

AGRICULTURAL BANKS :

Their Object and their Work.

BY

HENRY W. WOLFF.

“It is strictly correct to say that Credit is Capital.”—H. D. MACLEOD.


“The land should be the great borrower of the nation.”—CHINESE PROVERB.

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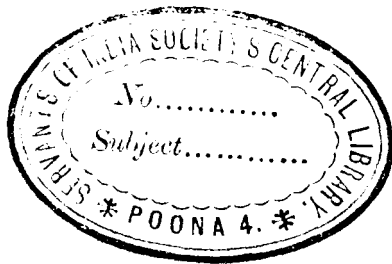
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A RECORD OF SOCIAL AND ECONOMIC SUCCESS.

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The present volume was written on behalf, and at the request, of the Agricultural Banks Association, a Society formed to promote the creation of co-operative agricultural banks in this country. The responsibility for all that is said, however, rests entirely with the author.

Persons desiring to inform themselves more fully upon the co-operative work here spoken of are referred for a more complete account of the systems described and an explanation of their principles to the same author's "PEOPLE'S BANKS, A RECORD OF SOCIAL AND ECONOMIC SUCCESS," published by Messrs. Longmans & Co.

For particulars referring to the work of the Agricultural Banks Association, and the publications respecting agricultural banks already issued by that body, readers are invited to apply to the Honorary Secretary of the Agricultural Banks Association, 7 & 8, Palace Chambers, Westminster.

AGRICULTURAL BANKS:

THEIR OBJECT AND THEIR WORK.

CREDIT has long since become the recognized moving force in business, the driving-wheel from which all machinery of trade and industry derives its impetus. It is difficult to conceive what economic life would be without this active motor which, like a well-adapted pinion in a machine, accelerates the motion and intensifies the action of capital, and makes a pound do what before its introduction it required ten, twenty, or thirty pounds to accomplish. The entire community has gained by a change which has substituted the cheque-book for the money bag, and the bill-of-exchange for the strong box carried about to fairs and markets. And in no country has credit been made to render more useful service than in this commercial Britain of ours, in which, from the Treasury and Exchequer down to the newspaper and tobacco shop in the by-lane, credit has been installed everywhere as medium of exchange, and has become, in very truth, the currency of business.

There are only two quarters of economic life into which, among ourselves, credit has not yet been allowed to penetrate. For the rich, who have ample money, there is credit in plenty, to make their riches more useful. For the poor, who stand in far more urgent need of it—as Signor Viganò, the Father of Italian Co-operation, points out—there is as yet none. “The poor,” says an Italian writer, Giustino Fortunato, “obtains no credit *because he is poor*; and he remains poor *because he has no credit*, so he turns round and round hopelessly in a vicious circle from which there is no escape.” “In England,” echoes the *Times*, in noticing my book, *People’s Banks*, “credit is still the monopoly of the rich.” There is, indeed, for the poor a degraded and degrading kind of lending, a doling out with a patronizing hand, be it generous or be it grudging, of what, be it wholly given or be it nominally lent, scarcely deserves any name but that of alms—alms taxing the lender without benefiting the borrower. But that is not credit.

The second quarter into which the stimulating sunshine of credit has thus far failed to find its way is that of agriculture. We have mortgage credit, of course. But that is not agricultural credit. It in no wise corresponds to the borrowing by which the trader multiplies the working power of his capital ten and twenty fold. It is an encumbrance upon the dead land, it rarely quickens the pulse of living business. And, besides this, we have such personal credit as the need of painful emergency

exacts, and the means of the embarrassed cultivator appear to justify—banker's credit upon standing crops or general solvency, to the substantial farmer; usurer's credit, at the rate of 160 and 330 per cent.—as was recently shown in a case occurring in Herefordshire—to the less substantial man. That again is not agricultural credit. It does not mean the infusion of new propelling force into a productive industry. When raised by usury, indeed, it means, not production, but ruin. In the best case it amounts only to the stopping of a hole, a lightening of the ship in a storm by cutting down the masts and throwing cargo overboard, the drawing on a last reserve. It is never resorted to until loss has actually been incurred—to restore, if it may be; not to create afresh. And as a rule it comes too late.

Why will the farmer, be he large or be he small, never borrow in time? "The trader," recently said a Belgian Minister in his Chamber, "*glories* in his credit. The larger is his credit, the higher is his repute. The farmer or cultivator looks upon the use of credit as a disgrace." He is anxious, above all things, that his neighbours should not know of his borrowing. So, whenever he does want money, instead of going openly into the market, as a merchant does, to claim at a fair rate what he has a perfect right to ask, he rather slinks stealthily into a usurer's office by a back door, to purchase there brief respite from publicity by eventual ruin. How is this? Is Agriculture a calling less entitled to credit

than Trade or Commerce? Has the producer of corn and potatoes less claim to the use of money than the maker of hardware and cottons? Does not money tell in the prosecution of his business, as in the prosecution of any other? Undoubtedly it does. If you will take the trouble to inquire of dealers who trade specifically with farmers and who have, one would think, the best means of judging, who among these is making his calling pay and who is not, you will hear that it is now generally speaking the man who commands a *large* working capital, a good deal more than the traditional £10 an acre—which, as a fact, a good many farmers do not possess—the man who can cultivate and manure, and feed, and study the markets, in fact do anything and everything without giving anxious thought to the condition of his balance at the banker's—and, moreover, the man who takes to his farming with business training and business habits, as a *business*, and not as a hereditary occupation—who succeeds under present adverse circumstances, rather than the old-fashioned “leather jacket” farmer who works by rule of thumb.

Most unquestionably the farmer wants money. It is idle to deny it. To argue that because capital invested in agriculture now yields a very scanty return, therefore there is enough invested in it already and no fresh influx is needed, is to argue like *Punch's* Irish gamekeeper, who congratulated his employer upon the small number of partridges found upon his shooting. “Do you know,

Pat, that every bird I shoot costs me about £5?" "Bless your honour, what a mercy there are not more of them." If capital invested in agriculture now pays a small interest, that may just as well be, because there is too little of it as because there is enough. Otherwise, why not in consistency demand that some of the existing capital be withdrawn? A French agricultural syndicate very reasonably puts the case in this way: Where an insufficient capital earns only 0 per cent., or may be still less, an adequate capital may very well earn 5 or 6 per cent. "Agriculture is changing and *must* change," declared only the other day the Belgian Minister of Agriculture in his Senate. "Change is for it a condition of existence. It finds itself to-day in conflict with conditions altogether different from those of earlier days, and in such conflict it can have no prospect of success except by arming itself according to the fashion of the day. We want more artificial fertilizers to-day, and more powerful ones. We want machinery and many other things that our fathers never dreamt of. These new appliances insure a higher yield, but they demand, on the other hand, a larger working capital." That saying applies every bit as much to our own agriculture. It very fairly summarizes the situation. The evidence taken by the Royal Commission on Agriculture now sitting goes, generally speaking, to show that success and failure depend in a very great measure on the command or want of sufficient working capital,

that the man with a big purse does decidedly the best. Agriculture would be a curious calling indeed if it were otherwise. People who talk of the sufficiency of present capital forget that agriculture is at the present time passing through a phase which practically marks a turning point in its history. Within the last generation agriculture has completely changed its character. It has become a business like other forms of business, in which everything hinges on skill and money. From being a storehouse of fertility to be tapped to supply those "three livings" of which in happier times Lord Beaconsfield spoke in a tone of congratulation, the soil has become the mere workshop in which money and skill are called upon to produce fruit. You can work no workshop nowadays without sufficient money.

To bring home the case more fully to practical minds, can no farmer recall cases—cases in plenty, one might ask—in which the command of a little more capital—to enable him to invest in some extra outlay, to manure that breadth of wheat, to subsoil that field destined for mangolds, to buy stock when stock was cheap, or else when it was dear and keep was plentiful, whatever the case may have been—would have secured him a certain and very remunerative return? Whatever the result might have been on his farm as a whole, on that particular transaction he would have been a gainer. His £100 would have come back to him as £120 or £130, and by the difference he would have been the richer.

Here is a case taken from practical experience, to prove what a little credit will do—a case which should go home to our farmers, because it comes from a province in which agricultural conditions prevail strikingly similar to our own. With its large properties—there are some of over thirty thousand acres—its tenant holdings, ranging generally from 125 to 1,250 acres, its leafy forests, green hedgerows, lush pastures, and its wholesale cattle-feeding, the French Department of the Nièvre might be an English agricultural county. The farmers live by fattening cattle—cattle of a local breed noted for its early maturity and the tenderness and delicacy of its flesh, which qualities make the beasts highly prized in the Paris market. There is a well-established method of working these farms, which is still adhered to. The grazier purchases his lean stock in February or March, to prepare by a few weeks of stall feeding, then turn out to grass, sell in August, in order to put others in their places, and dispose of the second lot in October or November. That is considered very fair business, and on every bullock the farmer is supposed to net about £3, after allowing for the cost of the keep. M. Giraud, when in 1865 he took charge of the local branch of the Bank of France, found that for want of money these farmers were not turning their land to adequate account. The pastures were generally understocked. Perhaps M. Giraud would not have been quite so eager to remedy the defect had he not at the same

time discovered that the very same cause which hindered farmers in their calling also seriously inconvenienced the local banks. There was a great "draw" of money in early spring, which emptied the tills. Then, in August, there succeeded a general scramble, money coming in and going out, causing a great deal of trouble and bringing in very little profit. And in October and November in poured the money realized on the market in huge, unmanageable masses, to embarrass the banks with a plethora all through the slack season. A little ingenuity enabled him to set the matter right and kill two birds at one blow. The better to push his scheme he became a member of several agricultural societies, and so secured opportunities of explaining his plan at farmers' meetings. To farmers known to his bank he was willing to advance whatever money they might require for the purchase of stock, on their acceptances only, backed in every case by two other good men, for three or four months, with one renewal for the same term allowed as a matter of course, at one per cent. above bank rate plus a trifling commission. Farmers not personally known to the Bank of France were required to send in their acceptances through their own local bank, backed by that establishment and by another person besides, and they would be served for the same term at a fixed rate of 6 per cent. That meant, that for the very time for which graziers wanted money, to buy, fatten and sell two lots of beasts,

they would be supplied with it at a moderate rate of interest, enabling them to earn an additional profit. Farmers were not slow to turn this offer to account. The new practice spread, and in a little time became an undoubted success. When ten or eleven years after M. Giraud was promoted from his managership to a higher post at Marseilles he found that in the way indicated he had lent out in all between 130,000,000 and 140,000,000 francs, netting the additional one per cent. interest on behalf of his bank, and putting, as he himself estimates, not less than 25,000,000 francs — £1,000,000 — into farmers' pockets. And the transaction proved perfectly safe. Only in one instance did M. Giraud's bank suffer any loss, and then it was by his own fault. He had failed to satisfy himself that the borrower's rent had been properly paid. As it happened, the borrower was heavily in arrear. And so, very naturally, the landlord swooped down by distraint upon the cattle, representing £2,000, seizing them at the expense of the bank.

Here is an instance in which, however poorly agriculture might have paid before, a little ready money clearly enabled it to better its position. It is not a solitary case. Similar illustrations might be cited from other countries, more particularly from Germany. But it has been selected because of all others it ought most to come home to our own farmers, who, in the alternations of wet and dry summers, not rarely suffer by causes

very similar to that which M. Giraud succeeded in removing.

But why go so far afield? Every county of our own can furnish examples which make it abundantly clear, not only that additional money might be profitably employed, but that, indeed, additional money—to be employed, of course, with skill and judgment—is *particularly needed*. Why is co-operative supply, in which there is in reality a mint of money for the farmer, still practised so very sparingly in this country for the benefit of agriculture? There is no question about its profitableness, alike as regards price and quality. Taking the kingdom as a whole, the annual saving, if it were adopted, might amount to millions. My own experience with regard to this matter will supply an answer to the question. It is that which really sent me abroad tramping from bank to bank, from the Pyrenees to the Russian frontier of Poland, and southwards into Italy, studying a variety of systems, which, differing considerably among themselves in particular features, agree in bringing very welcome profit to farmers—among other things more particularly in respect of the specific practice referred to. Twenty years ago Germany, to state one instance, had no agricultural co-operative supply. We had some beginnings here, which were very encouraging. Our Agricultural and Horticultural (Co-operative) Association had begun work in 1867, and was already cheapening many a

farmer's purchases. And we had several county associations besides, more particularly one in Lincolnshire, enabling farmers to buy manures and other articles at low prices and of good quality, at a time when adulteration was still rampant and otherwise unchecked. There was not an issue of the *Journal of the Royal Agricultural Society* which did not expose some cases of very gross fraud. And only a very small percentage of the frauds actually practised found their way under the searching eye of the late Professor Voelcker. On the strength of these satisfactory experiences I repeatedly pleaded in the publication issued by the Prussian Minister of Agriculture for the introduction of the same economizing practice in Germany. It was all in vain. There was no money. Agricultural credit came in to provide it. And now a high authority, the Secretary General of the most important Union of Agricultural Societies in Germany, Dr. Havenstein, assures me—he told me so personally a month or two ago at Bonn—that in respect of agricultural co-operative supply his country has got altogether ahead of our own. The Raiffeisen Union of Agricultural Banks alone does business of this sort annually to the amount of £1,000,000, with a regular rise of £100,000, £200,000, £300,000 recorded every year. That is one item to be set down to the credit of agricultural lending. And it amounts to something considerable.

But let me tell of my experience in Sussex. The

same zeal for economy which had led me to plead for co-operative supply in Germany led me some ten years ago, when living in Sussex, to propose to farmers in that county a scheme for organizing agricultural co-operative supply. My suggestion was warmly applauded. But when it came to actual support farmers shook their heads. "You will never get these men to join you," said the late William Mannington, of Laughton, a typical East Sussex farmer of the best sort ; "they are every one of them on their dealers' books, and cannot get off."

Here was the secret which, revealed, supplies an answer to the question now under consideration. So far from not needing credit, our farmers are *actually using it wholesale*, pressing for it, seeking it where it can be found. In the face of this, who is there to deny that credit is needed? Farmers *cannot do without it*. And since the banks are closed to them they go elsewhere. Have they ever reflected in how much that same dealer's credit stands them in the course of a year? Next to usurer's it is the dearest and the least legitimate credit there can be. It is extravagantly costly, because it raises money in the dearest market to employ in the cheapest ; and it is wasteful, because it generally mulcts the borrower in quality as well as in price, and makes him dependent on his lender, more or less bound to do business for the latter's convenience, not his own. The farmers to whom I was appealing were, as my friend Mr. Mannington put it, tied by the leg. As it happened, they were at the

time agitating vigorously for a reduction of tithes, and taxes, and railway rates, and all the rest of it. They were perfectly within their right. But extraordinary tithes and taxes and railway rates between them did not cost them as much as this unfortunate dealer's credit, which could have been completely avoided if there had been a bank open to them at which they might have raised the money they wanted, as their brethren do in Germany, at about five per cent. If ever there was a case establishing the need of credit for agriculture here it is.

I have thus far spoken of the large farmer only, whom we specifically identify with "agriculture" as a calling. But, apart from the occupiers of hundreds of acres, is there not the "small occupier"—the allotment holder, whom special legislation is wisely doing its best to multiply? And does not he want money? We give him the temporary use of his land—the bare land. What is he to do with it? There are advisers in plenty to make suggestions. He is to grow vegetables, grow potatoes, keep his little dairy, or his poultry yard, which some cramming farmers have shown that he can turn into a little gold mine—"raise that £38,000,000 worth of produce, apples, milk, potatoes, for which we annually send our British money abroad," suggests one well-known peasants' friend in a leading review. Aye, but how? He may do it, and, please God, he will. But not with his hands and his spade alone. To raise that produce he

wants implements, manure, seeds; he wants his cow, his pig, his poultry. None of these are to be had without money. Give him the use of these things, and he may be relied upon to make good his position and to justify the confidence placed in him. Deny them him, and you will make his course exceedingly difficult. That cow is a most valuable auxiliary to work with, "repaying its own price out of its milk, and leaving the calf as net profit," says an Italian report. But it is a hard thing to work up to. Our own small peasantry are not inferior in resource and industry to those of the Continent. In 1885 "three acres and a cow" sounded to many like a mockery—a promise of the moon. I remember walking with a parish clergyman near what was then my little town in Sussex.

"Three acres and a cow, M—," he shouted to a small occupier, whose cottage and holding we passed; "you're going to have three acres and a cow, if you'll only believe it."

"It's just three acres I have, sir," was the prompt reply.

"And how about the cow?" taunted the other.

"I've got seven, sir."

Everybody in the neighbourhood knows how well M— makes his seven cows to pay, in a small way, by thrift and care and application. The little town supplies a market for milk, and so he can afford to buy fodder.

For a small occupier and his class the question of

agricultural credit—cheap, easy, accessible credit—is a question of success or failure, of realization of the hopes with which we give him his allotment, or of disappointment. And behind the small occupier stands the small village tradesman—indeed, anyone who works and trades in the country. To everyone of these credit would be a boon. Many of them now purchase it, like our friends the farmers, where it is extravagantly dear, though its cost is not fully realized. And the classes socially above these men know well that what concerns the humbler strata concerns themselves. Poverty means rates. A needy population means bad markets for land and farm produce, as for clothes and boots and other staple articles of trade. There is no need to urge landowners and farmers to understand this, because they are generally alive to the duty which they owe to their neighbours. Agricultural banks may teach them how to spare their purse while doing the same good as, and more than, before. But in any case the welfare of the poor rural population, the supply of their needs—which include credit for profitable employment—in a legitimate and honest way, is a matter of direct interest to those who look to these men for work, as they in their turn look to the others for such fair support as one man can give to another. Legitimate credit for small occupiers and village tradesmen is, therefore, as fully a question for landlords and farmers as the larger credit which is to assist the latter. •

The case for agricultural credit is, indeed, extremely

strong. Agriculture is at present the only calling which has thus far failed to benefit by the large growth of available capital accumulated in the country. And accordingly it is the only industrial calling which has stood, one may say, completely still. In comparison with all other industries agriculture, once our peculiar pride, the pattern set up for other nations to copy, is backward—economically backward, however fine beasts it may send to our great shows, and however fine crops hobby-riding gentlemen may raise on their model farms.

No doubt agriculture would not so long have remained the Cinderella of trading capital if the question of agricultural credit had not presented itself as complicated by two peculiar difficulties which it has hitherto passed the wit of man in this country to overcome. In the first place, to be of any use to agriculture, which turns over its capital very slowly—rarely within less space of time than a twelvemonth—credit granted to cultivators must be granted for an unusually long period—which means, in addition to locking up the money for an inconvenient length of time, a material increase of the risk incurred. The trader is satisfied with a three or four months' bill, because three or four months will suffice him to earn his money back; to the farmer, in ordinary cases, three months' credit must mean a snare rather than a help, inasmuch as he cannot possibly make the outlay repay itself within that period, and will, accordingly, after a temporary accommodation, find himself compelled to

draw upon other resources—therefore, to embarrass himself. Suppose that he borrows money for the purchase of manure. The loan will not bear fruit till the crop raised upon that fertilizer is sold. Suppose that he buys store stock, or puts the money into some permanent improvement, plants hop grounds, or orchards—he will require a very much longer time to recover his outlay. Therefore agricultural credit, to be a real help, must be a matter in some cases of years. It may be said that agriculture in this respect really falls between two stools, either of which would afford comfortable sitting room. For the working, earning capitalist, who wants to have his money always ready for realization, his time is too long. For the idle capitalist, who seeks only an investment, and does not wish to be troubled with repayment, it is too short. So it stands, like Tantalus, between alluring fruit and tempting water, and cannot touch either.

In the second place, for a credit corresponding to trading credit, a credit to work with, the agriculturist has no security to offer which, as matters stand now, a banker could recognize or lend upon. What is the allotment holder to pledge? He has, indeed, really very good security to offer, not only in the way of “character.” For, unlike the larger farmer, he brings his outside work, which is paid for in wages, to the credit market, as well as the cultivation of his own plot. There is, therefore, double security. But what banker

or capitalist could lend upon that—except in those rare cases in which the borrower is personally known to him as an honourable man? The larger farmer is really not much better off. For whatever capital he calls his own is generally sunk in his holding. He may be virtually in debt to his landlord from the outset, or he may be likely to become so. So there is nothing left to pledge—for his borrowing in time of need on standing crops and on his general solvency we have already taken into account and found insufficient.

That leads us up to the real problem involved in the question of agricultural credit. Too much stress cannot be laid upon it, because its perception will make the case to be dealt with perfectly clear, and any misapprehension upon this score is likely only to lead to failure, as it has invariably led to failure before. What first catches the eye of people coming fresh to the consideration of the subject is the large sums of money raised to satisfy the credit demanded. Or else, if they do not yet know of the results obtained, they are even all the more likely to look upon the question as one merely of money. The money, they think, the large sums to be lent out, must be found first, or else there can be no credit. That is putting the cart before the horse, as various bodies attempting a solution of the problem by this means have found out to their cost—the Governments of France, Belgium, and Italy, and sundry other capitalist bodies in all countries of Central Europe,

all of whom have made more or less shipwreck of their enterprises by providing the purse first before there was occasion to use it.

The question really is not one of money at all. Money is always to be had. It is a standing commodity in the market, and is always obtainable at its own price. When not wanted, it is nothing but an encumbrance, a white elephant, a dead weight, which has sunk more than one credit institution. Money is not to be kept without cost. To lay up a store without use is to act over again the part of that foolish nobleman who, in order never to be without £1,000 in cash, for economy, borrowed that money at usurious interest from a money-lender, and so embarrassed himself instead of bettering his position, as he had intended. Like water and fire, money makes an admirable servant, but a most inconvenient master. Lay up a store, and you will be tempted to employ it in risky enterprises—the very danger which of all others agricultural banks must be careful to avoid. Agricultural banks must have the power of *commanding* money, of course, but not the actual possession, until the cash is wanted. In other words, the question is one of *security*, because security is the price for which money may always be bought. Provide your security, and you will be able to raise what money you want. Miss the security, and, however promising a start you may make, you will soon find yourself run aground. The foreign agricultural banks, with which it is here our

business to deal, experience no difficulty whatever in raising the money which they require. There may be some little trouble at first, before the system is properly understood. But once the work has been got into its proper groove, their credit works as smoothly as that of any well-organized ordinary bank.

The question, therefore, resolves itself entirely into one of providing security where at present there is none that is recognized in the market. In other words, the office of agricultural credit institutions is, as brokers and middlemen, to procure credit for those to whom, under existing circumstances, banks could not lend, because they have nothing that is bankable to pledge—to bridge over the great gulf fixed between Capital and agricultural Want, by devising some new method which shall make credit accessible to those who now stand helpless on the other bank.

This definition of the task to be performed ought to reassure any bankers—if such there are—who apprehend that agricultural credit banks come into the field as foes or rivals designing to take bread out of their mouths. Really they come on the scene as existing bankers' best allies and auxiliaries, prepared to break new ground for them, and to enlist new recruits for the conquest of territory which could otherwise not be made tributary to their sway. Whatever grist they provide will inevitably come to the old mill. Their object is not, to become great repositories of cash, nor yet great profit-earning

machines. Trading for profit lies—or ought to lie, in their own interest—altogether outside their proper sphere. Their first duties are: to avoid risk, and to abstain from enhancing the price of their own commodity. Their aim accordingly cannot be profit in the ordinary sense. Their object simply is to make the capital already in the market accessible to those to whom at present it is not so, and to make it accessible at as cheap a rate as possible. It is quite true that they may be expected to keep a good many savings in their own district, without allowing them to be absorbed into the great monetary “wens,” to use Cobbett’s phrase; to keep money to fructify where it was raised. That is an incidental service of very considerable utility. There are some agricultural banks abroad which obtain actually all that they require in this way. But, generally speaking, for one pound which they keep back from the general market, these banks provide new borrowers for two or three. In Italy, in Germany, in Belgium, in France, accordingly, there is no jealousy whatever evinced, on the part of bankers, towards agricultural credit institutions. There was some at first in Germany. But now the two powers are as friendly as elsewhere, and the ordinary banks are only too glad to open credit to agricultural banks. In France, the Bank of France discounts their bills. In Belgium, the National Bank does the same thing. In Italy, from the outset the ordinary banks and savings banks have proved the

readiest and steadiest supporters of Agricultural and People's Banks. Some of the principal leaders of the movement are bankers. One Italian bank actually offered to find four-fifths of the capital required for a number of these new banks to be established *in its own district*. Why should English bankers be less keensighted, or less alive to their own interest? There is no reason to believe that they will. Country bankers are certainly not likely to play the dog in the manger—because a good many of them have suffered pretty severely during the depression by the default of agricultural borrowers, and will accordingly be glad to have in future a solvent body to stand between them and those doubtful customers, shielding them from harm. That is just what agricultural credit institutions were intended to do, and what in practice they accomplish.

The question is, how to do it? Signor Luzzatti, the founder of the Italian "People's Banks," supplies an answer in saying—By the "capitalization of honesty." To a person new to the subject that sentence is likely to sound just a little oracular. Put in more popular language it means, that some method has to be devised which ensures honest repayment, which *makes it the borrower's interest, or even actually compels him, to be honest.*

The point is important. For, as has been said, in creating agricultural credit we have nothing to do with ordinary security, which is already in a position to pur-

chase its own measure of credit. We want to go down to the very bottom of the scale, to help the very poorest—so long as we can satisfy ourselves that he is honest, and has the opportunity of employing the money which he borrows in some enterprise promising to repay the loan with interest. We must not shrink back even from extreme cases. It is the peculiar glory of German and Italian agricultural banks that they have stooped down to very bankrupts, rescued them from the jaws of selling up and ruin, saved them from the usurer closing his grasp around them. In hundreds of cases have they done this, helped the man who gave himself up for lost, seized his impledged property, sold it at a fair price, and returned to the supposed bankrupt a little remnant with which to creep up once more to independence and competency. So long as there is one shred of solvency left, so long as that field, if well manured with the help of borrowed money, may be counted upon to return the outlay incurred with interest, or that cow to repay the loan out of its milk, or that pig out of its fattening—provided that the borrower can give pledges of his trustworthiness—these institutions ought to be able to help. In the case of small cultivators it is often a very trifling sum which will suffice to turn the tide and lead it back from the direction of ruin into that of prosperity. In some of the cases on record in Germany and Italy—cases which I have traced on the spot, affecting people whom I have seen and spoken to—the first help given

was, according to our notions, almost ridiculously small. The borrower could not at the time be trusted with more. But that £4 or £6 which was supplied to him just in the nick of time has enabled him to stave off the evil day, to extricate himself to some small extent from the toils of usury ; it has given him the fixed spot which Archimedes asked for—though it were a mere speck—to enable him from that firm standing ground to “ move the earth.”

Little was enough. But that little must be secured—under circumstances which made security peculiarly difficult.

The work has been accomplished with the help of combination. Combination is, of course, the only force equal to the task. A cluster of men linked together by one common bond, bound with a common liability, both offer better security to the lender, and, at the same time, as it happens, supply more effective means of checking the borrower, than would be provided where individuals act as units. The struggling small peasants of Spain and Portugal understood this, when, as a means of cheapening their very frequent borrowing, they converted their families, so to speak, into joint-stock companies, resting on a wider basis, and endowed with continuity—in one country by means of the *compania gallega*, in the other by the *sociedade familiar*. With such a body the money lender could deal on more liberal terms than with an individual who might die or

abscond, because it offered him better security. And what gave him better security, at the same time, as it turned out, brought into play a new and very potent productive force which had probably never been looked for, but which in the event proved of material benefit. The new arrangement established gave to every member of the family a direct interest in the common holding, and accordingly a direct incentive to thrift and industry in cultivating and improving the property. The lad or girl who had previously thought only of spending the *centimos* which they could secure as pocket money on finery, trinkets, humble delicacies, and other materials for enjoyment, at once became active fellow-savers and fellow-workers with their father for the good of the little estate. Liability-sharing was shown to mean at the same time profit-sharing. And profit-sharing meant better work, better economy, better watching of the common interest. Even in its very first and rudimentary application, then, it became clear that co-operative credit must by a natural connection of interests mean also incentive to thrift. Thus are the two most potent factors of production and prosperity linked together, both springing from one seed. And that is, put into brief words, the whole principle of co-operative credit.

But for a convincing example of the power for good inherent in co-operative credit there is really no need for us to go into the Spanish peninsula. We have a very telling and more familiar instance of the same thing

present for our observation in our own isles. Scotland possesses since 1729 its indigenous form of co-operative credit—co-operative credit in its infancy, it is true, and therefore partial in its effects—but strikingly effective so far as it goes. The Scotch “cash-credit,” of which economists have so much to tell, and which, according to Mr. Macleod, has “in the space of 150 years raised that country from the lowest state of barbarism up to its present proud position,” is in its essence nothing but co-operative credit—only little developed and applied in a very middle-class way, but none the less co-operative. It is the linking together of the liability of three or four men—as a rule, one borrower and two sureties—liability all personal, which assures it. By this simple means millions and millions of money have been made available with the best results for industry, commerce, and agriculture. “The far-famed agriculture of the Lothians, the manufactures of Glasgow and Paisley, the unrivalled steamships of the Clyde,” says the same writer, already quoted, Mr. Macleod, “are its own proper children.” “I can give you an illustration,” says another authority, Mr. Fowler, an English banker, speaking in the course of a debate at the Bankers’ Institute, in London; “a friend of mine was travelling in one of the northern counties of Scotland, and there was pointed out to him a valley covered with beautiful farms. My friend was an Englishman, and his companion, who was a Scotchman, pointed down the

valley and said, 'That has all been done by the banks,' intimating his strong opinion that but for the banking system of Scotland (the cash credit) the development of agriculture would be in its infancy compared to what it is now."

All this is the result of co-operation. And it demonstrates, as it happens, in germ, not only the *power*, but also the *safety* of co-operative lending, and makes clear its most essential principle, which ensures that safety. "It rarely, indeed, if ever, happens," says Gilbert, "that banks suffer loss by small cash credits." For an explanation, let us look to the evidence given before the Lords and Commons Committee of 1826:—"Any person who applies to the bank for a cash credit, is called upon to produce two or more competent securities who are jointly bound, and after a full inquiry into the character of the applicant, the nature of his business, and the sufficiency of his securities, he is allowed to open a credit."

"This system," says the Report of the Committee, "has a great effect upon the moral habits of the people, because those who are securities feel an interest in watching over their conduct; and if they find that they are misconducting themselves, they become apprehensive of being brought into risk and loss from having become their securities; and if they find they are so misconducting themselves they withdraw the security."

Here are two important elements of security indicated

—establishment, by inquiry, of the borrower's trustworthiness; and control of his action of employment. There were at that time about 11,000 cash credits outstanding, collectively for about six millions of money. In addition to the 11,000 borrowers, there were, as the evidence points out, between 30,000 and 40,000 persons liable for the loans, acting as checks and controllers:— 30,000 or 40,000 pairs of eyes directly interested in the case, watching the borrowers on behalf of the bank; 30,000 or 40,000 tongues to remind them of their duty, and warn them if they threatened to go wrong. That explains the whole satisfactory working of the system. Here are the two main pillars of co-operative credit recognized, *joint liability* and *individual checking*. The sureties become an intermediate body between capital and want, helping the latter, but also effectually safeguarding the former.

Cash credit, as observed, is a very middle-class, and halting kind of institution. It does not stoop down below a stratum separated by a considerable distance from some of the classes whom we now desire to benefit—for example, small occupiers and allotment holders. The tenant whom it has benefited was a tolerably substantial farmer. "In the Scottish system of farming," says Mr. Macleod, explaining the way in which cash credit assists agriculture, "leases almost universally prevail, and a farm is not entrusted to the hands of a man who is not thoroughly educated to his business. He usually

enjoys nineteen years' security of tenure; or, where leases are granted for the purpose of reclaiming land, they are frequently longer than that. Now, supposing a farmer who is known to be active, skilful, and industrious, obtains a farm upon lease, he may go to the bank, and upon the security of his lease and some friends who become bound for him, the bank grants him a cash credit. He accordingly is able to invest the whole of his own capital in improving the land, and obtains any temporary advances he requires to make immediate payments with, from the bank. When the harvest is gathered he repays the bank with interest, makes a profit for himself, and adds to the capital of the nation."

This is very good, only it does not go far enough. Now that agriculture is under a cloud, and nineteen years' leases are going out, it is to be feared that cash credit does not do nearly as much for Scotch agriculture as it did seventy years ago, at any rate proportionately to altered circumstances. But these are just the times when help is particularly needed. Scotch cash credit, moreover, has never helped the *small* man. For it rarely places less than £200 at any one borrower's command. There are some cases of £100, and a very few of £50 credits. That minimum is the *very maximum* which the English law allows us for our Small Occupiers' Credit Societies. Small occupiers do not require £200. A ten pound note here, a twenty pound note there, a five pound note in a third place, are generally quite sufficient for their

wants. The insufficiency of cash credit is moreover proclaimed by its own failure of growth. There are no statistics that one could quote. But a high authority only the other day named as the probable total of credit granted the very same amount at which the total stood in 1825, that is, £6,000,000. In Scotland itself the insufficiency of cash credit is recognized. This is what a writer in *Chambers's Journal* said as recently as in 1893:

“There is a great blank, or want of intermediate Banks, between the large Joint Stock Banks and the Savings Banks. We have no Banks to correspond with the People's Banks of Germany, or the moderate sized National Banks of the United States. There is a large, industrious and respectable class of small-farmers, tradesmen, shopkeepers and others who are left out in the cold. There should be popular Banks and banking facilities provided for the numerous classes of small customers who require a Bank to deposit their savings in, and at the same time to turn their little money to the best account; also, on the other hand, to accommodate those who may want to borrow small sums occasionally for stocking their farms or their shops.”

But extend the application of this same useful “cash credit.” Multiply sureties, give a wider scope to its entire action, popularize it, in the words of M. Léon Say “democratize” it, open its gates to the poor, strengthen it by the enlistment of large numbers—and you produce a force at the same time of very much wider utility, incomparably greater security, and far larger beneficence.

and also more active as a checking and controlling power and as an educating agent—so to speak, producing and propagating, by the enlistment of self-interest, that “honesty” which Signor Luzzatti desires to see “capitalized.”

That is what agricultural banks attempt to do. And it will be seen that to a large extent they have succeeded in accomplishing it.

It will be well now to cast a look around and take stock of what has been done abroad, by what various methods the principle, more or less the same throughout, has been carried into effect.

In substance the most elementary form, though in practice the most complicated, is that which some well-meaning persons have devised, mainly in France, as a matter really more of charity and patronage than of self-help. It takes some time for the natural man, who looks at the provision of money as the main object to be attained, and regards farmers and peasants as persons manifestly incompetent to help themselves, to rise to a proper appreciation of self-help. A reference to this organization seems the more called for, since well-meaning people among ourselves are so very apt to think in the matter exactly as the Frenchmen, and Belgians, and Germans responsible for this particular system have thought, and to presume to act the condescending Little Providence by the people whom we wish to benefit. The

most encouraging feature about the practice to be spoken of is, that it exhibits the inborn honesty of the rural occupier in a very clear light. The originators of the system looked at the problem as a question mainly of money. It seemed to them a self-evident proposition that if money was to be loaned away, a fund out of which it could be loaned must first be created. That is an idea, one feels tempted to say, worthy of a past generation—were it not that so many people in England addressing themselves to the same problem, without previous study of co-operative credit, appear to argue in precisely the same way. To this old-fashioned system France is beholden for the break-down of its great “Society of Agricultural Credit” endowed with a million, and bankrupt by its own excessive resources; Belgium for the failure of its *comptoirs d'escompte*; Italy for the failure of its “Agricultural Banks;” and Germany for the inutility of credit societies established by such well-meaning monarchs as the late Duke of Saxe-Coburg-Gotha. To this old-fashioned system we are beholden for the narrow limits to which lending is perforce restricted in our own Loan Societies and Self-Help Societies, and for the large idle cash balances, of £500 and £900 in not very large societies, which embarrass the best managed of these bodies.

Keeping in view the assumed primary necessity of creating a fund of ready cash, the originators of the system ranged their members in two classes—on one

side the rich, who must take up large shares, if possible many of them, as a matter of generosity, in order to provide the money, pledging themselves *not* to borrow, but reserving to themselves the entire management of the concern ; on the other the poorer folk, the tenants and peasants who were to benefit by the fund, to receive interest on the deposits which they were invited to make, to be entitled to borrow, who were required to take up only very small shares (in one case none at all), but who must also forego all part in the administration of affairs. In some cases a rich patron would simply become guarantor for the society of tenants, making himself answerable for what they might borrow. (We have a similar case on record in this country, but it has not been pushed very far.) In another instance a wealthy proprietor has lent to his society, at Genlis, effects to the value of £480, which they are allowed to use as security.

The most successful experiment on this ground is that of the Agricultural Syndicate of Poligny, in the Jura, where a well-to-do and very philanthropic banker and timber merchant, M. Bouvet, has placed his own office and staff of clerks at the disposal of the credit society founded by himself, making himself at the same time answerable for interest to be paid on deposits received, originally at the rate of 4 per cent., but since some time at the rate of 3½ per cent. M. Bouvet procured his working capital by placing shares of £20 each in the

hands of rich men, some of whom took a number ; and small shares of £2 each in the hands of such peasantry as he could induce to join. There is an unmistakable want of "trust in the people," and trust in self-help, a halting and half-heartedness in all this, naturally bound to impair the success. The system fails to evoke that most necessary foundation of all self-help, a sense of responsibility, which is only to be awakened by a share in the management and liability. There is so much of a gift and of condescension in the system, a deliberate keeping classes apart, instead of drawing them together. The whole thing presents itself as a palpable miss of a good aim. The best that can be said of it is, in M. Levasseur's words, that it represents "the infant germ" (*molécule germinative*) of sound agricultural credit, for which, indeed, it has proved a very serviceable preparative. Very properly is the "Mutual Credit Society" of Poligny now transforming itself into a cluster of "Agricultural Banks."

But, as a first result, it is astonishing how much good this imperfect system has proved itself capable of, in spite of all its defects. The Syndicate of Genlis, which was allowed the use of the £480 worth of bonds to pledge, managed in the first eighteen months of its existence—as a rule by far the least fruitful period—to raise by such means £1,212 for the use of agriculture. And not a penny has been lost. The Syndicate of Poligny has, within nine years, lent out, on the strength

of £800 subscribed, £38,000 in all, beginning with £200 in 1885, and going on to £8,480 in 1892, and £9,980 in 1893, likewise without ever losing a penny. And all this has been done without any resort to constraining methods or penal clauses for enforcing repayment. There was nothing but the bill-of-exchange given, which the Credit Society had no difficulty in passing on for re-discount to the Bank of France. Hence the multiplication of the amount. But the people have shown themselves honest by nature. And the bill has made them prompt.

That is only what has been experienced in many similar experiments in various countries. It is a libel to say that the agricultural borrower, even the small occupier, is not to be trusted. "The peasant may be tardy in his payment," says M. Garreau, of the French Council of Agriculture, in his review of earlier attempts at instituting agricultural credit, "but once his sense of responsibility and honour is aroused, he is sure to pay." The French "Society of Agricultural Credit," though making itself deliberately bankrupt by its reckless lending to the Khedive, has not lost a penny by its loans to farmers or small occupiers. The German and Italian "Agricultural Banks" know of no losses.

But there is another side to the question. The peasant of the Jura, if repaying promptly, has, on the other hand, shown himself slow to deposit savings with these patronizing societies. In the place of ten and eleven

times the amount of the share capital, of which other co-operative banks can boast, the Credit Society of Poligny had up to last year not twice the amount to show, and even now its deposits have not risen above three times the figure of the share capital. As an incitement to thrift, therefore, these patron-ridden societies cannot be said to have fully answered their purpose. But without doubt they have proved a useful beginning.

There is a much more perfect system in practice in Germany, Italy, and Belgium, which does already not a little for agriculture, and is capable, where there is *some* money to work with, of doing a considerable deal more. In its greatest simplicity this system is to be met with in Italy, embodied in the "People's Banks" organized by Signor Luzzatti. It is quite true that these banks at present render far greater services to industry and commerce than to agriculture, but not without to some extent benefiting the latter also. The reason why they do not benefit it more is really not far to seek. Commercial and agricultural lending coupled together make very unequal yoke-fellows. Commercial lending moves so very much faster. But, were this system applied to agriculture alone, for the use of a constituency recruited from moderately endowed classes, there can be little doubt that it might be made productive of good.

Signor Luzzatti bases his system on shares—which have to be paid up within a comparatively brief time,

but which carry no liability beyond their own actual amount—and upon a practice of lending on bills-of-exchange, which makes the small capital capable of expansion by re-discount. Under good management, which is a condition indispensable to success, and which makes sure that money is lent only to properly qualified persons, Signor Luzzatti finds that a comparatively small capital will suffice to procure a considerable amount of credit. In 1890 (the last year for which official returns have been published) his banks between them commanded a paid-up capital of £3,703,036 (without counting the reserve); and by means of that sum they lent out £10,812,952. That is a falling off, proportionate to a decline in business generally, as compared with 1889—in which year the banks lent out £11,437,476 on a smaller capital. Even so the practice of these banks, grouped all together, gives no idea of what banking of this description may accomplish under tolerably favourable circumstances, because the average is produced by grouping weak banks together with strong. The Bank of Milan, to take one example, lent out in 1892 upon a paid-up capital of £336,752 no less than £4,601,616. And there are more which have done about equally well.

The system really is simple enough and ought to be readily intelligible. The bank raises a share capital which under efficient management safeguards creditors against losses. On the strength of this capital it attracts further funds by the issue of bills and long-term bonds,

and by the receipt of interest-bearing deposits. The lending is all done on acceptances, bills-of-exchange, which possess several distinct advantages for the purpose. In the first place, they bring home directly to the borrower his own liability to repay. *He* is the person from whom in the first instance repayment will be demanded. Should he make default, others will be liable, but he will suffer exposure and discredit. In the next place, bills form a most convenient record of a transaction, complete and perfect in itself. And, lastly, being negotiable instruments, they will always serve the bank as a means of procuring more money, should it be in want of such, generally at a profit, since its own credit may be expected to stand higher than that of its customers.

The great secret of the success of this system lies in the care employed to make sure that no bad debts are incurred. This is done, above all things, by keeping the constituency to be lent to "well in hand," confined to a manageable district. Excessive watching of one customer by another is not required, but still there must be a general touch, and knowledge about one another, among the members. Of course lending is only done to members; and, equally of course, members are made to pass the test of election. "The best and safest guarantee of prosperity," says Signor Luzzatti himself, "is the moral worth of the members. The very life of co-operation is bound up with the moral worth of members; and the

more it is assured by strict guarantees, the more readily will money flow into our banks." Election of members is one such guarantee. It has helped some of the Italian People's Banks to acquire a "high reputation for honesty and solvency" (*grande riputazione di onestà e di solidità*) which makes it something of a distinction to belong to them. However, in this respect moderate care is sufficient. The bank has its money from the member and requires no more, in the way of value, until he becomes an applicant for a loan. Then a new question arises: how far is he to be trusted? As a rule Italian and Belgian banks prepare what they call a *castelletto*, a list carefully compiled, and checked from time to time, which is kept strictly secret, and which shows how much every member is considered "good for," how much the bank will be justified in lending him on his own personal security only—subject, of course, to a periodical revision of the estimate. If A. is put down as "good for" £100, B. for £200, and C. for £300, the three may combine to claim jointly £600 without further inquiry. Should any one of the three desire more than his own quota, his case will be inquired into. It is becoming very general to ask for a specification of the intended employment of the loan. At any rate the Committee will want to satisfy itself that the loan is asked for legitimate trading purposes, not as a mere accommodation. And according to his own supposed solvency the applicant will be called upon to produce

security, that is, generally speaking, *sureties*—one, two, or more—though lending is also occasionally done upon “bankable” effects—bonds, shares, and other convertible pledges, the retention and realization of which would not embarrass the bank. Mortgages are not considered a desirable security, unless it be merely in addition to the personal security given. They lock up the money inconveniently, and may lead to serious inconvenience and loss. The recent temporary stoppage of payment of the People’s Bank of Genoa, when in a perfectly solvent state, was entirely due to its unwisely burying about 2,000,000 lire in such inconvertible real securities. The main security passing current will always have to be personal, which, indeed, is, in the opinion of so high an authority as M. Léon Say, one of the main recommendations of the system.

There is no occasion here to enumerate all the various uses to which this system may be, and in fact has been, put—the facility with which it adapts itself to almost any kind of lending, how it has enabled co-operative banks to spread relief funds (collected for the assistance of people in flooded districts and entrusted to their care) over exactly *four* times the space which by direct distribution they would have been capable of covering—it is true, by loan only, but by loan repayable in very easy instalments, which makes £4 lent even more welcome to the recipient than £1 given; how it has been made to render assistance to the poor by means

of the "loan of honour," a loan granted, practically out of surplus funds, without any security whatever, half as a charity, but nevertheless involving little loss. We are not now contemplating such work as this. But, in passing, at any rate, it ought to be noted that these banks have rendered admirable service as popular savings banks. In Italy they hold at the present time probably not less than £10,000,000 of savings. And, as I have ascertained, all this—or most of it, at any rate—represents saving over and beyond what the ordinary savings banks have been found capable of attracting. I have asked the question point-blank of managers of savings banks, and they have brought out their books and showed me by figures that their own takings suffered no diminution whatever after the People's Banks had been established. The People's Banks accordingly may be taken to have supplied a new want.

The advantages of the system of banking here referred to are evident. Every member knows exactly what he is liable for. The bank, being secured, may draw its district within moderately wide bounds. All is got ship-shape and into commercial order. Regular and frequent publication of balance-sheets will satisfy the outside market. The only danger is, that unless protected by safeguards, the institution may become *too* commercial, more bent upon profit than upon providing cheap credit. Signor Luzzatti has long since himself discovered this peril and endeavoured to guard against

it. "We have been too successful," he himself admits, reviewing the results of earlier years; "there is less danger in occasional losses than in excessive profits." Very naturally so, because large profits estrange the institution from its true purpose. Accordingly, now Signor Luzzatti insists upon economy in expenses (recommending, in the main, *gratuitous* services by the Committee and officers), limitation of dividend, and corresponding strengthening of the reserve fund. "Remember," he says, "that you were formed to provide cheap credit, not to make a profit."

The drawbacks to the system are, that it cannot stoop very low, except in the way of charity. The poor, such men as our small occupiers, really lie beyond its reach. Moreover, the system, as now practised, is based mainly upon *short* lending, which is of little use to agriculture. The bank has a small capital to work with, and has to make that suffice by turning it over and over; its desire is to keep it perpetually "rolling." That is all commercial and town work. Nevertheless in all the countries in which it has found a footing, this system has to some extent been made serviceable to agriculture. In Italy, Signor Luzzatti has met the difficulty with respect to length of time by introducing special long-term "agricultural" bills, which run for a year or more, and which other bankers have always been found ready to take up, though not with the same readiness as short-term bills. The Italian "People's Banks" cannot, it is quite true,

themselves boast of very much agricultural credit dispensed. They lay themselves out more for commercial credit. But they have taught other credit institutions to dispense it, more particularly the Italian Savings Banks, which are not required, like our own, to pay all their moneys over to the National Debt Commissioners, but are free to place them out where they may fructify. We have no such institution. Therefore, if we want the work done, we must create co-operative banks to do it. The Savings Bank of Bologna alone, according to its last annual return, has always in circulation something like £82,656 of agricultural paper, on the strength of a capital of only £40,000 devoted to this purpose, in addition to £2,120,000 mortgage credit. The official return issued for 1890 shows that at the end of that year there was in Italy £1,132,616 outstanding in agricultural loans, and that in the course of the year £5,965,572 had been lent out. Most such loans were of small amount only—1,072,200 of 24s. and under, 480 of from 24s. to 32s., 1,412,300 of from 32s. to 40s., 3,171,300 of from 40s. to 80s., and 105,600 of from 80s. to 160s., and 250 of higher amounts. So this lending represents in its aggregate, a great deal of good done to small occupiers. Signor Luzzatti some years ago declared that his banks, catering for agriculture only by the way, had lent out £3,200,000 in agricultural loans.

There can be little doubt that by some modifications this system might be made very serviceable to agricul-

ture. It is now the commercial business which keeps back the agricultural. Things would be otherwise if the two kinds of business were kept apart, if agriculturists could be brought to form their own lending banks. In addition to passing on agricultural bills for discount, like Signor Luzzatti's, agricultural banks of this description might add to their funds by long-term interest-bearing bonds, issued for one year, two years, or five years, and paying a rather higher interest—and moreover by using their own credit, banking their own bills instead of those of their constituents, to procure money. Their customers' long-term bills would not, moreover, be all coming in and going out at precisely the same time. That it is which enables a non-co-operative agricultural bank in Spain, the Agricultural Bank of Segovia, to practice seven and eight years' lending. It finds that the longer the lending (above one year) the better does it admit of a distribution of business. So in the specifically agricultural banks here contemplated there would be a continual turning over of funds, a movement altogether corresponding to the present (though requiring a larger capital) for whatever length of time particular bills might be issued.

By far the most popularly organized system of co-operative credit, and at the same time the most socially and morally educating, and hitherto the most useful to agriculture, is that which is practised by credit societies

bearing the distinctive name of "agricultural" or "rural" loan-banks, for which Germany is indebted to the late F. W. Raiffeisen, and Italy to his apt pupil, Signor Wollemborg. They are specifically formed to benefit agriculture, and they know of no property qualification whatever. Be a man as poor as a church mouse, if he can satisfy the bank of his trustworthiness and show a profitable employment within his reach to embark upon, he will be held entitled to credit. "I have examined many systems," writes M. Durand, a student of the question, "I have not found one which reconciles so fully the demands exacted by credit: security of operation and the social and moral requirements of rural population. I do not hesitate to pronounce the *Darlehnskassen* of Raiffeisen, the finest creation, alike from a moral and an economic point of view, which has ever been invented for agricultural credit." There is no one who has seen these banks at work who will not readily subscribe to this favourable judgment.

A few words appear to be due to a brief account of their first origin and their surprising growth. Co-operative credit was still altogether unheard of, when a famine carrying cruel distress over all the Continent of Europe first suggested the idea to an unknown philanthropist. Herr Raiffeisen was at that time a "mayor"—under the French law still prevailing in Rhineland—of a country district comprising some twenty-five villages in the inhospitable Westerwald, a

stretch of forest country not far from Neuwied. It was a poor country to begin with, in which the inhabitants managed to keep alive only by the greatest thrift, ekeing out a "being" rather than a "living" by the cultivation of their little patches of rye, potatoes and buckwheat. To add to their troubles, their district was, like the whole length of territory stretching from the Dutch frontier to the Swiss, and eastwards into Thuringia, afflicted with a peculiarly extortionate type of usury, generally carried on by "Jews," whom the wisdom of paternal Governments had forbidden to settle in towns. On the French side of the Rhine and in Belgium there are the "notaries"—there are about 11,000 in France alone—for the most part tolerably orthodox Christians, to take up the profitable trade. And across the Alps, usurers of a different kind levy toll in exactly the same way upon the rural population, with a refinement of rapacity which makes a little capital of £100 sufficient to support a man in comparative comfort. Theirs is a very old trade; for we read that as far back as 1430 the seignery of Florence called in the Jews to put a stop to Christian extortions. In the Eastern countries, Poland and Russia, the "Jews" crop up again. So the most productive part of the Continent is pretty well parcelled out between these greedy gentry. Their little expedients for pushing their advantage are everywhere more or less the same. Once they get a poor rustic into their power, he is said to be done for.

In Herr Raiffeisen's district, Flammersfeld, during the famine of 1846 and 1847, these men were driving a merry trade. One by one the little cottages, miserable property that they were, became pawned to the usurer. On the wretched cattle for the most part the usurers had their claim already; for most of it was bought on credit, or else merely "hired." The noose kept tightening round the poor people's necks. Even bread became a luxury for them. To provide at any rate that necessary of life, Herr Raiffeisen, with a little borrowed money, started a co-operative bakery, which enabled the people to obtain their bread at half-price. Delighted with the result, he pushed co-operation one step farther, and organized a co-operative cattle-purchase association. That organization dealt a telling blow at usury, but it did not vanquish it. At length, in 1849, Herr Raiffeisen started his first agricultural "Loan Bank"—without shares, without any requirement for money made upon the members. It seems a puny little thing now, to have given birth to a network of banks which has overspread Germany, Austria, Italy, and is fast pushing its way into France, Poland and Transylvania, and even into Roumania. For the whole of his three undertakings Herr Raiffeisen, borrowing money with great difficulty, raised something like £300. That little bank, started in 1849, having never demanded a penny from its members, till in 1889 it was constrained to do so by law, the other day, after lending money freely at cheap rates, for the

space of over forty years, found itself in possession of a reserve fund of £2,000. The system as a whole has sped as well. It is a general favourite with governments, clergy, philanthropists, and the rural population itself. It has no need any longer to beg. The Central Bank may any day draw on the imperial Bank of Germany. It represents a great economic and social power. There is scarcely a political or social body dependent upon the support of the rural population which has not in some way or other grafted its principle upon its own system. The ultramontane, hyper-Lutheran, and "high authority" Peasants' Associations of Germany have made it their own. The Bavarian Government is pushing its own little "particularist" union of banks. In Italy I heard that the papal Curia was seriously considering how the system might be pressed into its own service. "What do you mean by the Raiffeisen system?" asked of me some months ago the Secretary General of a Union of Agricultural Societies in Germany, presided over by Government officers. "That system has now become public property. We are all practising it." There could be no more conclusive testimony to its goodness.

But its first advance was slow. Herr Raiffeisen was nothing of a self-advertiser. He was content to labour within his own small sphere, trusting to the good work to produce its own propaganda. Few people heard of the new institution which was making life endurable in Flammersfeld and slowly encroaching upon the usurers'

domain as a promising earnest of a triumphal progress. Not till 1854 was a second bank established—the present Premier Bank, at Heddesdorf, close to Neuwied. Not till 1862 a third, not till 1868 a fourth. Under Raiffeisen's quiet, unassuming leadership things might have gone on longer at this snail's pace, had not rivals opportunely stirred up a violent hostile agitation, which in 1874 led to an inquiry by Royal Commission. The report was more than favourable. The Commissioners, very able men, owned themselves delighted with what they had seen. They had looked into the economic results of the system, and found it sound and safe. They learned that in the wars of 1866 and 1870, when everybody trembled for his money, people in the neighbourhood, fully satisfied of the security of the Raiffeisen banks, had pressed their money on them for safe keeping. They learned that local law courts allowed trust moneys to be deposited with them. They saw what a powerful stimulus the savings department had lent to local thrift, how local moneys kept accumulating, to be beneficially employed in their own locality. They learned from the peasantry how the banks had lent here, and lent there, had stepped in to save bankrupt men from ruin by usury, had done good in a humble, quiet way, in hundreds of cases where there was nobody else to do good, opening their doors to the very poorest, enabling him to earn more, and more securely. They had looked into the social and moral results. They

learned from local clergymen what a helpful, educating power this new banking system had proved to be. There was a parish priest frank enough to admit—what many others of his cloth have since repeated, alike in Germany and in Italy—that the local bank in his village had done more to raise the moral tone among his parishioners than all his preaching. They learned from a local judge that the banks had sensibly diminished litigation.

The reputation of the Raiffeisen banks was made. The late Emperor William, in token of his approval, forthwith presented £1,500 from his privy purse to their central reserve. Governments began to smile upon the system. The clergy took the lead in establishing new banks. The little group became a large network, with a Central Committee, Provincial Unions, a Central Bank to facilitate common work. In 1883 Signor Wollemborg transplanted the new system into Italy, where it was sorely wanted, and where it at once struck root and produced excellent fruit. The German Government in Alsace had been racking its brains how to induce the Alsatian peasants to use a form of agricultural credit, which with great ingenuity it had placed at their service. It had found about £100,000 of money lying idle in communal treasuries and savings banks. With great care it devised a scheme for turning this money to account. On paper the plan looked perfect—its author has been good enough to explain it to me at length.

But the peasants would not come to borrow. Herr Raiffeisen came into the province to preach his own economic gospel ; and forthwith Alsace—fat, fertile Alsace, with its well-to-do peasants, to whom one might have thought that credit was wholly superfluous—became his best and most active province, supporting proportionately the largest number of banks, and giving them most work to do. In 1886 the Diet of Lower Austria dispatched two experts to inquire into the system. They came back delighted. At once the system was introduced into the Austrian dominions, where it has spread over Lower and Upper Austria, the Tyrol, Styria, Carinthia, Vorarlberg, and eastwards, over Hungary and Transylvania. A few years ago Herr Schmid, one of the actuaries of the Austro-Hungarian Bank of Vienna, publicly bore witness to the effect that these banks “are better calculated than any other form of association, in a crisis such as the peasantry, alike of Germany and of Austria, have never before been subjected to, to afford effective support, not only by actual money help, but also by counsel and instruction.” Since then they have spread into Roumania. In France they are now multiplying apace, and even Russia has ventured upon some timid beginnings.

The banks have not proved unfaithful to the promise of their first reputation. Wherever they go they make friends and are well spoken of. Ministers of State have become their members. The clergy of all denominations

welcome and support them. And sober political economists like M. Léon Say, the late M. de Laveleye, the Hungarian statistician M. von Jekelfalussy, Professor Held, and many more, bear willing testimony to their excellence, and not rarely grow enthusiastic in their advocacy. But to gauge the utility of these banks at its fullest, you must go, as I have done, into the villages in which they carry on their unpretentious, serviceable work, see for yourself what changes they have effected, how they have substituted stone houses for wattle, well manured fields for neglected wastes, plenty for want, and hear the peasants—who still bless the founder (dead since 1888) by the endearing term of “ Father Raiffeisen ”—tell of the surprising difference in their circumstances which these banks have brought about. And never have these banks, now numbering 1,250—in Germany alone, that is, and even there without counting kindred institutions which have not joined the “ union ”—within nearly forty-five years lost either creditor or depositor so much as a penny, though they have lent as freely as they have lent cheaply.

Here are two instances of their beneficent economic work, which may seem worth quoting. Not far from Coblenz on the Rhine lies the village of Mülheim. The soil is rich, and now fetches in the best situations £288 an acre. But the village was formerly neglected and much pestered with “ Jews.” One of the favourite ventures of the latter was, to buy up the bonds which the purchaser

of small real estate gives, obliging him to pay the eight or ten instalments of the purchase money for his holding at regular periods. The "Jews" bought these bonds at a heavy discount from the vendor anxious to realize; and then, when the purchaser did not pay to the very day, they came down upon the poor man with all the terrors of the law, often selling him up and securing his property dirt-cheap for themselves. In 1880 a Raiffeisen bank was established in the village—without shares, asking for nothing from members but that they should club their liability together. The whole face of things is now changed. There are good houses everywhere, carefully cultivated fields, a look of plenty and comfort which seems to tell you that "agricultural depression" is nothing but a nightmare. About 250 members have joined the bank, which has its own co-operative supply association organized by the side of it, doing, with the credit allowed by the bank, business to the extent of £1,800 or £2,000 per annum. The "Jews" have disappeared from the scene, and usury has gone with them. Those instalment bonds which used to make them rich now go to the bank, at a moderate discount, and can do no hurt. The bank discounts about £2,200 of them every year, and generally has £6,000 worth on its hands. Its annual turnover is about £35,000, leaving a profit of about £250, which already totals up to a reserve fund of £1,500. That reserve fund enables the bank to let its members have manures, implements, etc., at wholesale

cash prices, and yet with six months' credit allowed them. If there is an article required too costly for private purchase, the bank buys it for the association. There is a threshing machine and steam engine belonging to the society, and paid for without anyone ever having put his hand into his pocket. The bank advanced the money. The machine paid for itself by its work at so much an hour. And all administrative service is done gratuitously, barring £37 10s. a year paid to the cashier.

For the second instance you must go into Thuringia. There, in the Grand Duchy of Saxe Weimar, lies the little village of Frankenheim, pretty flourishing now, but not long ago a kind of rural Seven Dials, pawned to the "Jews" up to the very chimney pots—cottages, furniture, cattle and all. The inhabitants were a notoriously bad set, credited, as a matter of course, with every theft, robbery, or other misdeed committed in the neighbourhood. In pity, the Grand Duchess set up some "model dwellings," which were offered at a nominal rent, 30s. a year. The villagers eyed them askance. The young clergyman coming to the parish as incumbent heard of the Raiffeisen banks. He set up one in the village, supported by these poor wretches' own liability. Within a comparatively brief time a complete metamorphosis took place. He has built, with bank money, dwelling houses which, with the ground they stand upon and a little garden, cost not quite £60 each. To make them their own in fifteen or else twenty years, the tenants are

required to pay £5 12s. or £6 12s. a year, that is, $4\frac{1}{2}$ per cent. interest plus sinking fund. All these houses have been taken up. The occupiers pay their instalments promptly. Their cattle and furniture have become their own once more. The "Jews" are gone. The whole village has assumed a well-to-do and comfortable look. And the reputed ruffians of erewhile have become thoroughly respectable persons.

More instances might be quoted in praise of an institution the enriching power of which has become so well established on economic ground that it has become a current saying:—"Whoever sets up Raiffeisen banks pulls down workhouses." On the Rhine and Ahr there are co-operative vintries of the Raiffeisen type which return the vine-grower nearly double, and in some cases quite double, what they used to realize from the same quantity of grapes. There are co-operative dairies—*really* co-operative, in which all members are shareholders alike. There is co-operative insurance; co-operative supply of manures, etc., exceeding £1,000,000 per annum, and increasing every year.

One very marked effect of the practice of these banks may be traced in the complete extinction within their districts of that usury which used to lie like a deadening blight upon the country. The power of ready cash, which laughed at laws, and inquiries, and government regulations, has everywhere speedily succumbed to the far milder but more effective warfare of a rival purse.

Alike in Germany and in Italy usurers have found their occupation taken from them by the co-operative lender, and have evacuated their whilom strongholds in disgust.

Another very substantial service rendered by the banks to agriculture, specifically in Germany, our farmers are likely to appreciate while the memory of last year's experiences is still vivid in their minds. Their wide spread, their excellent organization, and their command, by credit, of whatever money they may stand in need of, insures to them an unrivalled power for giving help wherever combination will provide such. At the beginning of last year's drought the banks prudently secured by contract a large store of feeding stuffs, which they afterwards supplied to the members at ordinary prices. When beasts came to be such a drug in the market that £2 was offered, by way of favour, with a "take it or leave it" air, for a full-grown bullock, they organized a co-operative service by which the beasts were removed at a trifling cost—as many as 700 head from one district—to places where better prices prevailed, and so saved farmers' pockets not a little. And when the worst pinch was over, and farmers were looking about them once more to buy back what they had been compelled to sell, once more the banks were ready to give assistance, advancing the money which would purchase cheaply for cash. A writer, who is understood to be the head of the Agricultural Department of one of the Thuringian Duchies, has publicly

declared in the *Cologne Gazette* (July 26, 1893), that the banks have done more during the drought to afford relief to German agriculture than the federated Governments.

These are surely services to look back upon with satisfaction. However, the economic successes exhaust only one-half of the achievements to be set down to these useful societies. "The moral results," writes M. Rostand, President of the great Savings Banks of the Bouches-du-Rhône, "are to my mind superior still to the material." The banks train their members to thrift and business habits, and account keeping, and the rest of it, more effectively than any other agency. Their savings banks teach an instructive lesson of the attractiveness of self-help. Members prefer to deposit in the society bank rather than even in a Post Office Savings Bank, because the bank is their own, in the management of which they have a say, and which keeps the money saved in the district, to return to them "in the fertilizing dew of loans." Under the bank's teaching the members also become patterns of promptness and punctuality in their payments, because the bank will tolerate anything rather than unpunctuality. And it is a treat to see these simple peasants bring out their books and explain to you, with evident satisfaction and pride, what all the entries mean, and how the system works from an accountant's point of view. Their rustic mind can with a very little training master it all. That is not

one of the least of the advantages of the system. But the banks educate also to better qualities. They draw members together and make them friends and well-wishers to one another, in Signor Ettore Levi's words, "an honest and industrious family." Signor Wollemborg testifies that under his own observation, where formerly there used to be rivalry and jealousy, there is now fellow feeling and cordial sympathy, *simply because varying and conflicting interests have been consolidated into one*. Everybody has come to know, by the liability resting upon him, that his neighbour's good coincides with his own, that his neighbour's hurt is also his own. Moreover, the inquiry into character during and after election has educated people, who required it, in another sense also, with an effectiveness to which priests, ministers, and justices bear willing witness, and which will recommend itself quite as fully to philanthropists of a different school. The banks will have none but thoroughly eligible members. If applicants are not so, they are sent home once, or twice, till they become qualified. The advantages which the bank offers are quite sufficient to induce them to do this. The consequence is, that to become members of the bank, drunkards have become sober, ne'er-do-weels steady and well-conducted. Thieving has diminished, work has improved. "I have seen a new world," declared, in excusable rapture, the Hungarian Deputy, Professor von Dobransky, when he had seen all this with his own

eyes, "a world of brotherhood; it is a world of brotherly love and mutual help, where everyone is the protector and assister of his neighbour. An isolated man here finds himself transplanted into the bosom of a community whose resources multiply a hundredfold the productive power of its labour, and crown it with success." And "all these wonders which I have seen," writes M. Léon Say, "are the wonders of private initiative and decentralization. It is private initiative, it is the decentralization of credit which is the dominating cause of all this progress in wealth. It is co-operation which has created it all."

This is telling testimony, assuredly, to good work, even supposing that some of the witnesses have been carried away a little by their enthusiasm. The question will very naturally be asked: In what does all this wonderful system consist? How is it organized and what are its principles?

Its principles and organization are in truth very simple.

The author of the system started from the proposition that his bank must be open to all—open, above all, to those who are most likely to need its help, that is, the poor. To ask a poor man to qualify himself for admission by a payment of money seemed to him nonsense as well as mockery. For in borrowing he would only want to borrow his own money back, and accordingly have to borrow so much the more. For this reason

Herr Raiffeisen from the outset deliberately rejected shares as a means of raising funds. Besides, from the very outset he very correctly looked upon the spirit of greed and "dividend-hunger" as the most dangerous foe to this kind of co-operation, and accordingly resolved to keep it out by closing up every chink and crevice against it. The people who had no credit were to join together, in order to secure credit. That must be the one object. To it every other consideration must be subordinated. They must give what they had in order to obtain that which they had not. Now shares must necessarily mean dividends, and so seemed calculated to whet members' appetite for a "good balance-sheet," a good return for their money, which must needs be purchased at the cost of the borrower—for whose relief, in truth, the bank was intended. Herr Raiffeisen's precaution has been amply justified by the event. A rival system, organized under the impression that members must be attracted by dividends, and officers by salaries and commissions, has become a prey in only too many instances to those very evils which Herr Raiffeisen dreaded. Being paid for their work, officers have not dared to disoblige members, by whose votes they would have to be re-elected, in the matter of loans; being rewarded by a commission on "business," they have preferred "business" to safety, and led more banks than one into loss, and even ruin, by incurring risks; and being attracted by dividends, members have taxed

borrowers heavily to obtain a good interest for themselves, and have in not a few instances ended by converting their "co-operative bank" into a joint-stock usury shop, worked for their own profit, not the borrowers' benefit.

In his own banks Herr Raiffeisen has, with the very same object in view which led him to disallow shares, forbidden salaries as well. Officers must give their services for the good of the cause. They must be deliberately so placed that they will prefer the safety of the bank to any other consideration. They must have nothing to "get out of" the bank. Accordingly the only salary allowed is a very small one to the cashier, who is excluded from any voice in the disposal of funds, and made only an executive officer. And no bank of this sort has ever wanted for officers, any more than it has wanted for members.

Shares being ruled inadmissible, there remained but one form of security upon which to found the association. Members must contribute their liability. The liability, professedly unlimited, of a number of men, even poor men, must in any case ensure some credit. If there be some wealthy persons joined to them, the credit at the command of the society is likely to be considerable, in comparison with its requirements. And provided that the members take care that they lend away the money so obtained only to persons from whom they can make sure that they will receive it back, they

incur no risk. If it be contended that shares are required to add to the security of the bank, inquiry has shown that the ready money provided by them has strengthened the security provided by liability only by such infinitesimal fractions as '4 to 51'0, '7 to 67'1, '1 to 12'4, and so on. There is really nothing in this liability, however ostensibly "unlimited" it may be—as a means of satisfying lenders or depositors without the trouble of special inquiry—which need frighten anyone. In truth, the liability is *not* unlimited at all, but is very strictly limited—limited by the members themselves. It is the unlimited liability of a prudent man who orders a coat at his tailor's, for which, of course, every penny of his property is legally attachable, but the price of which he keeps within the bounds of his means. Members may enforce the limitation, in the simplest and most elementary way, by passing a rule that not more than a fixed sum shall be lent to any one man—who, of course, must be a member; and that not more than another fixed sum shall be lent out in all. This is done very frequently in Italy. If members decide not to do this, they have ample means still of protecting themselves, in the knowledge, easily accessible to every member, of the loans granted, and in their power to escape from further liabilities by resignation. And in any case, whatever liability there is can only apply to *a distinct loan of a known amount*. There is no trading, no banking in the ordinary sense, no giving of further pledges—so there can be no ulterior liability.

Experience has made it perfectly clear that the liability provided is entirely safe—in M. Durand's words, "without any danger whatever," and that once the practice of such banking has become known, liability alone is amply sufficient to secure all the money which may be wanted. It may be made to do so in various ways—by ordinary loan, by the taking of a deposit, by collecting savings. In truth, of course, all this comes to the same thing.

Such borrowing, however, completes but half the task. The further and more important question now remains to be considered:—How does the bank secure itself in its own lending?

The bank secures itself, in the first place, by a *careful election of its members*. The joint liability just referred to makes such election a reality, and that is, perhaps, its greatest recommendation. Once you know that you will be liable, with others, for Jones's default—Jones being a candidate for election—you waive all complimentary considerations, and weigh Jones's qualifications strictly and carefully; and should you find him wanting in trustworthiness you reject him without the slightest compunction. Let him mend his ways first. The chances are that he will. By this means you obtain, to begin with, a constituency upon which to a considerable degree you may depend, and that is of far more importance than that you should have a large one. The banks are never formed by beating the big drum, calling a public meeting and

inviting anyone and everyone to join. There are two or three who begin. They broach the matter to others. Once the bank is formed, they wait for outsiders to apply.

The safeguard just described is considerably strengthened by the *democratic character* which it is essential that the bank should maintain. There is only *one* thing which members ought *not* to know, and that is, who are the savings depositors, and what are their deposits. It has been found perfectly possible to keep that strictly secret. Apart from that, there ought not to be—and, as the banks are organized, there is not—a single transaction with which members have not ready means of making themselves acquainted. And in all things the power of the general meeting is supreme. Members have therefore their remedy entirely in their own hands. This principle likewise is in practice made much more of a reality by unlimited than it would be by strictly limited liability. Under the latter I have found that only about ten or twenty per cent. of the members attend the general meetings. They are glad not to be troubled. At the general meetings of Raiffeisen Associations few members are found wanting, even where there is not a fine fixed for non-attendance. Without such stimulus neither would the same lively interest be upheld nor would half so good a business training be given—nor would the principle be made to bring forth so many new and useful forms of co-operation, which have proved of great practical value.

The third safeguard provided is to be found in the *sureties* demanded. Though not absolutely indispensable, where a member's trustworthiness is established, the demand of sureties is the ordinary rule. Generally speaking, two sureties are insisted on, who must, of course, be approved. It is on them, in case of a default, that the first responsibility falls.

In the last place, and *mainly*, the banks safeguard their loans by carefully *watching their employment*. This is a feature originally altogether peculiar to Raiffeisenism. But experience has justified it to such an extent as to lead other institutions readily to adopt it.*

The principle of lending originally adopted by Herr Raiffeisen rests on a two-fold basis. No security is required. But the borrower must show himself trustworthy, and, *in addition*, he must show that he has an enterprise in hand which may be counted upon, by economy or profit, to repay the loan. The two conditions, in their conjunction, are absolutely essential. Improvident borrowing is, as a matter of course, wholly excluded. But even the profitable object alone, without trustworthiness, or, on the other hand, trustworthiness alone, without a profitable object, is judged insufficient. The two must be combined. That is of the essence of the system. Trustworthiness may be assumed to be proved

* The Duke of Argyll writes to the Agricultural Banks Association: "Your system of strict payments and watching the loan is admirable."

by the fact of election and the finding of sureties. On the question of the utility of the employment the bank constitutes itself judge. The employment must be stated in writing. The committee consider it. If it appear to them worthy of approval—which is generally the case—they concede the loan; but not without binding the borrower to adhere strictly to the object specified. The length of time for which he borrows makes no difference. Only, if he borrows for more than a year, he is expected to repay the principal by equal instalments, and these payments, as well as the payments of interest, it is insisted, must be made to the very day. *The bank will forgive anything rather than unpunctuality or remissness in this respect.* And the effect which such strictness has in training men to business habits is remarkable. Should the borrower fail to apply the money as was stipulated, without hesitation or mercy the loan is called in, within four weeks' time, the sureties being made responsible. The best proof of the efficacy of this provision is, that such notice has never, so far as I have been able to ascertain, been put into practice. It is the birch-rod on the mantel-piece, which keeps members on their good behaviour.

Thus the loan is perfectly safeguarded. Default is almost impossible. And, as a fact, though in some cases sureties have had to be called upon to meet their engagements, the banks themselves have never lost a penny by such lending.

But all this leaves the system to be explained still incomplete. One main feature remains to be explained, which in truth serves as a backbone to the organization.

If members are asked to pay nothing into the bank on joining, clearly they are not entitled to draw anything out. Their legitimate return is the common benefit of cheap credit. They are to be served as cheaply as is at all possible. But in ordinary prudence some little margin of income over expenditure must be allowed, which margin goes regularly and invariably to build up a Reserve Fund. The importance of this reserve fund there is no need to point out. It supplies to the bank a fund of its own, and a fund of its own provided in the most convenient of shapes—as a fund to which no individual has any claim. The fund belongs to the bank only, to the bank as a collective body. It is there to answer the bank's purposes. If it should at any time earn no interest, no one is the worse for it—no one, in any case, can have any right to complain. The reserve fund may, and should, be used to lower terms for loans. It may be used to secure members other advantages. It may be used to defray any deficit occurring by an unexpected loss. But *it must not be shared out*. It assures in a progressive ratio the absolute solvency of the bank. It gives members a direct interest to remain in the bank. And, as it is made indivisible, even in the case of the dissolution of the banking society, it gives no one any interest in breaking up that body. Should

the bank be dissolved, it is provided that the reserve fund shall be handed over to trustees to be held in trust, in readiness as an endowment for any new bank forming in the same district under precisely the same rules, or, failing that within a reasonable time, to be laid out in some work of common utility to the district for which the bank was founded. As a matter of course, in the earliest stages of bank work the reserve fund increases but slowly. But once a certain point has been reached, it grows far more rapidly than one would imagine. The case of one bank has already been stated in which within twelve years something like £1,500 was accumulated. There are plenty more banks with £1,000, £800, and so on. And everywhere this reserve proves at once a powerful magnet for members, and an absolutely safe anchorage for the bank.

Thus the entire organization is built up consistently on the principle of pure and unselfish co-operation, applied with a singleness of aim and of purpose which at once does credit to its author and at the same time effectively assures the attainment of its object. The same principle is adhered to in the construction of the administrative apparatus. The entire structure of the association is democratic, putting into practice the "all for one and one for all," which is the chosen motto of the Raiffeisen Federation. The power which rules and moves the whole system is vested in the general meeting of members, which elects the officers, passes the accounts,

and adjudicates in the last resort upon questions at issue. To attend to the executive work, which has to be done without any loss of time, there is an elected committee, which, for purposes of convenience, invariably consists of five, as being a number large enough to ensure representation of different constituent factors, and yet sufficiently compact to take prompt action. Three make a quorum. To this body is committed the discharge of all current business, the election of members, the granting of loans, the receipt of deposits. This committee as a rule meets once a fortnight. In addition to it, there is a "Council of Supervision," likewise elected, and consisting, according to the size of the district, of from six to nine members. The special office of this body is, to check and control all that the committee does, to inquire into the loans granted and the security taken, and see that nowhere are rules infringed or the interests of the society brought into jeopardy. All business, be it lending or investment, which involves any risk, is rigorously forbidden. More particularly is the council called upon to watch the application of the loans granted, and in cases of misapplication to call them in. Really, in these banks there cannot be too much control and too much overhauling. The more care is taken to keep everything square and safe, the more likely is the bank to prosper. Therefore, this "Council of Supervision" constitutes a most important and essential part of the organism. Since, under the con-

joint liability, the wealthier members bear the larger portion of the responsibility, it has become an unwritten, but generally accepted, rule that they should enjoy a preponderance of representation on these two governing bodies, although, as between member and member, rights are absolutely equal. That equality has helped to bring about one very beneficial effect for which the banks are commended, namely, that of drawing members and classes together, and placing them within greater touch of one another. As a rule the wealthier members are not only the more responsible, but also the best versed in business. It is to the bank's interest to have them in the association. Therefore, they are not likely to have a legitimate safeguarding of their interests made difficult to them.

A glance at the system here described will suffice to make clear alike its merits and the limits of its utility. Admirable in conception, entirely efficient in practice, it is obviously suited only to *small* districts, and to districts in which there is constant touch and contact between members, in which everybody knows one another and knows of his doings, and can without trouble or prying watch both the person and his acts. Under such conditions the system may be made to work positive wonders. And so far from the smallness of the districts being a drawback, it has been found to constitute a direct gain, strengthening, as a Thuringian official puts it, its

credit, and enabling it, as M. Léon Say points out, the more effectively to combat usury, which can, he says, be vanquished only at close quarters. Lenders, says Herr Gau, of the Agricultural Department of Saxe Weimar, appreciate these small districts, because they know that in them money is sure to be lent out safely. In a town, on the other hand, among a shifting and changing population, composed in the main of units without any cohesion, the system would be altogether out of place. Its own author never intended it for such a sphere of action. He favours the parish as the ideal district, and allows a union of two or three parishes only where these lie so close together as to ensure perfect touch between the inhabitants, which is the essential condition of co-operative credit work.

But if the district of each bank is bound to be small, all the greater occasion is there for such small banks to unite among themselves, so as to secure to everyone the support derivable from co-operation on wider grounds. The Raiffeisen banks have their Provincial Unions, their Central Union, to which all belong, and which is governed by a committee of delegates. In conjunction with the Central Committee they have started a Central Bank, which now owns a capital of £250,000 (only partially paid up), and which has proved most serviceable in negotiating loans with outside banks, and in distributing what is wanted to local banks. It takes their surplus moneys at the rate of from $3\frac{1}{2}$ to 4 per cent., and

lends to them what they want at $4\frac{1}{4}$ and $4\frac{1}{2}$ per cent., so as to enable every bank to lend at 5 per cent. or less. Its turnover in 1893 exceeded £1,000,000; the cost of management is absolutely trifling. It is a joint stock body, of which local banks are the shareholders, receiving on their shares only $3\frac{1}{2}$ or 4 per cent. dividend. The balance goes to the central reserve. Side by side with the Central Bank there is a Trading Firm, formed to enable the central body to negotiate a co-operative supply of feeding stuffs, manures, implements, and the like. The rules do not allow local banks to engage in such business. Wherever members desire to have local co-operative supply, accordingly, their only means of securing it is to form a local supply association by the side of the bank, using the latter's credit but acting on its own responsibility. This practice, originally adopted here and there only, has now become very general. However, for such local associations, under circumstances, the Central Trading Firm may be no less useful, because it can buy for them in larger quantities and on better terms. The Trading Firm is, like the Central Bank, organized as a joint stock company, but by a self-denying ordinance its shareholders have renounced all claim to dividend and made all surplus accruing over, once for all, to the Central Committee to employ in the defrayal of general management expenses, the cost of the auditors kept continually travelling about to audit accounts, etc.

Thus fitly joined together in all its parts the entire

system presents a compact, useful, and throughout efficient organization, which appears richly to deserve the favour which is now accorded to it by all who have seen it at work. The organization here described is the same all over Germany. Adherence to the Raiffeisen Union, indeed, makes it obligatory, or the number of associations would be even larger. German fondness for divisions, and a timid shrinking from some of the more stringent provisions, have led to the formation of not a few associations which are practically governed by the same principle, but allow themselves a little latitude in respect of one point or another. The difference is, in some instances, not of excessive importance. But since the first requirement demanded of a bank is absolute safety, which cannot be too effectively safeguarded, the stricter are the rules, the better, generally speaking, is the bank.

In 1889 Prince Bismarck's Government forced shares on these banks. There was absolutely no necessity for this, but it does no actual harm. The Central Committee met the unwelcome precept by prescribing small shares only, rarely exceeding 10s. or 12s., and bearing, of course, only an insignificant dividend, which is by standing resolution of the members allotted once for all to subscription for the periodical news-sheet of the Federation, in which the condensed balance-sheets of every bank have to be published. The banks do neither better nor

worse with these shares than they did without them. Their credit is exactly the same. And so is their power of growing up upon very little support, which ought to be encouraging to those who contemplate founding banks of the kind in this country. In Posen President von Wittenburg informed me that while *landrath* (a sort of petty-sessional Lord-Lieutenant) in Silesia, and having the public savings bank of his district under his charge, he started two such banks with the help of loans granted from that savings bank at the ordinary rate of 4 per cent. Before many years had run out the banks were sufficiently strong to repay the loan of their own accord. A similar experiment is now in progress at Belleville-sur-Saône in France, where the savings bank of Lyons is advancing the money required at 2 per cent. In Austria a gift by the Provincial Diets of about £19 for the first outfit, and a loan of about £150 at 3 per cent. secured for two years is found help enough to put the banks safely upon their legs. For some reason or other the Austrian co-operators have, generally speaking, fixed their shares at a higher rate—somewhere about £1.

Wherever need of money makes itself felt among rural folk, the banks have proved themselves useful. I found them established among the curious medley of settlers gathered together from all parts of the empire without any previous knowledge of one another in the new German settlements in Poland. In Hesse Nassau, where a considerable rectification of boundaries is now

in progress, to remedy the confusion brought about by the intersection of little plots of small proprietors, for the purpose of defraying the charges of this, Raiffeisen banks have been established as a matter of course.

Circumstances have combined to bring the Italian "Rural Banks" of the same type under rather special public notice. Signor Wollemborg took up the work of introducing these banks into his own country some ten years ago, as a labour no less of love than of philanthropic duty. A landed proprietor himself, in Venetia, he had plenty of opportunities of watching the troubles of his poorer neighbours, who were, so to speak, eaten up with want and "devoured by usury." The example of Italy ought to be peculiarly instructive to us, because in some respects, there is a striking similarity between the circumstances prevailing in the two countries. There, as here, there are tenant holdings and—very many absentee landlords. Only the Italian landlords are less merciful and more grasping than ours, and the poor tenants correspondingly perhaps more helpless. Being helpless, they fall an easy prey to the incredibly extortionate usury which is pretty generally practised in their country.

It was the practise of such usury which first led Signor Wollemborg to take up his economic apostleship. He started his first bank in his own village, Loreggia, in

June, 1883. With a little persuasion he induced 31 persons, besides himself, to become members. There was some difficulty about raising the first funds, but a savings bank helped. When the first quarter came round, and the cashier, by way of precaution, sent out demand notes, showing the amount due by borrowers, the latter could not believe their eyes. His account was for $1\frac{1}{2}$ per cent. interest. They had been used to 25 and 50. They brought back their demand notes to inquire about the "mistake." When they learnt that $1\frac{1}{2}$ per cent. was really the correct charge, the good news spread like wildfire in the surrounding villages. There was usury and indebtedness everywhere, and everywhere accordingly this new lender would be a godsend. There are now about a hundred of these banks—that was the figure given to me when I was at Loreggia in October—and, appreciated by all, they keep steadily multiplying, carrying relief and help wherever they go. In places where they have been at work any time they have brought about a complete transformation. At Loreggia the villagers think less of their church, their beasts, or their farms, or whatever they may most prize, than of their bank. To hear an old peasant—like the "father" of the bank, Corazza—relate with pride how the bank has helped him and others, how it has raised up men from abject destitution under a crushing load of debt to a respectable position, how it has helped to manure his fields, to set up good buildings, and to rear a family of

beasts as closely inter-related and as dear to himself almost as his own thriving family of twenty-two, does one's heart good. There has been but one case in all the ten years and a half in which a borrower has had to be sued, and he has been expelled on the spot. At Servo the bank has enabled the inhabitants to form a co-operative society for undertaking, without the interposition of a middle-man, such contract work as road-making. At Zorzoi, thanks to their little bank, the inhabitants have rented an Alpine pasture on which to summer their beasts. One might quote many more instances. The result has been just the same as in Germany, morally as well as economically. Among a number of published testimonies, here is one of the late priest of Loreggia, Dom Rover, which ought to recommend the banks to people in this country :—

“People go less to taverns now, and work more and better. Since only respectable folk 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 repay the debt contracted, keeping the value of the calf as net gain.”

The Italian organization is in the main identical with the German. If anything, having as a rule a smaller constituency to provide for, it is even more democratic. The whole body of members meet oftener. There are still no shares—except in one case, where, to satisfy the whim of a local judge, penny shares have been introduced. The interest is generally a little higher than in Germany, ordinarily six per cent. ; in the mountains, where money is precious, it rises to eight per cent. Having fewer members to lend to, and accordingly a more restricted business, Italian credit co-operators consider a greater effort necessary in the beginning to create a reserve. In Loreggia the members have for this very reason unanimously rejected a proposition to lower the interest on loans when that became practicable. The most important deviation from strict Raiffeisen rules is to be found in the adoption of bills of exchange as a medium of lending. Herr Raiffeisen and his followers will not allow anything in the shape of a bill of exchange, because in Germany such paper is liable to rather gross abuse. The difference is really only a matter of form. These bills are scarcely ever passed on, and so represent in truth nothing more than a note o hand. They have given rise, however, to a little departure, likewise only formal, from the Raiffeisen system of calling in loans in the case of misemployment. In Germany the bank calls in the loan, granted, may be, for eight or ten years, by a four weeks' notice. In Italy it simply declines to renew

the bill, which runs in every case for three months only, whatever may be the period allowed by understanding for the loan. The Italians hold that by this means they keep the perils of misemployment more steadily before a borrower's eyes. In practice it all comes to the same thing. In essence the banks are framed on the same mould, and unquestionably in Italy, as in Germany, they are destined to do much good, to render a great service to the cultivating classes—a service which absolutely no other institution could render.

There is no occasion to speak at length of similar banks established in Hungary and Poland, nor yet of those in France and Switzerland, which have all a similar tale to tell of early struggles, steady spread, and final triumph. In France the agricultural banks movement is now making rapid and very satisfactory progress. Influential bodies like the great Agricultural Society of France—a body comprising more than ten thousand members and forming, in truth, an agricultural parliament—and the Union of Agricultural Syndicates, are lending it their hearty support. And the Government is evincing particular eagerness to further it. The obstacles previously supposed to lie in the way were assumed to be in the main the same, which are sometimes held to make agricultural credit uncalled for or impracticable in this country. There was “no need” of it, and the peasantry “would never take to it.” My friend M. Durand, the

President of the Federation of French Agricultural Banks, now writes to me that the obstacles prove all imaginary. He has founded more than 30 banks in a very short time, and he finds that the peasantry not only take to them readily, but that, in addition, they give them a cordial welcome.

Surely "a record of social and economic success" is not a misnomer for the history of these "Agricultural Banks." They have wrought a great work, put into practice a great principle, and, in the words of M. Ernest Brelay, "their possibilities in the future are limitless."

Briefly to sum up once more the benefits which agricultural banks bring to the rural population everywhere where they have been established:—they secure, alike to large farmers and to small occupiers, the invaluable power of helping themselves; they provide the use of money without stint or limit, in respect both of amount and of time, for any productive work; they make combination easy for every purpose—whether it be supply, production, insurance, co-operative disposal of produce, or common work—and find the means with which to carry it out; they have proved themselves effective promoters of thrift, and, while inciting people to save, they at the same time keep the savings in their own district; they teach their members business habits, and almost perforce make farmers and cultivators calculate which transaction brings them gain and which loss; they teach members to

bank their money and keep it circulating and fructifying, for their own benefit and that of the community, instead of having it locked up in a drawer or hid in a stocking; they educate people morally to better conduct, diffuse sobriety and probity, stimulate an interest in work; and they draw persons and classes together with the powerful bond of a common interest, *realized as common*. Thus they seem perfectly to justify the motto which Schulze Delitzsch selected for them, the motto of "Peace;" as well as that which his pupil M. Léon d'Andrimont has added: "Order and Economy." In Signor Wollemborg's words, they "unveil," by the golden sunshine of thrift and co-operation, the hidden virtues of humble folk, unlooked-for, like flowers shrouded by the night. In M. Léon Say's words, they cause agriculture, trade, prosperity to develop "with increasing energy." "Freed from usury," says M. Rostand, "the peasantry have regained courage and confidence. They feel a love for, and a pride in, their humble institutions of agricultural credit. They expel from them every one who has the habit of living at the expense of others, or a taste for drink. Such and such idle person, who was maintained by the parish or by charity, has been assisted by a loan and has got his name erased from the list of paupers receiving relief in order to become a member. Members attend the meetings assiduously, and there follow all the proceedings, the granting of loans, the investment of funds, the progress

of liberation, with keen attention. The punctuality of payments is rigorously upheld. The illiterate have learned to write; you can tell their signatures by the straggling characters. . . . All this," adds the French writer, "may well be termed the practical realization of the ideal of rural co-operation. It is the result of a happy union of the spirit of business with the sentiment of a true and practical philanthropy."

The question naturally suggests itself—Has this potent power, which seems everywhere—wherever it has established a foothold—almost miraculous in its efficacy, no gift for ourselves? Cannot the same material which has created Credit and brought help under a surprising variety of circumstances—in countries densely crowded and sparsely populated, highly cultivated and neglected, among Teutons and Slavs, persons of the Latin race, and even Turanians—be bent and hammered into some workable shape which will give to us what we want, supply that little weight of gold which, working upon the lever of production, may impel our agriculture, large and small, once more to more vigorous and more profitable action?

Our circumstances, it is true, are different. Aye, but not nearly so different as some people try to make out. The objectors will have it that foreign peasants and farmers are made of different flesh and blood from ours, and can be trusted where ours cannot. They pretend that the freehold property possessed by most foreign

cultivators places these in a better position to claim and satisfy credit. But the freehold property has nothing whatever to do with the credit. *The freehold is not pledged.* The bank would not have such security if it were offered. Advisedly and rightly it makes all its security personal. In Italy, in parts of France, in Belgium, and probably in parts of Germany, the cultivators benefiting by this credit are tenants like our own.

Our difficulties, as it happens, lie altogether in a different direction from that generally indicated.

To begin with, the population of our rural parishes is, as a rule, smaller than that of German villages. Accordingly our agricultural banks will, at the outset, at any rate, have to be small and unpretending. But not smaller nor more unpretending than are even now some of the Italian banks, which have nevertheless done exceedingly good work, and promise to do a great deal more. Not smaller nor more unpretending than have been all the pioneer banks abroad. Smallness is no insuperable hindrance to an agricultural bank, especially after it has been made clear how materially banks may strengthen their position by union among themselves.

But, in the next place, our laws are adverse—unfortunately very much so. The Legislature appears never to have contemplated a development of credit-banking such as we have here under consideration. What has proved perfectly practicable, nay easy, in Germany, Austria, Italy, Belgium, Hungary, France, even in Rou-

mania, is among ourselves made so difficult that at first glance it seems downright impossible. We have at present to arrive at our aim by a roundabout way. The law practically compels us to cut our large constituency in two. As it happens, that is just what the habits and wants of our rural population would have rendered imperative, even did the Statute Book not prescribe it. Our large farmers and small occupiers are not likely, at any rate in the first stages, to borrow willingly at the same bank, within ken of one another. Legislators have made the work difficult, but not impossible. Some workable system may still be set on foot for a beginning; and if the beginning bear good fruit, doubtless the Legislature will consent to a modification which, once the harmlessness of the proceeding has been shown, the banking interest is not likely to oppose.

Some people persuade themselves that our better-to-do classes, generous as they are, would grudge to give the time and labour which certainly it will be well that village banks should have at their disposal. They are very ready to give money—too ready by a good deal, for our purpose. But tying themselves down to attend regular committee meetings and look into all the affairs of the bank, seems a more onerous obligation. So it does, but really, in small institutions like those which we are here contemplating, the sacrifice is not likely to be excessive. Little time and little trouble will suffice; and it will materially help the poor. Abroad, people have

been found to come forward in plenty to undertake the work ; and probably sufficient would come forward among ourselves. Should it be otherwise—well, it is fortunate that our humbler folk are really much less dependent upon “gentle” help than are their brethren abroad. Help from the well-to-do and experienced in business will be useful here as everywhere. But it is by no means indispensable. However, apprehension on this score appears scarcely called for.

Really the greatest obstacle in the way appears to be the newness and unfamiliarity of the institution. It is so utterly unlike anything that we have already ; it imposes so great an effort upon our routine-governed minds, even to understand its principle and machinery ; it is altogether what the newly-painted gate is to the cow in the field ! There is but one remedy for this, but that is likely to prove efficacious—study, observation, getting used to the new object.

Having admitted our peculiar difficulties, it is but fair that we should take stock also of some countervailing special advantages which we possess. There is undoubtedly more money in this country, and money in a more liquid, moving, and accessible state. Over and beyond this, our people are more familiar with its use, and accustomed to business habits. We have banks scattered over the country, at whose counters the new credit banks will be able to supply their wants. Practically, we have already in England, at any rate in the

country, that "cash credit" which secures to people the power of commanding money without laying it up and paying interest upon it. So we are trained to the business. And, in the shape in which it is proposed that they should be constituted, it is very much to be doubted if our agricultural banks will have any difficulties to contend with in the shape of refusal of credit in their early stages, similar to those which in Germany hampered Herr Raiffeisen not a little.

Not only are we trained to the new method of banking by what has long been in practice among us in the shape of cash credit and over-draft, but experiments carried out among our very poorest countrymen have already made it perfectly clear that our population can be readily made to understand the practice of credit, that they are men of like habits and character with their neighbours, that among ourselves the same methods will bring forth exactly the same effects as abroad. These experiments are unfortunately not nearly as widely known as they should be. But it deserves to be noted that we are in the matter not operating on altogether untried ground, that we have had pioneers to prepare the way before us, scouts to spy out the country to be occupied, and, like Joshua and Caleb, these scouts have brought back a decidedly promising report. Our small folk are *not* hopelessly dishonest and untrustworthy, as is alleged. When placed upon their own responsibility, when instituted collectors and guardians of their own treasure, experience gathered in this country shows them to be

entirely as trustworthy, as scrupulous, as punctual as their brethren of the Continent.

To begin on the lowest stratum, our "slate clubs" would not go on as they do, collecting and lending out money in small amounts, but without any security whatever except the pledge of honesty, if their working men members did not find that, acting among themselves and under the influence of class honour, they can trust one another. To rise a step higher—our "Self Help Societies" teach us with regard to our own population precisely the same lesson which Raiffeisen Banks teach us in respect of the Germans. The men unite, administer their own affairs, realize their responsibilities—they grow saving and scrupulously honest. The Self Help Society of St. Pancras in $6\frac{1}{2}$ years lent out to its members—costermongers, railway hands, and the like—on personal security only, something like £8,500, and lost only 7s. The Ealing Self Help Society lent out in six years something like £5,000, and lost not a farthing. In respect of less than £11 were the sureties called upon to make good defaults of their principals. But of that less than £11, as much as £6 was guaranteed by the Vicar, who is considered fair game for pillage, and who has accordingly wisely been, by a new rule, disqualified, for his own protection, from serving as a surety. The Edinburgh "People's Bank," lending to working men, to enable them to buy their own dwellings, has found its business just as safe.

All these institutions are, as it happens, not very fully

developed. They could not, in their present organization, serve the purpose of agricultural or people's banks in our wider sense. But the more embryonic is their organization, the more limited are their resources and safeguards, the more conclusively does their experience establish the fact that, with responsibility aroused and made effective, our people are fully as much to be trusted as the German peasant or the Italian *contadino*. And, once the system has become understood, our men experience as little difficulty in finding sureties for their loans. There is some shyness at first. But that soon wears off, and people, here as abroad, learn to assist one another as soon as they find that, under the influence of a sense of responsibility evoked, they can trust one another. The experience gathered in St. Pancras, at Ealing, and in other localities where Self Help Societies are established, completely answers those hypothetical and prophetic objections frequently raised, to the effect that our people would not consent to be sureties for one another.

That peculiarly interesting experiment in the development of small agriculture which Major Poore is successfully carrying out with so much praiseworthy devotion in Wiltshire, and which bids fair to become something of a starting point for a new land system in this country, teaches exactly the same lesson. Major Poore has not acted the Little Providence by his new freeholders beyond a certain point. In his "Land Holders' Court"

he makes the men the guardians and administrators of their own interests. By a system of methodical "dividing down" to the very units, he quickens most effectively their sense of responsibility. And the consequence is, that the people take a lively interest in all their affairs, that the little settlement prospers, that expenses are kept down, and that there is harmony and union in the place of that bickering and envying which marked an earlier experiment conducted on the quasi-communistic lines of what is called "co-operative agriculture."

In the face of experiences like these, there is absolutely no standing ground left for those who contest the capacity of our population for credit co-operation. It would be curious if it were otherwise. Interest is interest all the world over, and the most effective way of reaching the conscience everywhere is by the pocket. There are accordingly no insuperable hindrances in our way. On the contrary, once we can bend our minds to the new form of work, there is ample promise of satisfactory success.

It remains to deal with the question—How are we to apply the principle of credit based upon responsibility?

Our law, as observed, almost compels us—for the present—to separate the agricultural population into two classes. It would be idle to attempt to form a bank for small occupiers under the Companies Acts—with the obligation imposed upon it of issuing shares, shares

instinctively pointing to a dividend, the larger the better, as the accepted measure of success, and shares made non-withdrawable by Act of Parliament ; moreover, with provisions such as that about a " registered office " and a brass door-plate, irresistibly suggestive of expense. These banks are to act *for the poor*. In their administration it will, at the outset, often be a question of saving shillings. So the tax laid upon members joining must necessarily be made as light as possible, or kept in abeyance altogether. And if members are to work together with any degree of confidence they must be able to get out of the concern as well as into it. The right of resignation really is one of the most effective checks upon egotism and carelessness. And, in view of the common liability incurred, every member is fully entitled to it as a safeguard, in his own interest. Moreover, experience has shown that you cannot get members to come in if they know that once in they cannot get out.

On the other hand, it would be equally idle to propose for larger farmers credit banks which are not allowed to lend beyond £20 or £50.

So we must proceed on different lines for the two classes—as, indeed, the differing habits of the two seem to demand on other grounds. It is, indeed, very much to be hoped that the farmers, though they may not care to *borrow* at small banks, will all the same become members of them, in order to give their neighbours the

benefit of their knowledge and experience, and contribute their part towards the educating and harmonizing work to be accomplished. But, until things are materially changed, they will want to have different banks to go to for borrowing.

For the smaller folk in the country there can be no question that the Raiffeisen and Wollemborg system is in every respect the most suitable and the one best meeting their case; and under a system of model rules which have been prepared with great care by the Agricultural Banks Association—although some things have had to be left out which one would like to have put in, and again, some things have had to be put in which one would like to have left out—nevertheless, with these rules to guide one it will be possible to make a satisfactory beginning.* After all, the principle is of far greater importance than the letter of the rules. And if members will but make sure that they rightly grasp the principle, they will always be able to make the rules bend to that.

There is no specific regulation suggested with regard to shares. Banks may issue shares or not, as they please. The only point insisted upon is that, if shares are issued, they should be small. The same applies to entrance fees, which are permissible, though not neces-

* I take this opportunity of acknowledging the very kind assistance received in the preparation of the Rules, without stint of time or trouble, by the Chief Registrar of Friendly Societies, Mr. E. W. Brabrook, and the Assistant Registrar, Mr. J. D. S. Sim, without which assistance the work would have proved very difficult indeed.

sary, and permissible only on the understanding that they are irrecoverable, and that their amount goes, in the earliest stages, it may be, towards the defrayal of initial expenses, but afterwards invariably to the reserve. The Raiffeisen system in its purity knows of neither shares nor entrance fees.

Briefly summarized the provisions which should never be departed from are these:—Each bank should have only a small district to work in, in which every member would be within easy beck and call, and every member might be expected to know, and, without effort or offensive prying, to be able to watch the others; and that the spirit of responsibility should be made effective by common liability and thoroughly popular, fully representative government. That will insure all that is requisite, a lively concern and active participation by every member in the business of the bank, and a feeling of cohesion and oneness of interest which will carry the institution over all ordinary difficulties. There must be no attempt to impress members, as if the success of the bank depended upon large numbers. Its success is a question of quality, not of numbers. It is better to have no bank at all than one in which members cannot trust one another. In the few cases in which banks have been formed abroad with insufficient care exercised in this respect, they have invariably been compelled to wind up their business in little time. In electing the Committee it will be well to adhere to the number of five. The

Council—"Council of Supervision," as the Germans call it—is a most essential feature. But should a bank have to begin work with very small numbers some equivalent form of control, requiring fewer members, may be practicable until the constituency grows sufficiently numerous. Only, control there must be, and control which is a reality. There cannot be too much of it, and it cannot be made too searching.

The regulation demanding that the object for which a loan is asked should be stated in the application is of the essence of the system, and should certainly be made an abiding part and parcel of the system. The purposes for which members will want to borrow are likely to be much the same here as abroad—the purchase of a cow, a pig, some manure, implements, or, in the case of village tradesmen, goods and the like. Also there may be victims to usury wishing to wipe off their ruinous debt by means of a less oppressive one. There is likely to be some difficulty about the first lending. Committees will not know how to begin, whom to trust, and what security to be satisfied with. That is just what has invariably happened abroad. Our banks will probably be in a better position to venture upon a first experiment, if guarantors can be found to make themselves answerable for the first supply of funds, even at the risk of losing part of their money. Apart from that, there is only one advice to give to beginners, and that is, to be as circumspect and cautious at the outset as is

possible. That will probably lead them to refuse some loans at first which they would be justified in granting. But the fault will be on the right side. A little experience will get both administrators and borrowers into the proper groove. At the outset, it ought to be borne in mind, borrowers are sure to be as little broken in to the practice of credit banking as administrators.

There is one rather serious hindrance placed in the way of banks beginning work by our law, of which foreign agricultural banks know nothing. It is proposed that these small Occupiers' Banks should be formed under the Friendly Societies' Act, as "Specially Authorized Societies," because that Act, of all Acts appearing at all suitable for the purpose, allows both the largest lending (up to £50) and also the largest collection of deposits. In that Act, however, it is provided that no society dispensing credit shall receive more in the shape of deposits than two-thirds of the amount lent out. That is to ensure the possession by each institution of a small fund of its own, securing the depositors. But it is altogether opposed to the spirit of our banks. The difficulty may easily be got over by a proceeding which appears to me to have so much to recommend it on other grounds that it really suggested itself to me long before I knew of the existence of the legal difficulty. Some brother co-operators abroad have been good enough to signify their approval of the proposal. Our banks will have to begin by raising their first funds by what may

be called neighbourly or philanthropic credit—credit granted by well-meaning men who wish to assist their neighbours for a good cause, and are willing to place money at their disposal for an experiment before it has become known that agricultural banks may be lent to with absolute safety, as a matter of business. Such men, as it happens, we have in plenty. And, in truth, they are only too ready to give. When I lectured on the subject of “People’s Banks” in the Committee Room of the House of Commons, two philanthropic and wealthy Members at once came forward, calling upon me, without troubling them with an explanation of the principle of these banks, to prepare a cut-and-dried plan. “We will find the money,” they added. That would be rendering the greatest disservice conceivable to the new institution, which should not know what a gift is. The work of these banks is all based upon the arousing of a spirit of responsibility and self-help, and a realizing of the obligation that whatever you receive you must scrupulously repay. And the more that spirit of responsibility is awakened, and rendered severe, the better will the banks prosper. Rich members and friends, accordingly, should not *give*. But they may *guarantee*. A guarantee does not tempt to misemployment like a gift. A credit guaranteed, on the understanding that it is to be “worked off,” so to speak, that by economy and care a fund is to be built up to take its place, very much strengthens the first position of the bank, but does so without in the

slightest degree impairing the spirit of self-reliance. Rather does it quicken it. If some persons whose guarantee an existing bank will accept as sufficient security will, therefore, consent to become guarantors for a newly-formed agricultural bank, they will be rendering very valuable service, without in any way tainting the principle of the institution which they wish to support, and without, I think, unduly jeopardizing their own interest. Of course they are entitled to special securities for safeguarding the latter, and that is in no wise in opposition to the interests of the bank. For this purpose it is desirable that there should, if possible, be a *Committee* of guarantors, laying down their own rules, and likely to adhere to them, rather than one or two only, who may be talked over. There are poor people who think nothing of taking money out of a rich man's pocket. In the "Self Help Society" at Ealing, of which mention has already been made, there is a man who, before joining, borrowed £2 from the Vicar. He never seemed to think of repaying the money. But he made his payments punctually to the Society, as a duty due to his fellows and class mates. "How is it that you keep up your payments so promptly to the Society, and never think of repaying me?" asked the Vicar one day. "Ah, you're the Vicar; you don't want it."

Another instructive case bearing on this point occurred a little while ago in Roumania. The Roumanian Government, eager to promote agricultural

banks, according to M. Durand, offered to provide part of the money to start them with, anticipating that the local people would gradually accumulate sufficient to enable it to withdraw its contribution. The offer was gladly accepted. But the result fell out altogether differently from what the Government had expected. The local people gradually withdrew their money, leaving the Government alone in possession of the banks.

The guarantors should be prepared to lose their money, if necessary, but resolved, in the interest of the bank, as in their own, to guard against that contingency as effectually as can be. The Rules suggested provide that the guarantors shall be by the mere fact of being guarantors, qualified for membership, and so entitled to representation on the Committee and Council. That will enable them to watch over their money; and I would not shrink from allowing them even an absolute veto. Everything that tends to bringing out a spirit of self-help, however harsh it may seem, is sure to strengthen the bank. Everything that tends the other way, however kindly intended it may be, is sure to spoil it. Provision will have to be made to ensure that, as the reserve grows, the guarantee is reduced, till eventually it is entirely withdrawn. Thus will the bank be led to acquire a sure footing of its own, after which its work ought to be easy.

Persons in more or less easy circumstances willing to help the bank may do so in another way also, namely,

by paying in deposits, which should, of course, be made to bear interest. There may be a double service in this—a service of example as well as of loan. In Germany it has occasionally proved necessary for rich men to borrow, as a matter of form, in order to overcome the timid shyness of the poor, who did not care to avow their want. Once the rich borrowed, they understood that borrowing involved no discredit. Among ourselves it is more likely that the poor will require the encouraging example of the rich for bringing money to the banks. For the latter the receipt of deposits will almost always form the most convenient way of borrowing. These banks should, indeed, become very useful and valued savings banks for their districts. Abroad, members of banks will far sooner deposit with their own credit society than with the public savings bank. Our own people are now tolerably well used to the Post Office Savings Banks, which serve the purpose of safe keeping admirably. Still there is very much money in every village kept back, locked up in a drawer or somewhere, not so much because savers are afraid to trust it to a savings bank, nor yet because they do not care to let their neighbours see that tell-tale bit of blue paper which proclaims to everyone that they have a deposit at the Post Office, as because the Post Office Savings Bank, which is deliberately elbowing out the old communicative Trustee Savings Banks, is to our shy country folk nothing more than a brick building with a slot in its

wall for the receipt of money, but without a mouth for giving advice. Our Trustee Savings Banks in this respect supplied a want which is very real to our humble folk, though it be little understood in the Government Offices from which Savings Banks laws emanate. Their secretaries were always ready to be spoken to in private. It was Mr. So-and-So, who might be trusted to keep the secret. And to him Hodge freely opened his mind, told him of this and that saving, and was thankful for his advice. Our Post Office Department probably never thought of this when it opened its exterminating campaign against Trustee Savings Banks. However, here is an admirable opening for the Savings Departments of Agricultural Banks which will, moreover, as a rule be able to allow a higher interest. They will be officered by men personally known to every saver in the village, and, indeed, by the men of his own choice. He will have no hesitation in asking them questions. They can help him substantially with "counsel and advice," which is, as Abbé Kistler testifies in respect of his own Raiffeisen bank in Switzerland, their proper and most useful function.

There is no occasion to enter more fully into the particulars of the rules proposed, which have been made as closely to resemble the Raiffeisen rules as is practicable under our law. One of the fundamental principles which banks of this type will always have to observe is, to make their services as cheap as possible. In small

parishes, as observed, this is often a matter of shillings. There should be no costly outfit; there is no need of a brass door plate. There should be no salaries, except a small one to the cashier, whom the Act compels us to call "Treasurer." Committee-men and Council-men should invariably give their services gratuitously. There ought to be no difficulty about this. Apart from salaries and fees, there ought to be nothing else "to be got" out of the bank by any individual. Major Poore's efficient organization of his "Landholders' Court" amply shows that common interest created is quite sufficient to evoke a lively and generous interest in another sense of the word. Whatever is netted by the small margin to be allowed between borrowing at one rate of interest and lending at another ought to go to the reserve.

With regard to election, to punitive measures, fines, etc., to the grouping of parishes to districts, and other details, banks will be free to adapt themselves to their own local circumstances. It will be well if there is ample experimenting on this ground, as otherwise, on independent lines, in order that by some means we may arrive at the solution of putting our general principle into a genuinely British garb.

But, so far as new banks adhere to the principles laid down, it will be very advisable for them to establish some sort of union, in touch and connection with the Agricultural Banks Association, which is prepared to act

as centre. This will enable them to render support to one another. It will facilitate a general and uniform audit, which is a matter of great importance. It will serve to make the audit and inquiry more effective, and, therefore, more valuable as a security and means of obtaining outside credit. Such audit, becoming an established practice, known to the outside market, is found to serve in a great measure as a public guarantee of trustworthiness, and thereby to facilitate the command of funds. Union, such as is here proposed, will enable credit societies to co-operate for common enterprises of other descriptions; and it may in due course lead, as it has done in Germany, to the creation of a Central Bank, which will prove exceedingly helpful in providing a useful and serviceable centre for the whole system. In the meantime it will be well for supporters of the cause to form local committees, whether it be for a county or for some smaller district, designed to assist in the formation of new banks, by advice, and by finding guarantors. By such means there is no reason why agricultural banks should not be made to spring up here, as they have sprung up and are springing up elsewhere, wherever they are wanted. Where they are not wanted of course it is useless to force them on the population. They are not recommended as a panacea. They will not make the land yield without cultivation or manuring, nor send up the price of corn. They pretend to be nothing but a useful instrument designed to meet a definite want.

But in supplying that want they practically place a power of incalculable productiveness at the cultivator's command. If our allotments increase in number, as most people now expect that they will, there ought certainly to be a wide field shortly open to them for fruitful operations, which are likely to be needed and called for.

The case of the larger farmers—practically speaking, of all farmers in the ordinary sense of the term—obviously requires a different method of proceeding from that just described. The larger demands which these men are likely to make upon the bank do not, indeed, occasion any difference. A well-organized Raiffeisen bank is fully capable of meeting such demands as long as the security brought in is raised in a corresponding measure. But for other reasons it will be advisable to resort for the use of such a constituency to a different system. We cannot possibly expect to find enough farmers to constitute a strong bank on the Raiffeisen principle in one parish, or even in several. And as accordingly we shall have to fix upon a pretty wide area, these men will not be able to watch one another as the Raiffeisen principle requires. Nor is there any reason why they should. They have larger means at their command, and more administrators moderately skilled in banking affairs within their reach, and so they may well, by paying more in money, reduce the measure of their liability—even to nil—and correspondingly avoid the most

stringent safeguards which large liability naturally entails. All these conditions point pretty clearly to the Luzzatti system, the system with paid-up shares entailing only a strictly limited liability, and dealing with each instance in respect of trustworthiness on its own merits, as the system best adapted for the purpose. Non-co-operative credit would not meet the case, because it would necessarily remove the security indispensable for lending beyond what is now practised. That security is only to be provided by co-operation. Therefore it would be idle to look to some central bank—even if you *call* it co-operative—to render the desired service. However co-operative it might be in the subscription of its capital, it could never be co-operative in respect of dividing and bringing home responsibility. The plan has been tried and has failed. The Bank of France and the National Bank of Belgium have attempted to create Agricultural Credit by means of local committees, authorized to lend out their moneys. They have done no business at all to speak of. In Italy genuinely co-operative banks have endeavoured to work country districts by means of branch banks, which have soon found themselves compelled to shut up their offices. Independent local banks, truly co-operative and formed by the people of the district, setting up their counters in the same places, with far smaller funds, have succeeded well. In France, the Mutual Credit Society of Poligny has discovered, after nine years' practice, that to extend agricultural

credit in its district it must induce the local people to establish independent banks, manned and supported by themselves, and relying on the central institution only for loans. The excellent People's Bank of Mentone, being desirous of setting up agricultural credit in its district, has wisely persuaded the agricultural population to create their own bank, which it helps only by lending it money. The Savings Bank of Lyons has gone to work in the same way at Belleville-sur-Saône. It is impossible to insist too much on the principle that what you want, in order to produce agricultural credit, corresponding to trading credit, is *a new security* which can only be created by bringing home responsibility in making the persons benefiting by the credit themselves responsible—in other words, by co-operation.

A co-operative association answering these requirements may very well be formed under the Companies Act as nominally a Joint Stock Company. The difficulty is, that the Companies Act allows no withdrawable shares ; therefore, according to its letter, it bars the formation of a co-operative society, which must give its members the option of retiring. The mere power of refusing assent to the transfer of shares does not sufficiently assure the co-operative principle, nor does it secure the society against the admission of ineligible members—which is from its own point of view the great danger to be guarded against. It fails to do this because, though the necessary assent may be refused once or twice to a

transfer, it cannot practically be withheld indefinitely. Therefore, you must have some other means of dealing with out-going members. The difficulty is to be met by making the shares subscribed under the Act sufficiently small to constitute them practically only entrance fees. If they can be made irrecoverable so much the better. If not, then at any rate the purchase by the bank of an occasional share on its own account could not mean very serious difficulty. The danger of wholesale resignation—which is really not likely to occur, if proper care is exercised in the admission of members and the granting of loans—may be met as it has been in the Swiss People's Bank, an admirably managed and extremely successful co-operative business bank, namely, by providing that, in the case of one-fourth (or any other fraction) of the members giving notice of withdrawal, a general meeting of members is to be called, to decide whether the remaining three-fourths will go on with the business, or whether the bank is to be wound up while the other fourth still belongs to it.

The real shares, designed to furnish the share capital for the bank to work with, would then have to take the shape of permanent deposits—"guarantee deposits" might be a good term for them. Taking up such would have to constitute the condition of full membership; and they would, as a matter of course, be withdrawable.

There you have the Luzzatti system adequately adapted—the same system which has proved so sound

and serviceable in Italy, that it now does business corresponding in magnitude to a third of the country's banking ; the same system which has made the People's Banks a great financial power in Belgium and in Switzerland. Only you would have to fix the amount of your shares rather high, because the sufficiency of the small capital usual abroad depends upon your turning over your cash with some rapidity. In agriculture you cannot turn over your capital nearly so fast. There will be plenty of transactions for which a short credit suffices. But there will be many for which the credit given will have to be long. Therefore, you must make your share capital the larger. But there is no reason why the paying up of the shares should not be spread over a period sufficient to make it a comparatively easy process. If a tolerable number of farmers in a manageable country district, say within the circuit of a country town, were to join together, supported by the landlords, a bank could probably be created of sufficient security to attract very respectable deposits, which would facilitate the lending. As has been already said, in Italy and in Spain this long-term lending has not been found an insuperable hindrance to credit banking. But such banks are not likely to succeed without a fair number of landlords joining to give them their support.

The members would elect their Committee like the other banks, with a controlling body, whatever its name, by its side, to overhaul its proceedings, look into the

question of security, and watch the employment of loans. It will certainly be well to adopt the last-named safeguard. It is of the essence of this kind of banking that credit be made dependent upon remunerative employment, that improvident, stop-gap borrowing be rigidly excluded, and that a direct check be exercised in respect of borrowed money, keeping thoroughly alive the sense of responsibility. Looking to "security" alone has in not a few instances brought co-operative banks of a different type to grief. The registered office of the bank might be in the market town, and, as in the other case, to begin with, a credit might be guaranteed at the local bank, the help of which will be desirable. For the agricultural bank will do well to abstain from any transactions which would constitute it technically "a bank," and bring it under the obligation to pay the heavy license duty, let alone that it does not want to excite a feeling of rivalry among the ordinary banks. What legally constitutes "banking" it is very difficult to define. The issue of cheques does not, it may be well to point out, do so. There is no occasion to go into the question of bills or no bills. Bills-of-exchange, as has been already explained, form a very convenient medium for lending, and will enable a bank to transact business with a smaller capital than would otherwise be necessary. However, at present our farmers have an ingrained objection to acceptances. And in the earliest stages of banking the loans to be issued would scarcely be so

large that single note-of-hand lending, safeguarded by sureties, should not meet the purpose. At what rate the bank would be enabled to lend, at what interest to receive deposits, are questions for itself to decide, according to circumstances. Of course it will want to pay interest on its "guarantee deposits." But that interest should be small and limited to a maximum figure. In every respect, no less than in the other case, should economy be studied, should outgoings be limited, should, accordingly, services given to as great an extent as is practicable be gratuitous, and should as much as possible be allotted to the reserve fund, which will, in course of time, make the guarantee dispensable, and, of course, serve as the main backbone of the society. In Italy I have found a bank which owes its exceptionally strong position to its possession of a reserve already larger than its share capital.*

As in the case of the agricultural banks first dealt with, there may be other means of solving the problem, and there is no reason why such should not be tried. But the method here described possesses this recommendation, that it has been put to the test in a large number of cases, and that with proper care and good management it has invariably been found to answer its purpose extremely well.

* The Agricultural Banks Association hope within a very short time to issue model rules for a type of bank suited for the needs of medium and large farmers. The suggestions here made under this head are made on the author's sole responsibility.

It is impossible to estimate the benefit which would be brought to British agriculture, both large and small, if the same means of providing credit, of multiplying to an extent of which it is impossible to calculate the possible growth, the productive powers of our country, of making the practicability of every agricultural operation to be undertaken dependent, not upon the limited means of the person to whom Providence furnishes the opportunity, but upon its own promise of profitableness, could in some form or other be placed within reach of our farmers and small occupiers. If, as it has been said, the man who makes two blades of grass grow where formerly only one grew, thereby constitutes himself a benefactor of mankind, here is a work sufficient to fire the desire of the most ambitious philanthropist, a work the possible beneficence of which cannot be measured in figures. Is it possible? Why not?—one would like to ask in reply. Certainly the prize is worth trying for. In case of success there is nothing which could more effectually help agriculture, better tend to repopulate the land growing daily more bare of population, and bring the sunshine of prosperity and other priceless benefits to millions of our countrymen who surely stand in need of some such help.

THE END.

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