of the interest that Vaikunthbhai developed, notably in the later years of his life, in thinking about the co-operative order generally, the co-operative economy as a whole (I think he has one article on the "Co-operative Socialist Commonwealth"), because of this, that I thought that this would be the appropriate occasion on

* Bombay Gandhi Smarak Nidhi, Vaikunth L. Mehta Memorial Lecture, Bombay, November 3, 1965.

which I could place before you some ideas on the Co-operative Social Order.

You will find from the way in which I have formulated the subject of my lecture that I have not obviously thought it all out, that I am not fully prepared for it. It is rather a difficult subject. What I am going to do today is to place before you some essentially fragmented thinking on what I consider to be the main areas in relation to which we must go more deeply into these problems of construction of the co-operative social order. You will note that there has been relatively little writing or thinking even in other countries on this broad area. That is because, most co-operative workers and most people who wrote about co-operation were exercised about practical and theoretical problems of co-operative organisations operating in an order which was not essentially co-operative. If you take any, beginning right from Rochdale pioneers or even earlier, say, the socialist experimenters whom Marx derided as utopian, if you take any from these, to the later more practical workers, they are all concerned with how, in what manner and on what principles, with what discipline, you could build an individual co-operative organisation or a chain of co-operative organisations which could help particular sections of the society, the weaker sections or let us say the more disorganised sections in society, to hold their own and to derive somewhat larger benefit from the prevailing order than they could by acting by themselves as discrete individuals. So most of the problems discussed or practical problems sought to be solved were problems of how co-operative organisations could establish themselves, how co-operative organisations could best operate and so forth. For the larger part, this was in what we now call a capitalist society. In recent decades, there have been similar instances of operations of co-operative organisations in what is essentially a socialist or a communist society. If you take co-operatives operating in the Russian centralised economy, they are also operating in an environment which is alien, a communistic environment, just as those in America and Europe operate in an essentially capitalistic environment. Therefore, you will find that the thinking is not about a co-operative order but about co-operative organisations or a co-operative sector at the most in an order which is other than co-operative. This, in my opinion, is the essential reason, why relatively little thought has so far been given to a co-operative order and to its establishment.

The resulting gap I want to indicate today by dealing with three subjects, in a sense, quite different, but which have from a broad perspective many common features. I shall begin with the problem of the structure and organisation of a co-operative economic society. How would you think of this, what are the problems that arise in its construction, this is not being thought out even in theoretical terms.

There is a great deal of talk today in India about a co-operative order. We are thinking, at least in terms of a rural economy which may become basically very largely co-operative and we have to foresee as what will happen or what should happen, if this transformation comes about. If you will look at the history of co-operative structures in various countries, you will find that according to the peculiar favourable conjuncture of circumstances in each country a certain form was given to the structure. Yet nowhere do we find thinking about the logical ordering of a co-operative society or about the concept of a whole structure which is co-operative. This is because, say in the U.K. where it first grew, you will find a predominantly consumers' activity with very little of industrial or agricultural co-operation. In Ireland and some of the Scandinavian countries like Denmark, you will have an agricultural processing, marketing and a rural consumers' movement but very little in the industrial sector. Perhaps in Japan, we have the most comprehensive co-operativisation of the rural economy today than in almost any other country in the world. But here again there is no thinking about a co-operative order as such. The co-operative rural economy thinks of itself essentially as a subordinate partner in a broad generally aggressive capitalistic society. We have the example of Israel where a larger part of the economy, you may say is presumably in the co-operative sector. I say presumably, because the co-operative organisation in Israel is essentially a counterpart of the *Histadrut* i.e. essentially a counterpart of the workers' movement in Israel. It is not co-operation built from bottom to the top, but a counterpart or representative of the trade union movement in the co-operative sector.

I should like to make my point clear by raising some problems as we face them today in India in building up a logical structure. In building a logical co-operative structure, what are the elements with which one works, the elementary principles? This, you will see, is an extremely ticklish problem, because you have to extract from the history of co-operation, from the writing and thinking on co-operation what appear to one to be the more essential things and leave out what appear to be the more adventitious, historically accidental and so forth. In this search I think it is appropriate to begin with considering co-operation as a device, a measure, means or instrument which is offered to the weak and the disorganised in the society to strengthen themselves. I consider the co-operative way as essentially the way which offers to the smaller, the weaker, the dispersed units in society, the means by which they can come together, organise themselves appropriately in relation to what you may call two important features of the modern economy. As a matter of fact, you may even say that they are one but I personally think that they can

units fail in an advancing technology and an industrialising society to maintain their independent existence, largely because of the pressure of the efficiency of large scale operation and the technologically advanced operation. If you consider co-operation as an endeavour to retain the values of the existence of small units and yet obtain for the small units advantages of modern technology and working on a larger-scale, you might get a clue to what the principles of a co-operative order are or ought to be. You can on the basis of such an approach visualise the possibility of an entire order in which the varying units and their organisations find a proper place.

Here, unfortunately, I have not the time to argue the whole process out. The result as I see it is that of a co-operative structure in which the basic primary unit may be a multi-purpose or multi-sided unit, that is a unit with a variety of economic activities, but in which because of the essential requirement of getting advantage of the technology and the scale at the higher stages of the structure a functional division has to appear. So that you can think of a multi-purpose village society combining certain amount of credit, marketing and possibly a few other miscellaneous activities even a consumers' stores. But as you rise upwards, you get a functional differentiation between the marketing, the credit, the processing and all the productive trading, transport etc. activities. I insist in this manner on the unity and reality of the primary and the functional specialisation of higher tiers because without some concepts like these, you cannot build up a logical structure, or avoid problems relating to genuineness or conflict of jurisdiction.

Let me illustrate with the help of one or two examples. Take the example of English Wholesale Co-operatives which run dairies or manufacture cloth and leather goods. A dairy that is owned by the English Wholesale Co-operatives is essentially something that is operated, so to say, from outside the organisation. In this case you find that the workers, or the farmers or the animal husbandry-men are as subservient as they are in the capitalist order. Basically the co-operative is a mutuality or should be a mutuality in which the small elements come together in order to serve themselves in relation to a specific need, service, production, trading whatever it is, on their own. Granted this, the character of the co-operative enterprise is not obtained by being owned by another co-operative organisation but by being owned by a number of individual members or member units, for whom the co-operative serves a meaningful mutual purpose. Looked at in that way, it will be clear why I consider the Israel experiment as not essentially co-operative. As a matter of fact there are a number of writers who call this sector of the economy in Israel labour economy and not co-operative economy, because over it the labouring class in Israel wields economic control. The labouring class in the economy

having control over certain organisations is different from their being under co-operative in structure. For example, the Israel co-operatives run one of the biggest construction organisations, a building and works organisation taking very large scale contracts all over the place, but the structure of this organisation including the status of the labour is not different from any other type, say, the capitalist type and has no specific co-operative features. Therefore, you have to give very considerable attention to the manner in which you build up the structure of the co-operative economy. You can think of a primary society, which is small-scale, and limited in its geographical area and can thus well serve a variety of needs in a small location, may be multi-purpose. Higher tiers in the structure have to specialise functionally. Adoption of this approach enables one to deal with a large number of problems we are continuously facing. For example, we are facing a problem as to whether the sugar co-operative factories should distribute fertilisers to their members, or whether a consumers' co-operative should receive finance by itself by way of attracting deposits. These problems begin to become clearer, if you think in terms of functional specialisation which is required to get full advantages of scale and technology.

Or take the other problems; for example those of producers' organisations; how does one organise production right from agriculture to industry, how does the co-operative form spread to higher levels. Here again I would insist that it is direct interest and the mutuality that is important. You will then find that you cannot just call anything co-operative by merely organising a few people and having model bye-laws. It must essentially pass the test of mutuality, and if it has to pass the test of mutuality then we necessarily get, a tier of organisations. For example, you may take let us say ground-nut producers; you start with the oil expeller as the primary processing society. Now if you are thinking in terms of industrialisation based on oil this has to be organised on the basis of those primaries. Then it is these primaries that become the owner and operator of a more complicated industry that is raised for the utilisation of their products. Some of this type may in turn come together to form an industrial organisation at a still higher level. I am citing this as an illustration and not drawing in the more familiar example of the banking or marketing structure, because I want to emphasise how I think the co-operative order is differently structured and how it will operate in a different manner.

Inevitably, one can also see that this approach imposes certain limitations. It is very difficult with this approach to get public utility concerns within the co-operative order and it becomes very difficult to organise a large extractive industry co-operatively in which there is no possibility of separate ownership of small units. So that you have to live with the idea that though the co-operative order can cover large

numbers and the bulk of the working population in various kinds of activity, it has to co-exist with a public utility sphere and some type of corporative sector.

The other set of problems in the field of structure and organisation, problems which are extremely difficult to deal with, relate to labour. The co-operative organisations emerge as mutualities from one or the other side of economic activity either of producers or say, consumers. But whether you base your organisation structure on the base of producers' or consumers' co-operation the workers in these organisation are for the most part left out and the problem of labour participation is not tackled. The position is somewhat different where labourers or artisans themselves come together to form a co-operative. But this by itself does not eliminate the problem as is underlined by the practice of the more meticulous among the co-operative artisan societies of Israel of having a rule by which the hiring of outside labour is disallowed. This is justified because an artisans' co-operative is essentially, a workers' co-operative of which every worker in it must be a member. If you hire workers, how do you maintain its co-operative character; since basically in a co-operative the essential aspect of membership is not contribution towards capital but participation in the mutual business of the co-operative. In a consumer store this last is evidenced by dealing with the stores, in a producers' processing co-operative by bringing raw product for processing, in a workers' co-operative by working. Logically therefore, in the last, at least, no worker can remain a non-member without affecting the co-operative character of the organisation.

But in the other organisations such as of consumers or producers where labour is employed on a large scale, the problem remains. In a society of producers in, say, a sugar co-operative factory or a large-scale consumers' store, how do you get the workers to be members? After all, by no definition can you show that these labourers are not participants in the work of the mutuality. And if they are participants in the work how can the structure of the mutuality be adjusted to allow for their membership? This problem has not yet been solved anywhere except, in a sense, in Yugoslavia. The Yugoslav solution is of course, a heroic solution which is not open to be copied everywhere. The Yugoslav economy as of today was constructed in its present shape by a complete and sweeping measure of nationalisation; everything was nationalised and then every nationalised industry was, so to say, turned over to the workers. The problem we face is different; it is that of labourers' participation in a co-operative which has been formed initially as producers' or consumers' etc. organisation. We have the problem of how to reconcile the interests, which may in part conflict, of the two elements.

This leads me to another problem. I have mentioned in the first category or structure and organisation the vital problem of division of the product, how does the total product get divided, how is the surplus to be divided, what, if any, are the relevant co-operative principles, or are there any principles at all? Some of these problems are emerging even today, for example, when today governments as in Maharashtra control the whole series of operations in food as of buying from producers, distribution through co-operative wholesale societies and selling through consumer stores. Here you have a whole series of operations in which you have, so to stay, no guide from the outside market price at all. The prices that the producer gets for his rice or jowar are prices fixed by the State and the prices which the consumer pays are also fixed by the State. How should these prices be fixed and how is the product divided are decisions which must be independently taken. I suggest that the only clue, you have here in the absence of a "competitive" market (and as I will immediately explain to you "competitive" marketing in the ordinary sense, becomes almost non-existent in the co-operative order) is that of a national incomes policy. This is essentially a social and a national decision. It is a decision regarding what you think is the appropriate level of living of various classes. Because ultimately this is what determines the distributive pattern. If comprehensive decisions are made regarding all prices of food and other goods and you derive therefrom prices that the producer and the labourers get; this is really the overall task of determining the relative structure of prices and the implied distribution of the product. Remember that in a large number of European countries today the prices of agricultural products are, in fact, determined by conferences round the table in which you get farmers' Union's representatives on the one hand and the state's representatives representing the consumers on the other hand, fixing the whole set of prices. So that for a whole category of people, the whole of the peasant order, so to say, the producer price level is, in fact, arbitrarily fixed. So far I have said something about a couple of important aspects of the co-operative organisation and structure. Much more detailed, elaborate thinking, exploring things much deeper, is required if you are to think of building a co-operative order, because in it a large number of specific problems will arise regarding individual products, sectoral prices etc. which we must be ready to tackle.

The second set of problems are more important. The second set of problems that I have mentioned are the problems of operation of the economy. If you have a co-operative economy, how does a co-operative economy operate, how is it guided, how is it regulated? Obviously, this is an important question. With the recent background of the so-called liberal economy, one is apt to think of regulation of an economy as something artificial. Actually what has been exceptional in human

history is this: this episode of a few decades, not even of a full century, in which two things viz. automatism and rationality were equated in theory and in which it was contended, (it was not established) that forces of the market automatically decide everything. So that there is no need for regulation; because all decisions short-term or long-term, the immediate prices or the long-term investment programmes are all decided and determined by the prices that are established through the action of large numbers of persons operating independently of each other in the market economy as a whole. Now, one has to forget this episode, because as the so-called "free economies" operate today, each of them is heavily regulated. Not only are they heavily regulated but in the larger and the more advanced economies prices are administered in most of the crucial sectors and the whole of the labour market is largely managed, is in fact, oligopolistic. Large blocks of personnel are offered together as labour supply, so to say, in the market and not individuals coming and competing with each other. And the ability to withdraw or supply whole blocks of labour on the market is linked with the ability to paralyse the whole economy. So that as result of consequent bargaining, you have an arbitrary division of product on an extremely large scale. You thus face problems of regulating economy in the sense of determining the division of the product ultimately by arbitration. I am using the word arbitration deliberately because in an economy dominated by Employers' Associations and Labour Union on a large-scale independent arbitration is, has to be, accepted as the regulator and the regulation is needed for guiding the economy or keeping it on an even keel.

Moreover, since immediately after the depression and now even in advanced countries policy markets and economists are informed by growth consciousness, therefore, maintaining a certain rate of growth becomes an imperative and it acts as an integrating force in national policy measures. And once you get concerned with development and growth and think of regulating and guiding development and growth, obviously the automatism and the free market analysis or model go to pieces.

The co-operative economy is by definition neither an autonomous, nor a free market economy. Its emphasis is on organising all activities for mutual advantage at a series of levels right from the primary level group in a ladder to the highest possible level. Such organisation requires a great deal of fore-thinking of the problems, thinking not only in terms of static state, but in terms of growth. You could call, in a sense, all the older stratified economies static, co-operative economies and by co-operative economy I mean something different from a non-competitive economy. If you take for example the old Indian economy, you will find that it was essentially an economy

having a static co-operative structure. There was a division of labour, there was a division of product, there was a given technique and co-operation between the various strata in that technique. All these were pre-determined and it was supposed that the annual cycle of seasons repeated itself over generations. It was a static order but it was a completely co-operative order. It was co-operative in the sense that its successful operation depended upon the co-operation along fixed lines of the various elements involved and no departure from the pattern through competitive behaviour was expected or allowed. The presence of the element of coercion or the amount of force exercised I am not going to discuss. Because all hierarchical systems, may be said a work under coercion of those at the top. It may be that it is power that maintains the co-operative pattern; even so the operation of the structure is essentially co-operative. The order was static as most hierarchical orders must be static; because hierarchy itself implies a certain amount of, so to say, stable stratification in terms of status and rank. Therefore hierarchy is conceptually static. It would I suppose be correct to say that as a matter of fact the Smithian justification for *laissez faire* was essentially based on the contention that a hierarchical order was not only a static order but also a stagnant order. All that Smith has to say about guilds etc. is so much of an indictment against the old hierarchical order. Thus the eruption of the free market economy or liberal economy in the modern world was so to say needed for freeing the older economies from the hierarchical order; or to put the other way round, this came about because the effects of the advance in scientific and technical thought in Europe could no longer be contained within the older hierarchical socio-economic order.

Looking upon the *laissez faire* period as an essentially transitional period we now perceive a return to economies in which the co-operative element again begins to dominate. However, these co-operative economies are no longer static and hierarchical. One must, therefore, pay attention to basic characteristics of modern co-operative orders.

I suggest that the modern co-operative order must be essentially a planned order. However, to the extent that it is a co-operative order, it is different from the centralised planning order. The structure and operation of centralised planned economy are not to be identified with that of the co-operative economy. If what I have suggested about the special characteristics of the structure of the co-operative economy is correct, the co-operative economy will be able to modify the operation of a centralised plan, exactly in those respects in which centralised planning is supposed to be most defective i.e. in respect of dispersal of authority and in respect of the ability to take account of local circumstances. These are the two important aspects in which centralised planning is usually blamed.

It might be noted that in recent years, a large number of people do not describe the capitalist economy as a capitalistic economy but as an economy of decentralised decision making. That is the term that is often used nowadays. I suggest that it is possible for the co-operative economy to become really an economy of decentralised decision making, where decentralised decision making is yet significantly allied to the planning process. In my opinion the planning process is a two-way process. It is a process which takes note of local circumstances, local possibilities and local capacities and takes note also of the overall possibilities of the economy and overall objectives of the economy. Now this two-way process of conveying overall aims to the locality and conveying local knowledge, knowledge of local possibilities to the centre is significantly possible in an integrated manner only in the co-operative order. Because, as I emphasise, the co-operative order has at its base the primary which is essentially a local and neighbourhood unit and it has at appropriate stages for each function to be performed at the upper level a higher-tier federal authority. It is such a co-operative order that can lend itself to decentralised planning.

It is important to note that you can project the possibility of the co-operative order functioning in this manner only if an important requirement is fulfilled. It is that the political authority, which in the modern State is overwhelmingly important, considers its function mainly that of maintaining the basic legalistic structures and incorporating the accepted values and philosophy of the people into broad economic policy decisions and regulatory systems and then to leave the economic order as largely an autonomous order. This is slightly outside my subject. But I think this is a needed logical approach. The modern State about which all kinds of terms such as "a leviathan" are used is possible of being reformed in its operation only by introducing an element of autonomy of various sectors including the autonomy of the co-operative order within the general political framework afforded by the political State. If such a concept is accepted by the State Planning authority then, you can get a great many of the benefits of decentralisation associated with the advantages and values of broad centralised decisions and plans.

I have left myself only a little time to give some thought to the last of the areas, which in some ways is actually the most important area, in which I have divided my subject. In this I am thinking of the difference between the attitude appropriate to and the spirit that should inform the co-operative order. So far I have been talking basically in economic terms, terms of economic operation, forces of the economy or of the economic structure. This is merely the external aspect. In my opinion when thinking in terms of the co-operative social order and the co-operative economy, the essential difference is

that, it is, so to say, an explicitly a moral economy and an economy which explicitly accepts certain ethical principles. I say explicitly ethical, because I do not conceive of any social order which disregards ethical principles. But there are certain societies which may pretend that they have no moral aims or that their values and objectives do not necessarily go along any ethical principles. In my opinion the co-operative order is an ethical order and it has certain values. Its most important values are the values derived from the earlier formulation I gave, which is respect and concern for the small, the weak, dispersed unit which is essentially a concern for the majority of the people.

In a broad retrospect, one may consider that the competitive idea and the co-operative idea have, so to say, co-existed all the times. They co-exist in the sense that even the earliest social unit, the independent family (barring the example of Robinson Crusoe or an entirely self-sufficient single family) is essentially a highly co-operative group. With external groups, it may be considered to be competitive but internally it is necessarily co-operative. It may be that the general spread of moral ideas, in practice, is, so to say, a history of the extent to which the field of co-operation had covered larger and larger societies from the larger family groups to the tribal group or village; and within the group to a large extent, especially where status and ranks were well-defined, co-operative behaviour had a very definite place and competitiveness was largely suppressed. Because of a certain conjuncture of circumstances, in the modern European context, the competitive idea came to the fore and became very important. I suggest that even though the competitive idea in some of the modern forms may have yielded beneficial results for mankind in the recent past it is now becoming more and more of a danger and a threat. It is extremely important to remember that your basic attitude in life covers really the entire field of your existence and of your operations. If the basic attitudes encouraged are essentially competitive and consequently aggressive, you cannot expect an individual in a society to exhibit the competitive and aggressive spirit only in some respects and become entirely co-operative in other respects. This thought in my opinion, needs today the most careful consideration. This is for the world as a whole an extremely important and critical juncture, in which the problem of basic attitudes is of fundamental importance. If you are thinking in terms of societies, of nations co-operating together, then the basic attitudes of peoples have to be in conformity with this aim all over the world and the task of shaping it has to be undertaken at the ground level; for, it is only in this manner that you can transform society. Let me illustrate with a lowly example. Look at the working of sugar factories in India. You have a problem here of improving the sugar-

cane, quality and yield, and one of our modern prescriptions is to relate the price of sugar-cane to its quality. If you relate the price to quality, it is suggested that automatically sugar-cane quality and yields will improve. This has been tried in some states by private factories though there are difficulties in the way of connecting the price with the cane output of each individual. In co-operative sugar factories, we think it more appropriate to relate quality to the average price paid to member. Because we consider that the sugar factory has to bear the responsibility of the improvement of quality of sugar-cane of all members. And this it does as a programme; so that it appoints technicians, it has to incur expenses for giving seeds, pesticide etc. and to improve the strains of sugar-cane. Of course, even in pursuing this programme the sugar factories benefit themselves ultimately and may be said to have a profit motive. But the point is that the programme really brings up the average of the whole membership of the society and only this can do it. Because when you fix the price for quality of the individual supplier you are taking it for granted that everybody is in a position to improve by himself; that he is in a position to get credit when wanted, to get pesticide when wanted and that he has the requisite knowledge and information. In fact, this is not so. It is only the better and the more resourceful that have these and the higher price operates in the direction of giving them more resources and giving relatively less to those in the lower order. Now I consider that the essence of the co-operative order is this concern with the improvement of the average of the whole society, the levelling up of all and not doing it indirectly but doing it directly and explicitly as a social responsibility.

There has been a great contribution made by the competitive spirit in terms of innovation and efficiency of the modern technical order. However, I would suggest that because of historical developments competition today has lost this value. Innovation and efficiency are now being built into the structure of industrial operations. Co-operative research on the large scale predominates and efficiency can be so objectively measured that it is no longer necessary for the producer to suffer losses in order to know himself or to make known to the public that he is less efficient than others. Therefore the very large price that has to be incurred for operating through the competitive process need no longer be paid. Innovation and efficiency can take care of themselves. On the other hand, I am appalled at and greatly concerned with the perspective unfolded by unchecked continuation of aggressiveness and competitiveness in the modern world with advancing modern technology. In the old world there were only a few millions people living in very large space. The independent groups could be hostile towards each other and the natural reaction of heaving bricks at strangers could operate without really very

much great immediate loss to the world and the humanity as a whole. But today with the small world in which we live and the advancing technology, overwhelmingly the most important and immediate programme appears to me that of curbing the competitive and aggressive spirit and of replacing it essentially by the co-operative spirit. It is in this respect that I think that we have the opportunity of fundamental contribution by way of experimentation on a larger and larger scale and establishment practically, in sector after sector of something approaching a co-operative order, co-operative economy. Moreover, in attempting this we will have an opportunity of realising in a practical manner some of the values that we have cherished for centuries.

THE TASK BEFORE THE ASIAN AGRICULTURAL CO-OPERATIVE CONFERENCE*

THE National Co-operative Union of India considers itself privileged in having the opportunity to act as host to the Third Asian Agricultural Co-operative Conference. It was natural that Japan as the most developed country in Asia, both in terms of economic development and co-operative coverage, should take the lead in initiating this series of Conferences. We feel honoured that our invitation to hold the Third Conference in India was accepted by the organisers.

Problems at two levels

A conference with this composition and these objectives faces problems at two levels. The first set of problems is related to mutual trade between countries, most of which are underdeveloped and whose economies are still dominated by primary production. At the same time, these countries are all keen on achieving rapid economic progress and industrialisation. Both these aspects of their situation orient their foreign trade to the industrially advanced countries. It is these advanced countries that are the largest markets for specialised primary products and they supply, in the main, the plants, equipment, etc., needed by countries in early stages of industrial development. The previous colonial stage through which a number of Asian countries passed, during the last century, has also influenced the trading pattern in this direction. It is, at the same time, important that this pattern is altered and that with greater development of the economies of Asian countries mutual trade amongst them grows in volume and is diversified. The study of how this change can take place and what steps could be taken to accelerate it and to direct it properly will be an important part of the work of this Conference.

The process of industrialisation should help the change and should be helped by it. As individual countries diversify their economies, they will have larger demand for the specialised products of their neighbours; at the same time, particularly in the early stages of industrialization, the process will be facilitated if the products of Asian industry find ready markets in Asian countries. However, in considering the future trading pattern in relation to these possible

* Speech at the Third Asian Agricultural Co-operative Conference held at New Delhi in January 1967.

developments and in planning for them it will have to be borne in mind that the total situation is constantly changing. Whatever the differences in the progress of industrialisation in individual countries at any point of time, all countries are desirous of progress. Therefore, the trading pattern of the future must be conceived in dynamic terms and must make provision for continuous progress in industrialisation on the part of all. Also, this trade pattern and the resulting trade relations must give due attention to both the important related objectives. First is the provision for markets for the products of industrialized and industrializing Asian countries. Second, and at least equally important, is the provision of markets and more particularly, the stabilization of prices of the primary products of those Asian countries which continue still to depend, largely on exports of agricultural and other primary products. It is only if the mutual obligations of the different countries in both these respects are recognized and due provision is made for the continuous progress of all that a widely acceptable approach to these set of problems will be established.

Co-operative Organizations

The other set of problems relate to co-operative organizations, in particular. These problems stem from the very uneven development of coverage and quality of co-operative organizations in the different Asian countries and from the previous occupation of almost the entire field by other agencies. The development of trade relations between co-operatives of different countries depends crucially on the strength of their respective organizations. It is general experience that successful operations in foreign trade require much greater cohesiveness and degree of efficiency among members and officers of co-operative organizations than those in internal trade. International trade also requires almost equal development of co-operative organizations of both the trading countries. In this context, one of the most important functions that the Conference can perform is to consider how the stronger and the more developed organizations, of one country can assist in the strengthening and development of co-operatives in the other countries.

The Conference will also have to deal with another, more intractable, problem. This relates to effecting entry of co-operatives in areas already occupied by semi-monopolistic organisations of the private sector. This occupation is the result of older developments, especially those during the colonial era of Asian history. The internationally based strong private organisations, in this field, are naturally hostile to any entry by co-operatives within their preserves and try by all means to prevent it. Their action is helped by the so-called "free enterprise" slant of a number of national governments, powerfully induced and maintained by certain international forces. It is

futile to hope that the strength of co-operative organisations could by itself overcome this obstacle at an early date. State policy and public enterprises must help, in this regard. A proper distribution of the gains of international trade and a fair deal to the agriculturist producer could be obtained only through establishment of direct relations between co-operatives of agriculturists in different countries. It is hoped that realisation of this basic truth will induce governments and public sector enterprises in Asian countries to adopt a proper policy and to help actively, by all means at their command, this desirable development.

CO-OPERATIVE TRADE BETWEEN DEVELOPING COUNTRIES*

THE main background feature of the theme of this Conference is the peculiar difficulty of developing trade between developing countries themselves. By the very nature of the problem as well as because of historic developments trade of the developing countries tends to take place not so much between themselves as between the developed countries and the developing countries. There is no reason why by intelligent planning the basic difficulty cannot be solved to some extent. However, one has to realise that in planning, as practised in the developing countries at present, planning of foreign trade has proved perhaps the most intractable problem. The regulation and development of the internal economy have succeeded to some extent, but as the forces governing the direction and development of international trade are very strong and beyond the regulatory activity of the governments of these countries, it has been found that plans of the developing countries have themselves been influenced by the shifting direction and pattern of their foreign trade. Any attempt to increase the ability of the developing countries to regulate the flow and pattern of foreign trade could be successful only through a certain amount of co-operation among the developing countries and the developed countries.

Development of Foreign Trade

A number of attempts have been made in recent years and were made in the immediate post-War period to tackle some aspects of this problem. Considerable enthusiasm for commodity agreements was evinced in the post-War period, and commodity agreements, particularly in order to stabilise the market for primary commodities were thought of. In the immediate post-War period, economic thinking was still considerably influenced by the experience of the depression. However, these early attempts at commodity agreements had not much success and the enthusiasm for them has waned. And though we did recently, in Geneva, go on a rather broader plane of effort and thinking, effective co-operation amongst the developing

* Speech at the Third Asian Agricultural Conference, New Delhi, January 23, 1967. Published in *The Co-operator*, February 1, 1967, pp. 5-10.

countries and the developed countries in the planning of foreign trade has not yet been established.

I personally believe that some efforts, in this direction of trying to plan foreign trade developments, should be made amongst themselves by the developing countries. I would like, at this stage, to point to some problems that are likely to arise in such an attempt. I would identify two main objectives of this effort: first the stabilisation of the market for primary products; and secondly, helping the development of the developing countries. You will observe that the first objective, viz., the stabilisation of prices of primary products, is a basic objective. This objective of stabilisation, of broadening of the base of the market for primary products within the developing countries could be achieved by efforts in two important directions. First, a deliberate attempt by the developing countries to provide a market for their neighbours—the other developing countries—to the extent that they import primary products: and secondly, furnishing similar markets to the extent that their industrial development acquires a new dimension and requires additional imports of primary products. In relation to the other objective of helping the developing countries to develop, we come up against an extremely important aspect of the problem of development which is that of providing markets for exports of the growing industries of the developing countries.

Co-operation in Developing Countries

One of the most important problems faced by developing countries in recent years has been, apart from the adverse movement, in the terms of trade of primary products, particularly for the developing countries which are emerging into the industrial phase, that of a lack of market for exports of their growing industrial products. There is, I believe, a good field here for co-operation among the developing countries. But a caveat has to be entered; success in such co-operation requires that the whole process has to be looked on as a dynamic process. Planning for development by all means that all are planning to attain a minimum standard of industrialisation within a foreseeable time. Therefore, when we are thinking of mutual exchange either in primary products or industrial products, we must in planning, think of the dynamic processes through which a certain degree of specialisation emerges and trade can develop among the developing countries both in terms of primary and in term of industrial products without hampering the progress of development of all.

This is a difficult territory in which barring some abstract thinking you do not get a great deal today. There is no precedent in this regard; this is new experience and the problems of both of development and mutual co-operation in planning development have yet to

be tackled. The extent to which they are effectively tackled will depend greatly on the extent to which genuine co-operation can develop, and I believe the co-operatives have a contribution to make in this direction.

Universal Co-operative Order

This leads me to the second part of the observations that I want to make, the part relating more specifically to the role of co-operatives and of this conference. I consider that the role of this conference is wide ranging. At the minimum we should, at least, be able to establish contacts with each other. As a number of observers have pointed out, if you want to trade, you must know something of each other. So this, just establishing contacts as preliminary to trading, is extremely important and we hope we can make a good beginning in that direction. I, however, believe myself that the functioning of such conference should lead ultimately to the attainment of much wider objectives. At the widest level, I would place the objective as the establishment of a "universal co-operative order". No less an objective than the establishment of a universal co-operative order, I consider, is the ultimate objective of conferences like this. So beginning with contacts, we go on to trading which establishes, and more and more strengthens, the co-operative organisations within the countries. From this, we move, I hope, step by step to our ultimate objective. I realise that when one talks in the present context in terms as high as this, one is apt to be taken as a dreamer. If you look closely at the field of Asian co-operation, it is obvious that we are very far from even establishing viable national co-operative organisations in many fields in a large number of Asian countries. So wherever our internal organisations are weak, it may seem too distant to think of something of a super-national and universal nature. However, I am always disposed to move in this direction because I have found in practical experience that in Co-operation you always have to take a long-term view in order to be able to chalk out your programme in meaningful terms.

Co-operation and Stabilization of Economy

In Co-operation it has been our experience that every step that takes us forward leads to our confrontation with problems, bigger problems at the next stage. We are, for example, able to create conditions for furnishing credit to the cultivators, but if marketing is not looked after, the credit-giving effort means credit-giving to the trader as well as to the agriculturists. If you begin here and have some success in marketing, that is, in being able to sell producers' goods, you still are at the mercy of private organisations if there are no co-operative buyers in the field. So you have to think in terms of

who buys within the Co-operative Sector and if you are thinking in those terms it is quite obvious you must cover, at best, the entire rural sector, because once you are thinking of credit and of marketing and of buying and distribution, almost every other step in transport and trade follows. These stages necessarily have to be covered if a co-operative order has to be stable and efficient.

And here I would urge that more the area that Co-operation covers, the more do the benefits from Co-operation accrue to the primary producers and to the small producers of all types of industrial goods; further, the greater is the extent to which the economy is stabilised. I would note that if planning has to go on with stability, it requires efficient organisation which can contribute to spreading the message of the planners, the target of the planners to the primary producers, and organize them in such a manner that they respond; at the same time an organisation that conveys to the planners the difficulties in the field is equally important and it is only the Co-operative organisation which can do this entire two-fold job. This perhaps is a digression. It is not, however, an entirely irrelevant digression.

Co-operatives and Foreign Trade

In my opinion, at present, the Asian co-operative scene is full of imperfections but if progress has to be achieved, it is not enough in Asian countries, to look at only one sector or take a limited view regarding relations with another sector such as that of linking credit with marketing. We must take a comprehensive view of the matter for, I feel, that if some progress has been made in the last fifteen years in the Co-operative Sector in India, in the rural sector, it is because initially about 10 or 12 years ago a policy was formulated in the most comprehensive terms taking in all aspects of rural development and such a policy was pursued vigorously by the Planning Commission and the Government of India. Starting from a comprehensive view what obviously next comes into the picture is the connection of plans of development of co-operatives with plans of development of international trade.

In this matter it is quite obvious that the circumstances of the different Asian countries differ widely. There are some countries in the plans of which foreign trade, specially foreign trade of agricultural products, is not so important and therefore planners in these countries might neglect these aspects. There are other countries, however, in which foreign trade in terms of agricultural products is extremely vital for the operation of the national economy. And, therefore, I would urge that even those countries in the planning and development of which foreign trade in agricultural products does not appear to be important, must pay a great deal of attention to this aspect of

the problem. It has been made clear by a number of writers of papers that in thinking of this you must first think of integrated development within the country itself and that in bringing about such integrated development, you must think in terms of possible models.

Co-operativization and World Competition

I believe that in this Asian Conference, we must consider ourselves fortunate that we have at least one country that is no longer underdeveloped. In a general sense, every country is still developing. After all, even the U.S.A. is keen about its rate of growth. But if you at all differentiate between countries as developed and non-developed, I suppose one country in this continent, Japan, can be very appropriately considered as developed. I would draw your attention to Japan from another point of view. The Japanese rural economy is,— I believe I am subject to correction—the most co-operativised in the world; there is complete operation of co-operatives in credit, in marketing, and in all dealings of the farmers' communities with the rest of the world. This has happened in Japan, to a larger extent than it has happened elsewhere. I believe from this also stems the natural anxiety of the Japanese co-operators regarding international trade. As I just pointed out, once you solve a set of problems, you are confronted with another set of problems. If you have complete co-operativisation of the rural economy, then you really are confronted with the rest of the world, and here you have to deal with very powerful international cartels and so forth. So, in dealing with these problems of buying advantageously for the rural co-operatives and selling advantageously on behalf of the rural co-operatives, it is only a completely integrated development system like the Japanese that immediately confronts in a real sense, the problem of international trade. To a large extent, Indian co-operatives have been only sort of experimenting marginally with problems of international trade. They have not confronted them yet. But if the Indian co-operatives or any other co-operatives in the Asian countries develop at all, they will come to this stage themselves. In a sense, therefore, to us, the progress of Japan, specially during the last fifteen years, holds an encouraging example in the sense that it shows what can be done. It is not equally encouraging if you look carefully into the conditions precedent, into the requirements of the achievement, we must then admit that a large number of our countries lack the conditions precedent, lack the preliminary requirements of the achievement.

CO-OPERATIVE EFFORT IN MAHARASHTRA*

IN writing about the development of Co-operative effort in Maharashtra and the success achieved by it, in some directions, it would be useful to begin with the historical background. The core of Maharashtra Co-operation derives from developments in the erstwhile Bombay Province. Co-operation in Bombay Province was fortunate in having attracted from the beginning attention of notable public leaders from different walks of life. The first Chairman of the Apex Bank was Sir Vithaldas Thakarsey and G. K. Gokhale was a member of the first Board of Directors of the Bank. In Maharashtra G. K. Devdhar devoted his energies largely to the establishment of rural co-operative societies in early stages and N. C. Kelkar was a Chairman of the Poona District Co-operative Bank. Leaders of the standing of Shri B. V. Jadhav and Prof. V. G. Kale took keen interest in co-operative activity. There were also notable local leaders like Sane of Barsi and Tarkunde of Saswad. The tradition established by these and others like them was maintained in subsequent decades. This tradition gave a special turn to the situation in Bombay. Whereas, for example, in the Punjab the development of co-operative organisations was largely connected with names of notable registrars, in Bombay Presidency the initiative and leadership rested, to a large extent, with non-officials.

The credit organisations were first to be established and have been important always. The District Banks and, particularly, the Apex State Bank have undertaken responsibility of guiding co-operative developments in the State. In this connection, it is natural to note the contribution of Shri Vaikunthbhai Mehta during the period before independence. As the Managing Director of the Provincial Co-operative Bank he was at the centre of things and his personality left an indelible impression on current and future developments. During his time, the Provincial Bank acted also as a District Bank in many areas and consequently he kept in close touch with primary societies of workers in the field. The tradition of economy and integrity and fairness that he built up has been invaluable. Another contribution

* Souvenir, Maharashtra Educational and Cultural Society, New Delhi, on the occasion of its anniversary celebrations, December 1968.

of Vaikunthbhai was to build up the staff of the apex institution and to contribute to the training and building up of staff of District Banks. This differentiated the Bombay Co-operative banking system from that of other States. The Bombay system was almost never dependent for management on borrowed departmental hands. This feature gave a unique strength to the operation of the system in subsequent years. Vaikunthbhai combined in a unique measure insistence on business-like operations with large-hearted sympathy in dealing with societies and members in difficulties. This was exemplified by the manner in which he handled the situation in depression years. As a result of his operations, even though the depression led to failure of some District Banks, the Co-operative Credit system in the province as a whole did not suffer a set-back as in many other provinces. Vaikunthbhai was a sound theoretician and always ready to experiment. He contributed in a considerable measure to the thinking out of the new policy in relation to Land Reforms and adjustment to debts etc. tried out by the Congress Ministry in 1937 and after.

The tradition of Vaikunthbhai was continued on an enlarged basis with new opportunities opened up by Independence. The crucial initial step taken by Bombay co-operators in this period was connected with their instant reaction to the Report of Sub-Committee on Agricultural Finance appointed by the Government of India (1945-46). This Committee had recommended that Agricultural Credit Corporations for financing of creditworthy agriculturist borrowers be established in each State, except in those States where co-operative organisations were ready to take up the responsibility and to reorganise themselves for this end. The Bombay co-operators took up the challenge and expressed their readiness to take up the responsibility and bring about reorganisation. The resulting reorganisation of the structure of the Board of the Provincial Co-operative Bank and the policies evolved by the new Board heralded the beginning of the post-war series of developments in India.

The reconstructed Board, soon after its establishment, introduced the concept of the crop loan as a measure for implementing the policy of financing of creditworthy borrowers and continuously elaborated and implemented it in larger and larger spheres. It can be claimed without exaggeration that the later programme of action evolved by the Rural Credit Survey Committee of the Reserve Bank of India for development of Indian co-operation was based on experience of the Bombay Provincial Co-operative Bank during the years 1948 to 1953. Another extremely important step taken by the Bombay apex bank was to establish District Central Banks in every District where they did not then exist. This was considered a bold step at the time because many thought that District leaders would not command sufficient confidence locally and could not be entrusted with the running of these

organisations. The results have proved how these fears were false and how, in fact, the establishment of District Central Banks was a necessary step forward in the development of co-operative organisation.

Another notable development in Maharashtra Co-operation that took place soon after independence was the experiment with the establishment of sugar co-operatives. It was fortunate that the first Sugar Co-operative established for itself, through a series of small steps, a pattern of organisation and procedures of work which were well adapted to the situation in rural Maharashtra and which, therefore, afforded a model which could be readily copied in other areas. These developments gave a confidence and strength to the Maharashtra movement which made it possible for it to progress very rapidly indeed after 1955-56. One of the most notable achievements of the last decade has been the rapid development of Land Development Banking. Land Mortgage Banks had progressed rapidly in the Southern States but had not done well in Maharashtra. Under the leadership of Shri Bhau Saheb Hire, Land Development banking underwent a transformation and the new idea of rural debenture was successfully established very quickly. Land Development banking in Maharashtra has since progressed so well that Maharashtra counts among the leading States in this respect today. The strength of co-operative was exemplified in another way by the rapidity with which it was able to absorb new areas and lead the transformation in them. The most notable instance was the progress recorded in the Marathwada districts in the field of banking, marketing and processing during the decade after 1956. The ability of the Apex Co-operative Bank to lend trained hands to Marathwada institutions was an important factor in this.

The integrated character of the co-operative organisation was continuously emphasised by their well-knit leadership. The Apex Bank established an Industrial Commission which has been a pioneer in undertaking such large new experiments as the Sangli Groundnut Complex or the Kolhapur Co-operative Engineering Society. It also helped the Federal Marketing Society in the very large venture which it undertook in recent years. The successful carrying out of monopoly procurement over the whole State by Maharashtra State Marketing Federation has been a notable achievement of Maharashtra Co-operators. One of the principles established in this experiment was the wholly integrated character of the co-operative sector. The integration was both vertical and horizontal. Vertically, at the top it was the State Marketing Federation Society that took the entire responsibility of all procurement operations throughout the State. But the actual work was carried through the agencies of the local co-operatives at the Taluka and Primary levels. The horizontal integra-

tion was seen in the part played by the Apex Co-operative Bank and the District Banks in the financing of these vast operations. This integrated character has been kept up and developed through the device of Annual Conferences. These began first as conferences of District Bank Chairman and Managers and the Registrar and his staff for planning the coming year's programmes at the Apex Bank. This was followed by the Land Development Bank and the Marketing Federation having similar conferences. Moreover, not only did the annual conferences in each sector take place simultaneously in Bombay but also joint sessions of all of them were held to discuss common problems. To sum up, that the initiative has always lain with non-official leaders, that they have shown readiness to experiment and have always acted closely together to give strength to each other and maintained the integrated character of the co-operative sector have been the chief characteristics of recent development in Maharashtra. And the leadership that has done this has not been confined to a few at the top but has spread throughout the area, though in varying proportions, and has been available at all levels—the District, the Taluk and the village.

This is not to say that the Maharashtra Co-operative Developments have reached perfection or have not a large number of gaps and blemishes in them. The gaps are obvious in many fields. The coverage of marketing both in areas and commodities is not yet full. The linkage of marketing with credit is not everywhere established. Banking, both short-term and development, does not yet reach the weaker strata in rural society. Developments of processing, apart from those in sugar and perhaps in cotton are yet to grow. The consumer movement is yet undeveloped. Also, with rapid growth and some prosperity a number of defects have crept in. The old standards of integrity and rectitude are not observed in all cases and the spirit of co-operating with organisations in other fields or with common organisations in the same field is not as evident as it should be. But these are essentially defects that flow out of rapid developments and affluence. It is hoped that with the strong traditions that Maharashtra Co-operative leadership has built up it will be able to deal effectively with these and other problems as they arise.

CO-OPERATIVE TRAINING AND EDUCATION*

I CONFESS that I was confronted with some difficulties in preparing the inaugural address. I recognise that I have been asked to inaugurate the Conference in my capacity as Deputy Chairman of the Planning Commission. I cannot, at the same time, forget that I am Chairman of the Committee for Co-operative Training which has convened this Conference and that, in that capacity, I should begin with welcoming all who have kindly responded to our invitation. I had some difficulty also in deciding upon the subject of the inaugural address. This Conference is composed essentially of experts, most of whom know a great deal more about the subjects to be discussed at the Conference than I do. Instead, therefore, of attempting an inadequate anticipation of later discussion, I decided to provide a background for it. This I attempt through reviewing the past and present situations and pointing to some significant relationships of these to the problems that the Conference will be called upon to discuss.

The programme of education and training for constituents of any sector must be designed in relation to the characteristics of the structure and operation of that sector. The structure and organization of the co-operative sector in India is peculiar in many ways. During British rule, the co-operative movement was initiated and nurtured by officials and developed according to official policy. It has been aptly described as having been a Registrars' Movement. Modern developments may be said to date from reports of two Committees set up in 1945. Forces set in motion after the reports of these Committees were reviewed by the Rural Credit Survey Committee of the Reserve Bank of India and its recommendations became the basis of official policy from 1955 onwards. Even in the Registrars' era there were marked differences in the strength of the movement from State to State and in some of its characteristics. The States that appear to have a fuller co-operative development today were also in the lead in the twenties and thirties. The Bombay and Madras Presidencies and the Punjab had relatively better showing even then. In the Punjab,

* Inaugural speech delivered at the All-India Conference on Co-operative Training and Education, Bangalore, 25th July, 1969.

the Registrars' influence was at the strongest, the strength of the primaries was notable, while non-official leadership at higher levels was not equally strong. The reverse was the case in Bombay and Madras. The non-official leadership at District and State levels, particularly, at the State level was stronger and somewhat self-reliant in these States and the Registrars' influence was not as all pervading as elsewhere. By contrast, the resources and the strength of the primaries were not as impressive as in the Punjab. These historical features are noteworthy because to a large extent their influence is to be seen in the situation as it developed in later years. The hold of the Registrars on the movement has been loosened in the Punjab and strong leadership at the State level has been emerging in recent years, but the main strength of the co-operative structure still is derived from the strength of the Punjab primaries. In Maharashtra, Gujarat and Tamil Nadu the non-official leadership at the State and the District levels has further strengthened itself, and has, in many respects, showed initiative and innovating ability but the primaries in these States still remain relatively weak. On the other hand, in a number of important States even the legislative framework has not changed materially during the last three decades and the Registrars and other officials not only control the operation of co-operative institutions to a large extent but, in many instances, continue formally to be their heads. It happens that the development of co-operative organisations has lagged behind in these States.

The situation as it developed in the pre-independence era has been materially modified during the last twenty years. Firstly, the control of and dependence on official agency of co-operative organisations has been diminished, in a large or small measure, varying from State to State. In part, this has been the result of changes in legislation but, to a larger extent, through changes in attitudes and practice. In particular, where non-official leadership has been vigorous, promotional activity has been substantially taken over by it and the role of the Registrar became mainly that of inspection, audit and supervision. Also, in many instances the staff of co-operative organisations, even in the higher ranks, is no longer taken on loan from the department. However, the transition has taken place unevenly and only in a few States to a significant extent.

During the same period two new features have emerged, both of which are related to the progress of planned economic development of the country. The major change is the adoption by the State of the co-operatives as an agency in plans of development, especially in the rural areas and the acceptance of this position by co-operative leadership. In 1945, this acceptance by co-operatives was not general. The beginning was made with the reorganisation of the co-operative banking system in Bombay for the purpose. Acceptance by Government

of the recommendations of the Rural Credit Survey (R.C.S.) Committee based on Bombay experience completed the change. It also led to the other feature of State partnership in a variety of co-operative organisations. When the State contributed substantially towards share capital of an organisation and gave aid in other ways, its representation on the Board and power to give advice regarding policy had to be accepted. This aspect became even more prominent with co-operatives taking up specific responsibility of carrying out certain objectives of State policy such as, for example, providing credit to all creditworthy agriculturists or procuring grain from cultivators. It may be noted that official direction stemming from the old era of a Registrars' Movement is significantly different from that arising out of State partnership or undertaking responsibilities under the Plan. The latter is fully compatible with a largely self-reliant and autonomous co-operative sector. In actual experience co-operatives as agencies of planned development have proved most successful in States where they are the most self-reliant. At the same time, these developments during the period of planning have certainly led to organisation of the co-operative sector away from the ordinary western voluntaristic model.

Another aspect of the historical development of the co-operative structure in India and its later linking with planning is the organisation in terms of area. As co-operation was initiated as Government policy mainly to deal with problem of agricultural indebtedness, the movement was sought to be established through provincial Governments all over the country. It followed that the organisation of the official agency promoting and supervising the movement was patterned on the established administrative areas of the country from the village to the province. When later, co-operative institutions at the primary level began to come together in unions or higher federations it was natural to adopt for this purpose also the administrative areas. Thus beginning with credit and banking, the area organisations were based on village, tehsil or taluk, the District and the State and this was followed in the other sectors when they developed.

In a sense, linking of co-operative developments with planning has reinforced the earlier trend. The State is concerned with planning and promoting economic development equally in all areas and parts of the country. With co-operatives being adopted as a general agency for development effort the establishment of a co-operative system in all parts becomes incumbent and with, largely centralised planning, the pattern sought to be established becomes uniform over all areas. The consequence which follows the adoption of this approach is the tendency to rely on programmes more or less conceived in the abstract or based on particular experience and to extend them somewhat mechanically all over the country. The programme evolved as a result

of the recommendations of the Rural Credit Survey Committee was, for example, highly practical. However, even that programme was based essentially on experience in a few areas and States and the subsequent somewhat sterile and time-consuming controversy over large and small-sized societies emphasised the widespread tendency to advocate specific models rather than deliberately to encourage experimentation to suit specific areas and circumstances. It is true that in a deliberate effort to force the pace of development some standardisation of approaches becomes inevitable. However, experience emphasises that given acceptance of general objectives and certain values in the application of methods, it would be desirable to encourage adaptability to local situations in order to achieve the best results. Moreover, if we believe in the democratic gospel that dispersed, diversified effort gives greater scope to innovating ability and is in the long run beneficial as to both the quality and pace of progress, it appears necessary to allow for this adequately in all plans. This concept has direct connection with education and training because it underscores the need in training and education to move as far as possible away from the stereotype and to encourage appreciation of particular situations and ability to adjust and to adapt.

The present situation regarding co-operative education and training is closely related to historical developments. Education, according to the definition of original co-operative principles, is an important responsibility of each co-operative organisation. However, as co-operative societies in India were established on official initiative or direction, the acceptance of the obligation to educate those concerned with the operation of the society which happened naturally with promoters of voluntarily formed organizations could not and did not find a place in the Indian structure. Further, because the co-operative structure, till recently, was almost entirely composed of small village primaries with very small resources of their own and the organisations at the District or the State level were also not very strong or self-reliant, the obligation to educate, instead of being accepted as a responsibility of each society towards its members, patrons and officials was watered down to that of making some contribution to a joint educational effort. In common with the general pattern of other development, education and training for co-operatives and co-operators thus became a centrally organised activity which, in some part was financed by contributions of co-operatives and, to a large extent, through official grants. In the circumstances, co-operative education was identified with only some aspects of training and education and neglected other important ones. Training became an activity related to the running of societies and the supervision of the network of these societies by official staff. In a number of instances, a variety of experiments were made in order to give a semblance of

voluntariness and self-help to some of these arrangements for supervision and training. In some cases, there were unions, such as, for audit and, in others, the co-operative unions at the State level formed for purposes of education and training were also entrusted formally with some supervisory functions. In all instances, these devices very thinly concealed the real situation that whether, directly or indirectly, it was official personnel sustained by Government resources which, in the main, ran and supervised the co-operative organisation. Naturally, bulk of effort was spent in training of the staff of the department responsible directly or indirectly for the conduct of societies and their audit inspection or supervision.

At the primary level, the village societies, large majority of which were financially weak, could not afford paid staff. As a result, the intermediate inspecting and supervisory staff which was, directly or indirectly, in Government employ was the most important operative element in the co-operative structure. It was this which was catered for mainly by such training facilities as were made available. Provision was also made in some States for training at a higher *i.e.*, the officer level of the department.

The next step forward came in the early fifties which quickened development of the co-operative banking structure of some States and with the emergence of the Reserve Bank of India as a leader in the field. The Reserve Bank taking over the small collegiate institution started by the Bombay Provincial Co-operative Union, established for the first time a training centre for the supervisory administrative staff. The First Five-Year Plan also made a provision of rupees ten lakhs for development of co-operative training and education. As a result of the acceptance of the recommendations of the Committee of Direction of Rural Credit Survey of the Reserve Bank of India, the beginnings made by the Reserve Bank in which the Central Ministry of Agriculture had earlier begun to collaborate were elaborated in a system which has since grown further. Basically, the system remains as conceived of 15 years ago with a national institute at the top, a number of intermediate colleges and junior centres in the States and District level arrangements for training of the lower staff. Two important developments have to be noticed in this connection. One is the proliferation of a number of short-term specialised courses connected with these institutions in addition to the generalised courses, the other which has so far emerged only in the case of national management institute *viz.*, training for business managers.

These developments have gone hand in hand with developments within the co-operative structure itself. A couple of decades ago, barring some exceptional organisations, the main work of the conduct of co-operative organisation at the higher level was sustained by what was essentially departmental staff. Therefore, training was

oriented towards training of personnel connected with the co-operative department and only in a minor way with employees of co-operative institutions. The main emphasis of the Reserve Bank of India college was on training personnel of the administrative department. This was natural because in most cases the promotional as well as the supervisory aspects were looked after by the administrative personnel, and the conduct of all important institutions was with officers drawn from the same administrative service on deputation for relatively short-terms. Therefore, the training in the recently elaborated structure for the intermediate and supervisory personnel was still concerned with members of staff of administrative departments. Of the total of 9,208 officers trained in the Intermediate Officers' Course upto 1966-67 as many as 7,902 were departmental officers, the corresponding figures for the course in co-operative marketing were 2,251 and 1,857.

A number of consequences followed. Firstly, the extent of specialisation in training could not be carried far. This for two reasons. The staff deputed by a department would not stay for long with a particular organisation or even particular types of organisations. Where in a minority of cases the institutions had begun to depend on their own employees for management services the financial strength of institutions rarely permitted them either to give adequate salaries to attract right kind of persons or to maintain reserves which would enable them to depute persons for training. Therefore, the predominance of departmental or administrative staff in training institutions continued and the extent of specialisation was limited. It is only during the last ten years that in some States there has been sufficient development in the field of banking, marketing and processing and lastly, to some extent in consumer stores which is gradually changing the situation referred to above. There are now, particularly in the co-operative banking structure, a large number of institutions which are in a position to pay fairly adequate salaries and to build up managerial staff of their own. Even so, in a large number of States the practice of borrowing management personnel at the highest level from the department has not ceased even though the institutions could afford to build their own service.

It is interesting, in this connection, to notice that the Rural Credit Survey Report contains a recommendation that State Governments should institute a co-operative technical service of specialised staff who could be deputed to serve in institutions above the rural base. At the time the Rural Credit Survey Committee reported, it did not appear feasible that organisations in the co-operative sector would build up their own cadres. The Committee also realised that generalist administrators of the departments would not be able to cope with

the special problems of management that would arise with development of varied co-operative activity contemplated by the Committee. The suggestion was, therefore, made that as Government still has to supply managerial personnel, it should build up cadres of specialised managers for different types of activity. To my knowledge, this suggestion was not accepted by any State.

Of recent years, it has been suggested that Apex institutions in each sector should organise State cadres for management personnel at various levels in co-operative institutions in that sector. The National Co-operative Development Corporation has expressed willingness to give special assistance in cases where efforts are made in this direction in any sector in a State. Even this concept, however, has not yet caught on. Some difficulties are experienced in obtaining general acceptance of the concept of a cadre or pool of officers of this type, in any co-operative sector. The difficulties arise chiefly from the independent operation of each individual institution at particular levels. The district institutions, for example, are apt to have suspicions regarding limitations on their independence arising out of having key management personnel of their institutions belonging to a cadre which is under control of the apex. Experience has shown that institutions are often much more willing to borrow officers belonging to the service of the apex institution even for long terms as managers or accountants but not willing to enter into a permanent arrangement of a cadre type. Whatever that be, in all States where co-operative institutions have grown in size and variety, it is necessary to provide for management personnel on a more satisfactory basis either jointly through a cadre or through a pool of loanable officers maintained by the apex. Training in the future would then have to look more to those managing specialised co-operative business institutions rather than to administrative personnel shuttling to and fro between administrative jobs and jobs as manager on deputation. This is not to suggest that for a long time to come, administrative officers will not continue to have importance or that they may not require training or serve as managers. It would, in fact, be always useful to give officers some experience of work as managers of co-operative business institutions. Only the present distribution must change and emphasis shifted to training management personnel of co-operative business institutions.

So far attention has been confined to aspects of co-operative training. This is because for the major part it is only co-operative training for which mainly arrangements are made in India. Education, properly so called, is more concerned not with the employees and management personnel of co-operative societies but with members and the general public. This essential aspect of co-operative education

which is at the centre of effort in most countries has so far been almost completely neglected in India, and even such effort made does not appear to have been fully thought out. In most countries, co-operative education is a responsibility of each society towards its members to be discharged directly by the society itself. In India, because the societies were not in origin voluntaristic organisations, co-operative education was identified with co-operative propaganda of official or honorary organisers for persuading people to become members of a society. From time to time, some effort has been made for education of members of managing committees or even of the body of members at large in some instances. In recent years, a programme of membership education has been more elaborately planned. It seems to me, however, that the matter requires thinking as regards both objectives and methods. We should be clear in our minds as to why we desire to undertake education of members of co-operatives. It has been often pointed out that a co-operative organisation has a dual role to play. It is a business organisation. At the same time, it is an organisation which avows a social philosophy and serves a social purpose. Training for the efficient conduct of business is a matter primarily for employees and managers. There is no doubt that members also should know — be aware of — some implications of efficient conduct of business. In early co-operative principles, for example, cash trading was elevated to the rank of primary co-operative principle as in the early struggling consumer co-operative movement this was essential discipline to be accepted by members. It is obvious, however, that the education of members has to be oriented to different objectives and aims. Members have to become aware of the needed discipline for the efficient conduct of the co-operative business organisation but they have to be, even more importantly, made aware of the social objectives and purposes of co-operative organisations and the pattern of behaviour expected of members so that their organisations adequately fulfil the social purpose. It appears that such education of members can appropriately be carried out only, or at least chiefly, in the context of the actual operation of their organisation and that the place of such applied teaching cannot be taken by teaching of abstract co-operative principles. There is no doubt that in the very long run co-operatives believe that an efficiently run co-operative organisation will secure optimum results for all concerned. It is where, however, the long run operations of the organisation as a whole and the short-term interest of individual members appear to be in conflict that the need for education is specially important. Take for example, the oft discussed concept of loyalty. Conflicts in relation to loyalty arise when the immediate interest of an individual appears to suffer from following a pattern of behaviour which being member of a society enjoins on him. This can happen in

a variety of contexts. The commission agent may, in particular instances, appear to offer easier terms and higher prices. A commercial bank may offer softer loans. In a particular year, making gur instead of selling sugar-cane to the co-operative factory may appear advantageous. In each such instance, the direction of educative effort is obvious. It has to point to the long-run effects of the absence of the co-operative group and organisation. It has to emphasise the totality of gains in transactions with a society over a number of years as against the terms and conditions of a specific type of bargain at a point of time. It is only when such education in a concrete manner is undertaken, preferably by the society itself, on appropriate occasions, that co-operative education may become effective and meaningful.

Or take another aspect. The emphasis of the co-operative agency on looking specially after the interests of the weaker members. The need for looking specially after the weaker members within a co-operative group arises from the concept of group solidarity and welfare. Co-operation is a form of organisation adopted by those who believe in the social and economic advantages of mutual effort and this implies an obligation on those who are relatively well-off within the group to assist specially those not so well-off by adjustment of policies and procedures within the co-operative activity. Co-operative effort has no meaning if individual members are not prepared to give weight to considerations of group solidarity and welfare.

Open membership acquires a special significance in the context of Indian planning. When the State entrusts the responsibility of carrying out a certain policy e.g., that of providing credit to all within a given category to the co-operatives, the co-operative agency has the obligation to serve all falling within that category. The co-operative cannot then exercise the right to exclude people from membership at will. It is in this context that factionalism in the operation of co-operatives in India is specially undesirable. For, it brings into question the claim of co-operatives to serve as instruments of national economic policy.

The claim of co-operatives has important implications not only for behaviour and policies of individual members and societies but also for relationships between different sectors of co-operative activity. A programme of fully co-operativising the rural economy can be implemented only through establishment of close relationship between various sectors such as productive, credit, marketing and processing. As the draft Fourth Plan points out the co-operatives can play an important role in price stabilisation if the co-operative marketing and co-operative distributive system works in close co-ordination. I consider it to be the main function of co-operative education to bring out fully all such implications of the existing situation and future

planned developments and see that they are understood by members and leaders of co-operatives at various levels and influence their behaviour and operations. Such educative effort will have to be undertaken at various levels in an integrated manner. There is increasing awareness that the co-operatives must work together as a system; and the planning of educational effort should help progress in this direction. In this context it may be useful to draw attention to the following paragraph of the draft Fourth Plan (1969-74.)

“Co-operatives have been recognised as appropriate agencies of national policy as their operations are expected to be informed with a social purpose. It is important to ensure that co-operative organisations fully recognise this responsibility. It has atleast two important aspects. First is that of functioning as democratic organisations and the second that of specially attending to the needs of the weaker among their members. The first can be and is in part ensured through provisions embodied in the constitution of organisations and through insisting on open membership. The second is a matter of policy and procedures. These are often found inappropriate. It is part of the responsibility of the federal units in the co-operative system to look to these aspects and supply correctives where necessary. If they fail in this, Government may have to intervene.”

It is not my intention to enter into a discussion of how to meet the requirements set out above. My aim was to draw attention to two aspects which I consider very important in this context; firstly the need of thinking out fully the objectives of co-operative education and secondly, to urge that this be undertaken as far as possible by the societies themselves and carried out in the context of their actual operation.

I assume that the ultimate aim of co-operators in India is to build up an integrated system which fully covers all aspects of at least the rural economy and which is recognised within its sphere as the chief agency of national socio-economic policy; we also desire that such a system, while working under an appropriate legislative framework and subserving policies endorsed by the people, will yet be essentially self-reliant and autonomous. All our plans of training and education must be oriented towards this goal. As of today, we are nowhere near the objective even in any one State and as to educational effort, we are still woefully dependent on support of the State. Notionally, co-operative organisations run educational institutions but abject financial dependence is incompatible with significant degree of autonomy and we must strive continuously to reach much greater financial self-reliance in this effort.

My main purpose in describing at some length the evolution of the co-operative structure and its present uneven development was to

highlight the dilemma that faces planners of co-operative education and training. I have just suggested that we must plan for a future which is nowhere near attainment today. The dilemma is this; while the planning effort is necessarily oriented to the future, present activity must have some relevance to the present situation. I have drawn attention to three types of broad situations above.

In the first instance, there are States in which, for the major part, co-operative institutions are undeveloped and the organisational structure is still fully dominated by officials. In these conditions, the initial problem is to bring about a change in organisation and structure. The rehabilitation of the primaries, the adoption of a viable base so that at least a fair number of primaries are able to afford paid secretaries, is the first step. Side by side, the District banks must undertake supervisory functions through own staff and establish a living connection with the revitalised primaries. As long as the existing situation continues, training activity in these States will remain confined to the training of administrative personnel and management cannot become specialised and one cannot hope for self-sustained, self-initiated movement of diverse types of co-operative institutions of any size. The other situation is an intermediate situation where the co-operative institutions at the primary level are not completely bound down and there is considerable growth at the district and apex levels but dependence still continues on deputed departmental officers for important managerial posts. Here the next step needed is that for the institutions even at some risk to begin building up their own managerial service. In this connection, the concept of cadre becomes important because ability of an individual isolated institution to attract the right kind of men, is limited. The formation of pool or cadre of one sort or another thus becomes an essential element in the transition to greater self-reliance in relation to management personnel of co-operative institutions. This is also a requirement of the third stage. In this type of situation, you have a considerably varied development of strong co-operative organisations who have recruited their own managerial staff and depend little, if at all, on borrowed departmental personnel.

It is mainly in the last type that the transition to specialised training of employees of co-operatives at various levels, including the top management, can be thought of and attempts made to tackle problems of co-operative education discussed above. However, any all-India system must serve all States. Thus, while some forward looking developments have to be made urgently, adequate attention must be paid to requirements of the older types. Education and training cannot thus be thought of in isolation but has to be related to programmes of development of the co-operative structure itself. While it must

be recognised that the situation is mixed, the approach must be dynamic; so that training and education while catering for all can act also as important influences in transforming the situation in the desired directions.

I have great pleasure in inaugurating this All India Conference on Co-operative Training and Education.

VALEDICTORY ADDRESS AT THE SPECIAL PROGRAMME FOR UNIVERSITY TEACHERS IN CO-OPERATION*

Friends,

As the Director has just said it is not unusual for me to be with the members of the faculty and participants in course of this Institute. As a matter of fact, it has, I suppose, become somewhat of a six-monthly routine. So I shall not say the usual things expected about welcome and in a sense I technically challenge the right of the Director to welcome me here! Therefore, without wasting more time, I shall go on to do what the Director has asked me to do i.e., to place a few thoughts before you in relation to Co-operation as a field of academic study in India.

I am addressing participants in a course on teaching co-operation, a course in which the participants are academicians themselves and can consider co-operation as a branch of the broad field of social science studies. What in fact is Co-operation? What do we want to teach about it? This could be best answered by referring to what special features co-operative activity or if I am to use a more generalised term the "Co-operative System" exhibits.

To this the usual answer is made by referring to the co-operative principles. We have the Rochdale Principles, we have the reformulation of the principles very recently by an International Commission. I begin by suggesting that in the present context and especially in the Indian context, this is not adequate. That the reference to principles as originally formulated or as reformulated, does not really give enough guidance as to the nature of the phenomena that you want to study and that, in the developing Indian context in particular, you want to look a little more closely into the matter. For example, do these principles exhibit the structure and the organisation or are they anything more than operational directives? Some of them are no more than rules of business, some are rules or indications regarding activities that could be undertaken, some relate to the manner in which the organisation could be conducted. On close examination you will find they are (a) operational and (b) related essentially to an individual organisation.

* Delivered at Poona on the 6th November, 1969, and published in *Co-operative Information Bulletin*, Vaikunth Mehta National Institute of Co-operative Management, Poona, January, 1970, pp. 3-6.

It is true that the pioneers of co-operation in the era particularly before 1848 were thinking in terms of revolutionising society. However, this was no more than a vague and distant ideal; they were thinking immediately only in terms of forming a co-operative shop or artisans' group. At this early stage no attempt could be made to give the aspiration anything like a concrete shape. And later it happened in European Co-operation that the greater the success in the spread of movement, the less became the height of the aspiration and the less was the intensity of what you might call theoretical formulation. Even if we consider the areas where co-operation had largest successes, where the coverage by co-operation had been considerable, or it had played a large part in the economy, even there we find that the practical success had not led to what you might call larger visions or to philosophizing.

I will give you, as illustrations, two or three instances. Perhaps more than anywhere else the rural economy is completely co-operativised in Japan in terms of production credit, in terms of marketing, in terms of rural distribution. The accomplishment of this has not led to any distinctive definition of socio-economic characteristics of co-operative organisation or of the pattern of co-operative behaviour and even more curiously for Japan, it has not led to the entry of the rural co-operatives with their large funds into the other sectors of the economy. So that, there has been no thinking of a larger coverage by co-operatives, a larger impregnation of economic life by essentially co-operative practices or approach. In Israel again you have co-operation covering a very large part not only of the rural economy but a very considerable part of industry especially artisans and you have, the new departure of building, contracting activities on something like a national scale. Here the peculiarity is that the developments in fact make you wonder whether they are co-operatives strictly speaking. The Israelies themselves call it not "co-operative economy" but "labour economy"; because it is really the trade union organisations, calling themselves co-operatives in another context, that conduct most of these activities. Still further, in Yugoslavia you have perhaps a bolder experimentation in relation to labour participation in co-operation than elsewhere. But that experimentation was dependent on the initial nationalisation and socialisation of all the means of production and co-operativisation was merely the form given to the manner in which these nationalised means of production were exploited by formation of separate trust units. In Western Europe, few look at any theory which seeks to cover co-operative activity as a whole and the only general formulation you will find, is the one stemming from the pioneer era of consumer co-operation. This is the contention that the consumer co-operative form takes precedence over all others and is the directing interest and motive

force in bringing about a social and economic transformation. Even this concept, however, was never worked out fully or pursued concretely.

In a sense what has happened in Western Europe is natural; there is lack of interest in philosophizing because co-operation has been looked upon as a specialised form of economic organisation within a total private capitalistic economy. It is recognised that advantages flow in terms of co-operative organisation in certain sectors and activities and in relation to those sectors and activities co-operative organisation is advocated and established. But there is no deliberate intent even to think in terms of social transformation through continuously widening co-operative activity.

You will note that I am stating implicitly that in India, when we are thinking of the place of Co-operation in our social and economic life, we are thinking in terms of social transformation. We think of co-operativisation and when we think of the extension of co-operative activity we are in fact thinking in terms of considerable economic changes. In fact there is a greater coverage of various forms of co-operative activity simultaneously in India and greater attempt to cover every kind of activity and a greater theoretical integration of those activities than perhaps anywhere else. This makes it necessary to give attention to this problem of what is it that we find characteristic of the co-operative approach, the co-operative type of socio-economic organisation and how and in what terms we can project its possibilities in the future.

We usually distinguish between the co-operative and the public and the private sector. I want it to be noted that in fact there is no differentiation, so to say between the co-operative and the private sectors. In a mixed economy, co-operation assumes the pre-existence of the private sector. It is the private households, private establishments, private workers, private farmers that come together in co-operative organisations. In fact without independent private entities in operation, there would be no co-operative organisation at all. Because there are these farmers, independent artisans, transport workers or whoever you have, because all these want to organise themselves for pursuit of particular economic activities that they join in and form the co-operatives. If you want to distinguish, this should be done not as between the co-operative and private in general but as between the corporate private and the corporate co-operative. The co-operative is a corporate form of organisation of private individuals or entrepreneurs or labourers and so on. In presenting national income accounts we distinguish between the unincorporated businesses and the corporate business. It is the unincorporated that constitutes the individualistic private sector. Some of these individualistic units may organise themselves into co-operatives. So

co-operation is a form of corporate organisation. What distinguishes it from the other forms of corporate organisations is that co-operative corporate organisations can theoretically be themselves considered as being integrated into a system. In private corporate organisation each individual corporation is a separate entity. They may be interlinked through alliances, mergers, understandings or they may for certain purposes join together into associations but basically each unit or corporation remains independent. On the other hand, co-operative businesses can be organised together in one wholly integrated system. You can think of a system in which is included every co-operative activity; the primaries are first federalised for each sector and then the federated sectors are joined together in an integrated co-operative net work.

This feature of a possible integration of all co-operative organisations into a system makes it necessary to examine co-operative activity from two points of view. The usual way of looking at co-operative activity is that in relation to an individual corporate organisation. This is important particularly at the level of the primary organisation. But when you begin to think of the operation of an organisation at a federal secondary level or apex level, you will find that the considerations bearing on these operations have become complex because of the federal structure. Here you have to pay attention to characteristics or requirements not only of the individual organisation but also of the system. Thus in a system of co-operative banking and credit the apex bank in a State cannot be looked on as an individual organisation pursuing its own ends but will also have to be thought of as the head of a system of credit and banking whose needs it must satisfy and to whom it must provide leadership. Thus, when you go on to think of the co-operative system, the problems of operation of organisation in the federal link become much more complex than those of a single unit of economic operation. And for a large number of problems it is much more important to know how the system as a whole will operate. This means that your approach to the study of co-operative operations will have to be different from that to the study of free market units.

I may next draw your attention to some points in relation to operation of co-operative organisations and of co-operative principles. The need of giving attention to sociological or administrative factors is now felt even in studying problems connected with the management of private enterprise. There is considerable literature on how managers behave. Careful study is now made of considerations other than those of simple economic optimisation. The corporate structure is taken into account and the socio-economic urges or compulsions arising out of the manner in which managers are appointed and promoted are given importance. The approach that is appropriate to the

study of management of private corporations is even more relevant to the study of the operation of co-operatives. In the case of even a single primary organisation such as a co-operative processing factory the objectives are varied and thinking in terms of simple economic optimisation would mislead. A multiplicity of economic aims may be in view and a number of social objectives also. The co-operative structure and its operations have their peculiarities and sociological considerations acquire weight in a study of operations and inter-relations of members, the Boards of Directors, the technical staff, workers etc. This is a field which has been little cultivated so far.

Another point that you might well consider in some depth is the concept of economic democracy as incorporated in co-operative organisations. The concept of economic democracy is expressed in co-operative principles through the rule 'one man one vote'. This rule operating in a primary organisation does away with the differentiation between the rich and the poor and the strong and the weak. However, you have to look into its possible reactions in two ways. Firstly, what are the implications of the rule for the composition of a co-operative organisation. It is often said that the larger and the richer farmers do not become members of a primary credit society because they think that their needs will not be well served. I remember in the early days of formation of co-operative sugar factories in Maharashtra we had to do some unorthodox things in order to overcome the fear arising out of the 'one man one vote' rule amongst the most substantial farmers. Therefore, at one level of operation it may well happen that the 'one man one vote' rule keeps away some elements from joining the co-operatives. Even in a country like England membership of consumer stores has not spread beyond a certain class. The 'one man one vote' rule also comes up with other problems, especially where you want to get organisations from different sectors joining together or different types of members in one organisation. For example, there is the problem of making labourers in a co-operative sugar factory members of the factory. The sugarcane farmers who have brought the factory into being are naturally apprehensive of the results of open membership for labourers whose numbers may be very large. In the same way when two different types of organisations join together the joint bodies of management they set up cannot be organised on the simple economic democracy principle. The set-up has necessarily to be a matter of negotiation and agreement.

As arising out of this, there is the other question of the importance of capital as a resource. In the case of a small primary organisation like a shop, the emphasis is on low cost operation and sharing of surplus rather than on capital formation. But as you go on increasing in size and complexity in co-operative organisations, the need to build

up capital resources becomes urgent. A longer time span, say 5 years or 20 years, has to be taken into account and the service charges or pricing has to pay attention to the needs of capital formation. Does it then happen that co-operative principles make any difference to the schemes of capitalisation or capital accumulation that the co-operatives will have to devise? Ignoring the importance of capital is thus only a directive for type of business behaviour in the original small primary organisations and cannot be considered as a principal characteristic of the co-operative system.

I will end by referring to the problems of weaker sections of the community. We always say that Co-operation is prescribed largely for the weaker sections. It is usually the weak that combine together to form a co-operative. Each primary co-operative organisation is an organisation of its members so that within members the stronger exercise some restraint on their own demands, so that the organisation is able to serve the weak also. But I wonder whether a co-operative society can legitimately spend its resources on a purpose which is not within its byelaws just to serve the cause of the poor and the weak. It is an organisation for certain category of people whose needs it seeks to serve. But if we think of Co-operation as a means of providing economic welfare of the weaker sections of the community, we will have surely to think in terms of the federal units at higher level and of the system as a whole. In the context of planned economy, it is the business of the Co-operatives to do something for the weak. We are talking here of Co-operation as an instrument of planned economy. So long as we are thinking of Co-operation in terms of primary level or separate units we do not go far enough. We have to think in terms of the Co-operative System, in terms of social responsibility, in terms of redistribution ultimately of the gains and profits within the total system. Thus there is considerable need for modification of the older ideas and for thinking in terms not of the unit merely at the organisational level but of the possibilities of the system as a whole. It is only when we do so, we shall be able to fulfil all sorts of expectations that have been aroused by the progress of Co-operation. We have to think and decide how best the co-operative system can achieve the larger goals.

I am sure I shall get considerable amount of help from my younger colleagues in the Universities in the solution of these problems.

VALEDICTORY ADDRESS DELIVERED AT THE CONFERENCE
OF THE CHAIRMEN AND CHIEF EXECUTIVE OFFICERS OF
THE STATE CO-OPERATIVE MARKETING FEDERATIONS*

Mr. Chairman and Friends,

I CONSIDER attending a meeting of co-operatives as not so much a task but almost as a sort of relief from the other type of work that I am doing. I like going back to the type of pursuits that I had been used to all the time before the thread was broken by my last 2½ years' official assignment. So, when I was asked to talk here this evening I agreed in spite of indifferent health though I said I would not be able to talk for a long time.

The question arose before me of the subject that I could talk about, I have been given the papers which had been circulated as the agenda for this conference and therefore knew the subjects that you may discuss. To treat those subjects either in some detail or in some important aspects in a short talk would, I thought, be difficult because you would have been discussing them in this conference for a couple of days and all the participants have given so much thought to them that it was very unlikely that I would be able to say in a short space of time anything that would be useful to you. Furthermore, on one of the crucial questions there were incorporated in your agenda my views which I had an opportunity of expressing earlier in a more direct manner. There was no point in trying to repeat them. I would, therefore, speak on the general situation as co-operators face it in the total socio-economic context of the country and what appears to me to be the deeper problems to which co-operative leaders such as those assembled round the table today should address themselves.

I suppose, everybody would agree that co-operators and co-operative organisations find themselves in a rather peculiar position today. In some ways, it is quite a critical situation. It arises out of both our achievements and our failings. In those areas where co-operation has not been able to establish a firm primary or local base, its effectiveness as an instrument of planned development is challenged, and there is naturally a great deal of criticism. There is great deal of scepticism about the attempt to continue with the Government policy declaring co-operation as the agency in general for achieving develop-

* Delivered on 18th April, 1970, at New Delhi, and published in *The Maharashtra Co-operative Quarterly*, July, 1970, pp. 1-6.

ment. But even in areas where it has succeeded, the very success has brought forth public reactions of a variety of types. One of them of these being that co-operation has not been able to give direction to social movements of the type that might be expected from it. That is, whereas co-operation has succeeded among those strata who have benefited from the general development programmes, co-operative activity has not been able to lift up those for whom the general development programmes of Government assistance were not suitable or whom they did not reach. Now this is a challenge to which you can react in a number of ways. I remember in an earlier setting when co-operators and officials at the co-operative level, were considering co-operation as an instrument of helping the weaker sections. In my capacity as holder of offices in many co-operative institutions, I insisted that co-operation could be an instrument of helping Government policy but in areas where Government policy itself did not help the weaker sections or had not started development plans for the weaker sections, co-operatives could not accomplish the work. Co-operatives have not the resources or personnel for the needed research, money and material to bring about a transformation that even official policy had failed to bring about. I still maintain this position. I consider that bringing about an elimination of disparity in growth and inequalities is primarily a function of planned development. In this, however, the planners and the officials can legitimately expect the co-operators to play a part, i.e., they should be able to rely more on the co-operative sector accepting voluntarily social aims and being able to curb their desire for profits and put a part of their resources in achieving social aims. That they would do it more than the private sector is a legitimate expectation; but that co-operatives by themselves would be able to bring a transformation is, I think, too much to expect. But this is a digression. I have merely to point out that our situation is critical.

We are under attack in those cases where we were successful because we have not covered the whole ground. Where we have not been successful, the nature of attack is obvious. Further developments, which are more recent, also increase our difficulties, e.g., the nationalisation of the banking sector to a large extent and general extension of public sector in trading and other spheres. This is an appropriate trend for which there is general backing of the people at large. Only it creates some difficulties of adjustment for the co-operators. Vis-a-vis the private sector, the co-operators had asked for protection sometimes. They ask for preferences sometimes. Also when there are questions of collaboration, i.e., co-operatives working in the same field with the private sector organisations, it is possible for co-operators to suggest that safeguards are necessary in such joint effort as they are working under officially inspired rules. When the same

thing happens, let us say with the public sector agencies or the governmental departments or autonomous corporations set up officially or let us say nationalised banks, the position gets changed. Quite obviously, it would be said that these are as much public controlled as any other organisation and they are being developed in terms of policy by public decisions. At the same time, as we found when discussing the extremely intricate problems of joining together co-operative effort with the work of the nationalised banks, you cannot possibly ignore a set of problems that arise out of (1) the general structural and organisational private sector base of these banks and (2) the large difference in areas and modes of operation. A number of problems come in. I am saying, in effect, that the situation of the co-operator is slightly worsening in this context because he cannot expect to get, automatically, from the Government and officials, the sympathy that he could expect when he was complaining against the private sector.

The next point in relation to this critical situation to which I draw attention is that if we really have to retain the position and continue with the progress that we have made during the last 15 or 20 years, we must pay much more attention than we have paid so far to a total progressive effort. The total effort, in my opinion, is important. Why I say this is because I believe that the position of co-operation in the Indian context is extremely peculiar. There are very few parallels in other countries to this position and there is, barring the working of individual organisations, very little that we can learn either from the thinking or working of co-operatives in other countries. The two main aspects of the peculiarity of Indian co-operation are that on the one hand co-operation is looked upon as the co-operative organisation of society and as an ultimate socio-economic aim. This you will find not done in any other country. Japan has one of the widest and most integrated rural co-operative systems but the Japanese never talk of co-operative aims and co-operative ideology in the manner we talk about them. Israel has, in another context, a highly co-operative system. The Israelis do not talk in the way we talk about co-operative commonwealths, about co-operative society, whatever it is, so this is a very peculiar feature. That there is an enormous agreement in India amongst all public parties and opinion leaders that a co-operative form of organisation is specially suited to our circumstances and possibly to our genius, is almost taken for granted. This being taken for granted, there is the other expectation which is the operative expectation that the co-operative organisation will in fact serve as the agency of transformation, that they will be efficient development agencies and by their speed, a long-term socio-economic transformation will come about. This, you will see, places co-operatives and co-operators in a special, if you may call it, in a privileged position. If

you so term it, it is also a very difficult position because what is expected of them frankly if I may say so, is much beyond their present powers; and yet the expectation is there, and the peculiarity of the situation is this that in spite of the experience of the last 15 years, in spite of the clear recognition that over large parts of the country, over large areas, co-operative prescriptions and programmes have almost failed, you will find, in socio-economic thinking today, no alternative to co-operatives.

When we wrote the Rural Credit Survey Committee Report in 1954, we found that only 30% of total rural borrowing was from co-operatives. If co-operation which had subsisted for 50 years, had done so little, we in India had to confess that co-operation had failed and yet co-operation was the only hope. Few disagree with this. Take the latest report on rural credit which talks of a multi-agency approach. You will find the proposals are essentially transitional. The report does not think in terms of other agencies, as all being necessarily rooted in rural society and subsisting for all times. There is no new multi-agency amalgam of political, social or economic structure that is being prescribed. Multi-agency, as before, is a transitional arrangement helping to make the transition to a fuller co-operativisation possible. So the co-operators have really to think out the future in this context. To some extent, they may derive comfort from the fact that no alternatives can be seen. So the general aim of co-operativisation will persist. However, unless they really do something and prove that this particular belief, faith, you may so call it, of Indian leaders and the public in co-operation is increasingly justified, it may be too much to expect that it will last for all time.

What you have to do is really to think in terms of a system. That is what I call the peculiarity of the Indian situation. In all other countries, the thinking is about individual co-operative organisations. Your principles are thought about as how to work individual co-operative societies. There is no real deep thinking in either organisational, the operational or the theoretical problems of co-operation when it embraces a society. In the Indian context when you are expected to cover the whole of rural society with a co-operative network, it is not as much the organisational problems of the individual society, it is the organisational, operational and theoretical problems of the total structure, what I call a system, that are important. Unless we build a co-operative system which is viable and operational, successfully, we cannot match the national expectations. We have to do this and we have to concentrate our attention on doing this. And in doing this, therefore, we have to think in terms of the effort that is necessary which must be national and also cover all sectors of rural economic life. I am deliberately saying rural economic life because the expectations in urban areas are not much and the prospect is less

hopeful than in rural areas. Unless you are able to cover all sectors of rural life, unless you are able to show significant results in all parts of the country, this will not help. I emphasise all parts of the country. When you are talking in terms of official policy, you have to look to the country as a whole. In the earlier days we could live on hopes. But if for 15 years after the launching of an integrated co-operative policy there is not success in many parts of the country you have to meet the argument. "It may have succeeded in, say, Maharashtra, but it does not elsewhere". You are just helpless against an argument of that sort. This is something that has to be proved on the ground in all parts and unless we are able to prove on the ground, we shall not be able really to convince.

The essentials of what I call a system are really its possibility of working in an integrated fashion at all centres and at all levels. One of the first times I concretised the notion of the co-operative system was when I was discussing with the Chief Minister and some other Ministers of Maharashtra the early evolution of monopoly procurement system. Even though I had nothing to do with the State Marketing Federation and was merely participating as an economist and as an important person in the co-operatives, I emphasised that if an integrated monopoly procurement system has to succeed, then you must entrust the co-operators as a whole and the co-operators must build an integrated system. I said that if you really entrusted it to a co-operative system, then it should be possible for the Maharashtra Co-operative Bank to raise the resources required. The Bank will not come to the Government if finance is required to be raised for the purpose. Then the marketing and the credit systems worked together and pay offices were opened near and facilities were made available at purchasing points and accounting was done in both ways, to achieve prompt payment, satisfactory accounting, etc. If it is a system, all the sectors must come together. In a system, federal problems must also be worked out. We must insist that the monopolist, in this case the State Marketing Federation in the marketing system, must allow the lower units to share the profits to the largest extent possible. The Marketing Federation should keep its share as low as possible so that the small units get the largest benefit and the federation chooses its representatives from the primary societies and gives all training and all help. This is concretisation of the working of the system. In the large, a system has more complexities than illustrated above. It will become necessary to work out the details in each context. However, what I feel to be the crux of the matter is the attitude, the attitude appropriate to working a co-operative organisation in a co-operative system.

The attitude appropriate to private sector operation is that of individualistic aggressiveness. Each individual is aggressive, each unit

of organisation is aggressive. You go on thinking of dominating the field and the bigger you are, the more profits you have, the more successful you are considered. On the other hand, you cannot work a co-operative system unless you consider the interests of others equally as of yourself, of the other members of the system or the organisations at various levels or in various sectors. So if you are the federal apex, you must look to the interest of the primaries as much as of your own. If you are federal apex talking to another federal apex, then both the sectors should have equal opportunity of playing their part. Now this I am afraid is not clear today. We have to be able to make much more general the attitudes that are appropriate to a successful working of a co-operative system. The Maharashtra State Co-operative Bank, right from the beginning, had followed the practice of not raising the dividend whatever their profits were. I remember of pressures, with district banks as the main shareholders, to raise the dividend when the profits were high. But at the same time the Maharashtra State Co-operative Bank utilised its reserves and resources for promoting and conserving co-operative effort at all levels so that the shareholders and the credit organisations realised that the higher resources of the Bank were being utilised for the benefit of the whole system.

I would like the leaders to give much more attention than has been possible so far to this basic problem of building up a viable co-operative system of rural economy all over the country and what it involves in terms of practical operations. I am essentially an academician and teacher but there is I hope also enough practical experience to my credit. I go all along with pragmatism but with pragmatism which is governed by formulation of general guidelines based on principles; in the absence of an appropriate appreciation of future direction mere pragmatism may lead you anywhere.

Non-official Leadership

The last point to which I would draw your attention is still the very great paucity in India in most areas of real leadership both at the local and national levels. Unless we are able to bring into existence leadership of very much greater size and improved quality, we shall not go very far in the direction which I am pointing out. This is important because there is overdependence on official innovation and official direction in areas where local leadership is not available which means practically in most States. Apart from the attitude of the individual official it is really too much to expect from the officials who are holders of temporary positions and who are anonymous a fully responsible long-term view. If a non-official has been Chairman for some time, he is often held responsible even in future years for what

happens to the organisation. I have been blamed for failure of a concern which failed years after I ceased to be the Chairman. I do not complain because on balance one often gets credit for the things you have not done. On the ordinary non-official worker, there is this pressure of public comment or censure, if he is responsible. There is this pressure and there is also the desire to maintain continuity. Such forces cannot operate on the transitory officer.

We should take to heart very much the lesson of the failure of the effort in 1965 at building the consumer movement in this country. This was done overnight. This was completely at the official level. This was done in spite of the fact that people like me went on saying that this was not essentially co-operative and would prove inoperative. Today the co-operators are getting all the discredit for the consumer movement's failure. Officials who put up the whole show are not there. Most probably, they got good confidential remarks at that time. But remember, this official innovation, official promotion is inevitable, unless you take its place. If there are no people to take the place of the officials, the officials must shoulder the burden.

There is today a crisis. Something has to be done about it. Existing co-operative organisation and thought cannot serve our purpose. We must put forth the type of leadership, the type of thinking and also determine the direction which we really want in the future. I am afraid that unless we do this the blind faith in the co-operatives which is still persisting in the Indian public opinion may not be retained some years after.

ROLE OF CO-OPERATION IN PLANNED DEVELOPMENT*

MAY I first thank the authorities of the ICA for having invited me to deliver an address on this occasion? May I in the second instance assure the audience that I am not going to deliver anything like an address. I realize that everybody has been here for more than one and a quarter hours already and has listened to a considerable disquisition on the Co-operative Movement. It would be unfair on my part if I abuse the invitation that has been extended to me and proceed to inflict another address on this very distinguished and patient audience. The course that I shall therefore take is a sort of a tabloid of what might be called an address i.e., an attempt at making summary points that could perhaps be elaborated in a lengthier address. The subject I was asked to talk about is "Co-operation and National Development". It is a very vast area, and in a way, I am not competent to speak on any but a limited field within that area, and that field I would define as the field of the role of co-operation as an instrument, or agency, in planned national development in under-developed countries. In this regard I would necessarily draw almost entirely upon the Indian experience. I plead guilty in not having any real and intimate knowledge of co-operative development and operations in other countries.

You will see that the basic question that arises when you consider — co-operative organisation: as an agency or instrument of planned development — is two fold :

(a) Why should governments want to use co-operative organisations as an agency?

(b) Why should co-operators wish to allow themselves to be used as an agency?

It is from these two points of view that one has to look at this question. I take it that one can answer the first part in roughly the following manner. Planned development — especially in a country which is under-developed having a dispersed rural population and small-scale production units — , is faced with the very important

* Address delivered on the occasion of the 48th International Co-operative Day, observed by The International Co-operative Alliance, Regional Office and Education Centre for South-East Asia, New Delhi, July 4, 1970.

problem or organising the small producers, the small customers and the dispersed households so as to raise the scale of their activities to serve as an agency through which planning objectives, operations and information are passed on to the people on the one hand, and on the other, to communicate the reactions of the population to the Plan. It is extremely important to have such intermediary organisations and it is quite obvious that in an under-developed country a successful Co-operative Movement, and organisations of the co-operative type serve this purpose ideally and are therefore naturally preferred by governments.

The preference of co-operators has not always been distinctly expressed. I remember — in the early 40s for example, before Independence, there was a lot of talk about planning, and keen debates among co-operative leaders in India as to whether co-operators should offer their organisations as agencies or instruments for planned development operations. The basic objection was quite clear. It was that you gave up your voluntary character if you became with whatever safeguards an instrument of governmental policy. In a number of respects the purely voluntary character of the Co-operative Movement was necessarily lost. For example, take membership. If you were an agent or instrument of government policy then you could not arbitrarily limit entrance to certain people. Again, if you said that you were going to supply credit to all creditworthy agriculturists, then once you accepted that obligation, all those who were included in the definition of creditworthy agriculturists had to be admitted, and consequently there was a specific limitation to your discretion in admitting members. There are a considerable number of modifications of the older co-operative type of pattern of the Co-operative Movement. In the under-developed areas where the new co-operatives are struggling, you have to ensure certain government assistance and certain privileges may have to be extended. However, with these privileges you must accept certain obligations. Therefore, if you accept obligations and assistance you necessarily also accept supervision up to a point, because government has the responsibility to see that the purpose for which it uses the co-operatives is properly fulfilled. A variety of modifications of the structure therefore become necessary. As I said, in the early days — I am talking about the early 40s, there was a quite considerable difference of opinion in India as to whether co-operators should offer themselves as agencies in this effort. But with the advent of Independence and Planning this was forgotten; it was brushed aside. New leaders came in with a definite stand on this. I remember that the first step we took, for example in the then State of Bombay, was the re-organisation, of the credit movement, and of the entire banking structure in order to fulfil the government obligation. As a result of a Committee Report, the government

offered certain privileges, and assistance if the Co-operative Movement undertook to finance all creditworthy agriculturists and this involved a fair amount of re-organisation which was alien to co-operative principles, but was a reorganisation which we accepted not as arising out of any immediate problem of the Co-operative Movement but as arising out of the acceptance of the obligation to subserve the government aim. In this I identify the government aim as a popular aim or a highly desirable aim. Now this is a basic question. I think Chaudhary Brahm Perkash's concern is quite right. You do become a part of the organisation. After all there are different ways of looking at any society which is alive, and growing and which keeps on growing and in which changes are peacefully brought about. One way of looking at it is, that the society is so rotten — rotten to the core, that nothing except a revolution can save it.

Now as far as I can see, co-operators have never been revolutionaries and they never could be revolutionaries because they are always running a business organisation, so that whether you are a co-operator in the U.S.A. or a co-operator in the U.S.S.R., you are working within a framework. It is an establishment — a different kind of an establishment, I suppose if you are working in Mao's China, where you are also working within an establishment, you are working within certain constraints which the society has accepted. There are a number of other forces which you can employ for bringing about radical changes, but co-operative business can hardly operate in this way. Therefore, I am quite sympathetic to the concern a live radical like Chaudhary Brahm Perkash may feel towards what happens to co-operatives. However, what happens to co-operatives is that they operate within a frame. The frame changes. They work in a changed frame. Now a number of problems arise once you think in terms of some reconciliation between these points of view. That is, once you think that the co-operators have accepted their role as an agency or instrument of national development.

I draw your attention only to two or three aspects of this problem. One is the aspect of coverage and of continuity. You are wanting to be an instrument of national policy. Now government is naturally desirous that its policy be effective for the whole of the country. If Co-operation is still basically voluntary, in the sense that the establishment of co-operative societies and their operations is largely in the hands of non-official leadership, it cannot just be made to order. Then a problem arises regarding this coverage. You cannot be sure that it will be uniformly effective throughout the country, and this is a problem that we in India are facing in the field of credit.

Some 15 years ago, as a result of a government policy based on a report of a Committee, a certain re-organisation of the credit movement and the credit and banking structure was attempted. The

experience has been that while this has succeeded remarkably in two or three States, and as the Chairman remarked, in some States we are hopeful about it, in other States, if you are realistic, you will quite clearly admit — that the experiment has failed. If this happens, then it is quite obvious that the State has to investigate, where the co-operative has failed, that some agency must be appointed. It is difficult for the co-operators to accept this view. They refuse to accept the facts of the case. They still continue to be hopeful that they will be chosen as an agency. If they fail, government cannot just sit back. So this coverage is an extremely important point. So is the point of continuity. If you undertake to supply a continuous service, then the efficiency of operation of the co-operative instrument must be maintained through all time. There are more difficulties. Take for example the public sector. In the public sector, government can guarantee establishment of agencies, branches, and sub-offices and can guarantee continuity up to a point. In the co-operative sector, this becomes more difficult. On the other hand, it is quite obvious that motivationally the co-operative sector is far superior to the public sector so that an efficiently working co-operative is far superior to a public sector undertaking. On the other hand, can co-operatives guarantee to function efficiently at all times and in all places? These are some of the problems of acting as an agent, but an even larger problem which I merely touch here is that of getting co-operatives to work as a system.

What I have said already will indicate to you that I am not satisfied with a patchwork of co-operatives, individual co-operatives here and there, co-operatives in a few regions or only in one sector. If you are looking at co-operation as an instrument of national development, a patchwork sporadically and randomly distributed is not of much help in national policy.

What you want in a national policy is really an organised system of co-operative organisations. Even in the rural economy, unless the problems of credit, of marketing, or production, and of processing are welded together and some link established with the consumer co-operatives in the urban area, you do not really get a strong co-operative structure which can be an efficient instrument of national policy. Now this is an extremely important point which has not yet been fully appreciated by the Indian co-operative leadership. You find therefore that the various sectoral organisations, even if they are strong, make very little effort to organise themselves into a system, and unless they do, we will not really be able to make an impact that will be accepted by the public and the government as an ideal instrument of this policy. Finally, you get back to the old question, the question as to whether it is really worth our while as co-operators to accept this role. You will see that it is a very difficult and delicate question to answer. As I said, it is quite obvious that you lose your

power in certain ways. You restrain your liberties in some ways, you accept certain obligations, you accept the supervision of outside authority. You do all this.

Why do you do this at all? Because you feel that in the under-developed conditions of your country, acceptance of these restraints will help you to make progress in co-operative organisations all over the area much more quickly and you will be able to achieve a more satisfactory build-up of the co-operatives than you would if you were left only in the purely voluntary state. Because the difficulties ahead are so great, you accept this alternative. Now, it is anybody's judgement as to whether given these alternatives you can achieve the objective. I believe there are some States in India which can prove that the decisions that some of us took 15 or 20 years ago to accept government assistance and to accept the character of a government agency were not wrong. Equally, there are other States which seem to prove that, it has not helped. Now whether, in those areas where it has not helped it is because the basic conditions are unfavourable or whether it is because of some other reasons is a matter which I cannot really talk about. I would not be dogmatic. I would not even go so far as to say that, though this is a decision in which I was personally involved, that it was always right or the right answer. I would say that this is a matter for judgement.

You have to see what the basic co-operative values are and you have to decide whether these basic co-operative values have been realised, whether they have been fully realised or whether only to some extent and also whether you would have been possibly worse off, with your whole state of organisation weaker, more disjointed and the co-operative spirit less in evidence than if you had acted otherwise. This is a large question on which history may give a judgement which is more authoritative than the sort of biased judgements that we who have been involved in the process can give today.

PART III
CO-OPERATION IN SUGAR INDUSTRY

PEASANT-OWNED SUGAR FACTORY IN BOMBAY STATE*

A Unique Experiment in Co-operative Enterprise

SOME idea of the historical background will be found instructive in assessing the effort made by cultivators to form the Sugar Co-operative Society at Loni in the Ahmednagar District of Bombay State. Before the canals were constructed the region in which the area of the Society falls was dependent entirely on seasonal monsoon rains, and was a region of somewhat large holdings, a predominantly dry cropping system of cereals and oil seeds, and was subject to periodic failures of rains. The construction of the canals made possible a transformation in conditions of agricultural production. However, the local peasantry had neither the knowledge nor the resources to bring about the transformation; and no steps were taken by Government towards developing local agriculture or industry beyond constructing the canals and their distributaries. The beginning of irrigated agriculture, especially sugarcane farming, had, therefore, to be made by immigrant agriculturists from neighbouring districts acquainted with irrigated farming. The local agriculturists were slow to follow the example of the immigrants and were, in a number of cases, content to give lands on long leases to them, on what appeared to be, very favourable rentals. Sugarcane farming made considerable progress in the area in the boom following the end of the first world war, but the break in gur prices in the later twenties brought this progress to an end and even brought about some retrogression. Because of this conjuncture of circumstances Government found that water was not taken for irrigation as freely and rapidly as it had hoped and expected, and the income from water charges continued low. Following the recommendations of a Committee which examined this question Government decided to invite sugar factories to establish themselves in the region by grant of special concessions. The special concessions offered by Government coincided with the grant of protection to the sugar industry and this entirely changed the course of economic development of the region. Gur prices also picked up after 1935 and the region and the sugarcane farmers in it experienced continuously growing prosperity. The local peasantry, to the extent that it had learnt sugarcane farming by now, shared in this prosperity; but not to the extent as

* Indian Labour Gazette, May 1952, pp. 913-922.

some of the immigrant farmers who had come early, acquired large lands and accumulated considerable capital resources or the sugar factories who had benefited enormously from the concessions and the very favourable times brought in by war and post-war years. The local peasantry had also greatly suffered from the violent fluctuations in gur prices for the past 30 years. They were thus convinced that a co-operative sugar factory which would assure to them a continuous market for the sugarcane they grew, at an even level of prices from year to year, was essential for their exploiting fully the benefits of their region having been irrigated. There was also another possible motive at the back of the movement for the establishment of a co-operative sugar factory. There was a feeling that the establishment of the factory may result in obtaining extension of area under canal irrigation and concessions in irrigation rules similar to those enjoyed by the sugar factory. In this respect, however, bitter disappointment was to be experienced by the promoters of the factory.

The first move towards the establishment of the factory was made in a Conference of Irrigators in the tract which adopted a resolution in favour of sponsoring attempts to establish co-operative sugar factories in the region. The actual steps were, however, taken only in 1947, when leading cultivator-co-operators of the particular area, in discussion with officers of the Bombay Provincial Co-operative Bank, formulated a tentative scheme and began to collect deposits towards share capital. A sum of nearly Rs. 2 lakhs was collected in a short time, but not much progress could be made without a formal registration of the Society. This was found possible only towards the beginning of 1949. In March of that year the Society was registered and as provided in the bye-laws, the first Board of Management for the Society was nominated by the Registrar for the first three years after consulting the promoters and the Bombay Provincial Co-operative Bank. As soon as the Society was formally registered the Managing Director who holds a central position in the constitution and working of the Society and a Chief Engineer were appointed and efforts to acquire suitable lands and machinery for the factory were set on foot. Initially, efforts were made to acquire a second hand plant to enable production being started in 1950-51 if possible. No such suitable plant was available; in the meanwhile, there emerged the possibility of acquiring a new "SKODA" plant of 450 tons capacity, which was approximately the size of plant required by the Society. An order was placed immediately for this. Devaluation came in just before the order was finally accepted and this involved some increase in the cost of machinery; but the order was finally placed and machinery, whose despatch was specially expedited, began to arrive in India towards the beginning of May 1950. All the machinery reached the factory's site in June 1950, during which month the foundation stone of the

factory building was laid. The erection of the machinery and the building of the factory together with the layout of roads, temporary quarters, etc. were taken immediately in hand and after remarkably rapid progress, the first bag of sugar was manufactured in the last week of December 1950. The total production during the season 1950-51 was 37,000 bags of sugar. In the season 1951-52 the factory started operations towards the end of November and will, it is anticipated, carry on till about the middle of May; the total production during the season is expected to exceed 65,000 bags of sugar.

The region in which the Society is located is the region under command of the Pravara Canals System (District Ahmednagar, Bombay State). The area of operation of the factory has been defined as a number of contiguous villages — 39 in number — watered by certain distributaries of the Pravara right and left bank canals. The area is somewhat large and the factory is in extreme cases as far as ten miles away from the sugarcane fields of members. The bulk of the sugarcane crop of members, however, falls within four miles of the factory. The Society has two classes of members — producer members and non-producer members. The producer members are all growers of sugarcane with a minimum of one acre under sugarcane within the area of the factory. Each producer member, with his application for shares, also signed a form of contract by which he bound himself to grow sugarcane according to the directions of the Board of Management and to deliver all the sugarcane grown by him to the factory for being manufactured into sugar at prices fixed by the Board of Management. Under the bye-laws, the Board of Management has also further general powers for directing proper cultivation by members and powers over their general agricultural activity and the disposal of crops by them.

The class of non-producer members was introduced to provide for membership by Co-operative Societies, and was thought of initially, as a possible way of obtaining the needed share capital from outside the class of cultivators. From the very start, however, the promoters were determined, as far as possible, not to call in capital resources from private individuals outside the class of producers themselves. It might have been necessary to think of obtaining share capital in substantial amounts from the class of non-producers, if other means of raising finance had not been found possible; on the other hand, it is doubtful whether in the early stages of the Society, with an uncertain future and no secure financial backing, outside capitalists would have bought shares of the Society to any significant extent.

The total Authorised Capital of the Society is Rs. 25,00,000 divided into 5,000 shares of Rs. 500 each. The bye-laws do not contain any formal stipulations in the matter, but the number of shares initially bought by a member was ordinarily in proportion to the number of

acres of sugarcane cultivated by him. It was expected that for each acre of sugarcane cultivated by a member one producer share of the Society should be bought. There was, however, an upper limit for the holding of shares. This was Rs. 10,000 which could, with a special permission of Government, be increased to Rs. 15,000. In the early stages it was found necessary to ask for exceptions to be made; and shares worth Rs. 15,000 were placed with a number of share-holders most of whom were amongst the directors nominated to the first Board. At this stage increase in the share capital actually paid up was of the greatest importance, and an early payment of the subscription could be brought about only by asking for an exception to be made in the case of all the more substantial among the supporters of the idea.

In the earliest stage not much more than Rs. 2 lakhs had been raised by subscription by members. The initial scheme contemplated a capital outlay of Rs. 25,00,000. It became clear to the Board of Management at the very outset, that the actual cost was much more likely to be in the neighbourhood of Rs. 32,00,000 to Rs. 36,00,000, and steps had to be taken to arrange finance accordingly. Efforts were in the first instance made, to place shares amongst producer members to the maximum possible extent and to place as many non-producer shares as possible with Co-operative Societies. The target was placed at selling shares to the value of Rs. 10,00,000 to producer members and to Co-operative Societies within a year of the registration of the Society. This was as high a target as could be imagined and it was clear that even when shares to the extent of Rs. 10,00,000 were applied for, the paid-up amount in respect of these shares could not exceed Rs. 5,00,000 to Rs. 6,00,000 before the factory began to operate. It became, therefore, necessary to look in other directions for attaining the minimum necessary of owned capital for the Society. A representation was made to the Government of Bombay dwelling on the unique character of the experiment, its vast size in relation to the resources of the cultivators and the great potential benefits of its successful operation to the co-operative movement in all directions, combining as the experiment did, co-operative management of a factory and co-operative regulation and direction of farming. It was a lucky circumstance for the Society that the Finance Member who also held the portfolio of co-operation was that leading and veteran co-operator, Shri V. L. Mehta. Government agreed, within a few months of the application, to subscribe to the share capital of the Society a sum equal to the paid-up capital by members of the Society but not exceeding Rs. 6,00,000. The conditions prescribed by Government made doubly important the efforts described above to secure paid-up capital.

With the subscription by Government of Rs. 6 lakhs to the capital, the Society had in early 1950 a share capital of nearly Rs. 15 lakhs

subscribed of which Rs. 12 lakhs was paid-up. At this stage the Industrial Finance Corporation was approached for a loan of Rs. 20 lakhs. It was then expected that the total expenditure upto the time of the commencement of the manufacture of sugar would not exceed Rs. 36,00,000. The Industrial Finance Corporation treated the application of the Society very sympathetically and granted the loan within a few months.

In all stages, the support of the Bombay Provincial Co-operative Bank proved of the utmost value. It is the chief source of supply of working capital but in the initial stages it helped in other ways also. There was necessarily some lag between the resolution of the Industrial Finance Corporation sanctioning the loan of Rs. 20 lakhs and completion of all formalities before the loan could be actually received from the Corporation, Machinery had, however, to be paid for in the meanwhile and expenditure on erection and construction to be incurred. This difficult period was bridged over by short-term accommodation readily granted by the Provincial Co-operative Bank. Moreover, as often happens, it was found that our initial calculation of Rs. 36 lakhs was somewhat of an underestimate; ultimately the total expenditure on the block came to nearly Rs. 41 lakhs. Here again, the gap in the initial stages was met by a temporary advance from the Provincial Co-operative Bank; as the fixed assets were mortgaged to the Industrial Finance Corporation and as there was yet no production of sugar this advance was based on the personal security of the producer members of the Board of Directors.

On account of the newly introduced system of a proportion of free sales of sugar, the financial results of the first year (1950-51) of factory working were unexpectedly satisfactory. It was possible to set apart a sum of Rs. 8 lakhs for depreciation which helped completely to cover the additional sum required for financing the block and to declare a cumulative dividend of 3 per cent after setting aside the prescribed reserves, paying a bonus to workers and making a beginning with a development fund. A good price could also be paid to members for their sugarcane and this brought in rapid recoveries of outstanding share calls. The subscribed capital of the Society inclusive of Government shares was Rs. 17 lakhs in June 1951 of which Rs. 16 lakhs were paid up.

The problem of the price to be paid for sugarcane supplied by members is one of central importance in the working of a Co-operative Sugar Factory Society. The producer members who are the principal owners of the factory are naturally interested in having as high a price as possible for their sugarcane. Consideration of having enough funds for working and for normal expansion, of providing for fluctua-

cautious policy regarding the price to be paid for sugarcane. According to the bye-laws of the Society, determination of the price rests with the Board of Management. It is not possible to lay down explicit instructions regarding the manner in which the Board of Management will determine this price. It is important, however, to lay down a maximum limit beyond which the Board of Management may not go. It is not easy to fix this maximum; it must, on the one hand, not be so high as to be inoperative nor, on the other, so low as to be unduly restrictive or harsh in its operation. For example, in the original bye-laws of the Society a maximum limit of Rs. 30 per ton of sugarcane was placed — a limit which appeared reasonable when the original draft of the bye-laws was made in 1947. In 1951 the limit was found to be highly unpractical. This showed that a maximum expressed in fixed money amounts was not likely to prove useful in times of fluctuating price levels. The maximum limit is, therefore, best expressed as a relation between the price per maund obtained for its sugar by the factory and the price per maund to be paid by it for its sugarcane supply.

Another important financial provision made in the bye-laws is for compulsory deposits by members for increasing year by year the capital resources of the society. As the block has been financed to such a large extent by loan capital and by redeemable share capital subscribed by Government it is necessary to think of getting in an adequate flow of capital at the same time as the loan is repaid or the shares are redeemed. The provision made for this purpose is a compulsory deposit, which would later be turned into share capital, by producer members in relation to the acreage of sugarcane grown or the tonnage of sugarcane supplied by them.

A very important aspect of the working of such a co-operative organisation is the role which the Society can play in the development of agriculture and in increased co-operative farming and other activities. From the start of the factory it was recognised that where production credit was not available to individual members from primary credit societies in their own village, it would be necessary to provide crop finance, especially for supply of manure and fertilizers. The supply of this credit should best take the form of a supply in kind and it also required supervision regarding its proper and full utilization. The next step to supplying credit for manure and fertilizers was to supply finance for development. As everywhere, it has been found in this tract that the efficiency and the financial resources of farmers varied in proportion to their scale of operations; so that the vast bulk of small producers, those having an area of sugarcane of less than 3 or 5 acres, had the least resources but needed them the most for increasing efficiency and developing resources. Adequate finance for crop raising and seeing that it was properly utilised was one way

of increasing production efficiency. For development purposes, finance was required for a longer term than the finance for crop raising. The factory area, though under command of canals, had only a small acreage under canal irrigation, due to a number of reasons. Since the construction of the canal system, events had so moved that progressively irrigated land and rights of irrigation had come to be concentrated in particular regions and in the hands of the bigger farmers. It had been hoped by cultivators in the factory area that canal irrigation in the region may be extended with the establishment of the factory. Government, however, chose to consider the old distribution of irrigation water as a prescriptive right or privilege and refused to entertain applications of small cultivators for irrigation rights when the time for periodic revision of these rights arose. In the circumstances, the co-operative factory has to depend for the vast bulk of its sugarcane on water supply from wells rather than from the canals. Increasing the supply of sugarcane, therefore, means increasing the efficiency of water supply from wells. The Society set apart from the profits obtained during its first year of working a sum of Rs. 60,000 to form an agricultural development fund. It then began an examination of the individual circumstances of each producer member who had not been, during the past year, able to grow any cane or to grow it adequately. As a result of this examination, it was decided to utilise the agricultural development fund in giving long-term loans to the smallest and the neediest members to dig wells or to increase their capacity to have adequate lifting apparatus or to instal engines. It is also proposed to establish a section in the workshop of the factory for the service of engines and other supply of materials and spare parts required for their operation.

The bye-laws of the factory make it incumbent on members to plan their agricultural production activity and to dispose of all agricultural produce according to the directions of the Board of Management. These large powers are, of course, only partially exercised today. The first step, as explained above, is to finance the raising of crops of sugarcane and to plan long-term development so as to secure the proper raising of such crops. The next stage is to improve methods of cultivation and the quality and volume of produce. Already steps have been taken to procure good sugarcane sets of standard variety so that within two years, with multiplication of seed distributed among prominent members, all the area of sugarcane of members will be planted with tested uniform sets of a standard variety. There is next the problem of the adequate application of manures of the required type. During the crushing season data become available at the factory regarding the production of sugarcane by members, field by field. These enable attention to be paid to producers and fields with specially low yield. Further analysis of sugar-

cane juice may reveal certain deficiencies in the quality of the sugarcane in the tract as a whole. It may be found that these deficiencies could be removed by an extra dose of a certain fertilizer; in this case inducing producer members to give this dose becomes necessary. There are also problems such as those of insect and pest control.

Even more fundamental are questions regarding the varieties of sugarcane to be adopted for planting and the proportionate distribution of the sugarcane area under crops with varying seasons of maturity. The regular working through of the longest optimum season for the factory requires a steady supply of sugarcane of given amounts through the whole period. Planning of this means necessarily a general overall plan of sugarcane planting within which the activities of individual members should fit. Ultimately a complete and satisfactory plan of sugarcane planting may require directions regarding the utilisation of all the lands of the cultivators.

In many matters such as the multiplication of seeds, the lifting of water, or insect and pest control, co-operative working becomes obviously familiar and profitable. Some of it may be regional co-operation, in other instances it is among neighbouring members such as for water-lifting. The stage of co-operative farming would not be easily reached. The fields of members lie scattered over a large area and sugarcane is only a part of a whole rotational crop programme for each; but beginnings in co-operative farming would be possible where a land area is at present not under cultivation. There are, for example, areas in this region which are water-logged. With a joint effort undertaken, for example, through the development fund of the factory, these could be reclaimed. When reclaimed, it may be possible to farm these co-operatively instead of giving them back to individual owners for cultivation. In all these aspects of the working of the Society, the practical problems faced in working such a co-operative institution become clear.

The Society has a staff of an agricultural officer and field-men. In the first year their main job was to note the area of sugarcane of members and the details regarding the season of planting, etc., the probable dates of maturity, to make arrangements regarding the cutting and transport of cane and, in many instances, the construction of proper roads to facilitate transport of sugarcane to the factory. Subsequently, the agricultural officer and the fieldmen have been able to give more time to giving advice regarding the time of planting, the types of manure and to undertake insect control activities, supervising the proper utilisation of the finance given by the factory, inquiring into the needs of small individual members, bringing about co-operative effort in water lifting, etc. The problem of fixing the programme of cane cutting for the factory is itself complex enough. For all these purposes Advisory Committees in various areas are set up and the

agricultural officer works largely through consultation with them. The powers of the Board for enforcing compulsion are ample enough. The Society's progress will, however, be made only with frequent consultations and with persuasion, which are of the essence of the co-operative method.

This leads to the question of the habits of thought and attitude necessary for the working of such a co-operative organisation. The success of the Society depends essentially on the loyal support of its members, a primary requirement of all co-operative organisations. From the inception of the Society, the origin of the idea and its successful development have been due to the imaginative foresight of certain local leaders, their persistence in and devotion to the idea, and the great loyalty of members and the faith shown by them in their leaders. The greatest test came in the last quarter of 1950 when gur prices soared very high, the erection of the factory was not yet complete, and nobody could say definitely how soon it would begin to manufacture sugar. At this time the vast bulk of members refrained from turning their sugarcane into gur and showed the most remarkable restraint and patience, even though it meant definite monetary loss to many, which amounted in the case of some to substantial sums. Apart from this basic quality of a loyal and co-operative spirit, the organizational set up of a large Society like this creates problems of relation between groups which are of special importance. There is for example, the question of the relation between the technical officers of the factory who are the employees of the Society, and the shareholders of the factory, including directors who are its owners. The matter is one which calls for adjustment on both sides. On the one hand there is likely to be suspicion, underestimation of the vital importance of qualified technical men for running a complex mechanical unit, and of the ignorance of the problem of maintenance of discipline within the factory; on the other hand, on the side of officers there is likely to be non-appreciation of the intrinsic merits of the peasant shareholders, an indifference to their point of view, and the difficulty of giving up the habit of dealing with them not as officers but as colleagues. The two groups come from two strata, rural and urban, which have so far largely kept themselves apart in India.

A further extension of the same problem which, however, is not immediately in evidence is the problem of the relation of the workers in the factory with producer members. Would it be possible to interest factory workers in some manner in the working of the factory, i.e., as apart from their ordinary employee status? There is little doubt that the Society has benefited greatly in the period of the erection of the factory and its early working from the enthusiasm and the selfless spirit shown by the superior technical staff and by its workers. It was clear, they felt that they were working in a special cause. The

maintenance of this spirit is a problem of the relation between the factory personnel and the Board of Directors and producer members. Will it be possible to devise consultative machinery or to interest workers in the working of the factory through share holding or profit sharing in a manner that is special to this Society ? This is a large problem that has not yet come under consideration. In course of time it will have to be tackled at some stage or another. It may be that within some years a bulk of the employees will be from families in the region ; perhaps even families of producer members. The Society has kept in mind the possibility of even a combined status. A worker in the factory may himself or through membership of a family be a farmer also ; in this case he could both be a sugarcane producer member and an employee. A small block of shares has been set apart for allotment to workers of this class alone. As indicated above, the non-producer member shares have not been sold in any number and there is no intention at present to place them with mere outsiders i.e., other than co-operative societies in the neighbourhood. Utilisation of the class of non-producer members for employees of the factory is a possibility which has, however, not yet been under contemplation.

An important problem in co-operative organisation of this type is a wide distribution of benefits of membership. It has been pointed out above how the idea originated in the contrast seen between the prosperity of big immigrant farmers and the sugarcane factories and the comparatively difficult conditions of the local peasantry. From the start, therefore, the idea of a wide and equal distribution of benefits has been borne in mind. There is an upper limit to share holding and an implied upper limit to the area under sugarcane by a member. There is no idea of prohibiting the growing of sugarcane beyond a certain acreage, but merely the possibility of not guaranteeing the purchase by the factory of sugarcane beyond a limit such as that of 25 or 30 acres of an individual member. It has been pointed out how the need of raising finance in the early stages made it necessary to press purchase of shares on members with adequate resources. The present distribution of shares is, therefore, not very even. There is a significant concentration of shares in hands of members holding more than 10 or 15 shares. The Society is aware of this anomaly and is taking steps to see that the disparity does not grow and also that more equitable distribution is brought about progressively. One measure taken is to help actually by short and long term finance the smallest and neediest producers ; the best guarantee of a continued even distribution of shareholding and benefits is to make the large number of very small producers financially secure and technically as efficient as the large producers. The second aspect of the policy followed is reflected in the policy regarding the transfer of shares. Today

the cane supply available from members does not outrun the capacity of the factory to crush. During the second year of the working of the factory some purchases of sugarcane were made from non-members to keep the factory in constant working and to give relief in times of low gur prices to small non-member producers of sugarcane within the region. However, it is expected that within 3 to 5 years, the members' supply of sugarcane will exceed the maximum capacity of the present factory to crush sugarcane. As a precaution it has been decided already not to issue more shares or to admit new members. With the natural impetus given to sugarcane growing by the establishment of the factory and with the active steps taken by the factory for agricultural development, sufficient sugarcane supplies will be forthcoming from among the existing members. The present pattern of share distribution cannot be changed immediately and it would indeed be wrong to ask members on whom shares were pressed during times of financial stringency to give up those shares. Policy regarding transfers will determine the future pattern of distribution of shares among members. It has, therefore, been decided that when it comes to the transfer of shares, the transfer as long as it is among members of the same family, would be unrestricted with the proviso that the number of acres under sugarcane of the member was at least equal to the total number of shares held by him and that the maximum of shares holding was not exceeded by any one; however, when the transfer is sought not as between members of the same family, the transfer would be directed by the Society, to either new members from the smallest class of producers or towards additional requirements of the smallest shareholders among existing members.

The constitution of the Board of Management provides for a fixed number of representatives of producer and non-producer shareholders, together with nominees of the Registrar and the Provincial Bank and two representatives each of Government and the Industrial Finance Corporation and two experts to be co-opted by the Board. At least as long as the interest of Government and the Industrial Finance Corporation remains, there will be a large representation of non-producers on the Board. The outsiders are, however, not likely to take an active part in the ordinary working of the Society and any restraint felt will be only through the reserve power in the background. It may also be noted that the present bye-laws lay down a minimum qualification of the holding of 15 shares by a director elected by producer members. There is a suggestion for bringing down this qualification to 10 and another to keep or open up a small number of seats to all. Even with the suggested modifications, 5 representatives of producer members will come from among 50 members and two from among the rest of 350. It has been thought advisable

to retain this restriction in the initial stages in order to make easy the working of the Society and to keep away large electioneering problems. It is necessary to note at the same time that the present representatives of the producer members on the Board of Directors who all hold 15 shares or above have constantly during the last 3 years adhered to the policy originally laid down of making the Society essentially a co-operative society of a large number of small producers rather than the concern of a small number of the privileged into which it could easily degenerate.

THE PRAVARA SAHAKARI SAKHAR KARKHANA*

— An Interpretative Account

THE successful establishment and operation of the Pravara Sahakari Sakhar Karkhana may be said to have initiated a trend in co-operative developments in India which has already led to important results. It was chiefly because of the early success of the venture that the Government of Bombay adopted in 1954 the policy of confining, in future, the licensing of all new sugar manufacturing establishments to co-operatives. This had, in turn, an effect on policies of other States and of the Planning Commission. The development of sugar co-operatives in Maharashtra has subsequently followed closely, lines established at Pravaranagar. During the 1961-62 season sugar co-operatives in Maharashtra produced 2,33,000 tons of sugar of the approximate value of Rs. 26,16,00,000. There is very large scope for further expansion of the industry in this State and it may be safely predicted that most of the future expansion in sugar industry in the South will take place through co-operatives. Moreover the sugar co-operatives in Maharashtra have already shown considerable willingness and capacity to move into other lines of economic activity and may be expected to be active leaders of many-sided economic development in their areas. It would, therefore, be no exaggeration to claim that they represent the most significant development in India since Independence in the progress towards a co-operative commonwealth.

The Pravara Karkhana took a long time in being formed. The idea was canvassed in the early forties by officers of the Bombay State Co-operative Bank and local co-operative leaders. It was publicly discussed and sponsored for the first time at a conference of Irrigators held at Shrirampur in December 1945. After this the scheme took concrete shape, the area of operations (of about 40 villages with a population of more than 50,000) was defined and advance share subscriptions began to be collected. Progress was slow largely because of procedural difficulties and the need to convince a number of authorities and the Society was registered only at the end of the year 1948. Immediately after registration, however, the tide turned, and the conjuncture of circumstances became favourable. The Government of Bombay, through its Co-operation and Finance Minister Shri V. L.

* Written on the occasion of the visit of Pandit Jawaharlal Nehru to the Karkhana on the 15th May, 1961.

Mehta, took, for these times, the novel and important decision of subscribing Rs. 6 lacs to the share capital of the Karkhana and the Industrial Finance Corporation took a sympathetic view in giving it a loan of Rs. 20 lacs. The Karkhana was also lucky in obtaining a small but new Skoda plant. Within a year of registration financial arrangements had been completed, the site determined, lands purchased and order for machinery placed. Within another year the machinery had arrived at site and had been erected without help of foreign erectors and the first bag of sugar had been produced.

The Karkhana began in a small way. In the first year of production (1950-51) the number of members was less than 500 and the area under sugarcane held by them was less than 800 acres. The average acreage of sugarcane per member was only about 1.6 acres. Almost all members were small farmers; some had yet to undertake planting of sugarcane. Only a small number of members were substantial farmers with 20 acres or more of their farm area under sugarcane. However, the base was sound. Most of the members were men who had paid advance share money at considerable inconvenience to themselves, when the prospects were uncertain and the prevalent mood everywhere was of scepticism regarding the "over-ambitious" project. They had been prompted to come together by a number of motives. There was the prospect of stability of the price of sugar as against the wide fluctuations in prices of gur. There was hope of obtaining additional supplies of canal water from Government. Above all, however, there was the urge to prove that the indigenous farmers of the area, though now reduced in importance, could still, through mutual co-operation, make good and obtain the full benefits of irrigation which hitherto had accrued to capitalists and some classes of immigrant farmers. It was this last more than the mere economic incentives which welded the membership into a cohesive whole and to which the leaders appealed.

The cohesion and the loyalty to the organisation were to be put to a severe test before the factory went into production. In the season 1950-51 the prices of gur soared high and it became greatly remunerative to convert sugarcane into gur. The first bag of sugar in the new factory was produced only on 31st December 1950 and at the beginning of the gur season, i.e. in October-November, it was uncertain when production would begin. Even so not a single member proved disloyal; all waited, some at considerable sacrifice, for sugar production to start and to have their cane converted into sugar by the new factory. They had their reward; on account of a turn of Government policy the prices of sugar obtained by the new factory in 1950-51 were very high and it was possible to pay a fully remunerative price to members during the very first season.

Once the factory went into production the record was one of almost continuous progress. The farmer members by their vision and tenacity had brought into existence a central organisation and as this grew in resources and strength it proved fully its utility to the farmer-community. This is evident in the record of services rendered by the factory and expansion in activity resulting from it. However, even before the cumulative effects of the existence of the Karkhana began to appear a difficult season underscored the changed situation in a dramatic manner. The year 1952-53 was a year in which West Maharashtra experienced conditions of a severe drought. The large majority of members of the Pravara Karkhana did not obtain supply of water from Government canals and grew their cane on wells. The drought affected the supply of water in wells and cane crops began to suffer severely. The existence of the Karkhana saved the situation for members. The Karkhana, through its agricultural staff, explored all avenues of expanding and conserving the water supply and promptly extended financial assistance to individual members to enable them to take appropriate steps. Without this concerted and multi-sided action not only would the cane crops have been almost ruined but also individual farmers would have had to contract debts which would have handicapped them for years to come. The Karkhana during this year also went out of its way to crush the precarious sugarcane crop of even small non-member farmers and thus demonstrated its value to the community at large.

It is necessary to note that the co-operative, being a mutuality, the interests of the organisation and of its members are identical and that by helping the business of members the co-operative helps itself. This can be illustrated in a variety of ways through the development of operation of the Pravara Karkhana. It is of the utmost importance for the sugar factory to obtain a regular supply of freshly cut and mature cane throughout the crushing season. The requirement induced the Karkhana to take upon itself arrangements for cutting of cane and its transport from the fields to the factory from the very first year. The arrangement involved the employment of hundreds of bullock carts and teams of workers and also looking after the entire road system of the area of the factory. The road system had to be such that a bullock cart could travel safely and fairly expeditiously from any sugarcane field in any of the villages in the area of the Karkhana to the factory and to the extent that public authorities did not construct or maintain the roads the Karkhana had to do this itself. The road mileage maintained by the Karkhana today covers 140. The harvesting of the cane crop had to be arranged in a systematic manner so that the flow of cane was even and of optimum quality. This meant ranking each individual field under sugarcane and to do this the factory had to have full information regarding the crop in

each field of each member, such as, the sort, the date of planting and the progress of later operations. This information could be gathered only through a staff of fieldmen working under Agricultural Officers, all of whom were in close touch with individual members and their fields.

Above all the Karkhana was interested in the quality and quantity of the cane crushed. The growing of cane has two aspects: resources and technique. If the cultivator does not command adequate resources at appropriate times his crop is bound to suffer. It is essentially the chronic inadequacy of resources of the peasant that has brought about and still maintains what may be termed the "under-development equilibrium" in Indian agriculture. Low level, high cost borrowings have ever kept our agriculturists at the mercy of money-lender-trader and have never allowed him to command any surplus or make the best use of his land. The Pravara Karkhana broke this vicious circle by giving from the beginning all the credit required by any member for raising his crop. As far as possible, this credit was encouraged to be utilised for purchase of ground-nut cake etc. through co-operative purchase and sale organizations and its use was noticed and recorded by the agricultural field staff. The short-term loan was soon extended to cover such requirements as oil for the engine, workshop repairs etc. In 1951-52 the Karkhana also instituted a special fund called the Development Fund to which allocation was made from profits. This was used to extend intermediate term loans to members for purposes such as purchase of oil engines, improvement of lands, deepening of wells etc.

While the lack of resources especially, resources of working capital, could easily be made up, the improvement of technique was a laborious and long-term process. The bye-laws of the Karkhana vest in the Board of Management powers to give directives to members in regard to cultivation of cane. However, the coercive powers have never been used and all improvement is attempted to be brought about through persuasion, demonstration and encouragement. The chief agency of this effort is the staff of agricultural officers and fieldmen of the Karkhana and the Group Committees provide the forum for discussion. The coverage of effort in this matter is very wide. It embraces improvement of quality of cane through multiplication and supply of planting sets, improvement of manurial practices, standardisation of field operations, individual and group use of insecticides and pesticides etc. With the passage of time the Karkhana attempted ever wider and fuller activity in this sphere. The latest extension has been in the direction of a soil survey of the area of operations and the Karkhana laboratory has been equipped for soil analysis so that cultivating and manurial practices might be adapted to the requirements of each field. The Karkhana itself maintains a number of tractors

which are hired to members for ploughing and other field operations and the Karkhana Workshop undertakes, on a preferential basis, repair work such as for oil engines for members. The Karkhana has also paid in recent years, attention to limiting the area under sugarcane that members plant under individual wells.

A Producers' Co-operative is essentially a joint venture of actual producers and the hallmark of a co-operative is, or should be, that it helps specially the weak to become strong through co-operative action. In the structure and operation of the Pravara Karkhana close attention has been paid from the beginning to the fulfilment of these requirements. In framing the constitution of the Pravara Karkhana care was taken to emphasize the producer aspect. Though provision was made in the bye-laws for admission for specific purposes of other types of members, the admission of these was to be exceptional and power was vested in the main, in the representatives of producers. Another important feature was that each producer member was required to buy shares in a fixed proportion to the number of acres of sugarcane grown by him. This made his contribution to share capital correspond to the service the factory performed for him and made him interested in supplying cane to the Karkhana. This was apart from the bye-law which compelled each producer member to offer all the cane grown by him to the Karkhana.

The Pravara Karkhana, it has been indicated above, was predominantly a co-operative of small farmers. Deliberate efforts were made in later administration to see that this feature was retained. An elaborate set of conventions was built up in relation to the transfer of shares to see that no increase took place in the concentration of share-holding. Small farmers were given special treatment in such matters as grant of intermediate term loans or concessions in the payment of share money. Two major decisions further benefited small farmers in a special way. The insistent demand by the Karkhana that its members should be given a larger share in canal water supply at the time of the six yearly revision led to a somewhat peculiar response from Government. This was an offer of 100 acres of canal water to the Karkhana itself. As the Karkhana was not interested in conducting cultivation on its own account, the Board of Management unanimously decided to distribute this water right to members holding three or less shares, whose lands were appropriately situated, but who had less than two acres under sugarcane.

The Karkhana was in a position to extend privilege of membership to new entrants when order was placed for the larger capacity plant. The total number of shares for which applications were received at this time was, however, much larger than the additional shares to be sold. In allotting these shares priority was given to applications of the very small farmers and these were allotted shares in full. Also a

block of these shares was specially reserved for subsequent allocation to very small farmers and these were helped by special financial concessions to acquire the shares over the years. It may be noted in the context that as no new shares are likely to be issued, except in case of further expansion, and as transfers to non-members and among members are subject to a number of limitations change of ownership of shares now takes place chiefly through partition or succession and this leads in the vast majority of cases, to a further fragmentation of ownership of shares.

A co-operative is primarily a business organization and its success has to be judged largely by performance in this context. There are a number of tests of such success. Two such are financial strength and expansion of activity. The showing of the Pravara Karkhana is good in both these respects.

The Karkhana has not only met its dues promptly and regularly but was also able to repay the Industrial Finance Corporation loans some years in advance; so that within less than ten years of the erection of the first factory the Karkhana did not owe any long term loans and its much enlarged block of the value of more than Rs. one crore is free today of any encumbrances. The first plant of the Karkhana was of much less than 500 tons capacity; and within two seasons, it became clear that expansion of capacity would soon have to be undertaken. Therefore, when Government announced in 1954 that it would permit the licensing of new factories and imports of plants decision was taken to replace the original plant by one of 1200 tons capacity. It was possible to think of this step because, since the first season, the Karkhana had followed a conservative policy in relation to allocations to depreciation, reserve and other funds. Moreover, the members showed great readiness to contribute to the capital needed through compulsory deposits out of the amounts receivable by them for the price of sugarcane supplied by them. Even the new large plant erected in 1956 has been found inadequate to meet the needs of members and efforts are being made, for some time past, to obtain permission from Government to expand the plant.

Another aspect of financial success is the return made to shareholders. Limit is laid by law to the dividend that can be paid to shareholders by a co-operative society. The more important criterion in a sugar co-operative is, therefore, the price paid for the sugarcane supplied by members. It has been possible for the Karkhana to pay over the years of its working a price in cash to members which compared favourably with the minimum prices announced by Government. It has in many years also included in the price substantial amount for compulsory deposits placed by members with the Karkhana to augment its capital resources and to be ultimately converted into share subscriptions. That the price paid by the Karkhana to

members has been attractive and remunerative may be judged from the steady extension of the acreage under cane brought about by members. The number of members has increased nearly three fold during the last ten years while the acreage under sugarcane of members has increased more than six fold. The average holding of a member of sugarcane has thus about doubled. Other indications of the improvement in the financial position of members are their readiness to contribute to educational activity, to the small savings campaign and towards capital for new co-operative activities.

The co-operative may be described properly as an example of economic democracy in working. The Pravara Karkhana exhibits, in practice, the essential features of an economic democracy. The general body of a co-operative is its supreme authority. Though the membership of the Karkhana is now somewhat too large for effective functioning of the general body, the annual meetings are still lively and provide the forum on which criticism of the management is freely voiced. And the general bodies in the early years virtually took or sanctioned all the important decisions. As a matter of historical record the general body which considered the question of extension of plant in 1954 proved overwhelmingly important. Opinion on the question of extension was divided. Fears were expressed regarding the risks of a large plant and of the extra financial commitment; there was also a strong prejudice against admitting to membership benefits the many cultivators, large and small, who had kept aloof earlier when the experiment was unproven. The majority appeared against expansion and the leadership overwhelmingly against it. And it was only because a plea for large hearted co-operative behaviour following our true traditions obtained a ready and sympathetic response from the mass of members at the general meeting that the right decision was taken.

The management of the Karkhana vests in the Board of Management. A majority of members of this is formed of elected representatives of the producer members. It is a measure of the feeling of diffidence felt in the initial stages that reservation of seats in the Board was provided for in the bye-laws in favour of the larger farmers. This was, however, soon done away with and the principle of one member one vote adopted fully in all respects. Other members are representatives of Government, of the Registrar, Co-operative Societies and of the co-operative financing authority. The Industrial Finance Corporation had powers to nominate two members until its loan was repaid. The Board works largely through sub-committees whose membership is almost entirely confined to the representatives of producer members. It has been found useful to evolve a supplementary organisation to help the Board in detailed management. This is that of group committees. For constituting these, the total

area of the operation of the factory has been divided into five groups, and a committee of six to seven members formed for each group. The main functions of the group committees are to help in the programme of cutting and transport of sugarcane including the aligning and maintenance of roads. Where occasion has arisen, they have also been asked to assist in the distribution of canal water. The group committees are useful for explaining to the members the decisions of the Board and also act as a general sounding board for member opinion; they are constantly making recommendations to the Board of Management on all matters connected with the working of the Karkhana. Often mass meetings of members within the group are held to discuss specific questions and a few times in the year all the group committees meet together jointly. It should be noted that most of these developments were the result of gradual adaptation to meet needs as they arose; they appear to have evolved into a satisfactory system of devolution of authority and of inter-communication between the members and the Board.

The Managing Director, a full time salaried official, is the executive head. He is in charge of the Karkhana and all the staff work under his authority. The structure of the technical, supervisory and labouring staff of the Karkhana differs in no way from that of other sugar manufacturers. However, in some ways the problem of management and of relation with staff are different. Members of the Board of a co-operative cannot be expected to be as familiar with business management in its manifold aspects as members of boards of private concerns. With the passage of time a number of members of co-operative boards are acquiring familiarity with intricacies of the business; however, some difference is bound to persist. Also, the Board being an authority selected by local members, problems, partly, similar to that of management in a local authority arise in this case. The local knowledge and influence of members of the Board is a compensating factor on the other side. It cannot be said that the relations of co-operative boards with the Managing Director and the staff of officers have yet been settled into a satisfactory pattern. In the Pravara Karkhana the relations have, on the whole, been satisfactory and changes among heads of departments have been infrequent.

In regard to relations with labour also, there is no distinctive pattern. Labour Unions exist and disputes arise. In the Pravara Karkhana the relations with leaders of unions have been cordial and disputes are settled amicably through negotiations. The important point for consideration here is the possibility of associating labour with management and ultimately offering labour partnership in the co-operative. The Pravara Karkhana makes special allotments of shares to labourers or members of staff who undertake cultivation

within the area of the factory. However, advantage of such membership can be taken by only very small numbers. The Board of the Karkhana has accepted the principle of association of representatives of labour with management. The Federation of Co-operative Sugar Factories in the State has also done this in its deposition to the Sugar Wage Board. It remains true, however, that little progress has yet been made in this direction.

How does one measure the total achievement ? An attempt may be made to indicate it in both quantitative and qualitative terms. Firstly as to the Karkhana itself. Whereas just before production of sugar began, the contribution to funds of members amounted to a little over Rs. 6 lakhs, ten years later owned funds of the Karkhana amounted to over 120 lakhs. These were all owned by members as during the last year even the share capital held by Government has been refunded. To these may be added Rs. 30 lakhs of deposits of members with the Karkhana towards later share subscriptions, making a total of Rs. 1.5 crores all of which may be properly attributed to the establishment and working of the Karkhana. The size of the Karkhana as a producing unit is indicated by the value of the sugar produced which exceeded in value Rs. 2.5 crores this year. The Karkhana directly employs over 900 persons throughout the year and for nearly six months each year it affords work to 1200 carts, each cart representing a unit of at least two bullocks and a team of three persons. The latter are recruited chiefly from the neighbouring dry talukas where agriculture affords employment only during the rainy season.

All this relates only directly to the Karkhana. A much wider picture is presented if we take into account the expansion in activities of producer members which has been made possible by the Karkhana. Agriculture in the area has virtually been transformed. In 1950 the tract still showed signs of the effects of the depression of the thirties. The fall in gur prices during this period had ruined many cultivators with the result that they had lost their claims to canal water. Large stretches of even good quality land remained uncultivated, water-logging was common, there was little cultivation of cash crops and the cultivator was still indebted and at the mercy of money-lender-traders. The picture has wholly changed today. Sugarcane production dominates the area, irrigated cotton has begun to make headway and because of the improved tillage and manuring the production of cereal crops has greatly increased. In qualitative terms, whereas in 1950 the total acreage under sugarcane in the area was about 1200 of which less than 800 acres were with members of the Karkhana, in 1960, the acreage under sugarcane exceeded 5000 acres almost all of which was with members. This expansion of sugarcane acreage itself required large investment of capital. Moreover, in the Pravara

Karkhana area because of the non-availability of canal water the extension of sugarcane acreage necessitated investments in wells and engines and pumps. In 1950 the number of wells recorded was 288 and the oil engines installed numbered only 32, the corresponding figures for 1960 were: wells 1531, oil engines 1005. The enormous capital formation represented by this expansion can again be safely said to be a direct result of the working of the Karkhana.

These are indicators of fixed capital investment. The expansion of working capital is indicated by the operation of co-operative credit societies in the area. In 1949-50 these societies had 1121 members and their loaning operations amounted to Rs. 3.9 lakhs; in 1960-61 the number of members had risen to 4359 and the loaning operations to Rs. 37.0 lakhs. It need not be emphasized that the employment opportunities created have, with the expansion of industry and agriculture, greatly increased, as has the total volume of all economic activity.

On the general welfare side the most important quantitative indicator available is that of educational facilities. In 1950 the area was not fully covered with primary schools and there were no secondary schools within it. Today every village has a primary school and there are 5 high schools with 700 pupils in them. The Karkhana has spent nearly 5 lakhs on capital expenditure on educational facilities and the high schools have been established because of the voluntary educational contribution of As. 4 per ton of sugarcane crushed made by producer members of the Karkhana.

The quantitative indicators are impressive. However, in the long run and in the wider context, the lessons provided and hopes infused through the operations and results of this experiment are even more important. Before concluding, brief attention may be paid to these. The success of the Karkhana underlines the importance of the emergence of the surplus and of the fertilization effect of the ploughing in of surplus within the rural community. In the poor, insecure areas no surplus is available. In the secured but exploited areas the surplus is drained away by the moneylender-trader and by the urban sector of which he is agent and representative. Therefore, development cannot proceed beyond a point. Security, favourable terms of trade, a surplus and leaving the surplus to fructify within the rural community, all these are necessary for a steady development process, which has cumulative effects, to get started. It is this which the first decade of the Pravara Karkhana illustrates; it is this which points to the compelling necessity of keeping marketing and processing agricultural products within the rural community. Unfortunately, it is also this whose importance has, so far, almost completely eluded the attention of policy-makers at the Centre and in the Planning Commission.

The second lesson is the great importance and utility of a central, cohesive institution and the multiplicative effects of its activity. Our rural society is today characterized by the decay of old institutions and the failure of new ones to arise. Therefore, the society is disorganized and leaderless in the sense of having no stable organization to take a comprehensive view and to step in at times of need. Reference has been made above to the service performed by the Karkhana during the drought of 1952-53. The Pravara Karkhana is, strictly speaking, an organization of a relatively small number of sugarcane farmers. Even so it has been able to function in a number of cases, such as of epidemics, as the rallying point in the area and it has provided leadership in all economic matters. What has been called the multiplicative effect may be illustrated by reference to two cases. The first is that of the reorganization of the co-operative credit structure in the area. It has been pointed out above that the Karkhana began by giving liberal crop loans to its members. In a sense, this was unorthodox, because giving crop loans is properly the function of a co-operative credit society. However, at that time the co-operative credit structure in the area was weak and its coverage limited and hence the Karkhana's action could be justified. It could not, at the same time, be a permanent arrangement. And as the apex co-operative bank insisted on the business being gradually handed over to the credit societies and as members of the Karkhana were apprehensive of results of transfer, the Karkhana had to take active interest in the strength and proper functioning of the credit societies. As a result every important village is today served by a credit society and the total structure is both strong and efficient. The second case is that of distribution of canal water. One of the relative failures of the Karkhana so far, has been in the matter of obtaining additional supply of Government canal water for members. In recent years it has, however, succeeded in obtaining a given supply of the water during summer months. This was, however, offered in bulk and only if the Karkhana made arrangements for distribution. This was a challenge which the Karkhana accepted and by calling upon group committees and creating ad hoc local organizations carried out the distribution successfully. The success was complete in so far as the Karkhana agency proved more efficient than Government agency; and in following years Government was willing to let the Karkhana undertake the ad hoc distribution even for non-members of the Karkhana. Incidentally, however, the Karkhana had proved the feasibility of voluntary distribution of water by irrigation groups about which a lot had been talked but no concrete experimentation undertaken.

The Pravara Karkhana experience further emphasizes the practicability of efficient work in a decentralized system, especially in matters of agricultural development, and the importance of a proper

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These are indicators of fixed capital investment. The expansion of working capital is indicated by the operation of co-operative credit societies in the area. In 1949-50 these societies had 1121 members and their loaning operations amounted to Rs. 3.9 lakhs; in 1960-61 the number of members had risen to 4359 and the loaning operations to Rs. 37.0 lakhs. It need not be emphasized that the employment opportunities created have, with the expansion of industry and agriculture, greatly increased, as has the total volume of all economic activity.

On the general welfare side the most important quantitative indicator available is that of educational facilities. In 1950 the area was not fully covered with primary schools and there were no secondary schools within it. Today every village has a primary school and there are 5 high schools with 700 pupils in them. The Karkhana has spent nearly 5 lakhs on capital expenditure on educational facilities and the high schools have been established because of the voluntary educational contribution of As. 4 per ton of sugarcane crushed made by producer members of the Karkhana.

The quantitative indicators are impressive. However, in the long run and in the wider context, the lessons provided and hopes infused through the operations and results of this experiment are even more important. Before concluding, brief attention may be paid to these. The success of the Karkhana underlines the importance of the emergence of the surplus and of the fertilization effect of the ploughing in of surplus within the rural community. In the poor, insecure areas no surplus is available. In the secured but exploited areas the surplus is drained away by the moneylender-trader and by the urban sector of which he is agent and representative. Therefore, development cannot proceed beyond a point. Security, favourable terms of trade, a surplus and leaving the surplus to fructify within the rural community, all these are necessary for a steady development process, which has cumulative effects, to get started. It is this which the first decade of the Pravara Karkhana illustrates; it is this which points to the compelling necessity of keeping marketing and processing agricultural products within the rural community. Unfortunately, it is also this whose importance has, so far, almost completely eluded the attention of policy-makers at the Centre and in the Planning Commission.

The second lesson is the great importance and utility of a central, cohesive institution and the multiplicative effects of its activity. Our rural society is today characterized by the decay of old institutions and the failure of new ones to arise. Therefore, the society is disorganized and leaderless in the sense of having no stable organization to take a comprehensive view and to step in at times of need. Reference has been made above to the service performed by the Karkhana during the drought of 1952-53. The Pravara Karkhana is, strictly speaking, an organization of a relatively small number of sugarcane farmers. Even so it has been able to function in a number of cases, such as of epidemics, as the rallying point in the area and it has provided leadership in all economic matters. What has been called the multiplicative effect may be illustrated by reference to two cases. The first is that of the reorganization of the co-operative credit structure in the area. It has been pointed out above that the Karkhana began by giving liberal crop loans to its members. In a sense, this was unorthodox, because giving crop loans is properly the function of a co-operative credit society. However, at that time the co-operative credit structure in the area was weak and its coverage limited and hence the Karkhana's action could be justified. It could not, at the same time, be a permanent arrangement. And as the apex co-operative bank insisted on the business being gradually handed over to the credit societies and as members of the Karkhana were apprehensive of results of transfer, the Karkhana had to take active interest in the strength and proper functioning of the credit societies. As a result every important village is today served by a credit society and the total structure is both strong and efficient. The second case is that of distribution of canal water. One of the relative failures of the Karkhana so far, has been in the matter of obtaining additional supply of Government canal water for members. In recent years it has, however, succeeded in obtaining a given supply of the water during summer months. This was, however, offered in bulk and only if the Karkhana made arrangements for distribution. This was a challenge which the Karkhana accepted and by calling upon group committees and creating ad hoc local organizations carried out the distribution successfully. The success was complete in so far as the Karkhana agency proved more efficient than Government agency; and in following years Government was willing to let the Karkhana undertake the ad hoc distribution even for non-members of the Karkhana. Incidentally, however, the Karkhana had proved the feasibility of voluntary distribution of water by irrigation groups about which a lot had been talked but no concrete experimentation undertaken.

The Pravara Karkhana experience further emphasizes the practicability of efficient work in a decentralized system, especially in matters of agricultural development, and the importance of a proper

line of communications. It also holds a warning against any rigid system. For some activities the most appropriate organization has been found to be that for one village, for others for five, for still others for forty. Wherever deliberate attempt is made to suit the organization or agency to the work in hand and there is widespread understanding about the means and the objectives the chances of success are considerable; and any failures can always be reckoned as providing data for the next experimentation.

Lastly the total experience appears to suggest that it pays first to work deliberately and cautiously with a pilot or a model and only afterwards to attempt rapid multiplication. In effect, the Pravara Karkhana proved a pilot project. Though it started with some specially favourable circumstances, the pattern of organization and operation evolved in it was capable of being widely copied in Maharashtra. In this, perhaps, lies the key to the rapid spread of the sugar co-operatives in Maharashtra.

The claim to attention of the Pravara Karkhana rests ultimately not so much on the solid results already achieved and the fully rounded and healthy co-operative structure raised but on the fact that the work was done in and by a rural community, which enjoyed no special advantages in regard to economic well being or education but, which had the urge to prove itself and did this on the strength of native grit and good sense and sound leadership.

APPENDIX

PRAVARA SAHAKARI SAKHAR KARKHANA, PRAVARANAGAR

Trend in sugar production

Year	Sugarcane crushed (Tons)	No. of sugar bags produced	Average Recovery
1950-51	33,055	37,501	11.49
1951-52	64,705	69,526	10.86
1952-53	60,310	64,362	11.49
1953-54	71,098	80,994	10.79
1954-55	84,530	92,531	11.06
1955-56	1,36,811	1,37,828	10.00
1956-57	1,74,990	1,90,712	11.05
1957-58	2,08,091	2,20,702	10.67
1958-59	1,59,728	1,79,774	11.30
1959-60	2,08,701	2,33,797	11.31
1960-61	2,12,587	2,46,377	11.60

Progress made by the members in deepening wells and in purchase of oil engines

Year	No. of wells	No. of engines
1950-51	288	32
1951-52	326	67
1952-53	401	164
1953-54	457	192
1954-55	466	200
1955-56	1000	470
1956-57	1145	595
1957-58	1232	751
1958-59	1514	906
1959-60	1514	906
1960-61	1531	1005

Membership of the Karkhana

Class of Member	1951	1955	1961
Producer Members	477	567	1478
Ordinary Members	13	22	21
Total	490	589	1499

Classification of producer members as on 30-4-1961

(1) No. of members holding shares for one acre ..	685
(2) No. of members holding shares for two acres ..	357
(3) No. of members holding shares for three acres ..	143
(4) No. of members holding shares for four to ten acres	242
(5) No. of members holding shares for eleven to twenty acres ..	43
(6) No. of members holding shares for twenty-one to twenty-four acres ..	5
(7) No. of members holding shares for twenty-five acres	3
Total	1478

THE SCOPE OF CO-OPERATIVE INDUSTRY*

IN assessing the potentiality of development of co-operation in the industrial field, it is necessary to define clearly what we mean by co-operative industry. Fundamentally, co-operation comes about when pre-existing economic units come together and co-operate in a given activity. The units may be householders, producers, labourers, artisans or any establishment engaged in an economic activity.

Co-operation can take a variety of forms and can be evidenced in any kind of economic activity. But for an effort to rank as co-operative, it is necessary that it should be essentially a joint endeavour. If this idea is pursued logically it will indicate in what manner industrial co-operative effort can be established in a variety of fields.

One of the earliest of industrial co-operative efforts was the co-operative workshop. In this case, a number of skilled workers in a particular activity came together and established a joint unit of co-operation. Such joint endeavour of skilled workers created a viable unit of industrial activity which itself employed the services of the co-operating workers. This is a primary type of co-operative industrial establishment.

A considerable proportion of co-operative industry in Israel belongs to this category. A large number of co-operatives of artisans in traditional industry sought to be established in India are also co-operatives of this type. This type, however, cannot spread into more modern forms of industry. It is confined to those types of activity in which traditional or acquired skill is dominant and the mechanical or other equipment is essentially an adjunct to the skilled worker and there is no complex division of labour as amongst supervisor, workers, etc.

Modern industry is characterised by complex division of labour and by plant and machinery playing the dominant part in production. Therefore, in putting up, say, a textile mill or a sugar factory, a beginning can hardly be made by bringing the workers together as co-operators. Co-operative industry which covers such activity is established through co-operation among either producers or consumers. All agricultural processing including the manufacture of sugar, can be brought within the field of co-operative industrial activity through the coming together of producers.

* *Co-operative Maharashtra*, ed. Nadkarni, D. M., Bombay, 1962, pp. 25-30.

The producers of sugarcane find it necessary to transform their produce before it becomes extensively marketable. For doing this they can jointly set up a sugar manufacturing unit and this becomes an essentially co-operative industry. Co-operation at the consumer end is illustrated by the handloom weaving industry in India which is dependent vitally on the supply of yarn. Handloom weavers can come together and establish a spinning mill so that they obtain, by co-operative effort, a continuous supply of the basic raw material of their industry. The production of yarn can also be looked at from the other end, that of the producers of cotton. Producers of cotton can find an assured market for their cotton if they set up a co-operative spinning mill.

If in a spinning mill the efforts of producers and consumers, in this case, the growers of cotton and handloom weavers, can be combined, you would have a double co-operative activity. Not only would such a spinning mill represent mutual co-operation of cotton growers and handloom weavers among themselves but in addition co-operation, of the two sets of producers and consumers interested in the product. The likelihood of this type of co-operation emerging is, however, dependent on the accident of the existence of the potential co-operative group of consumers on or near the area in which producers' co-operation is also possible.

The three examples of co-operative industrial activity discussed so far exemplify three different types. In the first, the main group of workers engaged in the industrial activity co-operate with each other in setting up an industrial establishment. Presumably they buy the materials on which they work, from the markets and also sell their product in the market. In the other types of co-operative industrial activity it is the producers of the main raw material or the consumers of the ultimate product that come together: in each type they continue to operate on the open market in relation either to purchase of materials or the sale of the product. Moreover, in both the cases the supply of labour is obtained by hiring labour in the ordinary way from the open market for the various types of work required in the factory. In all these institutions co-operation in case of one important requirement brings into existence an industrial establishment which can be truly called co-operative even though the co-operative aspect is thus limited.

There is another type of co-operative activity in relation to which it is an open question whether the term 'Co-operative' can be properly applied or not. In this case co-operation does not take place in the original establishment of the industry. It is only the result of effort of an organisation which has been established as a co-operative organisation in another context to establish an industry which is connected with its normal operation. For example, the consumer co-operatives conduct trading activity jointly required by house-holders

who are anxious to satisfy their own domestic need. This mutuality in the sense of the establishment of joint activity is to meet a commonly felt need.

As the next step the co-operative consumers' stores may come together and form a co-operative wholesaling organisation so as to conduct their purchasing operation more efficiently. If such a wholesale organisation of co-operative consumers' stores establishes, let us say, a cheese manufacturing factory, to supply in part the ultimate needs of their clientele to what extent can the cheese factory be called a strictly co-operative enterprise? Is the remote interest of the clientele of consumers' stores in the product of a factory owned by the wholesale organisation to be reckoned co-operative and considered comparable to the co-operation of handloom weavers in the production of yarn for their own use?

A large part of the co-operative industry in Israel has been established through an entirely different approach. This is that of forming a super co-operative frame which is co-extensive with the trade union organisation in the State. It is the trade union organisation's counterpart in the co-operative world that establishes and conducts on its own a large number of varied activities. It might be argued that labour is used in every type of activity so that a trade union organisation can be taken to have interest in all economic activity. However, when an industry established is not the result of co-operation, of those directly concerned in some part with its operation, its conduct differs little from that of an industry in the private sector. The difference lies only in the ultimate ownership and management of the organisation. The issue raised here is not merely of theoretical interest. It is connected in a vital manner with the proper basis of a co-operative organisation, with the validity of its claim to be a genuine co-operative organisation, and even the efficiency of its working. It is necessary to point out that even in the type of co-operatives indicated earlier, activity in a number of aspects cannot be differentiated from ordinary private sector activity. As employers of labour many co-operatives are in no different position from that of private employers. It is only in Yugoslavia where initially there was nationalisation of all productive activity, that by subsequent transfer the ownership of all units came to be vested in the workers themselves of the respective units. In this sense they are full co-operatives.

However, it does not appear that even they achieve co-operation on all fronts. For the raw material utilised or for the sale of the product their activity is like that of any ordinary privately owned industry. It is obviously not possible to integrate all economic activity in such a manner that every aspect of it becomes co-operative. The only hope in this respect can be that whatever the initial base of co-operation, the other aspects also will be affected by the co-operative spirit.

The treatment of labour in co-operative industries in which the Yugoslavia models cannot be followed, presents a problem. What, in a co-operative based on producers' or consumers' interests, is the attitude to be adopted towards labour? In what sense can labour be included in the co-operative effort? Is it possible and necessary to go further in this respect than the general lines on which joint consultation and share for labour in management can be provided even in the private sector?

No effective solution has yet been found to this problem if it is held that the co-operative character of an industry is derived essentially from a feeling of joint endeavour on the part of the workers employed in the industry. The factories owned by British wholesale co-operatives or the many-sided industrial activity of the Histadrut of Israel are not strictly co-operative. In fact the whole complex of economic activity of the Histadrut is often termed "Labour Economy" rather than "Co-operative Economy".

It may be noted in this context that proper artisans' co-operatives in Israel are reluctant to admit into their organisation hired workers and that this is also the position of the Kibbutz. If one takes up this position it is obvious that co-operation can progress only in given direction and upto certain limits in industries. Where a direct interest in a product does not arise from the labour of the producers or the consumers, the establishment of co-operative industry for that product will become difficult.

Where, for example, the raw material is available either from single source or obtained from diversified or scattered producers who cannot come together for co-operative activity, a producers' co-operative industry would not be possible. This, for example, may be the case in large parts of mineral or metallurgical activity. Similarly, where consumers of a product are diversified or are scattered, it might be difficult for them to come together to start a co-operative industry. Not only does this happen in the case of many types of primary and intermediate industries but it is also the case with public utility concerns such as railways, water supply or electric supply. This field of industry therefore lies largely outside the scope of co-operative effort.

Apart from this limitation, the discussion above has significance for the form of organisation that co-operative industry should take. There is a trend at present towards co-operative organisations, which have resources to establish an industry and do so, calling it a co-operative industrial unit because it was established by co-operative organisations. A financial organisation like a co-operative bank could establish, by sparing some resources, a number of industrial production units, if it wants to do so. But this would hardly be a real co-operative industry. In the same way, marketing organisations such as purchase or sale unions may do the same. Not merely for satisfying

a definition but also for reaping the full advantage of the co-operative principle it is necessary to base the organisation of industrial activity directly on the consumers, producers or labourers directly interested in the industry rather than allow a remote association of the principle with an industrial enterprise. The discussion above also would indicate that it is an impossible objective to aim at co-operation in every direction. It would therefore be sufficient if a basically co-operative establishment is contemplated, and it is always kept in mind that a co-operative, however established, has the obligation to behave co-operatively in all other directions with other co-operative organisations.

CO-OPERATIVE SUGAR INDUSTRY : SOME POLICY ISSUES*

I EXTEND a warm welcome to all representatives of member factories and other delegates and invitees to this annual meeting of the National Federation of Co-operative Sugar Factories of India. The report of the Federation for the last year, which has been supplied to you, gives full information in relation to the work of the Federation and the progress of the co-operative sector in the sugar industry. I shall not go over all this ground, but shall confine my remarks to a few salient points to which I feel it desirable to draw your special attention.

The Annual Report of the Federation presents data relating to the performance of the co-operative sector in the sugar industry during the last year. It may be claimed that the performance is highly satisfactory. The recently licensed co-operative sugar factories have been able to go into production within a reasonable period of obtaining licence and have shown that they attain efficiency, in both production of sugarcane and manufacture of sugar at an early stage. Because of their organisational structure, they are able to influence progress of sugarcane cultivation more directly than other types. This all round satisfactory performance justified us in demanding that government should extend further its policy decision to give preferential treatment to the co-operative sector in future progress of the sugar industry in India.

For some time past, government had suspended fresh licensing of additions to sugar manufacturing capacity within the country. The policy has been changed this year and it is expected that licences for the establishment of new units, and for the extension of old ones, to a significant extent, will be granted soon. The Federation has already put in a plea for the establishment of all new units in the co-operative sector, and for highly preferential treatment of the co-operative sector in the grant of licences for extension of capacity of old units. It would be generally agreed that the sugar industry is eminently fitted to be placed wholly in the co-operative sector. Sugar manufacture is essentially no more than an elaborate processing activity. Processing is the activity that is necessary to be undertaken before

* Speech delivered at the Fourth Annual General Meeting of the National Federation of Co-operative Sugar Factories held on the 10th October, 1963 at Coimbatore.

continuously remunerative, a programme of sugarcane rehabilitation is not dependent on creating an additional demand for cane. Experience of the last two years, has in fact, emphasised that, given the demand for gur and khandsari, the demand for existing factories far exceeds the supply available to them at prices they are able to offer for sugarcane. In the circumstances, it is obviously illogical to suggest that additions to capacity of existing units will improve the conditions of the sugar industry or of sugarcane cultivation as a whole in such tracts; though such additions will, no doubt, allow some existing units who are already doing well or are at the margin to improve their position greatly, chiefly at the cost of other competitors.

This is not to suggest that official policy should not actively tackle problems of such stagnant areas. The basic problem of improving the organisation and methods of the production of sugarcane have, however, to be tackled by a radical and comprehensive long-term plan. In the process, the rationalisation of the location of plants and of the operation of the existing units can further be undertaken. I would, moreover, urge that as an integral part of such programme of rehabilitation and reorganisation, the co-operativisation of sugar production in these areas should also be attempted. The present spread of co-operative effort in sugar production, is unfortunately extremely uneven. No effort is being made to convert units in the older areas of established industry into co-operatives. Advantage should be taken of the programme of rehabilitations to start this process also.

It is, at the same time, important that policy governing new licensing of capacity should not be diverted from its proper end, which is that of efficient production in a dispersed manner, by consideration of problems of rehabilitation in the stagnant areas. The argument that the capital cost of expansion of existing units would be lower is a familiar one which always does service in the cause for further concentration. It is particularly weak in the sugar industry where total costs of manufacture are relatively low in the price of the final product and where such other costs as of transportation of raw materials are high.

I may refer to another important subject whose consideration has been raised by official spokesmen during the year. It has been suggested that a marketing body should be set up for sugar industry as a whole and that some scheme be formulated by which rationalisation of distribution of sugar is brought about. I may state, at the very outset, that the Federation would wholeheartedly welcome any effort at the rationalisation of the distribution of sugar and an effort by which there was a proper regulation of prices of sugar from ex-factory sale to retail sale to the ultimate consumer. We are, at the same time, anxious that before government comes to any conclusions in this

agricultural produce can be properly marketed, and as such it is an activity that should take place close to agricultural production. If the activity can be undertaken and organised by the producers themselves as a mutual service, its organisational efficiency and social propriety are obviously enhanced. We are thus fully justified in asking government to extend its policy of preference and to give the fullest scope for the growth of co-operative enterprise in this industry.

I would, more specifically, emphasise two points in this connection. Firstly, that at the size at which sugar production now begins to be efficient, usually taken round a plant of crushing capacity of 1,000 tons per day, new co-operative sugar factories should be established as widely and numerous as possible. It is generally agreed that there is great need of dispersal of industrial activity throughout the country. Therefore, wherever there is a volume of concentrated production of sugarcane sufficient to enable an economic unit of sugar manufacture to be established, every effort, encouragement and opportunity should be given for the establishment of such a unit. In the second instance, I claim that co-operative sugar factories which have already proved their efficiency should be enabled to expand their operations provided there is enough cane available within a reasonable distance of the factory site and, I would add, provided also that the extra cane is obtained by enlarging the membership of the co-operatives rather than by resorting to purchase of non-member cane. I emphasise the latter point as I believe that we can rightly claim some preferential treatment only as long as we maintain our strictly co-operative character and spread widely the net of social advantage accruing from our form of organisation.

It is necessary, in this context, to discuss briefly a proposition that is often put forward. It is said that increased sugar production should be brought about, chiefly, through licensing of additional capacity. This is justified on two grounds. Firstly, that it will enable older producers in some areas to make their production economic, and secondly, that the capital cost of additional production will thereby be kept low. The two arguments need to be examined separately. In the first instance, there are a number of units today whose operation is found to be inefficient or uneconomic even though their size is not much below the one thousand ton level. This is because of a number of considerations such as insufficient or fluctuating cane supply, the low quality of cane available or obsolete machinery or ill-balanced plant. It is obvious that in such cases, the proper remedy is not the extension of existing capacity. These require rather a replacement-rehabilitation programme either in the matter of existing plant and equipment or in the matter of existing cane supply. It is equally obvious that in areas where cane has been traditionally grown for decades and where the prices offered for cane during the last decade have been

continuously remunerative, a programme of sugarcane rehabilitation is not dependent on creating an additional demand for cane. Experience of the last two years, has in fact, emphasised that, given the demand for gur and khandsari, the demand for existing factories far exceeds the supply available to them at prices they are able to offer for sugarcane. In the circumstances, it is obviously illogical to suggest that additions to capacity of existing units will improve the conditions of the sugar industry or of sugarcane cultivation as a whole in such tracts; though such additions will, no doubt, allow some existing units who are already doing well or are at the margin to improve their position greatly, chiefly at the cost of other competitors.

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matter, the tentative suggestions of government may be publicised and government should reach decisions only after full consultation with bodies like this Federation. In the absence of definite proposals I would offer only one or two observations in this behalf. I may emphasise that we as members of the co-operative sector are highly interested in a proper organisation of distributive trades in the country, preferably on the co-operative pattern. Therefore, if it is possible in all the states, to build up a co-operative marketing organisation and to link it with a co-operative consumer's organisation, the co-operative sugar producers would welcome close collaboration with these organisations. In the alternative, as an immediate step, I would suggest that government, if it decides on pooling, might enable the Federation to work as a joint body on behalf of sugar co-operatives throughout the country. Such a joint body would carry out government policy in respect of distribution and would interest itself in the creation of units of sugar distribution at the consumer end. For this purpose, it will collaborate closely, through the state federations, with the co-operative organisations within the states. I make this suggestion as a preliminary experiment in the direction of a general policy approach which I would like government to adopt. This is that of using the apex organisations in all co-operative activities as the instruments for the implementation of government policy at least in relation to the products of co-operative activity.

I hope I shall not be considered presumptuous if I also put forward a plea for a more adequate recognition by government of this Federation in the shaping and implementation of its policy in relation to the sugar industry. The co-operative sector already holds a significant share in the manufacture of sugar in India and this share is an increasing one. As recently licenced capacity matures and new units attain full production, our share will move up considerably within a few years. If government continues its preferential policy in relation to licensing of future capacity, the share of the co-operatives in sugar production will keep on steadily increasing through the next 5/10 years. I hope and expect that, side by side with this, the conversion of private sector factories into co-operatives will take place so that within a reasonable time sugar industry in India will be mainly in the co-operative sector. In the meanwhile, I would urge that government should recognise immediately the special character of co-operative units and the need for taking their point of view into account in all matters of policy formulation and of its implementation. The emergence of the co-operative sugar manufacture sector is recent and various official arrangements existing at present were evolved at a time when production of sugar by co-operatives was insignificant. Operation of all policy decisions and implementation of all regulations were thus framed with reference to the need of dealing with the

private sector and its organisations. As pointed above, co-operatives in the sugar industry in India are to-day sufficiently numerous and spread all over the country. They have also a distinct point of view. The National Federation of Co-operative Sugar Factories would be very glad to and would welcome every opportunity of working with representatives of the private sector, in matters of common interest. However, the socio-economic point of view of the co-operatives is distinct and the methods of operations of the co-operative and the private sectors are bound to remain different in many ways. Therefore, we feel that in most such matters as for example, from that of coal supply to that of the arrangement for exports, full recognition has now to be given to the needs of the co-operative sector and official policy should be so guided as to evolve, in due course, a parallel organisation for the co-operatives. I can, with confidence, assure government that the co-operative units would welcome organised and regulated dealings in all directions and would fully co-operate with government so as to implement government policy both in the letter and in the spirit. We represent an increasing as well as, what I believe to be, a progressive wing of the industry. It is also a wing that through the philosophy and objectives that guide it is specially interested in moral and social objectives. Moreover, we aim at a continuously closer knitting together of the interests and workings of individual co-operatives in federations at the state and the national level. We are thus in a position to operate programmes requiring integrated and internally planned action. It would, we believe, serve both national and co-operative interests if this aspect of our organisational structure is recognised and fully utilised.

Before concluding I should like to express my thanks to members of the Board of Directors of the Federation for the hearty co-operation given to me by them during the last year in the working of the Federation. I would also record my appreciation of the work of the officers and members of staff of the Federation. Shri Moorthy, our Secretary has proved himself a very capable organiser. He is doing very good work and the factories in the co-operative sector have greatly benefited by the assistance rendered by him.

LONG-TERM VIEW OF SUGAR POLICY*

IT gives me great pleasure to welcome the distinguished visitors, the delegates of member factories and other invitees who have kindly accepted our invitation to be present at the inauguration of this seminar. I am particularly grateful to the Hon'ble Dr. Ram Subhag Singh, Union Minister for Agriculture for agreeing to preside and Hon'ble Shri M. Bhaktavatsalam, Chief Minister of Madras for having agreed to our request to perform the inauguration. The establishment of co-operative sugar factories in all states in India owes a great deal to assistance and encouragement by governments of the States and of the Union. It was, in the first instance, the policy decision to give preference to co-operatives in licensing new units that made possible a rapid and countrywide establishment of co-operative sugar factories during the last decade. Next, most state governments subscribed to the share capital of the co-operatives and guaranteed the loans made to them by the Industrial Finance Corporation. Governments of States also gave technical and administrative assistance in a variety of ways to the newly established units. We gratefully acknowledge this varied assistance by governments which has helped to bring into existence a vigorous co-operative sector in the sugar industry.

At the same, to prevent misunderstanding, I may make clear that this assistance does not go beyond the measure of help always given by the state to the relatively weak for getting over their handicaps in the initial stages. We occupy no sheltered position, nor have we any privileges in relation to financial or other burdens. Therefore, it is valid to institute a direct comparison between the working of co-operative units and of others in the sugar industry. Such comparison, I feel confident, will not put the co-operatives in an unfavourable light.

It is, or should be, an essential aim of co-operative organisations to attempt continuously to work together closer and in a more integrated fashion. In this originated our practice of holding a seminar together with the Annual General Meeting of the National Federation. The seminar enables us to know each other better, to discuss common

* Welcome Address to the Fourth All-India Seminar on Co-operative Sugar Factories held at Coimbatore on October 20, 1963.

problems and difficulties and plan our operations for the coming year efficiently. One of the important problems that we are discussing at this seminar is the sugar policy of government and I hope it will not be thought inappropriate if I take the occasion of this speech of welcome to explain, in brief, my personal views on this important and complex problem.

A long-term view of sugar policy has long been overdue in India. It is no exaggeration to say that during the last fifteen years, official policy has been shaped almost exclusively by short-term considerations. As a result, government action has, more often than not, accentuated existing fluctuations and added to difficulties of the current situation. This could have been avoided if, instead, government had a formulation of long-term policy as a continuous frame of reference. I do not suggest that it is possible, at any point of time, to make confidently, a full projection, of the situation for the next, say, ten years and hold rigidly to such projection, in subsequent changing situations. However, even when full allowance is made for the element of uncertainty and the need for readiness to adapt, it still remains true that no effective planning is possible without a long-term base for policy. Realising fully the risks involved in attempting to sketch the elements of such a policy, I still venture on it at this time, because I consider that a public discussion on this important subject must get started. I, therefore, venture to offer a personal view of the problem, if only for purpose of being shot at and criticised by others.

Since 1950-51, the area under sugarcane in the country has increased considerably and the proportion of sugarcane used for making sugar has also increased. However, the increases in the area under sugarcane and in the proportion of sugarcane used for making sugar have neither been continuous nor uniform and have, in fact, been subject to fairly large fluctuations from year to year. The yield of sugarcane has at the same time been highly subject to influence of climatic conditions. As a result, the total volume of sugarcane produced and the quantity of sugar manufactured, though exhibiting a secular upward trend, have varied considerably from year to year. The prices of sugarcane have been, for the most part, relatively profitable since 1953-54. On the other hand, the profitability of the manufacture of sugar and the relative profitability of price offered by sugar manufacturers to producers of sugarcane as compared with the profits of the manufacture of gur and khandsari have fluctuated greatly, chiefly because of changing policies of government.

It is possible to draw some broad conclusions on the basis of the experience of the last ten years. At present relative prices of sugarcane, area under sugarcane may continuously expand. There appears considerable margin for future expansion in the area, in particular,

if account is taken of prospective increase in irrigated areas in peninsular India. Further, it may be taken for granted that there is considerable scope for improving the production per acre, and the quality of sugarcane in the country and that with systematic efforts in this direction the production of sugarcane in the more favoured areas in the country, will be on a level of efficiency comparable with the more advanced areas anywhere in the world. Experience with newly established units in the manufacture of sugar within the last decade shows that with some efforts in the direction of increased efficiency, the cost of production of sugar in India will compare favourably with that of most established older sugar producers and exporters in the world market. The present consumption of sugar in India is at low level. There is some evidence already of increasing demand even at relatively high prices and there appears considerable scope for further increase in domestic consumption. In light of the general trend in the demand for sugar in the world, the prospects for the export of Indian sugar appear fair. Because of the need of establishing new staple lines for export for earning foreign exchange, it is urgently necessary to give full consideration, to the possibility of increasing sugar exports and maintaining them at a high level. In this connection the step taken by the government last year in experimenting with the production of raw sugar in India has proved to be of great importance. The feasibility of profitable production of raw sugar in India has now been established and there appears a prospective international market for Indian raw sugar.

In case these propositions are accepted, it follows that the long-term policy for sugar in India should aim at continuous encouragement of the expansion of cultivation of sugarcane in the country and of increase in the capacity to manufacture sugar. In relation to the first aim it does not appear necessary to adopt any novel measure. The present relative prices of sugar appear sufficient to establish the desirable secular trend in the increase in area under sugarcane. In addition, it is necessary to undertake special intensive effort for the improvement of yields and quality of cane. The programmes in this behalf must be separately planned and must particularly distinguish between areas where present performances are highly unsatisfactory and where they are relatively satisfactory. In relation to the production of sugar, it is necessary to have a long-term policy of steadily increasing capacity and not to be deterred by events in individual years in the pursuit of this policy. The limiting consideration in this regard appears now to be the production capacity of domestic producers of machinery for the manufacture of sugar. It is important to plan for a steady annual increase in the capacity of the sugar industry from the point of view of also keeping the manufacturers of sugar plants in steady employment.

What are the problems that a steady implementation of such a long-term policy is likely to encounter? A steady increase in the output of sugar may be interrupted either because of a bad season or because of a specially large diversion of sugarcane to production of gur or khandsari. Policy cannot directly deal with seasonal conditions; there is no reason, however, why it should not be able to bring about and maintain an appropriate distribution of sugarcane supply between gur and khandsari producers on the one hand and manufacturers of sugar on the other. It is necessary to realise that this problem is on all fours with problems of production in other commodities which have been sought to be dealt with by the Government and the Planning Commission under common production plans. We require today a common production plan for gur, khandsari and sugar. The usual instrument so far used by the Government in this domain of policy has been that of the variable excise. Excise is placed high or low relative to the advantage sought to be given to the traditional and the less mechanised forms of production in any sphere. Unfortunately, sugarcane distribution has not yet been visualised as a problem of this type with the result that whereas the manufacture of sugar is subjected to extremely heavy taxation in terms of excise and other cesses, the manufacture of gur and khandsari is almost entirely free. Also there is no uniform policy in this matter and the measures especially in relation to manufacture of gur vary from state to state. The common investment and production plans for sugar cannot, however, be properly sustained in the face of such variations.

There is, at least, a two fold relation between the prices of gur and sugar. In the first instance movements in the price of sugar appear to affect directly movements in the price of gur. Not only are the movements of the two sets of prices in the same direction but also the ranges of variations are largely similar. Further in most movements, sugar prices appear as leaders. Secondly, the supply of sugarcane for manufacture of gur is, to a considerable extent, affected by the relation between the prices of gur and the prices that the manufacturers of sugar pay to producers. The relation between these two, established at any time, is likely to be disturbed by two sets of contrary movements; either by a slump in the price of gur or by a sharp rise in the retail price of sugar inducing an equally sharp rise in the price of gur which rise is, however, not reflected in the price offered by manufacturers of sugar to producers of sugarcane. In view of these established relations, it is impossible for Government to neglect the problem of prices of gur. If, because of inadequate supply of sugarcane, the production of sugar becomes low, prices at retail of sugar increase; an increase in the price of sugar forces upward the price of gur which by making gur-making more profitable to producers of sugarcane further affects the supply of sugarcane to sugar

manufacturers. Thus a vicious circle is set up which it is difficult to break through.

High taxation of sugar has been justified on the ground that the poorer classes in rural areas as well as in urban areas in some states are chiefly consumers of gur. Sugar in Indian consumption scales is thus classed as semiluxury. However, a regime of high prices of sugar with low prices for gur is now seen to be impossible to achieve and maintain. Therefore, Government must realise that its ideas relating to the proper price level for gur must be allowed to influence the policy relating to the price at retail of sugar.

It further follows that Government must have a controlling device through which it can regulate not only the variations in the price of gur but also the relative profitability for producers of sugarcane of manufacturing gur at given prices of gur. As pointed out above, the usual practicable device is a tax element which could ultimately affect the price obtained for sugarcane. I need not enter into the question of the nature of this device or the range of its applicability. I would merely emphasize that the policy aims I have in view are, some uniformity in regulatory policy relating to gur price and production, and the ability to bring about a measure of parity in producers' price of sugarcane for any type of end-product without at the same time permanently forcing high the level of prices of gur.

The other important problem which policy makers have to tackle is the adjustment of a fluctuating supply to demand. It must be taken for granted that the total production of sugar in the country will be subject to considerable variations even after the problem of gur has been relatively satisfactorily tackled. I have suggested that we should aim at a fairly large and increasing volume of exports of sugar. The establishment of the production and export of raw sugar offers a proper base for the building of export policy. A long-term export policy assumes a minimum quota of production for export. It is only on the basis of such a quota that long-term contracts for exports of sugar can be negotiated. However, the operation of such a policy requires ability to project, well in advance of any season the supply of and demand for sugar in the internal market. Only if this is done can the export market, above the minimum, serve somewhat as a cushion in relation to domestic supplies. Also this is necessary for a plan of rational and specialised production of raw sugar.

It may be assumed that with established relations and some long-term contracts the international market will be able to absorb Indian exports with a given degree of variability. It is obvious that one must be prepared to experience somewhat large variations in prices received in this market. These may, however, average out fairly in the long run.

Even with the development of an export market supplies available in the internal market will not be fully under control and given the unpredictability of internal demand the relation between internal demand and supply may be subject to severe strains in particular years. This means that the long-term policy for sugar must provide for the creation of a distributive agency which is able to manage, within limits, the fluctuations in the relation of internal demand to supply from year to year. And this must be built up as a normal enduring mechanism. In the absence of such mechanism to deal with annual variations a steady implementation of a consistent long-term policy will not be possible.

I should like to emphasise that all that I have suggested here requires the creation of no new machinery, the adoption of no new policy measures or the imposition of no new restraints or regulations. Control over sales by manufacturers of sugar has been in continuous operations for years. Ex-factory prices of sugar have been often under formal or informal control. There is also currently in operation throughout the country some system or systems of distribution of sugar to the ultimate consumer and an attempt at control of prices at retail. During the past decade many types, of regulations and controls have often imposed and then taken away without allowing time for or even making an attempt in the direction of creating an efficient structure for the distribution of sugar. Not only has the policy been made in the short-term but agencies have been created at short notice and for short terms. The hasty implementation of ad hoc decisions and their quick abandonment has led to great loss of time and money and has left no lasting effects.

My plea is essentially for looking at problems of production, planning and export planning in India for key commodities like sugar as long-term problems which in their essential characteristics have come to stay with us. It is, therefore, best for the government to take the long-term view of these matters and to evolve policies, agencies and instrumentalities which will not only efficiently implement the long-term policies, but will also be found useful when changes in situations make it necessary to make radical adjustments in long and short-term policies. In this effort at regulated and orderly progress and in the furtherance of social objectives and national aims with which the co-operative sector is in fullest sympathy the National Federation offers its services to government to the fullest possible extent.

Before closing these remarks, I would like to make at least a reference to another important aspect of long-term policy. This is the need for providing adequate penalties and incentives within the policy for efficient production and economic operation. It is possible to point to a large number of aspects of present short-term arrangements which

disregard this aspect. Only a carefully framed and consistent long-term policy can properly provide for these and this should be done and as soon as effectively as possible.

I have to apologise for having inflicted on this distinguished audience a perhaps lengthy exposition of views under the guise of a speech of welcome. However, I thought that instead of occupying the time allotted to me with trite observations on a varied list of subjects I might utilise it to light up, as much as was possible for me, an important subject in which, I believe, all of us are interested. With this apology and with renewed welcome and thanks I proceed to request our eminent guests the Hon'ble Dr. Ram Subhag Sing, Union Minister for Agriculture to preside over this inaugural function and Hon'ble Sri M. Bhaktavatsalam, Chief Minister of Madras, to inaugurate this Seminar of Co-operative Sugar Factories.

NATIONAL SUGAR POLICY*

THE National Federation welcomes the appointment of the Commission and hopes that the work of the Commission will lead to the evolution of a long-term government policy on the basis of a full and open examination of all issues and interests involved. The views of the Board relating to the subjects referred to the Commission are set out separately as under: (1) price of sugarcane, (2) price of sugar, (3) distribution and marketing arrangements and (4) licensing.

1. *Price of Sugarcane*

The Board is of opinion that the price of sugarcane should be linked to its quality. The Board has reviewed in the past the possibility of adopting the principle of paying each grower according to the quality of his cane. In India, this encounters a large number of difficulties and does not appear practicable, at least, at this stage. Therefore, we accept the practice of determining a uniform price of sugarcane for a factory area and linking the level of payment in any year to the average recovery during the past year. No doubt, it may be more logical to relate the price of sugarcane to the recovery during the same year. However, as the recovery is the average for the whole year it cannot be known till the end of the season. For the purchase of sugarcane by co-operative factories from non-members and particularly for the purchase from cultivators by private sugar factories, it is necessary that the price is firmly determined at the time of the delivery of cane. In the circumstances, the practice of linking the price to be paid to the previous year's recovery of the factory appears to be the only workable.

The Board accepts, in principle, the type of schedule for fixation of prices of sugarcane evolved by the Government of India some years ago. This defines the standard price as at a given level of recovery percentage of sugar and allows for proper proportionate increase or decrease i.e. at so many N.Ps. per .1 of variation in recovery percentage, either upward or downward. Such a schedule of prices of sugarcane should be logically constructed and announced

* Statement presented to the Sugar Commission on behalf of the Board of Directors of the National Federation of Co-operative Sugar Factories, in August, 1964.

well in advance of the commencement of the year. The Board is strongly opposed to any ad hoc tampering with the logicity or proportionality of the schedule or any changes or variations in it during the currency of the year, as have unfortunately taken place during the last two years. In this connection, we would draw attention to difficulties caused by the existing non-correspondence between the years for the determination of prices of sugarcane and of those for sugar. It is necessary that the definition of the year for both purposes should be the same.

While it is necessary and desirable that the long-term policy for the price of sugarcane should be framed in this manner, special adjustments in it appear necessary for the season 1964-65. These are rendered necessary by the existing relative levels of prices of gur and sugar in this country. The very high levels of prices of gur make it necessary to guarantee somewhat high minimum prices of sugarcane even in low recovery areas. The Board, therefore, suggests that for the year 1964-65, a minimum price of Rs. 2/- per ton of sugarcane be fixed all over the country. This price need not be increased till a recovery percentage of 9.4 is reached. Above this recovery level, there should be an increase in sugarcane prices at the rate of two naye paise per .1 of recovery. The Board does not accept the argument that a proportionate increment in the price of sugarcane is not required for the highest recovery areas. In the higher recovery areas, the price of gur also tends to rule very high, and a proportionate increase above the standard minimum is needed to meet, at least in part, the competition from gur manufacturers in the neighbouring areas. The Board does not expect that gur prices this year will be lowered significantly and, therefore, strongly advocates the Rs. 2 minimum. It would not favour the alternative of starting with a lower minimum and running the risk of having to increase it during the currency of the season as happened last year.

The above proposal for this year is based on the assumption that District or State bans on movements of gur will not be imposed during the season 1964-65. The imposition of such bans creates closed markets and leads to disproportionately high prices of gur in particular regions or areas. It follows that specially high prices have to be allowed to be paid by sugar factories to growers of sugarcane in such areas. The trend is then set towards different price levels of sugarcane for different states which have no rational or logical relation to each other. It is highly necessary that such cutting up of markets and arbitrary determination of prices be avoided.

We would further emphasise that a long-term stable policy for prices of sugarcane could be developed only on the basis of adequate control over the production and price of gur and khandsari. We consider that it is part of our national economic policy to impose

simultaneous control over all types of techniques of production producing a similar good for the same national market. This idea underlies common production plans advocated by the Planning Commission and is exemplified by the differential excises on such products as cloth and matches. If gur and khandsari prices are not under control, an element capable of upsetting radically the sugar plans for any year will continue to dominate the situation. We, therefore, suggest that the Commission should prepare a scheme of taxation, for example, excise or sale tax, of khandsari and gur and of control of their prices which will make it possible to control the prices that manufacturers of khandsari and gur can pay for sugarcane. If this is not done the present meaningless competition between producers of sugar and gur for supply of sugarcane will continue and will lead to sugarcane prices being even more out of line with prices of other agricultural products than they are today.

2. *Price of Sugar*

The Board of the National Federation considers that there should be one common schedule for the whole country for the determination of prices of sugar. The recent spread of sugar production capacity in various parts of the country is rendering calculations of freight advantage unnecessary. The Federation has always stressed the need of evolving a long-term sugar policy based on explicitly stated rational principles, uniformly applied all over the country. There is in operation a general trend towards greater uniformity in prices at the consumer level. A common all-India schedule, therefore, appears now to be appropriate. Such a schedule should be based on a scientific costing enquiry such as that carried out by the Tariff Board in 1959. It would be highly desirable if the Sugar Commission itself undertakes this work immediately.

The need for a new enquiry arises out of the large expansion in the sugar industry, most of it in the co-operative sector, that has taken place since 1956-57, the year to which the costing enquiry of the Tariff Board was related. The investment of capital in the new units has been very high and there are other important ways in which the relative cost structure has undergone changes in recent years.. A properly designed new enquiry will lead to the framing of a cost schedule which represents actual existing conditions in the country much more adequately than the 1959 schedules. The common schedule will have, at this stage, to make some allowance for variations in conditions in relation to recovery of sugar and the duration of the season. However, the range of such variations should be strictly limited and should in no case be larger than those indicated by the

Tariff Board. Also, the determination of the range should be oriented towards attaining a low average level of consumer prices. We strongly oppose the widening of ranges such as has taken place recently because instead of averaging and evening out costs it extends special protection to high cost producers. Such a move leads both to encouragement of inefficiency and to high consumer prices. We would further stress that the trend in sugar price policy of the future should be constantly towards encouraging efficiency and reducing costs. This is particularly necessary if we desire, in the interests of national economic development, to develop substantial exports of India sugar.

It will not be possible to determine the prices of sugar for 1964-65 on the basis of the results of a new enquiry, however expeditiously conducted. We would, at the same time, urge the Commission to ensure that such a new basis is available for the year 1965-66. For the current year i.e. 1964-65 the 1959 basis would still have to be adopted. In doing this, there should be no increase in the number of regions, viz. four, as recommended by the Tariff Board. There should also be no widening of the scales of duration and recovery adopted by the Tariff Commission. The Sugar Commission will have to modify the costs schedule of the Tariff Commission in one direction. This is to allow for the significant increases in costs in many items between the base costing year of the Tariff Commission and 1964-65. We consider that with the information and expertise at the disposal of the Sugar Commission the determination of the allowance needed to cover this increase in costs could be done most speedily and satisfactorily by the Commission itself. We assume that the cost calculations for 1964-65 will take fully into account the prices for sugarcane as determined for this year.

We are strongly against the giving of any short term ad hoc incentives, as for example, for increasing production or for extending the duration of the season, in any direction, as has been done in recent years. The adoption of such measures reflects the lack of a proper long-term policy in relation to the pricing of sugar and the management of its supplies. These measures result in intensifying fluctuations, and increasing inequalities and also lead to a net loss in production. No such measures are required this year and we expect that the recommendations of the Sugar Commission will make them completely unnecessary in the future.

We are also strongly against the inclusion of any rehabilitation allowance in the price of sugar. As recommended by the Tariff Commission in 1959 this is a matter that should be examined for each applicant unit separately and should be dealt with in the light of general principles of industrial policy of government.

3. *Distribution and Marketing*

The Board is of opinion that there is great felt need at present to rationalise arrangements for the bulk distribution and marketing of sugar and to place them on a sound lasting basis. The problem of distribution of sugar has to be viewed in the light of certain features which will dominate the situation for a long time to come. These are (1) Growing internal demand, (2) need for expanding exports, and (3) large variations in production of sugar from year to year due to natural seasonal and other factors. In the recent past the country has passed from glut to scarcity. Though scarcity may pass or its intensity be relieved the basic conditions responsible for it will remain. Therefore even with a rapid expansion of production of sugar in the country the possibility of acute shortage of supply in particular years cannot be disregarded. The total situation thus requires comprehensive management of the distribution of supplies of sugar.

The two main objectives of such management would be: (1) Guaranteeing a basic quota of annual exports for long-term agreements with purchasers abroad and (2) Ensuring a minimum quantum of supply for internal consumption. The first concern of any authority entrusted with this work would be to build up sufficient stocks, as early as possible, to ensure fulfilment of the two objectives. Later, as supplies become more plentiful the allotments in both directions could be levelled up appropriately. Even this can be done equitably and without upsetting markets only if continuity of long-term management is assured.

Exports have hitherto been managed by a Committee of the Indian Sugar Manufacturers Association. The co-operatives, which in recent years have contributed as much as half of the exports, are entirely dissatisfied with present arrangements. We present a separate note to the Commission setting out the various happenings and actions in relation to which we have reason to feel dissatisfied. Anyway, it is obviously inappropriate to allow the management of national exports to rest with a private sector organization and we suggest that the management of exports should be one of the main functions entrusted to the Marketing Board which Government proposes to set up. The Board should be given all the powers necessary to discharge this function satisfactorily.

Internal distribution within each state is being managed by the government of the state. This is a highly detailed local business which should continue to rest with governments of states. Ultimately, in each state the management of the entire business should be in the hands of co-operative organizations at various levels. The details of this will have to be worked out independently with governments in

each state. The main difficulty faced in this matter, so far has been that the states have acted on a temporary basis in each emergency and have not maintained a continuous organization for distribution of sugar. They should be advised to route sugar supplies whether small or large, through a permanent organization in the future and to aim at continuous improvement of its efficiency.

In relation to internal distribution the function of the Marketing Board should be to determine the total allotment in any year available for internal consumption and to make the allocations to individual states and to any extra-state organizations. The Board should have nothing to do with distribution of sugar within each state.

The Marketing Board should take over the entire production of sugar from individual factories. We are strongly opposed to the idea of a part of the production being left with individual factories for independent sale. We view the entire operation as of comprehensive long-term management to serve national ends. In such a context all that producers of sugar should expect is a fair price determined so as to afford incentive to efficiency. Extra and ad-hoc incentives are not needed and their administration always leads upsetting and confusing the more permanent arrangements.

The price at which the Marketing Board takes over sugar will be determined in the manner suggested by us above in the section on 'price of sugar'. We expect that the price for 1965-66 will be based on the results of the scientific enquiry conducted by the Sugar Commission. Any revision of the price so determined in future years should take place only after another similar enquiry or after another public review of policy by a duly constituted Commission or Committee. We would strongly urge the maintenance of the practice of making prices on the basis of objective data available for public scrutiny and not only by officials within the department.

The Board should be set up as a statutory authority which would report to Parliament. It should consist, apart from officials or experts, of representatives of both producers and consumers. Among representatives of producers adequate representation should be guaranteed to the co-operative sugar factories.

4. *Licensing*

The Board is impressed with the great possibility and urgency of expanding sugar industry in India speedily. The present consumption of sugar in India is at a very low level. Even at the relatively high prices ruling recently, domestic demand has remained active and there appears considerable scope for further continuous increase in domestic consumption. The prospects for export of Indian sugar also appear fair. If the price policy for sugar is oriented towards encouraging efficiency and lowering the cost of production a high average

of profitable exports should prove practicable. A steadily increasing demand for Indian sugar thus appears assured. The situation on the side of supply is equally favourable. There is already an active trend towards expansion of the area under sugarcane. In view of the planned increase in irrigation, especially in Peninsular India, the scope for further increase in sugarcane area appears very considerable. Also, in the intensively cultivated irrigated areas the prospects of increasing the yield per acre are very promising. The manner in which new co-operative sugar factories have been speedily established and have begun to operate efficiently also augurs well for the programme of future expansion. Everything thus points to the need for embarking on a long term plan for steady expansion in the capacity to produce sugar within the country. The Sugar Commission should lay down the main lines and requirements of such a plan. It should also recommend the need to follow the plan of expansion steadily and not to allow it to be upset every now and then, with much resultant short and long term losses, as has happened in the past. We hope that the new proposed distribution mechanism will take care of the short term changes which have led to fluctuations in official policy in former years. The main limiting consideration in relation to annual addition to production capacity appears to be the rate at which domestic manufacturers of machinery for the manufacture of sugarcane produce new plants. It is important to plan for a steady annual increase in production capacity of the sugar industry from the point of view of also keeping the manufacturers of sugar plants in steady employment.

The Board puts in strong claim for the establishment of all new units in the co-operative sector, and for highly preferential treatment of the co-operative sector in the grant of licences for extension of capacity of old units. It would be generally agreed that the sugar industry is eminently fitted to be placed wholly in the co-operative sector. Sugar manufacture is essentially no more than an elaborate processing activity. Processing is the activity that is necessary to be undertaken before agricultural produce can be properly marketed, and as such it is an activity that should take place close to agricultural production. If the activity can be undertaken and organised by the producers themselves as a mutual service, its organisational efficiency and social propriety are obviously enhanced. We are thus fully justified in asking government to extend its policy of preference and to give the fullest scope for the growth of co-operative enterprise in this industry.

This natural claim is greatly fortified by the performance of the co-operative sugar factories during the last fifteen years. In spite of unfamiliarity and other handicaps co-operative factories have come to be established and worked successfully against a large variety of

background. They have been able to go into production within a reasonable period of obtaining licence and have shown that they attain efficiency in both production of sugarcane and manufacture of sugar at an early stage. Because of their organisational structure they are interested in and are able to influence directly improvements in the production of sugarcane. The production performance of the co-operative sector during the last two difficult years has been specially impressive. We thus feel fully justified in demanding that government should extend further in scope and depth its policy decision to give preferential treatment to the co-operative sector in future progress of the sugar industry in India.

We would lay down two general guide lines for the licensing policy of the future. Firstly, that at the size at which sugar production now begins to be efficient, usually taken round a plant of a crushing capacity of 1,000 tons per day, new co-operative sugar factories should be established as widely and numerous as possible. It is generally agreed that there is great need of dispersal of industrial activity throughout the country. Therefore, wherever there is, or can be easily propagated, a volume of concentrated production of sugarcane sufficient to enable an economic unit of sugar manufacture to be established, every effort, encouragement and opportunity should be given for the establishment of such a unit.

Secondly, co-operative sugar factories which have already proved their efficiency should be enabled to expand their operations provided there is enough cane available within a reasonable distance of the factory site and, provided also that the extra cane is obtained by enlarging the membership of the co-operatives rather than by resorting to purchase of non-member cane.

It is necessary, in the context of licensing policy, to discuss briefly a proposition that is often put forward. It is said that increased sugar production should be brought about, chiefly, through licensing of additional capacity. This is justified on two grounds. Firstly, that it will enable older producers in some areas to make their production economic, and secondly, that the capital cost of additional production will thereby be kept low. The two arguments need to be examined separately. In the first instance, there are a number of units today whose operation is found to be inefficient or uneconomic even though their size is not much below the one thousand ton level. This is because of a number of considerations such as insufficient or fluctuating cane supply, the low quality of cane available or obsolete machinery or ill-balanced plant. It is obvious that in such cases, the proper remedy is not the extension of existing capacity. These require rather a replacement-rehabilitation programme either in the matter of existing plant and equipment or in the matter of existing cane supply. It is equally obvious that in areas where cane has been traditionally

grown for decades and where the prices offered for cane during the last decade have been continuously remunerative, a programme of sugarcane rehabilitation is not dependent on creating an additional demand for cane. Experience of the last two years has, in fact, emphasised that, given the demand for gur and khandsari, the demand for sugarcane of existing factories far exceeds the supply available to them at prices they are able to offer for sugarcane. In the circumstances, it is obviously illogical to suggest that additions to capacity of existing units will improve the condition of the sugar industry or of sugarcane cultivation as a whole in such tracts; though such additions will, no doubt, allow some existing units who are already doing well or are at the margin to improve their position greatly, chiefly at the cost of other competitors.

This is not to suggest that official policy should not actively tackle problems of such stagnant areas. The basic problem of improving the organisation and methods of the production of sugarcane have, however, to be tackled by a radical and comprehensive long-term plan. In the process, the rationalisation of the location of plants and of the operation of the existing units can further be undertaken. Moreover, as an integral part of such programme of rehabilitation and re-organisation, the co-operativisation of sugar production in these areas should also be attempted. The present spread of co-operative effort in sugar production, is unfortunately extremely uneven. No effort is being made to convert units in the older areas of established industry into co-operatives. Advantage should be taken of the programme of rehabilitation to start this process also.

It is, at the same time, important that policy governing new licensing of capacity should not be diverted from its proper end, which is that of efficient production in a dispersed manner, by consideration of problems of rehabilitation in the stagnant areas. The argument that the capital cost of expansion of existing units would be lower is a familiar one which always does service in the cause for further concentration. It is particularly weak in the sugar industry where total costs of manufacture are relatively low in the price of the final product and where such other costs as of transportation of raw materials are high.

The economics of the transport of cane have hitherto been neglected in the Indian sugar industry. This is because of the dominance of the U.P. and Bihar industry where the purchase of cane is ex-gate and the transport cost is borne by the cultivator. The working of co-operative sugar factories, especially in Maharashtra, has yielded information which throws valuable light on this problem. These co-operative sugar factories themselves undertake the harvesting and transport of their members' sugarcane. They are enabled by this procedure to rationalise their programme of crushing and also gain through

higher recovery of sugar because of the relatively short interval of time between the cutting of sugarcane and its crushing. Detailed data are available which show variations in costs of harvesting, transport, etc. as between the different factories. Even though the areas of the co-operative sugar factories in Maharashtra were demarcated so as to keep down costs of transport, it is found that the variations in average annual costs of different factories are large and reveal a range of almost from Rs. 5 per ton to Rs. 9. These data emphasise the great importance of costs of transport. They show that an increase in these costs through widening of the area of supply of sugarcane is likely to outweigh any decrease in costs through increase in scale of manufacture. It may be noted further that the Maharashtra data throw no light on the loss of sugar consequent on the lengthening of the time interval between cutting the cane and crushing it. In the practice of gate delivery of cane the cultivator bears the cost of transport. The cultivator also gets a lower price for his cane with the lowering of the average recovery following delay in crushing. This is, however, no question of merely who bears the cost. The lowering of the average recovery of sugar is a national loss because of the failure to take proper care in planning utilisation of the raw material. The economics of this question has not been studied so far. We would urge the Sugar Commission to pay special attention to this problem of balancing the economies of scale in costs of manufacture against increased costs and losses because of enhanced distance and time due to widening of area of supply of cane.

We have suggested that a new co-operative unit be sanctioned wherever there exists, or can easily be brought into being, an adequate volume of concentrated production of sugarcane. This will lead to dispersal of some capacity all over the country. This we think desirable in view of the need to encourage growth of valuable crops in as many regions as practicable and in view of the costs of transport, etc. in moving sugar supplies over long distances. However, beyond the point where local production is feasible or economic there will have to be concentration of production both for the extra internal supply and for export. We would suggest that the planning of this concentration should be related chiefly to natural advantage and economic production.

MAJOR ISSUES IN CO-OPERATIVE SUGAR INDUSTRY*

It gives me great pleasure to welcome the distinguished guests, representatives of member factories and invitees to this Fifth Annual meeting of the National Federation of Co-operative Sugar Factories. I am particularly grateful to Hon'ble Shri C. Subramaniam, Union Minister for Food and Agriculture for having agreed to our request to inaugurate the proceedings and to Hon'ble Shri S. K. Dey, Union Ministry for Community Development and Co-operation who has agreed to address the meeting.

Before proceeding further, I wish to pay our humble homage to the late Prime Minister — Pandit Jawaharlal Nehru. Pandit Nehru was a great believer in the co-operative way and a whole-hearted champion of co-operative development. The void created by his death is thus especially large for co-operators and co-operative organisations.

The report of National Federation for the last year which has been supplied to the members, gives full information in relation to the work of the National Federation and the progress of the co-operative sector of the sugar industry. I shall not go over all this ground but shall confine my remarks to a few salient points to which I feel it is desirable to draw your special attention.

The performance of the co-operative sector in sugar industry has been satisfactory during the year 1963-64 and factories in the sector continue to account for increasingly higher proportion of the total production of sugar in the country. The production of the co-operative sector this year was 5.98 lakh metric tons in the total National production of 25.67 lakh metric tons, the co-operatives' share of the total National production in 1963-64 thus stood at 23.3%. This was as compared with 22.4% in the previous year. During both the years 1962-63 and 1963-64, the steadiness of production of co-operative sugar factories testified to the loyalty of their members and to the stabilising element introduced by co-operative organisation in the maintenance

* Presidential address at the Fifth Annual General Meeting of the National Federation of Co-operative Sugar Factories Ltd., held on the 22nd November, 1964, at New Delhi.

of productive activity in the sugar industry. The co-operative sector has also been able to contribute in a special measure to the implementation of government policy regarding the production of raw sugar for export. When this policy was announced in 1962, eight co-operative sugar factories immediately took upon themselves to produce raw sugar. The number offering to produce raw sugar during 1963-64 in the co-operative sector was 18. The Government of India accepted the offer of only 14 factories and directed them to produce certain quantities of raw sugar. It may be noted that the share of co-operative sector in the production of raw sugar in 1963-64 was 44%. Technical data indicate that the productive efficiency of the co-operative sector was on an average very satisfactory. The first two highest recovery percentages of sugar recorded during 1963-64 on an all-India basis were those of two co-operative sugar factories in Maharashtra. The co-operative sugar factories have also shown creditable performance in relation to implementation of licensed capacity. With the help of technical advisers of Government and the Federation, the progress of newly licensed factories in installation and going into production has been consistently satisfactory.

The establishment of co-operative sugar factories in all States in India owes a great deal to the assistance and encouragement by governments of the States and of the Union. It was in the first instance the policy decision to give preference to co-operatives in licensing new units that made possible a rapid and countrywide establishment of co-operative sugar factories during the last decade. We gratefully acknowledge the varied assistance by governments which has helped to bring into existence a vigorous co-operative sector in the sugar industry. The facts regarding the performance of the co-operative sector during 1963-64 briefly set out by me, and set out in greater detail in the Annual Report of the Federation, will make it clear that the co-operative sugar factories have fully justified the policy of Government in relation to co-operatives. I may, at the same time, point out that while government assistance by way of contributing to the share capital and giving preferential treatment for licensing has been important and essential, there has been no element of subsidy or special privilege in the treatment accorded to co-operatives. The co-operatives have fully borne all the financial and other burdens connected with their establishment and operation on the same terms as other units in the industry. I may note, in this context, that the Chairman of the Industrial Finance Corporation of India, the Organisation which has been in the main responsible for lending long term capital to co-operative sugar factories, has described the performance of the co-operative sugar factories in repaying loans taken from the Corporation as "excellent". It is necessary to draw pointed attention to these

facts; because it is often implied, in comment by interested parties, that the co-operative sugar factories are neither efficient units nor financially sound propositions.

I may go on at this stage to refer to a contention made recently by representatives of the private sector that Government's policy regarding preferential treatment to co-operative needs to be revised and that the co-operative and the private sector should be placed on a footing of equality in the matter of licensing of sugar factories. It is necessary to emphasise that reference to equality of treatment of the co-operative and the private sector in the matter of processing agricultural produce is completely misleading. It is even most misleading in the case of the processing of sugarcane. In an economy that is being developed according to plan and in a regime where establishment of sugar factories can only be done by obtaining a licence from government, the establishment of factory not only confers a privilege on the organisation which obtains the licence but also imposes an obligation towards the manufacturer on the producers of sugarcane in the surrounding area. It is obvious that the need to rationalise the use of invested resources must lead to avoidance of duplication or overlap in the establishment of factories. Once, therefore, anybody obtains a licence for the establishment of a sugar factory, he is automatically placed thereby in the position of being the sole purchaser for the sugarcane of all sugarcane producers in the neighbouring area. In the circumstances there is every reason why government should give the licence for the establishment of a sugar factory to producers of sugarcane in any area, if they agree to come together in a co-operative effort, and there is every reason against creating in favour of a private party, unconnected with the producers of sugarcane in the area, the privilege of being the sole purchaser of the produce of cultivators. Logically, I would even go further and suggest that steps should be taken gradually to bring into the co-operative sector the existing units in private hands. I am indeed convinced that particularly for those areas in which the industry is at present stagnant, a combination of interests of agriculture and manufacture in one co-operative unit is the only means through which revitalization of total economy could be brought about.

A reference to the history of the establishment of the industry in Maharashtra will illustrate fully what is said above. The industry in Maharashtra owes its beginning to the requirement felt by government for establishing enterprises which could profitably use water from government irrigation works. However, the establishment of sugar factories, following on official adoption of the policy, could not be brought about until government also exercised its powers to acquire land by purchase or on lease from the cultivators in the surrounding area for production of sugarcane by the factory. It may be

noted that till the establishment of co-operative sugar factories in Maharashtra, the private sector sugar factories in that region always claimed that they produced, in the main, their own sugarcane and refused, on this ground, to undertake any obligation to purchase sugarcane of farmers in the neighbouring villages for being crushed in their mills. It was only after the establishment of co-operative sugar factories that they changed this attitude and have now begun to claim the zoning arrangements on the lines of those obtaining in other states may be enforced on cultivators in Maharashtra. It is obvious that the Maharashtra peasants cannot now accept this claim and will insist to the utmost of their economic and political ability on their right to establish their own co-operative sugar factories for crushing their cane. In sum, all considerations of equity and justice require that the offer of a licence for the establishment of a sugar factory in any area ought, in the first instance, be made to the cultivators of the sugarcane in that area and that to make the offer to any private party is in fact to create arbitrarily a privileged position in relation to the body of cultivators in favour of that private party. It is also to endow that private party with a privilege to make earnings on the basis of the production of the cultivators, which earnings even apart from the talk of a socialistic society or a co-operative commonwealth, should in fairness accrue to the cultivators.

While the claim of the co-operative for obtaining the first offer for the manufacturing licence is based on the position of sugar manufacture as a processing of cultivators' production, it is important to look to other aspects also of the results of establishment of co-operative large-scale industry in the countryside. I would refer only to the more salient of these. In the first instance, it makes for a wide dispersal of the ownership of means of production and a direct participation in the conduct of the industries by those closely connected with it. The establishment of dispersed ownership and of such a meaningful relation of industrial units with constituents of neighbouring society have been adjudged as extremely important factors for peaceful progress and for development of social values in the advancing industrial age. In more concrete term, it is also seen how the establishment of a co-operative unit like a sugar factory helps to transform the entire countryside surrounding it. This is not only through distributing widely the advantages of economic gain flowing from the establishment of industry but also by providing a focal organisation with ample economic resources, adequate and appropriate organising capacity and direct interest by its very nature, in the development of the whole neighbourhood. I should like to point to co-operative factories in Maharashtra and elsewhere, where they have been functioning for any length of time, as obvious illustrations of the claim set out above. If anybody wants to convince himself of the difference

made to rural society and impliedly to the Nation as a whole by the establishment of co-operative sugar factory, he could look into the active leadership given and transformation that is being brought about in these areas.

I am aware that the organisational structure and operations of all co-operative units are not equally satisfactory. I also note that because of defects of structure or want of wide diffusion of ownership in some of our units, economic performance and attention to social objectives have not always been adequately evident. I would plead for a judgement on the potential performance of the co-operative form not being based on the performance of a small number of such units. I would at the same time, acknowledge in this context the responsibility of non-official co-operators of all areas. I accept on behalf of the National Federation of Co-operative Sugar Factories the responsibility of its Directors and leaders to see that economic inefficiency or backsliding from proper social aims should be prevented in case it is evident among any of our member factories. However, I would also urge on governments, especially of the states, to examine in what measure they also can help to remedy these defects. There are instances where official policies or official directives make it impossible for non-official leadership to play its part. In extreme cases the structure of official policy makes it impossible for even such leadership to emerge. It is an essential requirement of the attainment of our national objective in this behalf that the efforts of non-official co-operators and official policy be joined together in order to see that individual co-operative units play the part assigned to them in a worthy manner.

It may be excused if in this welcome address I deal apart from special problems of co-operatives also with some aspects of national sugar policy. I have had occasion to point out many times how a proper formulation of long term sugar policy has been overdue. It is no exaggeration to say that during the last fifteen years, official policy in relation to sugar production and to prices of sugarcane and sugar has been shaped almost exclusively by short term considerations. As a result, more often than not, government action has accentuated fluctuations and added to the difficulties of the current situation.

In these circumstances, the action of the new Minister for Food and Agriculture in appointing a Sugar Enquiry Commission was extremely welcome. This, it was hoped, indicated that henceforth sugar policy would be formulated in relation to long term considerations objectively assessed and analysed and which could be set out for public information and discussion. I have to note with regret that this hope has not been realised so far, that is, in relation to the interim report of the Sen Commission. The report has not been published and consequently there is no definitive information available

regarding the recommendations made by the Commission and the grounds on which they were based. Moreover, such reports regarding the recommendations as are available suggest that government has departed in its final decisions, to a significant extent, from the recommendations of the Commission. The departure has unfortunately been in the direction of retaining, against the advice of the Commission, some undesirable features which had crept into sugar policy in the last three years.

I may particularly draw attention to two features of the recent decisions of government relating to prices of sugarcane and sugar. The co-operative sector has accepted, in principle, the type of schedule for fixation of prices of sugarcane evolved by the Government of India some years ago. This defines the standard price as at a given level of recovery percentage of sugar and allows for proportionate increase or decrease therein. The National Federation emphasised this when it went before the Sugar Enquiry Commission and gave evidence and stressed that such a schedule of prices of sugarcane should be logically constructed and announced well in advance of the commencement of the year and strongly opposed any *ad-hoc* tampering with the logicity or proportionality of the schedule or any changes or variations in it during the currency of the production period as had unfortunately taken place during the last two years. The National Federation suggested that very high level of prices of gur made it necessary to guarantee somewhat at higher minimum prices of sugarcane even in low recovery areas and that a minimum price of Rs. 2/- per maund of sugarcane be fixed all over the country linked to a recovery percentage of 9.4, and increase it at the rate of two paise per 0.1 of recovery. We were, therefore, glad to learn that the Sugar Enquiry Commission had recommended to Government the minimum price at Rs. 2/- per maund linked to a recovery of 9.4%. The Government has, however, decided to link this price of Rs. 2/- per maund to a recovery of 10.4%. It is obvious that this decision does not conform to the announced policy of Government to link the price of sugarcane to its quality. The number of sugar factories in the country other than those situated in Maharashtra and Gujarat having a recovery of 10.4% for a prescribed period is very small viz. 14 out of 158. The co-operative factories in Maharashtra and Gujarat were paying the sugarcane price on the basis of their financial results even when all other sugar factories in the country were required to pay sugarcane price at a flat rate on a weight basis. Thus this year's formula relating to the price of sugarcane marks a virtual shift back to the old system of payment of price on weight basis. We greatly regret this apparent retrogression in government policy and fervently hope that on a fuller consideration of the question long term policy would

be formulated on the basis of linking of price to quality adopted a few years ago.

There is also one particular aspect of the recently announced prices of sugar for 1964-65, on which it is necessary to offer some comments. This relates to the division of the country into zones for determination of price of sugar. The National Federation in its evidence before the Sen Commission advocated, as the proper goal for the national policy for price of sugar, one common schedule for the whole country. It was recognised that the common schedule would have at this stage to make some allowance for variations in the conditions in relation to the recovery of sugar and the duration of the season. It was at the same time necessary that the range of such variations should be strictly limited and should in no case be larger than that indicated by the Tariff Commission and further that the determination of the range should be oriented towards attaining a low average level of consumer prices. The Federation is strongly opposed to the proliferation of zones and the widening of ranges such as have taken place recently, because such moves lead inevitably to the encouragement of inefficiency and high consumer prices. It is understood that the recommendations of the Sen Commission were substantially on lines of the views expressed by the Federation and that it had recommended formation of four zones and had narrowed the range of variation in prices as compared to the range of official prices for 1963-64. It is unfortunate that Government does not seem to have found it possible to accept the recommendations of the Sen Commission in this behalf. It is surprising to find that whereas in the whole Uttar Pradesh, the Sen Commission had recommended only two divisions, the Government's announcement has divided the western part of Uttar Pradesh itself into four distinct divisions. In my opinion, the long term effects of following such a policy of divisions within contiguous areas are not likely to be in national interest. At this stage I find consolation in the fact that Government has referred the whole question of determination of prices of sugar afresh to the Tariff Commission and that the official policy to be adopted next year in the light of the findings of the Tariff Commission may steer clear of the aberrations that it has exhibited during the last two or three years.

May I before closing these comments also put in a plea for informal consultations before Government announces its final decisions ? Such consultations will, at the least, have the advantage of enabling those who directly bear the effects of the decisions to understand and, if possible, appreciate the rationale of official policy.

Before concluding I should like to express my thanks to members of the Board of Directors of the Federation for the hearty co-operation given to me by them during the last year in the working of the

Federation. I would also record my appreciation of the work of the officers and members of staff of the Federation. Shri Moorthy, our Secretary has proved himself a very capable organiser. He and our technical officers are doing very good work and the factories in the co-operative sector have greatly benefited by the assistance rendered by them.

CO-OPERATIVE PROCESSING*

THE progress of co-operative activity in India during the last 15 years has been remarkable. Before 1945, it was chiefly in the field of rural credit that co-operation had established itself. However, as was revealed by the Rural Credit Survey conducted by the Reserve Bank of India, at the beginning of the 'fifties, only about three per cent of the total outstanding borrowings in the countryside were then provided by co-operative agencies. In relation to other activities, such as marketing and processing, the performance was even less extensive and was very patchy. In the urban areas, the main co-operative activity was salary earners' credit societies. Consumers' stores were in evidence only in a few centres in the South. During the last 15 years, deliberate efforts have been made by government and by non-official leaders of the movement, which have led to some striking results and which indicate the direction of possible future progress.

Progress in Credit

The greatest progress achieved has been in the older established systems of co-operative agricultural credit. In quantitative terms of the overall percentage of rural borrowings supplied by co-operative agencies, the progress within just over a decade was from about 1/30th of the total to about a fourth. In a large number of districts in India, co-operative credit represents today the most important source of credit available for agricultural production. There has been equally remarkable advance in some States in land mortgage, or as it is more properly called, land development banking. In a few States, the older programme of government assistance to cultivators for special purposes, has been entirely taken over by co-operative agencies, as also government schemes for assistance in capital investments such as in wells or purchase of tractors and pumps.

Marketing

Marketing or more comprehensively sale and purchase activity, has been another field in which considerable progress has been made. In part this has been helped by special favour shown by Government

* *Indian Co-operative Review*, October, 1965, pp. 639-43.

to co-operatives as distributors of supplies which were officially controlled such as fertilizers, iron and steel and cement. On the other side co-operatives have organised sale of agricultural produce, functioning chiefly as selling agents for the individual agricultural producer. However, the progress in distribution and marketing has not been as large or as uniform as in credit activity. And in sale of agricultural produce it has gone on to higher form of activity chiefly when linked with processing.

Integrated Co-operative Development

During inter-War years, there had been only one important development in processing activity — that of the cotton ginning and pressing societies in south Gujarat. After 1950, planned progress has been made in a number of directions. Co-operative cotton ginning and pressing has spread to other States; rice milling, expelling of oil have been established in the Co-operative Sector in many districts in some States. Some centres of a highly efficient dairy processing industry have also grown up. The most remarkable development has been the establishment of a Co-operative Sector in the sugar manufacturing industry. Beginning with almost nil in 1950, the Co-operative Sector was responsible for almost a quarter of the total production of sugar in India in the last season.

The experience of the last 15 years embodies a number of useful pointers. In the first instance, it indicates that once a community and its leaders begin to appreciate the importance of the co-operative way it is easy to establish all types of co-operative activity within it. The proposition might be illustrated in two ways. First, this is borne out by recent developments in what are considered to be the more advanced States or areas. In these not only have all forms of rural co-operation such as short and long-term banking, marketing and processing developed together but also urban co-operative banking and such lately enlarged efforts as consumers' central stores have shown remarkable progress. Secondly, it is in these areas that co-operative activity is truly self-reliant; that is, not only are co-operative business organisations run without guidance or assistance of official personnel but also co-operative policy is formulated and experimentation undertaken on own initiative. The second important lesson learned is that of the value of integration and the mutually supporting role of various types of co-operative activities. This has been most actively demonstrated in the rural economy where the more integrated co-operative activity becomes the more powerful and successful it is. Short-term, intermediate credit, development credit, marketing of agricultural produce and its processing are all intimately connected with each other. If all of these are managed by co-operative agencies,

it becomes possible, on the one hand, to give ample credit for production and development purposes because its repayment is assured and on the other it becomes possible to conserve for the cultivator the additional gains obtained through marketing and processing activity and also to give him adequate protection from seasonal fluctuations.

Obviously, these operations can most easily be established in relation to commercial crops. Therefore, the most notable advances have been in fields of sugarcane, cotton, groundnut, etc. The foodgrains economy presents some difficulties in organisational terms. In the first instance, the marketable surplus is, in this instance, a much smaller proportion of total production. Secondly, the relative buoyancy of prices of commercial crops has made the foodgrains economy relatively stagnant so that barring some districts in the South, improvement of practices and increased inputs have been absent in this field. Moreover, prices of foodgrains and trade in foodgrains have been subject to more controls than other crops and the regulatory measures have neither been consistent nor have usually turned out to be of advantage to cultivators. The fact that, except in rice, the crop has not to be processed before sale presents another difficulty in extension of co-operative credit and marketing in the foodgrains area.

Lines of Growth

In the light of the above analysis the possible course of future developments and their requirements could be indicated. The first step is that of the establishment of a viable and expanding credit structure. Much thinking has been done and experience gained in this matter in recent years and the main elements of policy have been firmly determined. The main requirement in this field is now appropriate action by non-official leaders and by Government in the different States. A high level group at the Reserve Bank has recently studied carefully the question of uneven development in co-operative banking and credit from State to State and has suggested a number of practical remedies for bridging the gap and removing the disparities. Even this group, however, found that if institutional credit in the less developed areas could be linked with some marketing activities as that on behalf of the Food Corporation, the process of building up of the co-operative credit system would become very much easier and more secure.

Marketing itself is intimately connected with processing. When producers bring their produce for processing in the co-operative processing unit, the successive steps of pooling, grading and standardization of produce and averaging of prices over periods become easy. When these steps have been achieved the link between the cultivator and money-lender-trader system is snapped and farmer economy is placed firmly on its feet.

Co-operative Industrial Complexes

On a wide base of agricultural processing, complexes of industries of various types could be raised. It is seen that wherever this has been done the rural economy gets immediately transformed and immensely strengthened. Larger surpluses become available for further investment and larger inputs make for technical and economic advance in both agriculture and industry. The most important problem facing Indian economy today is perhaps that of rural industrialization. If this could be achieved on the basis of co-operative activity, the bulk of the rural population will become involved in the process and peaceful and concurrent socio-economic development of all classes will become practicable. The centrality of processing derives from its contribution in both directions. On the one hand it strengthens the functioning of the agricultural credit and marketing systems; on the other, it provides a wide base for rural industrialization.

Because of the small scale and widely dispersed farming activity in India and the underdeveloped means of communications, processing of farm products requires to be undertaken on the smallest scale that is technically efficient. In many fields the processing industry is not efficient and research is required for discovering the most suitable techniques and operations for our processing industries. Processed farm products and the by-products of the processing industry represent the main resource base of rural industry. Our most important immediate requirement is studies in depth regarding the possibility of developing a series of industries on the basis of agricultural and other primary products and their processing. The primary processing co-operatives could be organized in a tier of federal co-operatives for establishing and operating these more complex industries. Once industrialization on the basis of primary products is underway other possibilities would emerge. The most important of these are related to implements, machinery and power required for agriculture and rural industry. The development of processing and that of power and machinery must proceed side by side.

Helping the Weaker Sections

It has been often noticed that co-operative development so far has benefited the middling and substantial cultivators much more than the small uneconomic holders of rural labourers and artisans. This is because the production base of these latter classes is very narrow and the emphasis in co-operative development so far has been on helping agricultural production. The only way in which the economy of these classes can be strengthened is to include in development planning, projects specially oriented towards their needs; projects as those of diversification of the economy with greater emphasis on

animal husbandry for the uneconomic holder, organization of labour co-operatives for taking advantage rationally of increased employment opportunities created through development programmes and increasing the bargaining strength of these classes, improvement of the techniques in traditional industry and organizing the marketing of their produce, conserving and development of resources such as those of forests, pasture, wasteland and connecting their exploitation with economic activity of these weaker sections. The failure of the co-operative credit system today to look adequately after the requirements of the weaker sections arises not out of lack of resources within the system, but out of the inadequate repaying capacity at present levels of operations of these sections. Apart from what government programmes will do, some co-operative central organizations have begun to experiment with the solution of the problems of weaker sections. However, in the ultimate analysis, the solution on a country-wide basis necessarily depends on diversifying and broadening the base of economic activity and increasing employment opportunities. As it is clear that the limit beyond which intensive agriculture by itself will not absorb additional manpower is easily reached in most parts of India, rural industrialization is the key to diversification of the economy and better exploitation and conservation of resources that are very necessary for providing for the welfare of the weaker sections. In this sense also, we return to the basic importance of investigating the feasibility of spread of processing activity in the Co-operative Sector and of building up a programme of rural industrialization on its basis.

CASE FOR CO-OPERATIVIZATION OF SUGAR INDUSTRY*

I am extremely happy to welcome you all to this twenty-first Meeting of the Board of Directors of the National Federation of Co-operative Sugar Factories. I am glad to say that the performance of our member factories is highly satisfactory. The recently licensed co-operative sugar factories have been able to go into production within a reasonable period of obtaining the licence. The co-operative sugar factories in production have shown that they attain efficiency in both production of sugarcane and manufacture of sugar at an early stage. The co-operatives have also proved that they are fully responsive to the needs of public policy such as in the production of raw sugar.

In speeches delivered earlier, I have passed under review problems of policy and operation, which had assumed public importance during the year. I had put forward a constant plea for a proper formulation and articulation of a long-term policy by government in all important respects such as the pricing of sugar and sugarcane, the marketing and distribution of sugar and the licensing of establishment of new units and the expansion of old ones. I had expressed the hope that the appointment of the Sugar Enquiry Commission would inaugurate a new era and that as a result of the recommendations of the Commission, firm and rational long term policy would have been formulated by the government. Unfortunately, these expectations have not been fulfilled. The Commission has not yet presented its report on all the terms of reference; it appears that even the interim recommendations made by it, have not been fully accepted. Moreover, government policy during the year continues to exhibit the defects against which we have protested in the past. We have always urged and have elaborately argued in our evidence before the Sugar Enquiry Commission (The Sen Commission) that the price of sugarcane should be fully linked to quality and that this linkage should be effective through the whole range of variations in quality. We have similarly contended that the number of zones for which separate calculations for prices of sugar are made should be kept down to a minimum, and that no variations should be made in the prices etc.,

* Speech at the Twenty-first Meeting of the Board of Directors of the National Federation of Co-operative Sugar Factories Ltd., held on the 18th October, 1965, at Bardoli.

announced at the beginning of the year during the currency of the year. Government action during the past year continued to show a disregard of all these salutary principles. In the circumstances, I am compelled to refer, as an explanation of these persistent features of Government policy to the possibility that the policy is being influenced by special interests; it is obviously extremely unfortunate to have government policy conducted in such a manner that it makes itself open to a charge of bias or partiality.

I argued how a sugar factory was in the position of monopolist buyer of sugarcane in the region covered by it and how, therefore, it was essential that for its efficient operation and for a proper guarding of the interests of cultivators, it should be owned by the cultivators. I find my contention receiving powerful support, albeit unconscious, from a most unexpected quarter. I refer to the recommendations of the Committee on rehabilitation and modernisation of sugar factories in India. This committee naturally concentrated its attention on the oldest established area of intensive sugar industry in India, viz., North Bihar and East U.P. The report of the committee, incidentally, brings out fully the source of the bias to which, I am afraid, present official policy is subjected.

The committee is powerfully influenced by a desire to guard private vested interests in these areas and the sole aim of its recommendations appears to be the strengthening and the enriching of these interests at public cost. However, in justifying its recommendations it had necessarily to reveal, however obliquely, the basic features of the existing situation. The recommendations of the committee indicate that the whole of this area in which modern sugar manufacture has been established for more than a quarter of century is full of high cost, out-dated units which have neither modernised themselves nor made provision for this through depreciation reserves. They are mostly small scale and yet also have a supply of sugarcane which is deficient both in quantity and quality. The Committee has to consider two sets of problems in making recommendations regarding rehabilitation and modernisation of industry in these areas. The first is that of the supply of sugarcane and the second that of making modernisation possible and finding finances for it.

The committee deals with the problem of supply of sugarcane in two parts. In relation to improvement of quality it recommends a programme of action to be planned and implemented almost entirely by the government of the state and its department of agriculture. No responsibility is considered to attach in this respect to the manufacturer of sugar for whose rehabilitation the programme is planned. The more interesting and the more relevant for our purpose, are the recommendations of the Committee regarding assured quantitative supply of sugarcane to the factory. I set down below a few extracts.

“The first approach to improve the productivity in U.P. and Bihar is to consolidate the holdings and bring the cane areas as close to the factories as possible by forming co-operatives of the growers or by other means. Efforts should be made to achieve the ideal that the factory operates in the centre of a compact and intensive cane area.

Production of sugarcane for gur manufacture should be planned separately. As far as possible no large scale manufacture of gur and khandsari should be permitted in factory areas. Licences for new power crushes should not be given in factory areas, and the existing licensees should be encouraged to shift to places outside the factory zones. An effective system of long term bonding of cane coupled with penalties, strictly enforced in case of breaches, would go a long way in preventing diversion and avoiding fluctuations in sugar production.

The sugarcane growers should be educated to align their interests with those of the factory and the factory in turn should see to it that the interests of the growers are not allowed to suffer. As much direct contact should be established between the two as possible.”

I would make two sets of comments on these recommendations. In the first instance, they throw light on the relations between growers of sugarcane and manufacturers of sugar in this area. After constant association of more than quarter of a century, the two have insufficient direct contact and neither party considers that the interests of the two are identical or closely related. This situation must be interpreted as being the result of actual experience. In the relationship the active party is that of the manufacturers; they are in every way the stronger class and fully control their own operations. The essentially dependent cultivators are passive recipients of such treatment as the factories subject them to and their existing attitudes have been shaped by this treatment. By pointing to the importance of a coincident interest and the non-appreciation of it today, the Committee has unconsciously highlighted the record of the actual behaviour pattern of private industry in rural India.

The other important aspect of the recommendations is the Committee's view regarding the ideal arrangement of the area of sugarcane supply in relation to the location of the factory and the need for an element of enforced monopoly. The ideal of the Committee is the location of the factory at the centre of a compact and intensive cane area; and the monopoly in favour of the factory is to be enforced by penal sanctions and a system of long-term bonding of cane. It may be well asked why holding this view of the ideal arrangement the Committee makes no reference to the organisation of co-operative sugar factories which, in many states, achieve all the ideals and objectives of the Committee without necessity of any outside compulsion or imposition. Reference may be made in this context to another recommendation of the Committee. This is as follows:

“Transport by rail is responsible for some loss in recovery due to staling of cane. Rail transport also means double handling thereby increasing the cost of cane and loss due to pilferage.”

This brings out how the present organisation of sugarcane supply in these states is highly uneconomic and wasteful of national assets and how it is important for the factory itself to have full control over the cutting and transport of sugarcane. This is another respect in which the co-operative more than fulfil the ideal expectations of the Committee.

We thus revert to the curious phenomenon of a Committee holding these views and yet not referring at all to the co-operative form of organisation. It may be suggested that members of the committee had little knowledge of conditions in other states like Maharashtra. The suggestion may be supported by reference to the statement made by the committee that “crowding of factories close to each other allowing no room for expansion” has taken place in some states among which they include Maharashtra. The actual facts are that most co-operative factories in Maharashtra have after the initial years, had to work an unduly long season and that in the ensuing year they face a situation in which the large majority may confront an oversupply of even members’ cane. The statement of the committee regarding Maharashtra can, therefore, be attributed only to crass ignorance or to a deliberate distortion of facts. Looking to the membership of the Committee the possibility of ignorance has to be ruled out. We are forced to conclude that the Committee is heavily biased against co-operatives and that this led it to avoid mentioning the co-operative form and to misrepresent the situation in Maharashtra.

I suggest that in the light of our experience for the last decade the first step required in the situation in East U.P. and Bihar as described by the Committee is to co-operativise the industry. This alone will make for the basic improvement in production and supply of sugarcane and in mutual relations of cultivator and factory that the Committee finds essential. Such co-operativisation should be easy as according to the Committee the existing units do not mostly work at profit and have almost no financial assets. In the circumstances a state sponsored programme of buying them out should not prove costly.

The heavy bias of the committee in favour of private vested interests, which was revealed by its recommendations to turn cultivators into bondsmen of the factory instead of its owners is further revealed by its recommendation regarding the finance of rehabilitation.

The entire pre-occupation of the report is with the rehabilitation of the unprofitable and uneconomic units of this area at the cost of

the public and the state. The Committee does not at any point examine how the units came to be in their present financial condition, what they have done with the large resources which they earned in the past and what justification there is for the public to bear the cost of rehabilitation of a purely private interest. Following its bias, the committee recommends the introduction of regulatory measures to enable high cost units to withstand competition with low cost units and even recommends for consideration of government proposals such as that of purchase tax on the basis of the duration of the season and an excise duty on the slab of sugar production. It also suggests that the disparities in conditions of recovery, duration and capacity being widely varying in different parts of the northern region, the price of sugar should be fixed on a sub-regional basis. (Parenthetically, I may note that in the opinion of this committee this principle has now been accepted by government. I know of no announcement of government policy which has given this justification for the proliferation of sub-regional prices during the last two or three years and I had thought that matter was still under reference to the Sen Commission. However the close association of members of this committee with the technical staff of the Ministry renders this explanation of recent government policy and its possible forecast of the future, plausible). The Committee further recommends that a levy at a certain rate be imposed uniformly all over the country on the sugar consumers in the internal market and be collected alongwith the excise duty to form a Sugar Industry Development Fund which fund may be utilised for giving special loan assistance for rehabilitation and modernisation to the old uneconomic units.

The picture, presented by the Committee, of an almost bankrupt private sector industry is very instructive in the light of the recent propoganda that has been conducted against co-operatives. It has been contended that the establishment of new co-operative factories involves very high capital costs and that capital formation in co-operatives is not rapid enough. A study conducted in the office of the N.C.D.C. has shown how the latter contention is wrong and how co-operatives even in U.P. have built up capital assets very rapidly. Moreover, cultivators in old sugarcane areas are now exhibiting capacity to raise large proportions of the capital required at the initial stage. At the same time the case for licensing new co-operative in all areas of intensive sugarcane production throughout the country put forward by the Federation does not rest on arguments of temporary expediency. It is pressed because it is the only means of building up a financially sound, economically efficient and socially healthy sugar industry and of promoting development through a large part of the Indian countryside.

In this connection of the relative merits of expansion and establishment of new factories we may also turn to the recommendations of the Committee referred to above. Because this enables us to identify the source of pressures on behalf of the preference to expansion. The case for expansion rests on the presumed economy of larger scale production. For this the main support adduced is that of observation in other countries, with no attempt, however, of judging of comparability of condition. But the contention of the Committee is that a programme of rehabilitation and modernisation of existing small units would not be worthwhile without appreciable expansion. Thus the Committee makes its programme of rehabilitating a series of inefficient and resourceless private units at public cost, the occasion for advocating licensing of their further expansion! This is an amazing case of putting the cart before the horse. The Committee is considering units in most of which the bulk of the supply is today brought by rail. The reorganisation of the area round these units, beginning with consolidation and securing identity of interests between cultivator and factory are essential preliminaries of the programme of rehabilitation. Anybody with the least knowledge of the actual situation can realise what grave difficulties the preliminary steps will face and how time consuming the process will be. In my judgement, it would be impossible to give effect to these recommendations of the Committee without resorting to co-operativisation. In any case, the licensing for expansion could be considered only after the preliminary programmes of the rationalisation of sugarcane supply has proved feasible and has made some progress. In its absence such licensing for expansion means no more than a free gift to vested private interests and the sacrifice of long term national interests. I would again urge a point that the Federation has incorporated in its evidence before the Sen Commission. This is the urgency of a thorough study of the economics of large scale in the Indian Sugar Industry in which proper account is taken of transport costs and of "staling".

Before closing I would deal with another "red herring" across our trail. This is the proposal of a sugar factory in the public sector near the coast for producing for export. I see no reason why, with the proved suitability of the co-operative form in this industry, the proposal should have been put forward. I would earnestly appeal to government that whatever the choice of its site or the extent of its coverage, co-operative workers should be first given a chance to implement the production design of government by organising an appropriate co-operative.

Before concluding I should like to express my thanks to members of the Board of Directors of the Federation for the hearty co-operation given to me.

REPORT OF THE SUGAR ENQUIRY COMMISSION*

I AM extremely happy to welcome all the representatives of member factories and other delegates and invitees to this Sixth Annual General Meeting of the National Federation of Co-operative Sugar Factories of India. The Annual Report of the Federation which has been supplied to you gives full information in relation to the working of the Federation and progress of the co-operative sector in the sugar industry during the year. The report presents data relating to the performance of our member factories and it may be claimed that this is highly satisfactory.

I welcome the publication of the Report of the Sugar Enquiry Commission. We are thankful to the Chairman and members of the Commission for having completed consideration of their terms of reference with expedition and having presented a full report to government. I may say at once that I find myself in complete agreement with the approach of the Commission and with all the basic recommendations made by it.

It is heartening to find a Commission such as this frankly stating that "there is scarcely an aspect of present policy pertaining to sugar which is not afflicted with the evil of ad-hocism, the injurious consequences of which can hardly be overemphasized. And the reason for it is the excessive preoccupation of executive authorities with the immediate, unmindful of long-term effects of their actions." Being impressed with the evils of ad-hocism, the Commission itself has attempted to take a comprehensive view of all problems relating to the healthy operation and development of the sugar industry in India and put its recommendations in a long-term perspective. The Commission considers that its long-term recommendations constitute a logically integrated programme of action which should be considered in its entirety and not piecemeal. I would wholly endorse this view and would request government to reach a decision on the recommendations at an early stage and to adopt fully the approach recommended by the Commission.

* Presidential address at the Sixth Annual General Meeting of the National Federation of Co-operative Sugar Factories Ltd., held on the 21st November 1965, at New Delhi.

It is not possible for me to deal, in this brief address, with the large number of problems that the Commission has passed under review and the many interesting recommendations that it has made. Moreover, the Board of Directors of the National Federation of Co-operative Sugar Factories is sure to study carefully the report of the Commission and to send detailed comments to government at an early date. I shall, therefore, confine my remarks to a few important aspects of the report and the recommendations.

I am glad to find that in relation to the price of sugarcane in the immediate future, the Commission reiterates the recommendations made in its interim report and draws attention to the many points in relation to which action taken by government during the last year, went counter to the scheme underlying those recommendations. That the price paid for sugarcane should be based on quality and that government announcement regarding it should not be changed from time to time are basic aspects of sugarcane policy which this Federation has continuously emphasized. I am glad that on these matters, the Commission has taken a firm stand and has specially emphasized the need for keeping the question of the fixation of prices of sugarcane away from "the very obviously strong pressures which surround it." I can only hope that government will now accept, wholeheartedly, the recommendations of the Commission in this behalf. I would particularly urge on government to give thought to the long-term problem early enough so as to make announcement of the minimum price for 1966-67 by December 1965 as recommended by the Commission. Otherwise, the plea that it is too late to make a change will be used year after year to perpetuate the status quo.

The core of the recommendations of the Commission is its long-term scheme for the management of the sugar economy. This has been widely interpreted as tantamount to recommendation in favour of the decontrol of sugar. This I consider misleading. The Commission has in fact attempted to produce a scheme for the most efficient management of the sugar economy through a combination of a number of regulatory and management devices with partial operations of market forces. The Commission insists on protecting the minimum prices that are paid to the producers of sugarcane and deriving these from the minimum prices for sugar. (I would parenthetically note that in its interim recommendations, the Commission had recommended that such portion of the excise rebate as was not passed on to the growers last year should be constituted into a development fund. The Commission has pointed out that the government did not accept this recommendation. The Commission, however, reiterates it and incorporates it in its general scheme.) The Commission is equally insistent that the present scheme of distribution of sugar through fair price shops be maintained. The

Commission is thus well aware of the need, in existing circumstances, to protect adequately the interests of the dispersed small agriculturist producer on the one hand and of the poor consumer on the other. The Commission's scheme for long-term management is concerned with intermediate operations within these two terminal fixed points. The Commission recommends the creation of a buffer stock which will consist of a minimum proportion of its annual production which each factory must always hold and of the sugar held in stock by an official agency. Sugar prices will be maintained within a fixed range through purchase and sale operations of the buffer stock agency. The possibility of limited variations in the price of sugar must be linked with possibilities of variation in the price of sugarcane. This the Commission seeks to achieve through a system of excise rebate.

The Commission links its scheme of sugar management with the need to bring the production of gur and khandsari under control. It makes some recommendations regarding limits on the activities of power crushers and producers of khandsari. Its main recommendations regarding integration of policies is, however, to extend the imposition of excise to power crushers and khandsari producers. The ability of producers of gur to divert large supplies of sugarcane away from sugar factories and sugar production is sought to be limited by the imposition of excise. Today, while almost no variation is possible in the price that the manufacturer of sugar can offer for the sugar-cane he purchases, the producer of gur is under no restraint in this regard. The result is a chaotic situation subject to large fluctuations from year to year. The Commission's recommendation would enable government to restrain activities of gur producers appropriately through variations of the excise. At the same time making the excise imposed on sugar subject to a rebate would enable sugar producers desiring to increase their production above the average to offer somewhat higher prices to producers of sugarcane for doing so.

The maintenance and operation of buffer stocks is also related to recommendations regarding export policy. It is recommended that every effort should be made to raise the possible and permissible level of exports and that these exports should be managed not by present ad-hoc agencies, with whose operations the co-operative sector is completely dissatisfied, but by the State Trading Corporation. This is a recommendation which the Federation, I am sure, will whole-heartedly endorse.

The recommendations of the Commission in relation to the level of prices of sugar follow, in the main, the scheme evolved some years ago by the Tariff Commission. The Commission has rightly condemned the recent proliferation of zones and the movement towards cost-plus basis that it implies. It recommends five zones for ex-factory price of sugar and has prepared cost schedules for each of these as a result of

detailed enquiry made by it. The Board of the Federation will examine the recommendations of the Commission in this behalf in detail, but I welcome the general approach of the Commission as it is substantially the same as that advocated by the Federation.

The central scheme for sugar management put forward by the Commission may appear elaborate and as putting too much burden and associating too many purposes with the single instrument of the variable excise. However, it appears, on the whole, very well conceived and I cannot think of any special reason why it should prove unworkable. I would, however, emphasise one point in this context. If an elaborate scheme of this type which attempts a judicious mixture of government regulation with operations of the market is to prove successful, all official operations in connection with it must be firmly rooted in objective fact and its operation must be completely freed from the pressures which have led sugar policy astray in recent years. It is because I am impressed with the vital importance of this that I wholeheartedly support the recommendations of the Commission, that the management of sugar distribution internally should rest with the Food Corporation of India, the management of exports with the State Trading Corporation and the determination of minimum prices of sugarcane should rest with the Agricultural Price Enquiry Commission.

I would select one particular recommendation of the Commission for special mention and support. This is its recommendation regarding encouraging the production of off colour sugar. The approach exhibited by the Commission in making this recommendation, is one that I would like to see adopted very generally. We are basically a poor country and lack resources. Our aim should, therefore, be to produce adequate quantities of average quality goods at minimum cost rather than to offer a large number of varieties or to indulge in prestigious production of luxury qualities. The production of off colour sugar would mean sugar produced at lower cost and also lead to saving in the increasing consumption of imported sulphur. The Commission is, therefore, right in emphasizing this aspect and in recommending a lower excise to encourage its production.

From the point of view of the co-operative sector, the Commission's recommendations regarding licensing are of the greatest importance. I find myself in general agreement with the approach of the Commission in this regard. The Commission has correctly pointed out that in the production of sugar the cost of transport, the factor of drriage etc., are limiting considerations to the economy of large-scale. I am particularly happy that in this matter the Commission has transcended immediate considerations of short term costs and has stated its opinion emphatically in these terms:

“Having regard to the fact that sugar is an agro-industry par excellence and therefore a very important vehicle for carrying progressive influences in the countryside, the consideration of the decentralisation of this industry in order to multiply the number of growth points in the rural economy of India, is so important as to justify, for the time being, the sacrifice of a smaller advantage for the sake of much larger gains in terms of the economic development of the rural sector.”

The judicious approach of the Commission in this regard is further brought out by its observations and recommendations on the matter of rehabilitation, modernisation as well as on the subject of setting up of specially large factories in the public sector for export. I am glad to observe that the Commission has passed under detailed review the recommendations of the Committee on rehabilitation and modernisation. I made some comments on the recommendations of this Committee in a speech at the meeting of the Board of Directors held on 18th October. I am glad that the Sugar Enquiry Commission has thought it necessary to record categorically and specifically its dissent from many recommendations of this Committee. The Commission does not accept the definition of uneconomic units given by the Committee as also its recommendations and calculations regarding a revolving fund. The Commission feels that it would be possible for most of the uneconomic units to rehabilitate themselves on the basis of loans and other assistance recommended. It goes on to make a very important recommendation in this behalf :

“If however any unit is unable to rehabilitate within a reasonable period, say, three years, of the offer of such assistance, and demands special subsidies or other concessions, the government should consider nationalisation in the social interest, especially in the interest of growers, and undertake necessary rehabilitation and modernisation measures.”

The Commission notes in another context that some joint stock units have recently sought to bring into their fold farmers as shareholders in order to achieve a better identification of interests between factories and farmers. It feels that this step is worthy of emulation by others but in order to be really useful, it should be undertaken on a substantial rather than on a token scale.

Finally, I would note the following recommendations of the Commission :

“While the Commission generally agrees with the Government’s policy that new units should be confined to the co-operative sector, it feels that where it is difficult to set up a co-operative factory, the State Government concerned may set up factories either under its own aegis or in collaboration with the joint-stock sector. . . . It also recommends that those sugar factories, joint-stock as well as co-opera-

tive, which are found to be badly managed for more than three years, should be taken over and run by Government for a certain number of years and then handed back to the owners subject to certain conditions regarding sound management practices being followed.... Since sugar-cane is a perishable crop and the fate of a large number of farmers is dependent upon it, Government cannot afford to permit any sugar factory to be mismanaged."

I quote these because I feel that while the co-operative sector can consider these to be satisfactory as far as they go, they also constitute a challenge to co-operators. It is clear from the general tenor of the report of the Commission and its recommendations that while the Commission considers that the co-operative form is the most desirable in this industry, it is not fully satisfied with the operations of some units in the co-operative sector today. The challenge to co-operators, more specifically to members of this Federation is to show by their own effort that not only would all new units be established automatically in the co-operative sector, but also that efforts at rehabilitation and modernisation in most cases result in the conversion of the rehabilitated units into co-operative sugar factories.

The report of the Sugar Enquiry Commission constitutes a landmark as the first comprehensive, long-term review of sugar economy and sugar policy. We may claim that the operation of co-operative sugar factories during the last decade and the approach and principles expounded by this Federation have made some contribution towards the formulation of the approach and the recommendations of the Sugar Enquiry Commission. The responsibility now rests on us to take advantage of the ground prepared by the recommendations of the Commission to consolidate our gains, to improve our efficiency, to exhibit our social utility and to carry the co-operative spirit into units and in areas in which it has not yet obtained a firm place or is not functioning appropriately.

Before concluding I should like to express my thanks to members of the Board of Directors of the Federation for the hearty co-operation given to me by them during the last year in the working of the Federation. I would also record my appreciation of the work of the officers and members of the staff of the Federation, particularly our Secretary Shri Moorthy. I regret to note that we have lost the services of our Engineer, Shri Sharma.

SUGAR CO-OPERATIVES IN MAHARASHTRA*

Growth

It is intended in this article to take a brief view of development of the co-operative sugar factories in Maharashtra and to raise certain issues of policy that have emerged as a result of the development.

The establishment of co-operative sugar factories and their growth in Maharashtra during the last ten years have been successful and rapid. They have attracted attention in the State and outside the State. The reasons for this are many and varied.

Some of the reasons for successful and rapid growth are, in a sense, extraneous. For example, throughout the post-war period, the price of sugar has been stabilised largely as a result of Government policy and has been fixed at levels relatively profitable. The grower of sugarcane, who is a member of the co-operative sugar factory, has thus profited from prices stabilised at a high level throughout these many years. No problems of sale and distribution in the disposal of sugar have arisen during these years.

Therefore, the running of a sugar factory has presented chiefly problems of production, agricultural and industrial rather than of trading and finance. The financial arrangements have also worked smoothly and, because of uniform profitable prices, no serious problems have arisen regarding repayment of loans. Where the farmers in the factory area were conversant with the technique of growing sugarcane and could raise the resources needed for initial subscription to share capital, the formation and operation of sugar co-operative factory has not presented any difficulties.

The pattern of organisation and operation of sugar co-operatives, established initially in Maharashtra, contributed greatly towards this success. The sugar co-operatives have been organised, essentially, as producers' societies and shareholding was linked definitely to the members' area under sugarcane.

Provision for a proper depreciation reserve and the concept of a compulsory deposit were established at the very start and there had been built up a tradition of a fairly conservative determination of

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the payment of price of sugarcane to members. It has been possible to maintain this because of the functioning of the Ministers' Committee.

Again, from the time of the first co-operative sugar factory it has been the practice to create an agricultural department within the factory which had complete control of the cutting and transport of sugarcane of members and which helped in planting of improved varieties, use of insecticides and pesticides, and in land and irrigation development, etc. All these features have assured efficient working of factories and also that they remained truly co-operative.

In most factories also, care had been taken from the beginning for bringing about a proper diffusion of membership. As a matter of policy membership was always open, that is, any producer of sugarcane within the prescribed area of the factory had the possibility of becoming a member.

The only reason for which factories could legitimately refuse addition to membership was their having already an excess supply of sugarcane from existing members. Even here it was expected that when the capacity was increased, preference would be given to members with the smallest acreage in the admission of new members and certain reservation of shares would be made in their behalf.

This general policy together with the operation of the ceilings legislation has led to a situation in Maharashtra in which the large bulk of members has less than three acres under sugarcane. In some factories, the average area of sugarcane per member may be even less than two.

Complete data in regard to the total area of holdings and the area under sugarcane of members of co-operative sugar factories in Maharashtra are not today available. In order to examine the extent to which there is universal membership and the benefits diffused to the largest extent possible within the area of each factory, it would be useful to gather such data.

This would indicate whether in fact what is claimed above is true of each factory and whether in any particular case, there exists some concentration of membership and of benefits. It would also reveal whether in the area of any factory, there still remain producers of sugarcane who have not been able to obtain membership even when they have desired to do so.

Given the pattern of organisation of co-operative sugar factories in Maharashtra as essentially producers' factories and given the policy adopted in respect of the prices paid for sugarcane, the diffusion of benefits in a sugar factory has been proportionate to the holding of sugarcane of various cultivators within the area. The diffusion, therefore, has been as large as the circumstances of the structure of agricultural production permit.

A number of related practices have also helped this diffusion. The factories have all taken special steps to render assistance to weaker members. The setting up of Agricultural departments has already been mentioned above. Services as of such departments are rendered free or for only a small charge so as to benefit small members who are not in a position to look after themselves in a special manner.

A number of factories have adopted other policies of giving help to members also. These pertain to distribution of credit and of fertilisers, distribution of diesel oil, services rendered by workshops of factories, construction of roads for the transport of sugarcane which have helped internal transportation needs, and maintenance of tractor units which ploughed fields of members.

All these types of services are of special help to the bulk of members with small acreage and have thus helped to emphasize the co-operative character of the organisation.

The by-laws of the Maharashtra sugar factories have always provided for all the sugarcane produced by members being at the disposal of the co-operative sugar factories. Though the provision appears somewhat one sided because the factories undertake responsibility to crush cane grown only on the acreage corresponding to shareholding of members, it has helped in enforcing discipline and has in a large majority of factories ensured loyal response in times of crisis.

In the case of the first factory — Pravaranagar — especially when it was working with a small capacity unit, problems of transfer of shares among members and the fear of transfer leading to concentration had to be faced. A number of conventions were evolved, at the time, through which it was sought to ensure that the transfer would not lead to further concentration of ownership of shares among members and that if possible it would help diffusion.

Precautions were taken in selling new shares when the factory was expanded to see that as far as possible all the smaller cultivators within the area were given not only the chance but were also enabled to become members.

To a large extent, because of the fairly large size of each factory and rapid growth in their numbers, problems regarding transfer of shares leading to concentration have not appeared in the newly established units since 1956. However, it is not unlikely that they will recur later, and resort may have to be had to formulating conventions as at Pravaranagar in the earlier decade.

The primary objective of a processing society is to render mutual processing service and to obtain for the grower the margin that would accrue from selling the processed goods. This margin is somewhat large in the sugar industry because processing in this field is

more akin to manufacturing a product than to the ordinary processing of agricultural commodities.

The conservation of this large margin together with the generally favourable economic circumstances, referred to above, have made for the success of the sugar co-operatives in Maharashtra. This success has emphasised an extremely important characteristic of co-operative processing organisations.

Such organisations are potentially the central organisations for their areas for a variety of purposes. They provide leadership and they command resources which can be put to very good use in a variety of directions of potential development of the area under their influence. Naturally, therefore, these organisations have come to be looked upon as those which would take initiative and provide the funds for meeting the requirements of further development of the area, particularly of members of the sugar co-operatives.

Because of these expectations relating to the role of the powerful central sugar co-operatives a number of new problems have arisen to which it is necessary to direct attention.

The first of these problems to be noticed is that relating to the functions properly discharged by the co-operative sugar factories and their relations with the other types of co-operative structure. It has been natural for those who run a co-operative sugar factory to think in terms of providing for members all the variety of services that they might require.

In the initial stages when other co-operative organisations within an area of a successfully established factory were weak, the co-operative factory had almost perforce to take on itself a variety of functions; for example the finances required for raising the sugarcane crop were supplied by a sugar factory in the early stages. A large number of other supplies including that of fertilisers were made available to members.

It was thought natural for the factory to perform these various functions for its members at this stage; it was also found convenient by the members. Considerations of the working of the entire co-operative structure, however, brought out disadvantages arising out of such arrangements. For example if crop loans for the cultivators growing sugarcane in an area were provided by the sugar factory, the volume of total business left to the village credit societies would materially shrink.

With sugar co-operatives taking over supply of fertilisers and other similar business, weakening of the local sale and supply organisations would come about. Diversifying activities of sugar co-operatives would lead to permanent atrophy of the different type of local units of the co-operative structure which had to render service to cultivators and others who were not members of sugar co-operatives.

It was, in the circumstances, obviously inadvisable to treat members of sugar co-operatives as in a class by themselves and to deny to the neighbourhood the possibility of building up varied types of co-operative organisations.

A large number of instances have demonstrated why members of sugar co-operatives should not be formed into closed organisation for all of their own needs. It is important that they should share activities with their neighbours and participate in other co-operative organisations so as to strengthen them. No further comments are offered on this aspect of the question as it is taken to be already firmly settled.

Problems of leadership and size

Two related problems of leadership of sugar co-operatives in local developments may be noticed.

The first of these is the extent to which sugar co-operatives can justifiably undertake welfare activities. Essentially, there have been two types of these activities — educational and health.

The responsibility of providing educational and medical facilities for workers in a factory is universally recognised in India. By analogy it has been taken for granted that such facilities may also be properly provided by the co-operative factories to their members. Already, however, problems have arisen in implementation.

Firstly, the variety and the extent of the facilities offered and the total financial burden that could legitimately fall on the factory, and secondly the group to which benefit of the activities should be open. For example, in relation to education, the provision of general primary and secondary education has not been questioned. There have been, however, cases where much more costly facilities are sought to be offered such as a college, a technical school or a high-cost residential public school.

All such activities impose a significant financial burden on the factory, if underwritten by it, and it is obvious that a line has to be drawn somewhere. It may be noticed that in some instances, the financial burden is not borne directly by the factory, but is borne by the entire membership through a voluntary contribution. In this case, instead of the factory incurring the expenditure it is met out of funds raised from members at so much per ton of sugarcane crushed or some similar measure.

It is obvious that when the latter mode of financing welfare activity is adopted and the activity receives the support of members in a proper general meeting its conduct is not open to serious objection, though even in this case the wisdom of any large proliferation of such activities whose burden falls essentially on the board and staff of the factory may be questioned.

The second leadership role pertains to economic development activities. This is in relation to promoting economic activities on a co-operative basis other than those of sugar factory. A distinction properly made in this regard relates to whether the further economic activity is based on the business of the sugar factory itself or is not so based. For example, the activity may have something to do with sugarcane or sugar or a by-product of the manufacture of sugar. In this case it would be properly considered an extension of the activity of the sugar factory and being of equal interest to all members.

Other types of activity would be organisation of agricultural or animal husbandry units such as dairying, poultry farming or an independent manufacturing unit such as a branch of the engineering industry. In this case, not all members of sugar co-operatives would even potentially be interested in the new venture. In fact, only some of them could participate. The new organisation would then have to be distinct and confined to those who are expected to participate in the new activity.

In order to establish such activity initially the sugar co-operatives in view of the possibility that it would benefit many members or large parts of the area of its coverage, may undertake together with members concerned some promotional expenditure and may afford certain preliminary facilities for the establishment of the new venture. It may also, only if it has surplus resources available, contribute some finance by way of shares or loans to the new establishment.

This, however, should be the utmost measure of its involvement in the new enterprise. Any attempt to go beyond these limits would mean taking unnecessary risks in relation to the body of members of the older co-operative and introducing complications in the worknig of an established unit and this is highly undesirable.

During the last few years, because of enthusiasm evinced by members of boards of directors and others in many sugar co-operatives, a great many activities have been initiated and lead taken in them by sugar co-operatives. In order to establish healthy traditions and ensure proper growth it is important that all this activity is examined at an early date and appropriate conventions established in relation to it.

A problem which has not been fully discussed in relation to the sugar co-operatives is the position of labour in them. There are two aspects to this. Firstly, that of the terms and conditions of employment of labour; this is essentially a matter of negotiations between the trade unions on the one hand and the authorities of sugar co-operatives on the other.

No clear conventions or procedures which make for smooth relations for all times have yet been evolved. It would be useful if the authorities of sugar co-operatives and representatives of unions sit

together to find whether there is a possibility of agreeing on principles and procedure which would make for a definite step forward in the continuing relationship of labour with the co-operatives.

The second aspect is connected with the first and relates to membership of co-operatives by members of the labour force. Some attention has been paid to this problem by Maharashtra Federation, and it is hoped that this will be soon discussed fruitfully in a meeting of representatives of the Federation with those of trade unions in Maharashtra.

A problem that has recently arisen, perhaps, transcends in immediate importance all those discussed above. This relates to the attitude to be adopted in relation to licensing and expansion. The proper approach to this appears fairly clear. The National Federation of Sugar Co-operatives, in the statement submitted by it to the Sen Commission, has clearly indicated that licensing of new units should have a definite priority over the expansion of older ones.

Once it is granted that with a given concentration of the cultivation of sugarcane, a sugar co-operative of an accepted level of efficiency can be established, it is clear that as a matter of national policy in favour of encouraging dispersal of industrial effort all such locations of possible establishment of sugar industry should have an absolute prior claim.

If, as experience has shown in Maharashtra, a successful sugar factory is an important instrument not only of increasing the economic well-being of a particular group but also of promoting prosperity of an extensive neighbourhood, it is obvious that the prime national objective must necessarily be to distribute such centres as largely and as widely as possible.

It should be emphasised that in existing circumstances, especially in Maharashtra, licences for expansion of old and establishment of new compete directly with each other. In the licensing policy of the country as a whole, the principle of fair distribution of licences among States has an important place. That is, during any period, fresh licensing that is contemplated will be sought to be distributed according to the principles of giving each State some share in the process.

Also, the initial distribution of licensing capacity is likely to be made by the Government of India authorities in a broad manner as between State and State without specific reference to new licensing or expansions. It is extremely important to bear this in mind, because once a quota for Maharashtra is fixed the Government of India may not be specially bothered as to how it is distributed between new licences and old expansions. However, within the State quota increasing old expansions necessarily means the cutting down of new licences.

Within Maharashtra, sugar co-operatives are concentrated in the districts of Western Maharashtra; the districts of Khandesh, Marath-

wada and Vidarbha have yet not any such units. To the extent that these districts contain potentially successful locations of sugar manufacture these should have the highest priority. No expansion, in fact, should be allowed in the already established factories which comes in the way of establishment of new factories in other areas.

Also, it is extremely important that the Government of Maharashtra has a clear idea as to the limit of expansion of old licences that it recommends. A great deal of confusion is being deliberately created in this regard. It is well known that in the States in which sugar industry has been established in the past namely U.P. and Bihar, there are almost no possibilities of the successful establishment of new units.

All the old units in this area are, therefore, clamouring for expansion, and in order to justify this, they are making out a case of the supposed efficiency of large-scale units. The efficiency of large-scale manufacture of sugar in India has never been properly studied and proved.

The National Co-operative Federation, in its evidence before the Sen Commission, has pointed out that the cost of transport of cane and the loss of recovery because of long-distance transport and the large time taken between cutting and crushing have never been properly allowed for in relation to claims of efficiency of the large units.

The Maharashtra Government should ask its technicians to carry out a careful study of the economics of the manufacture of sugar in large units in order to be in a position to examine the assertions of the Central Ministry and its technicians in this behalf.

The case against any large expansion of older units has to be argued on two fronts; (1) That the economy of large scale in the sugar industry is not large and is today unproven. (2) That the importance of immediately increasing the number and dispersal of centres of industrialisation and economic development throughout the country must lend overwhelming support to giving high preference to new licences in all economic sugarcane locations.

It is understood that the Central Ministry is threatening not to grant new licences if considerable expansion of some existing factories is not supported by the Maharashtra Government. The Maharashtra Government must stand up against such blackmailing tactics and must make clear how the Ministry's policy in this regard is against the avowed objectives of national economic policy.

For Maharashtra co-operatives to go on asking for a much higher quota for individual expansion is, in the circumstances, to act in an entirely suicidal manner. It may appear to be in the immediate interest of the few co-operatives who are able to obtain the licence for expansion, but in the ultimate analysis it must act against the

interest of the co-operative sector as a whole. The economic strength of the co-operative system depends essentially on uniform development through all areas and its moral strength on its contribution towards the uplift of the backward classes and of the under-developed areas.

Apart from the question of the economic size of units in sugar manufacture, it is inadvisable to have a large sugar manufacturing unit concentrated in a single place. The reason for this is related to the proper distribution of water resources. Water is notoriously scarce in Maharashtra, and there is a strong case for an even distribution of such facilities of irrigation as are available. This has been emphasised in the report of the Maharashtra Irrigation Commission.

The establishment of one very large sugar factory in an area will lead necessarily to a concentration of irrigation facilities in that area. It is well known how some powerful promoters have exploited this situation. The grant of a sugar licence establishes a claim to irrigation facilities; an increase of these leads to a claim for expansion and the expansion in its turn leads to additional irrigation claims and so on in a continuous chain. It is obvious that this kind of concentration which results in blocking the proper spread of irrigation facilities is completely against national interest.

Already in particular areas the effect of this monopolisation of water by sugar co-operatives is in evidence and there is strong complaint that applications of irrigators who are not within the area of sugar co-operatives are not obtaining any consideration. A further accentuation of this uneven division would mean a heavy concentration of resources and the benefits of their utilisation in a manner even more flagrant than that against which complaints are already being voiced today.

There is finally another aspect of the leadership of sugar co-operatives to which attention might be drawn. Because the sugar co-operatives are already established, because they have resources in men and money and because they have some experience in organisation and promotion, they appear to attract all the new programmes and incentives. Because of their economic and political strength and prominent position they obtain all the subsidies for new ventures and incentives for new experiments offered by either the Central or the State Government.

This appears to be another very bad and undesirable example of concentration. Properly, all special incentives, assistances and subsidies should be given to the weak in preference to the strong and Government efforts at special development should be located in areas where development is at the time lagging.

The desire to obtain quick and sure results leads Government agencies to choose proved leaders and developed areas for all fresh

activity. This has results which are diametrically opposed to the avowed intentions of the Government, of dispersal of activity and of lessening disparities in development between region and region.

The many distortions that are produced because of the existing bias in choice may be illustrated by reference to certain poultry schemes located within area of prominent sugar co-operatives.

Firstly there was no compelling reason for locating the poultry schemes in these factory areas. Secondly, in the framing of the schemes no care was taken to see that the participation by the general run of the peasantry would be possible and encouraged. The capital and other requirements were so framed that only the substantial members of the co-operatives could easily join in.

Thirdly, the hurry to get on with the scheme was so great the Government directly approached against all recognised principles of co-operative policy, the State Bank of India with an offer of guarantee for the required finance. It was perhaps feared that if application for finance was made to the apex co-operative bank, the schemes may be, subject to careful scrutiny which the promoters wanted, perhaps, to avoid.

Another example of the same approach is seen in the operation of the Agricultural Department. Intensive development of sugarcane is an important agricultural aim in Maharashtra. However, at least for the area of the sugar co-operatives, it should be possible to insist that the co-operatives make all the arrangements needed for the development and they give any assistance that sugar cultivators in their area need.

All that the Government need have done was to see that Agricultural officers of the sugar co-operatives were of proper calibre and that their activities were meaningfully connected with the research activities of the Government department. Instead, a lot of money and personnel are being wasted on the intensive sugar development scheme. This is tantamount to giving resources to those who can command them and the most likely result will be that of achieving even less than might have been achieved otherwise.

Role of the State

The co-operative organisation of economic activity has as its primary aim strengthening of the position of the dispersed weak units through enabling them to obtain the advantage of larger scales of operation and more advanced techniques.

However, in the context of the strictly limited resources available to the State in India it is necessary that all co-operative units which can stand on their own feet should fully do so and all those better-off should recognise their co-operative obligation not only not to press

their own claims in competition with the weaker units but also to help actively, to the extent of their ability, all such units.

The State should direct all its special help to the weaker units and the more backward areas. It should locate all its direct effort, as far as possible, in the less developed areas and give special concessions and incentives only to the weaker units. It should encourage all the older well-established units to draw on their own resources, as far as possible, in all developmental efforts, providing them, of course, with the technical assistance and aid normally available in plans of development.

The importance which sugar co-operatives have attained in their areas as leaders of economic activity has naturally led to keen competition among members for participating in control over them. Two features of the resulting situation require attention.

In the first instance, elections to seats on the board of directors are hotly contested and are often bitter and highly expensive. It is not easy to prevent this. However, the situation might be considerably improved if, instead of the existing annual elections, these are made triennial.

Usually the by-laws provide for a three-year term for each director, but prescribe retirement by one-third each year and election for these seats. This involves annual elections of a certain number each year and a fresh annual election of office-bearers such as the chairman and the vice-chairman. The result is that electioneering and intrigue and pressurising for office is almost continuously in evidence. It might be better to have the office bearers, particularly the chairman and the vice-chairman also elected for the three-year period.

The second feature is the interest exhibited by party politicians in the conduct of and control over sugar co-operatives. This has been in evidence for many years; it began soon after the period of the first nominated boards was completed and elections of members of boards began to take place. It is very difficult to suggest any practical solution to this problem. The best thing to happen is for Ministers and for the party in power to set a good example.

It is highly desirable that nothing is done to suggest that either an individual sugar factory or its board is as such, an affiliate of any political group or party. In this context, such actions as the holding of a party gathering within the premises of a sugar factory with the factory acting as host appear highly improper.

The leadership of co-operative sugar factories in Maharashtra is, for the most part, able and vigorous. Unfortunately the focus of its interest is on expansion and on obtaining concessions and privileges rather than on internal management and efficiency. Individual factories in the co-operative sector have no occasion to compete with each other

and no reason to guard technical or other secrets. In the State like Maharashtra, therefore, with the large number of sugar co-operatives there is specially wide scope for continuous internal improvement and for learning from each other. However, no advantage is being currently taken of this possibility. There has been, in fact, some deterioration in the situation.

In the days of the Promoters' Committee and in the early years of the Bombay Federation, the setting up of new co-operative sugar factories and their early operations were helped through its experts. The Federation had also decided to appoint a cost accountant. The Maharashtra Federation ceased to provide expert services and detailed cost accounting was not helped or encouraged.

Detailed comparison and analysis of the performance of individual factories provide the base for the search for technical and other ways of improvement in each particular aspect. Attention of the management of each factory and of the Federation needs to be concentrated on this work.

In recent years the State Co-operative Bank has appointed a cost accountant and offered to set up proper cost accounting in the sugar co-operatives. The response to the offer has not been enthusiastic. Action by the State Government which discourages the pursuit of unlimited expansion and of privileges and concessions should prove helpful in the boards of sugar co-operatives giving proper importance to problems of internal management and efficiency.

To Summarise: (1) The development of sugar co-operatives in Maharashtra has been due to a number of favourable factors. The most important of these were (a) Government policy regarding prices etc. of sugar and sugarcane, (b) organisation of the factories as strictly producers co-operatives (c) cautious policy of the factories relating to reserves, price paid for sugarcane etc., (d) organisation of agricultural departments within factories and complete control over cutting and transport of sugarcane.

(2) The organisation of the factories has for the most part provided for membership by all producers of sugarcane within the area of the factory. Conventions regarding transfer of shares together with the ceiling legislation are supposed to have led to a diffusion of the benefits of factories in accordance with the diffusion of the area, under sugarcane among cultivators. Firm data on these matters are, however, not available and it would be good to have inquiries made to ascertain facts fully.

(3) While, in the initial stages, sugar co-operatives had reason to undertake some financial and supply activities, this is no longer necessary. In the interests of an all-sided healthy development of various types of co-operative organisations in each area and inculcation of proper co-operative discipline, the division of functions

between credit, sale-supply, producers societies etc. should be strictly observed.

(4) Sugar co-operatives in Maharashtra have by force of circumstances also become central agencies of further economic efforts and development within their own area and could perhaps affect a larger neighbourhood.

(5) Their activities, in this context, have raised a number of problems which need to be carefully studied and solved. Two main categories of these problems are those relating to (a) provision of welfare services, and (b) promoting economic activities.

(6) Issues to be clarified relating to the nature and scope of these services should extend and the manner in which these services should be financed.

(7) New economic activity which flows out of the main business of the sugar co-operatives and is of equal interest to all members may properly be undertaken by the co-operatives. For the conduct of all others, separate appropriate co-operative organisation must be formed. The sugar co-operative may extend limited promotional aid to such new activities.

(8) An urgent and important problem regarding sugar co-operatives relates to policy regarding licensing of new factories and applications for extensions to old. The proved value of the sugar co-operatives as a central organisation in promoting economic well-being and development in its neighbourhood makes it imperative to establish as many of such centres as possible through all parts of the State. Therefore, the highest priority should be given to the licensing of new units of the standard economic size in all suitable locations of sugarcane cultivation.

The economy of plants of very large size is doubtful in case of the Indian sugar industry. The Government of Maharashtra should give only limited support to applications for expansion and should determine a reasonable ceiling to size beyond which expansion should not be permitted. It is also undesirable to concentrate the benefits of irrigation resources within a small area permitted.

(9) The present trend in Government policy appears to be to treat established sugar co-operatives as favoured centres and to give them special concessions and incentives and to add to their resources and opportunities. This is highly inappropriate in our circumstances. New activities of the state should be established in and special concessions and incentives should be made available to the less developed areas. Older established centres should be encouraged to draw, as far as possible, on their own resources.

(10) Constant concern with electioneering has become a prominent and undesirable feature of sugar co-operatives in Maharashtra.

It might help to reduce this if annual elections are avoided and members of boards and office-bearers are elected once in three years. Interest taken by party politicians in the internal management of sugar co-operatives presents another problem. Ministers and the party in power should set a good example in this.

(11) Management of individual sugar co-operative and the Co-operative Federation appear not to pay adequate attention to internal management and efficiency. The co-operative sector offers special opportunities in this behalf and Government policy should be oriented towards inducing boards of co-operatives to realise its importance.

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