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POLITICAL PAMPHLETS—IV

THE CO-OPERATIVE MOVEMENT

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PREFACE.

The introductory chapter explains why it has been deemed desirable to include a pamphlet on the Co-operative Movement in the present series of Political Pamphlets. No lengthy preface to this volume is, therefore, necessary.

It may be explained here that circumstances did not permit the writers to achieve a greater degree of collaboration than has been possible in the preparation of this pamphlet. As it is Part I is entirely the work of Mr. V. Venkatesubbaiga and the whole of Part II has been written by Mr. Paikunth L. Mehta.

The development of the Co-operative Movement in India, the principles governing the working of primary societies and central financial institutions, the policy of Government in respect of public aid and control and similar questions are so elaborately described and so thoroughly discussed in the Report of the Committee on Co-operation that constant references to the recommendations of the Committee and frequent quotations from their Report

admirable Report. Mr. H. Calvert's "Law & Principles of Co-operation," Mr. H. R. Cros-thwaite's "Comparative Studies in Co-operation" and Mr. P. Mukherjee's "Co-operative Movement in India" have been found useful in the preparation of the various chapters on Co-operation in India.

Finally, the writers express regret that in consequence of the continual ill-health of one of them the pamphlet is published much later than was originally intended.

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- 1 Co-operative Studies and the Central Provinces System. By H. R. Gouthwaite. (Thacker Spink & Co.)
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Chapter I.

INTRODUCTORY.

No apology is needed for including a pamphlet on Co-operation in the present series of political pamphlets. The word political is here used in a liberal sense; other subjects of national importance like education, excise and railways are included in the series, which a narrow interpretation of the word would exclude. The benefits of co-operation are manifold, some being avowed and others not; they can be classified as economic, social and political, and even if they were limited to only one of these, co-operation would still be worthy of the attention of every well-wisher of the country. As it is, no patriotic Indian will be wise in neglecting its study and practice.

The advantages of co-operation are so obvious that there is not a single civilized country in the whole world which has not been eager to adopt and further it. Powerful and prosperous countries like Great Britain, Germany and the United States of America have found co-operative societies beneficial to national well-being. Our need is certainly greater than theirs. And in no country in the world are the social and economic conditions so favourable for the spread of the movement as in this country. The success achieved here so far has had no parallel in any country. But it is nothing compared to what is possible in the near future. Therefore all the more is it necessary that educated Indians should interest themselves in its development.

THE CO-OPERATIVE MOVEMENT

Co-operation being an economic movement, its economic benefits naturally claim one's attention first. In Germany, Denmark, Italy and other countries the results have been almost magical. Rates of interest from 20 and 30 percent have been brought down to 4 and 5 percent; usury has been banished from areas which had been its home; capital which was not available for poor artisans and agriculturists has been made available to them in sufficient quantity and on suitable terms; production and enterprise have increased in every field; the quality and yield of agricultural produce have been improved by the aid of machinery, fertilisers and feeding stuffs; the purchase and sale of all articles have been made profitable both to producers and consumers by the elimination of the middlemen. Denmark which was threatened with national extinction has become one of the most prosperous countries in the world, proportionately to its population, inspite of the poverty of its soil. Tracts in Germany that were barren and bleak and peopled by an ill-fed, ill-clad and discontented population living in wretched, tumble-down huts, have been turned as if by magic into smiling fields and vineyards, teeming with livestock and a cheerful, happy and industrious population, living in well-built houses and cottages. These are results observed in countries which adopted co-operation rather early. But even in India where the movement is barely a dozen years old, similiar results are to be seen though on a much smaller scale. They are referred to elsewhere.

But the need of European countries for co-operation is as nothing compared with our need. Without entering into an examination of our economic condition, for which a separate pamphlet is intended in the present series, we may recapitulate a few facts relating to it.

It is notorious that India is one of the poorest and economically least organised of the civilized countries. The following table shows the estimated annual income and the capitalized wealth of some countries distributed per head of population:

[All the figures excepting those relating to India are taken from Mulhall's Dictionary of Statistics. The figures in the first column refer to 1890 and in the second to 1895. The figures for India are taken from Webb's New Dictionary of Statistics and refer to 1903.]

	Income per capita in £	Wealth per capita in £.
United Kingdom	33·7	302
France	27·8	252
Germany	22·5	156
Denmark	32·5	230
Italy	12·1	101
Russia	11·5	61
Europe general	19·4	139
U. S. A.	39·0	234
Australia	40·2	256
India	2·0	10

About 80 per cent of the population in India are agriculturists. The Famine Commission of 1880 thought that one-third of the land-holding classes in India generally were hopelessly involved and that another one-third were in debt though not beyond the power of recovering themselves. After a careful calculation made in 1895 Sir Frederick Nicholson came to the conclusion that in Madras Presidency the aggregate value of rural mortgage was Rs. 20 crores, that of the existing cash debts Rs. 15 crores and of grain debts Rs. 10 crores. A later official calculation puts the total rural indebtedness for the whole country roughly at Rs. 300 crores and that of mortgage debt at Rs. 130 crores, giving an incidence

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on the total population of Rs. 12 and Rs. 5 respectively. This indebtedness is heavy but it need not alarm us for Prussia, France, Italy and other countries in Europe are more indebted, proportionately to their income and national wealth. There are however two circumstances to be noted with regard to Indian indebtedness: it is growing every year, and most of it is due to unproductive causes such as heavy assessment, failure of rains, marriages, death ceremonies, etc., whereas the indebtedness of the European agriculturist is almost entirely due to the purchase and improvement of land. The mere fact of a people being indebted need not worry any body. What matters is the object on which the borrowed money is spent. If it is spent in sinking a well or manuring a field or in some profitable concern, it is a matter for congratulation. But if it is put to an uneconomic use then the borrowing has to be condemned. In India the increase in indebtedness is due largely to the increase in the value of land, coupled with the land hunger of the moneyed classes who consider investment in land the safest, and to the want of thrift and forethought on the part of the borrower. Very often he borrows more than previously because he can get more money—there is more money in the country and the value of his land has risen—and he spends it away with a light heart. It is this abuse of a facile credit that has got to be fought. The very nature of agriculture makes it impossible to abolish rural indebtedness altogether, especially in the case of the small farmer. His capital is locked up in land, implements, growing corn, live-stock etc., and for all emergent and even for ordinary expenditure he has to depend upon borrowings. Our task therefore is to put an end to *unproductive* borrowing.

Students of Indian economics like Ranade and others have ever regretted that more capital is not being spent on agricultural improvement. It is bound to be the case so long as our present rates of interest continue. In Madras and Bombay where the ryotwari system of land tenure prevails and security of land could be given, the rate of interest to the small farmer is between 12 and 24 percent per annum in ordinary times, but in North India it ranges between 24 and 35 percent. Obviously it would be ruinous for any agriculturist to borrow at these rates for improving his holding, for which cheap credit is needed. Ranade regretted that there should be plenty of idle money in the Presidency and other banks while agriculture and other industries were starved for capital. One of our main economic problems is therefore to find money at reasonable rates of interest for agricultural improvement. It would appear that there is enough capital in the country for the simple needs of our agriculture, though that capital is shy. Experts have declared that costly machinery and manures are not suited for our small holdings and climatic conditions. The hoarding in ornaments is estimated by Indian economists at about Rs. 25 per head of population, and a considerable portion of it can certainly be mobilized, if only the people are educated in correct economic ideas. The earnings of the professional classes who live in towns are generally invested in large banks which do not lend to the agriculturist, or are locked up in ornaments or spent in an uneconomic purchase of land. There is a general belief that it is safest to leave one's property to one's children in the shape of land and therefore there is keen competition for purchasing it, with the result that the investment often yields a return of less than

4 percent. What our economic position requires is not that land should change ownership but that fructifying capital should be spent upon it.

Again, it is a deplorable feature of our trade conditions that Indian produce does not get its fair value in the markets of the world. It is no doubt most regrettable that we should be largely exporting raw material and importing finished products. But that is no reason why we should not obtain a fair price for our exports. Owing to the fraud of the middlemen who collect the produce and supply it to exporting companies, Indian goods have acquired a bad name in the world's markets and they are purchased only in the last resort. In order to gain four or five percent by fair means or foul, the middleman wets the cotton or grain, or mixes some inferior stuff with it. He no doubt gets his four or five percent of illicit gain but the producer and the country suffer a great loss. For, the manufacturer who uses the raw material will offer only such a price as will pay him after allowing for waste, the trouble of cleaning and unnecessary wear and tear of the machinery. It is estimated that 30 to 40 percent of the fair value of the produce is so lost to the ryot and the country by the fraud of the middleman.

All these features of our economic position can be improved by means of co-operation. The growth of indebtedness can be arrested by the inculcation of thrifty habits which is one of the main objects of co-operation and thereby unproductive expenditure on marriages etc. could be minimised. The money-lending *Marwari* or whoever else he is, who, with his usurious rates of interest and *mamuls* is sucking away all hope and happiness from the life of his debtor, can be paid off by borrowing from the co-operative society at a favourable

rate of interest; which loan in its turn can be repaid in easy instalments. By creating mutual confidence and familiarising business methods among the people, a co-operative society will attract deposits and will make available for productive investment the wealth which is now hiding in the ground or locked up in ornaments. Co-operation is now admitted to be the best means of improving the practice of agriculture, at least so far as the small farmer is concerned. It supplies to him capital on easy terms; purchases for him pure seed, implements, manure and other requirements; will make his butter or joggerly, or hull his rice in the most economical way; will market his produce in a pure condition and save for the producer not only the profit which the middleman is making but also what is being lost by his adulteration; will improve his livestock and benefit him in various ways. It can similarly help the artisans and other classes.

But immense as are the economic possibilities of co-operation in our country, they are secondary in the eyes of the patriot to the moral and political benefits that accrue from it. Thrift, self-help and mutual help are its main features. Each member of a society takes an interest in his neighbour and all in the common good. Co-operation insists upon honesty. In fact its aim is to make honesty take the place of property as security for loans. It teaches regularity, punctuality, forethought and business methods. In the words of Mr. Wolff, the greatest living English authority on co-operation, "The idle man becomes industrious, the spend-thrift thrifty, the drunkard reforms his ways and becomes sober, the haunter of taverns forsakes his inn, the illiterate though a grandfather

learns to read and write." Within a brief time after a co-operative society was started in his parish, an Italian priest spoke of the change that it had worked in the following terms:—

"People go less to taverns now and work more and better. Since only respectable folks are admitted as members of the Association, we have seen habitual drunkards promise never to set foot again in a tavern and keep their word. We have seen illiterate folk of fifty years and more, learn to write, in order that they may be able to sign their application for a loan. Poor people, excluded as being in receipt of parish relief, have vigorously exerted themselves to have their names erased from the paupers' list, and instead of living on alms, we now see them living on their labour—thanks to the small capital lent to them by the Association. Poor fellows, who could previously scarcely support themselves, have been enabled to purchase a cow, out of the milk and cheese of which they pay the debt contracted, keeping the value of the calf as net gain."

Mr. Wolff has aptly called co-operation another California of gold-fields. He is not sure which of them has produced more tangible wealth. But "which has more enduringly benefited our race—the metal which began by provoking robbery and disorder, and which along with much good service, forms a standing incentive to greed, envy and dishonesty, or the 'capitalised honesty' which plants virtues where there were vices, makes people thrifty, industrious, sober, honest and enables them to build for whole classes habitations which no financial crisis can wash away—to such a question there can be but one answer." Remarkable moral results have already been observed here and there in our own country. They have been mentioned else-

where, briefly none the less, and need not be repeated here.

The mustard seed of co-operation has been sown in the Indian soil and the plant is being watered, mainly by official hands. It is therefore only to be expected that its political fruit should not be proclaimed by the foreign gardeners. Nonetheless the plant is sure to bear the fruit. We are living in a democratic age when the affairs of the State all the world over are being increasingly directed by the will of the people, expressed by means of the popular vote. The success of a democratic government depends on the wisdom with which the vote is exercised. And a co-operative society teaches every member how to use his or her vote judiciously in electing its office-bearers, in deciding broad policies and in various other ways. In every society a large number of persons are trained to manage the affairs of the society, and therefore other public affairs, with wisdom, for the common good and in an unselfish spirit. The small societies, again, combine to form unions and whole-sale societies, and the ablest co-operators are chosen to weed out abuses, strike out new paths and direct the movement in proper channels. Thus the co-operative movement educates the voter in choosing good leaders, trains local workers in the public cause and finds capable brains to direct human affairs on a large scale. All this is political education of a high value.

We have said that the political benefits of co-operation have not been proclaimed by its official godfathers as its economic and moral benefits have been. It does not, however, mean that they have failed to foresee them. The Committee which was appointed in the autumn of 1914 to report on co-operation in India and the majority of whom were I. C. S. officers, saw great

potentialities for good and evil in the organisation of large masses of agriculturists who have hitherto been ignorant and inarticulate and suggested that Government control and supervision should be increased by appointing a Joint-Registrar for every thousand societies in each province and by the District Magistrates being asked to visit them frequently and attend their meetings. The potentiality for evil which they saw could only be political. But it is indeed a needless fear that they entertained. Co-operation gives political education of the best kind by the responsible management of practical affairs. The mission of British rule in India is acknowledged by the highest authorities to be the preparation of the people for self-government. To this end co-operation is no less potent and desirable an instrument than is the development of village panchayats, local boards and municipalities, and of legislative councils. The more liberal among our administrators have admitted the possible assistance from co-operative societies to the general administration of the country. Presiding over the Bengal Provincial Co-operative Conference of 1913, Lord Carmichael hoped that they would take the place of the old village panchayats of the country and that on their account there would be a great change for the better in the administration of the country. In the same year Sir P. S. Sivaswami Aiyar then Member of the Executive Council, Madras, said, presiding over the Madras Provincial Co-operative Conference, that Co-operative societies would be found to be a cradle for the spirit of self-government. Next year presiding over the Bengal conference the Hon. Mr. P. C. Lyon said, "I look forward to the time when the co-operative credit society of each village, bringing

weal of the village, will be linked up with the system of village and circle government and will be utilised as the only efficient electoral unit. Each such unit will vote for the representative who will look after the interest of the village in a larger council composed of an aggregate of unions, and he will in his turn, help to elect the members of still higher councils. In every stage of such development you will find the Government your firmly, as it is in this way alone, I believe, that we shall obtain truly popular constituencies, able, by this influence they exercise on public affairs, to contribute valuable assistance towards the good Government of Bengal." At the provincial and district co-operative conferences held in the Madras Presidency during the last year, which were all presided over by high officials, resolutions were passed requesting the Government to recognize service on the panchayats of co-operative societies as a qualification for voting and for candidature for seats on Local Boards and Municipalities. The Bengal Provincial Conference held in February 1917, recommended that all the central banks in each province should be constituted into an electorate for sending one member to each of the local legislative councils and that all of them together should send a representative to the Imperial Legislative Council. This is undoubtedly a movement in the right direction and we hope that the Government of India and the authorities in England will see the wisdom of granting the request.

An earnest Irish patriot and co-operator, Mr. G. W. Russell, editor of the *Irish Homestead* laments the indifference of Irish politicians to the spread of co-operation. He rightly points out that the great problem before democracy is how to secure the preference of the best thinkers and the wisest men of affairs over dema-

gogues whose only qualification for leadership is their fluency on the platform and the skill with which they can echo the prejudices of an ignorant crowd. "Home Rule will not give us in Ireland any more sagacious politicians than the Union gave us, unless we have a social order which will educate the people in the choice of representatives"—an education which few institutions will give so well as co-operative societies can. Indian politicians have shown better wisdom; they have not been quite indifferent to co-operation. But they ought to do much more, with the consciousness that the working of co-operative institutions is the best means we have of preparing ourselves for self-government, and the best foundation for political stability.

Chapter II.

WHAT IS A CO-OPERATIVE SOCIETY ?

It is attempted to give here only a general idea of what a co-operative society is and what it is not. Particulars of different kinds of societies are given when they are dealt with elsewhere.

Co-operation means working together. But in the expression the "Co-operative movement", it is used in a somewhat narrow and technical sense. It is an economic term used to denote a particular system of business. It cannot be applied for instance to an association the object of which is to get up musical entertainments or holiday excursions. But it bases its business on honesty and equity and therefore it encourages, nay, has for its object the encouragement of honesty, thrift, self-help, fellow-feeling, business methods, capacity for management, enlightened interest, in short, the building up of character and the capacity for self-government.

The Co-operative Society has been described by a writer¹ as "an association for the purpose of joint trading, originating among the weak and conducted always in an unselfish spirit, on such terms that all who are prepared to assume the duties of membership may share in its rewards in proportion to the degree in which they make use of the association." It is also described² as including all "those forms of voluntary association where individuals unite for the production of wealth,

¹ C. R. Fay in "Co-operation at Home and Abroad."

² Encyclopædia Britannica.

which they will devote to common purposes or share among them upon principles of equity, reason and the common good, agreed upon before hand." It is the opposite of competition, its motto being "each for all and all for each."

It is not a charity but a business organisation. Co-operation preaches thrift and self-help which charity does not. The latter demoralises the recipient while the former builds up his character. Co-operative banks do not ask for doles of money or for deposits without interest; they want them on business terms. Services are generally paid for and where they are not, they are rendered by the members for the sake of economy and to help each other. Schemes of charity on which huge sums of money were spent have failed really and permanently to benefit the poor for whom they were intended; but in the identical places co-operation has admirably succeeded. Charity is like medicine given to relieve the suffering of a sick person during an attack or period of illness; co-operation is like hygiene and sanitation seeking to prevent illness. The organiser of co-operative societies who goes to villages and towns at considerable trouble and self-sacrifice and persuades groups of people to form themselves into societies, has no doubt an altruistic motive. But he is in the same position as a religious or other missionary who has come to believe in certain ideas as conducive to greater individual, communal, or national well-being; he is a public worker, not a dispenser of charity. The State in many countries encourages the formation of co-operative societies, affords various facilities to them and gives monetary assistance for propangandist work. In doing this it only recognises their great potentiality for national good. Where it has gone further and assisted

societies directly with contributions of money and otherwise, the best co-operative opinion has strongly disapproved of it.

A co-operative society is different from a joint-stock company. The latter is an association of capitalists organized on a competitive basis, and not limiting its gains by considerations of equity and common good. It is a closed concern, that is, the number of the shares is limited and they are sold either below or above par. The shares can be purchased in the market by any person caring and having the means to do so. What matters is the capital or the value of the share and not the character of the person taking the share. The general body of share-holders or the directors on their behalf have no voice in determining whether a particular person shall or shall not become a share-holder. In a co-operative society it is the character of the person that matters. No one can become a member unless admitted by the managing committee. But the membership is kept open, so that any person may join it who can satisfy the managing committee as to his character and is willing to undertake the responsibilities of membership. The shares are small in value so as to suit the poor for whose benefit the society is really meant and, further, the share capital can be paid in small instalments. The shares, moreover, are issued at par. Some co-operative societies there doubtless are which have degenerated into capitalist concerns, having their eyes on dividends only, and unwilling to admit new members, or admitting them without paying any heed for their character; but the distinction holds good in the main.

Co-operation seeks to do away with competition. In the individualistic and competitive order of society

the strong have an undue advantage over the weak; hence the need for the latter to combine and become strong. It may be said that trusts and combines also seek to eliminate competition. But they are combinations of the strong to get stronger, to enrich themselves at others' expense by putting up prices and cornering the markets. Co-operative societies are associations of the weak to get strong and are worked in an unselfish spirit. They are also different from trade unions which too are combinations of the weak to get strong. The latter resist the tyranny of capital and decide on what terms labour shall be available. But they are not trading or business concerns. Similarly, friendly societies are not co-operative societies because they too are not business concerns, though their object is the encouragement of thrift and mutual help.

The scope of co-operation, in theory at any rate, is nearly as wide as that of economic life itself, ranging over the entire field of production, distribution and consumption of wealth. There are societies for borrowers whether in rural or urban areas, which give loans for productive and sometimes for unproductive but necessary purposes; for agriculturists in order to improve the yield or quality of the harvest or livestock, or for a more profitable sale of produce, or a more economical purchase of manure, implements, fodder and other necessities; for artisans like weavers, shoe-makers, tailors, etc. either for credit purposes or for purchasing instruments and raw materials, or for selling the finished products; for consumers of any description, in order to eliminate as far as possible the series of middleman who intervene between the producer and consumer, put up prices unnecessarily and by adulteration cheat their customers at both ends. But although in theory the scope of co-

operation is exceedingly wide, in practice a limitation is placed upon its extension in certain spheres. In the field of agriculture its scope is unlimited but in industry it is necessarily limited. Supposing the operatives of a mill or factory involving complex machinery and specialised processes of manufacture, tried to manage the concern co-operatively, they would have to elect the board of directors and the manager from among themselves—for a co-operative society is a democratic institution—and in all probability none of them would have the capacity to discharge those functions; but even if there were one or two such, the chances are that their capacity would not be understood by the operatives. Therefore it is no wonder that the attempts made to push co-operation into the fields of industry have generally failed.

Lamenting the consequences of the factory system on the working classes, some people fondly hope that it would be possible by means of co-operation to replace it by the old system of home industries. What co-operation can do for home industries is to cheapen credit, implements and raw materials, and to make the sale of the finished products more profitable. But that will not solve the problem for it is really a question of small scale *versus* large scale production. It may be suggested that the evils of the factory system could be greatly minimised by the workers becoming their own employers. It is undoubtedly so and factories can be and have been started on a co-operative basis. All the co-operative butter of Denmark is manufactured in factories; in England and other countries there are co-operative boot factories; Mysore has co-operative factories for hulling rice and making jaggery. But these are small concerns needing only a moderate amount of capital,

involving simple processes of manufacture and not requiring great ability in direction. Hence their success.

(A co-operative society is a democratic institution. Its affairs are conducted by a managing committee, in India called the *Panchayat*, of from five to fifteen members. They are elected by the general body of members and are subject to their control. Each member has only one vote and there is no voting by proxy.) In large societies there is also a committee of inspection. The committee members generally work without remuneration but in large societies a small allowance is given to cover out-of-pocket expenses. The office-bearers include a president, a secretary and a treasurer; in small societies the office of the treasurer is often combined with that of the president or the secretary. In large societies there is a paid secretary, in which case he is not a member of the managing committee.

We shall see wherein consists the essence of co-operation by a brief examination of some of its forms. A credit society is a combination of the weak to become strong, because the members being poor have not much of property to give as security for loans. Their individual credit is therefore little and they have to pay a high rate of interest. When however they put their credits together and stand surety for each other, the security they can offer is naturally greater and therefore they can borrow collectively at a cheaper rate of interest than when they acted singly. Cheaper and greater credit is the advantage gained by combination. Again, each member may save a few annas every week but if the money remained with the individual it would not be of much use to him being very small in amount and would not fetch any interest; but on the

other hand, there would be present the constant temptation to spend it on some amusement or luxury. But if the same few annas of several such persons be pooled, they would make a respectable sum which would be useful for a profitable purpose to some member and he would be glad to borrow it at some rate of interest. The society could then give a lower rate to the members on the few annas deposited by them. Here the depositors have co-operated to enable one or more of themselves to undertake some profitable business and to earn some interest for themselves. In a store society the purchasers of provisions, stationery and other articles of daily consumption, combine to open a shop which gets things at whole-sale prices, sells to the members either at advantageous or current rates, but after meeting the establishment, interest and other charges, and also setting apart a certain sum for educational and other purposes useful to all the members collectively, distributes the profits among them in the proportion of their purchases; and guarantees the weight and purity of the articles. If the persons who become members had not combined or co-operated with each other but had purchased individually, they would have had to go to a retail dealer, pay a high price for an article of poor quality and would probably be cheated in the matter of its weight. A store society is therefore a combination of consumers or purchasers to their great economic advantage. Again, there is the co-operative creamery composed of small farmers each of whom has only a few cows. Every one sees the immense advantage of making butter by up-to-date machinery; but no single small farmer would have either the capital needed for the plant and building, or the milk to keep it running;

whereas if several such farmers, combine, they can each subscribe a small part of the capital and start the factory and keep it going by taking their milk to it. If they do not combine an enterprising capitalist will start the factory, purchase milk from the farmers at as low rate as he can get it for, and keep all the profit to himself. Therefore it is to their economic advantage for the small farmers to combine and start a creamery. One more illustration may be given. In the city of Madras about a hundred coolies were employed by a contractor to load railway waggons with salt auctioned by Government. After meeting all expenses, legitimate and illegitimate, the contractor used to make a profit of from Rs. 4,000 to Rs. 5,000 a year. The coolies were induced to organise themselves into a co-operative society and the contract for loading the salt was taken up by it. By combining they secured for themselves the profit of the middleman contractor. Incidentally it may be mentioned that the work was done much more punctually and satisfactorily by the co-operative society than by the contractor, because the coolies worked for the society with a heart.

Chapter III.

IN EUROPEAN COUNTRIES

The origins of co-operation are to be observed in many countries and in different ages. The caste organizations and village communities of India are co-operative to a degree, and the *chit* funds and *nidhis* of South India are more so. In Japan more than two hundred years ago co-operative silk rearing societies were started which are even now in existence, and credit societies resembling the village banks of Raiffeisen were started by Ninomiya some twenty years earlier than those of Germany. But it was in England of the early nineteenth century that co-operation was thought of as an economic lever for raising the working classes and that a co-operative, as opposed to a competitive, order of society was conceived. The early attempts were directed at founding self-contained communities on what we should consider socialistic lines, but they all failed and only store societies emerged successfully. From England the idea was taken up by France where certain State-aided institutions were started for helping the industrial classes but with no remarkable success, and by Germany where co-operative credit was evolved by the genius of two philanthropists. The first credit societies of Germany were started in 1848 but their growth in the beginning was very slow. From 1880 onwards, however, they grew very rapidly and other forms of co-operation followed in the wake of credit. The success of the movement in England and

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Germany attracted the attention of other countries which adopted it with suitable modifications. Denmark applied the idea to its agricultural development with unprecedented thoroughness and success; while Italy showed a wonderful aptitude for co-operative credit. There is not a single country in Europe where co-operative societies are not being fostered with care; we find them in Finland, Spain, Serbia, Switzerland. The movement has travelled far into Asia and America—to Siberia, India, Japan; to the United States of America, Canada, Argentine. It is out of the question to think of following its development in these and other countries, interesting though it may be. We shall, however, review briefly its growth in the four European countries of England, Germany, Denmark and Ireland—England and Germany for being the birth-place of the store and the credit society respectively, Denmark for its agricultural co-operation and Ireland for the singularity of its conditions, with those of India.

ENGLAND.

By the beginning of the nineteenth century the industrial revolution had progressed far in England; home industries had been replaced by factories; large numbers of the working classes had concentrated in the cities; and competition among manufacturers and want of organization among the workers had resulted in very great misery for the latter. Trade unionism and various other movements for their amelioration were started, among which was co-operation. A great enthusiast and idealist was found in Robert Owen who started life as a draper's assistant but soon rose to be a great employer of labour himself. A friend of the working classes, he wanted to demonstrate that it paid an employer of labour to win the hearts of his workers by generosity, by improving

their environment and by refraining from overworking them. These ideas he put into practice in the cotton mill at New Lanark of which he was manager by giving a share in the profits to the workers and by arranging for their education, recreation and social amenities on a great and artistic scale. The mill worked on these lines for twenty years from 1800 to 1820 with the most satisfactory moral and economic results. New Lanark became one of the best known places and was visited by the highest, including royal personages. Afterwards the scheme failed owing to the disagreement of his partners and co-workers with his religious opinions. He became the prophet of a new order of society based on co-operation as opposed to competition, promoted the establishment of self-contained 'communities' and carried on a vigorous propaganda by means of lectures, pamphlets and journals. The communities however did not succeed. Between 1832 and 1846 a series of annual congresses were held in various important centres to popularize ideas of co-operation and association among the working classes, and Owen took a prominent part in them. As one of the steps for the amelioration of the working classes, shops for selling articles at reasonable prices had been started and they received an impetus by the propaganda of Owen. About the year 1838 there were 400 to 500 such shops or stores as they came to be known afterwards; but most of them failed owing to the waning of enthusiasm in the members and the management. In 1844, however, 23⁷ poor wage-earners, mostly flannel weavers, started a store, the Rochdale Equitable Pioneers Society, with a capital of £28, got together by the members in instalments of two pence and three pence, which was destined to become world-famous and the parent of many similar societies in Great Britain

and elsewhere. In the beginning each member took his turn at the shop for conducting sales, but in time it has grown to such proportions that now it has more than 14,000 members with annual sales exceeding £ 300,000. Stores started earlier and on the same lines as the Rochdale Society are still existing—one started in 1816 and some in 1832; but it was the success of Rochdale that established the soundness of its business principles, *viz.*, cash sales at market prices and distribution of the profit among the purchasers.

Some idea of the constitution and working of a British store may be given here. Any person of either sex of over 16 years may become a member, provided the committee of management do not think his or her admission detrimental to the interests of the society. Every member must take at least one share, usually of the value of £ 1, but on allotment only a small sum, frequently a shilling, is required to be paid and the rest may be paid in weekly or quarterly instalments of three pence or more. The usual practice is for a member to allow his or her share of the profit on purchases to accumulate as share capital. Each member has only one vote and voting by proxy is not allowed. There is a managing committee of from ten to fifteen members elected by the shareholders, male and female members being equally eligible. The services of the committee are generally unpaid but in some societies a small fee is allowed for out of pocket expenses. There is generally a paid secretary who, however, is not a whole time official. A fixed rate of 5 per cent. interest per annum is allowed on share capital. After meeting the establishment and management charges, paying the interest on capital and providing for reserve fund, charitable grants or an educational fund, the profits are

distributed among purchasers at so much per £ of purchases, the rate being decided upon by the general body of members

In 1909 there were in the United Kingdom 1430 retail distributive stores (of which England had 1133, Scotland 275 and Ireland only 22) whose membership came up to $2\frac{1}{2}$ millions, share capital amounted to nearly £31,000,000 and sales exceeded £70,000,000. The average rate of dividend to members on their purchases for 1900-10 was 2s 7d in the £. In 1909 these societies spent for

Charitable purposes	£ 46,150
Educational „	£ 88,842
Propagandist and Organization „ nearly	£ 10,000

A store is a society of consumers. But often it arranges, either singly or in combination with other stores, for the production of some of its articles. Of the 1430 societies as many as 956 had their own factories and workshops for making bread, boots and shoes, clothing and other articles for which there is a steady demand. The estimated value of their productions was a little over £12,000,000 and the wages paid by them nearly £1½ millions.

The retail societies, about nine-tenths of them, have combined to form wholesale societies of which there is one for England and one for Scotland. They make wholesale purchases through special agents and in North America, Denmark, and other countries have depots with resident agents. They own factories in London, Manchester, Glasgow and some other places for the manufacture of boots and shoes, cloths, soap, cocoa, cigars, &c. They own creameries in Ireland, a bacon factory in Denmark, an oil factory in Australia and tea

estates in Ceylon. They do their own banking and insurance. The English wholesale society does its own shipping; in 1910 it had four ships, though in 1905 it had nine.

Other forms of co-operation have not much progressed at Britain. In recent years Ireland has made most noticeable and successful attempts at rural regeneration through agricultural co-operation, which will be dealt with at some length presently. Active attempts are being made both in England and Scotland to follow the example of Ireland in agricultural organization, with encouraging but not striking success. The number of credit societies in Great Britain is insignificant. It is not proposed to give statistics for forms of co-operation, which are other than stores, as they are not particularly instructive. Some words however may be said about building societies. They may be divided into two classes—those that are registered under a special Act called the Building Societies Act and are not usually included among co-operative societies, and those that are either developments of co-operative societies or are registered under the same Act as they. Of the latter 413 were societies connected in 1906 with stores whose surplus capital was invested in providing houses for some of their members. In some cases the houses were owned by the societies and let out to members, in some others they were built by the societies and then sold to members and in the rest loans were given to members to purchase or build houses. In 1906 altogether a sum of over £9½ millions had been spent on about 46,500 houses. In the same class there were 23 tenants' co-partnership societies which included such well-known housing societies as Ealing Tenants, Hamstead Tenants and Garden City Tenants.

But satisfactory statistical information regarding them is not easily available. The other kind of building societies are really co-operative societies though registered under a special Act. They are meant for advancing loans mostly, though not exclusively, to people of the working classes for the purchase of houses, the loans being repayable by instalments in ten to twenty years. In 1909 there were 1808 such societies with a membership of about 600,000, who had borrowed from their societies over £56,000,000

GERMANY.

As England is the birth-place of the co-operative store, Germany is the birth place of co-operative credit. Two eminent benefactors of humanity, starting in different parts of Germany with different classes of people, devised two different systems of credit, both of which have proved eminently successful in course of time. Both these schemes were inspired by the same cause, viz. the acute sufferings of the poor during the drought and famine which swept over Germany in 1846 and 1847. But in spite of the apparent differences in them they were both of them co-operative in nature and were in fact the same principles applied to different sets of circumstances, though the originators of those types and their followers failed to recognize their essential unity and with surprising narrow-mindedness denounced each other in vehement terms. One type was intended and is suitable for urban classes and the other for rural ones. Societies of both these types are flourishing at present in Germany and in many other countries, including India, where they have been introduced either in the exact German form or with modifications. The authors of these types of Societies were Schulze-Delitzsch and Raiffeisen.

Schulze was a county judge in his native town of Delitzsch. His official position gave him an insight into the economic condition of the small traders and artisans. He had visited England and admired its Friendly Societies. Accordingly, after the famine of 1847, he thought of mitigating the hardships of his countrymen by means of similar institutions. In 1849 he started a provident fund and also two societies for the wholesale purchase of raw materials, one for the joiners of Delitzsch and the other for the shoemakers of Eilenburgh. They were at once recognised as a godsend and rapidly spread all over the country. His next step was to start a credit society in 1850, the capital for which was however subscribed by well-to-do people, who were not likely ever to borrow from the Society. But this defect was very soon rectified. "He (Schulze) may be described as a born economic missionary. His striking personality, his convincing eloquence, his invincible faith in his own cause and his truly contagious enthusiasm made him an almost ideal propagandist. He stumped the country with a will," and preached the gospel of co-operation everywhere. Numerous credit societies were started, which in many places were accompanied by distributive societies and all of them worked remarkably well. By 1883 there had been started in Germany alone no fewer than 4000 societies on the principles enunciated by Schulze.

It is curious that in those early days of the movement, Schulze had to contend against a good deal of opposition from the Government. To the German bureaucrats of those days, in fact to bureaucrats of all countries and ages, any talk of self-help among the people or the suggestion that the Government could not do everything for them, was rank heresy. Schulze

incurred their wrath by preaching co-operation. They began to annoy and worry him in a number of ways and soon he had to resign his judgeship. He was prosecuted in the courts and every obstacle was placed in the way of his work. But their opposition only strengthened his resolve and made him a hero with the people, who keenly appreciated the advantages of co-operation. To the very end Schulze obtained no help or recognition from the State.

Schulze societies were meant for the urban classes of artisans, small traders and others. They were founded on the bedrock of thrift, production and self-help as all co-operative societies are. He started them with the unlimited liability of the members because at that time limited liability was unknown. He insisted on every member purchasing a share, the minimum value of which he fixed at £ 5. Of late it has been made even higher, being fixed at £ 15 to £ 25, while in some societies it is as much as £ 30 and even £ 50. It was not necessary to subscribe the whole amount at once, his object being to encourage thrift by requiring monthly fixed instalments to be made out of the members' savings. Liberal dividends were allowed on the shares so that they might serve as an incentive for investment. The basis of the societies was purely economical. Schulze, unlike his great rival Raiffeisen, did not propose to interfere with the morals or private life of the members. He believed that moral regeneration would follow of its own accord and that societies ought not to have anything to do with it directly. Loans were given for productive purposes only. The period fixed for repayment was usually three months but was frequently extended to suit the member's circumstances. There was no limit on the area of operations. Remuneration

for directors and other expenses for management were allowed as in ordinary business concerns. Though a certain proportion of agriculturists availed themselves of these institutions, the conditions were generally not much suited for them. Their occupation did not permit of their making regular monthly instalments towards the share capital out of savings, and a three months period for repayment was too short for their purposes. The high value of the shares precluded the very poor from joining these societies. There being no limit on dividends, a certain class of members came to value these societies only for their dividends and the interests of the borrowing members came to be lost sight of. Thus one essential aspect of co-operation was knocked out of them; for a co-operative society differs from a joint-stock bank in that the latter is an association of capitalist lenders who are strong and do not need protection, while the former is an association of weak borrowers for their own benefit. The practice also of allowing honoraria for directors and others on the management made them more akin to the joint-stock banks. In adopting this type of societies, other countries, notably Italy under the guidance of Senior Luzzatti, have made suitable modifications to provide against these defects. Being designed on more thoroughly co-operative lines and on a moral basis, the Raiffeisen societies are free from them. Nevertheless the success of the Schulze societies is undoubted. They have inculcated thrift and provided large classes with capital for productive purposes. They have contributed out of their profits large sums for education and other useful objects. They meet a real need in urban areas and are continually gaining ground.

Raiffeisen was born at Hamm in 1818. At first

he joined the army but had soon to retire on account of defective sight. He then entered the civil service and was appointed Burgomaster in 1845. The district in which he was employed was one of the poorest and suffered most severely from the famine of 1846 and 1847. The barren soil supported a half-starved population which was "all clad, ill-housed, ill-fed, ill-brought, up" and entirely in the hands of money-lending Jews of whose practices and power over the poor villagers it is impossible to speak with moderation. The Jews were small traders as well as money-lenders. They compelled their borrowers to sell all their field produce to them and purchase their requisites from them. It was their practice to give a lean and dry cow to the borrower for being fed up and returned after calving, when another lean cow would be forced upon him. The peasants were so much in debt to them that most of their huts, cattle and other belongings were all pledged to them. Though a large majority of them were Jews, a good proportion of them were Christians whose practices were the same as those of the Jews. Raiffeisen came to know the full measure of the peasants' misery in the famine and his heart went out to them. The first thing he did was to scrape together some money and start in 1848 a co-operative bakery which was able to supply them bread at half the current rates. Next he started a cattle purchase society and in 1849 his first village bank with a capital of £ 300. "As an advocate of his cause he was as unlike his rival (Schulze) as could be. Modest, unassuming, content to do his work in his own circumscribed sphere, he attempted no advertising and no noisy propaganda." The progress in the beginning was very slow. His second credit society was started in 1854, the third 1862 and

the fourth in 1868. Till 1880 they increased slowly but afterwards with astonishing rapidity. In 1885 there were 245, in 1891 there were 885 and in 1896 there were nearly 2200 of them. Raiffeisen was affectionately called "father" by the peasants and when he died in 1889 half of Germany mourned for the departed benefactor.

Raiffeisen intended his banks for the benefit of the poorest classes in the country side. He therefore fixed no share capital or entrance fee. When legislation in 1899 compelled shares to be instituted, they were made as low as possible, their value being only 10 to 15 marks and even that was payable by instalments. But he attached the greatest importance to character in members and safety of business. He limited the area of the society's operations to a parish, so that there might be thorough knowledge of each other among the members. Great care was exercised in admitting them, only honest men with steady and sober habits being taken. The liability of the members was unlimited. Loans were given for long terms of ten to fifteen years but the purposes were carefully examined and only the necessary amounts granted. If applied for any other purposes they could be withdrawn on four weeks' notice. They were issued on the personal security of the borrower and usually two other sureties whose worth was examined once in three months by an inspection committee. Where the worth of a surety had deteriorated the borrower was required to furnish a fresh surety. The greatest importance was attached to punctual and regular payment of instalments. The management of the societies was thoroughly democratic, every member having a vote in electing the committee. There was no remuneration for any service.

the only paid official being the cashier, who however had no voice in the granting of loans. The share capital being quite nominal, no dividends were provided for and the entire profit or the best part of it was carried to the reserve, which again was indivisible and in the event of a society's dissolution was to be used for some object of common utility to the whole parish or village. Almost all these features are reproduced in the rural or agricultural societies of India and other countries.

By making co-operative principles familiar to the people, credit societies of the Raiffeisen type have given rise to agricultural societies for various purposes in Germany and elsewhere. Among others were started co-operative granaries, societies for the purchase and common use of machinery, and vine-growers' associations the object of most of which is the pressing of grapes. Though Denmark shows *par excellence* the best organization in co-operative agriculture, Germany yet possesses the largest number of agricultural societies of various kinds. Areas, which like the native district of Raiffeisen were barren, miserable and peopled with half-starved beings, are now converted into smiling gardens and vineyards with a prosperous and diligent community.

In 1913 there were in Germany :—

Kind of Society	Number	Members.
" Credit Societies nearly	19,200	with 2,600,000
Agricultural societies above	3,300	about 300,000
Ware houses	600	75,000
Implement societies	2,900	60,000
Dairies	3,400	320,000
Stores	2,400	2,300,000

Taken all together, the German co-operative societies number more than 33,000 of which about 80 p c.

are agricultural. They possess nearly 6,000,000 members."* The transactions of these societies have to be mentioned in tens and even hundreds of millions of £. In 1912 the deposits received by credit societies exceeded £ 112,000,000, at the end of 1909 they had lent to their members about £ 155,000,000; the co-operative dairies turned out in 1910 products valued at £ 16,000,000; the turnover of stores in 1913 was about £ 33,000,000. To look after the working of societies, to conduct their audit as prescribed by law, for guiding them on right lines and for propagandist purposes, there are numerous central organizations which are local, provincial and imperial in their jurisdictions. The Schulze-Delitzsch societies have a general union of their own with 100 societies and the Raiffeisen ones have another with 5,800; the union founded by Hass has as many as 15,000 societies. And there are also other unions. In 1895 an Imperial State-aided central bank was started to help financially, centralize and control co-operative societies of all kinds. This interference by the State was not appreciated by the Raiffeisen societies in particular. Still it greatly helped many existing societies and gave a powerful impetus to the establishment of new ones. It has grown to immense proportions, its total turnover in 1912 having exceeded £ 800,000,000.

DENMARK.

Denmark affords the best object lesson in agricultural co-operation, to study which many deputations have been sent there by various countries. With less than 16,000 square miles in area, a comparatively poor soil, and a population of about $2\frac{3}{4}$ millions, Denmark which is an entirely agricultural country, has not only

Dr. Gebhard, 'Co-operation in Finland.'

been able to hold its own against the neighbouring industrial countries but is the most prosperous country in the whole of Europe proportionately to its population, with the exception of Great Britain. Even in the year 1895, when its agricultural and co-operative organisation was yet far from being perfected, it had an average annual income of £ 11.6 per head of population, next only to the United Kingdom which had a corresponding figure of £ 33.7 and possessed an average capital of £ 230 per inhabitant, next only to the United Kingdom and France which had £ 391 and £ 252 respectively. In 1908 Denmark exported to Britain, which though the principal is not her only market, butter of the value of nearly £ 11,000,000, bacon of about £ 5,285,000 and eggs of £ 1,825,000. In recent years these figures could only have gone up.

It is after a most marvellous and noble fight that she has achieved this position. Fifty years ago she was nearly threatened with extinction. A disastrous war with Germany deprived her in 1864 of the two most fertile provinces of Schleswig and Holstein and she was reduced to the possession of Jutland and a few islands in the Baltic Sea. "Even of this area a substantial proportion consisted of marsh, moor, and dune land, fit, apparently, for nothing but for the wind and the storms to blow over." It had an inferior breed of cattle with a poor yield of milk and the butter was of an inferior quality made by antiquated methods. On the top of all this came a great fall in the price of wheat, which was hitherto the main export of the country owing to vast supplies of it from America. "Reduced to the proportions of a dwarf, Denmark fought against adversity with the courage of a giant; and, crippled though she

was, she not only regained her strength, but became a power in the commercial world to be reckoned with."

The first thing that the people did was to reclaim the waste dune land which was estimated to be about 5,000 square miles and to bring it under cultivation. A Danish Heath Society was formed in 1866, roads and railways were constructed, irrigation schemes carried out, plantations established and in a few years as much as 1,000,000 acres was added to the cultivable area of the country. The next step was to improve the dairy industry. Formerly the peasants made their butter individually, which necessarily meant an absence of uniformity in quality and freshness; and then it used to be collected and exported. A reform was introduced when creameries were started to which the farmers brought only their cream, thus effecting a saving of time and labour to the farmers and securing at the same time a degree of uniformity in quality. The greatest improvement, however, was achieved when the centrifugal cream separator was introduced and perfected. The farmers had only to send their milk to the creamery as soon as it was drawn, the butter was made in no time and the skim milk was returned to them for feeding their swine and calves. While these improvements were taking place which were the result of much careful research by the best scientists, an eminently efficient and practical system of national and agricultural education was adopted, which enabled the people to derive the full benefit of the researches of the scientists. A reform was also effected in the system of land tenure. Steps were taken at the same time to improve the quality of the cattle both with regard to the yielding of milk and as beef. After various experiments it was discovered that a cross between the old Danish stock

and a breed in Schleswig-Holstein gave the best results and accordingly in a short time cattle of this improved breed were substituted for the old ones.

An immediate result of all this reform was a remarkable development of co-operative organisations for various purposes. They seem to have grown up naturally in Denmark; we find no Raiffeissens or Plunketts, and no propagandist literature or associations. Being a highly educated and intelligent body of small farmers, the Danes have shown a wonderful aptitude to combine for any purpose if they are convinced that it is for their good. In no country in the world is co-operative organisation so thorough. There are societies for the purchase of seed, manure, feeding stuffs, implements and other requisites, for breeding cattle, horses, pigs, poultry; for the sale of livestock, butter, bacon, eggs; for the improvement and insurance of livestock; for bee-keepers; and for agricultural labourers who are encouraged to keep fowls and grow fruits and flowers. There are also what are called control societies which "seek to render account by means of an accurate accounting system of the quality of milk given by each cow and of its contents in butter fat, as well as the connection between this return and the food consumed. By this means they are able to point those cows which are particularly suitable to breeding from, as well as those which give rise to losses and which should be allowed to disappear." In export and in import trade they have eliminated the middleman. The small farmer can sell his produce through co-operative societies on quite as advantageous terms as the large farmer; in fact, what is seen no other country, the large farmers have found it to their advantage to join these societies. Another feature of Danish co-operation is that for each purpose there is

a separate society, a state of things that has been rendered possible by the high education of the farmer, there being no dearth of men capable of managing these societies. It is a common thing to see a small farmer being a member of eight or ten societies at the same time, besides having joined several agricultural societies; selling his milk through one, his bacon through another, his eggs through a third, purchasing his requisites through a fourth and so on. He has found the co-operative sale of live-stock and their products so remunerative that he does not care to grow any corn for export as he used to do about 1830, in fact he imports some for his own consumption. The cow has become the main source of national wealth as it was to the Vedic Aryans.

The first Co-operative Society to be started in Denmark was a store in 1866 of the Rochdale type. There are now over 1500 stores but unlike in Great Britain they serve the rural population. But the Societies that set the country on its own legs economically were started several years later. The first dairy society was started in 1882 and the first co-operative bacon-curing factory in 1887. In 1913 there were nearly 1200 dairies, or creameries as they are called, one on an average in every parish. The usual practice is for about 150 farmers to form a creamery which requires for plant &c., about £1,200. Each member takes a share of £8 but he does not subscribe it in cash. The credit of the farmers is so good that any financing agency, co-operative or otherwise, is willing to advance the money on the guarantee of the members, and the loan is paid off out of the profits of the concern. The same practice is adopted for starting abattoirs or bacon-curing factories which need a much larger capital. In 1909 there were:

	No. of Societies.	No. of Members
Creameries	1157	157,000
Abattoirs or bacon-curing factories	31	95,000
Cattle exporting Societies	—	81,000
Egg-exporting Societies	559	52,000
Horse-breeding Societies	270	21,500
Cattle breeding Societies	1,230	31,300
Pig breeding Societies	253	6,430
Sheep-breeding Societies	192	850
Control Societies	519	12,000

Besides these in 1911 there were 156 stores societies, over 60 bookkeepers societies and a large number of insurance societies and societies for agricultural labourers for breeding poultry and growing fruits and flowers. The number of abattoirs in 1913 had risen to 45 which produced bacon valued at £ 8,500,000. In the same year there were 1190 creameries which produced butter of the value of £ 16,230,000. The total number of co-operative societies in 1913 was considerably over 5,000. More than half the total export and import trade of the country passes through co-operative societies.

To indicate the benefits of co-operation reaped by Denmark it would suffice to mention that in 1882 the butter of small peasants fetched a price which was 23 per cent less than that of large farmers but in 1909 more medals and prizes were carried off by associations of small farmers than by big farmers. Moreover in 1882 there were inferior classes of butter produced by the small farmers which have altogether disappeared with the starting of co-operative dairies. There has also been a striking improvement in the yield of milk. In 1898 the average annual yield per cow was 2941 kilos (a kilo = 2·2 lbs.) whereas in 1903 it had risen to 2662 kilos. The

utility of the control societies is borne out by the fact that in 1907 the average yield of milk of a cow supervised by the control societies was 5756 Danish lbs. (101'6 of them =112 Eng. lbs) while that of cows not supervised was 5120. Similarly remarkable improvement has been achieved with regard to the quality and yield of eggs. Thus not only has there been a large increase in the number of cattle, poultry and other live-stock but simultaneously there has been a considerable improvement in their yield and quality.

IRELAND.

The story of the spread of co-operation in Ireland is of special interest to us on account of the similarity of our economic and political conditions. Ireland, like India, is an essentially agricultural country, three-quarters of the population being dependent upon land and the people are poor, ignorant and unorganised, only less so in all these respects than Indians are. England has always been the main market for the consumption of Ireland's agricultural produce. But with the development of machinery and business life, English people became businesslike in their habits and demanded punctuality and regularity in the delivery and uniformity in the quality, of the goods supplied to their markets. The Irish people were unbusinesslike and failed to satisfy their market, while the Danes by their superior agricultural education and organisation were able to capture it. About the same time the opening up of the virgin soils of the Mississippi-Valley in the United States of America enabled the agricultural produce of the new world to be dumped on the English market at unprecedentedly low prices. Consequently the Irish peasant found it increasingly difficult to make a living from his occupa-

tion. He generally migrated to towns, specially to the cities of the United States; and so did the most intelligent young women. The result was a deserted country side. How to make rural life more attractive, how to prevent the movement of the population from the country to the towns and how to arrest the emigration to foreign countries which was so rapidly exhausting the country—that was the problem which the most earnest patriots of Ireland set about to solve.

The Irish leaders observed indeed that this depopulation of the country and concentration in cities was not a phenomenon peculiar to Ireland. It prevailed in all English-speaking countries including the United States of America, where even in the newly opened up western States which presented the most favourable conditions for an agricultural life, thousands of farms were deserted and their owners flocked to the cities and became operatives in factories. The reason was that the cities possessed economic, intellectual, social and political attractions which the country-side lacked. The farm labourer had to work harder and for longer hours and get a smaller wage than the factory operative in a city. He had not energy, money, time, or intelligent company for recreation. In rural life there was no scope for political ambition or for accumulating wealth. It was at first thought that the conversion of the tenant into the small proprietor would be a sufficient remedy so far as Ireland was concerned and several Parliamentary Acts were passed to help the process. But they were found insufficient and the Irish reformers came to the conclusion that the only way to solve the rural problem was to make it possible to attain the highest spiritual, intellectual and social development in the country-side, and they adopted the formula.

"better farming, better business, better living." The means of achieving this end was to be co-operative organisation.

They began with "better business." The Irish farmer was entirely in the hands of the middlemen and moneylenders. Credit is an absolute necessity to the small farmer and 75 per cent. of the Irish peasants are of that class. To meet their demand money-lenders set up business everywhere. Often they combined it with some other trade. In the southern counties there was the butter merchant who advanced money to the peasants at 10 per cent. interest and made it a condition that the borrowers should sell all their butter exclusively to him. He paid them at a lower rate than those who had not borrowed and graded their butter as he pleased. Then there were private loan offices some of which, however, were respectable banks. Their rate of interest was no doubt moderate but their terms and methods were not suitable to the farmers. Loans were given for short terms of three or four months and they had to be renewed repeatedly. The offices were in towns often long distances from the villages where the borrowing peasants lived. And they demanded at least two sureties. The expenses of travelling to the town and of keeping the sureties in good humour by drink and dinner, not only when the loan was first taken but as often as there was a renewal, together with the interest paid to the banks, made the loans cost from twenty to thirty per cent. Then there was the rural trader who encouraged the peasants to take things on credit to be paid for at their own convenience. The attempt of the trader was to get the peasants so involved in debt that they became his tied customers, who would not be in a position to quarrel either with the prices or with the quality of the goods

supplied. But the trader not only sold things to the peasant but purchased from him cattle, swine, butter, eggs, oats, potatoes and other forms of produce, and fleeced him at both ends. Cash transactions came to be replaced by barter and in the enquiries conducted by an economist it was discovered that the farmers did not get for the articles which they sold to the traders quite half their value.

Similarly they were being put to great loss in disposing of their cattle, horses, swine and other live-stock. They were sold at fairs to 'jobbers' who in turn sold them to big dealers and they supplied the English market. If the peasant did not accept the price named by the jobber he would set two kinds of parasites to work upon him, one of whom was known as 'blocker' and the other 'tangler'. It was the custom in Ireland, as in many other countries, for no other bidder to go to the farmer so long as he was engaged by one customer. 'Blockers' stayed with the farmer and did not allow a new customer to approach him. 'Tanglers' tried to deceive the farmer into believing that the value of his stock or produce was much less than it really was. Suppose a farmer thought that an animal of his was worth £12 and refused to part with it to a jobber for £10. A number of tanglers would go to the farmer in succession, like the rogues in the fable who cheated the Brahmin of his goat, offer £7 or £8 for the animal and ridicule the idea of its ever being worth £12; so that at last in the evening when the jobber came again, the farmer would be glad to accept £9 for it. And the blocker and the tangler would earn as much as £1 each in a single day for their valuable services.

The Irish reformers' scheme of better business was to substitute co-operative credit societies of the Raiffeis-

sen type for the money-lender and co-operative purchase and sale societies for the middlemen traders. The next step was to bring about better farming by providing agricultural education and popularising scientific methods of cultivation as was done in Denmark. Better business would save for the peasant the money that was going to enrich the middleman and better farming would increase the income of the land, and between them they would so improve the economic position of the cultivator that he could lead a better life. For, "civilization implies some measure of luxury and comfort. It can only be attained when the Community is organized and has strength to retain some surplus of wealth beyond what is required for the bare necessities of life."* The reformers believed that economic prosperity would soon lead to enjoyable intellectual and social life. They hoped to introduce electric lights and the telephone into rural areas, to construct village halls which would hum in the evening with pleasant social chats; to create a taste for books, art and other intellectual pursuits; and by organisation to acquire such political power as would safeguard the interests of agriculture to the same extent that other interests were safeguarded.

The seer who conceived this noble vision of a reconstructed rural Ireland was Mr. (now Sir) Horace Plunkett. He was born 1854 in an Irish noble family and was educated at Eton and Oxford. From 1879 to 1889 he stayed in the United States of America acquiring varied experience in agriculture, which was invaluable to him in his work of rural regeneration of Ireland. "Nature had prepared him for the work he was to undertake by gifting him with every kind of

* G. W. Russell—Co-operation and Nationality.

insidious power to drag people out of their own private and proper work and make them do his work instead. The apostles did not seem by their previous professions more unsuitable to be divines than the people Horace Plunkett collected and filled with his own spirit and sent out to organise the farmers. Artists, poets, literary men and clergymen fell victims to him equally with those who were personally interested in farming."* He succeeded in enlisting people of all shades of political opinion on his side. On his return from America in 1889 he started the Irish co-operative movement.

He thought the conditions were most favourable for dairy societies and it was not before addressing as many as fifty meetings that he succeeded in organising the first co-operative society in Ireland. Credit societies were thought of only later on. In 1894 Horace Plunkett and his friends started the Irish Agricultural Organisation Society, briefly known as the I. A. O. S. with the object of supervising the societies and directing the further development of the co-operative movement. In that year the Committee of the I. A. O. S., invited Mr. H. W. Wolf, the well-known English authority on co-operation, who explained to them the various systems of co-operative credit that were prevailing on the Continent. They adopted the Raiffeisen type of unlimited liability societies without share capital as best suited to Ireland. In 1896 Horace Plunkett was able to get together representative politicians of all shades of opinion to inquire into the agricultural condition of Ireland and to suggest ways of improving it. They (known as the 'Recess Committee' for they conducted their inquiries in the recess between two sessions of the Parliament) reported that co-operative

* G. W. Russell—Co-operation and Nationality.

societies should continue to be started by a voluntary association like the I. A. O. S. and on the lines laid down by it, and that a Government Department of Agriculture should be formed to supplement the voluntary efforts of the people and to teach and bring into practice the most up-to-date scientific methods of agriculture. The Department was created in 1899 and Plunkett was appointed its Vice-President, so that he had full control of the Department. The I. A. O. S. worked for 'better business' and the Department of Agriculture for 'better farming' and between them the Irish peasant prospered. Sir Horace Plunkett was at the head of the Irish Agricultural Department for about eight years and resigned in 1907.

The co-operative movement in Ireland, as in other countries in recent years, received a considerable amount of State aid, especially in the early days of the movement and during Sir Horace Plunkett's connection with the Department of Agriculture. The Congested Districts Board and the Department of Agriculture advanced loans to the credit societies at 3½ and 3 per cent respectively, which in 1912 formed 58 per cent of the working capital. But in that year joint stock banks were persuaded to recognise co-operative societies and do business with them. They lent to societies at 4 per cent while the societies lent to their members at 5 per cent.

To put briefly, the I. A. O. S. has rescued the Irish butter industry from threatened extinction, has rescued thousands of peasants from the village usurers and supplied them with credit in a suitable form and on suitable terms, has improved the level of cultivation and has taught the farmers how to face competition in the world-market by combination for purposes of sale and purchase. The success so far achieved is so great that it

leaves no doubt about the realisation of the reformers' dream of a regenerated rural community. The following figures are taken from the I. A. O. S. report of 1912 and relate to the close of 1911.

Kind of Society	Number of societies	Membership	Turnover in £
Dairy Societies	326	45,725	2,002,127
Auxiliary Societies (not separately registered)	87	—	—
Agricultural Societies	171	18,271	122,199
Credit Societies	236	19,505	56,055
Poultry Societies	18	5,879	62,807
Home-industries Societies	20	1,375	6,257
Miscellaneous (including bacon-curing and bee-keepers' Societies)	25	4,928	59,666
Pig and cattle supply Societies	40	657	—
Flax Societies	9	624	3,402
Federations	2	217	132,929
I. A. O. S. Societies, total	931	97,111	2,452,472
I. A. O. S. per supplemental Societies	—	107	214,011
Total	931	97,318	2,666,483*

Ireland has a lesson to teach those that easily become despondent of the future of Indian co-operation by observing certain defects in the present working of our societies. Such defects were and to some extent still are prevalent in Ireland, at any rate in the credit societies. Among them are want of punctuality and regularity in

the repayment of loans, renewal or book-adjustment of loans, failure to send returns &c. to the I. A. O. S. and the Registrar of Friendly Societies. In 1912 a large number of societies were not working at all, being given the appropriate name of skeleton societies. In 1909 no less than 31 societies worked at a loss and every year some societies are being removed from the registers of the I. A. O. S. and the Friendly Societies. An officer of Government who made an independent inspection of 103 societies in 1910 reported 22 as working satisfactorily, 36 as fair and 45 as unsatisfactory. Yet no one can say that co-operation has not succeeded in Ireland. In fact the future promises to be exceedingly bright. Even severe critics have admitted that the growth of co-operation in India has been phenomenal and in spite of defects that it is proceeding on right lines on the whole.

Chapter IV.

IN INDIA.

The co-operative spirit has never been wanting in the peoples of India, though of late it has been somewhat impaired by the spread of individualistic ideas through western education. It is ingrained in the joint-family system, in the caste organisations of the Hindus, in the democratic brotherhood of the Musulmans and in the village communities of the country. For defending themselves against the attacks of outsiders or for paying them off, for digging or repairing tanks, for honouring the village diety and for various other purposes, they have been accustomed to combine from time immemorial. They have also evolved a system of co-operative association for thrift and credit of which two kinds of institutions are well-known in the Madras Presidency and are working on the whole satisfactorily even to-day, side by side with the co-operative societies which are a decided improvement upon them. These indigenous Madras institutions are known as *Kuttuchits* or Chit funds and *Nathis*, a brief account of which may not be out of place here.

The Chit funds are mutual loan associations prevalent throughout the Presidency, in towns as well as in villages, from time immemorial. Ten or more persons (usually within twenty) known to and having confidence in each other, agree to subscribe a certain sum fixed by

themselves at regular intervals of a week, month, quarter or half year, as the case may be, the intervals being one less than the number of persons joining the fund. The object is both thrift and credit: some join in order that they may obtain money in a lump for a marriage, for building a house or such other purpose for which they would ordinarily have to borrow at high interest; others that they may save under some external pressure and use the sum for purchasing ornaments or land or investing it in some other manner. The subscriptions are pooled and distributed among the members in turn. Sometimes the order is decided by mutual agreement, the urgency of the members' needs being considered; otherwise it is fixed by lottery or auction. The first is a thoroughly co-operative method; the second leaves it to chance, but a winner who has no urgent need for the money usually obliges another member whose need is urgent or lends it out to him; while under the third a member takes a smaller sum than the pool money, the difference being distributed among all the members when the fund is closed. This last method is scarcely co-operative and sometimes leads to ruinous and unconscionable bidding, such as accepting Rs. 60 or Rs. 50 for a pool sum of Rs. 100. Those that fail to pay punctually are fined or charged penal interest at so much per day. These chit funds are usually organised by some enterprising individual in whose honesty and capacity the other members have confidence and who holds himself responsible for paying the pool money. The managers and subscribers may be persons of either sex. Sometimes these funds fail owing to the manager's fraud or the refusal of some members to pay after enjoying their 'prize' turn and then the subscribers are put to loss. But on the whole they have succeeded and their popularity

is if anything on the increase. Where the subscribers are intelligent persons they take precautions against fraud by requiring the manager and the prize-winners to furnish proper securities. The demand for these 'funds' is so great that some urban co-operative societies in the Madras Presidency are managing them for their members and take a small discount on the pool money. Thus societies are formed within societies. It is not possible to estimate their number but they would certainly have to be counted by thousands. They are popular with all classes, from Government servants and Vakils to coolies and scavengers. More remarkable still is that groups of women should organize themselves into funds in order that they may possess particular ornaments or utensils. There are also chits in which payments are made not in cash but in grain, jaggery, coconuts &c. Their number however is not very large.

From these have developed the *Nidhis* most of which are really respectable banks registered under the Companies Act. They originated in the City of Madras in 1850 when some officials of the Suddur Court started the first bank of its kind to escape from usury and at the instance of some unknown person adopted several features of the English Building societies. They rapidly spread to many towns and though a good many have disappeared, there were 135 of them in 1892. Even now there is a considerable number of them some of which are quite prosperous with annual transactions amounting to several lakhs of rupees. The object of the *Nidhis* also is thrift and mutual credit. Some persons of standing in a town start it and get it registered and others join it afterwards. Every member takes one or more shares by which he binds himself to subscribe every month one rupee or more for 45 or, more usually, for 84

months at the end of which he is entitled to Rs. 50 or Rs. 102½, which includes the instalments subscribed and interest at 6¼ per cent per annum thereon. Loans are generally, issued only to members though in some cases to others, on the security of either the share subscriptions already paid, in which case the loan does not exceed 95 per cent of the amount, or on the security of ornaments or immovable property, at a rate of interest which varies from 6½ to 12 and even 15 per cent, and to the extent of Rs. 100 per share taken up. They are recovered in the shape of the monthly share instalments with any interest agreed upon when it exceeds 6¼ per cent. Punctuality is strictly enforced and penal interest charged in cases of delay. Proper accounts and an establishment are maintained and remuneration is allowed to the directors. Deposits are received from non-members at 5 or 6 per cent interest and after setting apart a portion of the profits for the reserve fund, dividends are distributed on shares according to the amounts subscribed.

The greatest problem of India has ever been the poverty and indebtedness of its people, over 80 per cent of whom are directly or indirectly dependent upon agriculture. It is only natural that the problem should have received special attention during the agrarian troubles in the Deccan of 1871 and during and after the famine of 1877-8. The success of the German people's banks drew the attention of Sir William Wedderburn, then District Judge of Poona, Mr Ranade and certain other gentlemen, who in 1882 submitted to the Government a scheme for an agricultural bank to relieve the indebtedness of the ryots of the Purandhar taluka in Poona District. The scheme was well received by the Local and Supreme Governments but after some corres-

pondence and a good deal of delay, was finally abandoned on account of the disapproval of the Secretary of State. But though suggested by the German co-operative banks and meant for the amelioration of the poor agriculturists, it was not the establishment of co-operative societies that was advocated by them but a State-aided agricultural bank. (It is perhaps a survival of the ideas of those days that explains the opposition to co-operative societies which is entertained by our venerable patriot and economist, Sir Dinshaw Wacha.) The Madras Government under Lord Wellock was the first among Local Governments to look definitely to co-operative societies for the salvation of its ryots. In 1892 it sent Mr. (afterwards Sir) F. A. Nicholson on deputation to Europe to study the system of land and agricultural banks and report on their being suitable or otherwise for being adopted in the Madras Presidency. The Madras Government could not have found any person more fitted for the task by sympathies or equipment. Unlike other Civilians he has made India his home after retirement from service, is Honorary Director of Fisheries for Madras and is doing his best to improve the condition of the poor fishermen of the Malabar coast. After a most thorough and painstaking inquiry which lasted for three years he submitted a report which is rightly considered a monumental work and which for comprehensiveness and wealth of detail has only been recently equalled by the Report of the American Commission of 1913-14 and is still a useful book of reference. He reported that conditions in Madras were not less favourable than in most European countries when co-operative societies were first introduced in them, recommended their encouragement by Government through legislation and indirect means, and earnestly

appealed to the educated classes to start and manage these institutions. In the concluding paragraph of his report he wrote:

“There are in every considerable village men fully the equal in intelligence and status, of the men who in Europe locally administer the movement and direct the institutions; it remains only to find the men of apostolic fervour who will pioneer and champion the idea and will labour in person in the villages, not merely or so much in lecturing and writing, good though these may be, but in the actual establishment and administration of humble societies.”

He ended the preface with this sentence.

“The future of rural credit lies with those who being of the people, live among the people, and yet by their intelligence, prescience and energy, are above the people; such were the reformers of Germany and Italy who have introduced the great systems of popular credit in those countries and, taking the word ‘Raiffeisen’ not as indicative of a particular person or system, but of the zeal, energy, patience and continuous devotion so thoroughly exemplified in that great reformer, and of that spirit of co-operation, thrift, self and mutual help so thoroughly developed in the above and similar systems, the whole of this report might be summed up in the two words ‘Find Raiffeisen.’”

The Government of Madras reviewed the report in 1899 and considered it unnecessary to take any action upon it, as they thought that rural credit in the Presidency was not an urgent problem. The report however caught the eye of Lord Curzon who had copies of it circulated among all Local Governments for opinion. Meanwhile independent attempts were made in the United Provinces, the Punjab and Bengal for introducing

co-operative banks. As an experiment Mr Dupernex, a civilian of the United Provinces, started a few societies in the Allahabad District which attracted the attention of Sir A. P. (now Lord) Macdonell who put him on special duty to visit various districts and explain the principle of co-operative banking to the people. Mr. Dupernex also wrote a small book explaining the principles and giving model rules and forms of accounts. By July 1901 some forty or fifty societies had been started. In the Punjab Mr. E. D. (now Sir Edward) Maclagan and Captain Crosthwaite started five societies in 1893 and 1899 which promised success; and in Bengal several societies had been started under the guidance of officials. On the receipt of the opinions of Local Governments on Sir Frederick Nicholson's report, Lord Curzon appointed in 1901 a strong committee under the presidency of Sir Edward Law "to consider the question of the establishment of agricultural banks in India." They reported in favour of their establishment, which in fact was the general trend of the opinions of Local Governments, indicated the lines on which they should be run and submitted a draft Bill for helpful legislation. It was circulated among Local Governments and on the consideration of their criticisms and opinions, was passed into law as the Co-operative Credit Societies Act (X of 1904).

The title of the Act shows that it was the Government's intention to confine its application to credit societies. They also wanted to limit the benefits of the Act to 'agriculturists, artisans and persons of limited means.' It was recognized that such societies could not prosper in India without recognition and some control by the Government. The Indian Companies Act with its 256 sections was too complex and complicated

for the simple purposes and humble transactions of these societies. Hence the need to register them under a separate Act. Local Governments were authorised to appoint a special officer in each province called the Registrar whose duty it was to organize, register, audit, inspect, dissolve and generally to guide and control the societies, and to submit an annual report on their working to the Government. Ten or more persons of over 18 years, residing in the same town or village or group of villages, or belonging to the same tribe, class or caste, could form themselves into a society. It was classified as rural or urban according as four-fifths of its members were agriculturists or not. Rural societies were to be based on the unlimited liability of their members while urban societies had the option to choose between limited and unlimited liability. The entire profit of a rural society had to be carried to the reserve fund, until it was otherwise directed by the Local Government. The urban banks were required to carry at least one-fourth of their net profits to the reserve. A society could lend only to its members and with the Registrar's sanction to a rural society. No member could hold shares of more than Rs. 1000 of nominal value. The Act conferred certain privileges on co-operative societies. The share capital subscribed by a member was not liable to attachment or sale by any court; next to land-revenue due to Government and rent to landlord, the societies were given a priority over other claims on crops, agricultural produce, cattle, implements and raw materials, for growing or purchasing which a member had utilised the whole or part of the money borrowed from the society; the accounts of each society were to be audited annually free of charge; and the societies were exempted from income tax, stamp duty and registration fees.

The appointment of the Registrars and the enlistment of the sympathy and assistance of non-officials in the cause has led to the rapid organisation of a large number of societies. The rate of their increase has not been equalled in any country. It has no doubt been different in different provinces owing to local conditions but everywhere it has been satisfactory. The enlightened States of Mysore and Baroda introduced the movement along with legislation at an early date. Other States like Hyderabad, Travancore, Indore &c. have followed their example more recently. The progress in some of them, especially Mysore, can put even British India to shame. By the end of March 1905 that is within a year of the passing of the Act, there had been started 41 societies of which 35 were rural and 6 urban with a working capital of about Rs. 54,000. Next year the number had risen to 482 of which 22 were central and 35 urban societies, with a membership of over 26,000 and working capital of nearly Rs. 5,00,000. The subsequent progress is given below:

Year	No. of Societies.	No. of Members.	Working Capital in Rs.
1906-7	843	90,844	23,71,683
1907-8	1,357	149,160	44,14,086
1908-9	2,008	184,889	80,65,111
1909-10	3,498	230,698	1,23,97,682
1910-11	5,432	314,101	2,03,66,584
1911-12	8,177	403,318	3,35,74,162
1912-13	12,324	573,536	5,34,21,261
1913-14	15,673	744,226	7,71,70,584
1914-15	17,327	824,469	8,96,61,792
1915-16	19,675	918,436	10,32,67,149
1916-17	24,036	1,045,425	12,22,92,180

Figures for the Native States of Mysore and Baroda are included. Capital lent by one society to another is included twice.

The provisions of the Act of 1904 were soon discovered to be faulty in some respects and inadequate in others. Being meant only for credit societies it could not be applied to foster other forms of co-operation. The spread of co-operative ideas through credit and the study of the movement in foreign countries naturally created a desire for purchase, sale and productive societies. Merely to bring them under the Act a credit side had to be appended to them. There was also no recognition of central societies and unions which admitted societies to membership and several of which had been started in order to finance, organize and control primary societies. The unscientific division of societies into urban and rural was found unnecessary and inconvenient. A new Act was therefore passed in 1912 which removed the above defects and in addition made some minor improvements with regard to registration, audit and some administrative details. Among the latter were the prohibition of the application of the word 'co-operative' to associations not registered under the Act; the express permission to set apart a portion of the profits, not exceeding 10 per cent, for educative and charitable purposes; the withdrawal of the provision for free audit. It also permitted dividends to be declared on shares in unlimited liability societies—a change which became necessary owing to the investment of large sums in share capital especially in the Punjab and Burma. The old Act of 1904 was of course repealed.

By June 1914 the number of Societies had risen to nearly 15,000 and working capital to nearly Rs. 7,45,00,000. New types of societies such as for cattle insurance, milk supply, for the purchase and sale of implements &c. had been registered. The Government of India thought

that the time had arrived for taking stock of the position and on the 17th of June 1914 published a comprehensive Resolution reviewing the progress so far achieved and deducing in general terms some practical lessons interesting to co-operators. They did not, however, feel that the financial arrangements of the central banks, some of which had begun to have connections with the outside money market, were all made on safe and sound lines and in order to enquire into and report on this aspect of the question, they appointed a Committee in October 1914 under the Chairmanship of Sir Edward Maclagan. It was composed of eight members five of whom were members of the I. C. S. and the only well known non-official co-operator upon it was the Hon. Mr. Lalubhai Samaldas C. I. E. The primary duty of the Committee was to examine whether the movement especially in its higher stages and in its financial aspect was progressing on sound lines; but they were asked to inquire also into the audit, supervision and management of all classes of societies and to make recommendations regarding any important aspect of the movement. From the first week of November 1914 for four months they travelled in all the larger provinces, examining 93 witnesses and inspecting about 135 societies besides interviewing some business men, and published their report in September 1915. Making a free use of the discretion vested in them, they have made a number of valuable recommendations regarding the details of the working of societies and given weighty opinions on several matters on which there had been no general agreement among co-operators. They recommended the establishment of a provincial apex bank for each of the larger provinces which should connect the movement with the outside money market, should serve as a balancing cen-

tre to the district banks and as far as possible confine its dealings to them. They recommended that district or central banks should be composed of both individual and society members the former to be gradually eliminated as the latter became competent to manage the institutions entirely by themselves; that they should lend only to societies and not also to individuals as has hitherto been the practice with many of them; and that they should employ adequate staff for supervising and conducting the primary audit of the borrowing societies, the audit staff being under the control of the respective Registrars. The rate of interest should be raised on loans both to individuals and societies so as to provide funds for these duties, though it should still be below the bazar rate. They recommended that a much larger proportion than obtains at present of the capital of central banks should be kept fluid for the safety and stability of the movement.

The Committee apprehended two dangers in the potentialities of co-operation in India. Remarkable as the growth in the number of societies and members hitherto had been, their future growth was bound to be greater still. "As a consequence there will undoubtedly arise through the medium of co-operation a powerful organization formed of these agricultural classes who are at present inarticulate through want of education and cohesion." The possibility of its perversion to wrong ends was the first danger to their mind. They were good enough to admit that as yet they had seen little or no signs of it but they thought that its possibility should always be borne in mind and carefully guarded against. "The second danger, the lack of a true spirit of co-operation, is at the present moment

much the more real." The remedy suggested for both of them was increased supervision and control. The Registrars with their present respective staffs were inadequate to cope satisfactorily with the rapid spread of the movement. They therefore recommended that "in all the major provinces, there should be in addition to the Registrar at least one Joint-Registrar holding a status equivalent to that of Collector, and that in provinces where the number of societies is large there should be approximately one superior controlling officer for each thousand societies. The effect of this would be to add three superior whole time officers to the registering staff of the Punjab, two to that of the United Provinces and the Central Provinces and one to each of the other provinces." They recommended the creation in each province of a new appointment, that of Development Commissioner, to which the Registrar may look forward to be promoted, and an expert co-operative adviser with the Government of India. To add to his dignity and the length of his purse, the Registrar was to draw higher local and travelling allowances and to migrate to the hills with the Local Government. We have already noticed that the majority of the Committee were men of the I. C. S. and certainly no one can have the hardihood to accuse them of forgetting their own interests. The recommendations of the Committee are still under the consideration of the Government of India and it is earnestly hoped that these reckless and costly proposals will find no favour, especially in view of the recent war taxation and the supreme need for economy. It is a pleasure to note that most of the Local Governments are opposed to these recommendations. The report does not contain any suggestions for enrolling more non-official workers in the

cause. Nevertheless it is a valuable document, remarkably clear and thorough, forming a land mark in the history of co-operation in this country, and no student of the movement should neglect its study.

The most bigoted advocate has not claimed for co-operation in India freedom from certain defects. Some of them are incidental to human nature and are to be observed in Germany and other European countries. Others are due to faulty organization and the illiteracy, ignorance and want of public spirit in the people which can be removed only gradually by literary and co-operative education. Want of regularity and punctuality in the payment of dues, slackness in management, book-adjustment or re-loaning, fraud by secretaries or treasurers in some cases, failure to observe the bye-laws, indifference and a want of the true co-operative spirit are among the main defects. But considering Indian conditions they are not such as to make one despair and the true remedy for them all is to 'find Raiffeisen' in the language of Sir Frederick Nicholson.

To look for general economic or moral results is yet premature. Calculating four persons to a family and supposing only one member of it joins a society, barely one per cent of the population has yet been touched by co-operation, and that too mainly in one rather unimportant aspect of it, viz., credit. Still some-satisfactory indications are observed in every province. The rate of interest for poor agriculturists has appreciably gone down wherever a fair number of societies have been established. In north India where owing to the prevailing system of land tenure a member cannot give the security of immovable property, the ryots have to pay

ordinarily an interest of 24 to 30 per cent. Co-operative societies lend to them on an average at least at a 10 per cent lower rate and the saving thereby effected to them is Rs 10 lakhs per year on every crore of rupees borrowed from the societies. Here and there unproductive and hidden wealth has found its way to societies as deposits and become productive. Expenditure on marriages, deaths and for other unproductive purposes has in many cases been curtailed by the influence of co-operation. A beginning has been made in intercepting the profits of the middleman. Sir Edward Maclagan said in 1912, "The effect of co-operation on litigation is in some places very marked and we hear in one district of a decrease during the year of 1,100 civil cases which the judicial authorities ascribe in the main to co-operative credit societies." Settlement of disputes among members by the arbitration of panchayats is a common feature in Bengal societies. Education has received a general impetus; some societies contribute funds for the upkeep of schools; in some even grown up people have begun to learn the alphabet; while instances are known of members having adopted compulsion for the education of their children. In Bihar the members of a group of societies some time ago started a medical relief society. The Madras Government entrusted recently as an experimental measure twenty societies with the execution of certain sanitary works, which were acknowledged to have been carried out satisfactorily and economically. Distribution of quinine, filling up of pits and such other steps in sanitary improvement have been taken. The method of expressing opinion by means of resolutions passed at meetings and the meaning of election, have been understood by members of co-operative societies. Instances

are known where the communication of such resolutions to the proper authorities has helped the villagers to obtain postal and other facilities and has freed them from the oppression of petty officials. These sufficiently indicate the possibilities of the future.

PART II

Chapter I

AGRICULTURAL CREDIT SOCIETIES

Co-operative societies organized in India under the Co-operative Societies Act of 1912 may first be classified according as they are units in themselves or are federations of societies or of societies and individuals. The former are, according to the official terminology, primary societies, the latter, central societies. Again, according as the business of the primary societies is confined to credit or covers other forms of co-operation, the primary societies are classified as credit or non-credit societies. Each of these two groups of primary societies is further distinguished on the basis of the occupation of a large majority of its members. Thus there are two main groups of credit and non-credit societies, agricultural and non-agricultural societies.

It was primarily as an attempt to solve the problem of agricultural indebtedness that the co-operative movement was introduced in India. Agriculture is the mainstay of nearly three-quarters of the population of India and hence it is obvious that agricultural co-operative credit must continue to occupy a dominating position in the discussion of Indian co-operation. According to the latest available returns, the number of agricultural credit societies in the country is 20,541, of non-agricultural credit societies 943, and of agricultural and non-agricultural non-credit societies 523 and 260,

respectively. The statement which follows gives the membership, capital and other details of the working of

Name.	No. of Societies.	No. of Members.	Total Working Capital.	Reserve Fund.	Cost of Management.	Net profit during the year.	Usual rate of interest on	
							Borrowings.	Loans to members.
			Rs.	Rs.	Rs.	Rs.	Percent.	
Madras ...	1,921	1,18,939	88,08,271	5,22,723	74,474	2,45,053	7½	9½
Bombay ...	1,091	80,762	52,14,837	3,20,272	42,891	1,29,161	6¼ & 7	9½
Bengal ...	2,857	1,10,961	67,06,628	7,92,227	1,35,257	1,97,220	9¾ & 10 ¼	12¼, 15¾ & 25
Bihar & Orissa.	1,337	56,200	21,61,057	2,86,536	10,671	1,19,502	12¾	12¼, 15¾ & 18¾
United Provinces.	3,003	1,02,312	51,36,051	6,36,228	74,106	1,71,246	12	15
Punjab ...	3,417	1,29,544	1,40,70,943	27,08,600	82,676	8,34,295	6 to 9	9 to 12¼
Burma ...	1,985	45,939	79,58,834	8,79,615	1,74,267	2,51,234	10	15
Central Province.	3,303	53,497	49,25,018	3,79,515	9,632	1,45,204	9	12
Assam ...	313	16,789	4,65,945	85,306	7,658	26,045	6¼ & 9	12¼ & 18¼
Coorg ...	24	2,781	1,23,470	29,791	3,021	9,418	5 to 8	12¼ & 25
Ajmer ...	379	12,848	11,65,181	...	6,924	85,400	10	12
Mysore ...	812	45,021	22,70,628	83,738	14,473	98,737	6 to 7½	9 to 12
Boroda ...	290	8,16	7,10,781	1,26,807	6,103	33,406	4¼ to 7	9¾ & 12
Total ..	20,725	7,84,252	5,96,15,644	68,44,358	6,42,193	17,75,815	...	...

agricultural societies, including all non-credit societies, with the exception of those for insurance. A glance at these figures emphasises the need for bestowing special attention on the management, organization, and supervision of agricultural credit societies, for it is on the proper organization, business-like management and effective supervision of these societies that the stability of the co-operative structure depends. An examination of the principles governing the administration of agricultural credit societies, will be, as a general rule, equally applicable to other forms of co-operation. While, therefore, the constitution and management of agricultural co-operative credit societies will be dealt with at length, only those features which are peculiar to non-agricultural and non-credit societies will be emphasised.

Too much stress cannot be laid on a careful observance of the principles and practice of co-operation. The soundness of the whole system rests on this fundamental requirement. Co-operation by its very nature rests on certain moral safe-guards, and if, in practice, these safeguards are neglected or ignored, the stability of the movement is in jeopardy. A knowledge on the part of the members of the main principles guiding an agricultural co-operative credit society in its working is, therefore, essential. The chief points to be borne in mind are:—(1) that the object of co-operative credit is both the encouragement of thrift and the provision of credit; (2) that the liability of the members for the debts of a society is joint and unlimited; (3) that much of the success of a society depends on the mutual knowledge of members and the exclusion of bad characters from membership; (4) that loans must be given after proper inquiry by the committee in accordance with restrictions laid down in the bye-laws, for definite purposes.

and members must see that loans are used for the purposes for which they are sanctioned; (5) that loans should be made repayable by one or more instalments fixed according to the purposes of the loans, that repayments must be genuine and punctual, and that extensions should be granted only after proper investigation; (6) that the powers of control vested in the general meeting, namely, the appointment of a managing committee and a secretary, the consideration of the balance-sheet and the audit notes, the fixing of maximum limits for borrowing and the review of the work of the office-bearers, should be known to the members; (7) that it is the function of the managing committee to raise capital, to sanction loans to members, to watch over their recovery, and to see that proper accounts are maintained; (8) that all profits are carried to the reserve fund, the object of which is to improve the general credit of the society, to protect the members from the enforcement of unlimited liability and, ultimately, to enable the society to reduce its rate of interest on loans, such reserve fund being until dissolution, the property of all the members jointly; (9) that capital may be raised either by deposits from members or other individuals, preferably from the village itself, or by loans from a financing institution, in the direction of whose policy, the society has a voice by becoming a member; (10) that though a society is subject to Government audit and the supervision of the financing agency or federation, it is the members themselves who are responsible for the working of the society and on their efforts will depend its success.

Essential as is this teaching among members of rural credit societies, it is one of the ironies of fate that where the constant inculcation of these principles is

most required the mind of the average member is least prepared to be subjected to it. The illiteracy of the agriculturist presents a serious obstacle of fact. Not that a little primary education will make him an ideal member; but the instruction received at school will make his mind receptive to new ideas and eager for knowledge, especially of facts relating to his daily life. Co-operators, therefore, must plead for a rapid extension of elementary education, but instead of waiting for the day when primary education will be universal, they should redouble their efforts in the teaching of co-operative principles, and try to provide primary instruction through the agency of societies started by them, both for adults and the young, in such villages as lack the necessary facilities.

An agricultural co-operative credit society is an association of ten or more persons belonging to the same village who have joined together to promote thrift, encourage savings, provide credit and promote, generally, their moral and material welfare. The application for registration is signed by persons who initially agree to work together, but later on members may be admitted after proper inquiry into their character and material circumstances by the managing committee of the society. The Registrar of Co-operative Societies or other officer authorized by a special order to whom applications for registration have to be submitted, may, after the legal formalities have been complied with, if he thinks fit, register a society. Under the present circumstances he is primarily responsible for seeing to it that the societies which are registered by him are organized on sound lines.

According to the Co-operative Societies Act, the liability of a society the object of which is the creation of funds to be lent to its members and the majority of

the members of which are agriculturists must be unlimited. Unlimited liability has been willingly accepted by agriculturists in most parts of the country, but it is very often understood to mean that when any default occurs in the payment of a society's debts to an outside creditor, he can proceed immediately against any individual member to the full extent of his property. The liability is really of the nature of a "contributory unlimited liability," that is, "where there is a deficit in the engagements of a society to its creditors, this deficit should after the full payment of shares, if any, be recoverable by a series of *per capita* levies upon the members upto the full extent of their property, direct proceedings by a creditor against individual members being forbidden". It is only in a few societies that unlimited liability has not been adopted and though the Local Governments have power by an order to exempt societies from this form of liability, the power has rarely been exercised, so unreservedly has this form of liability been undertaken by the average agriculturist all over India. It is the adoption of this principle of unlimited liability which has promoted business-like habits and has led to much of the moral and educative effort which are the distinguishing features of co-operative credit. It constitutes, besides, an important factor in the confidence felt in primary societies by their depositors, by co-operative financing institutions, by depositors in such institutions, and by joint stock banks connected with the movement. Any departure from the practice is inadvisable, though it is often suggested that local magnates who desire to assist the societies, but do not care to assume the serious liability imposed, should be encouraged to join a village society by having their liability restricted to some definite guarantee. The

suggestion amounts to putting a premium on the wealth and influence of a small class of well-to-do people, and if acted upon is likely to be resented by the average member of a society. If the well-to-do men in a village sympathize with the troubles of their fellow-villagers, they should realize how public spirit demands their association with the latter on terms of equality; and how by an adherence to the safeguards inherent in the constitution of a co-operative society they can minimise the risks involved in the unlimited liability. It may be remarked in this connection that the liability of a past member for the debts of a registered society continues for a period of two years from the date of his ceasing to be a member, and that the estate of a deceased member is liable for a period of one year from the time of his death for the debts of the society.

No rural credit society can be registered unless it consists of at least ten persons above the age of eighteen years residing in the same town or village or the same group of villages. The field of a society must be so restricted as to permit of members being mutually acquainted and in a position to exercise an effective mutual control. It is therefore advisable to confine the operations of a society to a single village. Where a group of villages can conveniently form a co-operative unit and the members are able and willing to be jointly responsible, a rigid adherence to the rule that there should be one society to one village is undesirable. It is further urged that in parts of the country where the need for co-operation is great, but where a nucleus of literate members is unobtainable, the rule "one society to one village" should not be enforced if co-operative credit is to progress. In all such cases what is really important is, however, that the essential

principle of mutual responsibility arising from close mutual touch should not be lost sight of. This principle has also to be borne in mind in determining the size of societies. Whatever be the arguments from the standpoint of economy of management, the advantage of having small societies which can be easily managed and supervised and where members can keep in touch with one another outweighs all other considerations. The average membership of a rural society in Germany is 94, in India it is 41. No definite numerical maximum of membership is fixed, but it is certain that if the number of members exceeds a total of about 100, the society tends to be unwieldy and unmanageable on sound co-operative lines. When in a village the membership exceeds the limit desirable in the interests of good management, it would be well to recommend the starting of another society. The starting of more societies than one has also to be favoured when a village is divided into factions and parties the members of which are not likely to work harmoniously for the common good in the society. Societies should start with a few selected members and when some progress has been made, the committee should admit more members gradually, care being taken in making admissions. The new members should be persons with whom the other members of the society can keep in touch and for whom they can undertake liability.

Village societies are at present composed mostly of agriculturists of small means, either peasant proprietors or occupancy tenants, and it is not usual to find village artisans and agricultural labourers included. Though this practice has its advantages, excessive exclusiveness is to be deprecated and it is undesirable for societies to refuse admission to deserving persons on the ground of

poverty or difference of occupation. Further, the agricultural co-operative credit movement in India extends so far only to peasant owners or tenants—persons of limited means—and it is only very rarely that societies have been started for the benefit of large proprietors who form an important class of agriculturists and who own much of the land in Upper India. Many of these proprietors obtain funds from the local or other markets on easy terms but there is no doubt that they need better credit facilities in some parts of the country. The constitution of the ordinary type of rural credit society in India with its unlimited liability, its restricted area of operations, and its indivisible profits may not be found suitable for large landed proprietors. No schemes of other types of co-operative credit associations for these classes have yet been evolved, though a few Zamindars' societies are found in some provinces.

The agricultural credit society being a democratic institution, the final seat of power with regard to the management is the whole body of members assembled in a general meeting, where each member has one vote and no more, and where full publicity is given to the society's work. All business transactions must come up for review at a general meeting at least once every year, but it is desirable that meetings should be held more frequently for the discussion of the accounts and transactions of the society. With the general meeting of members rests the election of a committee of management with a chairman, a secretary, and other office-bearers. The annual balance-sheet of a society is formally adopted at this meeting after such explanation as is necessary, and, any reports or orders from the Government auditors or the Registrar or financing institutions are placed before this meeting. The general

body has power to expel members and can thus exercise a wholesome check on the conduct of members. It is in the general meeting that authority is given to the committee to raise funds upto a certain maximum and limits are laid down beyond which no loans can be made to members. The power to amend bye-laws with the approval of the Registrar of Co-operative Societies is also vested in the general meeting.

For the conduct of the detailed business of a society there is the managing committee consisting of five to nine members, all of whom give their services to the society gratuitously. Members are generally admitted to a society by the committee. The committee receives and disposes of loan applications, keeps a watch over the utilization of loans, makes recoveries of loans due, grants extensions if necessary, borrows funds for the purposes of the society, inspects and checks the accounts, decides about the disposal of cash balances, and, in brief, deals with all matters of routine administration, the policy being laid down by the general body. Just as it is essential that the members as a body should retain in their hands the ultimate authority for the policy of the society, so also is it incumbent upon the members of the committee of management to work as a committee and not to delegate their powers to one or two active members. In this country it is found that an imperfect knowledge of co-operative principles, and a common feeling of indifferentism among members, have resulted frequently in the usurpation of undue authority by the committee, and the tendency in many a society has been for one or two individuals in the committee to control the entire administration of societies. Working under

the orders of the committee is the secretary, who should preferably be a local man and still better be himself a member of the society. He is generally given some small remuneration and often a bonus on the basis of the annual profits. In some places, the village accountants and school-masters work as secretaries of societies. But owing to the dominating position occupied by him in village life, as an officer invested with some authority, the entertainment of the village accountant as a secretary is inadvisable. The functions of the secretary should be—but are more often not—restricted to purely clerical work, like the writing of forms, accounts and minutes, and he should not be allowed to usurp any of the functions of the committee, as he does in average societies in many provinces. In view of the prevailing illiteracy in most villages, a system has grown up of having one secretary for a group of societies, the appointment being usually made not by the societies themselves. Under this system, the secretary commands more influence and wields more power than is desirable in the real interests of the societies or is consistent with true co-operative practice, and the system therefore deserves no encouragement and should be abandoned.

The constitution of an agricultural credit society having been described, attention may next be turned to the composition and employment of its capital. Societies depend for their capital, partly on external and partly on internal sources; the former include deposits and loans from non-members or financing agencies, the latter, share capital, deposits from members, and the surplus assets or reserve fund. The extent to which these various items contribute to the working capital

of rural credit societies in India may be judged from the following figures for the year 1916-17 :—

1. Shares	...	...	Rs.	88,89,023.
2. Deposits from members	..	...	..	37,01,418.
3. Loans and deposits from non-members	...	..	..	40,09,956.
4. Reserve	...	...	...	68,44,358.
5. Loans from Government	..	...	..	15,22,484.
6. Loans and deposits from other societies	..	..	..	9,60,004.
7. Loans from central banks	...	...	..	2,37,47,521.

Share capital constitutes an integral part of the system only in Madras, Coorg, Ajmer, the United Provinces, the Punjab and Burma. The shares in Coorg are of the value of Rs. 10 to Rs. 20 each, in Ajmer of Rs. 5, in Madras Rs. 1 and in the Raiffeisen societies of Burma of Rs. 10 each. Such shares are paid on admission, and do not entitle their holders to any participation in the profits of the society. They are withdrawable on cessation of membership. A share system corresponding to that in vogue in the Luzatti type of societies in Italy has been introduced in the Punjab, the United Provinces, and a large number of newly-started societies in Burma. Shares are of the nominal value of Rs. 10 to Rs. 100, payable in ten years by annual or half-yearly instalments. At the end of the period the shares are withdrawable, except among new societies in the Punjab. In all the three provinces, at the end of a period of ten years from the starting of a society, three fourths of the net profits are available for distribution in proportion of the paid-up value of the shares. Even during the period of ten years, in the Punjab only one quarter of the profits is carried to the reserve and the balance is divided *pro rata* among the members in the form of new non-withdrawable shares. Provided the share system does not encourage dividend-hunting and the creation of disabilities against poor members, there is no objec-

tion to its introduction in parts of the country where local conditions are favourable. The prime object of a society should be to acquire a permanent capital of its own as speedily as possible, and according to some authorities the best method of attaining this object is the rapid building up of a substantial reserve fund. Where the ordinary margin of profit is small and cannot be raised in view of the local rates of borrowing and lending, the introduction of a share system may be found more advantageous. Its utility as an instrument of thrift is, however, doubtful, in view of the fact that in a majority of cases the share payments will have to be secured by deduction from loans. Such shares should not, moreover, be very large in amount and should be payable by convenient instalments. The society has a charge on the share of a member, but with this exception the share is not liable to attachment or sale under any decree or order of a Court of Justice in respect of any debt or liability incurred by such member.

A society can receive deposits and loans from persons who are not members only to such extent and under such conditions as may be prescribed by the rules or bye-laws. The absence in the Co-operative Societies Act of any reference to deposits from members, when considered in connection with the fact that the object of co-operative societies is the promotion of thrift among members, is understood to mean that members' deposits should be given priority over those from non-members. Members' deposits, like shares, are subject to a charge by the society, and, if fixed for long terms, offer additional security for outside borrowings. Where the share system is in vogue, as in the United Provinces, the Punjab, and Burma, not much additional capital can be raised by this means from

members. In other provinces, where there is no other method of encouraging thrift, too much importance cannot be attached to the encouragement of members' deposits, but a system of compulsory deposits by deduction from loans or otherwise is open to the same objection as applies to share payments from loans. It has often been suggested that, in order to induce members to deposit, it is justifiable to offer to them slightly higher rates than to non-members. No serious exception can be taken to this recommendation, but it is generally found that, more than any desire for high rates of interest, it is facilities for withdrawal which attract deposits from members. This suggestion, if acted upon, is therefore not likely to secure the tapping of as much local capital as can be obtained by the adoption of a system of savings deposits. Under this system, small sums within strictly marked limits, would be received and repaid on terms similar to those in force in Post Office Savings Banks; such deposits have been tried to a small extent in the United Provinces, Burma, Bihar, Orissa, and Bombay, but the system deserves to be extended more widely. Post Office Savings Banks have failed more or less to attract deposits in villages, but as the co-operative societies will furnish to agriculturists a safe method of investing savings in institutions in their villages, managed with the maximum of publicity by persons known to them, and for objects they can see, the adoption of the system may be attended by great economic advantages.

In Germany, over 87 per cent. of the working capital of societies consists of local deposits, while in India the corresponding percentage is only 18. But the habit of making fixed deposits in a new one in rural India, and considering this factor, the comparative poverty of

the agrarian population, and the fact that the movement is only of ten years' growth, the paucity of local capital is not very discouraging. That more deposit capital needs to be obtained, however, none will gainsay. Such deposits encourage savings in the village, provide cheap and valuable capital, and serve to interest in the management, a body of men who are anxious that the money lent by them is not misused. They show further the extent to which societies have succeeded in enlisting the sympathies and gaining the confidence of the village people, a sure sign of the efficiency of a society. Efforts should not, therefore, be made by central banks to prevent societies from tapping local resources, as has been the case in some provinces. As the funds raised by way of deposits are lent to members for their needs and repayments on these are received only once a year, it is desirable to insist that except under special authority societies will not receive deposits for periods shorter than twelve months. Current accounts, owing to the risk and trouble involved, are generally unsuitable for small rural societies.

It has already been pointed out that it is the function of the members assembled in a general meeting to fix the limit upto which the members as a body are prepared to pledge their liability for loans and deposits. It is on the other hand, essential for the central bank to assess a definite sum as the maximum borrowing power of a society. The two limits being based on separate considerations may or may not agree. While this is the practice in some provinces, in others the maximum liability may be fixed by the bye-law of a society, and this bye-law may be allowed to be amended from time to time if it is found desirable to raise or reduce the limit of borrowing.

Among other sources of capital are loans from Government, from provincial and central banks, and from other societies. It is the correct procedure that no loan should be given by one primary society of whatever type to another except through the medium of a central bank or union. The sanction of the Registrar for such loans is necessary and it is right, as a general rule, to be withheld. The practice has its dangers by creating an interlocking of liabilities, but it may be necessary in exceptional cases to allow interlending by special sanction. Loans from Government contributed largely to the working capital in some provinces in the initial stages of the movement when such help was probably necessary. The proportion which they now form of the capital is very meagre. Loans from central banks constitute an important source of capital. The conditions governing such loans are left over for consideration in a subsequent chapter.

The chief object of an agricultural credit society is obviously the granting of loans to members, on such terms as the bye-laws, the rules under the Act, and the Act itself prescribe. As the society is co-operative in its constitution members alone are entitled to receive loans, and no member can exercise the rights of membership until he has made such payments to the society as are prescribed in the bye-laws. Before loans are granted to members it is always necessary to make certain inquiries and it is regrettable that not seldom loans are sanctioned to members more or less automatically. As a result of this there is laxity in repayment and a disposition on the part of members of the managing committee of a society to appropriate for themselves and their friends a large portion of the funds of the society. There is great advantage, therefore, in

the general adoption of the practice, which already prevails in several provinces, of fixing the maximum normal credit of each member. This credit would be fixed annually by the general meeting of members. The maximum is fixed after "a consideration of the ordinary requirements of a member's occupation, his earning capacity and his character, the earning capacity being primarily estimated with reference to the rental or revenue, if any, paid by him and the value of his property." Beyond this maximum, the managing committee have no authority to sanction loans. But where special loans are required to meet a famine or scarcity, to redeem previous debts, to provide for the improvement of land, to release land from mortgage, or to purchase costly agricultural implements or machinery, a special reference is made to the general body, and the loans are sanctioned or withheld in accordance with its decision. Even when the normal credit is fixed a member has to apply to the managing body separately for all loans required by him, stating the purpose for which advances are required. If the managing committee finds that the objects are not proper, or the condition of the member has deteriorated since the credit was fixed, or the society is short of funds, the application may be rejected, for it must be borne in mind that a maximum normal credit is not equivalent to a cash credit. Cash credits are generally not granted to members of rural societies, but as the movement expands and as societies are firmly established and members understand their business better, a system of cash credits may well be tried.

A feature of co-operative credit in other countries is that loans are given strictly for productive purposes. The fundamental principle is that credit should be

allowed for essential objects, and, as in this country the force of social opinion and the pressure of caste feeling entail certain forms of ceremonial expenditure it becomes necessary to include within the class of essential loans, advances for such expenditure. Where loans for non-productive purposes are given, precautions need to be taken by societies to see that the expenditure is inevitable and that it is not excessive in amount.

Though the main task of rural credit societies is to finance agriculturists for productive purposes and for essential unproductive objects, the movement cannot be said to have exercised its economic functions adequately, unless the societies have succeeded in promoting thrift and in redeeming members from their previous debts. In a country where official statistics show that no less than 75% of the agriculturists are involved in heavy debts, the importance of the function cannot be over-emphasised. Not only is the amount of debts heavy, but as the debts bear high rates of interest the indebtedness is never substantially reduced as the earnings of the agriculturist often just enable him to pay the heavy interest charges and only occasionally a moiety of the capital. Hence, from the economic point of view "the entire extinction of a member's debts and the substitution of the rural society as his sole creditor appears to be the most satisfactory course of extricating him from his debts." For, by this process reduction in the amount of debt liquidated is often effected. The new debt further carries a lower rate of interest and is made redeemable in conveniently fixed instalments. It is sometimes argued that in "relieving debt without any corresponding effort on the part of the debtor there is a real danger of weakening his moral strength of character

and thereby making him a less valuable member of a society than he was otherwise capable of becoming." There has, therefore, been a tendency to disapprove of the practice in vogue in some provinces, notably in Madras, of paying off the entire debts of a member on his admission to a society. On theoretical considerations, it may be correct to argue that "it is best to pay off a part of the debts at a time, as funds can be spared for the purpose, those paying highest interest being chosen first, and the mortgage debts and others bearing less interest being kept over till the debtor has been sufficiently long in the society for his qualities to be appraised and for the receipt of contributions from himself towards his extrication." This policy may have a better educative effect than the immediate and wholesale clearing off of debts on admission, but practical experience shows that the presence of indebted members in a society is a weakness in the movement. There is first the danger of members obtaining loans for productive purposes and misapplying them in repaying their previous debts, thus running the risk of defaulting when repayments of the productive loans fall due. There is the other danger that, under the pressure of the local money-lender whose methods of recovery are never so correct as those of a society, the members may use their earnings out of loans advanced by their society, first towards satisfying the demands of their individual creditors. These two are the first steps in the downward glide towards default and subsequent recalcitrancy. Under the circumstances, special efforts need to be made by societies to inquire individually into the indebtedness of members, to select cases, to secure reduction of debts, to attempt to find long term capital, and always to aim, until money-lending is stripped of its

usurious practices, to substitute the co-operative society for outside creditors.

The chief objects for which loans are given in rural societies are cultivation expenses, purchase of plough cattle, and payment of old debts. Other objects are payment of land revenue, irrigation dues, or rent, the holding over of crops for a fair market, ceremonial expenses, land improvement, purchase of agricultural implements, trade, education. The amounts of loans granted every year for the various objects are given in the annual administration reports of the co-operative departments in some provinces. In most provinces the bye-laws insist that if a loan is not used for the purpose for which it is granted, it is subject to immediate repayment, if so decided by the committee. Much attention, however, has not been devoted to the use of loans once these are granted, and it is necessary for those supervising societies to impress upon managing committees the responsibility for attending to this part of their duties.

The average period in which loans to members of societies are repaid is three years. The general practice regarding the fixation of the periods of loans varies in different provinces. The principle on which the periods must be fixed is that repayment should be made out of the proceeds of the productive object for which the loan has been used—the periods should be so fixed as to enable members “to repay the loans out of the income that they derive from their increased productive capacity.” For loans advanced for unproductive purposes periods should be such that the member “by the exercise of thrift can effect a margin of income over expenditure which will suffice to meet the instalments of his loans as they fall due.” This principle is not observed in a majority of the provinces. In some pro-

vincous loans are repayable by instalments spread over periods varying from one to ten years, in a few, they are repayable in a lump sum after a term of years, and in others, the nominal term is one year and extensions are allowed upto five years, provided one-fifth of the principal is repaid annually. In Burma, periods are regulated by bye-laws, loans for seed, food, cultivation expenses or fodder being repayable after the next ensuing harvest, loans for purchase of carts or cattle, for liquidation of small debts, or for house-building being repayable in between two to three years, and, finally, loans for liquidation of large debts, for purchase of land or its release from mortgage, or for expensive improvements of land in three or four years. A similar system of classifying loans and fixing the maximum periods for each class of loans might, it has been suggested, be attempted in other parts of the country, but while there is much to be said in favour of such a classification, conditions so vary in different parts of the country, that even in one province a rigid adherence to the classification would be inadvisable. Further, the amount of the loan and the circumstances and repaying powers of individual members are factors which cannot be left altogether out of consideration. Hence, necessary as is the fixing of a standard for the guidance of societies, a reasonable amount of latitude should be allowed by the bye-laws. Supervisors of societies, however, should be careful to see that exercise of this latitude is not influenced by favouritism. Extensions of loans should not, as they frequently are, be automatic, for this is sure to encourage members to default and to prepare the way for the society's decay. The periods of loans when once fixed should be adhered to except in the event of damage to or failures of harvest or domestic calamities.

Few defects in the administration of co-operative societies in India have been found to be so serious as laxity or unpunctuality in the repayment of loans. A common form in which this laxity is concealed is the reprehensible practice of fictitious repayments of loans—that is showing an outstanding loan as fully repaid, and sanctioning at or about the same time a fresh loan of equal amount. This slackness in the matter of payments is not always due to recalcitrancy. The unpunctuality is primarily an effect of the easy-going ways of rural life in India. It is fostered by carelessness in the selection of members, want of due consideration in the granting of loans, and the absence of any effective watch by the sureties or by the committee over the use to which loans have been put. In many a case, however laxity in the matter of repayment is an index to the narrow margin subsisting between the income and expenditure of an agriculturist in this country. Conditions of life are so precarious that the slightest derangement in the general run of life—illness or death in the family, some extra ceremonial expenditure, a little damage to crops—upsets the economic equilibrium, leaving the agriculturist with no excess of income with which to meet obligations. In spite of this, if loans are granted at the proper time, for amounts not in excess of requirements, and for necessary objects, if repayments are fixed on the principle enunciated above, and if effective care is taken about the utilization of loans and timely extensions given in cases of distress, it is certain that the defect which is so noticeable now will gradually disappear.

That the primary security for loans is personal, is the essential feature of co-operative credit. Thus by pledging the joint credit of all the members, a society

is able to raise funds without offering any other security. But while this is true, it is advisable to add to the general supervision of the society, the special supervision of individual members by taking personal sureties for each loan. This does not violate the principle that the chief security must be personal, for the principle, correctly interpreted, means that it is the man himself, with his sureties, rather than his property which is to be considered when an advance is made. When the sureties guarantee a loan, it is obvious that in case of default by the debtor, demand for repayment should first be made on the sureties before resorting to arbitration or litigation. This maxim is not properly understood in many societies, and, as a consequence, the guarantee does not provide as effective a security as it should. A society with unlimited liability, to which class all agricultural credit societies belong, cannot lend money on the security of moveable property without the sanction of the Registrar. The granting of loans by co-operative societies on any other security than the character and substance of the members appears to be in opposition to the principles of co-operation. But if it is recognised that such security is merely collateral and the personal security given by the borrower is not only implied but is also clearly understood, moveable or immoveable property as security is not particularly objectionable. The personal security of the borrower may in such cases be supported by sureties. If a borrower is not allowed to use his material credit to the full, there is a danger of his using it to borrow from money-lenders. In cases where the Registrar is satisfied that the valuation of jewellery and its custody can be arranged he may authorize loans on this security. Such loans are not very common, but loans are sometimes advanced on the hypothecation of

cattle or carts. The Local Government is also authorized to prohibit or restrict the lending of money on mortgage of immoveable property by any class of registered societies. A prohibition against lending on mortgage security is rarely applied in practice, but the power to enforce restrictions is necessary, as societies may lock up the limited funds at their disposal in this form of business, where the payments must be spread over a long term of years. When loans on mortgage of immoveable property are advanced the same considerations about making the mortgage security collateral, as are explained above should apply. If this is done, there is no harm in granting loans on mortgage, provided long term capital is available. It is only in Bombay, Berar, Madras, Coorg, Burma, Assam, Ajmer, and the Punjab, that a society has to deal with the peasant proprietor. Mortgages as security for loans are possible, though not without difficulty, in most tracts in these provinces. In Bengal, Bihar and Orissa, the Central Provinces, and the United Provinces, where societies deal primarily with tenants, the difficulties with regard to mortgage security are serious.

The Act confers on a society a prior claim over other creditors, with the exception of Government or the landlord, on the crops or other agricultural produce of members grown with the aid of loans by the society for seed or manure, or on cattle, fodder or implements purchased with the aid of loans from the society. The claim, however, does not confer any summary power of realization. It is largely inoperative, as the Calcutta High Court has ruled that an outside decree-holder may attach the crops or cattle unless the society has previously obtained a decree in its own favour. The intention of the legislature was that the lien should

operate against outside attachment or sale even in the absence of a decree in favour of the society. The Act, therefore, needs to be amended so as to define clearly the prior claim of the society as a charge on the property in respect of which a loan is granted.

The rates of interest on loans cannot be fixed by the local Governments, but under the bye-laws of a society the rate of interest has to be fixed or at least a minimum or maximum laid down, and the Registrar may refuse to register a society if he thinks that the rates are higher or lower than those justified by local circumstances. What is to be guarded against is, firstly, that the rates are not too high to lead to an exploitation of the poorer members or to keep away the members who may be in a position to enjoy local credit on easier terms, and, secondly, that they are not too low to encourage re-lending by members or excessive borrowing and leave an insufficient margin for the expenses of working and the building up of a reserve fund. Excessive attention should not be attached to the building up of a reserve fund if it hampers the spread of co-operative credit. What is needed in India is the provision of credit facilities in rural areas, and as co-operative credit is the most suitable means by which such facilities can be made available, rural credit societies should be encouraged wherever they can well be started and should be allowed to charge rates lower than the average local rates but high enough to allow for a reasonable margin of profit. No theoretical considerations regarding the rapid building up of reserves should be allowed to check the development of the movement, and the primary object, namely, the securing of maximum of advantage to the members with the lowest possible rate must always be kept in view.

No part of the funds of a registered society can be divided by way of bonus or dividend or otherwise among its members, unless one-fourth of the profits are taken to the reserve fund, and then too the profits are divisible under such conditions as may be prescribed by the rules or bye-laws. Further, no distribution of profits can be made in a society with unlimited liability without the general or special order of the Local Government. The bye-laws and rules in all the provinces, except the United Provinces, the Punjab, and Burma require that unlimited liability societies should pay no dividend and accumulate all the profits in their reserve funds. In the three provinces mentioned above dividends are payable after ten years from commencement of working. The bye-laws require the reserve funds to be indivisible and such as cannot be drawn upon for meeting losses without the sanction of the Registrar. Though reserve funds offer security to depositors for their investments they are not to be confused with fluid resources, meaning such of the assets of societies as are held in a liquid form in order to meet the claims of depositors. The need for fluid resources arises in only when societies receive large outside deposits, and in view of the fact that primary societies do not reserve any considerable deposits, and such deposits as are received are local, the provision of fluid resources is not a serious problem for them. But a misunderstanding of the term has led to an insistence in some provinces on the separate investment of the reserve funds of societies. In Madras, for example, a society is compelled to place the amount of its reserve fund as a deposit with the Central Bank financing it, while in the Central Provinces all reserve funds are invested in Government paper. If, however, primary societies are secure in

respect of fluid resources, it is inadvisable to insist on reserve funds being separately invested. The aim of the movement is to make rural credit societies depend on their own or local resources and this can best be achieved, by giving societies liberty to utilize their reserve funds in loans to members. They will thereby earn higher rates of interest than on any other outside investment, and will be rapidly adding to the strength of the reserve fund. When substantial reserve funds are thus built up and societies become independent of much external financial aid, they will be able to reduce the rates of interest charged on loans.

• There is strictly speaking no division of profits in co-operative societies for there are no profits in the ordinary commercial sense and when there is no share capital, there is no distribution of profits. But in societies in the Punjab, Burma and the United Provinces, distribution of profits on fully paid up shares is made, provided ten years have elapsed from the date of payment of the first instalment of each such share. This division of profits is regulated by rules issued under the Act which also permit the prescribing of maximum rates of dividend to be allowed. Such limits are prescribed in a majority of the provinces. A registered society may, with the sanction of the Registrar, after carrying one-fourth of its net profits to the reserve fund devote an amount, not exceeding ten per cent of the remainder, to any charitable purpose as defined in section 2 of the Charitable Endowments Act of 1890. The charitable purposes defined include relief of the poor, education, medical relief, and the advancement of any other object of general public utility. In some provinces more than in others it is the practice with societies to make use of this provision in promoting the

general well-being of their villages, and "common good funds" are created out of the profits set apart.

Local Governments have power to frame rules for the decision of disputes between members and societies by reference to the Registrar or to arbitration and for the procedure under which the arbitration proceedings may be conducted. The term disputes is intended to cover disputed cases of arrears and even cases where the members admit the claims but plead inability to repay. The power under the rule is not used in all the provinces, but they may well adopt rules similar to those obtaining in Bombay and a few other provinces. Under the Bombay rules, the award of the Registrar or the arbitrator is not liable to be called in question in any Civil or Revenue Court, and, if upheld by the Director of Agriculture or the Registrar, respectively, is final and conclusive. Decisions and awards under the rules are enforceable in the same manner as decrees of Civil Courts. There has been a frequent demand on the part of co-operators to allow societies a special summary process for the recovery of their debts in place of the slow and expensive methods of the civil courts. The decision of disputes by arbitration would put a stop to the growing tendency towards litigation and will reduce largely the expensiveness of the process of recovery. But it is urged that the chief difficulty is not in respect of the decision of disputed claims, but in securing the execution of decrees or awards through the Civil Courts. Exasperation has at times been shown at the delays and inconveniences caused by the existing practice of these courts and it is claimed that decision and awards in favour of co-operative societies should be made enforceable by the procedure allowed for the recovery of Land Revenue. It would be mistaken kindness to allow

societies the special privileges asked for. If in the absence of any special powers, a society cannot, by means of the joint security and its own moral authority, collect its debts, its failure is brought on by its own careless selection of members and laxity in management. The real remedy, as has often been emphasised, is to avoid resort to litigation or arbitration by due care in selecting members, by the exercise of proper discretion in the granting of loans, by the application of pressure on the shareholders of defaulters, and by insistence on good management.

The Registrar is authorized, at his own discretion, or at the request of the Collector, or on the application of a majority of the committee, or of one-third of the members, to hold an inquiry or direct an inquiry to be held into the constitution, working, and financial condition of a society. On the application of a creditor of a society, the Registrar is required to inspect or direct to be inspected the books of the society, provided that the applicant satisfies the Registrar that the society is actually indebted to him, that he has demanded payment of the sum due and is not promised repayment within a reasonable period of time. The Registrar has full authority after an inquiry or inspection to apportion the costs between the society, the office-bearers of the society, and the members or creditors demanding inquiry or inspection. If the Registrar is satisfied, as a result of his inquiry or inspection, or on the application of three-fourths of the members, that a society ought to be dissolved, he may cancel the registration of the society. Against this cancellation members have the right of appeal to the Local Government, within two months from the date of the order. When a society is cancelled it ceases to exist as a corporate body, and the Registrar appoints a liqui-

dator. The liquidator has power to institute and defend suits and take other legal proceedings, to determine the contributions to be made by the members or past members to the assets of the society, to investigate all claims against the society and to decide questions of priority between claimants, to recover the costs of the inquiry, and, generally, to collect and distribute the assets of the society. A liquidator has also power to summon and enforce the attendance of witnesses and to compel the production of documents. Appeals against the orders of a liquidator are allowed before the District Judge, and orders passed by him are enforced, in the same manner as decrees of Civil Courts.

In some provinces, little resort has been had to dissolution, and as a result, societies are found which show no signs of life. Where there is no hope of eventual solvency or progress it is desirable to dissolve a society. The causes of failure are various, such as lack of interest in the affairs of the society, dissensions, dishonesty of office-bearers, slackness or incompetency of management, want of supervision, and neglect of the principles of co-operation in practice.

The collection and distribution of the assets under the orders of a liquidator present grave difficulties, and, both official and non-official co-operators represent that the delays in the enforcement of the liquidator's orders are so vexatious that they endanger the success of the movement by the indirect encouragement given to recalcitrant societies. In Bengal as well as in Bihar and Orissa, in the amended Public Demands Recoveries Act, provision has been made for the execution of the liquidator's orders in the same manner as an order for the collection of arrears of Government revenue. As the objections to the application of a summary process do

not apparently hold good in dealing with the recovery of assets in liquidation, it has been suggested that provision might well be made in the Act for summary recovery in such cases. Though there is much in this contention, it is necessary to point out that the suggested procedure may lead to laxity in the organization of new societies and may promote careless lending by central banks.

Rules framed by Local Governments prescribe the account books to be kept by societies. They also require the publication of the balance sheets of societies and prescribe the returns to be submitted by them to the Registrar. The returns to be submitted by primary societies annually are the statement of receipts and disbursements, the balance sheet, and the profit and loss account.

Chapter II

NON-AGRICULTURAL CREDIT SOCIETIES

There has been a certain degree of uniformity achieved in the constitution and working of rural credit societies in India. They have a restricted area of operations and a limited membership, they are based on the principle of unlimited liability, and their members are generally agriculturists of small means, either tenants or proprietors. Among non-agricultural credit societies in this country, however, there is no uniformity aimed at. The liability is either limited or unlimited, the area of operations covers at times a whole province or it may even be restricted to a small locality, and the membership extends from the most backward classes to well-to-do middle class persons. Under the original Act of 1904, societies were arbitrarily divided into rural and urban, and different conditions were prescribed for each class with regard to the form of liability and the division of profits. In practice it was found that this arbitrary distinction was unworkable, and it was abandoned when the Act was amended in 1912.

But a special reference to urban societies in the original Act shows that though the main aim in introducing co-operation in India was the establishment of credit societies for agriculturists, the provision of credit facilities for industrial workers and other poorer classes in towns was not lost sight of. The Government of India originally held the view that not only would

urban societies serve to promote thrift and self-help among persons of limited means in towns but that such societies would command sufficient funds to finance rural credit societies. The magnitude of the problem which co-operative credit may help to solve among non-agriculturists has, however, not been grasped hitherto, except in some provinces. Lately valuable efforts have been made in some provinces, especially Bombay and Madras in extending the benefits of co-operative credit to all sections of what may be termed the non-agricultural community, and with a wider knowledge of these efforts, it is expected that in other parts of the country non-agricultural credit societies will be more rapidly started than heretofore.

The main groups of non-agricultural co-operative credit societies are (1) peoples' banks in towns and cities (2) communal societies (3) societies for employees of large firms, companies and official departments (4) societies for artisans and handicraftsmen (5) societies for factory workmen and (6) societies for other poorer workmen. In some provinces societies of some of these types are fostered, in others societies of other types, but it is only in Bombay and to a certain extent in Madras that non-agricultural societies of all the types enumerated above have grown up. Just as agricultural societies in India correspond to the Raiffeissen societies in Germany, except in some provinces as regards the raising of share capital and the division of profits, the non-agricultural credit societies of the first two groups and to a certain extent of the third group, are modelled on the Schulze Delitzsh societies. There is a wide diversity of types in the remaining groups, some societies having limited and others unlimited liability, some with share capital and others with none, some going in for division of profits and others not.

It is not possible to give figures separately for the types of non-agricultural credit societies, but the following statement which exhibits the position of non-agricultural societies, credit and non-credit, may be found of some use:—

Provinces.	No. of Soci- ties.	No. of Mem- bers	Total Working Capital.	Reserve Fund.	Cost of Manago- ment.	Usual rate of interest on	
						Borrow- ings.	Lend- ings.
			Rs.	Rs.	Rs.	%	%
Madras ...	224	43,001	29,12,891	1,74,178	7,5162	7 to 7	9
Bombay ...	182	47,696	43,00,115	1,82,958	56,191	6 to 6	9½ to 18
Bengal ...	160	25,582	25,61,868	1,28,742	30,037	6 to 10	9 to 15
Bihar and Orisa ...	65	10,106	3,01,056	14,435	8,368	6 to 12	9 to 18
United Provinces ...	170	6,921	4,91,427	49,339	9,802	6 to 12	15
Punjab ...	37	4,228	9,17,133	49,353	14,558	8	12
Burma ...	54	5,002	8,35,568	1,54,815	12,107	...	...
Central Provinces ...	105	2,319	4,35,607	15,249	2,341	9	12
Assam ...	110	2,011	2,18,297	16,209	3,847	6	9 to 12
Mysore ...	44	27,893	20,87,782	1,30,132	30,339	5 to 6	9 to 12
Baroda ...	31	1,950	1,31,578	4,978	2,300	3 to 4	6 to 9
Total ...	1,209	1,76,708	1,47,16,355	9,721,013	2,45,411		

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The manner in which the working capital of non-agricultural societies is raised will be seen from the following figures:—

Shares	Rs 51,56,152
Deposits from members	.. .. 41,99,167
Loans and deposits from non-members	.. .. 30,39,865
Loans and deposits from societies	.. .. 1,41,889
Loans from provincial or central banks	.. .. 12,01,323
Loans from Government	.. .. 57,446
Reserve fund	... .. 9,21,013

While agricultural credit societies, except when specially permitted, have to accept unlimited liability, non-agricultural credit societies have the option of adopting either limited or unlimited liability. How this option should be exercised has been thus concisely defined in the report of the Committee on Co-operation. "As a general principle when the clientele is fairly well-to-do and when owing to local conditions full mutual knowledge cannot easily be secured among members and when the share capital is adequate to the business undertaken, liability should be limited but otherwise it should be unlimited." The conditions in the first three groups of non-agricultural societies conform to those laid down by the Committee on Co-operation and hence that is the form of liability invariably adopted in these classes of societies.

These three classes of societies, found as they are most usually in towns, have a membership so scattered and occasionally so extensive, that homogeneity is often absent and, in any case, close mutual touch among members is difficult to secure. Further, as the societies generally raise sufficient share capital to serve as a suitable guarantee fund for borrowings, the need for offering additional security by undertaking unlimited

liability disappears. In these respects all the types of the societies agree. They also agree in the division of profits, 25 per cent. are credited to reserve under the Act, and out of the balance, common good funds, building funds, dividend equalization funds are sometimes established and dividends are annually given to the members. While in unlimited liability societies each member can have one and only one vote at the general meeting of the society, in societies with a limited liability each member may have as many votes as are prescribed by the bye-laws. Many non-agricultural credit societies with limited liability allow members votes in proportion to the number of shares held by them and thus violate one of the fundamental principles of co-operation and equitable association. That the extent of a person's control in a co-operative society should be based on the capital he holds in the society is opposed to co-operative principles, for "the co-operative society is a union not of capitals but of persons and whatever be the holding of each member, the voting power must be equal as amongst them" It is a measure of the extent to which co-operative principles have been appreciated in this country, that in spite of this option allowed by the law, many a society refuses to favour the lender at the expense of the borrower in its administration and allows each member only one vote at the general meetings, irrespective of his contribution to its share capital.

In people's banks, in communal societies and in most employees' societies, a substantial share capital is raised initially. The value of each share varies from Rs. 10 to Rs. 100 and share payments are required either all at once or in easy monthly or periodical instalments, spread occasionally over a year or two or even more. The maximum holding of a member cannot

be in excess of one-fifth of the share capital nor of the value of more than Rs. 1,000. In some cases the full value of shares is not called up and there is a reserve liability. Liability is limited by the full nominal value of shares, and hardly ever by any additional guarantee. The other main sources of capital are deposits from members and non-members. Loans from Central Banks are the exception rather than the rule, and, even if some societies are not self-supporting, the help received from central banks is closely restricted. The chief feature of the three types of societies is the active interest displayed in the promotion of thrift. Not only have a large majority of non-agricultural credit societies of these types, savings bank departments, but some scheme of compulsory thrift is also encouraged. Thus some well-managed societies have a system of provident deposits, or accumulative deposits, under which members bind themselves to deposit certain fixed sums periodically. Loans to members are governed as regards periods and purposes by conditions similar to those explained for agricultural credit societies. In these non-agricultural societies loans for productive purposes are not common as in agricultural societies, a majority of the members being wage earners and salaried servants. When loans are required by petty traders and artisans for productive purposes, the same principles have to be borne in mind in fixing the periods of the loans and the same care has to be exercised in seeing that the loans have been properly utilised as have been emphasised in the previous chapter. For a majority of members loans are made for maintenance, household expenses, medical relief, the education of children, ceremonial expenses, or repayment of debt. These are all unproductive objects and great discretion

has to be exercised by managing committees in the granting of loans. The purposes have to be scrutinized carefully, the circumstances of individual borrowers have to be considered, and any tendency towards excessive expenditure has to be discouraged. Loans are generally made repayable in monthly instalments. The security is mainly personal but may be supported by mortgage of immoveable, or by hypothecation of moveable, property. Loans are also occasionally made on the security of the members' own shares in the society. By doing this a society only takes as security property on which it has already a lien according to the Act. Again if the security is enforced, the owned capital of the society is diminished and its general credit and the security of its creditors are reduced. The practice is therefore undesirable.

A society is permitted with the general or special sanction of the Registrar to make loans to another registered society. In some provinces this permission is allowed to several large non-agricultural credit societies which have substantial funds at their disposal. The provision was necessary when the central banking system was undeveloped, but with the growth of central banks and guaranteeing unions, it is undesirable for this provision to be availed of in view of the risk of the interlocking of liabilities and the serious difficulty of getting recoveries, which faces a society started mainly with the object of financing its own members. Moreover, the development of the central banking system opens up a fresh field of investment for the larger non-agricultural credit societies. A society may also deposit its funds on the security of any other registered society, and as central banks are balancing centres receiving the surplus funds of societies, the larger non-agricultural

credit societies should, as is now done in many provinces, deposit their superfluous funds in central banks only demanding the most favourable terms for their investment.

With regard to the distribution of the profits it has been noted that there is a tendency for the non-agricultural societies composed of middle class persons to deviate from the true co-operative standpoint and to create a divergence of interest between the lender and borrower by declaring large dividends and bonuses. Correctly speaking there should be no division of profits in co-operative concerns, but only the payment of a reasonable return on the capital subscribed by members. A limitation to the dividends may be, and has been in most provinces laid down. A frequent tendency in societies of these types is to restrict the membership once good business is secured and large dividends are possible. There is much to be said in favour of such a restriction in order to secure close touch and mutual control among members. But when the restriction is inspired by a desire to prevent others from sharing the profits of a society, it is entirely unco-operative. Limitation of dividends may be expected to check this tendency.

In large non-agricultural societies a paid establishment has often to be engaged. The cost of management is proportionately higher than among agricultural credit societies, for the multiplication of books and correspondence necessitates the entertainment of a clerk or two. Such societies do not then stand much in need of external supervision for the management is in the hands of educated persons who can assimilate the principles of co-operation and can conduct the operations of the societies in a business-like manner.

But though the management is generally in charge of intelligent persons, the risk of its growing mechanical and arbitrary is great, especially when societies grow unwieldy. The control exercised by the general body of members becomes more or less shadowy, and further internal control of the management becomes desirable and often imperatively necessary. This control can best be provided by the creation of Boards of Supervision to watch over the work of the managing committees. In rural credit societies, the need is not urgent, nor can it be supplied for some time to come by committees of supervision selected from amongst the members themselves owing to the difficulty of obtaining a suitable personnel. In urban areas, the personnel for boards of supervision is more available and it has been deemed desirable in some provinces to create such boards in the larger societies. The boards consist of two or three members elected at the general meeting and are responsible only to the general body of members.

An important factor in the administration of large urban societies is the provision of fluid resources. These societies depend for their funds mainly on deposits, and for their own security as for the security of the movement they should maintain sufficient fluid resources to enable them to meet withdrawals of deposits without any difficulty. No uniform practice prevails in the different provinces regarding the maintenance of fluid resources, but committees of these societies do often make some provision for covering the deposits in their societies. With the growth of large urban societies this aspect of co-operative banking must receive greater attention. As a general practice it would be proper if one-fourth or one-third of their current or savings deposits are covered by easily realizable investments or

credits with central societies. As regards fixed deposits, the societies may frame periodical statements of incomings and outgoings, forecast their requirements and provide such cover as may be deemed necessary.

Having discussed the general considerations applying to larger non-agricultural credit societies, whether people's banks, communal societies, or employees' societies, what distinguishes these different types may now be explained. In societies of the first type membership is open to all classes resident in a particular town or a particular locality in a town. The members may be traders or landlords or merchants, artisans, clerks, or 'menial' servants. The society is a people's bank allowing credit on reasonable terms to and accepting deposits from members. Joint stock banking in India has not made much progress and received a serious set-back in 1913. For the middle and poorer classes no banking facilities exist in many parts of the country. People's banks if started under such conditions therefore fulfil a distinct purpose, and deserve all encouragement.

Under the term communal societies are included societies of middle-class persons belonging to one particular caste or community. Societies for poorer castes or castes of artisans deserve separate treatment. The caste feeling is still so strong in India, that public recognition of it is shown by allowing members of the same caste or tribe to form a registered society. The fact that members all belong to the caste enables close touch to be maintained among them and ensures satisfactory mutual control. In spite of these apparent advantages the direct encouragement of communal societies is however to be deprecated. The very facility with which the business appears to be conducted is a danger in itself in so far as the communal feeling

is thereby strengthened instead of weakened and the ideal of co-operative commonwealth based on equality is likely to be frustrated by the springing up of rival communal societies all over the country.

In recent years the employees of large offices, firms and companies have started co-operative credit societies for the staff. The important Railway systems have all societies for their employees, self-governing in all respects except that important officials are presidents of the society and that the accounts are subject to the audit of the Railway auditors. Recoveries of loans are besides obtained by deductions from the monthly salaries of members. A similar system prevails in many Government offices and the Postal, Telegraph, and Police Departments in Bombay and some other provinces. The main object of such societies should be rather the encouragement of saving and thrift than the granting of cheap loans, and many of the best employees' societies have succeeded in this direction. But low paid as are most subordinate officials in India, the margin for saving is not substantial. Further, more than in Europe, the low paid employee has contracted heavy debts for ceremonial expenses or other household needs and an important function which an employees' society has, therefore, to perform is to free a member from his old debts and provide him capital promptly and on reasonable terms. Compulsory saving is promoted in many of the societies by a system of shares payable by monthly subscriptions proportionate to the salaries received by the members. The maximum for loans is also fixed at some proportion of the value of the paid up shares. One of the difficulties experienced by this type of societies is the frequent transfer of members in office or firms with branches. Another

is the impossibility of getting various grades of employees to meet in committees on terms of equality. Where an important official presides at committees or is even a member of it, the other members are apt to lose their sense of independence and it would be desirable for such officers not to concern themselves with the internal administration of societies. Again, some officers may get loans sanctioned to themselves or to their friends in virtue of their official position and set a bad example by slackness in repayment. They are not subject to any pressure from the committees, most of the members of which would be their subordinates. The representation of all grades in the committees, the appointment of boards of supervision, the proper training of the bulk of members in their rights and duties, the limitation of loans by bye-laws, and the appointment of group committees, are some of the suggestions for the improvement of this important type of societies. It is urged that the difficulties may be avoided by the insertion of a provision in the bye-laws for the recovery of loans by deduction from monthly salaries. If this is done, the societies will be depriving themselves of the main benefit of co-operative practice, in as much as they will fail to provide that moral training for which they are encouraged.

The non-agricultural credit societies which correspond, in their constitution and business to agricultural credit societies are those composed of artisans or petty handicraftsmen. The area of operations is confined to a village or a town, membership is open to persons following some particular occupation, little or no capital is raised among the members by shares or deposits, and funds are borrowed from central institutions or depositors on the security of the unlimited liability of the

members. Unlimited liability is even more essential for these societies than for agricultural credit societies. The difficulties of raising their own capital are greater for artisans' societies than for agricultural societies, and the contingent security offered by the latter in the shape of members' landed property is also absent. The organization and the management of these artisans' societies present a most serious problem. The members are generally poorer and more illiterate than agriculturists, cohesion is less prevalent and indebtedness is heavier. Special efforts, are, therefore, necessary and it would not be improper for the State or for propagandist agencies to allot special grants for the organization and administration of such societies. They may well be assisted in the initial stages by grants of loans repayable in easy instalments and carrying a fair rate of interest. The village artisan and the cottage-workers are both as much a source of pride to the State as the peasant-proprietor and it is in the interest of the country that these classes should not have their occupations ruined, and their means of livelihood taken away from them under the pressure both of the competition of cheap machine-made goods and the excesses of the money-lender. With the rates of interest which the money-lender usually charges on the capital he supplies, it is impossible for the best of artisans to make both ends meet and the result of this relentless force of circumstances is to ruin cottage-industries and turn the independent artisans into hired labourers working for capitalists either in large factories or in their own homes. If this process is to be stopped, the artisan has first to be assisted with cheap capital, his debts redeemed by being taken over by societies, improved methods of manufacturing taught to him and fresh markets

opened for him and the original markets organized on a proper basis. That the revival of village or cottage-industries will not be secured by these means without serious difficulties cannot be doubted. "The gradual cessation of demand" as a writer has said "is a factor in the situation which the co-operative organization cannot cope with." The markets for hand-made goods are very uncertain, and the borrower in an artisans' credit society has difficulty in holding his own and making reasonable profits in the markets open to him."

The most important of the efforts to improve the village industries by the provision of co-operative credit has been made for hand-loom weavers. The work done in this direction has been comparatively more systematic in Bombay Presidency than in other provinces. It has 29 societies—some of which also undertake non-credit activities—commanding a capital of Rs. 1,09,330 with a membership of 2262. In the United Provinces too considerable efforts have been made to improve the lot of the weaver, but the main line of activity has been the provision of credit facilities. In the Central Provinces and in Burma a fairly large number of weavers' societies has been started but their number in other provinces is very meagre. Some societies have been started for *Chamars*, shoemakers and tanners, a few for basket makers and cane-workers, for potters, oil-pressers, blacksmiths, carpenters and other artisans. The number of credit societies for these different classes of artisans is extremely small, and nowhere can the efforts be said to have been adequately organized.

Industrial labour is increasing in importance in this country and the numbers employed in factories are growing every year. Whether the labour be local or

immigrant the conditions of life are the same. These are comparatively low wages, bad housing, illiteracy, intemperance, and above all, heavy indebtedness. The money-lenders in industrial centres are a degree worse than their confrères in villages, their rates of interest go up to 150 per cent. and their methods of recovery are often scandalous. "With rising prices, insufficient and insanitary house accommodation, wages often held arrears and a desire for a higher standard of living consequent on the spread of education," the difficulties of industrial labour have grown extremely serious recently, and, unorganized as this great labour force is, it allows itself to be overworked by employers and ruined economically by money-lenders. Unfortunately, it is only in a few centres that these difficulties have been properly appreciated. In Cawnpore and a few other places in the United Provinces co-operative credit societies have been started for mill-hands, as also in half a dozen factories in the Bombay Presidency. These societies sometimes raise a fair amount of share capital and include as members fairly well-paid workmen. Liability is often limited, though it would be preferable to have it unlimited. In mills, it would be a good policy to start unlimited liability societies in different departments, and call upon the mill-agents to assist by giving grants for expenses, deposits for meeting the needs of members and such other assistance as is necessary. When once started such societies serve as centres for various social and educational activities for the benefit of the workmen and may even develop into or give rise to organizations for the protection of their interests.

The lot of the more backward classes of workmen in towns and cities, like scavengers and sweepers, is

still worse. They are an ill-paid class of public servants, the housing provided for them is miserable beyond description and their indebtedness is extremely heavy. Then again these workmen belong to the depressed or 'untouchable' classes, are regarded as out-caste, and until recently have hardly received much consideration from any class of people. In the Bombay Presidency societies for sweepers and scavengers have been started in a few municipal areas with the active co-operation of the municipal authorities. In the Madras Presidency too this problem has received some attention and Social Service Leagues in many centres have been active in relieving the 'untouchable' workers in towns by starting co-operative credit societies. But the most interesting as well as serious attempt in this direction has been made by the Debt Redemption Committee in the city of Bombay. After a thorough investigation about twenty societies have been started for 'untouchable' and other backward class workers. The main object of these societies is the redemption of the old debts of members. These debts are, after effecting some reductions, taken over by the societies and made repayable in monthly instalments extending to two or three years. Loans for the purpose are advanced on the security of two sureties and to improve the security and promote thrift, members are compelled to get their lives insured in a reliable Life Insurance Company. Medical relief too is provided, for Savings are encouraged by receiving current deposits from members and by a system of compulsory deposits of half a rupee per month for at least twenty months. Capital is raised by deposits on which interest at nine per cent is paid and loans are issued to members at $18\frac{3}{4}$ per cent. After debt

redemption the members get loans for their current needs from time to time. The societies have all their paid secretaries, for uneducated as the members are, they hardly find persons from amongst themselves to do the work. The organization of the societies, the instruction of the members in co-operative principles and their constant supervision are undertaken by the Debt Redemption Committee which, as the supervising board employs two full-time inspectors drawn from the ranks of the members of the societies. On the pay of the inspectors and for the supervision of the societies, substantial expenditure has to be incurred and this is met by public subscriptions, a subvention from Government and contributions from the societies. Experience obtained in Bombay proves that the relief of backward class workmen can well be attempted if some social institution undertakes the instruction of members in co-operation and the supervision and guidance of the societies. This agency will have to assist in tapping capital, and actively to co-operate in the clerical work of the societies and in account-keeping. Constant help and guidance are needed particularly in the initial stages.

Chapter III

NON-CREDIT CO-OPERATION

In the Co-operative Credit Societies Act of 1904 provision was made only for the starting of credit societies, whether for agricultural or non-agricultural classes. Non-credit co-operation presupposes a degree of business knowledge not generally found among the rural classes, for whose benefit co-operation was introduced in the country. Again, it was probably expected that credit co-operation which presents the simplest form of co-operation would make such slow progress in this country that it would only be after a couple of decades that any demand would arise for co-operation for purposes other than credit. Such, however, is the aptitude of the people of this country for co-operation and so vigorous were the initial efforts in the cause that it was not many years before schemes for non-credit co-operation were evolved. The societies started for such purposes could secure no legislative protection, and it was only by combining some credit business that they could be registered under the Act. It was this defect, among others, which led to the substitution of the Co-operative Credit Societies Act of 1904 by the Co-operative Societies Act of 1912. Non-credit societies could be registered under the new Act, and all forms of co-operation the object of which was to stimulate self-help and thrift among agriculturists, artisans, and persons of limited means, and, in brief, to promote their economic interests, were legally recognized.

With the amendment of the Act, a great impetus was given to other forms of co-operation. But not all provinces have made uniform progress in this direction. In some provinces, the original policy of confining the benefits of co-operation merely to the agricultural classes and for the provision of credit only has not been abandoned yet. The intention of Government was not to neglect the industrial problem where it was capable of solution through co-operation, nor to overlook the importance of the organization of agriculture by the co-operative method. Now that in all the major provinces, co-operative credit has made steady progress, the principles of co-operation have come to be understood, and the administration of co-operative societies is conducted in a fairly satisfactory manner, it is desirable that non-credit co-operation should be actively encouraged. The benefits of co-operative credit have created a keen desire for the introduction of other forms of co-operative activity and in provinces where this demand is not satisfied, it is incumbent on Government to give greater initial encouragement and more active assistance than has been the case hitherto.

The forms of non-credit co-operation are many, and on the suggestion of the International Institute of Agriculture at Rome, non-credit societies, agricultural and non-agricultural, are officially classified under five heads:—(a) purchase or purchase and sale, (b) production, (c) production and sale, (d) insurance, and (e) others. A classification which may be more intelligible in India would be according as societies are formed for (1) purchase of raw materials or implements, (ii) sale of produce, (iii) production, (iv) purchase and distribution, (v) construction and acquisition of dwelling houses, and

(vi) insurance. There would in some cases also be a combination of one or more of these activities

The annual statistics published by the Government of India do not give separate figures regarding the capital and membership of credit and non-credit societies, except cattle insurance societies, but the following statement shows the number of societies of each of the types, specified above, in the different provinces.

Classification of non-credit societies, agricultural or non agricultural.

Type of Society.		Madras	Bombay	Bengal	Behar and Orissa	United Provinces	Punjab.	Prora	Central Provinces.	Assam.	Coorn.	Ajmer.	Mysore	Ratoda.	Total.
Purchase or purchase and sale	Non-agricultural..	1547	4	19	8	25						34	3	150	
	Agricultural	1216	6	..	1							4		39	
Production	Non-agricultural		2												4
	Agricultural		9	1			1	35				3	2	51	
Production and sale	Non-agricultural..	266		2	1				2			2		75	
	Agricultural	216			7	40	1				2	10	2	80	
Others.	Non-agricultural	11	3	2	1	1		14							3
	Agricultural		1				10					3			14
Grand Total ...		4296	79	22	18	35	51	2	2	2	56	7	450		

But these figures do not convey any approximate idea of the extent of non-credit activity in the co-operative organization, for a number of societies, mostly

agricultural, which are classed as credit, undertake some form or other of non-credit co-operation. -

The liability of the non-credit societies may be either limited or unlimited. For agricultural non-credit societies, the liability generally is and should be limited. Members of an agricultural non-credit society are likely to be members of an agricultural credit society with unlimited liability and they cannot, therefore, undertake unlimited liability for more associations than one. Again a non-credit organization has a share capital to serve as a guarantee for outside borrowings, if any are required, and, moreover, the amount of external capital that has to be raised is not large. Further, if limited liability is adopted, the substantial landholders who do not join agricultural credit societies because of the unlimited liability are also attracted. Such men may not feel the need of a credit society because of their ability to raise funds at reasonable rates of interest from the local or other markets, but their difficulties in marketing their produce, obtaining good seed and manure, and insuring their live-stock and crops are as great as those of the small holders of land, and they would, therefore, be anxious to join non-credit societies in their villages, and would do so without hesitation, if the liability of the associations is limited. There are, however, certain types of non-credit organizations where it is advisable to have unlimited liability. There are, for instance, dairy societies composed entirely of Gowlis or owners of milch-cattle. These men do not often join a rural credit society and want credit facilities. In such societies when credit and non-credit business are combined, unlimited liability is usually undertaken. The same grounds, namely, the need of a large capital and the difficulty of raising a substantial

portion of this by shares or members' deposits render it necessary that the liability of societies for weavers or other artisans should be, as it mostly is, unlimited.

A peculiar problem, which affects only non-credit societies, arises with regard to the extent to which they should deal with non-members. The Act lays down that the transactions of a registered society with persons other than members shall be subject to such prohibitions and restrictions as the Local Government may prescribe. In Germany, dealings with non-members are not encouraged by distributive societies, for if transactions with non-members are permitted, the societies fail to attract members. Further, it is argued that in a co-operative association started for mutual help, any gains in the business either become the common property of members or are divided among them as bonus or interest on capital supplied. If transactions with non-members are permitted profits in the commercial sense of the term are obtained, and may be assessable for purposes of the income tax. Again, societies enjoy certain privileges in virtue of the restriction of their business to those who associate to improve their economic position. Dealings with non-members lead to competition with private traders and may involve a consequent forfeiture of the special privileges enjoyed. The practice in this respect is not uniform in all parts of India. No transactions with non-members are, obviously, allowed in insurance societies, building or housing societies, or artisans' societies. It is only in purchase and sale societies that a divergence of practice arises. It often happens that the operations of a society, if confined to members, are so restricted that its successful working is a matter of difficulty. Again, in societies for the sale of products or purchase of seed or implements, non-members who

desire to test the advantages of the association before joining it, may desire to deal with the societies without becoming members. In such cases, dealings with non-members are permitted. As a general rule, however, it may be laid down, that so far as is practicable, transactions with non-members should be discouraged, and competition with existing local agencies avoided.

Before discussing the different forms of non-credit co-operation, reference may be made to a type of association which is specially interesting, being of indigenous origin. This is the Dharmagola or grain bank. This institution belongs to the credit group, but its dealings being in kind, and the principles on which it is based distinct from those of agricultural credit societies, its working may not inappropriately be discussed in this chapter. The object of the grain bank is primarily to create a store of grain, paddy, Juar or wheat, to be lent to members for seed-grain, for maintenance, or for redemption of debts in kind at higher rates of interest. A secondary object is the creation of a reserve stock for famines or scarcity. Cultivators have to sell their produce soon after the harvest when prices are low and they have hardly enough grain to maintain themselves and their families until the next harvest is reaped. When their stock of corn is exhausted the agriculturists have to borrow grain at a time when prices are high. The grain bank enables them to hold over their produce for a few months after harvest for being sold when prices are high, and in the meantime advances loans in grain either for maintenance or for repayment of grain debts. These advances are repaid out of the year's produce sold after harvest in a good market. The initial store of grain is obtained by entrance fees, contributions from members, donations from outsiders, and loans and

deposits in grain. The usefulness of the institution is undoubted, especially in places where a credit society is not in existence and the tract is generally liable to scarcity or famine. The only provinces where this type of society flourishes are Bombay, Bengal, and Behar and Orissa.

The form of non-credit co-operation which is most popular with agriculturists is that for the supply of seed and implements. Cultivators either stock their own seed or obtain it from the village dealer or the bow-car, but the seed used is not pure. The supply of seed is therefore often undertaken by credit societies. The societies have non-credit branches with the same membership but with separate accounts. The chief difficulty in the creation of separate societies for this purpose is the deficiency of personnel. Very few village men can be found outside the credit society to work on the committees of non-credit societies and fewer still to carry out the responsible duties of a secretary. The best course is to let the credit society undertake non-credit business on approved lines. In the provinces of upper India where the central banking system has best developed, this work is carried on by central banks. Whether the supplying agency is the primary society or the central bank, it does not become the owner of the seed or implements supplied. The articles are bought on the orders of the members of societies and are sold to them on commission. Though this is the general practice, separate seed unions or societies, especially where rich crops like cotton or wheat are grown, have been established in some provinces, the most successful experiment having been made in the Central Provinces. The seed unions in the Central Provinces are formed of large and small land-holders within an area of five or six miles

from the head-quarters of the union. An initial capital of Rs. 500 or so is raised by shares by each union. The union obtains fresh seed from a Government farm and grows it in a farm of its own. The produce of this farm is sold to members who reserve one field each for growing the seed supplied by the union. Each member thus continually renews a portion of his seed and in a few years has the whole of his land sown with good selected seed capable of bringing him better crops and better profits. Similar experiments have been commenced lately in the Bombay Presidency for the supply of cotton seed.

As improved methods of agriculture are popularized, a keen demand arises for improved agricultural implements. Some of them are cheap enough to be purchased by individual agriculturists. But there is some machinery which a small agriculturist cannot afford to buy. If he co-operates with his neighbours who too desire to use the costly machinery, they can have it either by starting a separate society or by forming a group and purchasing the machinery with loans from the credit society. In most provinces, separate societies for the supply of implements have not yet been organized. In Bombay, recently, a society has been started for the supply of ploughs and another for cane-crushing. The latter society owns a crusher worked by an oil-engine and the sugar-cane of members is crushed at a fixed rate. This experiment in joint ownership and management of machinery will be watched with interest. Similar experiments have been made in Mysore and the United Provinces, especially in the matter of lift-irrigation. Isolated societies owning rice-hulling, cane-crushing, sugar-refining or ginning machinery exist in some parts of the country. It should not be forgotten that unless

number of neighbouring societies jointly purchase costly machinery, it becomes difficult to make the experiment pay sufficiently. The work needs a trained mechanic and the salary he has to be paid is a heavy charge to incur for a single society. If, however, neighbouring societies co-operate for this purpose, and if effective supervision can be arranged, this form of co-operation is capable of being extended with advantage.

Another direction in which co-operation can be of great use is the supply of manure. Country and farm-yard manure alone are largely used in unirrigated tracts. With the growing increase in the area under irrigation and with a greater appreciation of the advantages of artificial manures, these are being increasingly adopted all over the country. Local dealers who supply manure do not provide unadulterated stuff, charge their own rates, and often use short weights. The supply of manure by separate societies started for the purpose has been undertaken in the Bombay Presidency; and in some places especially in that presidency though separate manure supply societies have not been started, the business has been carried on by central banks or primary societies.

The needs of the Indian agriculturist are so few, and these are met so effectively either out of local produce or at village bazars, that co-operative distribution has hardly been attempted in this country. A few societies have indeed opened stores for the sale of groceries to their members, but their transactions are so small that in the matter of supplying the necessaries of life not much is likely to be attempted until the standard of living has risen appreciably among the agriculturists.

After the provision of credit, the most urgent need of the agriculturist is the disposal of agricultural

produce. This is almost invariably arranged through village traders, who are generally money-lenders themselves, and in whose hands the agriculturist puts himself unreservedly owing to his own ignorance of business methods. In spite of the credit society, therefore, the Sowcar continues to exercise his control over the agriculturist. The trader who secures his own profits as middleman, so conducts his business that the agriculturist hardly gets the benefit of any appreciation in the prices of his commodities. This has been particularly observable during the War, when in spite of the large increases in the prices of food-stuffs, and cotton or jute, not much of the increase has been passed on to the producer. Lately, however, there have been signs of a comprehension on the part of agriculturists of their position and a real demand has grown up in some provinces for societies for the joint sale of produce. With the elimination of the middleman and his parasitic profits, there may follow, as has happened in other countries, more rapid business, improvement in the transporting of produce, standardization of produce, and access to the central markets without the intervention of profiteering individuals. A number of societies for the joint sale of paddy have been started in Burma, and isolated societies for the sale of some agricultural produce or other are in existence in Bengal and elsewhere. In Bombay, the sale of the jaggery of members of co-operative societies on the Nira and Godavery Canals is arranged by the provincial bank financing the societies while, a jaggery sale society for a whole taluka has recently been started. The most interesting experiment in this direction is the starting of six cotton sale societies—each practically for the whole of a taluka—in the same presidency. Instead of selling cotton through brokers,

it is sold by auction or by private arrangements with agents of large cotton firms. The advances that agriculturists used to get from the brokers are made by the credit societies. This experiment bids fair to be a success. Such an organization may well be expected to expand considerably in the next few years and cover not only the sale of jaggery and cotton but all important agricultural products. It will then be necessary to make arrangements for the produce to reach the consumer without the intervention of any unnecessary middlemen. This will best be done by starting central wholesale societies in all large trade centres or in places where the products find their ultimate market.

With the growth of large towns, a deterioration in the stock of milch-cattle, and a resulting poverty in the milk-supply of towns and villages, the question of the improvement of the milk-supply through co-operative agency has begun to engage the attention both of Government and the public. Dairy societies have been started in various parts of the country, chiefly in Bombay and the United Provinces, but also in the Central Provinces, Behar, and Bengal. The societies are sometimes composed only of Gowlies or owners of milch-cattle, sometimes of consumers only, and sometimes of both. In the first case, they have unlimited liability, especially if credit business is conducted, and in the last two cases limited liability. In the first two types, loans are generally advanced to the Gowlie members on their personal security, supported by the security of the cattle. In the last case, only the milking and transporting are done by the society. Provision of cheap and wholesome fodder, the securing of grazing grounds, the improvement of stock, the building of milking sheds, and, sometimes even of stables for the cattle and of cottages for the

owners, the supervision of the milking, and the transporting of milk and other produce, are among the matters looked after by some of these societies. The starting of dairy societies has not proved economically a great success and the possibilities of organizing the milk-supply to towns from villages by the formation of co-operative societies either of producers or consumers are being investigated in some provinces. Besides one or two creameries found in this country, Ghee societies have been started in the United Provinces.

As will be seen from the following statement, cattle insurance societies have been established in some of the provinces.

Province.	No. of Societies	Amount of Risk Insured.	Premium Collected.	No. of animals.		Claims paid.	Funds in hand at close of year.
				Insured	Lost.		
		Rs					Rs.
Bombay		Engaged	in	collecting	capital.		45
Bengal ...	2	45	9	2	...		25
United Province	5	1,207	33	67	2		705
Coorg ...	10	4,563	4606	565	143	1674	5086
Burma ...	324	3 04 548	15758	9135	146	3517	18,477
Total ...	344	10,663	20496	9769	291	5121	24,339
Burma Re-insurance	1	1,43,320	7656	6388	147	1144	9874

The only valuable experience obtained of this form of co-operation has been in Burma. In Coorg, a scheme has been tried under which owners pay to the society two-thirds of the value of the animal insured by annual

instalments extending to four years. If the animal dies before the payments are complete, the insured money is paid to the owner in full; if it dies or becomes unfit after the four years' period, the full amount of the premium received is returned. In Burma, only plough cattle and buffaloes between 4 and 12 years are accepted for insurance. The indemnity paid is two-thirds of the value of an animal—less the price of the hides and carcase—as estimated by a valuation committee. A premium of 5% is payable on the fixed value. Though the members of the insurance societies in Burma are generally the members of credit societies, the finances of the two institutions are kept entirely distinct. There are a few features of insurance societies in Burma which should be considered, if an experiment in cattle insurance is undertaken in India. Firstly, the strength of the village community in Burma and the tenancy laws do not give occasion for the same degree of foul play with the cattle that, according to some authorities, is noticeable in parts of India. There are extensive grazing fields and the cattle have not to be confined in and round villages. The exclusion of certain diseases like rinderpest from the list of risks against which the societies insure animals may render the scheme unattractive. Even epidemics should be insured against but it might be laid down in the bye-laws that in case proper sanitary precautions have not been carried out in accordance with the orders of the committees no indemnity would be paid. In Burma a central re-insurance society has been started, of which the Registrar is the ex-officio manager. The reinsurance society indemnifies the primary insurance society against half of the indemnity to be paid to members. The re-insurance society has received a guarantee of financial support from the Government.

Government aid is justifiable on the ground that a re-insurance society cannot collect initially a sufficient share capital to meet claims that may be payable by it owing to excessive mortality in the early stages. Though the loss of cattle is the most serious calamity an agriculturist would desire to insure himself against, there are other misfortunes, to which his occupation is exposed. His crops are liable to be destroyed by locusts, rats, pests, excessive, insufficient, or untimely rains, floods, storms, and fires. These calamities cannot be prevented, but against the loss to which he is liable the agriculturist may be insured. In Europe, co-operative societies for the insurance of crops against hail, frost, or fire are in existence, but no definite schemes for these various types of insurance have been devised in India.

Two other forms of co-operative activity in relation to agriculture deserve mention. These are the improvement of stock and the provision of fodder. Cattle-breeding societies have lately been encouraged in two or three provinces, and, in some cases, with satisfactory results. Fodder is in ordinary times available for the cattle of agriculturists without any serious difficulty, but a scarcity or a famine leaves the cultivator helpless. Schemes for the starting of fodder reserves as an insurance against fodder famines have been mooted in Bombay and elsewhere, but so far as the official reports show none of the schemes has yet materialized.

In the organization and supervision of insurance and cattle-breeding societies much good may be secured by enlisting the aid of the Civil Veterinary Department. In the organization and supervision of other types of non-credit agricultural societies, the co-operation of the Agricultural Department has been valuable in many

provinces. Co-operative societies promise to be the best agency for the propagandist activities of the Agricultural Department. They represent a medium through which individual cultivators can best be educated in modern methods of cultivation, improved agricultural machinery can be popularized, and good pure seed can be guaranteed. As has been well said, "where agriculture and co-operation have experienced the assistance which each can derive from association with the other, they are fast developing a truly organic connection."

The problem of small industries has already been referred to in the previous chapter. One of the methods of solving it is the provision of cheap credit. But this affords no real or complete solution of the difficulty. Instead of buying in the first and selling in the last market so long as the artisan buys his raw materials in the dearest market and sells his produce in the cheapest market, neither easy finance nor improved methods can provide any relief for him. Both the markets of supply and sale have to be organized for him. Industrial co-operation of this type has not made much progress in India, except, to a minor extent, among weavers in some provinces. Many weavers' societies, besides providing credit to members, arrange for the purchase of yarn and silk and the sale of cotton and silk cloth or durras. This has notably been the case in Bombay. The salient features of the problem of the weavers are thus graphically summed up in a recent report on the working of co-operative societies in the Bombay Presidency:—

"The hand-loom weaving industry is the chief handicraft of the Presidency and maintains no less than three lakhs of weavers.....The hand-loom weavers' art is finer, more artistic, and more living than that of the mills.....The community cannot afford to

dispense with the intellectual and imaginative forces in life which go with the existence of skilled craftsmen and small workshops.' The survival of village industries has not only a moral value to the country as a whole; it is also the means of preserving a large class of craftsmen from sinking to the level of coolies and mill-hands. There is a clear economic gain when so many thousand artisans are enabled to remain in their native villages, exercising an art in which they can take an honourable pride, instead of being driven into the ranks of a city proletariat.....The village weaver may survive even the stress of factory competition. But it is not enough that his work should be sound and artistic. It must also be reasonably cheap and this can only be by combination and co-operation among the weavers themselves.....The supply of raw materials and the sale of manufactured goods must be economically organized, and improved machinery suitable to the weavers' needs must be discovered and introduced."

The improvement of hand-loom weaving and the introduction of new methods form a part of the Registrar's programme of work in Bombay. A special staff for this purpose is engaged under him, and with the aid of this staff demonstrations of fly-shuttle looms are conducted at different weaving centres, and no less than six weaving schools are maintained. As mentioned in the previous chapter, similar systematic efforts have not been made for the revival of any other cottage industry. In some places, however, cane has been purchased jointly by basket-makers' societies, in others leather for *Chamar* societies, and raw materials for other artisans' societies. Attempts have recently been made to form co-operative societies for fishermen, with a view to improve their condition and to increase the supply of fish. The seven

societies started in Bengal not only grant cash advances to members, but purchase improved fishing appliances, arrange, if necessary, for the disposal of the catches of the members, and even obtain leases of fishery rights for members. One or two societies of fishermen have been started lately in Madras, and a few have been in existence in Bombay for some years. At Bareilly, in the United Provinces, a co-operative carpentry shop has been established, and has achieved a certain degree of success. This is the only noteworthy attempt at co-operative production in India. It need not be emphasised that any efforts to revive cottage industries through co-operation should be based on some systematic inquiry by the State or some other agency. Unless the economic conditions of the industry are investigated and the difficulties of the undertaking thoroughly grasped, it may happen that the sporadic attempts may mean so much waste of energy and money without any corresponding gain to the worker or to society. The industrial surveys might be conducted by the Provincial Departments of Industry, or by an organization like the Bengal Home Industries Association. The functions of the latter newly-started institution are to create a demand for the products of home industries by educating and informing public opinion in favour of them, to teach the necessity for combination and co-operation among cottage-workers, both for purposes of production and for the sale of commodities, and to organize industrial co-operative societies. The Association has, it may be noted, started a depot at Calcutta for the sale of articles manufactured by cottage-workers. The Indian Industrial Commission has during its sittings devoted some attention to the question, and the development of small industries by

co-operation forms one of the subjects that have come up for its consideration. It is hoped that the Commission will examine the question in all its aspects and recommend some comprehensive scheme for securing the survival or resuscitation of village and cottage industries.

In England, co-operation has attained remarkable success on the distributive side. The extent to which this form of co-operation has progressed in India is very slight and even in urban areas where the need for it is especially evident, and where expert and intelligent management can be available, few co-operative stores have been started. There were at the end of the year 1916-17 fifteen store societies in Madras, and it is in that province that distributive co-operation seems to have found somewhat congenial soil. In Bombay, there are fifteen small stores, most of which deal in groceries and other necessaries of life, but a few of which restrict their dealings only to the supply of clothes. In Behar and elsewhere, stores are started for the benefit of employees of offices, firms, or factories, and some of these stores are mere annexes of credit societies. In the United Provinces, some stores have been started for students in hostels attached to colleges. There is only a very small number of stores for workmen, but in all industrial centres, stores for the provision of groceries and articles of daily consumption may well be started. Sales in all these stores should be strictly in cash, and dealing with non-members be restricted or prohibited if possible. The articles desired to be stocked should conform to some standard and the demand for them should be steady and not subject to fluctuations owing to the change of fashions. Members of committees have to attend to the daily work of co-operative

stores very carefully and must be prepared to spend some time regularly in checking stock, attending to purchase, and supervising sales. It may be that because of the neglect of some of these essential safeguards store societies when started have not done successfully and the demand for this form of co-operation has therefore not been stimulated. It may also be that because of the narrowness of the margin between the wholesale and the retail prices of the articles of consumption by middle-class persons, the demand is not urgent. Again, it must not be forgotten that in England, co-operative distribution has developed wonderfully, largely through the efforts of women co-operators. With their leisure, they have been able to devote much time to the work of the stores. In India, neither in the purchasing nor in the sale of commodities of daily use, do women play a prominent part. This too may be an explanation of the non-success of distributive co-operation in India.

Building and housing societies started on co-operative principles have been found to be very popular in England, and the starting of similar societies in this country was therefore proposed some years ago. A few building societies exist in Mysore, and have proved the model of some similar societies in the Madras Presidency. These are either like the land societies or the mutual benefit building societies in England. In the former case, persons associate who can afford to pay the cost of buildings for themselves but join together to purchase or lease collectively large plots of ground to be parcelled out among themselves for the erection of houses; in the latter, the members are persons unable to build houses individually out of their own capital, but anxious to do so with the aid of loans from the society on the security of the houses, the loans

to be repayable by annual or monthly instalments. Excellent as both these methods are, it has been felt that they do not afford as much scope for the play of the moral force of co-operation as does the system of tenant co-partnership societies. The members in these societies are persons who are not in a position to own houses independently, and, therefore, associate to own them in common. Every tenant member advances in the form of shares a part of the cost of the building erected and the remainder is raised by loans or debentures. The buildings are owned in common and they are looked after by the society. The members individually and collectively feel the need of keeping them in good condition. Rents are paid monthly and cannot be raised, except by the general consent of all the members. Defaults in the payment of rent are the exception, and good sanitary conditions, cleanliness, social amenities, result from the co-operative association. A couple of societies of this type have been organized in Bombay, and, from the interest taken in the work of the Bombay Co-operative Housing Association started to encourage the formation of housing societies on approved lines it appears that co-operative housing as a solution of the problem of urban overcrowding has begun to attract some attention. It is unfortunate, however, that in the interest that has been displayed in the question of co-operative housing, not much thought has been bestowed on the housing of the poor in towns and cities, the industrial workers and others. Co-partnership housing societies may be started among them as for the middle-class people, but the difficulty of raising sufficient owned capital and the improbability of securing men of sufficient capacity or leisure to attend to the complicated management of the housing societies

have to be borne in mind. For persons who are unable to contribute anything to the cost of buildings for themselves, societies may be organised for hiring or purchasing jointly houses or cottages on easy terms and renting them in turn to members. Experiments in this direction deserve to be made in Bombay and other industrial centres.

Chapter IV.

CENTRAL SOCIETIES.

In co-operative finance, the ideal is to make primary societies self-dependent. That ideal would be attained when primary societies commanded their own capital or, if this owned capital did not suffice, the deficiency was supplied by local capital. Conditions in India are, however, so different from those in European countries, the small agriculturist has such a narrow margin of income, agriculture is so disturbed by the vagaries of the seasons, and the load of unproductive debt is so heavy, that borrowings by agriculturists from their societies will for years to come be extensive and the capital contributed by members be comparatively meagre. There is, therefore, a more paramount need for central financing institutions than in Europe, primarily to supply the deficiency of capital for agricultural societies, but also to serve as balancing centres for all classes of societies and provide an outlet for their surplus funds.

The formation of central societies was not contemplated by Government when the original Co-operative Credit Societies Act of 1904 was passed. Provision was made for the starting of non-agricultural societies and it was presumed that the larger urban societies would have, after meeting the needs of their members, ample surplus funds to be lent to rural credit societies. A few such banks were established in most provinces and began to exercise the functions of central banks, and unions

of societies for supervision also came to be started in Burma and Madras. It was soon recognized, however, that these institutions ran the risks attendant on a status unprotected by legislation and that their exact functions, liability, and constitution needed to be defined better. It was also recognized that the functions of supplying capital and balancing the funds of primary societies, as well the supervision and control of these societies, could be attended to most effectively by federating them under central institutions. These institutions would provide excellent agency for mutual inspection and control and open out for societies access to the outside money market. The defect was, therefore, remedied when the Act was amended, and the new Act permitted the registration of a society established with the object of facilitating the operations of a primary society. If such a society has as a member any other registered society, its liability under the Act must be limited. A central society of which a member is a registered society can be registered even if it contains as members persons not resident in the same town or village or same group of villages, or belonging to the same tribe, caste, or occupation.

In some provinces, notably in Burma, there is a system of unions which form the link between the primary societies and the central financing institution. The system has had a fairly long trial in Burma, and, judged by the opinions expressed in official publications, its development has been very encouraging. It constitutes a necessary step in the decentralization of supervision, and by the encouragement of humble workers in villages and the devolution to them of responsible work, it fosters the spirit of self-rule and self-reliance. What this system is may be briefly described. A union consists

of five or more societies situated within a maximum radius of five or eight miles from the union headquarters. The centre of authority is the general meeting, at which all societies are represented by authorized members. A paid secretary is engaged to write the union books and to train and help the secretaries of societies in the union. A committee is appointed to inspect the affiliated societies from time to time, and to guide them in their working. The union at its general meeting fixes the amounts of loans to be taken by the affiliated societies and recommends them to the central bank for loans. The assessment of credit by the unions may be relied on by the central banks, firstly, because, as in Burma the societies forming the union are themselves members of and hold shares in the central banks, secondly, because the unions guarantee the borrowings of the affiliated societies under the bye-laws. In Burma and the Central Provinces, the mutual guarantee is effected by a rule that each constituent society shall be liable for any default in a loan recommended by the union to the extent of its own borrowings in the twelve months preceeding a call. The unions are registered as societies with limited liability, and while the form of guarantee described above places a limit to the liabilities of the societies, the exact extent of the liability undertaken remains so undefined, vague, and fluctuating that central banks may hesitate to accept it. Further, under the Burma system, a society working largely on its capital is valueless as a guarantor, when as a matter of fact, by accepting a guarantee such a society could best mould the administration of neighbouring societies. In Bombay, each society in a union makes itself liable to pay to the extent of a specified amount per member, and the maximum borrowing for the union is not to be

in excess of six times the liability undertaken by all the societies in the union. It has been argued that a supervising union should not meddle in banking business, but the unions which have developed remarkably well in Burma are not banking institutions, borrowing on the ultimate liability of constituent societies in addition to their own borrowings. There is also no interlocking of liabilities involved in the guarantee, for the guarantee leaves unimpaired the ultimate liability of the primary societies. In Burma, the system has flourished owing to the goodwill that appears to prevail among neighbouring villages. The same good feelings cannot be guaranteed in many parts of India, for the disruption of local ties has been greater than in Burma. But the size of the country, and the difficulty of dealing with individual primary societies as units make it desirable for societies to be grouped into unions for supervision and assessment of credit. Naturally, therefore, this has formed one of the most important recommendations of the Committee on Co-operation. In their report, the Committee have stated, "a guaranteeing union of some kind is, in our opinion, advisable where the financing agency is a central bank, and essential, in cases where a bank started for a whole province attempts to deal with societies without the intervention of a central bank." Pursuant to this recommendation, the system of guaranteeing unions has been extended in Bengal, Madras, and Assam and that of supervising unions has been tried, though tentatively, in the United Provinces and Behar, and has been introduced as an integral part of the provincial organization in Bombay and the Central Provinces.

Having described the constitution and working of unions, which though not financial institutions yet form

a most valuable link in the chain of co-operative banking, at attention may be turned to the financing agencies proper, namely, central banks. Central banks may be classified according to their constitution under three main heads:—banks of which the membership is confined to individuals, those of which the membership is confined to societies, and, lastly those which include both individuals and societies among their members. Properly classified, the number of central societies in the different provinces is as shown in the following table. The figures also show the number of provincial banks and unions in the different provinces.

Classification of Central Societies

Provinces.	Provincial Banks.	Capitalist Central Banks.	Pure Central Banks.	Mixed Central Banks.	Guarantee Unions.	Provincial Unions.	Total
Madras ...	1	1	1	11	56	1	71
Bombay ...	1		1	6	22		30
Bengal ...		1	5	41	13		60
Bihar and Orissa ...	1		2	19	5		27
United Provinces ...			7	51	1		59
Punjab ...		1	18	22			41
Burma ...	1			3	207		211
Central Provinces ...	1			31	186	1	219
Assam ...		3		6	3		12
Ajmer ...				5			5
Mysore ...	1			17			18
Baroda ...			1	3			4
Total ...	6	6	35	215	493	2	757

The membership, capital, and other details of the working of central banks are shown in the following statement:

Central Banks.

Province.	No. of central banks.	No. of members.		Total working capital	Reserve Fund.	Cost of management.	Net profit	Usual rate of interest on	
		Individuals.	Societies					Borrowings.	Lendings
				Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Madras	13	852	1,094	50,89,908	51,579	17,257	68,992	5½ to 7	7½
Bombay	7	1,254	240	4,32,251	9,587	4,211	11,415	2 to 6	6½ to 7½
Bengal	47	4,098	2,512	56,89,905	1,46,008	70,844	1,40,715	6 to 7½	9½ to 12½
Behar and Orissa	21	1,085	1,231	18,41,400	59,474	4,037	57,121	7 to 8	12½
United Provinces	58	4,932	3,058	64,13,408	5,50,950	1,33,597	77,062	6 to 10	12
Punjab	41	1,941	2,532	54,42,306	2,10,421	27,981	1,50,400	5 to 8	8
Burma	3	293	449	10,87,732	17,305	6,901	20,123	7½	10
Central Provinces	31	39,711	3,878	50,51,621	78,211	45,614	1,04,926	6 to 7	9
Assam	9	7-8	98	3,76,466	16,006	2,779	14,252	6½	9
Ajmer	5	735	337	10,36,544	99,010	2,118	32,335	6 to 8	10
Mysore	17	621	304	101,0192	20,267	2,150	24,601	6 to 7	7½
Bareda	4	131	197	2,85,050	3,729	1,670	3,719	4 to 6	6½ to 9
Total....	256	56,449	15,250	1,39,57,529	11,92,257	3,59,878	6,00,111	...	...

CENTRAL BANKS

In the first type are also included central banks in which societies are admitted as shareholders but on the same footing as individuals, with no definite portion of the share capital reserved for them and no special provision made for securing their representation on the committee of management. A bank of this type is not different from a joint-stock company, but it enjoys the privilege of registration, provided it adheres to its legitimate object. Registration may be refused if the bank proposes to undertake outside banking business or to grant loans to individual members. A limitation to the dividends payable to shareholders would be more desirable in such banks than in other types of co-operative institutions, for there is a danger that borrowing societies may become a prey to the capitalistic tendencies of shareholders and co-operative credit may be used as a means of exploitation by the capitalist class. The danger, however, has luckily not assumed any serious form. Nevertheless, the fundamentally unco-operative constitution of this type of bank may sooner or later engender serious friction. The starting of additional banks of the type, therefore, is not to be encouraged. Central banks of the second class consisting solely of co-operative societies are theoretically the best suited for financing and supervising societies, for the antagonism, actual or imaginary, between the individual shareholders and societies observable in other types is here eliminated, and with the leaders of primary societies themselves managing the banks, the expenses of administration are reduced to a minimum. The principal difficulty is that of finding among the representatives of societies men with sufficient capacity to manage such institutions. Another drawback lies in their failure to interest the middle classes and the ex-

clusion of the educated men in towns and cities from participation in their management. The sympathies of these classes need to be enlisted to make the movement truly educative and to give the banks the necessary prestige to command local deposits. In spite of these obvious defects, a few banks of this type have been started, chiefly in the Punjab; the United Provinces, Bengal, Behar and Bombay have some banks of this type. With the co-optation of individual co-operators or capitalists as directors, or the inclusion as members of important non-agricultural societies, the personnel necessary for prestige and administration may in course of time become available. The type of bank that is most favoured is the third, which includes both individuals and societies as members. Societies are not only assigned a certain proportion of the shares in these banks, but are also allowed special representation on the boards of directors. Steps are generally taken to safeguard the interests of societies by securing for them a majority on the directorate and by limitation of dividends. Arrangements are sometimes made to enable such banks to become more co-operative by gradually diminishing the number of shareholders and reserving fresh issues of shares only for societies.

A definite area of operations is assigned to each central bank in almost all provinces. The extent of the area varies from a province to a *taluk* or *talukdar*, the usual unit being a sub-division or district. Restriction to a small area is inadvisable, for the cost of management is likely to increase when the banks have to pay for audit and supervision, and it is only if the cost is distributed over a larger business that the banks can

afford to pay it. On the other hand, if the area is extensive, inspection becomes difficult and costly. The area should preferably be confined to a district, but may cover only a taluka where co-operation has developed intensively.

In the Central Provinces and Berar, in the United Provinces, in Bengal and in Behar and Orissa societies are financed by the central banks established to do business in areas covering a district or part of a district. With the exception of a few banks in Bengal, all banks in these provinces belong to the second and third types referred to above, the number of banks of the second type being very small. In the Punjab there are a number of banks of the capitalist type and some of the pure type and others of the mixed type. Financing is done by central banks of different types chiefly the third, in Ajmer and Assam, and these banks restrict their operations to districts or subdivisions. In Madras, too, there are central banks of the first and third types, but the difference between the systems in Madras and in the provinces in upper India is that in Madras a large number of societies in districts where there are no central banks obtain their funds direct from a central bank in the city of Madras. This bank has lately been converted into a provincial bank. In Burma there are three central banks with small areas of operations, but controlling the finances of these banks and financing the bulk of societies in the province is a central bank at Mandalay, which performs many of the functions of a provincial bank. Very similar is the position in Bombay, though with a few distinctions. The union system having only been recently introduced, not all advances are made through unions

by the Bombay Central Bank, which corresponds to the bank at Madras. It exercises no control over the primary societies, and has only, lately commenced financing systematically local central banks in the Presidency.

The management of these banks is carried on by boards of directors. Meetings are held frequently and the important meetings at which the credit of societies is assessed and programmes of work laid down are generally attended by the directors who represent societies. For the directors in these banks not much expert banking knowledge is essential, what is needed is local knowledge and an acquaintance with co-operative principles and practice. In several provinces, a useful practice exists of having local directors with fixed charges assigned to them. They assist in the organization of societies in the areas assigned to them, supervise such societies, inquire into their applications for loans from the banks, and make periodic reports to the boards of directors. The work of the directors is mostly honorary. The directors generally authorize the chairman to dispose of work in consultation with the paid manager or secretary, or often appoint one among themselves to serve as an honorary secretary. Where no paid staff is entertained, the secretary is allowed an honorarium based on the profits. But it usually happens that paid agency had to be engaged both for office and for inspection work.

The main sources of the working capital of central banks are shares, deposits, loans, and reserve funds. The extent to which, these items contribute to the

working capital may be judged from the following figures .

Shares	55,19,721.
Deposits from individuals and loans from non-co-operative banks...	2,15,89,557
Deposits from societies	14,34,808
Deposits and loans from co-operative banks	40,76,357
Reserve fund	11,92,257
Government loans	1,44,929

The shares in central banks vary in value from Rs. 10 to Rs. 500, shares for individuals being often of a higher denomination than those of societies. The shares are distinguished, according as they are subscribed to by individual shareholders or by societies. The former are often classed as preference and the latter as ordinary shares. The individual shares in many banks of the mixed type are granted preference as regards dividend, and in some banks are entitled to cumulative dividend at a fixed rate, and in a few cases, the holders of such shares are granted a prior claim on the capital in the event of liquidation. The last two forms of preferential treatment, particularly the first, may be dispensed with. In many provinces the full value of the shares is not called up and a large reserve liability is kept. This practice is undesirable both for individuals' as well as societies' shares. Uncalled portions of shares, unless of selected members, do not provide additional security, and if a reserve liability is kept for societies' shares, it is still less easily enforceable.

Where the liability of a society is limited by shares, members may have as many votes as are prescribed by the bye-laws. Where this system is in vogue, giving to

individuals subscribing large share capital a preponderating voice in the management, the legislature has wisely laid down that in societies with a liability limited by shares no member other than a registered society can hold more than one-fifth of the share capital, such holding not to exceed Rs. 100. Exemption from the latter portion of this section has been given in cases where difficulty is experienced in obtaining sufficient share capital, and the statutory limit is sometimes raised by special order to Rs. 5000 or more, but where the exemption has been granted, the banks allow each shareholder only one vote. Besides, this exemption is only allowed after special consideration in individual cases. Voting by proxy is permitted in a society which has as a member another society. The provision is necessary now to allow societies to be represented in central banks, but as the movement progresses and representatives of societies begin to interest themselves in the administration of banks voting by proxy may well be abolished.

A practice has grown up in many provinces of requiring primary societies to subscribe to the share capital of their central banks in proportion to their borrowings from the banks. "This arrangement," it is argued, "has the merit of maintaining a proper relation between the obligation of the societies to the central banks and the advantages gained by them from it, and it is the system ordinarily adopted in Europe." As to this, it is only necessary to point out that there is a great dissimilarity in the position of central banks in India and Europe. The chief function of the central bank in Europe is to take over money where and when it is plentiful and to distribute it when and where it is lacking. In India, the principal function of the central bank is to supply

to societies capital drawn from outside the movement. The percentage of capital obtained by primary societies from co-operative institutions is over 50 in India as against 8 in Germany. It is, therefore, obviously wrong to enunciate a policy based on a false analogy. The effect of this practice is only to force societies which are borrowers to borrow more merely in order to pay for their shares.

As will be apparent from the figures given above, deposits form the bulk of the working capital in central banks. It is, therefore, clear that in central banks particular attention should be devoted to the fixation of the terms of deposits, the utilization of deposit capital in loans, and the provision of liquid assets to meet withdrawals of deposits. The proportion of deposits held by central banks from societies is not very large, but as the movement progresses, non-agricultural co-operation develops, and agricultural societies depend on their own resources, the amount of such deposits will gradually increase. Most central banks open current accounts in favour of societies and individuals, whether members or outsiders. Owing to the lack of banking facilities in several parts of the country, the local clientele of central banks desire the banks to provide the facilities of current accounts. Current deposits are received at rates varying from 2 to 3 per cent. In most of the well-managed central banks satisfactory arrangements exist for covering the deposits by fluid resources but in the smaller banks the safeguard is frequently neglected. The Committee on Co-operation have recommended that an amount equal to the whole amount of current deposits should be kept fluid, but this is on the face of it an impossibly high standard. 40 to 50 per cent, or at the utmost 75 per cent,

may be so invested. Savings deposits are also received in some of the banks at rates of interest varying from 3 to 5 per cent. As an education in thrift the savings deposit system is invaluable, and savings deposits should form a feature of co-operative banks, especially in towns which do not possess joint-stock banks with savings bank departments. It has been suggested that 75 per cent. of the savings deposits held by a central bank should be covered by fluid resources. This again is an unacceptable standard. Experience shows that fluid resources in excess of one-third of the deposits need not be maintained.

The rates of interest on deposits vary from 5 to 7 per cent. for annual deposits, slightly higher rates being offered on deposits for longer periods. It has been suggested that these should be lower by six per cent. than the rates at which loans are made to members of primary societies. This margin is somewhat high, framed as it is in consideration of the standard of fluid resources recommended by the Committee on Co-operation, a standard which is not likely to be accepted in any province, except perhaps Burma. The margin may be reduced by a per cent. or more, and managers of central banks should not fail to remember that money must be borrowed at the maximum rate obtainable on this calculation.

What is sometimes disregarded in co-operative banking as practised in India is that it is unsound for a banking institution to invest the funds obtained by it from deposits in loans the currency of which is longer than the periods of the deposits. The major portion of the money lent to primary societies is repayable in short periods, but owing to the vagaries of the agricultural cycles comprising often one good, one bad and

two indifferent years, the loans have a currency of from three to four years in many provinces. Deposits are mostly fixed for one year. Not any appreciable proportion of the deposits are fixed for longer terms, for it is only in non-commercial centres that long term deposits are available. By offering the inducement of higher rates of interest such deposits should be attracted, but where the practice does not gain common acceptance or where impossibly high rates have to be fixed, the command of long-term capital is a matter of great difficulty. Under the circumstances, it is clear, though it is not often recognized by co-operative bankers, that long-term business must be restricted to the amount of a bank's owned capital and the amount of such long-term deposits as it is able to attract. Another safeguard is so to adjust the loans to societies that in any particular year the repayments of loans by societies exceed the amount of deposits falling due in that year.

Then again, like all well-conducted banking institutions the co-operative banks should not fail to maintain adequate fluid resources. Fluid resources are "those assets which are held in a liquid form, whether in cash or in easily realizable outside investments in order to meet the claims of depositors or to provide for financial needs in times of special scarcity, the object of the resource being to meet contractions of credit, entailing withdrawals of deposits and a failure to obtain new deposits." The need of making provision for fluid resources is greater for co-operative banks than for joint-stock banks. For, loans to societies are not made for short terms, and repayments are affected by innumerable causes such as would leave ordinary banking untouched. Some damage to crops, the outbreak of epidemics like plague or cholera, low prices and the like

factors disturb co-operative finance. Further, while joint-stock banks obtain money on their bills and pro-notes, the "paper" of co-operative banks is practically undiscountable in the banking world. This paper has to be treated as so much capital locked up and central banks are under the necessity of resorting to the uneconomical expedient of holding unreasonably large sums in cash and securities. The difficulty is obviated to a certain extent by the starting of provincial banks, but as provincial banks themselves cannot reconvert their "paper" to an indefinite extent, the assistance which central banks should expect from their apex banks is strictly limited.

The Committee on Co-operation have recommended that apart from the needs of current and savings accounts, central banks should maintain as fluid resource a sum sufficient to meet half the fixed deposits of themselves and their affiliated societies falling due during the succeeding twelve months, without calculating the probability of any fresh deposits or any repayments of loans being received. The fluid resource system, it is suggested, may well be concentrated in a provincial bank where one exists. The risks in this case would be spread over a wide area and a large number of institutions, thereby reducing the chance of a sudden call on the resource from all quarters simultaneously. By the concentration of the fluid resource in an apex bank it would be possible to reduce the amount of resource to be maintained, and the Committee on Co-operation have recommended that the fluid resource in a provincial bank should be sufficient to cover one-third of the liability of itself, the central banks, and primary societies falling due in the course of the ensuing year. These recommendations have received no approval

either from official or non-official quarters, except in a few provinces, and the general opinion has been that the adoption of a rigidly uniform system is inadvisable. For, out of an unreasoned and almost pedantic consideration of safety, economy is sacrificed, with the result that lending rates need to be raised in most provinces, depriving co-operation of its chief attractiveness in the eyes of the needy agriculturist. No dependence, again, is placed in the scheme proposed on the ability of co-operative bankers to gauge the tone of the market in which their banks operate and on the nature and strength of their depositors. No allowance is also made for any element of probability in the renewals of deposits or the receipt of new deposits. With the aid of weekly or monthly forecasts of incomings and outgoings, commercial bankers have found it possible to work their banks on sound lines providing such fluid resource as they deem expedient. In co-operative banks, where the depositing clientele is restricted mainly to middle-class professional men with whom directors are acquainted their local knowledge and personal influence would make their task easier.

A number of central banks in Bengal, the United Provinces, Bombay, Madras, the Punjab and Bihar have obtained fixed loans or cash credits from joint-stock or presidency banks. The provincial banks in Madras, Burma, Central Provinces, Bihar and Bombay have also obtained financial aid either from presidency or joint-stock banks. Only in exceptional cases are these advances made merely on the security of pro-notes from the banks. The pro-notes are backed in a few cases by the guarantee of one or more directors of the banks, or more often, by the pro-notes of primary societies, financed by the central banks. Advances from.

joint stock and presidency banks will become increasingly necessary as the movement expands, and for the provision of fluid resources, cash credits from these banks will be invaluable.

The fact that the present system of co-operative finance had its origin in urban societies which financed individuals as well as societies gave rise to a practice, which still prevails in one or two provinces, of some central banks financing individual members. The functions of financing individuals and co-operative societies are entirely distinct and should be attended to by different institutions. It is desirable, therefore, that the practice should be stopped gradually, if not immediately. All except the few banks referred to, however, finance only primary societies. It is the practice in some provinces for central banks merely to pay over to primary societies the amount of loans sanctioned by the Registrar, but in a majority of central banks independent power is reserved for the disposal of all applications for loans from societies within their areas of operation. Though as pointed out in the chapter on agricultural credit societies, primary societies should and often do fix the maximum limit up to which they are prepared to pledge their liability, it is incumbent on the central bank, with the assistance of a guaranteeing union where one exists or otherwise through its own staff, to fix the maximum credit to which a society is entitled. The assessment of the credit of societies is one of the most important functions of a central bank. Such assessment would not depend merely on the material assets of the members of a society or their total earning capacity, though these would indeed be taken into consideration. The basic security in co-operative banking being personal, too much regard cannot be had for the degree to

the society as a whole has developed its co-operative capacities and has stimulated a sense of mutual obligation among its members. As the Registrar has the authority under the Act to withhold loans from one society to another, the limits sanctioned by central banks are indirectly subject to confirmation by him.

One of the chief grounds of complaint against the co-operative credit movement is its failure to afford timely and seasonal assistance to members. The complaint has an element of truth when primary societies are financed from the provincial head-quarters as in Bombay, in many districts of Madras, and in Burma. The remedy is for societies to apply for loans at one or two main seasons of the year somewhat in advance of the time when funds are required. Even if this is done, the difficulty of meeting emergent demands would not be solved until central banks devised some machinery whereby urgent loans, under the maximum limits, could be advanced without the delays incidental to the sanctioning of loans under the usual procedure. The appointment of local directors as in some provinces with restricted powers of sanctioning loans might assist in solving the difficulty. Another suggestion would be to place to the credit of societies' drawing accounts small sums to be availed of in emergencies. Cash credits have been tried, largely in Burma, but only for well-managed societies.

In most provinces in the application for loans it is customary for societies to state the objects for which the loans are required. This information is essential, chiefly because otherwise a central bank is unable to fix the period of repayment for the loans. The principles on which societies should fix the periods of loans to members have been examined in an earlier chapter. It is advisable and generally the practice for central banks,

to fix the period of loans to societies on the same basis, expecting the societies to pass on to the banks the bulk of the payments received from members.

The rates of interest charged on loans to societies must be substantially lower than the local lending rates for average agriculturists. They have again to be so fixed as to leave a margin adequate to cover the cost of management, to provide for the building up of a reserve fund, to meet the provision of fluid resource, and to enable the bank to give a reasonable return on the share capital raised. It is found in actual practice that a bank worked on sound lines cannot afford to lend to primary societies at a rate of interest which is not in excess of its own borrowing rate by two to three per cent. As in primary rural societies, a uniform rate is charged on all loans, though it would be useful to charge a rate slightly lower than the general rate for first-class societies. With the expansion of business necessitating the offering of enhanced rates on long-term deposits, it might also become necessary in future to charge higher rates for long-term loans.

Central banks are, in accordance with the law, under an obligation to place one-fourth of their annual net profits to the reserve fund. For the safety of the movement, something more than the legal minimum should be and is often put to the reserve. The separate investment of the reserve is insisted on in a majority of the provinces. This is caused by the same confusion of thought which was referred to when treating of agricultural credit societies. For, if adequate fluid resource is provided it is immaterial how the reserve is invested.

As the interests of borrowers and lenders are less identical than in any other type of co-operative society, a limitation to the dividends is desirable in the mixed

central banks and essential in capitalist banks. This limitation is imposed in almost all the major provinces. Whether the maximum rate at which dividends can be declared should be the same as the maximum rate of interest charged on loans or should correspond to the average rate on fixed deposits has been a matter for discussion. But in view of the fact that the individual shareholders in central banks undertake a greater measure of risk than depositors in such banks, the suggestion of the Committee on Co-operation to limit the rate of dividend to a maximum that does not exceed the rate for fixed deposits by two or three per cent. appears to be sound.

Like large non-agricultural societies, central banks set apart portions of their profits for dividend equalization funds, contingent funds, and building funds. In Bombay, the Provincial Bank is under an obligation by its agreement with the Secretary of State to divide all the profits available after payment of a dividend at the rate of six per cent., equally between the shareholders and the societies financed by the Bank. The shareholders' share of the profits is placed to the reserve, and the societies' share is distributed as a triennial rebate on borrowings, reducing the rate of interest charged on loans.

There is greater necessity for central banks than for primary societies to publish their balance sheets and reports punctually. Such balance sheets should vouchsafe more detailed information than is generally given. In addition to the annual returns to be submitted to Local Governments, central and provincial banks have to furnish quarterly financial statements showing the liabilities falling due from quarter to quarter and the position of the banks with respect to fluid resources. The preparation of these statements and their examina-

tion by the directorate of central banks serve to emphasise an important but frequently neglected aspect of co-operative banking.

Left to themselves it is not possible for central banks to fulfil completely the function of serving as balancing centres for and of financing an increasing number of primary societies, nor of maintaining sufficient fluid resources consistent with their own safety. The co-operative edifice is incomplete, if in each province there is not in existence an apex bank to balance the excesses and deficiencies in the capital of central banks and to discount their paper. A system of mutual lending by banks in provinces without an apex bank has grown up, but unmethodical mutual lending involves an interlocking of liabilities. Moreover, where the central banks are unable to secure locally sufficient funds to meet their needs, these can best be provided by a bank capable of attracting deposits from the richer urban classes and more suited to serve as a link between the co-operative movement and presidency or joint-stock banks. Therefore, "to co-ordinate and control the working of central banks, to forecast and arrange for provincial requirements, and to be the financial centre of the province," the establishment of provincial banks is absolutely essential.

Apical banks which perform these functions are working in Behar and Orissa and the Central Provinces and Berar. The starting of similar banks in the United Provinces, Bengal and the Punjab have long been discussed but the continuance of the War has prevented a start being made. In the first two provinces, the schemes have passed the stage of discussion. In Burma, the premier central bank at Mandalay continues to serve as a provincial bank dealing with societies through guaran-

teeing unions. In Bombay, the starting of a number of central banks of the mixed type, has tended to reduce dependence on the Bombay Central Bank, but that bank still continues to finance the large majority of primary societies in the presidency, is the sole financing agency for societies belonging to guaranteeing unions, and has made a beginning in the direction of financing central banks. In Madras, a bitter controversy took place over the starting of a provincial bank. Luckily, the shareholders of the bank classed as provincial, namely, the Madras Central Urban Bank, agreed to the conversion of their bank into a provincial bank, to be constituted more or less in conformity with the recommendations of the Committee on Co-operation.

In Bombay, the number of societies holding shares in the Bombay Central Bank is 151. In Madras, till the end of the last co-operative year the shares were all held by individuals, but now over 50 societies have taken shares. In the Central Provinces they are all held by individuals. In Behar and Orissa and Burma, the number of individual shareholders is limited and societies, unions and central banks have a preponderating voice both in the general meeting and in the directorate. That co-operative institutions should be entitled to hold shares in provincial banks goes without saying. Though owing to the necessity of having the support of the commercial community full control over the affairs might not be exercised by co-operative institutions, they must be given an opportunity of effectively controlling the general policy. The management of a provincial bank, however, demands expert knowledge and experience, and some time may, therefore, elapse before the co-operative element begins to have a dominating voice in the directorate.

Provincial Banks.

Province.	Number of members.		Total working capital	Reserve fund	Cost of management.	Net profit during the year	Usual rate of interest	
	Individuals.	Societies.					On borrowings.	On lendings.
Madras ...	332	...	36,57,778	1,00,000	18,984	76,007	per cent. 5 to 6	per cent. 7½
Bombay ...	80.	151	22,84,945	16,814	27,031	38,009	5 to 6	7 to 7½
Behar and Orissa .	91	26	4,13,875	7,502	3,182	5,142	5 to 8½	7 to 12½
Burma ...	438	1,456	48,29,170	79,594	24,655	21,329	6½	10
Central Provinces.	106	...	24,21,677	42,000	6,649	26,652	5 to 6	7
Mysore ...	631	436	3,95,107	600	2,137	8,475	6	7½
Total...	2,327	2,069	1,40,02,552	2,46,510	82,838	1,75,594		

The following figures exhibit the position of the six banks classed as provincial in the latest available statistical publication:—

The working capital of the banks is made up as shown below :—

Shares	... 16,58,429
Loans and deposits from individuals and joint-stock or presidency banks	... 1,01,97,768
Deposits from societies	... 7,52,496
Deposits from central or provincial banks	... 11,47,349
Reserve fund	... 2,46,150

In the Central Provinces and Berar every society is affiliated to a central bank and no primary society is financed by the provincial bank, the functions of which are to finance the central banks, to receive their surplus funds, and to provide fluid resources. In Behar and Orissa, there is a small number of new societies or societies in isolated parts of the province, which are not federated into central banks. Hence, though the main function of the provincial bank is to balance the funds of central banks, the isolated societies are financed and controlled by the provincial bank. But when a central bank is started in a tract the provincial bank ceases, and this should be the practice everywhere, to finance and control the primary societies in the area. In Burma, only a few primary societies work under local central banks, and are financed by them. These central banks and the societies outside their areas are financed and controlled by the bank at Mandalay. Though overlapping is, as a rule avoided, no regular system is in force in Bombay and Madras. As a general practice societies situated in the areas assigned to local central banks are financed by them, but frequently when these banks run short of funds they allow the societies affiliated to them to obtain funds from the banks at the provincial head-quarters. In Madras a number of central banks receive financial assistance from the provincial bank which also receives their

surplus funds. In Bombay, it is only lately that the central banks have begun to expect financial assistance from the provincial bank, to which alone, it may be remarked, all guaranteeing unions affiliate themselves. Being at the apex of the co-operative system, some of these institutions have large surplus funds on hand which are utilized for the purpose of interlending. This kind of interlending is also common as regards provinces where provincial banks are not in existence. The practice of inter-provincial lending may be expected to develop in the near future and extend to such proportions, that if not properly directed it might harm the movement. The difficulties of providing fluid resource experienced by co-operative banks, by virtue of their constitution and the nature of their work, have already been dealt with. Unless provincial banks, or central banks in provinces where they are not federated into apex banks, are placed in a position to have their paper discounted through joint stock or presidency banks, these difficulties are bound to be so serious as to check all further development of the movement. But it is feared that the efforts of the State and the pressure of public opinion may not avail much in securing the required assistance from commercial banks. With a view, therefore, primarily to adjust the balances of provincial banks to serve as a balancing centre and a source of funds, the formation of an imperial bank has been proposed. Other functions of the Bank would be to rediscount, practically to an unlimited extent, the "paper" of provincial banks, to provide fluid resource, and to open up a supply of long-term capital for the relief of agricultural indebtedness. The bank should be a part of the co-operative edifice and be a federation of the provincial banks. The aid that this institution

should receive from the State is a matter for serious consideration. It has been suggested that State funds might be deposited with the bank, as with presidency banks. Another suggestion is that the aid of Government be requisitioned in prevailing upon presidency banks to discount the paper of the imperial bank freely. A third proposal is that Government should guarantee a certain rate of interest on the shares of the bank or should allow the bank to raise debentures and guarantee payment of interest on them. Even if in receipt of State aid, State support, and State guidance at the start, the bank should not be used as an instrument for controlling the movement. Then only can the project receive the support of non-official co-operators.

Chapter V

STATE AID AND CONTROL

In all countries where co-operation has flourished, the State has conferred on co-operative societies certain concessions and granted some financial aid, especially at the start. In no country has State action been confined merely to legislative recognition of the co-operative ideal. With a view to encourage the formation of co-operative societies, as also inspired by a desire to show public appreciation of a movement for the well-being of persons of limited means, the Government of India, have also conferred on co-operative societies certain special privileges under the Co-operative Societies Act. Some of these concessions are judicial and some fiscal. The former include exemption of the shares or other interest of the members in the capital of a society from attachment for their private debts, the creation of a lien of a society upon members' shares or deposits as also on certain forms of property of members when created or acquired with aid from societies, the admission of certified copies of accounts as evidence in suits for recovery of sums due, the power to dispense with the production of succession certificates or letters of administration for the transfer of shares of deceased members to their heirs or legal representatives or nominees, and, finally, the exclusive use of the term "co-operative." Under the latter category fall the exemption from compulsory registration of instruments relating to shares and debentures of societies, exemption from

the stamp duty and fees payable in connection with the Stamp and Registration Acts, remission of Income tax payable on the profits of societies and on dividends or other disbursements of profits to members.

Beyond these concessions conferred by the legislature, further privileges have been granted departmentally to co-operative societies. The most important of these is the use of Remittance Transfer Receipts at par for remittances through Government treasuries between societies, and societies and their creditors. Another is the permission to allow deposit of strong boxes containing cash and securities at State treasuries. In some provinces, special facilities are granted for the opening of public accounts by societies, and for the deposits and withdrawal of funds, at the Post Office Savings Banks. In Bombay and the Punjab the Registrar is authorized to refund 75 per cent. of the money order commission paid by the societies on remittances to their financing agencies or wholesale dealers.

The Government of India have hitherto adhered closely to the principle that they should abstain from giving direct financial aid to the movement. It is indisputable that unrestricted and indiscriminate State aid is a dangerous and even fatal gift. The system of prolonged money-doles has been destructive of self-help and has given rise to a great deal of sham co-operation. And with the important qualification indicated below, the policy adopted in this respect has been a sound one. Departure from the attitude of financial aloofness has occurred in three directions.

The first departure has been the granting of advances to primary societies in the initial stages. After the introduction of the Co-operative Credit Societies Act of 1904, the Government of India authorized local

Governments to advance to rural societies sums not exceeding the capital raised by members, whether in the form of shares or deposits, upto a maximum of Rs. 2000. Such loans were free of interest for three years and at the end of the period were recoverable in ten annual instalments, interest being charged at the rate of 4%. The accompanying table shows the loans by all societies from Government at the end of the various years.

1906-07	Rs. 2,84,738
1907-08	„ 6,51,816
1908-09	„ 6,86,143
1909-10	„ 7,21,775
1910-11	„ 8,57,468
1911-12	„ 9,34,663
1912-13	„ 11,27,547
1913-14	„ 11,46,920
1914-15	„ 13,68,207
1915-16	„ 15,98,705
1916-17	„ 17,24,859

The figures are swelled by the inclusion of large amounts of agricultural advances made in Burma to societies or their members under the ordinary law for agricultural loans, and not to be treated as State loans to co-operative societies. If these figures are excluded, it is observed that the practice of such advances has been strictly restricted. They have, so far as agricultural credit societies in the major provinces are concerned, served their purpose of giving them a good start without the requisite capital, and inspiring local confidence. With proper precautions to prevent abuse of the facility, such advances may, however, continue to be made to societies for weavers, poorer work-

ing men, and aboriginal tribes. In new types of societies, like those for production or sale, distribution or purchase, some form of aid may also be necessary, but under distinct safeguards.

In the year 1914-15, the Government of India on the recommendation of the Local Governments sanctioned special advances to certain central banks in the United Provinces and the Punjab to meet the difficulties created by the War. In these two provinces, a few central banks, it was feared, would be unable, without some outside help, to face the situation created by want of fresh deposits and delay in the repayment of loans. More than the actual advances made, which did not exceed three lakhs and a half, the knowledge that Government were ready to back the movement had the desired effect, the crisis was safely passed, the inflow of fresh capital continued, and the confidence imposed by Government was reflected in the increased business of the banks.

The most interesting departure from the general policy of Government, however, is the guaranteeing of interest on the debentures issued by the Bombay Central Bank. The Bank is authorized to raise debentures to the extent of three times its paid-up share capital, with a maximum of Rs. 20,00,000, and on these interest at 4% till their redemption is guaranteed by the Secretary of State on the security of the provincial revenues. The chief advantage of this form of assistance is that, while not violating the principle of self-help on which the movement is based, it enables the institution helped to obtain long-term money at rates substantially lower than would otherwise be demanded. It does not, moreover, entail any serious financial liability on Government. The facility it confers on an

institution of securing long-term money, makes the system particularly attractive. The greater part of the capital of central banks is locked up for terms longer than a year, and the command of long-term capital is, therefore, one of the essential requirements of co-operative finance. And this provision becomes all the more urgent when the redemption of old debts on a large scale is taken up by societies. The relief of agricultural indebtedness cannot be attempted unless a free supply of long-term money is available. It is only in non-commercial centres, that deposits for periods longer than twelve months are available; besides, the recent development of trade and commerce in different parts of the country will reduce even this supply. Again, long-term money whether in the shape of deposits or debentures can only be obtained at unprofitably high rates, especially after the issue of 3 or 5 years' War Bonds at $5\frac{1}{2}$ per cent. The additional security conveyed by a guarantee of Government will enable such capital being raised at reasonably low rates of interest, to the great advantage of the State and the co-operative movement. It is, therefore, perfectly legitimate for the State to agree to guarantee interest on this capital, after assuring itself of the soundness of the bank assisted and securing the co-operative character of its activities. The guarantee could best be given to an imperial bank if one is started, otherwise to the provincial banks, or finally to central banks where they are not federated into provincial banks. Apart from the three forms of financial assistance described above, the Government have disclaimed financial responsibility for the co-operative movement.

It was the practice until recently for societies in some provinces to obtain substantial funds from Courts

of Wards and other quasi-official institutions. The acceptance of such funds is unobjectionable, and indeed commendable in view of the local confidence it creates. As under the Courts of wards' Acts, in some provinces, the investment of the estate funds is restricted to trust securities, co-operative institutions are debarred from enjoying the use of the funds. An exception is made in favour of central banks, on condition that the deposits are earmarked for the wards' estate. No uniform practice prevails in the different provinces regarding the issue of loans to members of societies under the Agriculturists' Loans Act (XXI of 1884) and the Land Improvements Loans Act (XIX of 1853). The Committee on Co-operation have recommended that the former Act be amended so as to permit the making of loans under the Act to registered co-operative societies or to central banks for the purpose of being transmitted to members as loans for objects specified under the Act. For loans under the latter Act, the Committee on Co-operation have similarly recommended the amendment of the law, if necessary, so as to permit societies being financed for improvements undertaken jointly by members of societies.

As Government have disclaimed financial responsibility for the movement they have ruled that their officers should have as little financial relation with co-operative societies as is possible. The present policy has been elastic, and while in Burma any Government servant may take shares or make deposits in the provincial bank, and in Madras, the Central Provinces and Bihar, there are no restrictions on investments by way of deposits or shares in any central bank, in the other provinces only officers not belonging to the Indian Civil Service and the Provincial and Subordinate

Civil Services are permitted to do this. A provincial bank being obviously outside the sphere of interference of any individual officer, no restrictions are necessary on any Government servant's power to make deposits with it. In a central bank, however, it is better that deposits are permitted only by such superior officers as do not serve in the district. It is inadvisable to allow Government servants to take shares in primary societies, but there are communal societies or societies of the staff of offices where Government servants of whatever grades are and should be permitted to become members. It would not be wrong to allow officers to participate in the management of communal or departmental societies, but the generally accepted view seems to be that gazetted officers of the Civil, Provincial, and Subordinate Services should be prohibited from accepting, unless by special permission, any post on the managing committee of any co-operative society.

The Government have also adopted the correct stand-point in determining the attitude that district officers should observe towards co-operative societies in their charge. When the co-operative movement was introduced, district officers were asked to initiate the movement and help it forward by sympathy and support. The only authority that rests with the Collector under the Act is, firstly, the power to move the Registrar to make an inquiry into the working of societies, and, secondly, to have access to all the books and records of societies. The power to depute persons to inspect records was withdrawn when the Act was amended. Government have laid down that while it is no part of the duty of district officers to intervene in the internal administration of societies, they should not dissociate themselves from the movement, as co-operative societies are no longer

isolated experiments outside the sphere of district work, but represent an influence closely connected with the welfare of the people. They constitute a new factor in the administration with which it is desirable for district officers to maintain touch. It has often been proposed that the Collector and even some of his subordinate officers should be given some of the powers vesting under the Act in the Registrar, on the ground that the present policy tends to over-departmentalization in its seeking after de-officialization. The over-departmentalizing is certainly a defect in some parts of the country, but the devolution of the powers of the Registrar to the Collector does not certainly provide the real remedy, which is the strengthening of internal or federal control. Further, the duties imposed by law on the Registrar are too technical to be delegated to district officers, who, it is complained, are already overburdened with their multifarious functions.

In the provinces of upper India, it is common for the district or sub-divisional officer to act as chairman of the central bank in his charge. The practice does not prevail in Bombay, Madras, Burma, and the Central Provinces. There has been an incessant demand in official circles, especially in the non-ryotwari provinces, for the district or sub-divisional officer to be made ex-officio chairman of the central bank in his charge, on the contention that co-operation owes its origin to Government and is dependent on State support. It is forgotten that the fundamental principle of co-operation is self-help and self-control, and that it is only the exercise of independent effort that can make co-operation ultimately successful. The presence of a high officer of Government on the managing body of a central bank tends to overshadow the part taken in the administration

of the banks by private individuals, and thereby indirectly discourages non-official effort. Moreover, it is only natural for these officers to take up strong attitudes on certain questions, and occasions may arise where a little exhibition of rashness on their part may mar the harmony that is essential for the spread of the movement. It is, therefore, eminently desirable that the association of district officers with co-operative societies should take a form which "would not impede their independent development or entail harm to the movement in cases where the officer is sceptical, indifferent, or rash." Government officers are always welcomed in co-operative societies and their advice and guidance receive the best consideration, but it is essential to safeguard that any association of district or other officers of the State with societies should be on a footing of equality with the members of societies, that it should not bear the appearance of being officially forced, and should not be open to misconstruction as being inquisitorial. The correct position for them to adopt would be to stand as well-wishers equipped with the requisite knowledge and sympathy, and to refrain from having any intimate connection with the management or from assuming direct responsibility. While, therefore, permitting officers of Government to visit societies, and to exercise, as friends of the movement, the powers conferred on them by the legislature, it is undesirable for the harmony of the movement to confer on them a formal right to attend meetings of banks and societies and to allow even individual officers to act as chairmen or members of the managing committees of central banks.

A feature of the co-operative movement in India that distinguishes it from the movement in European countries is the dominating position occupied by the

Registrar. The Government of India, when originally inaugurating the movement in the country, rightly attached great importance to the appointment of Registrars. These officers were not to be merely registering officers, but they were expected to provide supervision, assistance, counsel and control. The body of picked officers to whom this responsible task was committed have not only furthered the movement by their enthusiasm and energy, but have succeeded, in most of the provinces, in eliciting active assistance from non-official workers. But the result of this policy has not been altogether fortunate. Originally, the retention of an official guide and controller of the movement was looked upon as a temporary measure, and the hope was expressed that "gradually as experience was gained and the societies were able to stand on their own legs, the fostering care of the Registrar would be less required and his duties would become purely official." However, after a striking development of the movement in the last thirteen years, in no part of India, except perhaps in the Central Provinces and Berar, is there any evidence of a practical recognition of this ideal which Government then held in view. Instead of a relaxation in the official control the tendency has all along been in the opposite direction. The Committee on Co-operation, for instance, have put in a plea for increased control, and have deliberately refused to countenance the transference of the Registrar's functions to a non-official agency.

That the transference—maybe, gradual transference—is not only desirable but essential if the movement is to maintain its co-operative character will be evident from a brief examination of the functions which he now exercises and which it is proposed he should exercise. It is the duty of the Registrar to re-

ceive, to inquire into and dispose of applications for registration, to register the bye-laws of societies or amendments of such bye-laws, to have the accounts of societies audited annually, to sanction loans either by general or special order from one society to another, to order inquiries into the affairs of societies and to make inspections when called upon to do so, to cancel or dissolve societies and appoint liquidators, to arbitrate or appoint arbitrators to settle disputes between members or between societies and members, and to carry out such other duties as may be assigned to him under the rules framed by the Local Government. The powers conferred on him by the legislature, it would be imagined, were ample enough, but the Committee on Co-operation favour the idea of their being strengthened. In their opinion, by controlling the supply of funds, or by using "the money stick", Registrars would be in a better position to have their decisions enforced. It is, therefore, suggested that, as permitted by the Act, a rule should be issued prescribing that the maximum borrowings of all classes of societies and the adoption of rates of interest should be under the control of the Registrar. The motive inspiring the suggestion, it may be remarked, is regrettable, and the manner in which official control is thus proposed to be enforced will be resented by non-official co-operators. The other functions which, according to the Committee on Co-operation, the Registrar has to perform are to supervise the work of an establishment for the preaching of co-operative principles, to control a large staff of auditors and supervisors, to draft rules and bye-laws, to keep closely in touch with the higher financial institutions in the movement, "to study co-operative literature, to get acquainted with economic conditions and practice and

to keep himself informed about developments in joint-stock banking and the position of markets."

Having decided to invest the Registrar with such responsible, exacting, and onerous duties, it is argued that "it would be a grave dereliction of its duty for a local Government to entrust interests of so vital a character to any but picked officers of Government." The appointment of officers of the grade of Collectors only is, therefore, recommended, and beyond the officer's graded salary, a local monthly allowance of Rs. 250 is approved. Further, it has been proposed that in every province there should be one Registrar or Joint Registrar for every thousand or fraction of a thousand societies. The post of Joint Registrar would be of the same status as that of a Settlement Officer, and over and above this staff, it is suggested, that there should always be under training for a year one Assistant Collector in every province. The effect of these recommendations, if they are carried out, would be largely to enhance expenditure of public funds on the administration of the co-operative movement. The cost of administration incurred hitherto has not been out of proportion to the benefits received. But it is now proposed heavily to add to it by increasing the establishment at the top and by employing a costlier agency. That the suggested increase in the expenditure of the departmental machinery is unnecessary and excessive is the opinion not only of the public, who have to bear the charges, but also of the co-operative workers, in whose interest the enhancement is proposed.

Even apart from any considerations as to the costliness of the machinery, it is impossible to agree with the view that "the continued development of co-operation in India on any other condition than the perma-

ment maintenance of an efficient, highly paid and adequate staff of Registrars cannot be contemplated." It is obvious that the work done by a large centralized department is apt to become mechanical and listless, and to weaken the feelings of self-reliance and independence among non-official workers, and the recommendations discussed above are calculated precisely to foster a tendency towards officialization. They denote an abandonment of the ideal Government originally set before themselves of a movement self-governed and self-contained. Defective education or rather the lack of education have, it is true, proved, to a certain extent, obstacles in the development of a rural movement imbued with the spirit of self-dependance and self-reliance. But in spite of this drawback, the work of numerous rural societies has been admirable and the progress of the movement has indeed been remarkable. Further, as has been officially recognized, to this success the services of honorary organizers selected by Registrars or directors of central banks, whether drawn from the ranks of leaders of rural societies or belonging to the professional classes, have not contributed a little, and even greater efforts could be called forth if the workers enjoyed greater initiative. Thus co-operation has not failed in attracting non-official workers to the field. If this is admitted, then the impression naturally arises that the change in the policy of Government with regard to the ultimate control of the movement is inspired by a misgiving as to its potentialities. That this is not far from correct is apparent from the proposal made by the Committee on Co-operation that a rule should be issued by local Governments empowering the Registrar "to rescind any resolution or action of an officer or a committee or a society which would con-

travene the principle that the discussion or propagation of controversial opinions of a political or religious character should be excluded from the activities of the movement." To those acquainted with the working of co-operative societies in this country the issue of any such rule as is proposed must seem as uncalled for as it is ill-advised, for, nowhere in India is there a likelihood of the introduction of religious or political controversy in co-operative societies. But the fact remains, that, with the Government, misgivings as to the potentialities, fears of its perversion to wrong ends, and apprehensions of the growth of a pseudo-co-operative edifice, outweigh all considerations about the ideals of the movement and the danger of its being officialized. This is indeed regrettable, for co-operation cannot be a vital force in the life of the people, the basis of a national civilization, the moulder of an organic unity of society, unless it is essentially democratic, both in the constitution of its component parts and in the direction and control of its policy.

Even if the ideal is not immediately attainable, the movement must definitely progress towards it. It is only in some places that the true ideal is kept in view. In the Central Provinces, a federation of central banks has been started, the aims of which are to provide a regular and efficient system of supervision, audit and control for all banks and societies enrolled in membership, to secure uniformity of practice and unity in effort and in aim amongst all co-operative bodies, to work for the common good of all co-operators, and, especially, to see that co-operative business is conducted on sound and progressive lines, to teach, train, and educate the federation staff, and to foster by every means in its power the spread of the co-operative spirit

among the people. The federation is the parliament of the co-operative commonwealth of the province, laying down the policy for the movement, controlling its finances, and wielding executive authority through the staff of auditors, bank managers, clerks, supervisors, and secretaries working under it. That the Governorship of this Federation should now be held by a non-official Indian is a fact which occasions hope among co-operators in other parts of the country. In Madras too, a provincial union of societies is in existence but its activities are mainly propagandist. It need not, however, be doubted, that through the conferences it holds, the journal it publishes, and the other activities it undertakes, it exercises some influence on the policy of the local co-operative department. Another hopeful sign in that Presidency is the recent decision of the local Government to appoint honorary assistant registrars. That is an interesting departure and may lead to an increased and more responsible association of non-officials with the administration. In Bombay, too, the starting of a provincial union has long been under consideration, and at the last Provincial Co-operative Conference, the starting of an institution which may develop into a controlling federation and a provincial organization society was projected and approved. At the start, the object of the institution would be to carry on propagandist work for the promotion of co-operation, to stimulate social and educational advancement in co-operative areas, to organize and supervise affiliated societies in Bombay City, and to afford advice and guidance in co-operative matters when requested to do so.

In Bengal, too, the scheme for an organization society was adopted at the last Provincial Co-operative

Conference. The objects of this society will be more or less akin to the aims of the proposed central institute for Bombay. It will, in addition, act as an information bureau for affiliated societies and the general public.

In Behar and Orissa again a co-operative federation open to all classes of co-operative societies in the province has lately been registered. It is modelled largely on the federation of the Central Provinces and its objects are :—

(i) to ensure a regular and efficient system of supervision, audit, and control for all co-operative banks and societies enrolled as members ;

(ii) to promote agricultural, industrial, and other special forms of co-operation ;

(iii) to aid in the expansion and improvement of primary education, to promote sanitation, to facilitate medical and famine relief and generally to secure the moral and material progress of its affiliated societies ;

(iv) To secure unity and uniformity among all co-operators in Behar and Orissa and to see that all co-operative business is conducted on sound and progressive lines.

The Registrar is the ex-officio Governor of the Provincial Federation and to assist him there is an advisory council. It is to be desired that the federation will follow the example of the Central Provinces and have in the near future an elected non-official head.

Chapter VI.

ORGANIZATION, SUPERVISION AND AUDIT

The fact that co-operative societies are subject to a statutory periodical audit by the Registrar has considerable effect in attracting public confidence. But if the societies are organized on unsound lines and are unco-operative in their constitution, the safeguards inherent in the system fail to be effective, and their audit by Government provides no security. The primary duty of all connected with the co-operative movement, therefore, is to see that societies are established on truly co-operative lines. The main task of the organizer is to attend personally to the systematic teaching of co-operative principles. This does not consist merely of lectures and pamphlets, but actual instruction by the organizer. His next task is to make some detailed and methodical inquiry into the prospects of the proposed society. Not only should he satisfy himself that the proposed members have assimilated the principles of co-operation, but he should also ascertain whether they are too involved in debt to make the society successful, what the assets and the liabilities of the intending members are, whether the applicants are men of good character and the village free from factions, how the society is proposed to be supervised, how much local capital is available, how much and from what sources further capital would be required to meet the needs of members, what the position of the village is with

regard to literacy, and whether the chairman, the secretary, and other members of the managing committee are suitable persons.

The task of the organizer, under the circumstances, is not easy, and it is necessary for him to realise that his efforts do not end with the registration of a society, but that he maintains touch with it as a constant friend and guide even after its registration. It is then that he will have a chance of testing if the knowledge imparted by him is utilized by the members in practice ; for, more than any preaching of abstract principles and the learning by rote of the main points of co-operation referred to it, is the guidance of an instructor in the day-to-day work that will most conduce to the success of a society.

The tendency to instruct Registrars to adopt a policy of caution and concentration is reprehensible if it prevents such rapid extension of the movement as is consonant with the conditions of the country. In tracts where co-operative societies are already in existence, it is indeed desirable that, except for special reasons, "an increase in the number of societies should radiate from existing centres of co-operation and be based on a well-informed desire to imitate existing good examples. When a new district or other similar area is brought into the sphere of co-operation, a sufficient number of experimental societies may suitably be started as examples by a special propagandist agency, but when a financing and controlling centre can be established for them, it should be left to that centre and to the influence of a desire for imitation to carry on the work of propagating the movement in the neighbourhood." As there are whole provinces or parts of provinces in which local circumstances render proper supervision unlikely it has been suggested that it would be a mistake to encourage

in such places the extension of the movement in any form. If, however, local conditions render the introduction of co-operative credit necessary for the well-being of the agriculturist or artisan it would be most undesirable to place direct checks on the starting of societies. It is an entirely mistaken policy to deny the benefits of an ameliorative movement to the people merely because the absence of communications or of an educated class renders supervision difficult. The proper remedy would be gradually to improve communications and remove illiteracy, and at the same time allow co-operative credit societies to be started wherever there is a real need for them.

In some provinces, prominently in Bombay, much of the preliminary work of organizing societies is done by non-official workers, known as honorary organizers. Not being connected with the co-operative organization in any responsible manner, their efforts often tend to be sporadic and unsystematic. It is also not sufficiently realized that having been instrumental in starting societies it is they who are responsible for guiding those societies to success. In other provinces, the preliminary work of teaching and inquiry is done either by directors of central banks or supervisors attached to such banks. This is particularly the case in the Central Provinces, the United Provinces, Behar, and Bengal. There are great advantages in this system, but it is capable of being introduced only in such provinces where all societies, except, of course, those started in new areas, are federated into taluka or district central banks of the pure or mixed types. It is essential in all these cases that the individual who organizes a society retains control as a supervisor and teacher after registration. There is, however, one danger in this system, for, in

ignorance of the real lines on which expansion should be encouraged, directors and supervisors of central banks in a few areas, keen on obtaining increased business for their institutions, have organized societies in large numbers without making the requisite investigations and without taking the precaution of preventing societies from multiplying in excess of the financial resources available. With a proper appreciation of the principles underlying co-operative organization this drawback may be expected to disappear, and there is no doubt that under the circumstances, the central banks or the union would constitute the most useful organizing agency.

There are parts, however, of provinces which have hitherto remained almost unexplored, but where the introduction of co-operation would be a blessing. In such areas, organization was hitherto undertaken by local officials or by members of the Registrar's staff. This is neither desirable in itself nor likely to be permitted much longer by Government. Very similar is the position of non-credit co-operation. In many provinces, there is a keen and spontaneous demand for progress in non-credit co-operation and to stimulate the demand and to satisfy it, occasional propagandist work is undertaken either by officials or such honorary workers as are available. To meet adequately both these demands which will grow insistent in course of time, the starting of organization societies is greatly to be desired.

From what has preceded it will be evident, that if proper organization of societies is necessary for the stability of the movement, the need for following up sound organization by systematic supervision is still more necessary. To hard-worked illiterate agriculturists

or industrial workers, the management of even a simple credit society presents a formidable problem, and the unscrupulousness of some office-bearers is not subjected to such vigilance as is required. Therefore, even if village societies are organized on sound lines, unless care is bestowed in guiding societies to adhere to the principles on which they are organized, the fact of their being established on the right lines provides no security. If on the other hand, by proper guidance and instruction members learn to act on the knowledge that is imparted and in accordance with the principles that have been explained, the fact that societies are managed on co-operative lines will constitute the most important factor in their financial security.

There is no provision in the Act for continuous supervision and direction. Provision has been made only for inquiry or inspection under special circumstances. It is necessary, therefore, to define what the supervision here referred to should connote. It implies firstly the duty of instructing members of societies in co-operative principles. Its aim should be not merely to test the efficiency of societies but to help them to be efficient. The supervisor, while satisfying himself about the general accuracy of the accounts, need not subject them to detailed examination and should make it his concern not merely to see that societies are business-like but also to satisfy himself that they are genuinely co-operative. He has to test the knowledge of office-bearers in the details of their work, to examine members about the general conduct of affairs, to advise about difficulties and disputes, to explain and correct mistakes, to see that suggestions brought up at audit are given effect to, and to impress upon members the moral, social,

and educational, as well as economic aims which co-operation stands for.

The work of supervision should be missionary in tone rather than inquisitorial, and the nature of the work as well as the undesirability of employing a large official staff render it necessary for the functions of supervision to devolve on the co-operative institutions themselves. Where societies are federated into unions or central banks the supervising staff is appointed and mainly controlled by these institutions and that is the line of development considered most suitable. Societies associate in these bodies not merely for obtaining funds but especially for securing mutual control and supervision. The unions and banks pay for, appoint, and control the supervising staff and the control exercised by the Registrar is only indirect. To improve the prospects of the supervising staff, and to prevent staleness and stagnation, the banks may, as in the Central Provinces, entertain one staff for the whole province, through the provincial federation or union. In Burma, too, groups of unions join together, to engage paid supervisors.

The organization and supervision of the societies of workmen and poorer classes may with advantage be undertaken by responsible social workers or by boards consisting of individuals interested in the movement. Such bodies should receive some subventions from the State in view of the heavy expenses that are to be incurred and of the philanthropic nature of the work performed. The organization and inspection of what are known as industrial societies is carried out either by special inspectors as in Bengal and Bombay, or by the same agency as arranges for the inspection of agricultural credit societies. If the inquiries made by the Industrial Commission result

in the formulation of any comprehensive schemes for the development of cottage industries, through co-operation, and if the starting of Boards like the Bengal Home Industries Association is projected, such boards would, under the guidance of the co-operative organization, form the proper agency for attending to the organization and supervision of industrial societies.

The larger urban societies, employees' societies, banks and commercial societies, as also important non-credit concerns like stores or wholesale societies, cannot be efficiently supervised by the same agency as is employed for the supervision of rural societies. Nor is the supervision of the same nature in both the cases. The function of supervision, therefore, devolves on the Registrar or his more experienced subordinates, though where the societies form part of a provincial controlling organization special arrangements for their supervision should be made by that organization. In provinces where central banks are federated into provincial banks, the provincial banks do and should exercise some control over the banks through supervision over their affairs. But the Registrar has to devote some personal attention to the central banks, especially in provinces where no provincial bank or federation is in existence. The degree of such control should be relaxed as these institutions develop. The provincial banks are, and will for sometime remain, subject to the Registrar's supervision, though the control over them should be nominal, unless their constitution is capitalist. If an imperial bank is started, it may, as a condition precedent to the granting of financial aid, exercise some supervision over provincial banks.

In every business association, where accounts are maintained, for the satisfaction of those concerned in

its working, whether a few private individuals or a large number of shareholders, a periodical audit of the books and affairs of the association is necessary. Under the Indian Companies Act, every registered company must appoint at its annual general meeting an auditor for the ensuing year, who has full access to the books, accounts and vouchers of the company and is entitled to receive all information and explanation pertinent to his work. It is the members of the registered company themselves who are responsible for securing an adequate audit of their company. They appoint auditors to investigate, independently of the management, into the affairs of the Company and to report the result of their examination to the shareholders. The Co-operative Societies Act places this burden on the Registrar. The reasons for this are obvious. Government having initiated the movement and given it a good start by financing it, the confidence of the investors in societies has been, until recently, inspired more by the attitude of Government than by any knowledge of the constitution and working of the societies. To justify the confidence reposed in societies by the investing public, to ensure that the societies were developing on sound lines, to safeguard the financial aid they had given to societies, and, finally, to secure that the valuable privileges granted under the Act were not abused nor enjoyed by undesirable institutions, a State-controlled audit has been deemed essential. On the Registrar, therefore, is imposed the duty of auditing or authorizing some person to audit the accounts of every registered society once at least in every year. At the time of such audit, a society is bound to produce all its books, account-papers, and securities. The audit, as defined in the Act, includes "an examination of the overdue debts and a valuation of the

assets and liabilities of a society." Co-operative audit entails a much more comprehensive inquiry than is usually made in the audit of a joint-stock company. The auditor is required to note whether " the Act, rules, or bye-laws have been infringed, to verify the cash balance, and to certify the correctness of the accounts, to ascertain that loans are made fairly, for proper periods and objects, and on adequate security, to examine repayments and check book adjustments or improper extensions, and generally to see that the society is working on sound lines and that the ordinary members understand their duties and responsibilities "

The audit should be conducted on the spot. If it is conducted, as is not seldom the case, in the headquarters stations, much of its value as an education in co-operative principles and practice disappears, and it degenerates into a soulless examination of books and records. The technical errors pointed out and the cross examination of the secretary are of no benefit to the society as a whole and the harassment or inconvenience caused only makes members of societies, and, especially their office-bearers, hostile to the system of audit and sceptical about its advantages. It is the auditor's business, in village societies, to meet the members, to question them about their affairs, to check the entries in books by personal inquiry, and to guide the committees and members in their duties.

It is the essence of co-operative audit that it should be effective, that is, the suggestions made and the errors pointed out should be corrected and defects pointed out remedied. If, as is the practice in some provinces, the audit reports are meagre and indefinite and are filed on the records of societies, then the time and labour spent on the audit are wasted, and the State incurs expenditure

of public money to no useful purpose. The audit should be complete, the auditor's report detailed though not too elaborate and, where a definite suggestion is made the controlling authority should satisfy itself that it receives due attention. When societies are federated into unions or central banks, as they now generally are, it should be the business of the supervisors working under these bodies specially to attend to this matter. In such cases, the audit notes are, as a rule, sent to the Registrars through the institutions, and the latter are required to state what action they have taken or propose to take on the points referred to in the notes.

There is no uniform practice regarding the qualifications which an auditor should possess. Sometimes, he is recruited direct, sometimes he is appointed from other Government departments; and he is then made to undergo practical training with the existing staff and a certain amount of coaching in co-operative principles and practice. As no elaborate knowledge of accountancy is necessary, the possession of a certificate under the Indian Companies Act need not be insisted on, except for auditors of central banks or large non-agricultural or non-credit societies. In many provinces, auditors are expected to do educational and propagandist work. This is necessary so far as it pertains to their own duties, but should not form one of their main functions. Provided much of their time is not taken up by these and similar duties, each auditor is generally able to carry out the audit of about 100 societies a year.

In the original Act, it was stipulated that the audit conducted by the State would be free. This was one of the most important concessions conferred on the movement. As the movement passed the initial stage and expanded rapidly it was felt that no longer could the

State commit itself to unlimited expenditure on the audit. In the section of the Act permitting local Governments to frame rules, provision has, therefore, been made for a rule to be issued prescribing the charges to be made for Government audit. Such charges are recoverable in the same manner as arrears of land revenue.

This power has not been exercised in all provinces. In Madras after a bitter controversy audit charges are being levied from non-agricultural and central societies and similarly audit fees are levied from all societies in the Punjab. In the United Provinces, what is termed primary audit of agricultural societies is undertaken to a greater or less extent with the assistance of the central banks. In the Central Provinces, the provincial federation in which primary societies and central banks are represented arranges for the audit. In Bombay and Assam, limited liability non-agricultural societies with a working capital exceeding Rs. 50,000 are assessed for audit. In Behar, Burma, and Bengal proposals are still under consideration for the levying of audit charges.

As has been pointed out, with the expansion of the movement the need was felt for power to call upon societies to pay the full or a portion of the expenditure incurred on their audit by Government. It is also felt that purely departmental routine in the work of audit should be avoided. The increase in the number of societies necessitates a corresponding increase in the number of auditors, but the danger of a multiplication of the departmental staff is recognized and Government and well-informed co-operators agree that it is desirable to limit the number of officials and utilize to an increasing extent non-official agency in the performance

of audit. As to how exactly the duties of the two agencies employed are to be distributed, no clear notions seem to prevail, but the evolution of the non-official agency in the Central Provinces and a few other provinces indicates the lines on which differentiation of the functions of the two agencies can be attempted.

As the Registrar is solely responsible for the audit of societies, it is necessary, so long as he performs the functions laid down by law, that he should not lose touch with societies. Moreover, inasmuch as the movement extends chiefly to persons not acquainted with business methods, both in their interests and in those of the persons who trust primary societies with funds, a periodical audit should be carried out by an independent and reliable agency, such as the Registrar now provides. The Registrar must, therefore, exercise through his officers the power of super-audit, a periodical audit to be carried out by auditors, paid entirely by Government and controlled by the Registrar. The degree to which this power should be exercised, whether the Government audit should be annual, or be made at intervals of two or more years, will depend entirely on the development of the non-official organization, the capacity of societies for joint action and mutual control, the growth of the confidence of depositors, the perfecting of the system of unions and central banks, and the extent to which the societies depend for funds on their own resources.

The first stage in this progress will be a super-audit conducted every two years and an original audit made annually by a staff maintained by the co-operative institutions. The control of the latter audit cannot be exercised satisfactorily by an individual society, or by

the union or central bank to which such society is affiliated. It will be necessary for these institutions to combine for the purpose, to engage jointly a staff of auditors, and arrange for their appointment, transfer and dismissal. Such auditors will, of course, have to be authorized by the Registrar under the Act to conduct audit and their certificates will be liable to be withdrawn if their work is found unreliable by him. The formation of a provincial audit union, controlling if necessary also the staff engaged for organization and supervision as in the Central Provinces, is an imperative necessity in all provinces where Government desire the co-operative institutions to share with them the cost of audit. Whatever system is adopted for its administration, it is needless to emphasise that where the cost is defrayed by co-operative institutions they should be entrusted with its control. The Registrar has power to rescind the authority granted to an individual member of the staff if there is any dereliction of duty on his part. Funds for the maintenance of the audit establishment are met in some provinces by a per capita levy on all the members of primary societies, in others by the distribution of the cost on the basis of working capital, or the net profits or the number of days spent on audit. It has also been suggested that the cost may be recovered by charging correspondingly higher rates of interest on loans by the financing agencies.

The audit of societies for artisans, workmen, or the backward classes does not present any special features. In view, however, of the fact that these societies are of very recent growth and that their members are drawn from classes very much worse off than agriculturists,

the levy audit of fees, except in large workmen's societies should be foregone by the State or audit union whichever agency conducts the audit. In the latter case, the State may well reimburse the audit union, the expenses incurred on such audit.

On the other hand, the audit of the larger urban societies, societies for employees of firms, most communal societies and people's banks, as well as of distributive or productive societies doing considerable business, is expensive and the checking of numerous small entries or the verification of stock takes up much time. The Registrar or the audit union has, therefore, to arrange for specially qualified auditors for the work and to differentiate to a certain extent in the assessment of audit fees to be paid by such societies.

A few central and provincial banks arrange for their own audit half-yearly or annually, and qualified auditors are appointed by the members at their general meeting. If the auditors are acceptable to the Registrars, they need not conduct any separate official audit and authorize these auditors to report to them. The Committee on Co-operation have, however, recommended that any audit arranged by the banks themselves is to be considered as supplementary to the official audit. For the larger banks it would then obviously be desirable to have the official audit conducted by certified auditors or Chartered or Incorporated Accountants authorized and appointed by the Registrar or audit unions. The accounts in these banks are often too complicated for quick disposal by the Government or union auditors, and with their knowledge and experience of the technique of accountancy, the expert audi-

tors would be in a better position to suggest alterations in the system of book-keeping and might even carry greater weight with the investing public. But the system cannot be uniform for all central banks. It is however, admitted that whatever be the system, these institutions must pay for their audit and should no longer enjoy Government aid in this matter.
