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PEOPLE'S BANKS

PUBLICATIONS BY THE SAME AUTHOR UPON THE SAME SUBJECT.

CO-OPERATIVE BANKING: ITS PRINCIPLES AND ITS PRACTICE—WITH A CHAPTER ON CO-OPERATIVE MORTGAGE CREDIT. P. S. King. 1907. 7*s.* 6*d.* net.

A CO-OPERATIVE CREDIT BANK HANDBOOK. P. S. King. 1909. 1*s.* net.

LE CRÉDIT POPULAIRE DANS LE ROYAUME UNI. Bruxelles, Institut International des Classes Moyennes. 1909.

AGRICULTURAL BANKS. THEIR OBJECT AND THEIR WORK. Agricultural Organisation Society. 1894. 1*s.*

CO-OPERATIVE CREDIT BANKS, A HELP FOR THE LABOURING AND CULTIVATING CLASSES P. S. King 1898. 6*d*

A PEOPLE'S BANK MANUAL. RULES AND DIRECTIONS. P. S. King. 1894. 6*d.*

VILLAGE BANKS. HOW TO START THEM—HOW TO WORK THEM—WHAT THE RICH MAY DO TO HELP THEM, Etc. P. S. King. 1898. 6*d.*

CO-OPERATIVE BANKS FOR AGRICULTURE. Agricultural Organisation Society. 1906.

THE CASE FOR AGRICULTURAL BANKS. *Contemporary Review*, October, 1895.

OUR VILLAGE BANK. *Westminster Review*, May, 1894.

THE POOR MAN'S COW. *National Review*, October, 1894.

CO-OPERATION IN AGRICULTURE. *Contemporary Review*, April, 1896.

PEOPLE'S BANKS. *New Ireland Review*, August, 1894.

CATHOLIC BANKS. *New Ireland Review*, May, 1895.

LE CRÉDIT AGRICOLE. *Journal des Économistes*, December, 1895

ESSAIS DE CRÉDIT POPULAIRE EN ANGLETERRE ET EN ECOSSE. *Cinquième Congrès des Banques populaires françaises.* 1894.

LES BANQUES POPULAIRES AU POINT DE VUE COOPÉRATIF. *Sixième Congrès des Banques populaires françaises.* 1895.

LE CRÉDIT AGRICOLE. *Huitième Congrès des Banques populaires françaises.*

THE SPREAD OF CO-OPERATION. Co-operative Union, 1900.

UMBLICKE IN DER GENOSSENSCHAFTSWELT. *Blätter für Genosschaftswesen.* 1900—1905.

THE INDIAN CO-OPERATIVE ACT. *Economic Review.* 1904.

FIRSTFRUITS OF CO-OPERATION IN INDIA. *Economic Review.* April, 1908.

And numerous articles in the *Economic Review.*

PEOPLE'S BANKS

A RECORD OF SOCIAL AND ECONOMIC SUCCESS

BY

HENRY W. WOLFF

"If some one had told me a few years ago what progress co-operation was about to make, I should have said that he was talking of a vision of Utopia."—Right Hon. W. E. GLADSTONE.

Le plus grand banquier du monde est celui qui dispose de l'obole du prolétaire."—JULES SIMON.

Third Edition

NEWLY REVISED AND ENLARGED

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1910

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TO

HIS EXCELLENCY

THE HON. L. LUZZATTI,

Prime Minister of Italy,

THE FOUNDER OF THE ITALIAN BANCHE POPOLARI,

HIS COUNTRY'S BENEFACTOR,

THIS VOLUME IS

DEDICATED

IN TOKEN OF WARM PERSONAL AFFECTION

AND UNALTERED ESTEEM.

PREFACE TO THE THIRD EDITION.

THE Second Edition of "PEOPLE'S BANKS," published in 1897, has been some time out of print. There is a demand for information of the kind which it contained.

Since the Second Edition was issued so much has happened in the world of Co-operative Credit that revising and bringing up to date has in substance come to mean re-writing. The old arrangement has been retained—with the addition of some new chapters; but most of the matter has been newly written.

Barring our own laggard country, since the author wrote last there has been a most remarkable advance and extension of the practice of Co-operative Credit throughout the world. The figures triumphantly quoted in 1897 appear small by the side of those applying to the present time. In Germany alone, in 1908, 919 banks of the Schulze-Delitzsch type only dealt out in advances of various kinds the huge sum of £175,000,000, which has in this way been made to fructify in commerce, industry and agriculture, purchasing raw material and paying wages. The sum lent out in the same year by about 17,900 co-operative banks registered in Germany reached altogether the huge figure of nearly £240,000,000.

Wide stretches of new country have been laid under subjection, and where the movement has been longer established its activity has grown strikingly more intense and its business more substantial. The Dutch, the Fins,

various new families of Slavs, have made Co-operative Credit their own, and in a wider sphere likewise Mahomedans and Hindoos of India, who—with their 2,008 Co-operative Banks already established within the brief term of four years since the Co-operative Act came into force—are beginning to defy the *mahajan* and to tempt hoarded gold out of its unprofitable concealment into more fructifying employment. Canada has adopted Co-operative Credit and set us British a stimulating, though at the same time also a shaming, example. Its first offshoots have already penetrated into the United States. Even Cyprus is moving on the same track, and Egypt is preparing to do so.

In addition, Co-operative Credit has been made to assume new shapes. A special new chapter deals with a novel form of very questionable Co-operative Credit, to which the State gives its assistance, or else exacts the assistance of public institutions on its behalf, and which, in virtue of the immediate help that it affords, has become for the time exceedingly popular. Such interference happily has incited those who, having tasted the sweets of State assistance, have in course of time penetrated to the bitter kernel concealed within the deceptive husk, to put forth more vigorous efforts to make their Co-operative Banks an improved substitute for savings banks. The success of Co-operative Credit as a thrift institution accordingly shines forth to-day with increased splendour.

The object of the present book is to describe what exists. From more quarters than one has it obtained the eulogy of being *the most complete book on the subject published in any language*. It has been the author's endeavour to maintain such distinction. For a statement of the why and wherefore of the several practices which make up

Co-operative Credit, the causes which make it succeed, the objects underlying each distinct usage, the dangers to be guarded against in every particular, and generally the *rationale* of Co-operative Credit, readers interested in such matters are referred to the same author's "CO-OPERATIVE BANKING: ITS PRINCIPLES AND ITS PRACTICE"; for Rules, and Directions how to apply them, to the author's "A CO-OPERATIVE CREDIT BANK HANDBOOK," both only recently issued.

What is here said will show that there has never been a more successful or effective movement than that of Co-operative Credit, rendering equally valuable services alike economic and educational, cheapening the use of money, diffusing its employment, and at the same time training those for whom access to money is opened to intelligent use of it. Therefore the hope may be entertained that the tale of its origin and growth in all its various phases may once more prove of interest.

H. W. W.

March 1910.

PREFACE TO THE FIRST EDITION.

THE subject discussed in the following chapters is new to most English readers. The kind interest with which articles dealing with one portion of it, recently published in the *Economic Review* and the *Agricultural Economist*, have been received, the attention accorded to lectures delivered in various places, and the direct bearing which the matter obviously has upon our present social—that is, at bottom, economic—troubles, encourages me to hope that in some quarters, at any rate, some information upon one of the most signally successful movements of our century may prove not unacceptable.

I desire to record my sincere acknowledgments for information very liberally given, orally and by letter—in some cases at no small sacrifice of time and trouble—to a considerable number of gentlemen connected with the cause of provident action and co-operation, more particularly to the Hon. L. Luzzatti; Herr R. Raiffeisen; M. E. Tisserand, *Conseiller d'Etat et Directeur de l'Agriculture*, in the French Ministry of Agriculture; Dr. von Langsdorff, of Dresden, and other heads of Agricultural Departments of German States; Dr. von Jekelfalussy, Chief of the Statistical Office of Hungary; our Chief Registrar of Friendly Societies; Dr. von Keussler, of St. Petersburgh; Director Cremer, of Neuwied; Professor

Concini, of Rome; M. A. Micha, Secretary-General of the Federation of Belgian *Banques Populaires;* M. A. Yersin, Director-General of the *Schweizerische Volksbank;* M. L. Durand, of Lyons; and the Very Reverend Father de Besse.

H. W. W.

February 1893.

PREFACE TO THE SECOND EDITION.

So much new matter has been added to the earlier "Record" of People's Banking, that this Second Edition may almost rank as a new book.

In our own country the idea of Co-operative Banking has, as I must gratefully own, met with a far more ready reception than I had any reason to anticipate. The interest betokened has appeared to me to call for fuller and more detailed description of many points affecting the subject than I felt warranted in entering into in the first edition.

I owe thanks for information freely given to so many kind friends that it would be hopeless to attempt to mention all by name. I must, however, single out one, namely, Mr. E. W. Brabrook, the Chief Registrar of Friendly Societies, whose ready help in the preparation of Model Rules, alike for PEOPLE'S BANKS and for VILLAGE BANKS, has proved invaluable.

Please God, the good cause having succeeded in enlisting interest, will now speed here as it has sped elsewhere, to the benefit of millions! So far as I am able, I shall always be happy to assist with further explanation in whatever quarter such assistance may be asked.

H. W. W.

June 1896.

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PEOPLE'S BANKS

A RECORD OF SOCIAL AND ECONOMIC SUCCESS

CHAPTER I

INTRODUCTION

Social importance of the matter.

AT a time when every mind appears busy with schemes of "social reform," when every effort, alike of statesmen and of philanthropists, seems bent upon doing something to raise the social status and improve the material condition of the poorer classes, no excuse should be needed for calling attention to an institution which—British, as some of its supporters hold it to be in its prime origin, but adapted and developed abroad—has in some neighbouring countries proved more helpful than any other in furthering the objects aimed at, but which among ourselves has thus far scarcely attracted sufficient notice. The problems which at present perplex us are not, so we ought to remember, our peculiar monopoly. They call as clamorously for solution elsewhere. In France, in Germany, in Austria, in Italy, in Belgium, as among ourselves, Labour jostles Labour, the rapidly increasing host of those who have to earn their living by toil demand with a voice growing louder and louder the boon of independence and a larger share in the rights and comforts of life. There, as here, the plaintive cry of the destitute, the suffering, the helpless, homeless, foodless—whom the country has brought forth and the country, it is contended, ought to sustain—may be heard

Its bearing on the Labour Question.

appealing for relief. There, as here, in one shape or another—whether as a matter of possession or as a problem of providing more ample means wherewith to improve what is already possessed—the troublesome Land Question casts its dark shadow across the scene. It cannot, of course, be argued that other nations have been more successful than ourselves in *finally* solving the problem with which we are all grappling. But in respect of one or two points, amid a good deal of profitless experiment and actual blundering, some of them seem at any rate to have come nearer to sound remedial action. They have discovered that it is not necessary to assume, as many among ourselves appear to do, that Capital and Labour, whose recurring strife is responsible for one of our main perplexities, are necessarily antagonistic forces, with different interests, different aims, different aspirations—belligerent parties, between whom peace can be established only from time to time, as a matter of terms. In one instance, at least, they have managed to bridge over the dividing gulf and blend the long-opposing interests into one, by making, in the apt words of Schulze-Delitzsch, the working-man "his own capitalist." And they have shown that other means are available for adjusting differences arising between various factors of national production than encroachments upon production itself; that it is not an inexorable law of Nature that whatever is given to Labour must necessarily be taken from someone else—be it capitalists employer, or be it rate-paying community. Not everywhere is it contended that Labour should be benefited by a restriction upon output. Emigration, though necessarily tolerated, is looked upon by some of our neighbours rather as an evil to be put up with than as a desirable remedy. When employment runs short, the first question asked by them is, whether it is not possible to provide

Its bearing on the Land Question.

Capital and Labour are not necessarily antagonistic.

The Working-man "his own Capitalist."

more, by creating new sources of production. Foreign methods may not be our methods—in some instances they distinctly cannot be. But some of them may upon inquiry prove applicable to our case. And of these the most promising, as also the most adaptable to our own—as to most—circumstances appears to me to be that for which our neighbours are beholden to Schulze-Delitzsch, Raiffeisen, the late Léon d'Andrimont, the Hon. L. Luzzatti, and Dr. Leone Wollemborg—who have taught them to establish "People's Banks," and thereby to create large capitals providing a new stimulus to business and abundant employment without cost to anyone.

Want of Employment remedied by increase of Production.

One can scarcely help remarking upon the curious coincidence of facts which opened to Europe at exactly the same period, about 1849, two essentially different roads to vast riches. It was while our first emigrants were rushing to the newly discovered gold-fields of California—big with promise, tempting to the eye with the alluring glitter of precious metal—that in a small village in the bleak Westerwald, and in a petty provincial town of that portion of Saxony which Prussia annexed in 1815, the first spade was thrust into a "gold-field" of a very different type, looking at the time bare and barren, but concealing under its unpromising crust a store of wealth, larger and more beneficent in its effects by far than the gold deposits of the State which the American Confederation had then just finally made its own. Which of the two gold-fields has thus far yielded to Society the larger volume of tangible riches, it may be open to question. Which has more enduringly benefited our race—the metal which began by provoking robbery and disorder, and which, along with much good service, forms a standing incentive to greed, envy, and dishonesty; or the "capitalised honesty" which plants virtues where there were vices, makes people thrifty, industrious, sober, honest, and enables them to build for

Two Californias.

whole classes habitations which no financial crisis can wash away — to such question there can be but one answer.

Success of People's Banks.

What untold riches these People's Banks have within the six decades of their existence made available for small folk's needs, what millions they have added to the wealth of the countries in which, as Léon Say has testified, they "flourish throughout"; what vast amount of misery, ruin, loss, privations, they have either averted or else removed, penetrating, wherever they have once gained a footing, into the smallest hovel, and bringing to its beggared occupant employment and the weapons wherewith to start afresh in the battle of life, it would tax the powers of even the most imaginative economists to tell. Propagating themselves by their own merits, they have overspread Germany, Italy, Austria, Hungary, Switzerland, Belgium. Russia is following up those countries; France is striving strenuously for the possession of co-operative credit. Servia, Roumania, and Bulgaria have made such credit their own. Canada has scored its first success on the road to its acquisition. Cyprus, and even Jamaica, have made their first start. Ireland has substantial first-fruits to show of her economic sowings. South Africa is groping its way to the same goal. Egypt has discovered the necessity of co-operative banks, even by the side of Lord Cromer's pet creation, the richly endowed "Agricultural Bank." India has made a record beginning, full of promise. And even in far Japan, where Ninomiya Sontaku has paved the way, and in China, accustomed to a congenerous, very primitive institution, people are trying to acclimatise the more perfected organisations of Schulze-Delitzsch and Raiffeisen. The entire world seems girdled with a ring of co-operative credit. Only Great Britain still lags lamentably behind, scarcely troubling itself to realise the existence of such a thing.

A system based upon Self-help.

Yet the solution provided for the world-wide problem has all the more to recommend it among ourselves, because it is essentially based upon a principle of which this country has long been regarded as the specific home : the principle of self-help. Self-help, it is quite true, has of late gone a little out of fashion. We are taught sometimes to look to other deities to bring us up out of the Egypt of want and distress. Nevertheless, whatever it be reserved for State-help to accomplish, in England self-help is not likely long to want adherents. Unfortunately we have thus far given to this great power only half its practicable application. "It is self-help," so Mr. Gladstone phonographed, early in 1890, to a delighted body of correspondents across the Atlantic, "which makes the man ; and man-making is the aim which the Almighty has everywhere impressed upon Creation. It is thrift by which self-help for the masses, dependent upon labour, is principally made effective. In them thrift is the symbol and the instrument of independence and liberty, indispensable conditions of permanent good."

Mr. Gladstone on Thrift.

Yes, that is admirably said, and with the truth of Mr. Gladstone's words no one will be disposed to quarrel. That is the interpretation which we have thus far put upon "self-help." "Save, lay by, economise, make the most of your pence, alike in provident accumulation and in economic outlay," that is the familiar counsel which for many a year back we have persistently addressed to our poorer brethren. Going further than counsel, we have provided for them facilities which have served as models to other countries. Our Savings Banks, our Provident Societies, our Co-operative Stores, remain unsurpassed in the known world, and secure to us without question a high place among nations in respect of the practice of thrift.

But does not all this, after all, represent only one side

of self-help? Could not the same power which enables us to garner the ripe fruit be impressed into service also to assist us in tilling the soil and producing it?

Self-help made Productive as well as Provident.

It seems strange that we should never seriously have turned our thoughts to this problem. There are so many bits of waste lying unproductive in our economic system which self-help, if it is within its power, might with advantage be called in to cultivate. There is so much labour which cannot be brought to the point at which our orthodox form of self-help begins—the point of being able to save and lay by. And even where there is employment, there is still so much available labour and ability running unprofitably to waste! There is so much skill and opportunity which for want of means cannot be turned to full account! We are rich, no doubt. But the daily conflicts between Capital and Labour show that with all its abundance Capital is among us not equal to the demands made upon it; that, rapidly as it has grown, Labour has grown very much faster; and that, for want either of will or of power, it is still relatively too small for our national needs—too small, at any rate, at the fructifying points. Then, is there no means of supplying the want, of creating the capital which is wanting, and, where there is admittedly opportunity and working power, of placing also the material to work upon at the command of the willing workman, to the diminution of misery and destitution, and the happy increase of the productive power of the nation?

What relief it may bring.

The answer, given in the affirmative, is to be found in "People's Banks." To suggest one illustration of what they may accomplish—we well understand the all but hopeless difficulty of dealing with the huge mass of helpless misery which daily, articulately or inarticulately, calls upon us to be relieved. Though our charities flow very unevenly from different purses, in the aggregate no nation in the world gives more largely, nor more readily.

For all that, if Gregory the Great is right, it is to be feared that even the most charitable among us are sorry sinners—even in their very charities. For although they "offer rightly" enough, they most evidently do not "distribute" at all as they should (*si recte offeras, non recte dividas, peccâsti*). Now let us suppose that through this vast, unwieldy mass of distress a line might be carried, separating, not the deserving from the undeserving—that is not our affair—but those in whose hands money might be counted upon to fructify, to give them employment and repay itself out of their toil, from those in a different case; and let us suppose that to each and every one of the former category could as much money be advanced—readily, easily, and at a cheap rate—as they think that they have employment for. By what a substantial proportion would the tax upon our resources, both of purse and of application, be reduced! Not only would the mass of destitution to be dealt with dwindle very materially, but former victims would at once become effective helpers—taxpayers, it may be employers, givers of charitable support instead of claimants to it. Let us further suppose that, even beyond the limits of actual want and non-employment, all those willing workers among us who, like our well-known heroes of self-help, see their opportunity for a great enterprise, who have the ability, but want the means, could go to the same source of supply and there obtain, without the indignity of begging, without having to make a special favour of the loan, what they require—let us assume that the farmer or the allotment-holder could obtain the wherewithal to drain, to manure, to improve his field according to modern principles, the householder the wherewithal to set up and furnish his home cheaply, the small tradesman the means wherewith to stock his shop, the small artisan the funds for carrying out profitable work—whatever the want, whatever the calling might be, sup-

pose that it could be supplied—what a vista of wealth and prosperity beyond the wildest dreams of hope, profitable to the individual, profitable to the community, appears to open itself to one's view! It seems almost like a vision of fairyland.

Well, and can People's Banks accomplish all this?

What People's Banks may do.

The answer is to be found in that vast network of flourishing banks spread out over Germany and Italy, numbering by the thousand, turning homeless labourers into cultivating owners, unemployed journeymen into thriving traders, starving peasants into substantial yeomen, stimulating everywhere, in Léon Say's apt words, commerce, industry, and *la petite culture*, which under their beneficent shelter develop "with increasing energy" in those neat, prosperous villages, enriched by smiling gardens, orchards, and heavily bearing fields, which spring up, as if by magic, not in the fertile valley of the Rhine only, but in the barren Westerwald, on the erst neglected plains of Venetia, and in the wild Rhön mountains.

In Towns.

It is to be found in the bustling business going on daily in that palace of the *Banca Popolare* which you may see in Milan, where a full hundred of clerks are continually at work, besides about 140 unpaid officials, passing tens of thousands of pounds through their hands every day, £80,000,000 in the year, a stream of gold steadily and rapidly increasing in volume. All that work is done with a clockwork regularity and an exactitude in every detail which could not, says Léon Say, be surpassed in London or New York. And all has grown up out of genuine "People's" business. Most of the transactions are small—drafts of ten lire (eight shillings) are not at all uncommon. Lira by lira has that magnificent fabric been reared up out of small folk's business—"drop by drop," says its founder, M. Luzzatti, "like a stalactite grotto"—till it has grown to be one of the largest banking establishments in all Italy. There

are something like eight hundred banks of this order, small and great, in Italy, doing among them a full third of the country's banking. In Germany there are thousands. Or, to ascertain the results in a different aspect, you should, once more in Italy, go out into the country and ask the *muratori* and the *braccianti*, whom you see there building and making roads—even an entire railroad—without a master to control them, where they got the money from which enables them to do the job on their own account, putting the middleman's profits into their own pockets. Or else you should walk into one of those thriving villages in Venetia, in which Dr. Wollemborg has set up his *casse rurali*. A few years ago, under the evil influence of hindrances not unknown among ourselves—the accumulation of landed property in few hands, habitual absenteeism, and, in addition, a rigorous exaction of rents such as, happily, we have no conception of—that district was the usurer's favourite hunting-ground, and the poor drudges who cultivated it had not a centesimo to call their own from week's end to week's end. Now the usurer is gone, and the cultivators are doing well, and laying by. Or, again, you should go into the valley of the Rhine, where the Raiffeisen Banks have been longest at work, and observe to what extent homes have been made habitable and comfortable ; how cultivation has been improved ; how machinery has been purchased, and the best fertilisers and feeding stuffs ; how the vintner has been enabled to sell his produce for cash at double the former rate of return ; how the small peasant can now buy his implements and manures, of the best quality, at the cheapest wholesale prices ; and you should see how small industry and trade have been developed, how the usurer, once all-powerful, has been driven out of the field, and those once poor men have become small capitalists. One is afraid of falling into a strain of rhapsody in describing

Working-men their own Employers.

In the Country.

'A New World."

all these results. "I have seen a new world," so broke out, in explicable admiration, the Hungarian deputy, Professor von Dobransky, charged with a mission of inquiry, on seeing this country of newly created plenty, "a world of brotherhood; it is a world of brotherly love and mutual help, where every one is the protector and the 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." This seems high-flown language. But other visitors, dry, sober political economists, like Léon Say, Eugène Rostand, Professor Held, and Fournier de Flaix, speak in exactly the same strain. The late Emile de Laveleye expressed himself with less of rapture but not less of emphasis. The wealth which this new instrument has brought forth, as by a touch of Midas, wants to be seen to be understood. Looking at it, and reckoning up its benefits, one feels indeed as if on economic ground "a new world had been called into existence to redress the balance of the old." And "all these wonders which I have seen," so writes Léon Say, "are the wonders of private initiative and decentralisation. It is private initiative, it is the decentralisation of credit which is the dominating cause of all this progress in wealth. It is co-operation which has created it all (*la mutualité a tout créé*)."

"Co-operation has done it all."

Moral Results superior to Economic.

And the tale of our "wonders" does not end here. "The moral results," writes Eugène Rostand, after his second visit to the humble co-operative banks of Italy, "are to my mind superior still to the material." To apply Signor Wollemborg's apt illustration, the golden sunshine of thrift and co-operation, wherever it has cast its rays, has "unveiled," and brought to view in plenty, unlooked-for virtues which had long lain hidden, like flowers shrouded by the night. The idle man becomes

industrious, the spendthrift thrifty, the drunkard reforms his ways and becomes sober, the haunter of taverns forsakes the inn, the illiterate, though a grandfather, learns to read and write. It sounds like a tale from wonderland. Yet it is all sober fact. We find a Prussian judge officially reporting that litigation, especially in respect of claims for debts, has very sensibly diminished in his district—thanks to the establishment of a co-operative bank. We hear a German priest confessing that the new Village Bank in his parish has done far more to raise the moral tone of his parishioners than all his ministrations. In Italy we have another parish priest—one among many—Don Rover, the *paroco* of Loreggia, writing only a brief time after the setting up of the co-operative *cassa* in his parish :—

"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 pay the debt contracted, keeping the value of the calf as net gain."

Learned professors and Ministers of State, dry economists, ministers of religion, men of business from all countries—all, in fact, who have had an opportunity of judging by the tests of their own eyes of the merits of this new Fortunatus's purse, join in the chorus of laudation. One is not surprised to find foreign Governments steadily encouraging institutions whose aim, in the words of one of their founders, Schulze-Delitzsch, is "Peace"; in the words of another, Léon d'Andrimont, "Order and Economy"; while in practice they prove, according to

the testimony of Léon Say, "the most effective weapon against the development of Socialism."

Appreciation by the Poor.

But to gauge the value of People's Banks at its fullest, one should go among the people whom they have benefited—the small tradesman, the peasant, the cottager, who has by their help purchased, rod by rod, a little holding which he surveys with pride. One should go, as I have done, stick in hand, walking from cottage to cottage, and hear these people describe the contrast between erewhile and now, and listen to them telling of their little troubles and embarrassments, and how the bank stepped in to relieve them. Many such a tale there is which could not fail to warm a philanthropist's heart. If there is one proof more conclusive than any other, as showing the practical utility of these banks, it is the devotion and the gratitude which they evoke from those whom they support and who in turn support them.

Simplicity of the System.

And, so inquired into, the system presents itself as so simple! Every peasant appears able to understand it. He delights in bringing out the books, in showing them to you and explaining what all the entries mean. He can make the whole organisation clear to you.

Its Security.

And, moreover, the business is so safe! Hence in part the remarkable popularity of co-operative banks as receptacles for savings deposits. The money deposited with such societies in Germany at the close of 1907 amounted to £125,000,000, equalling the amount held collectively by the large banks. "Not a *sou* has been lost," so declares M. Rostand, the President of one of the largest Savings Banks in France, on behalf of the Italian *casse rurali*. "Our losses have been altogether trifling; in the times of economic crises less than those of other banks," writes to me Professor Concini, on behalf of the *banche popolari*. "Not a *pfennig* has ever been lost, either to creditor or to depositor," so the heads of the

great Raiffeisen Union make it their boast, after an experience of some sixty years, and speaking on behalf of a union now increased to beyond five thousand associations.

Our past indifference to the subject.

It must seem strange indeed that, with our acknowledged needs, with our large means, and our familiarity with banking, we should never before have seriously directed our attention to an institution which with so slight an effort can produce such marvellous results, which goes on spreading its network continually over new districts, meeting with the same success everywhere, going nowhere but to conquer—we, who otherwise are not slow in our appreciation of money and of opportunities for business. It seems doubly strange that we should so long have neglected this modern development of banking, when we are told that it was our Scotch "cash credit" which first suggested the idea to foreign co-operators. In their earliest days our Co-operative Congresses did indeed nibble a little at the subject. Their members had heard of the "wonders" wrought abroad, and were anxious to reproduce them on British soil. They were not, however, quite clear among themselves as to what they really wanted—whether People's Banks, to help poor folk by loans, or purely co-operative business establishments, to earn banker's profits for their shareholders and finance speculative undertakings calling themselves "co-operative." And so the inquiry ended in two disastrous experiments. In 1886 our Government made those foreign banks a subject of consular inquiry. The Blue Book which has resulted from those labours gives them very becoming credit. But, unfortunately, in its information it is full of inaccuracies and errors. I can say nothing better in respect of later official publications issued in London. They are all wanting in accuracy and fulness of information—excepting only the admirable digest from the pen of Sir F.

Nicholson, published at Madras, which, of course, has scarcely been studied in England, and which treats only of "agricultural" banks.

In real truth our knowledge on the subject, as a nation, is still little more than a blank. I hope that I have made out my case so far as to show that there is some ground for endeavouring to fill up that vacant space, and that People's Banks ought to possess some interest for us. To the fullest extent they carry into practice the admirable maxim on which the Alsatian philanthropist M. Dollfus based the generous and useful work which has helped to make him famous and his memory beloved among working folk: *Aidez-à-faire*. They do not *give*, but *help*. They help those to help themselves whom by other means, so long experience has proved, we cannot adequately assist. If in the following chapters I can but make clear by what services and methods People's Banks accomplish this, how they have grown up abroad in a variety of form which seems to indicate almost inexhaustible adaptability, how wonderfully they have thriven, and what truly astonishing amount of good they have accomplished, more especially among the poor and neglected — the struggling toiler, alike in town and country, the usurer's victim and the exactor's drudge— my tale ought to be worth the telling.

"Aidez-à-faire."

But I need scarcely add that I hope to do more; that by the account which I shall give of the "wonders" accomplished—the work of enrichment, of education, and of a diffusion of sound principles, alike economic and moral, I hope to awaken sufficient interest to induce well-wishers of their country to provide a home for the beneficent institution which has performed such admirable work abroad, also in this laggard island.

CHAPTER II

THE GENERAL IDEA

THE bare idea of co-operation in matters of money was not new when the two originators of the co-operative movement in Germany resolved to create for their country a co-operative speciality. There are traces of it to be met with in the history of most nations. The Spanish *compañia gallega*, the Portuguese *sociedade familiar*, the Italian *monti nummari*, the Russian *watagas*, the South Slavonian *droujinas*, the Indian *nidhis* and *akharas*—all these institutions show the principle of co-operation for the common obtainment of funds put into practice in some more or less elementary way. It cannot occasion wonder that, when the second French Revolution quickened the desire for full emancipation among the toilers of an impetuous nation, the idea thus far rudimentarily applied should have been made to assume more definite form. It was in those days of emancipation by fire and sword that the chemist Gall—the same who invented the method of sweetening sour wine by the addition of fruit-sugar during fermentation—conceived the idea of "fighting Capital by a combination of the many small purses of Labour."

The general idea is not really new.

But it was one thing to grasp the bare idea, and quite another to put that idea into really workable shape. Gall's crude proposal to fight cash with cash—cash which could bide its time, with cash which might, every penny of it, be called for any day to keep its owner's body and soul together—erred, of course, wide of the mark. What gives the capitalist his main advantage over the

Difficulties its application.

man with no capital, is not his hard cash, but the *credit* which that cash commands, and which multiplies its producing power five and tenfold. If, therefore, the poor man was to be made "his own capitalist," it must be by assuring to him the help of *credit*—the very last thing which in the ordinary state of affairs is accorded to him, but of which, in Signor Viganò's appropriate words, "he stands in far greater need than does the rich." "He has no credit," says Giustino Fortunato, "because he is destitute; and he continues destitute because he has no credit; and so he moves on hopelessly in the same vicious circle, from which there is no way of escape."

Efficacy of Credit.

The question to be answered then came to be: Could by some means or other credit be provided for the poor? Fortunately, Credit is, as Professor Laurent rather happily points out, in words quoted with approval by the late Léon d'Andrimont, satisfied with very little. "Credit," says the professor, "is not the creator, but simply the mover of capitals. It multiplies indefinitely their services; it quickens their movement, as the rail quickens the revolution of wheels; it annihilates the obstacle of time, as steam annihilates the obstacle of space; but it does not create. It uncovers, it awakens, it fructifies; it does not invent. It is a marvellous power, without which the economic movement would not exist; but it is not a panacea. Even with enormous effective values it cannot do everything, and with nothing it will never accomplish anything. *However, with next to nothing, and that is the case of the People's Banks, it will effect wonders.*"

Only small Funds required at starting.

The experience of People's Banks has fully justified this opinion. Schulze-Delitzsch, who has long been looked upon as the main pioneer of modern co-operative credit, began his work with very little. It was but like a grain of sand. But in Signor Viganò's words, it gave

Co-operation the πού στῶ, from which the world might be lifted out of its hinges. It was a paltry beginning, so one would have thought, to lead up to the present wealth and influence, in the possession of which the Schulze-Delitzsch Banks keep something like £100,000,000—the same sum that Mr. Chamberlain asked for to secure employment for our working-men—continually circulating in trade, agriculture and commerce. Raiffeisen borrowed £300, which had to be repaid within a comparatively brief time, to begin his work upon. M. Luzzatti started the giant establishment at Milan, which now commands a paid-up capital and reserve exceeding £500,000, with a puny sum of £28. Signor Leone Wollemborg began his banking operations for his *casse rurali* with literally nothing at all except credit. And yet these co-operative banks among them have created milliards' worth of property, besides becoming themselves substantial institutions with great wealth, in M. G. François' words : "*Une véritable puissance financière, dont l'importance économique n'a pas besoin d'être démontrée.*"

Early Co-operation in Spain and Portugal.

In 1849, however, all this was experience still to be acquired. In Spain and Portugal, unobserved by English or German co-operators, the poor peasants of the *compañia gallega* and the *sociedade familiar* had in their own elementary way solved the problem of co-operative credit up to a certain point. Their shrewd common-sense had taught them that by converting their family, so to speak, into a joint-stock concern, endowed with continuity and common liability, they would be offering very much better security to the money-lender, and thereby enabling themselves to obtain very much more favourable terms for advances. And on this principle they continued through generations to contract their little loans, unconsciously providing a useful stimulus to thrift and economy, and attracting into the

family home or holding many a *real* which without such inducement would have gone in finery or dissipation.

The Problem to be solved.

But these men had at any rate something to pledge. Schulze-Delitzsch's problem was, in his own words, "to procure capitals without a capital of guarantee"—"to find," as M. F. Passy has put it, "means for giving credit to those who have no security to offer in exchange." The question to be solved, in fact, was this: Could labour be pledged for money? Sir Robert Morier, in an excellent paper contributed to our first Co-operative Congress, held in 1869, answers that question in the affirmative. He says: "The skilled artisans of a community are as good a subject for a mortgage as the steam mill which supplies it with flour, or the broad acres which furnish the corn for the mill. All that is wanted is some equally safe means of assigning to the creditors a lien on the former as on the latter." That is the very point. In practice, of course, the problem did not in every case take this extreme shape. For, as in the case of the Iberian peasants, there was often something, at any rate, in the borrower's possession, which might serve as security—a holding, or a house, or some chattels. But these in most instances did not amount to very much; and in the main the problem still remained as Sir Robert had put it, and resolved itself, in M. Luzzatti's words, into one of finding "moral" guarantees and devising means for "the capitalisation of honesty," to serve as a pledge of security.

Sir R. Morier's Opinion: Labour can be Mortgaged.

"The Capitalisation of Honesty."

The work has been accomplished, as will be seen, by a variety of methods. Still, looking at the banks collectively, one may agree with Léon Say, who says that, differing in details, in principle they "all belong to one family." The family has proved a lucky one; for all its members have been singularly successful, though successful in different degrees. And even that difference is not without its value. For it teaches us what an

essential element of success in this matter is the frank adoption of the principle of self-help. It clearly shows that the more fully and undilutedly banks have accepted that principle, the better, in the long run, have they thriven. All leaning on foreign supports, whatever ostensible gain it may have brought at the moment, has in the end turned out to be nothing but loss, and it has been proved beyond the shadow of a doubt that, in Schulze's words, to become "his own capitalist," the working-man must be "the instrument of his own emancipation." "The only capital (in this application, of course) which will endure," so says Professor Laurent, with the approval of Emile de Laveleye, "is the capital created by the working-man himself. It would be idle to lend to him or to give him the implements for his work. Such gifts, like an inheritance under the touch of a spendthrift heir, would be squandered in little time."

The Working-man to work out his own salvation.

We ought to know that this is so, though we have given little evidence in the past of our having mastered the fact. The record of our benefactions designed to help and raise the working classes is a record, to a great extent, of desires and efforts which do our philanthropists credit, but to the same extent it is also a record of practical failures. Millions upon millions have been thrown away, as uselessly as if they had been cast into the sea, in kindly intended but injudiciously executed attempts to do good to others according, not to their own, but to our ideas, to give them ruffles when they wanted a shirt, and to give that luxury in a way calculated rather to make the receivers careless than to make them thrifty. Only a short time ago we had fresh proof of this given us in the complaint publicly expressed by a nobleman who had liberally purchased "a large tract" of land beyond the sea, on which he had purposed to settle English emigrants. The men accepted the free passage gladly, and, that done, made their way to a more

Wastefulness of Charities as compared with Self-help.

congenial settling ground in the United States. Their intending benefactor had thrown his money away. He had pressed upon his beneficiaries what they had not asked for and did not want, and what they considered that they might relinquish without ingratiude. Hundreds of similar instances might probably be quoted, if one cared to ransack the history of our charities.

Throughout history there seems to have been a peculiar bane of failure attaching, like a Pandora's curse, to those provident or charitable enterprises which did not rest upon self-help. Either they did not reach the proper people, or they failed in their effect upon those people, making them unthrifty instead of thrifty; or else the method chosen proved unsuitable, or the safeguards were insufficient; or else, lastly, the funds were misapplied by their own guardians and turned to improper uses.

Instances quoted from Farnce.

France has a long tale to tell of very well meant but injudiciously conceived or else mismanaged enterprises—from that wretched waste of money downward, which in 1848 Thiers branded as "*cette grande folie*"—viz., the gift of 3,000,000 francs wherewith to endow national workshops—to the present day. The Emperor Napoleon III. tried his hand at such beneficent work. First he created a *Caisse d'Escompte*, endowed with a million of francs, of which he himself provided one-half, which was to advance funds more especially to productive co-operative associations. As it turned out, the rules had been so stringently drawn that no borrower could be found willing to comply with them, and the institution died without having done any good. Then the same Emperor started a *Société du Crédit Agricole*, which was more especially intended to benefit rural borrowers. The institution came to these men in such a questionable shape, it looked to their eyes so unfamiliar and suspicious that, timid as they habitually are, they shrank

from claiming what was willingly offered, and the *Société*, not knowing what to do with its idle money, invested a large sum in loans to the Khedive Ismail, which very soon put an end to its existence. The Empress Eugénie fared no better with her *Société des Prêts de l'Enfance*. Gambetta experimented with the same ingenuity, but unfortunately also with the same disappointing result. His *Caisse Centrale*, formed with the very best object, soon found itself on the straight road to failure, because it could not attract the one class of customers whom it wanted, and in the end it saved itself only by converting itself from a philanthropic into a business bank.

Difficulties of inducing the honest poor to borrow.

The truth is, it is not by any means easy to attract poor people of the right sort to the lending counter. With an ingrained sense of very honourable delicacy they shrink from accepting what either is, or else appears to be, a dole. There were non-co-operative philanthropic lending banks in many places in Germany before Schulze-Delitzsch and Raiffeisen entered upon their benevolent career. The late Duke of Saxe-Coburg—the grandfather of our King—more especially, had been careful to found some such in his dominions—at Gotha, Ohrdruff, Zelle, Ruhla, and elsewhere. But nowhere did these capitalist establishments accomplish any real good. In Berlin, so Dr. Crüger tells us, no man "with any sense of honour in him" would apply to them for a loan. Vagabonds came in plenty, but vagabonds were not to be supplied—though, to the loss of the institution, unfortunately a good many were. And when, for want of business, the banks at length closed their doors, though their capital had considerably dwindled by injudicious loans, a large portion of the funds remained unemployed.

Such unwillingness on the part of poor people, especially the poor peasantry, to come for loans to persons whom they do not know very familiarly, and by whom

they do not know themselves to be understood, has been the standing *crux* of the Governments both of France and of Belgium in their endeavours to carry into effect their pet hobby of establishing a form of personal agricultural credit. They have tried to do this with the help of the large resources at their disposal respectively in the Bank of France and the Belgian National Savings Bank, and through the medium of local committees—*comptoirs d'escompte* and *comptoirs agricoles*—whose members were selected with as great care as was possible, so as to secure persons acceptable to the local *clientèle*. It proved all in vain. The borrowers would not come. "If in a village," so complained the Belgian Minister, M. Graux, pouring out his griefs on this subject to the Chamber, "it becomes known that an inhabitant borrows, people at once begin to suspect that his financial position must be shaken. The trader, on the other hand, glories in his credit; the larger is his credit, the higher stands his repute. The peasant will not borrow till his affairs decline, and then he puts off borrowing as long as he possibly can; he will rather pay a high rate of interest to some avaricious notary, who may be trusted to keep his secret, than frankly apply for a loan where interest is low. Such are the ideas of our *campagnards*. In their view a loan brings with it a stigma of discredit." This description is true all the world over. The French Government has had much the same experience in its own country. And in Germany, Herr Cremer, when Chairman of the Union of Co-operative Loan Banks of Neuwied, told me that even the Raiffeisen Associations, which are thoroughly popular and self-administered, have in some of their districts found themselves compelled to put forward one or other of their wealthier members, so to speak, to "bell-wether" the poor to the lending table. Evidently it is only to lenders of their own place or district, and lenders of

their own class, or familiar with its affairs—who may accordingly be fully trusted to understand the position and the objects of the borrower, and to think none the worse of him for his borrowing—that this shy class of customers—as it happens, the only right ones to trust with money—will come.

Security is not obtainable otherwise than by Self-help.

And if it is only to such that the right borrowers will come, it is only such also who may be trusted to adapt their methods to the case, and be liberal without being careless as regards security. In the most typical cases already quoted from French economic history there has always been either too much or too little caution. To what extent official administration can shipwreck even a good fund, is shown by the fate of the *Legs Rampal*, liberally left by a philanthropist for the benefit of co-operative societies. Unfortunately Rampal entrusted the keeping of the fund to a Committee to be appointed by the Municipal Council of Paris ; and that Committee simply strangled the fund with red-tape. Framing its rules with municipal wisdom, it lent to those to whom it ought not to have lent, and did not lend to those to whom it ought, and by this means very effectually frustrated the entire object in view. In such manner the funds of *Legs* were for a long time systematically frittered away. In 1887, out of 437,000 francs lent out, 100,000 francs were reported irrecoverable. In 1899, out of forty-nine associations lent to, eighteen were found to be bankrupt, eighteen more in course of liquidation, and three suspiciously in arrear. On 1st January, 1908, the assets of the *Legs*, which began in 1882 with 1,411,062 francs, had dwindled to 415,980 francs. The losses alone endured by failure of societies to repay in 22 years, are officially set down as 288,766 francs. That is not an encouraging tale.

Even co-operative loan associations, so it has become plain from experience collected, more especially in Italy,

must not step outside the district within which they are genuinely local and co-operative, unless they would miss their effect. Co-operative banks, endeavouring to extend their work over a wider district by means of branch offices, where there was not sufficient touch, found themselves making a loss. The branch districts afterwards organised their own independent banks, based on touch and mutual knowledge of one another among members, and the new institutions throve. The losses sustained by co-operative credit associations in Germany in the course of their operations occur almost without exception amongst such as have attempted to work outside their own district or without a recognised district at all.

Self-help has succeeded where Charity has failed.

It is interesting to note the difference in the fate which has befallen, on the one hand, genuine co-operative loan institutions, supported and officered by those for whose benefit they are intended, and, on the other, loan institutions of a different type, be they official or philanthropic, however well conceived and organised.

Instance of Alsace.

One case in point is that of Alsace. The German Government, on taking possession of the newly conquered province, found popular credit unprovided for, and at the same time millions of marks, either savings banks' money or else communal funds, lying idle in its tills. With sound judgment, as it appeared, and great thought, it organised popular Advance Banks (*Vorschusskassen*), by which such available moneys were to be lent out to the peasantry and other small folk on very liberal terms under official administration. Every precaution was taken, yet the practical effect proved next to *nil*. Some eighteen years later Herr Raiffeisen planted one of his co-operative Village Banks on the same ground. Within five years that one multiplied to seventy-three. In 1892, when I visited M. Chevroton, the Chairman of the Provincial Committee, at Saint Hippolyte, there were 126, all thriving, all doing a large business, alike

in granting loans, and in taking savings. At New Year 1908 there were 414 societies with 48,892 members. Never had grain of seed fallen on more fruitful soil than that on which the official variety had barely germinated.

Experience in Italy.

Something very similar has happened in Italy. In 1869 the Italian Government, being anxious, like its neighbours in France and Belgium, to provide small agricultural cultivators with cheap and easy personal credit, by a special law authorised the formation of *banche agricole*, very similar in constitution and practice to the French *comptoirs d'escompte*. In 1882, of the thirty-odd *banche* so established, all but nine had collapsed. Of those nine only two were doing any business to speak of, and that, as it turned out, only owing to special circumstances acting in their favour. One would have thought that in that district surely there could be no demand for credit. Yet, scarcely had M. Luzzatti's *banche popolari* set up their tables on the same seemingly barren soil, but business flowed to them from all sides, and they grew in a few years to most successful establishments.

Experience in Germany.

In Berlin, where the late Emperor William's money, granted in 1865, on Prince Bismarck's urgent recommendation, to endow socialist associations of the Lassalle type, proved a hopeless waste, and where those philanthropic loan banks already referred to had to close their doors for want of business; and in Thuringia, where the banks supported by the various small Crowns accomplished very little—the Credit Associations established by Schulze-Delitzsch have thriven quite remarkably.

Frankenheim.

One very striking and characteristic instance comes to me from the Grand Duchy of Saxe-Weimar. There, in what not long ago was a forlorn district, something like a rural Seven Dials, stands the erst forsaken village of Frankenheim—poor, neglected, it was, with tumble-

down houses, all of them heavily mortgaged, badly tilled fields, and an uncouth, barbarous-looking race of inhabitants, rightly or wrongly reputed capable of any misdeeds, and possessing some few famished cattle, nine-tenths of which really belonged to the "Jews." In pity the Grand Duchess had some model dwellings set up, erected at comparatively considerable cost, but to be let at a nominal rent of 30s. a year. The success was not particularly encouraging. Some time after, the Lutheran vicar of the parish resolved on trying the effects of a Village Bank of the Raiffeisen type. With the help of the money so secured—on these poor people's own collective credit—he built houses, each of which, with the ground upon which it stands, and the garden surrounding it, cost a little under £60. For these houses the occupiers are required to pay rent representing $4\frac{1}{2}$ per cent. interest, plus $\frac{1}{15}$ or $\frac{1}{20}$ of the principal each year, by way of sinking fund, therefore in all, according to circumstances, either £5 12s. or £6 12s., in consideration of which the houses become their own after a certain period. All these houses have been readily taken up, the tenants pay their rents regularly and, thanks to the money brought into the village, the whole face of things has become changed. The dwellings have become decent, the gardens well kept, the fields well tilled, the "Jews" have been paid off, the cattle are well fed, and the human inhabitants are known throughout the country as orderly, well-conducted, industrious, saving and thriving folk.

The Lesson to be drawn.

From all these instances, and more which are on record—no doubt they might be matched in this country; only we possess no co-operative banks to bring home the lesson—it seems unmistakably evident that institutions like those now contemplated, formed to assist poor people with money which is to be well expended and honestly repaid, must not, if they are to be of real benefit to the borrower, to promote useful outlay, and thrift,

and honesty, come to him like little Providences from outside, with a strange face and a condescending air—Providences whose gifts cost him nothing, and for aught that he is aware of may cost no one else anything, and may be repeated *ad libitum*—but must be his own creation, raised up, as M. Luzzatti, the founder of the ***banche popolari***, puts it, " by a heroic levy on his daily wages." *If he is to value the gift, he must be his own benefactor; if he is to deal scrupulously with it, he must be its guardian*. The rich man's dole, coming as from a rich man, is held in comparatively slight estimation, as issuing from a full purse in which it will not be missed. Hence those ruinous losses, by repeated default, in the French philanthropic funds founded by the State, or the Emperor, or the Empress.

The Poor Man is the most scrupulous Repayer.

Wherever, on the other hand, the lending institution has been the borrower's own genuinely popular and genuinely co-operative creation, there has been found to be no more regular and more scrupulous repayer than the small man. Even the French *Crédit Agricole*, which was but moderately " popular," has not lost a penny by its peasant customers, as the late M. Josseau has honourably testified. The debtor who wrecked the institution was the Khedive. The peasant may be tardy in his payment, so says M. Garreau in *Les Sociétés Coopératives;* but once his sense of responsibility and honour is aroused, he is sure to pay. Similar testimony comes from all quarters. In Germany we have Raiffeisen bearing witness, whose banks never lost a penny ; in Italy M. Luzzatti ; in Portugal Senhor Costa Goodolphim. In Italy, in the *casse rurali*, ministering to the poorest of the poor, not a centesimo has been lost. Emigrants send in their debts from America, and when by chance a man is so hopelessly out of pocket, through things going wrong, that he really cannot repay, his fellows with a creditable sense of class honour make up the amount.

It is just the same thing in America. What the "People's Banks" were which flourished in the United States before the Civil War, to revive in later time practically as Building and Loan Associations, we do not quite know. There is no precise record left of their operations. Except in New York, where they were made the instrument of reckless speculation, they did well. And evidently they dispensed more personal credit than do their modern antitypes. For we find the Commissioners appointed by the United States Government to inquire into their practice and success reporting that they have "demonstrated beyond doubt that, with equal prudence and intelligence on the part of the lender, *loans to the industrious and economical poor are as safe as those made to any class whatever of the rich.*"

Sir R. Morier's Cardinal Rules.

By what methods such "prudence" should be exercised Sir Robert Morier has very accurately pointed out in his paper already referred to. He mentions as the three main conditions of success, the pillars upon which the credit structure must rest, the following:—(1) Maximum of responsibility; (2) minimum of risk; (3) maximum of publicity. Perhaps the elements of successful organisation might be better grouped under other headings, but in substance it would come to the same thing. However, beneath those supporting pillars, experience—ample by this time, alike on one side and on the other, confirmatory and refuting—has made it quite plain that, if the fabric is to stand and to show itself equal to the burden placed upon it, there should lie a foundation which makes the structure entirely popular, familiar to those who are to use it, and created by themselves, a thing with which they can identify themselves, therefore co-operative, and in the best sense "democratic." "*Avec les banques populaires,*" so said the late Léon d'Andrimont explaining the fruitful work which he has accomplished in aid of the poorer classes in Bel-

"Democratised Credit."

gium—"*le crédit est démocratisé*." "Capital," he goes on, "which was previously beyond the reach of workers, has been brought close up to their doors." Making this principle his own, Léon Say affirms the object of People's Banks to be—"*la démocratisation du crédit*."

In England Credit is still the Monopoly of the Rich.

That hits a weak point in our economic system. We pride ourselves, on both sides of the political boundary line, upon our "popular" institutions, which make us, as we think, the most "democratic" nation in Europe. Nevertheless in respect of the main supports of the two great divisions of our economic fabric we are distinctly anti-democratic. As the basis of agriculture we have land laws which, for good or for evil, are, from a democratic point of view, much behind those of other countries. And as the basis of commerce we have credit still almost the monopoly of the rich. We do not, accordingly, know that which, thanks to their People's Banks, the Germans and Italians have well learnt, namely, what an ample and practically inexhaustible resource of productive power there lies hidden in the labour, the frugality, the honesty of the nation's workers, as material for what M. Luzzatti calls "capitalisation"—just as people who have not seen rivers like the Danube or the Rhine could not possibly estimate from the little rills and driblets which go to make them up what a vast volume of water may be collected from those insignificant sources. It is the object of the founders of "People's Banks" to bring those scattered streamlets together, to give them aim and force, and by doing so to make the very atoms which compose them more fruitful, more productive—by the sense of responsibility awakened, the principles of business instilled, the knowledge of dealing with money and an appreciation of its productive power diffused. It is quite true, as Dr. Johnson unkindly reminded Goldsmith, that it takes 240 poor men's pence to make one capitalist's sovereign. But once

the sovereign is so put together, it is a totally different sovereign from that taken out of the rich man's purse. It has behind it 240 wills, 240 pairs of watchful eyes, 240 thinking brains. It has, so to speak, become an animate sovereign, with prudence, energy, vigilance, diffused through all its parts. Every spring, every wire of the composite machine takes a personal interest in the collective doings, watching the other parts, guarding against loss and waste, correcting the slightest irregularity. And the more completely the distribution is carried out, the lower the "democratising" organism descends, so as to gather up from the lowest strata all available and useful elements, the more fully, so we see in the practical application of the principle abroad, does it realise its beneficent aim. Not without reason, accordingly, did M. Luzzatti inscribe upon his banner, when he started on what proved to be a triumphal progress of economic success, the apt motto : *Aspirare a discendere*.

"Aspirare a discendere."

CHAPTER III

THE TWO PROBLEMS

The Task is twofold.

IT may be well, before entering into a detailed explanation of the several systems of co-operative banking which it is proposed here to discuss, to consider briefly the general nature of the task to be dealt with.

Obviously such task is not a simple one. There are more problems than one rolled up in it. I speak of two. It may be urged that there are more. Employment, surroundings, class, locality, all these things necessarily impress their own distinct stamp upon the organisation adopted. And there are a variety of ulterior objects which People's Banks are designed to serve, often quite as important as the primary aim. However, for practical purposes it will be found that we can well group all the objects to be kept in view under two great heads.

However deserving of consideration the ulterior objects just alluded to may in themselves be, I propose, for practical reasons, to leave them altogether out of account here, and to confine myself to the economic side of the question.

Making Credit Accessible.

The object which we now have to keep in view is the main object for which co-operative banks are likely to be formed, namely, that of making credit accessible on the cheapest possible terms to those to whom the road to credit is at present barred, whatever be the cause, whatever also be their occupation, their surroundings, their position in life. Now, to employ a Francogallicism, whoever says "credit" thereby says "security," because without adequate security there can be no legitimate

Indispensableness of Security.

credit. And other than legitimate credit it is not desirable that there should be. It is therefore an entire mistake to look, as unfortunately not a few among us still do, on a purely superficial consideration of the subject, to *money* as the prime requisite. Money is always to be had. Money abounds in the world and scents out opportunities for investment as a fox scents its prey. "Money," so the late Lord Salisbury truthfully put it on one occasion, "is so plentiful that you can hardly get money for it. It is overflowing in the coffers of capitalists and the bankers." Money will be got, once you provide the magnet which never fails to attract it. And that magnet is security.

Now we are in our assumption dealing with a public among which "security," in the accepted sense of the term, is likely to be anything but plentiful. Possessions of some kind or other no doubt there will be. There is nobody likely to be found utterly destitute. And out of such small possessions, insignificant as they may appear, viewed by themselves—or, more probably out of daily earnings—contributions may rightly be asked, to add, by the adjunction of ringing cash, to the security already provided, as we suppose. At the outset, however, there may be only very little of such ready money producible, not nearly enough to serve as security for the loans to be raised. Nevertheless, there *is* security present; only that security is present only in scattered driblets, and in a shape which is not currently accepted. To make it available you have to gather your driblets together and put what is still only latent into a visible and tangible shape. Among the accepted clients of ordinary bankers' or capitalists' credit there is no occasion for doing this. These men have their substantial pledges to offer—it may be specific objects of value, or else their entire, more or less known, fortune. Our less richly endowed people cannot help themselves in the matter except by clubbing

their slender resources together so as thereby to produce a pledge sufficient to tempt the capital desired, be it in the shape of the millionaire's substantial loan or in that of poor men's modest deposits. The shape in which the money is provided is immaterial. However, if the desired credit is to be got, security—substantial, real, and seizable security—there must be. And such security must of course be as fully, or all but as fully, secured to the person who contributes to its creation as to the capitalist whose advance or deposit is invited. In truth the enforcement of security for the protection of the giver of money or liability should, like charity, begin at home.

There is no denying the existence of a difficulty in all this. But that difficulty has been got over by what may be said to be an imitation of an essential feature in our national banking system. In our banking system we make things easy, while keeping them businesslike, by making the most of a comparatively small quantity of ringing gold. That system of banking has been pronounced to be the most perfect which to the greatest extent economises cash. That means no evasion of the principle that debts should be paid in gold. In a similar way in " democratised " credit we make the most of what tangible security there is, in order to diffuse its effect over the widest possible area. Once more, there is no evasion of businesslike principle in this. That means, of course, that, just as in our dealing with cheques, as a substitute for gold—which demands additional labour in the keeping of accounts—an additional element of personal exertion has to be brought in to eke out what is wanting in tangible security.

The matter may perhaps be best illustrated by reference to a long accepted Scottish banking practice which has undeniably served to provide easy credit in a most profitable form for a large class of people not over-well endowed with bankable security, to the great and lasting

benefit of their country—which practice may in truth be looked upon as the first germ or parent of co-operative credit. That practice is "cash credit," which has, as its eulogists rightly boast, "in the space of a hundred and fifty years raised its country from the lowest state of barbarism up to its present proud position," covering it with flourishing farms, and filling its harbours with well-freighted vessels.

Scotch Cash Credit.

Scotch cash credit—so it may be as well at once to point out—is, as the late H. Dunning MacLeod has been careful to show, not altogether the same thing as our English overdrafts, although the underlying principle is identical. It is "reduced to a much more regular system, and governed by its own methodical rules and appropriated to certain particular purposes." In truth it has been expanded into a widely extended practice, instead of remaining—like the English overdraft—reserved only for very occasional use, as a comparatively rare infraction of a general rule.

The fact that in Scotch cash credit we have to deal with a current account opened, whereas co-operative credit distinctly began with specific loans, and is in many cases still confined to such, leaves the principle untouched.

The practice of Scotch cash credit is this, that, in consideration of security given by bondsmen approved by the bank, the latter opens a current account to a person, who draws out accordingly within the limit set such sums as he may require, paying interest only on the amount actually standing to his debit. That means that the bank in any case has its good and sufficient security. The guarantor likewise has his—though that is no affair of the bank—as the following description of the system, taken from the Report of the Lords' and Commons' Committee appointed in 1826 to inquire into the "State of Circulation of Scotch and Irish Notes" will show.

"There is one part of this system," so this Report says, "which is stated by all witnesses (and, in the opinion of the Committee is very justly stated) to have had the best effects upon the people of Scotland, and particularly upon the middle and poorer classes of society, in producing and encouraging habits of frugality and industry. The practice referred to is that of cash credits. . . . From the facility which these cash credits give to all the small transactions of the country, and from the opportunities which they afford to persons who begin business with little or no capital but their character, to employ profitably the minutest products of their industry, it cannot be doubted that the most important advantages are derived to the whole community." "The witnesses whose evidence we have quoted," so the Report goes on, "stated that they calculated that the number of persons who had cash credits granted to them amounted to about 10,000 or 11,000, and, as the average number of securities to each bond might be taken at three, there were about 30,000 persons interested as securities; so that the total number of persons at that period interested in the system was at least 40,000. The banks were then supposed to be under engagement of that sort to the amount of £6,000,000, of which about two-thirds were drawn out. . . . This system 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 withdraw the security." "The practical effect of which is," so says one witness quoted, "that the sureties do in a greater or less degree keep an attentive eye upon the future transactions and character of the person for whom they have thus pledged themselves; and it is perhaps difficult for those who are not intimately acquainted with it to conceive the moral check which is afforded upon

the conduct of the members of a great trading community, who are thus directly interested in the integrity, prudence, and success of each other. It rarely, indeed, if ever, happens that banks suffer loss by small cash accounts."

In this way the guarantors' tangible security is safely and very advantageously made to cover the cases of those of their friends who have no such security to offer, but over whom their bondsmen exercise sufficient control to be able to hold them to their duty. Without control of this sort, of course, they could not be reasonably asked to give the guarantee.

"This system," says the Report already quoted, "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 sureties; and if they find they are so misconducting themselves, they withdraw the security." It is the linking together of close local and personal knowledge, which can discriminate between good cases and bad, deserving borrowers and undeserving, the joining of interest, of responsibility entered into, with the power of enforcing responsibility in others, which supply backbone to the system. There must be touch, power of control, knowledge of members among one another, and a common interest, which carries the security of the pledge given far beyond what a writ or a summons could do.

The method therefore to be sought in our case as a solution of our problem is to construct such relations between possible guarantors and possible borrowers as will suffice for the purpose in view.

Co-operative Credit goes Beyond.

At this point the case of co-operative banks ceases to be on all fours with that of cash credit. For, in com-

parison with the former, cash credit is a decidedly capitalist, and therefore narrowly restricted, practice. It has done great things for Scotland—which is a promise *a fortiori* for even more extended good on a humbler, but at the same time much wider, and in truth, by reason of its popular character, a far more richly fruit-bearing, soil. Cash credit deals with sums which never in any case, I believe, are known to descend below £50, rarely below £200, and which run up to £2,000 and £5,000. For co-operative credit, with its much wider ramifications, and its subdivision into a mass of very modest amounts, the simple apparatus employed for cash credit would be altogether inadequate. Among such a mass of petty business an ordinary banker being called upon to deal with it would become bewildered to the point of feeling utterly at sea. There must be something larger, more subdivided, with a Briarean equipment of hands. However, the root principle of the safeguard established remains the same.

The link established to meet the case of co-operative credit is that of a considerably larger number of guarantors, many of whom naturally will be less substantial than under cash credit, held together in a common bond, and placed as a safeguard between the original borrower and the ultimate lender, securing themselves as against the former in precisely the same way that the Scotch banks secure themselves against the opener of a cash credit, and answering the latter collectively with their joint security rendered adequate by numbers and by the impressment of personal supervision of a searching character.

We shall have to realise, in this connection, that, in either of the two typical cases now to be dealt with, the institution providing credit to the humble borrower will have to be brought very near to the latter's door—near in varying degrees, but in any case near enough to make

resort to it practicable without a severe tax upon his person. The sums to be dealt out will not bear a heavy sacrifice of time or travelling. To the borrower time and trouble are likely to mean money. Also remoteness of the lending institution is likely to mean the opening of a most convenient door for abuse, and equally so for usury in a connection in which abuse ought to be strenuously guarded against and usury to be combated. In Léon Say's words, *l'usure ne peut être combattue que de près*.

Next, it will have to be borne in mind that, in addition to the clubbing together of material resources—which are not in any case likely to be sufficient for the purpose—there will, as already intimated, certainly have to be an inter-connection of liability among members—which is what Sir R. Morier meant by his postulate of a "maximum of responsibility"—whether such inter-connection extend to financial liability in the literal sense of the term, or whether it be limited to common but direct responsibility for good management, the presence of which, being made known by the "publicity," likewise postulated, immensely increases the security which a credit institution is allowed to avail itself of without any addition to its capital.

Still standing upon common ground, it will furthermore have to be insisted upon that business should be conducted only on genuinely *businesslike* lines. It is the sense of responsibility awakened, as Sir Robert Morier has rightly urged, which constitutes the pillar of security. And every weakening of such sense of responsibility is sure to detract from the security given, if not at once, certainly in the long run.

The Mischief of Charity.

As already observed, the work to be accomplished, the raising up of a system of credit without fairly considerable capital, involves difficulties. There is, as all organisers of co-operative credit from Schulze-Delitzsch

and Raiffeisen downward have experienced, rough ground to be got over, across which it is not unnatural that ardent co-operators should wish, if possible, to discover a short cut. So they have devised methods of charitable assistance ; or else they have impressed the aid of moneyed people—people not likely to require the services of the bank for themselves—as ready providers of cash, admitting them by some preferential title. All this is bound to denaturalise the institution which it is intended to benefit, and so to work harm instead of good. For charity, which weakens instead of strengthening moral fibre and the sense of responsibility, there cannot, on any consideration, be a place allowed in the organisation of a co-operative bank. It teaches men to look for help to doles rather than to their own effort. The separation in the society of capitalists' interests from borrowers' is bound to prove even more hurtful, with whatever kindly motives the process may be begun. While those motives last they mean, as in the first case, charity. However, no one can guarantee that they will continue for ever. And as soon as they cease to prevail, the distinct position assigned to capital, more especially if there be preferential rights coupled with it, must mean creating two interests within the society when there should, and consistently with good practice can, be only one—viz., the potential borrower's—setting the interest of the lender, who always is the stronger, against that of the borrower, who invariably is the weaker, that is, creating within the bank the very state of things which the bank was formed to remedy. The cause of misdirected attempts to form co-operative banks—of which there have been not a few—is that people want to win their cake without climbing or running for it. They would perform the pilgrimage, but the peas in their shoes must be boiled. The consequence is that they walk to no

purpose ; for there is no pardon for walking on boiled peas. *Ardua quae pulchra*. There must be an expenditure of effort, a struggle against winds above and rocks below, in order that there may be a firm root to the tree. The early struggles tell whether the bank is wanted in its place and whether the people who compose it are capable of working it ; they teach members, as nothing else will, how to avoid risk and to study security. They create security, which means an abiding command of money. There is plenty of legitimate scope in a co-operative bank for assistance from moneyed people. But it is essential for the success of the bank that such people should take their places within it along with the other members, on precisely equal terms. There is ample protection for their money possible on such lines. But there cannot be two interests.

Up to this point our two problems have marched on common lines.

Two Systems of Credit.

The division between them begins when we come to a marked difference of circumstances prevailing in two distinct quarters, between which it is not difficult to discriminate. It is those circumstances which determine the division—not, as is sometimes assumed, a distinction of callings. By an easy, but altogether misplaced substitution of the word "agricultural" for "rural" an attempt has been made to convert what was intended as a help for struggling humanity generally into an aggressive weapon wherewith to fight for the specific interests of a distinct calling, to the detriment of other callings. Unfortunately such attempt has in more instances than one proved successful. Co-operation has thereby become the loser without agriculture really becoming the gainer. For the temporary benefit which certain persons of the larger order of agriculturists have secured has only made their calling generally worse qualified for battling, in the future, with adverse circumstances—

whereas the object of true co-operation is to fit people the better for such effort. The most conclusive proof that it is not the calling of agriculture, but the peculiarly helpless condition of the poorer classes inhabiting country districts which calls for distinct treatment, is that all those who really constitute "agriculture"—that is, the men practising it as a calling, not simply cultivating a petty plot because they have to live in the country and must have potatoes and vegetables to nourish themselves with—as a matter of necessity fall back upon that particular form of co-operative credit which is frequently, but not by any means rightly, identified with urban surroundings. So it is in Italy, where the larger farmers practise the Luzzatti system; so in Germany, where the Schulze-Delitzsch system renders most substantial services to the higher walks of agriculture; so, once more, in Germany, among the peculiarly agrarian societies grouped together under the leadership of Herr Haas, which from year to year move further away from the Raiffeisen principle, of "no shares"—and nearer to the Schulze-Delitzsch ideal of large shares, mounting up to £25 and even £50. The calling of agriculture does make certain distinct demands upon credit, as we shall see. However, all these are perfectly reconcilable with the more commercial system of co-operative banking, so far as they are not complicated with adventitious features of poverty and isolation.

In respect of a recognition of "classes" or "occupations" the interest of co-operative banks is all the other way, not in the direction of separating, but of blending. The more various occupations or interests enter into its composition, the more will periodical demand in one interest dovetail into periodical supply in the other, the more strongly will the component parts accordingly be bound together, the broader will be the basis.

The distinction which has to be made is of a different description altogether.

The Point of Divergence.

There are, on the one hand, more or less dense populations to be ministered to, or populations with a dense nucleus and outliers sufficiently answering the characteristics of a dense population to admit of being dealt with as such. Such outliers I take to include fairly substantial agriculturists of recognised position. There are, on the other hand, the sparse populations of the ordinary rural parish, and, it may be, some small towns or suburbs, embracing too few to give to a bank the same *prima facie* financial strength, and at the same time less qualified, it would seem, for engaging even in elementary banking business. It will be seen that, although, as a rule, greatly wanting in commercial education, those sparse populations provide elements of strength which stand for very much indeed in the solution of the problem of co-operative credit—on distinctive, but very safe lines. Generally speaking, in the former class, there will be, if not actually greater wealth, at any rate more available money—whether it be of a small capital already realised or of regular earnings—facilitating cash transactions, even though on the top of it credit may still be needed. In this class of banks the number of members is likely to be fairly large, if not at the outset, at any rate not long after the bank has got into working order. But there is likely to be comparatively little touch among units. The *clientèle* will be a comparatively large, money-earning population, possessed at any rate of some rudimentary knowledge of business, but shifting and unstable, on the individual member of which, accordingly, it may be difficult to establish a very firm hold. Amid such surroundings needs may be large or small, but they will generally be for brief periods and for industrial or domestic purposes only. There may be material to be purchased for the workshop, or furniture for the house,

or else money wanted for wholesale purchase of food-stuffs to save expense, or for some little building job, or else cash to enable the borrower to tide over the time till he can dispose of his produce without falling into the hands of "sweaters," or, it may be, money, to get him out of the usurer's clutches.

In the other case the population will be fixed, but sparse. The banks will have to be small, sometimes very modest indeed. Most members are likely to prove uninstructed in matters of business. They are pretty sure to be short of money. They may be genuinely poor. They may hold their small wealth wholly in an uncoined shape, or labour for wages in kind. They will want their loans generally for a long term, because, if independent, they turn over their money slowly—there is only one harvest in the year ; if wage-earning, their earnings will be scanty, and it will take a long time to make up the sum. It does not matter, in this respect, whether they are agricultural cultivators or village traders. For the village trader has to adapt himself to the needs of his customers, who are necessarily tardy payers. But such *clientèle* will have this advantage, that touch among them, knowledge of one another, checking and controlling one another, are really very easy and may be relied upon, and that generally they make a dependable class of persons to deal with.

The specific characteristics of the two classes clearly determine the methods which should be applied to answer their several cases.

Characteristic Requirements in Dense Populations.

In the former class, where you have both numbers and a comparative command of money, moreover presumably a large volume of transactions, a rapid turnover of money, and some familiarity with business, you will be able to rely upon such factors in your organisation. However you limit or fail to limit liability, you will have to make a prominent feature of your "small capital of

guarantee"—a share capital, that is, paid up and serving as a guarantee to those whose credit you ask—and base your system mainly upon it. You will want to adopt commercial methods of banking, secure skilled management, which you will generally be able to command without difficulty, but which you will have to remunerate, to whatever extent you may supplement salaried services by gratuitous supervision. You will rely more directly upon your directors than upon the shareholders, who are too many in number, and too loose in texture as a mass, to be able to control the business effectively, much more to carry it on. Though not ignoring employment of the loan, you will look more to the man than to his promise how he means to lay out his money. You could not effectually control the latter. Therefore you will have to make all the more sure that you have a solvent and trustworthy borrower to deal with, and place your reliance in a very great measure upon the sureties who pledge themselves for him. And since you can do that, it becomes a matter of less importance, though still of importance, how you select your members. Mere election does not involve any direct risk. Moreover, you may, for the sake of earning the management expenses which you *must* meet, have to do business on some lines or other with non-members, although that is really a questionable practice. Still a bank, to live, must do work.

In Sparse.

None of all this would do for a constituency of the second sort. There you cannot rely to any extent upon the petty contributions of money which the few men whom you enlist can bring to your till, even though there be plenty of money's worth at their back. You must base your system more or less upon liability, the value of which you are in a position to estimate with some accuracy, and which you must study to render more effective by a very careful selection of members. Your man must

be absolutely trustworthy. Your transactions are likely to be comparatively few and small. Loans will be demanded for long terms ; the turnover will be slight. The margin between incomings and outgoings will be insignificant. You will have to cut down expenses to the utmost, and make gratuitous services the rule ; you can the better do this since the call made upon your officers is not likely to be exacting. You cannot adopt commercial methods, which your clients will not understand. But you have all your members well under your eye. You can control every one of them, and make them control one another. You can interest the mass of your members even in the petty affairs of the bank, and so make your machinery more effective by arming it, to repeat my earlier simile, with watching eyes and checking hands at every point. You can effectively check your clients' employment of their loans. You can bring class feeling and local feeling, and moral and social influences to bear. Therefore, if you have to be very careful in the selection of your members, you may also stoop very much lower in the social scale, and admit even very poor persons, so long as you can make tolerably sure that they are honest. Business with outsiders becomes an impossibility. Finally, resting your system mainly on liability, you must apply yourself to strengthening your available capital by carefully raising up a reserve fund, which you can scarcely make too strong.

The two kinds of Credit are not antagonistic, but complementary.

So stated, the two cases appear—to me, at any rate—fully to explain themselves, and there seems no room for even theoretical antagonism in their respect. The two methods are not rivals. Each directly supplements the other. And, indeed, each seems incomplete without the other. It is satisfactory to think that, after long needless hostility between the advocates of the two, the view to which I am giving expression is coming to be more and more generally accepted, and on this score

peace between traditional rivals seems at length well within sight. Indeed, at some not unimportant points it has already been established. In Italy M. Luzzatti has whole-heartedly given his support to the Raiffeisen Union formed under Dr. Wollemborg, and actually presides over it. In Austria the Schulze Union has accepted Raiffeisen societies as members. In Austria likewise, among the Slav races, composite unions of followers of Schulze and of Raiffeisen are to be met with. Such *entente* can scarcely fail to go on spreading. In what precise manner the two methods are practically applied in different countries and localities I shall endeavour to explain in subsequent chapters.

CHAPTER IV

THE TWO ASPECTS OF THE QUESTION

"Mutualism" and "Co-operation."

AS in co-operative banking there are two problems, so there may be said to be also two aspects, two distinct points of view, under which the question may be regarded. That is a feature which co-operative banking shares with every form of co-operation, in which, as a matter of course, a high humanitarian motive is bound up closely with calculating self-interest.

You may co-operate merely to help yourself, to secure, by combination with others, support intended to procure for you personally an advantage, an equivalent direct return for that which you put into the common concern. Or else you may co-operate to help, yourself indeed, but at the same time also to help others, or by your support to place them in a position to help themselves. You may take your choice between these two principles. They are both legitimate, and both have been found to produce useful results. According as you select the one or the other you will impart a different hue to your enterprise. We have specimens of co-operative work of either species in this country—co-operative associations which measure their success by the direct benefit obtained, as in a joint-stock company, and study above all things big profits ; and co-operative associations which, remaining true to the aim which the early Rochdale Pioneers kept in view, regard immediate profits only as a means to an end, only as supplying the wherewithal to pursue loftier objects, and study above all things to provide steady

employment, greater independence, and generally a better position to the classes whose cause they have taken up.

The latter principle is, I believe, the most likely to recommend itself to generous minds. It seems to take a broader view of its object, and to aim at higher ends. There is, moreover, by the light of experience, this to be said in its favour, that its success rarely fails to include, like the divine response to Solomon's choice of a blessing, the narrower, more material gain which at first blush it may seem to spurn, or at any rate not seriously to desire. Certainly, also, it is better calculated to generate a feeling of satisfaction, and a propagandist zeal and enthusiasm in its adherents.

Advantages of purely Economic Co-operation.

However, let us not despise the former principle. It is more prosaic; it appears less generous. But it is the principle which is best understood and recognised. And for economic purposes it has this advantage, that it may be absolutely depended upon. A mere sense of duty may lose its impelling force when that duty begins to grow irksome.

Interest stronger than mere Sense of Duty.

Once you make it a man's distinct interest to do a thing, you may depend upon it that do it he will, if to do it be to him at all possible. Nor should we overlook the useful fact to which both M. Minghetti and the late Lord Goschen have called attention, that good economy of this sort is of itself apt to produce also good morals. We have ere now heard it said that the most effective propagators of European civilisation in uncivilised countries are, not our missionaries, but our traders. I do not pretend to affirm that this is entirely correct. But it may certainly be said that under the training of good co-operation, and more particularly co-operative banking, sound economy, business habits, mechanical training to commercial honesty, have been found to act as admirable moral educators. When you are dealing

with the poor, or the comparatively poor, the mere providing of means for better education, for the acquirement of greater comfort and a better social position—which, once secured, are sure to be valued—is bound to tend in this direction. But there is considerably more educational power in good co-operative banking.

How this applies to Co-operative Banking.

Now let us consider how the two principles may severally affect our problem in hand. There are leaders in the co-operative movement, founders of co-operative banking systems, who look upon co-operation merely as an economic junction of forces, the binding together of so many sticks to a bundle. They are strong in their protestations of the necessity of pure self-help, by which they mean self-help for individual gain, the self-help in which not a group of weak and strong unite to help themselves and help one another, but in which every person studies his own interest. In this aspect co-operation is nothing but combination resorted to for egotistical ends. Under this principle very much is made of individual effort. Every gain secured is to be entirely *earned*. But the effort made is to benefit the particular person. There is to be a strict debtor and creditor account between the association and its member. The gains from self-denial are to be carried rigorously to the personal account of the self-denying one. Whoever is too poor to contribute his quota in money is roughly bidden to remain outside in the cold till he has collected enough to enable him to take up a share. There must be no common fund created, to his proper portion of which each individual has not a distinct and indefeasible right, and from which each individual is not free upon due notice to withdraw his own portion. We often regard this kind of co-operation as pure joint-stock trading. Perhaps it is no more. But it secures very serviceable results. Generally speaking, the largest and strongest co-operative banks which exist have been

raised up upon this egotistical, purely calculating, self-seeking system.

"L'esprit de lucre domine tout."

Some years ago I was conversing with the manager of a bank of this type in the south of France about his own establishment. M. G—— had little to say in its praise, from a co-operative point of view ; for as a business establishment it is sound enough. "There is no co-operation in it. It is a bank 'like other banks.' *L'esprit de lucre domine tout.*" There are no gratuitous services, no loans of honour to the poor, there is no limitation of dividend, no study of high aims. Members pay in their money, it may be franc by franc, and for so many francs they purchase such-and-such advantages, among which they are taught to expect, as gauge of all, a decent dividend. Surely this is a picture without any attractiveness about it. And this particular bank, I may add, is not looked upon by officers of the best of its sister establishments as a peculiarly commendable specimen of its type. "But have you not made credit accessible to small folk, to whom formerly it was inaccessible ?" I asked. "Oh, yes, certainly." "Have you not popularised, democratised, decentralised credit? Have you not taught people to bank, to place their money on deposit and draw it out when they need it? Have you not taught many small folk business habits?" "Oh, decidedly, we have." "Do you not lend money to people who even now cannot go to other banks, say, to working men?" "Oh, yes, distinctly we do. Why, there was a cabinet-maker here only to-day who works for a firm. Formerly he was in abject dependence on that firm. Now he comes here whenever he is short of money, to hold over his goods, it may be, or to buy material, or for household purposes. We have many such."

It is nevertheless useful.

Are not all these distinctly useful services? Is not the country the richer, the happier, the better endowed

with producing power, for them? And are not the bank's own members the better, the more independent, the better qualified for self-respect? Unquestionably banks of this class, which will neither give nor take anything for nothing, which scrutinise their member-customers with a keen, selfish, discerning eye, which think nothing of educating, of helping, of elevating the poor, which apply only the hard, cold principle of purely economic co-operation, have rendered perfectly inestimable services to the small trading classes, to agriculturists, to the working population of their countries, and have strengthened the social fabric of their nations just where strength was most needed and tells to best effect.

Altruistic Co-operation.

But now let us turn to the other aspect of the question. There are persons, as everybody knows, who are not in a position to take their place in the former kind of co-operation, who have not the means to take up a share, or at any rate to pay for it in cash, to remunerate directors and secretaries, and allow a handsome reward to capital. Are these people to be left altogether without help? It is they who need it most. And it is they for whom co-operation was really intended, because only by co-operation can they mend their lot. Is it "co-operative" to tell them, as advocates of the first principle have done, that they should go to "charity" and live on patronage till they can manage to scrape together enough to make them "ripe" for co-operation? That is equivalent, in a "co-operative" sense, to sending a man to hell in order that he may there qualify for heaven. Your object and your duty is to train him to self-help. And you bid him prepare for it by deliberately estranging himself from it! Persons in this condition can co-operate like others. But in the same proportion as their needs are greater, are their objects likely to be larger. They want financial assistance badly. To

obtain such they have a good deal that they can give, and must expect to give freely—time, labour, attention, application. You cannot procure either money or credit for nothing. But you must in fairness allow the equivalent given to be *value*. It is nonsense to maintain, as has been done, that such co-operation is not self-help. When you give what you *can* give to obtain what you cannot, you are not receiving "charity," but exchanging one value for another. However, all this co-operation to obtain, not profit in return for money, but money in return for exertion, implies objects of a different kind, which are necessary for the purpose, and which, apart from being necessary, persons in this position instinctively feel to be desirable. It brings out the social, educating, moral side of the principle. To people, such as we are now thinking of, the co-operative association or bank becomes, not merely a shop in which goods or credit may be bought, but an economic hearth and home, a school for all kinds of economic action, for business training, and for higher social virtues, a social as well as an economic money-box. This co-operation, like the other, must be built up upon pure self-help. No serviceable co-operation is possible on other lines. It is the man's own exertion which must purchase every gain. To alloy or adulterate self-help would not only be perfectly gratuitous, it would distinctly defeat the object for the attainment of which co-operation is resorted to. However, I cannot for a moment admit that self-help loses one particle of its economic purity when it is made to embrace a number of men instead of being confined to one. I cannot concede that self-help becomes less self-help when it is impressed in the service of a group of persons who, being individually weak, and weak in varying degrees, and on various points, combine for the purpose of turning their weakness into strength, and supplementing one man's

It is genuinely Co-operative.

And based upon Self-help.

feebleness by another man's comparative power, each supplying his own quota of what he can give to benefit by a similar though different contribution from his fellows. That is the self-help by which a community or a nation rises to greatness. So far from being questionable, it appears to me even to represent the purest and fullest co-operation.

Its Effects.

Now, see how co-operation of this kind acts upon the men who engage in it. It knits people very much more closely together ; it enlists very much higher sentiments than the mere pursuit of gain. It links interest. It binds people together as with the ties of one single family, bringing sentiment, aspirations, the consciousness of common needs, into the co-operative enterprise. It sets very much higher motives at work. And it opens a door through which others, not needy themselves, wishing to help rather than to be helped, may legitimately come in, helping, but only by helping people to help themselves. Here is the feature which has particularly endeared this kind of co-operation to so many generous minds, and has generated that peculiar ardent enthusiasm which cold-blooded economists wonder at and cannot understand, but which has helped more than anything else to spread this movement and impel it forward. You can now *help without giving*. You can help while carefully safeguarding yourself against the danger of being made to give—money, that is—while insisting that every assistance rendered in money shall be fully and promptly repaid—help by lending guidance to the unskilled, experience to the inexperienced, time, labour, interest, attention, safeguarded liability, all on a footing of equality. And by doing this you help those whom you wish to benefit infinitely more than by giving them money. This kind of co-operation does not draw a strict dividing line between those who have money wherewith to take up a share and those who have not. It does not

Shylock-like, bring to the business only its commercial ledger and its bond. It does not go into places in which gold chinks freely and discount business is brisk. It goes abroad among the outcast and poor, dropping help into seemingly waste places, and picking up seemingly helpless persons from their misery. It goes into the villages where money is scarce, and the other kind of co-operation difficult. The structures which it raises are not as large or as resplendent with gold as those built up under the more commercial system. But on its own modest lines it does a great deal of good, and good which absolutely no other agency could accomplish. Surely I need not stop to explain why it is that those who work for the principle last described seem generally fired with a peculiar, fervent, and contagious enthusiasm. They feel, to quote the words of Father de Besse, that they are engaged not in an affair of business (*une affaire*), but in a good work (*une œuvre*); that they are, as F. W. Raiffeisen, the first who applied this principle to regulated practice in respect of banking, has put it, "working for God."

Recriminations between Partisans of the two Types.

The world would not be the world if such aspirations as these had not prompted in the mouths of rivals unkind sneers at high religious professions, which they judge to be quite out of place in work which is, after all, mainly economic. Nor is it surprising that the altruists should have retaliated by taxing the other side with "greed," and "egotism," and "deliberate dividend hunting." These mutual vituperations are all the less called for since it would be difficult to draw a hard and fast line between various systems, to serve at the same time as boundary between the several applications of the two principles described. The territories overlap at more points than one, and there is promise of the principles blending in some neutral region. Indeed, in some places it has already been found possible to bring them

from war into union. Where this is not possible, surely there is no need of antagonism. There is room for both principles. There are places in which the one is not called for ; there are places in which the other could not act. There are people to whom the one system is congenial and the other abhorrent, who would benefit themselves and do good to others, but only in their own strictly businesslike way ; and, again, such as could not bring themselves to think that they were doing good unless they made some sacrifice—of time, labour, or liability—for the benefit of their neighbours. Accordingly we may well be content to " give to rigid economy the things which are of economy, and to altruism the things that are of altruism," and allow both systems to grow up and overspread the ground and produce good fruit, side by side.

CHAPTER V

CREDIT TO AGRICULTURE

Why Agriculture must be classed as a "Poor" Calling.

I HAVE spoken thus far of co-operative credit as a help intended for the poor, in the ordinary and most familiar sense of the word—the wage-earner, the toiler, the man of muscle, whose powers must run to waste unless money can provide both material upon which to set them at work and a stock of necessaries wherewith to keep him alive until his labour may bear fruit in a marketable shape. However, poverty in our present sense ought to have a much wider application. Obviously, it ought to be taken as including every one who has a productive use for money or credit, and yet finds himself unprovided with the one and practically cut off from the other. There are hundreds of thousands of people who in our country come under this description. Their number has greatly increased of late by reason of the amalgamation of banks, which leaves the trader, the farmer, the manufacturer, who used to be able to rely upon occasional money help from his local bank, without such most useful credit, since it does not suit the purpose of the gigantic modern banking concerns to burden themselves with such comparatively small accounts, which are not easily controlled from headquarters.

But there is one great calling, more in particular, to which the above description pre-eminently applies. That calling is agriculture, which, from being a cornucopia yielding almost automatically, not one, but actually those "three" livings of which Lord Beacons-

field spoke more than thirty years ago, has subsequently, under the stress of adverse circumstances, become changed into a business standing very sorely in need of help and, if evidence collected in many quarters is not altogether wrong, in need of help more specifically in the shape of money.

It may be convenient to consider the position of agriculture as an interest calling for credit, if not exactly *in formâ pauperis*, yet at any rate by other means than those which are now available.

Agriculture has become a "Business" without the Resources of a "Business."

Under pressure of advancing times agriculture has become, from the easy, self-rewarding occupation which it is understood once to have been, a business of money and enterprise like all other callings—having the same tasks set to it, but not the same means at its disposal wherewith to accomplish the task. We should probably be in a better position to consider what are its needs could we bring ourselves more fully to realise this fact. We congratulate ourselves upon the amazing growth and development of our commerce, our trade, our industries, our banking. But what resources have we placed at the disposal of those callings, or else allowed them to secure for themselves? Had we treated them as we have treated agriculture, it is only too likely that they would find themselves in precisely the same backward and depressed condition as that calling. However, we have dealt with them differently. We have fed them with large supplies, alike of money and of instruction and intelligence. We have replaced slow and sparing hand labour by the rapid and creative labour of the engine and the loom, multiplying harvests while increasing their bulk. We have introduced perfected machinery, we have removed anachronistic shackles and insisted upon full freedom of practice. We have recast all the organisation of the industry, arranged our commerce so as to

enable men to take advantage of even the slightest change in the market, of every opportunity which may offer even an infinitesimal gain. All these things presuppose a larger command of money. They are absolutely impossible without it. But for additional money invested they assure a pretty safe return. And to provide that money we have developed a system of credit which places funds almost without limit at the disposal of the trader or manufacturer of position — credit without which, so every man of business will readily allow, all this huge world of industry could not subsist for a day. The capital of those of whom it is composed would be utterly inadequate to its purpose. So we have created the "acceptance," which buys at pleasure, just as occasion may demand, for every enterprise which promises a profit. Could we treat agriculture in the same way, is it not at any rate conceivable that, what with production cheapened and facilities afforded for taking advantage of the market, we might make it fare as other industries have fared? All evidence available on the subject seems to support such a conclusion.

Its Need of Money.

"Agriculture," to quote the words of a Minister of Agriculture, spoken in the Belgian Senate, "is changing, and *must* change. Change is for it a condition of existence. It finds itself to-day at grips with conditions altogether different from those of earlier days, and in such struggle it can have no prospect of success, except by arming itself according to the fashion of the day. We want more artificial fertilisers to-day, and more potent ones. We want machinery and many other things that our fathers never dreamt of. These new appliances ensure a higher yield, but they demand, on the other hand, a larger working capital." Those words, spoken in Belgium, apply to the very letter to agriculture elsewhere, not least to agriculture in Great Britain. Indeed they have been, since quoted by me, echoed in the

Report of the Royal Commission on Agriculture. It may be permissible to instance one or two cases illustrating the truth embodied in them.

Instances of the Utility of Money: Woolwich.

The first is that of a small farm held by a Co-operative Supply Association which in forty years has grown up from the most modest beginnings to a position of commanding prosperity. The Society twenty odd years ago decided to purchase for its own use a freehold farm of 52 acres. The farm, which was in a very poor and neglected condition, would, so it is admitted, have speedily reduced any ordinary tenant, coming to the holding with the traditional small working capital, to ruin. The Society came to it with practically as much money as it might need.* Now, just let us look at the increase of production which, with the help of its large capital, it brought about. It set up new buildings, it trenched the land two feet deep, gave it a bottom dressing, so to speak, of 60 tons of manure per acre, in short, it laid itself out for the highest possible farming. It sank a good deal of money in the farm, to such an extent that, what with rates and assumed rent (at the rate of 5 per cent.), it had to write off from £30 to £35 of the gross profits per acre every year on this score. However, as a result it produced magnificent crops—£43 worth an acre of cabbage, £36 of peas, £30 of potatoes, £39 of sprouts, £90 of tomatoes, £90 of marrow, and so on. Its takings from a piggery, mustering from 300 to 350 strong, figured at nearly £500 a year. It had realised £2,283 in one year from its produce. The original loss has been recovered, in addition to 5 per cent. being steadily drawn on capital invested, and a rate of depreciation allowed which soon gave the farm—to state one example—its horses absolutely for nothing. Good "capitalist" farming makes the farm pay in spite of bad times.*

* The farm has quite recently had to be appropriated as building land for workmen's dwellings.

Fresnes.

Similar cases may be quoted from abroad. In the *Journal d'Agriculture Pratique*, M. Zolla has told the story of a farm at Fresnes in the Loiret, which by an increase of working capital was raised from a state of ruin to a condition of fully remunerative prosperity. The farm extends over about 335 acres, and used to be worked on the old-fashioned three-field shift, with a capital of not quite £6 10*s*. per acre. The working capital was increased to £16 an acre. The expenses per acre have grown from about £1 4*s*. to £3 1*s*. By that means it has proved possible very materially to improve the system of husbandry, to manure better, till better, plant 125 acres with sugar beet, and accordingly the profits netted have risen from about 12*s*. to more than £2 per acre. And in consequence of this change, not only is the tenant better off, but he employs more labour in the bargain, and pays it better.

Dippoltshausen.

A very similar case was some time ago reported upon at Weende, near Göttingen, by Oekonomierath Beseler, who, by similar methods, converted his property of Dippoltshausen from a "white elephant" into a remunerative investment.

Attested by the Report of the Royal Agricultural Commission.

But let us look at things more generally. We have had a Royal Commission sitting to inquire into the griefs of agriculture. If the evidence collected teaches anything, it teaches this, that wherever in agriculture there is ample command of money for working a farm, for manuring, feeding, cultivating, and holding over produce, just as circumstances may dictate, without stint and without limit, the effects of distress are very much mitigated. We might almost, applying the word "worth" in our commercial English sense, say, in a new sense, with the Berrichons, *tant vaut l'homme, tant vaut la terre*. I may add that men of business, who have habitual dealings with farmers, have, in addition, long since discovered that business ability and business

"Tant vaut l'homme, tant vaut la terre."

habits, a capacity for forecasting and reckoning up results and proceeding accordingly, and for keeping accounts, which M. Leroy-Beaulieu terms "the soul of business," constitute a potent factor making for success, that, in spite of all his technical experience, it is not the old "leather-jacket" farmer, well versed in the rule-of-thumb lore of practices handed down by his ancestors, who best weathers the storm of present troubles, but the cultivator who possesses business knowledge and has the habit of calculating, purchasing, adapting himself to altering times and changing markets, even if for technical learning he be dependent upon others, whose services are always to be bought.

The upshot of all this appears to be that, if we want to improve agriculture, we shall have to place it in the same position in which we have put its sister callings, and, as I have ventured to call it on another occasion, "commercialise" it—call in the ledger and the ready reckoner to take their places by the side of plough and grubber, and, as a means of making "intensive cultivation" possible, open to it a drawing account proportioned to its requirements.

The Small Cultivator's Needs.

Proceeding further, and applying this lesson in practice, we shall obviously have to distinguish between two kinds of agriculture. There is the *small* man, whom our neighbours think of chiefly when they talk specifically of the need of agricultural credit. In his case the question seems scarcely to call for argument. It stands to reason that to cultivate to advantage the land which we are, most of us, at any rate professedly willing to place in his possession, he must have the use of money. He must buy his tools, manure, and seeds. He must have the wherewithal to live while his small crop is ripening. We know that he can secure a remunerative return for such money. We discover it when we inquire into the results of small cultivation. We

show that we know it by doubling and trebling the rent charged to the small man in comparison with the large. Even though weighted with this additional charge, he finds the acre or two worth keeping and cultivating, making them yield in milk and potatoes, even in corn, what will repay him for his labour and outlay. Thus, in return for an exaction which is not always fair, he helps to teach us a lesson which it is odd that as a nation we seem so firmly resolved *not* to learn. There is scarcely an agent who does not admit that in these trying times small farms and small holdings pay out and out best. And, in the bargain, small tenants as a rule pay their rents most promptly, often in advance. The trouble is, how to convert large holdings into small. Money is wanted to do that. And for employment in agriculture even large landowners have difficulty in raising money, even though it be admitted that the additional outlay would amply repay its cost. Thus we are brought back to our first problem of credit to be created—agricultural credit, in this instance, to serve the requirements of landlords, for improving or subdividing their estates, such as experience has shown can by a good system of agricultural credit be easily and cheaply provided.

Profitableness of Small Holdings.

I have, some time ago, related * some encouraging results obtained abroad by wholesale division of large estates into small holdings by the agency of, though without any pecuniary help from, the State. The method adopted represents the greatest advance made in Germany, in agricultural economy, since the legislation of Stein and Hardenberg. In this case money is furnished to effect the conversion in whatever quantity it may be required, without a tax being laid upon any one, to the material benefit of all concerned. But even after all this has been done, when the roads and drains

A Case quoted from Germany.

* *Contemporary Review*, May, 1895.

and buildings have been provided, it is found that the small holders, coming to *good* land, ready laid out for them, with comparatively full purses—since they are required to show that they are possessed of a certain minimum of capital—need additional working funds, if they are to do full justice to their opportunities.

The Forest of Montello.

In Italy precisely the same discovery has led to relief in a case perhaps even more telling. The Government was long distressed about the unsettled state of the wild forest stretch of Montello in Venetia, which was peopled with disorderly hosts of gipsy squatters. To convert these people into an orderly and settled population the Government gave them free holdings in that forest, which was public land. The gift proved of no avail. The gipsies soon deserted their holdings, which they had no means of cultivating to advantage, and turned themselves loose once more. Then it occurred to M. Chimirri, who was at the time Minister in charge of Crown lands, to sell off part of the area which had been designed for their settlement, and to employ the purchase money realised as a fund wherefrom to make advances to the gipsies resettled on a portion only of that land. The remedy proved strikingly effective. The gipsies settled down and became decent and orderly folk, and the erewhile wild forest has now become a civilised and progressing district—all owing to the provision of money. There is surely no need to argue the point any further with respect to these small men. Their want of money is written large upon all their economy ; and their power to do justice to credit, provided that it be granted on fair terms and under proper safeguards, is as amply testified.

The Case of the Larger Farmer.

However, "agriculture" to our English mind means a different thing. It means the calling of the *farmer*, the man who habitually complains of his want of money, but yet protests that to borrow money at 6, or

5, or 4 per cent., while he is netting scarcely 2 or 1, or even 0, on what he has invested, cannot possibly be good business. Farmers are notoriously bad account-keepers, and it may be that that 2 or 1 per cent. includes some "living" which ought not to be charged to the farm. But let that pass. Possibly our large manufacturers might find their factories as unprofitable "one-per-cent." concerns were they to endeavour to work them with a capital proportionate to their establishment in the same ratio in which that of the struggling farmer is to his farm. Take a farm at its very worst—worked out, full of weeds, understocked, undrained. I put it to the most sceptical pessimist, whether on that farm some *one* point could not be discovered at which additional outlay would be, humanly speaking, certain to earn a profit. If it be but the additional food that could be given to a pig, which can always be counted upon to make a return, there would be 4, or 5, or 6 per cent., surely, if not more, earned on that outlay. And the farmer would be the better for such small profit, however embarrassed he might continue otherwise. Probably there would be a good many more opportunities for the profitable investment of money open to him. That swampy, moss-grown pasture would repay draining and liming. That starved, couch-entangled field which now bears a thin, withered crop of wheat, which in the balance sheet must spell a certain loss, would return good value for a dressing of superphosphate or some other manure. It now barely repays the expense of cultivation. That expense would not in itself be increased by the addition of a good dressing of manure. Reckon up the difference between the bad crop and the good, and see if the surplus value does not pay fair interest on the money outlay and leave a profit, however small! Many crumbs make a loaf. Some excess labour employed at the right

Where Money may help.

time, the purchase or loan of a machine, new drainage, the mere holding over of produce when prices are ruinous and money is wanted—all this, if the requisite money be but available at the proper time and on fair terms, may improve the farmer's position, very little it may be—but when things are bad every little helps. We import annually, as Mr. J. Collings has complained, £38,000,000 worth of the smaller farm produce—apples, milk, potatoes, vegetables, &c.—from abroad. The chances are that with a larger working capital our native agriculture might raise that and more, and so keep the profit for itself. We cannot compete with the foreigner in cheapness of rent or of labour. But we can produce larger crops per acre. And we can successfully compete in the command of money, which is more plentiful and cheaper here than elsewhere. And the question is, whether with the help of money, meaning businesslike and highly productive farming, we might not on some points beat our competitors in the race. We talk of the ruinous effect of "gambling in wheat." At the first International Co-operative Congress, Rektor Abt, of Winterthur, pointed out how, by means very similar to those here advocated, such gambling is kept in bounds, if not altogether prevented in Switzerland. Then there is the question of stock. Keep is plentiful or short; stock is excessively dear, or else dirt cheap. There would be nothing in these fluctuations if you could take advantage of them—quite the reverse. But instead of being the person to profit, by reason of your want of money at the right time, you become the victim. When keep is plentiful you cannot afford to buy stock. When stock is cheap you have to sell it. Find a bank to draw upon which will lend you the money at a fair commercial interest, and these troubles may become to you sources of direct profit. You may do as does the merchant or the stockbroker—you may

buy things when they are cheap and sell them when they are dear. In the great drought of 1893 Agricultural Banks helped not a little to moderate the loss sustained by the German peasantry.

How Credit helped in the Drought of 1893.

I have before now quoted an example which appears to me singularly deserving of notice in this country, as showing the way in which credit has been made actually conducive to profit to farmers situated very much as are our own. A record of it may be seen in the official publications of the French Ministry of Agriculture. But I have been to the spot. There is not a bit of the Continent which resembles our own agricultural counties like the country of the Nièvre in France. What with its large properties—there are some of over 30,000 acres—its tenant holdings, ranging generally from 125 to 1,250 acres, its leafy forests, its green hedgerows, its lush pastures, and its wholesale cattle-feeding, that Department might be taken for a part of Sussex or Surrey. 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 the 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 fresh beasts 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 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

An Example from France.

M. Giraud in the Nièvre.

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 realised on the market, in huge unmanageable volume, 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 with one stone. To farmers known to his bank he was willing to advance whatever money they might require for the purchase of stock, on their acceptance 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 1 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, elsewhere, 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 1 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 he admits that it was by his own fault. He had failed to satisfy himself that the borrower's rent had been 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 to the loss of the bank.

Similar Cases occur in Germany and Austria.

I might couple with this example, which surely is to the point, similar instances culled from actual experience in Germany. In that country it is the potato distilleries, providing a mass of fodder—the refuse mash—free of cost, or at any rate very cheap, during the winter months, which furnish the groundwork upon which to build up a profitable credit transaction. The distilleries take care of themselves. An advance is always readily obtainable on the produce, sufficient to keep them going. But the refuse fodder would be valueless to many a farmer, if he could not buy his lean stock on credit, to fatten and sell for money, and so to repay the first outlay out of the proceeds of the fattening. Exactly the same practice prevails in Austria. No doubt something of the same sort may be done here, but at what price and with what trouble ? The profitableness of the thing lies in the fact that these have become recognised ordinary transactions, like a manufacturer's purchase and working up of materials, practicable at a commercial rate of interest, without any admixture of a sense of obligation due on the borrower's part—beyond the obligation of repayment. There is nothing of "favour" in the matter ; the borrowing is done as a matter of course. The drawer being "good," the bill is taken without the slightest demur.

In spite of objections which still may be heard, I think that the fact is now little disputed, that the command of more money for working capital distinctly constitutes an urgent need of agriculture in Great Britain. The press has, I think, been unanimous in drawing this conclusion from the evidence given before the Royal Agricultural Commission. And such practices as the following—which does not stand alone—go to show that the conclusion cannot be far wrong. A landowner in the Western Division of Sussex, well off for funds, recognising the fact that farmers want more capital than as a rule they command, advances to his own tenants, if they ask for it, money up to the actual amount of the "valuation," and considers that in so doing he furthers his own interest as well as theirs. The effect of the loan granted at 5 per cent. is not actually traceable in higher rent. But, in my friend's words, "in the hard times of the last few years it has enabled me to let all my ground satisfactorily." "The point I want to make out," so he goes on, "is that high valuations cripple the farmer when he enters upon his farm, and he is obliged to borrow the money, and has nothing in hand to work with. That means, as I have said, that farmers *require more working capital* than they possess." The landlord in question assures me that agents of adjoining estates entirely agree with him, that his system is deserving of imitation. Unfortunately it is not every landlord who can afford to do the same thing. And why should the landlord advance both land and money? It is unfair to him to ask him to do so, and, from the tenant's point of view, such action is liable to abuse. The proper body to advance money is a bank, which has means of making good its security, such as the landlord does not possess. My friend fully agrees with me, that if a bank were created capable of making the tenant's security effective, and

A Sussex Landlord's Application of the Lesson.

loaning upon it, the system would be all that could be desired.

What Credit the Farmer has now.

It may be objected that there is actually already some sort of agricultural credit. There is, no doubt. But what does it consist of ?

Landlord's Credit.

There is, first, the falling in arrear in payment of rent, which makes the landlord the lender, and the lender ostensibly without interest, but which is nevertheless paid for rather dearly, in the continuance of the law of distress, in restrictions upon cropping, in covenants and the like, all of which conditions serve as security. At best this credit cannot be looked upon as a profitable and beneficial kind of credit.

Dealer's Credit.

There is, secondly, the dealer's credit. If there is any one disposed to dispute the legitimacy of credit in its application to agriculture, let him look at that ! You may say that farmers do not want credit, that it is too dear for them. Farmers themselves show that they *do* want it by practising it—in the wrong way and in the dearest possible form. Reckon up what it costs in higher price, in bad quality of goods, in dependence upon your dealer in your purchases, and you will find the cost total up to a considerable figure. Sir Edwin Chadwick some time ago stated that, according to his calculation, the same sum of money which will buy one-and-a-half day's support on credit, will pay for two days' support if the goods be bought for cash in small quantities, and for three days' support if they be bought for cash in large quantities. The difference between the farmer's credit and cash purchases may not be in quite the same proportion, but it will probably be found considerable enough. I do not know if the dependence, the sacrifice of freedom of action, may not be taken to rank as the heaviest item in the account. Some twenty-five years ago I tried to form a co-operative farmers' supply association in East Sussex, for

the common purchase of better and cheaper feeding-stuffs, seeds, machinery, manures, and so on. The proposal was exceedingly well received. The need of such a thing was felt, the argument in its favour was accepted as conclusive. Everybody approved. But nobody showed himself willing to join. Why not? "You will never get these men to join," so said to me the late William Mannington, of Laughton, a large farmer, who knew his class well—a man himself of ample means. "They are all on their dealer's books and cannot get off." They were tied by the leg. They were not free agents. They must buy their goods at the dealer's prices, of such quality as the dealer chose to give, not as they wanted. They paid dearly for their credit. Co-operative Credit Banks, wherever they are established, have done away with this. They have enabled farmers to combine for the common purchase of goods—to which they are now slowly adding combined selling—and the 4 or 5 per cent. per annum which they take in interest is shown to be a cheap set-off for the benefit purchased.

Banker's Credit.

Again, there is banker's credit already available for farmers—banker's credit of a kind, and that is fast going. Not the free, ready credit always obtainable as a matter of course, and always to be depended upon, such as the trader may claim, and does not claim in vain; but an occasional loan on "character"—or rather on the security of property which the farmer is supposed to possess — or on standing crops — credit which is intended rather to help the borrower out of a difficulty than to supply him with the means for engaging in some profitable enterprise. There is always a smack of favour about this kind of credit, and a suspicion of embarrassment behind it. It seems to cut a notch into the borrower's financial reputation. In any case it is a matter of bargain and negotiation, to

be treated for in every particular instance, granted for a certain length of time, stated or understood, and is, accordingly, resorted to only in the hour of need—very often when credit comes too late to be of any use. It is a specimen of what Léon Say has well stigmatised as "illegitimate" credit—"consumer's credit." M. Leroy-Beaulieu calls it "credit given to meet expenditure already incurred," credit which accordingly cannot yield a profit; as contrasted with "legitimate" or "productive" credit, credit given for a purpose of production which may, if judiciously employed, assure a gain.

Scotch Cash Credit.

There is, in Scotland, of course, Cash Credit, which has done so much to raise Scotch agriculture. "The far-famed agriculture of the Lothians," so wrote H. D. Macleod, "the manufactures of Glasgow and Paisley, the unrivalled steam ships of the Clyde are its own proper children." "A friend of mine," so Mr. Fowler stated some time ago at the Bankers' Institute, "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." Unfortunately, there is now very little of this useful credit left—so far as it applies to agriculture. It seems to have gone out with the nineteen years' leases. It was invented to provide a circulation for bank-notes issuable at that time without limit. It is not worth pushing, from the banker's point of view—as involving risk—after issue has ceased to be profitable business. South of the Tweed it has scarcely developed to recognisable proportions as specifically

agricultural credit under its English name of "overdraft."

Lastly, there is usurer's credit—very much of it, more than most people are at all aware of. Evidence of its presence and its ruinous influence comes to light sometimes, like a discovery under the bull's eye glare of an inquisitive policeman's lantern, and then people cry out in horror at the systematic blood-sucking in progress where blood is least plentiful. We notice these exceptional cases. We do not see that steady sapping of our most precarious industry which is ever going on like the gnawing of a rat at the timbers of a house. Surely on this point a substitute for the borrowing which is sheer suicide is urgently called for. Usurer's Credit.

I come back to the question which I asked above :— Why cannot ordinary credit provide for the farmer what he needs ? Why Ordinary Bankers cannot provide what is wanted.

There are very potent reasons, one of which the late President of the Imperial Bank of Germany, Dr. Koch, made very clear when speaking upon the subject of credit to agriculture in the German Parliament.* Opinion of the President of the German Imperial Bank.

Returns, so he says, are in agriculture incomparably slower than in trade and industry. As a rule, it may be said that a twelvemonth is required for turning over a sum invested. If there should be a failure of crops, or any other misadventure, one year may not suffice. Dr. Koch quotes the Austrian ex-Minister Dr. Marchet as laying it down in his standard book on "Agricultural Credit" that the farmer is not in a position to repay his debt till after the close of the "period of vegetation," and that at that point of time he can repay it only on the supposition that his new harvest proves adequate for making good the deficiency of the last. "That very uncertain factor, Nature," so Dr. Koch observes, "enters into the calculation. It is

* See *Cologne Gazette* of 27th March, 1895, No. 269.

from this cause as well, and not only because the turnover is in agriculture so much slower than in other callings, that the difficulties arise." The Imperial Bank of Germany, so Dr. Koch went on to explain—an institution corresponding in importance in Germany to what the Bank of England is among ourselves—advances to agriculture in the course of the twelvemonth not less than £12,000,000.

"L'échéance agricole n'est que nominale."

Other bankers who deal in credit to agriculture entirely confirm Dr. Koch's statement. "L'échéance agricole," so remarked to me M. Scotti, Director of the People's Bank of Acqui, the business of which is mainly agricultural, "n'est que nominale." Losses are infinitesimal. But you can never tell when the money will come back to the bank. So it is at Lodi, at Cremona, at Rovigo, at Augsburg, at Gotha, at Cosel, at Insterburg. At Insterburg I have found that there were agricultural loans outstanding which had been running for more than fifteen, even up to twenty, years.

Agricultural credit, then, is a kind of credit which it is not worth the ordinary banker's while to cultivate—in the first place, because it is asked for an inconvenient length of time—a time which, in addition, may be altogether uncertain, and which will certainly be too long for occasional lending, and too short for permanent investment. The banker and the capitalist lend as a matter of *business*, not as a matter of philanthropy or public duty. Conditions must be made somehow to square with their interests, or they will have none of it. There is no other unwillingness on their part. They are ready to undertake any business which will keep them safe and give them market value for their money. The limited lending already done to agriculture, even to very small agriculture, by some banks in Scotland and in Ireland, and, I believe, by a

bank in Cornwall, distinctly prove this. It was undertaken, not because it particularly suited those banks, but because the banks were willing to render a service so far as they judged that they could safely do so. Abroad, great banking institutions like the Bank of France, the National Savings Bank of Belgium and Italian Savings Banks, show themselves most anxious to find an outlet for their funds into a channel which may turn to the profit of agricultural industry. But the difficulties prove formidable, and accordingly little or nothing can be done by those banking giants by direct means.

Necessity of creating a marketable Personal Security to justify Personal Credit.

There is a second difficulty, to which Dr. Koch does not refer, because it does not apply specifically to what he was talking about, and does not affect his own bank, a banking institution at the time dealing, not with farmers directly, but with Central Co-operative Banks, which form the intermediate connecting link. In respect of security, the farmer, large or small, stands in a totally different position from the merchant or trader. Nobody pretends that he is not "good." He repays, generally speaking, with scrupulous honesty, though he may be provokingly tardy. But just on account of that tardiness, and, moreover, because there is no great money market in which he is known, as is the trader, his signature is not of negotiable value. If you would give it a value, you will therefore first have to create some new machinery, some banking appliance which will make it good current security. Co-operative banks have shown themselves capable of effecting this; and therefore I have ventured to say that in the case of a farmer or cultivator they actually *create* a security—which is true to a fuller extent even than may appear at first blush; for they do not only make a security negotiable which was not so before; they distinctly establish one where there was none

visible before. That is their peculiar merit. How they accomplish this, how they at the same time create a security and make lending for what has otherwise been found an inconvenient period possible, I shall have to explain in detail as I try to make clear the various systems of People's Banking. My present object is to insist that credit made easily accessible, cheap, and in every way convenient, may be of very great service to agriculture, and that the ordinary money market, in its present organisation, does not provide a source for such credit—that accordingly some new source will have to be created.

CHAPTER VI

THE "CREDIT ASSOCIATIONS" OF SCHULZE-DELITZSCH

The Germans the first Organisers of Co-operative Credit.

THE merit of first putting the idea of co-operative credit-banking into practical shape belongs to Germany. Before the two great German apostles of Co-operation, Schulze-Delitzsch and Raiffeisen, began their useful creative work, both of them at the outset thinking rather of provident than of co-operative institutions, both about the same time, though quite independently of one another, far apart—one in the East, the other in the West of the Empire—in respect of credit co-operation, all was chaos.

Schulze-Delitzsch; His first Beginnings.

To Schulze, as to his fellow-labourer Raiffeisen, the idea of co-operation was first suggested by the miseries brought upon many of his neighbours by that trying dearth and famine which swept across Germany during the years immediately preceding the Revolution of 1848. He was then living in his little native town of Delitzsch, filling a judicial post corresponding, roughly speaking, to that of a County Court judge in England. By this means he was brought into contact with many small folk, mainly of the smaller trading class, and led to understand and appreciate their sufferings. Schulze had visited England and knew something of our provident societies. Accordingly, it occurred to him to apply for the mitigation of their sufferings the same means which had already proved effective here. In conjunction with his friend Dr. Bernhardi, of Eilenburg, he set on foot, first of all, a sort of provident fund. Next, the two

philanthropists organised an institution which has since become exceedingly popular in Germany, that is, a co-operative association for the purchase in common of raw material. That form of institution has not met with much favour in this country. But to the joiners of Delitzsch and the shoemakers of Eilenburg the new institution came as a veritable godsend. They took it up readily, and to the present day associations for the purchase of raw material continue numerous and flourishing in Germany.

The first "Credit Association," 1850.

From the co-operative purchase of raw material to other co-operative supply, and from that to the co-operative supply of money, was in each case but a step. Schulze advanced in this way, and the year 1850 saw his first "Credit Association" established. That association was not in the fullest sense co-operative, and hence its early weakness. It was a capitalist institution, philanthropic and condescending, supplied with funds by members who did not themselves expect to become borrowers. Evidently Schulze was feeling his way. But he made his bank co-operative at any rate to the extent of insisting that no one should obtain a loan who did not himself become a member of the bank, responsible as such, and thereby pledged to regular payments (*ergo*, to savings) up to a certain figure; and, moreover, that the loans granted should be treated, not as a matter of charity or favour, but strictly as a matter of business. There was a notable advance in this upon old methods.

Dr. Bernhardi improves the System.

The German apostle of Co-operation did not long halt at this half-way station. While he was away, meeting one of those numerous vexatious prosecutions with which his Government unpleasantly seasoned his career, his friend Dr. Bernhardi worked out at Eilenburg a more fully co-operative plan, upon which he modelled his own new local bank. The experiment proved a

decided success. As many as 396 members joined, paying in in the very first year 2,242 thalers (£336) in deposits, and so enabling the association, with the help of 3,703 thalers (£555) of borrowed money and its own small capital, to lend out in the twelvemonth 8,801 thalers (£1,320), and to realise a net profit of 142½ thalers (£21 7*s*. 6*d*.), which was considered exceedingly encouraging. Schulze, returning to Delitzsch in 1852, at once recognised the superiority of his friend's scheme, and forthwith grafted its principle upon his own thus far less perfect institution, with the result of increasing the number of its members from the 30, to which it had fallen, to 150, and raising sufficient funds to enable him to lend out something like 5,000 thalers (£750) in the very first year after the change.

Schulze's peculiar Aptitude.

Thus was the first stone laid of a fabric which has since become a great co-operative stronghold, the first seed planted of a crop which was to overspread the entire Continent. In substance the Schulze-Delitzsch associations are the same still; in the main the original type has been adhered to. It was a bright light which Schulze had set a-burning, and he was not the man to hide it under a bushel. He may be described as a born economic missionary. His striking personality, his convincing eloquence, his invincible faith in his own cause, and his truly contagious enthusiasm made him an almost ideal propagandist. He "stumped" the country with a will, making clear with remarkable lucidity of exposition to audience after audience the principles of his system, the benefits of its application, the incalculable gain which it must bring alike to individuals and to the community. His economic gospel took the country by storm. Everywhere new "Credit Associations" sprang up—followed in many cases by distributive associations—and every-

where they accomplished astonishingly good work. When in 1883 the great German champion of Co-operation was called home there are said to have been no less than 4,000 associations of various sorts established in Germany, organised on his system, comprising something like 1,200,000 members, disposing of capital of their own to the amount of more than £10,000,000, and doing business at the rate—so Herr Schmid, of Vienna, had calculated — of at least £100,000,000 a year. That is without including a large number of associations formed avowedly on Schulze-Delitzsch lines in adjoining countries. Without question Schulze had carried his idea to triumph.

His Difficulties.

Schulze's path was not at first altogether strewn with roses. Those were the days when in Germany there was still a common talk of the "limited understanding of subjects." Government must do all the thinking. When, therefore, this "Democrat" presumed not only to think out his own scheme for benefiting his fellow-men, but topped this offence with the arch-heresy of suggesting that men could help themselves, the Manteuffels and Bismarcks felt their prerogative invaded, and resolved to make the audacious innovator suffer for his presumption. They began by worrying the poor man out of his judgeship. When they could not refuse him sick-leave as a judge, they granted it coupled with the condition that he must not, while on furlough, visit his native town. When, knowing this condition to be illegal, he nevertheless proceeded to Delitzsch, where he was received like a hero returning from victory, they promptly announced that a month's allowance would be stopped out of his salary. Indignant at such arbitrary treatment, Schulze threw up his judgeship in disgust, and resolved to devote himself from thenceforth entirely to his economic apostolate.

But he had not yet done with "paternal" Ministers.

Every conceivable hindrance was laid in his way. When in 1859 he convened his first Co-operative Congress—the most harmless Congress, one would think, which a man could suggest—under the dictation of the Government in Berlin even kind-hearted King John of Saxony dared not open his dominions to the supposed traitor, who was accordingly compelled to summon his adherents to that one available refuge, as it then was, for "undesirable" Germans, the Thuringian duchies. When it was seen that in spite of all this official harassing and badgering, prosecutions in courts of law, and tabooing in the press, Schulze still kept gaining ground with the people—who were not by such means to be dragooned out of benefits apparent to all and appealing to all—Herr von Bismarck, the unsparing anti-Socialist of later days, raised up a Socialist Jannes, in the person of Lassalle, to withstand this economic Moses. This man was systematically petted and caressed, favoured even to the length of the acceptance of his idea of Socialist workshops. At the instance of Herr von Bismarck, who personally introduced the forerunner of Bebel and Liebknecht to King William, some experimental collectivist workshops, endowed with money from the King's purse, were set up at Berlin, and carried on for a brief time—of course with the result of losing His Majesty every farthing ventured. In 1865 the Prussian Diet appointed a Committee to draw up a law on co-operation. By explicit direction of Herr von Bismarck the one person in the House who knew anything about co-operation was deliberately excluded. And so this harassing and baiting went on. To the end of his career was Schulze, who enriched his country by more milliards than Prince Bismarck conquered for it in 1871—to say nothing of instilling the principles of thrift—mercilessly harassed on his course.

Government Persecutions.

Schulze's Success.

Of course all this childish persecution entirely missed its aim. Every weal which Prince Bismarck's sharp whip raised on the popular favourite's skin secured to the latter fresh hosts of admirers and converts. There is absolutely nothing to be said in justification of the official badgering. To make it the less excusable it was directed at altogether the wrong point—not the point at which, unfortunately, the system eventually proved to be vulnerable, but at one on which it was absolutely blameless.

Schulze's Aim.

In considering Schulze's work we shall have to bear in mind what it was that Schulze had set himself planning and working for. Different people have different opinions as to the true object of Co-operation. Schulze had no scheme in his mind for the moral regeneration of the world. Nor yet was he thinking of bringing about a working men's paradise. He was thinking of his shoemakers in Delitzsch, his joiners in Eilenburg, and beyond them of people in similar positions—all those toiling and producing myriads whom we rank as middle-class, who have employment for capital, but at present have no capital, at any rate in sufficient quantity, brought within their reach. And he meant to help these people, economically only, by showing them how to procure for themselves the use of such capital, as a road to its final full acquisition. Economic reform being effected, he judged that other reform would follow in its train of its own accord. Meanwhile out of the surpluses netted there should be contributions paid towards educational and other purposes benefiting the poor.

He produced a Middle-class movement employing only economic means.

As a middle-class movement accordingly Schulze's movement began, and a middle-class movement in the main it has remained—not perhaps in essence, for it is adaptable to a great variety of cases, but in practice—to the present day. Schulze's own Union—which

is probably a fair specimen of what prevails throughout—comprises at the present time among its members about 34 per cent. of working men. That ratio compares favourably with the figures for preceding years. But the full list of occupations given below * will show that it includes only few real wage-earners. It is indeed a question, what use simple wage-earners should in their individual capacity have for a credit bank, except as a savings bank. In their corporate capacity, as calculated to provide useful service for their co-operative and other societies, it may become of very direct importance also to them—as witness the otherwise successful banking arrangements in our Co-operative Union. These leave a perceptible gap between the great Wholesale Bank and the members of local societies, which gap co-operative banks of the foreign type would be admirably suited to fill. Beyond this, the matter is bound to interest even purely wage-earning working men, because there is no more liberal

* The figures given in the last Year-Book are as follows :—

	Per cent.
(1) Independent agriculturists, market-gardeners, &c.	27·05
(2) Assistants of the above, and labourers engaged in agriculture, gardening, &c.	2·53
(3) Manufacturers, building contractors and mine-owners	3·75
(4) Independent jobbing artisans	23·75
(5) Factory hands, miners, journeymen artisans	7·31
(6) Independent merchants and dealers	9·99
(7) Employees in mercantile establishments	1·32
(8) Jobmasters, inn and tavern keepers, and shipowners	4·80
(9) Postmen, railwaymen and subordinate employees in railway and postal service, waiters and boatmen	3·09
(10) Domestic servants and commissionaires	·77
(11) Medical men, pharmaceutical chemists, schoolmasters, artists, literary men and public employees	7·21
(12) Persons without a calling	8·42
	100·00

contributor to the available national "wages-fund," no power making so largely for the employment of labour as this co-operative credit, which produces its millions annually mainly to keep the loom, the lathe, the plough going, providing material and paying for labour. The very condition set to such credit, that it should be *productive* credit, in truth ensures this. It is credit for every one who chooses to combine with others to create it, be he ever so much a working man. But by the very nature of things it is in the main credit for the business classes, who most directly require it. As such it ought at the present time to appeal rather forcibly to ourselves, seeing that the ready business credit which our farmers, manufacturers and merchants used to enjoy, and used greatly to appreciate, while there were local banks which knew how to give it, has for the most part disappeared, those banks having been swallowed up by giant establishments which are above such petty business.

And to help these people to credit Schulze would employ only economic means. He had no intention of interfering in their private life, or educating them in morals. He rather sneered at "Christian Socialists," who troubled themselves about other people's moral well-being. Economy was enough for him. But the economy must be sound, resting upon self-help, production, and thrift.

The "Non-capitalist" to become a "Capitalist."

The complaint of the people for whom Schulze wished to prescribe was that they did not possess sufficient capital. Anticipating Lord Beaconsfield's well-known advice to his minority, to the effect that "the first duty of a minority is to convert itself into a majority," he accordingly took care to impress upon them that the first duty of a non-capitalist is to convert himself into a capitalist. Sir Robert Morier altogether misreads Schulze's system when he describes unlimited

liability as the "key-stone" of that scheme. At the time when Schulze started work there was no choice possible between different forms of liability. Limited liability was then not yet known—not even in England; in Germany it did not become recognised till 1889, six years after Schulze's death. Unquestionably Schulze's successors in office are, like himself during his lifetime, in favour of unlimited liability. They judge it of greater utility for their scheme than limited; and they more particularly recommend it for co-operative banks in early stages, when capital is sure still to be scanty. However, like Schulze in his old age, they admit, and even emphasise, the fact that the question involves no point of principle. In 1872 they were glad to see limited liability disallowed in Bavaria, where it had been permitted for a few years, by the coming in force of the new German law-code. At that time their Union would not accept any societies with limited liability. But in 1894 the Schulze Congress passed a resolution favourable to it, and in 1896 it formally declared limited liability societies eligible. Since then the number of limited liability societies has gone on steadily increasing. Under stress of tight money, it is true, some few societies, already converted into limited liability societies, have gone back to unlimited liability, which, as a matter of course—supposing the society to have established a character for careful management—commands more ample credit. But generally speaking there is a steady growth in the number of limited liability societies, which at the close of 1908 stood in the Schulze Union proper at 332 out of 916 reporting societies. Limited liability in this application, so it may be well to explain, does not necessarily imply what it would in our own country, namely, liability limited to the actual value of the share taken up. In 134 societies out of the above-named 332

Limited and Unlimited Liability.

CHAPTER V

CREDIT TO AGRICULTURE

Why Agriculture must be classed as a "Poor" Calling.

I HAVE spoken thus far of co-operative credit as a help intended for the poor, in the ordinary and most familiar sense of the word—the wage-earner, the toiler, the man of muscle, whose powers must run to waste unless money can provide both material upon which to set them at work and a stock of necessaries wherewith to keep him alive until his labour may bear fruit in a marketable shape. However, poverty in our present sense ought to have a much wider application. Obviously, it ought to be taken as including every one who has a productive use for money or credit, and yet finds himself unprovided with the one and practically cut off from the other. There are hundreds of thousands of people who in our country come under this description. Their number has greatly increased of late by reason of the amalgamation of banks, which leaves the trader, the farmer, the manufacturer, who used to be able to rely upon occasional money help from his local bank, without such most useful credit, since it does not suit the purpose of the gigantic modern banking concerns to burden themselves with such comparatively small accounts, which are not easily controlled from head-quarters.

But there is one great calling, more in particular, to which the above description pre-eminently applies. That calling is agriculture, which, from being a cornucopia yielding almost automatically, not one, but actually those "three" livings of which Lord Beacons-

devotion to "self-help," and carry "self-help" even in the name that they have given to their Union. No demoralising State-help for them! No patronage! There must be money of the members' own even to begin with. Schulze's competitor Raiffeisen admits the very poor, if they are only known to be honest; and, to be able to admit them, he would have no shares. Schulze insists that a man who enters a society of his must be able to take up a share, with the knowledge that he will be able to pay for it in reasonable time—one share only (except in a few societies); because, liability being unlimited, one share is sufficient as security, as pledging all his belongings, but a share of rather substantial amount, at least £5. At that figure Schulze put the allowable minimum in early days; but the figure has long since been raised to severally £15 under unlimited and £25 under limited liability. Unlimited liability banks are supposed to require the larger equipment with money; but, as a matter of fact, it is the unlimited which actually have the larger shares. There are societies with £30, and even with £50 shares. But the mean figure for *paid-up* shares now stands at a trifle over £17. That is a substantial figure enough.

Large Shares.

Unquestionably there is utility in large shares—as has been discovered during periods of tight money. But there are also distinct drawbacks. In any case the large share forms a barrier to admission, not unlikely to keep out people who might be desirable members. It is admitted that not a few members have, under pressure of want of funds, gone out of their societies simply to repossess themselves of their share-money, even though by so doing they sacrificed their non-returnable entrance fee—recommencing after that their course of payment by instalments for a new share. Above all things, large shares—the object of which is

to constrain members to a systematic course of laying by (whence their whilom nickname of "compulsory savings banks")—are as apt to embarrass banks in full times, as they are to help them in slack. In 1895 I found these banks overflowing with money, and doing all that they could to reduce share capital (which by reason of the dividend is dearer than loan money) by cancelling shares, and prohibiting the payment of further instalments. That knocks the principle of "compulsory saving" on the head. Apart from this, I have found banks even in ordinary times keeping share capital down—one very prosperous bank limiting the "paid-up" part of its £50 share to only £5, another permitting only £15 to be paid up on its £37 10*s*. share. Evidently there are two sides to this as to all questions.

Individual societies are not absolutely under the control of the leaders of the movement. But in general, Schulze's banks must be admitted to have lived up to their originator's rule of much share capital—for non-capitalist banks. The 1,022 societies composing the Union and numbering, as a mean figure, 614 members apiece—though there are societies with many thousands of members, just as there are also others with only 50 or 60—returned in 1908 215,092,833 marks (£10,754,641) paid-up share capital, which means, as observed, £17 3*s*. per member.

A strong Reserve Fund.

Such foundation for solvency laid at the outset is systematically broadened from year to year by generous allotments to reserve, such as have yielded up to the present 89,249,982 marks (£4,462,499) in the 1,022 societies mentioned, that is, 87,329 marks per society. Schulze-Delitzsch societies have sometimes been found fault with for paying too heavy dividends. However, such dividends have not been paid at the cost of the reserve. In point of fact, Schulze from the outset saw

that, in view of the unlimited liability engaged, he must, as a safeguard to members, insist upon a strong reserve fund, which should be brought up to 10 per cent. of the share capital as quickly as possible, but may with advantage be raised to 50 per cent. We shall see presently that in Italy there are People's Banks which, although they are under limited liability, yet have advisedly and very prudently brought up their reserve to more than the share capital. Of late it has been contended that share capital is not the proper standard by which to measure reserve funds, but that such should be proportioned to actual liabilities ; and some few banks—for instance the Central Bank of Heide—have actually in their rules applied this measure. But in general this is not an altogether easy thing to do in practice. In any case it is a distinct point in Schulze's programme that reserve should be made as strong as possible, as adding to the capital of the bank's own.

Danger of big Dividends.

Big dividends are an error into which—as witness our own distributive societies—all forms of co-operation are easily tempted to fall. Between the competing calls of co-operative spirit and good paying selfish business, the latter is almost bound sometimes to carry the day. In the case here under consideration those big dividends, which have mounted up to 20 and 30 per cent., in one case even to more than 56 per cent., have their cause in the non-limitation of interest on capital, the necessity of which in all probability Schulze—like M. Luzzatti in his own case—did not foresee when starting on his career. There was no indication then to show with what willingness capital would come forward. And capital there must be. It is not altogether surprising that, overrating its coyness, Schulze, to be on the safe side, did not stint allurements. And in his case undoubtedly, unde-

sirable as heavy dividends in themselves are, there is something to be said in extenuation. Members—that is, shareholders—have in the majority of cases saddled themselves with unlimited liability on behalf of the bank. Such liability may claim to be paid for. It would not be fair to remunerate it at the same rate as limited liability, which runs no risk. Beyond this, if it is taken from borrowers' payments, borrowers have been distinctly relieved by the ministrations of these banks, and might well expect to be charged for them. We must not measure what happened in the fifties and sixties, in undeveloped Germany, by a British standard of the twentieth century. Schulze's customers had been in the habit of paying 20 and 30 per cent. Receiving their advances at from 12 to 13 per cent., with a trifling commission added—which was the rate of Schulze's banks in those early days—meant a distinct saving to them. Happily we have got over those expensive times. It is difficult to stop existing banks in an accustomed practice. However, generally speaking, dividend has now come down to about 6 per cent. as a mean. The last reported average is 6.18 per cent. The average interest, by the way, paid for borrowed money (including savings deposits) is 3.91 per cent. Concurrently with it the rate of interest charged on advances has gone down.

Importance of Savings Deposits.

Still acting with a view to material strength, which throughout Schulze made his main aim, he laid down some other regulations. Only strength, so it will have to be admitted, can ensure independence. And independent these societies *must* be if they were to afford their members steady credit, unaffected by the fluctuations of the great market. (How rightly he judged we shall see when we come to consider co-operative banks founded on the opposite principle of dependence.) For this reason Schulze urged his banks not to rely to

excess upon loan money—he would limit the proportion of loan money to money of the bank's own as four to one. And such loan money as was got should consist by preference of savings deposits, which as a rule constitute both the cheapest and also the best "lying" money. Each "credit association" was to try to become the "savings bank" *par excellence* of its own district. Seeing that at the close of 1908, 868 of these associations reporting on this item had 477,955,811 marks (£23,897,790) in savings deposits on their hands—that is, nearly half of their collective loan capital (1,050,344,140 marks), including cheque accounts—the societies cannot be said to have proved altogether untrue to their master's teaching. And evidently, with such results to show, they deserve the praise which, in 1887, speaking in the House of Commons, Lord Avebury bestowed upon them as admirable substitutes for savings banks worthy of imitation in this country.

Re-discounts.

As regards other loan capital, the readiest and most convenient way of obtaining such would be by rediscounts. For capitalist deposits and loans are apt, in time of slack business, to become a source of embarrassment to banks. Rediscounts are, however, just the point on which banks let in the adverse influence of the fluctuating great market. The financial crisis of 1907 has made it quite clear how right Schulze was in urging his banks not to rely upon them to excess and not even to employ their credit with their own central bank, when they had it, overmuch. It was the rediscounting banks which suffered most by the crisis.

Large Districts and blended Membership.

The strengthening regulations referred to above have regard to the working districts of the banks, and to their membership. Strength necessarily presupposes a broad basis and a maximum number of supports. Schulze would not hear of limiting membership to distinct

classes or callings. The more members there were the safer would the bank be, and the less would its management cost, the more substantial also would be the security which it had to offer. Therefore he would not limit a bank to any particular district, but leave it to the bank itself to determine over what area it could with safety extend its services. And the more varied were the occupations of such members the steadier would be its foundation, not only because—as has already been shown—the period of abundance in one calling is likely to coincide with a period of want in another, neutralising its effect, but also because grouping according to callings is only too apt to bring out, instead of the generous, unselfish spirit of co-operation, the grudging, grasping spirit of self-interest. We see this plainly in some other unions. Schulze hated by-ends as much as ever did John Bunyan, and he would close and securely bar his door against them.

We now come to the important point of the according of credit.

Personal Credit Preferred.

Businesslike as he showed himself in all things—businesslike to the extent of horrifying some "Christian Socialists"—Schulze showed himself so also in the provision made for the use of credit. That provision will call for rather fuller explanation presently. Suffice it here to say that Schulze would have no credit allowed except against security, and that by preference he would have such security made personal. "*Ce qui me plait dans les banques populaires c'est qu'elles font le crédit personnel.*" By such words Léon Say indicates his own distinct preference for this form of credit. Some of Schulze's banks still lend out money on the old-fashioned security of mortgages. It is not necessary to point out what embarrassment that may lead to by reference to such extreme cases as these—a theatre, which of course turned out a white elephant,

foreclosed upon at Cannstadt, and a watermill pledged to a society washed bodily away by the flood—to show how very undesirable a security a mortgage is to a bank, most of all for a co-operative bank presumably endowed with only comparatively scanty capital. We have Lord Sydenham's golden rule against it, accepted by all bankers: "Banking is an easy matter enough, once you know how to distinguish between a bill of exchange and a mortgage." Advances on mortgage are strongly discouraged at Schulze-Delitzsch head-quarters. The credit given should be personal, but not without security attachable in case of need. What Schulze would say to the practice of allowing members blank credit—of course within limits—which has now become not altogether uncommon, I do not know. It is only fair to add that the practice has been found a great convenience, and that it does not appear thus far to have resulted in serious loss; and also that the law debars the societies from lending to any one except members, who are, of course, known to their society and to some extent under its control, and who have paid money for their shares. But still the practice does not seem good.

And, beyond this, Schulze urged societies to be strict in exacting punctuality in repayment.

Organisation of the Societies.

It may be convenient now, before proceeding to a discussion of the particular methods adopted in the actual disposal of money in advances and loans, to explain the organisation by which Schulze has sought to carry his principles thus far set forth into effect.

The object which he aimed at was, of course, to ensure a maximum of efficiency and readiness for prompt action in the Executive—which cannot function well without such attributes—combined with a maximum capacity for checking on behalf of the body

of members, whose power of direct supervision is necessarily limited by their number, even in a small bank, as well as presumably by a lack of ability among the majority.

Under the law as it stood at the time, allowing full liberty of organisation, Schulze very naturally provided for the election of a rather large General Committee (*Aufsichtsrath*) by the members collectively, at their annual meeting, from out of which its own members were in their turn to select a smaller Executive (*Vorstand*)—consisting by preference of three only—that being considered the most suitable number—to attend to all current business. No special provision was made for skilled fitness. Under this system of organisation the General Committee acted at the same time as supreme Executive and also as inspecting body. That was a simple enough form of organisation. However, Schulze was not long in discovering that for a bank, the soundness and success of which must necessarily depend upon very effective checking and the keeping in abeyance of personal interests in the governing bodies, it was not ideal. As early as in 1869 he pleaded openly for a more thorough separation of the inspecting body from the governing. The law of 1889 carried his opinion into effect, directing that the two bodies must be *entirely* distinct, separately elected, and with all possibility cut off of one person serving on the two. It is not often that the law by its interference renders a good service, but in this case it undoubtedly did. The organisation has grown stronger and more trustworthy under its provisions.

In accordance with such principles the *Aufsichtsrath*—whose title is identical with that of "Board" of a joint-stock company—indeed retains certain prerogatives of governing supremacy—under the General Meeting, from which it derives its authority; but in the

main it has become a purely inspecting and controlling body. The actual business is, as heretofore, carried on by the *Vorstand* of three members, every one of whom fills a distinct office, but an office temporarily, during the absence of one or other of the members, interchangeable with the others—a body acting collectively, like a three-headed managing director, with this safeguard introduced (to prevent abuse of authority), that every act performed or decision taken requires at least two signatures, carrying with them joint responsibility, so that at the very source of each exercise of authority there is one man to check the other. Members of the *Vorstand* are appointed as permanent, salaried officers (who are, not quite properly in my opinion, frequently remunerated by commission on "business" as well as by fixed salary), and are to be selected purely for their fitness, which term of course includes trustworthiness. But as time has gone on and business has increased, the question has also become one more and more of banking capacity, at any rate in banks of any size. The members are also to be members of their own particular bank; but that qualification they may acquire after selection. They are formally elected by the General Meeting, but as a rule on the proposal of the *Aufsichtsrath* or Committee, which, in addition to superintending them, in not a few societies retains this attribute of supremacy, that it is entitled in urgent cases to remove the one or other member from his office, subject to early confirmation of such act by a General Meeting. The *Vorstand* are allowed considerable latitude—subject to subsequent control. And there can be no doubt that the freedom of action left to them, increasing their efficiency as an executive body, is in a large measure answerable for the workmanlike administration, and, therefore, the success of the banks. The *Vorstand* is,

The "Vorstand."

of course, required to meet as often as there is occasion, which means that in the large banks there is daily attendance. The subordinate staff of the bank is under the orders of the *Vorstand*.

The "Aufsichtsrath."

The *Aufsichtsrath* is numerically a considerably larger body, elected by the members at the General Meeting and intended to be, in its composition, representative of all sections of the membership. Its proper business is to control—to control and check *everything* that is done—not merely to audit and see that the provisions of the law and the rules laid down are observed, and to compare the cash in hand with the accounts, but also to inquire whether in every case proper security has been taken, and has been maintained, and in general whether the *Vorstand* has rightly exercised its discretion. It is not too much to say that in the bank everything hinges upon the manner in which the *Aufsichtsrath* discharges its duties. Its inspection, being inspection by local men, directly interested in the bank, and cognisant of all the circumstances, is absolutely not to be replaced. A good *Aufsichtsrath* makes a good bank; and wherever loss has occurred, it has as a rule crept in through some negligence of the *Aufsichtsrath*. Schulze did not believe in gratuitous services, quoting against such the scriptural maxim: "the labourer is worthy of his hire." Accordingly, as a rule, even members of the *Aufsichtsrath* are remunerated—the members of the *Aufsichtsrath* generally by fees for attendance. However, in not a few cases, such services are now, as a voluntary act, rendered gratuitously. There is, of course, no occasion for the *Aufsichtsrath* to meet anything like as frequently as the *Vorstand*. But it is expected to meet, for the overhauling of business, at least once every three months. The mischief is that, as business has grown, it has in the larger banks become too unwieldy for the *Auf-*

sichtsrath, acting collectively, and having only limited time at its disposal, to carry through carefully. Hence the resort, practised in daily increasing ratio, to skilled assistance is decidedly to be welcomed. Even in his day Schulze himself was led to decline further service on his *Aufsichtsrath* unless a skilled accountant were appointed to take actuarial work off the *Aufsichtsrath's* hands. Such work is of course done under the *Aufsichtsrath's* authority and subject to its responsibility.

Election and Retirement of Members.

Admission to membership is made easy. So much stress is in each case of a loan laid upon security and the observance of proper rules that practically every respectable person may be considered eligible. Schulze would, as observed, not have members who did not *primâ facie* possess the means for maintaining membership. Those who were too poor must be left outside. Otherwise the applicant need really only signify his acceptance to the rules—which declaration, bearing his signature, has to be handed in at the law court of the district, acting as registry office—and pay his first instalment, to become endowed with all attributes of membership. The entrance fee is not returnable on resignation, and may be fixed at the discretion of each society, but is not as a rule large. It may be fixed per head or per share. For obvious reasons the same facilities are not given for retirement. For retirement means, not retirement of a person only, but also of the funds which such person has contributed and of his liability, on which the society depends. Accordingly, notice is insisted upon. Such notice is as a rule fixed at three months, but may legally be extended to as much as two years.

We shall now have to consider the principal business of the bank, that is, the granting of loans.

Methods of Credit.

Growing business requirements have necessitated the recognition of a considerable variety of methods of

credit, among which one is not sorry to see cash credit, quite on the lines of the Scotch, claiming from year to year a more prominent position. Lending, however, as a matter of course, began with the simple advance —so much money for so long a time. The law rightly allows lending only to members. However, members have a right to claim that things should be made easy for them ; for that is the acknowledged object for which the bank was formed. In respect of pledgeable security brought to the societies, their practice does not differ from that of ordinary banks. So much security, recognised as sound, whether it be real or personal, will entitle to so much credit. However, a co-operative bank may be expected to go a step further. It has done so by appointing a committee of members—which may be the Council or a distinct committee elected for the purpose, to wit, the *Einschätzungscommission*—to value the qualification for credit of each member, and enter the figure in a special register, the *Creditliste*, which is of course kept private and revised from time to time. The figure there noted tells the *Vorstand* to what length it may give each man credit—not without his signing an I. O. U. or acceptance in respect of the loan—for the question is not one solely of security but also of recovery—but still practically on the ground of his own estimated sufficiency. The difficulty about this business is the old one of *quis custodiet ipsos custodes*, that is, how to deal with those who have a voice in the granting of credits, whom it would be manifestly unfair to exclude from the privilege of borrowing, but who evidently must not act as judges in their own cause. This difficulty is as a rule got over by the nomination of a distinct committee of valuers to deal with such cases only.

The "Credit Register."

Some banks supplement the register spoken of by

other registers, card catalogues and the like, applying not to borrowers only, but also to their sureties, whether members or not, in which carefully prepared records are kept of all past transactions, the names being entered in alphabetical order. These helps are in some cases found exceedingly useful. You can tell from them how each call was met, whether there were difficulties, how the parties have behaved. And the record of the past is made to serve as a guide for the future.

The Acceptance becomes the Regulation Record of Advances.

On grounds of practical utility the acceptance has long since become the favourite record of a loan, not only on account of its advantages already enumerated.

The acceptance is found to constitute in every respect the most convenient instrument, not least so because it helps to secure that "liquidity" of funds which Schulze was rightly ever anxious to see maintained. An acceptance may, in case of need, easily be passed on to some other bank, so that it may be said to contain in itself the power of making more money. Its selection was furthermore favoured by Schulze's insistence—in respect of which his successors in office fully maintain his teaching—on short terms only for ordinary credit, by preference three months, which is the accepted running time for negotiable bills. Such short terms ensure the further advantage of keeping the borrower well in hand. Renewals are pretty freely granted—in some banks very freely. Of 3,680,532,701 marks (£184,026,635) lent in 1908 by 1,022 Schulze-Delitzsch banks, 743,889,165 marks (£37,194,453) were renewals. But every renewal has to be asked for; and to unsatisfactory borrowers an answer in the negative is well within the bounds of possibility. For not a few purposes, however, short terms are of no use, and members borrowing for such purposes have a right to expect, provided that their case is good, that they will not be sent empty away. Very

needless controversy has taken place with regard to this point. The truism that a bank can obviously not lend money for longer than itself has received it for has been pressed to quite undue lengths. As a matter of fact practice has settled readily what theory pedantically still stickles over. This is not only a question of borrowers' needs. Banks have money to deal with, and employment is not always readily to be found. The sound rule about keeping funds "liquid" is quite sufficiently to be met without the adoption of hard and fast rules. In the end theorists have allowed banks a right to deal for longer terms than usual with money *of their own*. However, managers having money to invest and good cases before them, are not careful to inquire whether the money that they deal with is the bank's own or borrowed. I have found that credits have been renewed with perfect safety—the security being good—and to the bank's benefit, for ten and even twenty years.

Credit secured by Note of Hand.

The acceptance is, as observed, a very convenient instrument of credit. But it does not in every instance suit the borrower. The German law with regard to acceptance is very severe. M. Durand calls it "draconic." Hence the simple note of hand has in many cases had to be accepted in lieu of it. In 1908, in 1,022 Schulze-Delitzsch banks, 215,542,908 marks (£10,777,195) were lent out simply on note of hand or I. O. U., as against 882,587,337 marks (£44,129,867) lent out on acceptance from the borrower—not counting bills of exchange brought to the banks for discount, the total of which amounted to 1,007,886,468 marks (£50,394,323). The last-named used to be the favourite form of credit, as best ensuring genuine business employment and involving least risk, till cash credits became popular.

As between acceptance and simple note of hand, the

general rule is that the latter should be taken only for small amounts, within a limit set, whereas the former is employed for larger sums. There is still, as already stated, some lending on mortgages, which old-fashioned people persist in regarding as an ideal security, although, apart from such miscarriages as have been already instanced, they in every case possess the disadvantage of locking up the money employed for an inconveniently long time. The sums outstanding on this security in 1908 amounted to 20,286,205 marks (£1,014,310). That is not much in comparison with the total of £184,000,000 lent out, but it is still more than there should be. One is thankful to see the figure declining; but it first went up six years ago. People at headquarters are thorough believers in Lord Sydenham's "golden rule" already quoted, and keep warning against mortgages. Cash credits amounted in 1908, once more in respect of 1,022 banks—or more correctly in respect of 590 out of that number—to 1,554,229,783 marks (£77,711,489). Such credits are in each case secured in some way or other, and, whatever the security proper given may be, it is usual for greater convenience to hold an acceptance, undated, the date on which may be filled in at any time, at the discretion of the bank. The latter of course safeguards itself against abuse of such credits, and will not, among other things, allow them to remain "dead." In view of possible abuse the credit is made revocable at pleasure. There are one or two minor forms of credit, which scarcely call for much notice. One such is the discounting of book-debts, which was begun in the very early days of Schulze-Delitzsch banking, and is now once more being much discussed, with an evident desire on the part of some societies to rehabilitate it. It is not, however, favoured at headquarters.

Cash Credit.

Discounting of Book debts

What has been said will probably make the various

methods of practising credit sufficiently clear for present purposes. It is to be assumed that the safeguards adopted—valuation of members for purposes of credit, careful examination of the security given from time to time, keeping loans short, and insisting on prompt payments—have proved effective; for the percentage of losses occurring is very trifling. It amounted in a rather bad year (1908) to only 2.93 marks (less than three shillings) per member on a total turnover of 12,452,499,625 marks (£622,624,981). There were losses in 330 societies. Previous to 1899—in which year the great craze for speculation, which carried Germany along, had at any rate something of a sympathetic effect upon members of co-operative banks, and drove the figure up to over three, in one year to nearly five shillings per head—it stood, as a rule, well below two shillings. Management expenses are kept down by the comparative size of the societies; the more members, the less per cent. expenses. Banks try to keep themselves of a fairly good working size; and the tendency now seems to be towards spreading out over a wider area, in consequence of which a recent Congress has by resolution recommended an institution which will have to be more fully explained when we come to consider the practices of one or two typical banks, namely, the employment of "confidential advisers" to assist the Committee with information, stationed in outplaces.

Losses.

Management Expenses.

In conclusion, under this particular head of the banks' business, it deserves to be noticed that in course of time, from being in the main mere credit and savings banks, the Credit Associations have become, generally speaking, genuine "banks" for their particular *clientèle*, opening drawing accounts, purchasing and selling shares and bonds, and doing all that modern usage requires from a business bank.

General "Banking.'

Variety of Services of the Banks.

From what has been said the general principle and also the practice of co-operative banks of the Schulze-Delitzsch type, regarded in their individual capacity, ought now to be fully understood. It will still be shown how these banks have managed to fortify their system by means of collective action. But before this is done it may not be amiss to illustrate their individual way of carrying on business by a few examples which have been selected, more in particular with a view to meeting a most mistaken impression—which has, through the ignorance of those who set up for teachers, found its way also into the United Kingdom—to the effect that the Schulze-Delitzsch banks are purely "urban" institutions, as it has been called, unqualified to render any service to agriculture. No impression could be worse founded. There is nothing exclusively "urban" about such banks. There are circumstances under which another system appears preferable in rural districts, and those circumstances were recognised by Schulze himself when he directed that poor people must be kept out of his banks. They turn rather on the presence or absence of available ready means than upon surroundings. Schulze's system is, in truth, applicable wherever people are found willing to take it up, being possessed of sufficient means and business knowledge to do so. It was first intended for the jobbing artisan. It has been found largely useful for the larger man of business and the moderately-endowed man of no business. There is no reason why the regular wage-earner, so far as his circumstances call for the assistance of a credit bank, should not find his account in it—in our country that would probably be in a modified form of which I shall still have to speak. In his corporate capacity he would certainly, in his various associations, dealing with money and collecting deposits, find it beneficial. And it has done

Credit to Agriculture.

very great things indeed for agriculture—calculated in money, it may be, more than other systems. Agricultural members—more particularly medium and smaller farmers and cultivating owners—have for a long time back figured at the top of the list of callings represented among its adherents. At the present time their figure stands, collectively speaking, at 27.05 per cent. of the entire membership, with 2.53 per cent. of employees to support them ; whereas jobbing artisans, the class that follow next, muster only 23.76 per cent. And the proportional number of agricultural members has for some time kept steadily increasing. People do not usually join a movement—of sixty years' standing, be it remembered—when they fail to find their account in it. No doubt, according to the exposition of theorists, their application to agriculture presents difficulties. However, practice has long since discovered how to get over such. The main difficulty is the length of time for which, for agricultural uses, money is as a rule required. There are various ways of meeting that difficulty. A strong bank with active business of other kinds—which business is, so to put it, made to carry slow-going agricultural business along with it—can afford to overlook the difficulty altogether. So it is in the case of the Augsburg bank, about to be quoted as an instance, which calls itself specifically "agricultural," but returns only about 20 per cent. of all its business as strictly speaking "agricultural." The Gotha bank, likewise to be mentioned, is enabled to assist agriculture by reason of the ample savings deposits which come pouring in to make "good, lying money." Apart from the town of Gotha its genuinely "agricultural" membership amounts to more than 50 per cent. of the whole. In a small bank like that of Walldorf, on such reduced scale, the question of supply and demand is apt to regulate itself in another

way. It is difficult, generally speaking, to distinguish nicely between "agricultural" and "non-agricultural" loans. They are not very well to be separated. An inquiry was made in a number of Schulze-Delitzsch banks in 1885, when it was found that 545 such banks, having among them 270,808 members, 72,994 of whom were purely agriculturists, lent out to these latter no less than £6,982,996, about one-fifth of their aggregate lending; and that in 1894, again, 546 such banks, having among them 261,521 members, 82,513 being purely agriculturists, lent out to these £8,853,751.

The following examples, taken from actual experience, may serve to make the matter clear.

The Credit Association of Augsburg.

There is, first, the great "Agricultural Credit Association" of Augsburg, the premier bank of the whole connection. It is really not a Schulze-Delitzsch bank at all, in the strict sense of the term, though it has for practical reasons attached itself to the Union. But the differences in the two systems are so absolutely trifling as practically not to come into account. The bank was originally created for the benefit of agriculture, and endowed at that time in part, and of course more than correspondingly controlled and directed, by the State. That State interference the director, Herr Hederer, soon saw, must be got rid of at all costs. It was so, and with it the State endowment, and the bank is all the stronger for the loss. True to Schulze-Delitzsch rules, the bank adopted unlimited liability, and, to raise ample money, it issued large shares of £50 apiece, of which members were allowed to take several. Since 1889 not only has this plurality of holdings been rigorously eliminated from the system—except in the case of older members, who are allowed to retain two as the maximum number—but, moreover, in the case of new members, the bank declines to allow more than

one-tenth, that is, £5, to be paid up. That small proportion may be paid up by instalments of as little as 2*s*. a month. The bank has now about 13,000 members, who have among them paid up about £90,000. (The share capital has recently been advisedly reduced.) The reserve fund accumulated represents £38,000 more. The bank is administered, like ordinary Schulze-Delitzsch banks, by three directors, forming the *Vorstand*, and a Council of Inspection of nine, which nominally decides upon the loans to be granted, all materials for decision having been got ready for it by the directors and the staff. The admirable and complete way in which all information required for reference is kept, always handy, well arranged in boxes, books, and card catalogues, is particularly deserving of notice. The bank grants every year about £1,300,000 to £1,400,000 in loans. All such loans are under the Act of 1889 restricted to members only, and accordingly not a few members go "in" and "out" just as convenience may prompt them to join or to resign. Of all that lending only about £240,000, that is, about one-fifth, is done to agriculturists, scattered over the whole of Bavaria. There are about 7,500 of these, and in the course of a year the bank probably grants 7,000 or 8,000 agricultural loans, amounting on an average to £30 each, though some of them mount up to £1,500 and more. The smallest do not exceed 50*s*. Much industrial lending is done by means of cash credits. For agricultural purposes that method is found inconvenient, because transactions are too few. Therefore borrowers, as a rule, raise money on acceptances or promissory notes, on which generally both the date and the name of the payee are left blank, in order that both the expense of a fresh stamp on renewal and the trouble of obtaining new indorsements may be avoided. Such loans

are held on from three months to three months, the longest term allowed for borrowing without repayment of any kind being eighteen months. Provided that part-repayments are made, the loan is often allowed to go on for a long time, five years and more, according to circumstances. The interest charged is generally speaking about 5 per cent., but commissions raise it practically to 6⅔ per cent., all of it payable in advance. The losses sustained have in the thirty-eight years of the existence of the bank proved so trifling as practically not to come into account. Alike for its own convenience and for that of members living at a distance, the bank has stationed agents all over its province, wherever there appeared to be an opening and wherever a suitable man could be found. It is the special office of one of the directors to appoint these. There are in all something like 250 agents, generally merchants or tradesmen in a good position in their particular locality, remunerated at the rate of ⅛ per cent. on business done through them. None of these agents have a definite district assigned to them. Any member is free to apply to any one of them for a loan. But should he go far afield to make his application, when he has an agent near, of course inquiry is instituted into the presumable cause of such proceeding. There appears to be considerable scope for the exercise of energy in such agencies, for one of the directors told me of one agent who had in a little time increased his takings in commission from *nil* to something like £40 or £50 per annum. The agent is given no power whatever. He simply forwards applications, makes inquiries, advises the Central Bank, and pays out moneys at his principal's direction. It is the authorities at Augsburg who decide on the applications made. The better to be able to form a judgment, they secure the assistance of a confidential agent in each district, who

is unpaid, and whose name and person it has proved practicable to keep altogether secret. By such means the bank manages to serve a very large district effectively and with safety. And its services appear to be appreciated; for its position keeps improving.

Insterburg

To take another bank, very differently conditioned—there is that of Insterburg, in Eastern Prussia, reputed one of the best banks in the Schulze-Delitzsch Union. This bank, founded in 1860, has a smaller area in which to carry on its business, and its members' roll does not exceed 4,244, about 1,400 being persons engaged in agriculture, and cultivating from 2.5 to about 2,500 acres each. A share capital of £98,338, supported by £23,380 reserve funds, with £247,000 deposits, which is considered more than ample for actual requirements, enables the bank to dispose of about £1,749,523 annually in loans, at rates of interest varying from $4\frac{1}{2}$ to 6 per cent., according to the "quality" of the borrower, of which amount probably more than half goes to agriculture in amounts varying from as little as 5*s*. up to £1,500, but averaging generally £17 10*s*. The lending is always done on acceptances or promissory notes, drawn for three months at a time, but renewed on very easy terms—that is, in consideration of very trifling repayments—so that there are loans outstanding which have run for fifteen and even twenty years. For the purpose of providing information as to the qualification of borrowers, the bank—which confines its operations to the area of something like a petty sessional district—has confidential agents stationed in various localities, all of them being members of the bank, unremunerated, and all of them considered persons who may be relied upon to give trustworthy information, not only in consideration of their established character, which determines their selection, but also because their un-

limited liability pledged to the bank makes it their interest to do so.

The Credit Association of Gotha is another bank often held up as an example in respect of its agricultural lending. This is a bank which has, by a long and successful practice, made good its hold upon almost the entire little Duchy of Gotha. It is particularly popular as a savings bank, and twice a week, on market days, its office is more than crowded with depositors. The general centralisation of local business life in the little capital of course helps the bank very materially to obtain information with respect to borrowing members. To inform itself more fully, it has more than fifty local committees, consisting of from three to five persons each, understood to be men of independent position, and therefore likely to be unbiassed, appointed in various localities. These committees subject all applications made for loans in their district to a careful investigation, and advise the bank, each member by himself, writing down their answers to the questions put on printed forms, and forwarding these, folded like voting papers, to the central office, which holds itself in no way bound by the opinions expressed, but decides absolutely at its own discretion. The questions asked of agents are put mainly with a view to ascertaining whether the applicant is a trustworthy person and doing a good business, not what he is actually worth. In a stable and steady population like that of the Duchy, it is not difficult by this means to avoid bad business. The local committeemen receive a very small commission on business negotiated, which very often goes in a harmless little common jollification at the end of the year. It does not amount to very much. By such means the bank manages to cater financially, very effectively, for the 3,000 or so of its members (out of a total of 4,000)

Gotha.

settled in villages. They are not necessarily all agriculturists; many are tradesmen or artisans. The loans, though granted in each instance for three months only, are readily renewed up to thirty, provided that one-tenth is paid off at each renewal. Strong in its command of money, the bank renders very useful service in lending, not only to individuals, but also to agricultural supply associations, co-operative dairies, societies letting out threshing machines, cattle-breeding and sheep-raising associations, and similar bodies practising co-operation in the service of agriculture, as well as to village councils and other local bodies. The bank lends out annually about £563,060.

A small Bank: Walldorf.

To quote a fourth instance—there is the little village bank of Walldorf near Meiningen, a very much smaller institution, but of the same type, which has a capital of only £1,750, and about 200 members, in a village peopled by about 1,500 inhabitants. It has its regulation three officers, one of whom is the schoolmaster, who receives an annual salary of £15. His two colleagues between them receive only £11. In so small a place of course neither confidential agents nor local committees are required. The Council of Control and the Committee know pretty well all that it is requisite to know about applicants for loans. They manage to lend out annually about £1,750, not counting cash credits, of which, when I was in the place, there were nine outstanding, amounting in all to £1,240. The maximum loan allowable to one person is £300. I ought to mention that in this bank, as a departure from ordinary Schulze-Delitzsch practice, all money is lent simply on note of hand, no promissory notes being employed. There are practically no losses, and the management expenses total up to about £50 a year, including salaries. The little bank, which has been growing since 1869, has, I may add, successfully

managed to oust a usurer from the village who was a curse to the district. What pleased me particularly in this bank was the close touch and active interest maintained among members, not a usual feature in Schulze-Delitzsch Banks, but to be accounted for, of course, in this case by the smallness of the district and the absence of other objects of interest.

Cosel.

I must quote just one bank more, because it appears to me particularly interesting by reason of its locality and peculiar circumstances. The bank of Cosel, in Silesia, is situated in a district almost entirely agricultural, and still rather primitive in its institutions. The population to a large extent consists of Poles, some of whom are so illiterate that the bank managers have found themselves constrained to dispense in many cases with those written applications and receipts which are otherwise held to be absolutely indispensable. Very much of the work has to be done by verbal instruction, such as pointing out to the sureties that it is to their own interest to watch over the men for whom they go bail, and prevent the bank from suffering loss. In spite of all this the losses sustained are so trifling that within fifteen years, on a business amounting to £6,400,000, not more than £1,500 has had to be sacrificed. The bank was originally started as an industrial bank. Agriculturists, however, soon found out its value, and came crowding in in such numbers that some time ago they represented about 67 per cent. of the total of members, the number of whom is over 2,900. There are agriculturists of every description, some of them substantial yeomen, owning 600 acres and more, others small illiterate peasants. The bank has a capital of about £20,000, with about £19,000 accumulated as reserve fund, and generally about £150,000 of savings in its keeping. Most of its money is lent for comparatively long terms. It is

interesting to note that, on an average, loans contracted to make good a deficiency in the crops, or due to some other accidental misadventure, are repaid in about two years ; loans contracted for the purchase of live stock in three ; and loans contracted for acquiring land or putting up buildings, or else for carrying out agricultural improvements, in from six to eight years. The bank never presses borrowers unduly, but is of course careful to make sure that the money will come back to it. For purposes of inquiry it maintains its own representatives in different localities, but it appears to rely really more upon the self-interest of sureties, whom it does not accept without adequate inquiry. To serve a *quasi*-detached district, some distance from Cosel, which includes about thirty villages, the bank maintains a distinct branch establishment in the Moravian settlement of Gnadenfeld, which forms the centre of that district. There is an accredited agent at Gnadenfeld—a local tradesman, who receives a commission of 10 per cent. on all interest collected. He has no voice in the granting of loans, but merely transmits applications and information. The practice has proved perfectly satisfactory. In all there are about 200 parishes in which the bank does business, lending out annually about £600,000. To be able to do this it borrows at times considerable sums from other banks, which it finds that it can do without difficulty.

These five instances, taken from different districts, in widely different parts of Germany, and representing typical cases, demonstrate, I should say, with sufficient clearness that banks of the Schulze-Delitzsch type are, when well officered, and managed with common sense, perfectly capable of meeting the requirements of agricultural credit, so far as they are strong in capital or credit, or else in steady receipt of deposits.

What has been said will, so it may be hoped, have

made clear the practice of Schulze-Delitzsch credit associations as individual organisations. But it soon came to be perceived that, if the societies were to maintain their recognised high standing, and also to become a national benefit, they must not be left to act every one wholly by itself, but means must be found for concerting united action. Co-operation must be practised among societies as well as among individuals. Interference with the business of any particular bank, of course, there could not be. Each bank must stand upon its own responsibility and answer absolutely for itself, being left free to do as it might think best. But there was such a thing as common counsel, and, on the top of that, common control in essential features; and there might be a business centre to facilitate common business and serve as a link with the great money market.

Combined Action among Credit Associations.

The formation of a union was resolved upon at a very early date. And the Union was actually formed, under Schulze's auspices, in 1859. As affecting these banks, no more useful step has ever been taken. The Union is, of course, a union not of credit societies only. Every co-operative society which accepts Schulze's teaching is made welcome within it. There are distributive societies, and productive societies, building societies, and common sale and purchase societies; and in the course of time a pensions fund for employees of all these societies, so far as they form part of the Union, has been created. But the benefit to credit societies arising from common action is rather peculiar. The common counsel taken, the discussion of questions interesting banks, such as are bound to crop up afresh every year, the exchange of views and the resolutions adopted by the annual Congress, expressive of the matured and settled opinion of the whole co-operative community, are found a very

A Union.

great benefit indeed, and have done much to keep co-operative credit pure and uniform, and thereby to affix, figuratively speaking, a specific stamp on every Schulze-Delitzsch society, which adds much to the confidence felt by the public. The most experienced, the most capable, the most public-spirited in the movement, are thereby given a means of enlightening and influencing the others, and the movement has grown the stronger for it. Such common counsel and common knowledge of one another among banks means the exclusion of the bad and the raising of the general level, and the public have come to understand his.

Inspection by the Union a Particular Source of Strength.

Time has brought forth further benefits from union. Control of each bank by its own *Aufsichtsrath* is, as already stated, the pillar upon which security rests. It is not to be replaced. It has grown more skilled as time has gone on. But in due course it came to be felt not only that even higher skill still was to be obtained by combination, but that by means of such combination control of an additional and valuable sort could be procured, control based upon wider and longer continued experience and the best knowledge of banking. And by degrees such control came to be applied. The organisation of the Union favoured this. The Union is divided into local sub-unions—sections, as our co-operators call them—each with its own head, its own committee, and its own periodical gatherings. At the head of the collective Union stand the two bodies elected from all sections, the General Committee and a smaller Executive Committee; and these bodies convene the annual Congress, which is the Parliament of the movement, discussing all pertinent questions and placing collective opinion on record. It was in the sections that the practice of inspection on behalf of the Union was first begun. A

section is a very convenient unit for such purpose. It supplies just the proper amount of area for first one inspector, later a staff working under him. There must be some localisation in the matter. For the inspector's personal acquaintance with the banks tells in favour of thoroughness of control. The inspectors are the servants of the *Section*, and take their instructions as well as their remuneration from it, the Section charging the societies a fee for each inspection. In this way this kind of inspection came to be voluntarily practised in some Sections in the seventies, and was distinctly appreciated as far as it came to be known. In 1882 the annual Congress passed a resolution in favour of its extension by voluntary act. By 1885, 31 out of the 33 Schulze-Delitzsch sections had adopted it. After that it became general. So evident and unmistakable were its benefits that in 1889, when passing a new co-operative law, the German Parliament grafted a new provision upon it, making biennial inspection of such kind compulsory upon every co-operative society. From thenceforward the matter ceased to be one of choice only, which was a distinct advance. However, that advance brought with it a new abuse. When compelling the societies to submit to inspection, the Legislature appears to have considered itself in reason bound to provide also for the presence of eligible inspectors. More will be said in the proper place about the disadvantages attaching to inspection by officers appointed by the State. Fortunately the law permits, as an alternative, inspection by officers appointed by recognised bodies, of which the Schulze-Delitzsch Union is of course one. From Germany the practice has extended to other countries, and it bids fair to become general. The benefits resulting from it are generally apparent. Business has become safer ; the number of compulsory liquidations

has grown perceptibly less; hence confidence has increased. As a matter of course the Schulze-Delitzsch societies elect inspection by their own officers, who meet at special gatherings held in connection with the annual Congresses, to compare notes and provide for the maintenance of uniformity on what are from time to time recognised as the soundest lines.

"Clearing" Service for Bills and Cheques.

Union soon suggested other collective practices. Most of the credit associations' business is done by acceptances, and acceptances want to be cashed. It is difficult for us in this country, where cheques have been in common use for a considerable time, to realise the extent to which bill-drawing has become usual abroad, and perhaps more particularly so in Germany. Every little tradesman pays habitually by bill. Such bills are drawn sometimes for infinitesimal amounts. They are in fact the German substitute for cheques. And those bills get scattered over the whole breadth of the Empire. Under such circumstances cashing becomes difficult, troublesome, expensive, and sometimes a little risky. It occurred to officers of the Union to establish their own bill-clearing union (*Giroverband*), which now places the services of every local bank joining in the Union at the disposal of every other bank similarly situated—free of cost; for there is reciprocity of services. That soon secured to the Union several hundreds of clearing-places—more, as Schulze rather grandiloquently boasted, than the Imperial Bank had at its command. Now that the "Dresdner Bank" has become the central bank of the Union, there are more than 1,800, which removes almost every difficulty. The benefit accruing from this does not need to be pointed out. Not only has bill-cashing been made by such means an easy process, costing practically nothing beyond the postage, but the clearing union has in addition become a highly efficient office for checking bill-

drawing generally, with the result that bogus bill drawers are easily detected and societies are put upon their guard against them—which is a valuable boon seeing (as our various Trade Protection Societies well know) that it is by giving credit where it is difficult to refuse such that the smaller class of tradesmen principally suffer loss. And now that the cheque is being slowly introduced in Germany—for the moment in a particularly cumbrous and inconvenient form—the same clearing union is once more attesting its value as a clearing union for cheques, and bids fair to accelerate the acclimatisation of that useful instrument.

A Central Bank.

In such way one great need calling for combination was supplied. The other, the creation of a business-focussing-centre, was not quite as easy of accomplishment. Of course, banks wanted a central organisation. From an early day it would happen that one had more cash in hand than it knew what to do with, at the same time that another was suffering from lack of funds. Such condition of things called for balancing. Beyond this, the entire number of banks might want to draw upon the great market. Schulze, no doubt, was strongly opposed to an unlimited recourse to bank credit. He particularly cautioned his banks against it, and begged them to keep such assistance in reserve for exceptional cases only. M. Durand goes further and tells his banks that while they employ credit with another bank they are to consider themselves on the sick list, "in hospital," and to make every effort to get back to a healthy condition. However, some provision for obtaining bank credit there must be, more particularly since it was found that one bank was in its predicament borrowing from another, which, for reasons explained elsewhere, is not a desirable practice. Liability being at the time still unlimited, Schulze would not allow his banks to club together—as under the

shelter of limited liability some of them now do without serious risk—and form a common bank, for which the liability of every society joining would be pledged without its being secured adequate means for checking such bank's transactions. He tried various expedients—among them several arrangements with non-co-operative banks. Very accountably these would not answer. Non-co-operative banks desire to do a large and remunerative business; co-operative banks want things done cheaply. In the end Schulze hit upon the plan of forming an independent, non-co-operative bank, in which co-operative capital was to be well represented on the share list, and co-operative administration on the Board. The bank was to carry on much other business, out of which to earn a good dividend; but it was at the same time to be always open to co-operative banks for their less remunerative but safer business. Such bank was in point of fact formed, and it has proved of very great service. At its voluntary winding-up its directors could truthfully take credit for it, that they had never sent a co-operative bank claiming credit and having a good case empty away. Very much of those good results is of course owing to the fact that there were undoubted friends of the co-operative movement at the head of the bank. However, unfortunately the Board got bitten with the morbid eagerness for well-paying speculative business which a few years ago carried Germany away in a financial St. Vitus' dance. Of course this did not answer. It required different operators from those who had been particularly selected for their caution. The bank suffered losses which did not jeopardise its existence, but which disposed its shareholders, when the great "Dresdner Bank" offered them amalgamation on fair terms, to accept such offer. Under this arrangement the "Dresdner Bank," with its immense

resources, now acts as Central Bank for the Union, and there appears to be no cause for complaint.

The "Dresdner Bank," however, is at some distance from local banks, and in two sections, at any rate, of the general Union the desire very naturally came to be felt, to have a sectional central bank nearer home. Local banks of the smaller size still experience difficulty occasionally in obtaining bank credit. And even the "Dresdner Bank" is not in a position to judge precisely to what extent they may be trusted. A bank of their own province, so it was thought, presided over by the chairman of the section, who is bound to know exactly what is the position of every one of them, must be far better able to form an estimate. Since limited liability has become practicable, Schulze's objection to central banks formed by local banks combining among themselves has evidently lost its force. Accordingly, in 1897, Justizrath Wolski, chairman of the East and West Prussian Section, very properly ventured upon a new departure, setting the example in the formation of a central bank composed entirely of the local banks of his district. No other shareholders are admitted. His very sensible object was to make the Central Bank peculiarly the bank of those banks. Every bank of the district—no business is done with any other—was to have its standing current account at the Central Bank situated at Allenstein, and use that bank as a clearing and balancing centre. That aim has not yet been entirely attained. However, if all banks do not yet keep current accounts, they bring their deposits freely and also offer their bills for discount. In this way the Central Bank is answering its purpose well. Of the 92 credit associations composing the section 60 have by this time joined. There is limited liability of course—in our sense of the term, that is, liability limited to the actual share. The paid-up share

District Banks.

Allenstein.

capital of the bank stood on the 31st March, 1908, at 244,134 marks (£12,206), with 26,459 marks reserve funds. The business done (one side of the account) amounted in 1908—9 to 46,864,875 marks (£2,343,244), which shows a healthy condition. Only 269,541 marks had as yet been claimed in the shape of cash credits. But bills to the value of 7,146,612 marks had been discounted in the year. There was 854,162 marks (£42,708) in hand in the shape of deposits. Directors' services being for the present still rendered gratuitously, management expenses had amounted to only about £325. The bank has always earned sufficient overplus to be able to pay dividend at the rate of 5 per cent. after providing for reserve.

Heide

Herr Wolski's example was promptly followed in the smaller section of Holstein, which accordingly since 1898 possesses a central bank of its own at Heide, with, at the close of 1908, 86,894 marks (£4,344) paid-up share capital, and 10,638 marks (£532) reserve funds, and an annual turnover (one side only) of 18,209,052 marks (£910,452). Management expenses did not reach £80. Dividend has been paid all along at the rate of 4 and 5 per cent. The bank had 557,385 marks (£27,869) employed in cash credits, and held a billcase of 257,903 marks (£12,895). All this indicates utility and a healthy condition of things. Such central banks afford a capital means of organising co-operative credit systematically without the intrusion, in this case, of any foreign element.

Strength and Weakness of the System.

The time may now be thought to have arrived for taking stock and very briefly reviewing severally the strong and the weak points of the system just explained. Certainly it will have to be admitted that that system shows wonderful resource, and has provided truly inestimable benefits for those who practise it.

Here is a power which in its one narrow German Union alone, embracing little over 600,000 members, has accumulated over £15,000,000 of cash belonging to those members, and attracted more than £50,000,000 of deposits—which, with such means at its disposal, has raised annually about £185,000,000 of money* with comparative ease, and distributed that sum, one might almost say automatically, while reducing the general rate of interest, among the most productive channels, where it employs labour, purchases raw material, and adds through its active employment greatly to the nation's abiding wealth. And all this is done in a thoroughly businesslike way, with what may be pronounced very trifling waste indeed in the shape of losses. Look at its effect in a wider area and its benefits become stupendous! It has in truth become the parent of not only much credit co-operation elsewhere, but of a very large amount of co-operation generally all over the European Continent. For however fondly our British co-operators may flatter themselves that it is Rochdale which has supplied the illuminating spark for the whole world, Great Britain is in truth answerable for the origin of only very little co-operation of the Continent—much as Rochdale principles now do, thanks to the internationalism established in co-operation, to perfect one of its forms. The great bulk of Continental Co-operation, as we see it now—apart from rural or agricultural—is the outcome of Schulze's pioneer work, and he well deserves the title that M. Luzzatti has bestowed upon him of "*il sommo maestro della cooperazione*."

Looking at Schulze's credit co-operation more in particular, that could not have achieved all that it has but for the pronouncedly businesslike qualities which form its most distinguishing feature—those very quali-

* The figure for only 919 banks in 1908 was above £175,000,000.

ties which are sometimes made a reproach to it—the cold, calculating, prosaic, purely economic action, which fails to warm the heart and twine its fibres around it, as do more philanthropic and altruistic schemes. It is all business, calculating, economic business, which does not give without taking. But, on the other hand, it is thoroughly self-reliant business, which teaches men to look, for their own benefit and that of the bank, to their own efforts only, rejecting all offers of help from outside. And it is educating business, because it implants in the minds of those who practise it sound, trustworthy business principles and trains them to business habits. Its philanthropy follows after its business is done, out of the proceeds of the latter.

Dangers of "Commercialism."

Such commercialism constitutes the strength of Schulze-Delitzsch's system. Correspondingly, as naturally, it also constitutes its weakness. For the lesson which it impresses, to look for a return for effort, cannot fail in this human nature of ours to produce a tendency to greed. "Dividend-hunters," as they are called, are held in abhorrence by good Schulze-Delitzsch co-operators; but the very frequency of the denunciations pointed against them shows that there are too many of them, generated of course by the regard habitually paid to the claims of capital. The rather frequent conversions of co-operative societies of this type into joint-stock companies exhibits the abuse of profit-seeking in another way. There can be no doubt that a large number of members join the societies simply because they find them rendering useful services, like any other banks—a little more difficult in one sense, more easy in another, certainly cheaper.* It is the "loaves and fishes" of convenient

* Herr F. Thorwart, one of the Board of the "Dresdner Bank," in a paper published in the two last issues for 1909 of *Blatter fiir Genossen-*

credit for the sake of which they join. There is in many societies not that interest shown on the part of members that there should be—than there should be, more particularly under unlimited liability, which exposes shareholders to danger, and that Schulze himself desired. General meetings are not always attended in sufficient numbers, and the physical impossibility under which comparatively small Councils of Inspection labour, of inquiring minutely into all business done, tends to throw more responsibility than was intended upon the Executive body, by reducing that checking which is the backbone of the entire system. From such a state of things to conversion into a joint-stock company is but a step. No doubt, as former members of Councils converted into company directors have owned to me, conversion into a company makes management a much easier business for themselves. And members who only think of their own momentary business wants do not at once perceive that such conversion, which may leave them for the moment with just the same banking convenience, takes away all security for its continuance. They forego their *right* to be considered. They launch their society on the course which leads to deprivation of the public of the easy credit which maintains business, since the joint-stock company once formed tends, like the Alpine snowflake set in motion, to attach itself to other snowflakes and become an avalanche bank, which runs destructively over such useful but small and comparatively unremunerative transactions. Another peril latent in the system, but really easy to be guarded against, is that of excessive credits allowed to individual members, generally of one or other of the

schaftswesen, quotes chapter and verse to show that during the great financial crisis of 1907-8, the rate of interest charged by Schulze-Delitzsch banks was sensibly below that ruling in the market.

governing bodies. That shows that checking has been disregarded, or else negligently performed, and may be expected to grow less frequent as inspection becomes more searching.

A Merited Tribute to Schulze.

But, take it all in all, the movement has proved a most fruitful source of riches and of progress, touching up barren wastes with its Midas' hand, and diffusing material blessings around it. The Schulze movement has always enjoyed the advantage of having eminent and soundly informed economists among its leaders. In this respect it certainly holds its own in the present day, under the guidance of Dr. Hans Crüger, whose text-books—more particularly on law applying to co-operation—are appealed to as standard authorities in all quarters, even those most personally hostile, and whose rather severe criticism has rendered very useful service to more than one allied—or opposed—movement.

I shall have to speak of other systems which appeal more directly to the human heart. But envy itself will have to allow that Schulze and his successors have achieved a great work, which one cannot desire too much to see studied and understood elsewhere.

CHAPTER VII

RAIFFEISEN "VILLAGE BANKS"

The Origin of Raiffeisen "Village Banks."

NO two people, setting out for substantially the same goal, could have started from two more directly opposite points than did Schulze-Delitzsch and Raiffeisen.

The story of the origin and the gradual growth of Raiffeisen's co-operative organisation from its tiny beginning, as a veritable grain of mustard seed, planted on the barren soil of the neglected Westerwald, to its present commanding position, in which, to adhere to the simile, it resembles an "exceeding great tree," spreading out its branches over all Germany, and Austria, and Italy, and Hungary, affording shelter to innumerable living beings rejoicing in its shade, with offshoots already penetrating into France, Servia, and Russia, makes rather a curious tale. It is of banks of this type that the economists quoted, M. von Dobransky, Emile de Laveleye, Rabbeno, and Léon Say—to mention no more—write in so rapturous a strain about "wonders" and "marvels." The whole thing may be said to be the result of a bodily infirmity, which brought hardship to one man, but inestimable benefit to millions.

Their Founder

Born in 1818 at Hamm, in Westphalia, F. W. Raiffeisen found himself in his youth destined for a military career. Before, however, he could obtain his commission, he was compelled by a constitutional ailment, which impaired his eyesight, to retire. An opening was found for him in the Civil Service, and the year 1845 saw him installed as Burgomaster (under

the French law still prevailing in Rhineland) at Weyerbusch, in the bleak forest district of the Westerwald. It was in this position that Raiffeisen had the crushing troubles of the poor peasant cultivators brought vividly before his eyes in the famine years of 1846 and 1847. His was one of the districts which the scourge of those years visited the most severely. It was a poor country to begin with, with barren soil, scanty means of communication, bleak surroundings, indifferent markets. Nature had proved a very stepmother to this inhospitable bit of territory, upon which the half-starved population—ill-clad, ill-housed, ill-fed, ill-brought up—by hard labour eked out barely enough to keep body and soul together with the support of the scanty produce of their little patches of rye, of buckwheat, or potatoes, and the milk and flesh of some half-famished cattle, for the most part hopelessly pledged to the "Jews."

The "Jews."

That reference indicates a peculiarly sore point in the rural economy of Western and Southern Germany on which I have found humanely-minded statesmen of those parts, such as the late Dr. Buchenberger, Minister of Agriculture, and afterwards of Finance, in Baden, to dwell with evident pain, as on a trouble perpetually harassing them. In this country we have no idea of the pest of remorseless usury which has fastened like a vampire upon the rural population of that district. Even the gombeen-man cannot compare with the hardened blood-sucker of those usury-haunted parts. The poor peasantry have long lain helpless in his grasp, suffering in mute despair the process of gradual exinanition. My inquiries into the system of small holdings in those regions have brought me into personal contact with many of the most representative inhabitants—heads of agricultural departments, judges, parsons, peasants—and from one and all—here, there, and everywhere

—have I heard the self-same, ever-repeated bitter complaint, that the villages were being sucked dry by the "Jews." Usury laws, police regulations, warnings, and monitions have all been tried as remedies, and tried in vain. There are not a few Christians, by the way, among those "Jews," though no doubt originally under the natural effect of anti-semite laws the evil was specifically Hebraic. As one of their consequences, all the humbler Jews flocked into the villages, where, being practically debarred from taking up other callings, they fell back with all the peculiar aptitude and ingenuity of their race upon the small trade—the trade in cattle, goods, corn, money, whatever it might be—of which in many places they secured an absolute monopoly. Of the iniquitous practices to which that monopoly soon gave rise this is not the place to speak at length. The "Draconic" German laws with regard to bills, and the peculiar regulations applying to foreclosure, the personal liability of the debtor for any balance of debt remaining uncovered by a forced sale, and lastly, the convenient practice of lending out live stock, as *Einstellvieh*, to remain the creditor's, though fed at the cost of the debtor, materially and terribly facilitate the crafty practice. Plenty of cases are cited in which the poor peasant has been compelled to take the usurer's lean and dry cow at a high price, in order to feed it up and return it, in exchange for a fresh lean one, when brought into condition and in calf. It is a current saying, that once you are beguiled into trading with one of these Christian or Mosaic "Jews," you are as surely caught as is a fly in a spider's web. You are made to buy from him, to sell to him—all at his own prices. One of the greatest mischiefs practised is that connected with the sale of real estate, which is habitually done by public auction, on condition of the purchaser's agreeing to pay the purchase

Their Usurious Practices.

money by a number of instalments. In one aspect that is an admirable practice for both parties—being small, cultivating folk. To the vendor it raises the price; and it practically enables the purchaser to pay for his purchase out of his own proceeds. Only it has this drawback—the vendor may want his money. And as, under the old state of things, in nine cases out of ten he sold his *Verkaufsprotocolle* (his bonds for payment of future instalments) to a "Jew," in the event of every payment not being met to the day, the purchaser found himself at the "Jew's" mercy. Thousands of families, so I am assured, have been ruined in this way.

Excessive Distress calls forth a Remedy.

Under this oppressive system, in 1846 and 1847 the "Jews" were "making hay." Among the poor peasantry the distress was great. Every little wattle cottage and tumble-down house was mortgaged; most of the peasants' cattle belonged to the "Jews"; there was little employment on the roads or in the forests—the sole available means for netting a few additional shillings; the poor land yielded but a bare pittance; and famine and ruin stared the poor inhabitants in the face. There was no one to turn to for help but the "Jews." The whole district accordingly was converted into a usurers' hell.

Naturally, Raiffeisen's heart was touched at the sight of so much misery. And when, in 1848, he was removed to a rather larger, but equally distressed district, in the same Westerwald, namely, to Flammersfeld, a union of twenty-five parishes, he promptly resolved to take up the cudgels for the poor oppressed peasants, and declare war against usury. He set to work at once. His first raising of funds was by no means an easy process. But some small funds he managed to scrape together, and with their help he forthwith established a co-operative bakery. Co-

A Co-operative Bakery.

operative bakeries have since become a popular and familiar institution in every country, and as a rule they pay. In France they manage, in a small way, to neutralise to poor consuming country folk the evils of Protection, which enriches their wealthier neighbours. This one at Flammersfeld proved on its small scale a veritable godsend, for it enabled the peasantry to purchase their bread at just half the current price.

Co-operative Purchase of Stock.

The next step taken was the formation of a co-operative cattle-purchase association. That, likewise, has become a familiar feature abroad. In half the Swiss Canton of Thurgau and part of the Canton of Zürich little cattle is purchased, at any rate by small folk, otherwise than by such means. This move attacked the "Jews" in one of their strongest outworks, and reduced their mastery at a vital point. But still they held their bonds and mortgages for money debts. Raiffeisen now put his scaling ladder to the citadel.

The First "Village Bank."

With a balance of the £300 which, in all, he had succeeded in raising, with a good deal of trouble, in 1849 he set up his first "Village Bank" (*Darlehnskassenverein*), and offered the peasantry, who would subscribe to his rules, to supply them with money for their needs.

A Small Beginning.

In the retrospect it seems a small undertaking. To Raiffeisen's neighbours it appeared hopeless. "Where was the money to come from?" "From there," answered Raiffeisen, pointing upward to the skies. It was in that very year, possibly in that very month, that on the banks of the Seine Proudhon with a noisy flourish of trumpets opened his own far more pretentious "People's Bank," which was, as he thought, to regenerate France and eventually humanity. One can scarcely help remarking upon the striking contrast between that splendidly endowed enterprise, flush of funds, big with promise, hopefully watched by thou-

sands of expectant Frenchmen—and yet doomed to end in nothing but smoke in less than two brief months; and, on the other hand, the modest little bank, scarcely daring to show its face, with barely a few hundred pounds of borrowed capital, unheard of outside its own small parish, and yet destined to grow up a flourishing institution, distributing millions through its thousands of channels, and establishing plenty everywhere wherever it set foot—proceeding victoriously on its triumphal progress long after its early rival had been forgotten—except as a curiosity in the reading of political economists. That little bank, to which no one has ever contributed a penny in share capital, which has lived by lending money as cheaply as it possibly could, and finding means for borrowing still more cheaply, a decade or two ago resolved upon dividing its reserve (having forsaken its founder's co-operative principles), and discovered that that fund, the product of tiny surpluses arising from petty transactions among its members, had grown to more than £2,000.

Triumph of the Movement.

The Flammersfeld Loan Bank did its work well. The "Jews" found themselves compelled to relax their grasp, and the peasants were given a new lease of life. Like Schulze-Delitzsch, Raiffeisen had carried his idea to practical triumph, which it only remained for him to follow up. As an advocate of his cause he was as unlike his rival as could be. Modest, unassuming, content to do his work in his own circumscribed sphere, he attempted no advertising and no noisy propaganda. If his work was good and useful, he trusted that it would prove its own best advocate. The result has amply justified his confidence. His system at first spread very slowly. It was five years (1854) before a second bank was formed—and of that bank Raiffeisen was once more the founder, on his removal,

once more as Burgomaster, to the district of Heddesdorf, now incorporated in the town of Neuwied. Not till 1862 was a third established, not till 1868 a fourth. Really not until 1874 did the Loan Banks become at all widely known, and not till 1880 did they begin to multiply perceptibly. From that time forward, however, they spread with astonishing rapidity. By 1885 their number had, in Germany alone, grown to 245, by 1888 to 423, by 1891 to 885. The very material service which they rendered to agriculture in that terrible year of drought, 1893, added a further stimulus to their multiplication. In that period of trial it was shown that they could do more to give assistance, by self-help, than the State with its well-filled purse. They enabled cultivators, by co-operation, to remove their live stock, for which they lacked keep, to districts in which it would still fetch a decent price. They laid up stocks of feeding stuffs, which, being bought in good time, could be sold cheaply to members, and help them to tide over the period of distress. And when the drought was over, they supplied cash wherewith to re-stock farms and folds on easy terms. By New Year 1896 their number had increased to 2,000, by 1st May to 2,169, not counting even more kindred associations independently organised. At the present time it stands at 4,340, with at least 8,000 others formed after the same pattern. Wherever they went, as Laveleye says, they succeeded, and made themselves general favourites. Governments now encourage them, provincial Diets ask for them, priests and ministers pronounce their benisons upon them, the peasantry love them. When in 1888 it was announced that Raiffeisen had breathed his last, half Germany mourned over her benefactor by the name by which he is still fondly remembered, that of "Father Raiffeisen." At the present time, not a day passes without notices coming

in of the establishment of one, two—as many as five. By far the largest increase recorded annually in the number of co-operative societies existing in Germany and in Austria stands to their credit. Both their spread and their reputation seem deserved, especially since, after sixty years' experience, they can still make it their boast that losses in them have been infinitesimal.

Raiffeisen's Aim.

It is rather difficult to compare Raiffeisen's banks with those of Schulze-Delitzsch. Both have grown up amid essentially different surroundings, in different spheres of action, with different tasks. Schulze worked in towns, among townsmen, and mainly for the benefit of townsmen, not of the poorest class. His banks were not intended to benefit the very poor. Raiffeisen worked only in the country, and his specific object was to benefit those very poor people otherwise left out in the cold, and to benefit them in the most effective way. So he came to the conclusion that he must exact nothing whatever from members joining, and that he must make long credit the rule. Calling upon a poor man, who deliberately joined in order to borrow, to pay down money, would to his mind have amounted to sheer mockery. His very reasonable principle was this: to make a loan at all serviceable to a poor or embarrassed man, sufficient time must be given the borrower to allow the loan to repay itself; to tax other resources for repayment would be, not to help, but to cripple the borrower. He might want the money for buying manure, or seed, or feeding-stuffs. In that case he could scarcely be expected to repay it before a twelvemonth. He might want it to improve his herd of live stock, or to build a barn, or sink a well, or else drain a field. In such cases he must be given credit for two years, for five, or ten, or even more.

ystem.

In brief outline, the system upon which the Raiffeisen practice is based is this. Raiffeisen begins by confin-

ing each association to one particular district—a parish by preference, but if one parish be too small (he does not favour districts with less than 400 inhabitants), and if the matter can be conveniently arranged, a union of two or three. Within these narrow limits members are elected, on application, with great care and discrimination, by those who have already joined. The object is not to secure a large roll of members, but rigorously to exclude every one who is not really eligible. That done, the association is organised on entirely democratic lines. No difference of any sort is recognised between poor and rich, except that the better-to-do, bearing the brunt of the liability, are by accepted understanding allowed also to take a leading part in the administration. Both on the Committee —in every case consisting of five, and charged with all the executive work—and on the Council of Inspection — consisting, according to the size of the district, of from three to nine members, and entrusted with checking and supervising the Committee, overhauling all that it has done at least once a quarter—it is understood that the better-to-do members (without a sprinkling of whom Raiffeisen would, if possible, have no association formed) should be in a majority. It may be worth pointing out that the minimum number of members to form the Council of Inspection has been recently reduced from six to three. This has been done in deference to practical considerations, since it has in some cases proved difficult to form a *large* Council of the desired efficiency. Where practicable, however a Council *larger* than the Committee of Management is in all cases held to be preferable. The members of the Committee are elected for four years, two retiring every two years. The members of the Council are elected for three years, one-third of

Election of Members.

Democratic Government.

the number retiring each year. The Council is invested with power under certain circumstances provisionally to discharge members of the Committee, subject to confirmation by the General Meeting. The chairman of the society was formerly elected in his own right by the General Meeting, and became as such *ex officio* chairman of the Committee. Raiffeisen once laid it down that as soon as a chairman was found and an actuary (or secretary) appointed, the "bank" might begin business, waiting for members to drop in. The preference is now given to the practice which I have long since suggested for our country, of leaving the Committee, elected at the General Meeting, to appoint its own chairman, who, as such becomes the executive head of the bank. Neither members of the Committee nor members of the Council of Inspection are allowed to draw a farthing of remuneration, be it in the shape of salary or of commission. Every chink and crevice is deliberately closed against the intrusion of a spirit of cupidity or greed, so as to make caution and security of necessity the guiding motives of action. One man only is paid, namely, the cashier; and he has no voice whatever in the employment and distribution of the money, being merely an executive agent. To make quite sure of everything being kept safe and square, the Central Office not only insist upon having all accounts sent up to headquarters, to be there checked, but in addition employ a staff of auditors continually travelling from association to association, examining books, inspecting accounts, and overhauling the whole business of every association, at least once every two years. It is a recognised principle that the "banking" practised should consist, in the main, of borrowing and depositing only. That was Raiffeisen's idea of village bank business. Only very sparingly have in recent times cash credits

Salaries.

Business kept Simple.

and other banking business found their way into the accepted programme. There is no reason why they should not be practised, why—wherever the prerequisite conditions for such transactions are found to be present, consisting of security (specifically for cash credits) sufficient to satisfy the Committee, and familiarity with banking practices among those who ask for such services—"Village Banks" should not become village "banks" indeed. However, the Raiffeisen Village Banks are rightly chary in rendering such services which, if lightly given—as they are in some other quarters—might lead to serious loss. They always involve risk. And risk is the one thing which the Raiffeisen associations will not wittingly incur. There are no acceptances, no pledges. "*Ce qui me plait dans les banques populaires agraires, c'est qu'elles font du crédit personnel—le crédit tout court, sans phrase,*" so wrote Léon Say. And they supply such personal credit by the simple process of borrowing and lending—borrowing on the credit of the society, in order to dispense credit to its members. As the rules were originally framed, no member was asked to pay down anything on joining, either for a share or for entrance fee. To the present day entrance fees are not permitted. With regard to shares the Legislature has, by its law of 1889, overruled the accepted regulation, and insisted that there must be shares. The Raiffeisen associations met such dictation by making their own shares as small as possible, generally 10 or 12 marks, at most 15 marks, payable by instalments. Raiffeisen advisedly would have no dividend, because there is to be no direct profit, and because dividend makes people greedy. Once more the Legislature overruled him. However, the members of the "Village Banks," have voted all their dividend away, once for all, to two

Neither Shares nor Entrance Fees.

different reserve funds, keeping back only sixpence a head, which goes in subscription for the official publication of the associations, in which the balance-sheet of every bank has to be published. All through, it is one of the essential features of the organisation that individuals are not to derive any benefit from the bank except the privilege of borrowing, and that every farthing which is left over out of transactions is rigorously carried to one or other of the two reserve funds instituted. One of these is an ordinary reserve fund out of which to meet occasional deficiencies. The other, called "Stiftungsfonds," * to which without fail two-thirds of the annual profits must go, is an entirely peculiar feature. It belongs wholly to the bank, and must not be shared out on any account or pretence whatever. This second reserve fund really is the backbone of the whole system. Little by little it keeps increasing, but with "mony littles making a muckle," it grows up in course of time to an impregnable rock of financial solvency. Its first object is to meet deficiencies or losses for which only with hardship could individual members be made responsible. Its next, of course, is to supply the place of borrowed capital, and so make borrowing cheaper to members. Lastly, should it outgrow the measure of such employment, it may, at the discretion of the society, be applied to some public work of common utility benefiting the district. Not even in the event of the association being dissolved is any sharing-out permitted, lest a rich association be tempted to dissolve for the sake of the spoils.

The Indivisible Reserve

* This name was adopted in 1889 under the new Act, which made the designation of *Vereinsvermögen* (property of the Society) no longer appropriate, inasmuch as such "property" must be disposed of in some way by vote every ten years. That would have been a death-blow to Raiffeisenism. Therefore the Act had to be circumvented somehow. Recently the German Parliament has passed a short Act re-instating the "Property of the Society" in its old rights.

In the case of a dissolution it is provided that the money must be handed over to some public institution to be kept on trust until required for the endowment of a new association formed in the same district, and under the same rules. Or, that failing within a reasonable time, the reserve may be employed for some useful local public work. Thus the whole fabric is built up on the lines of pure co-operation, of safety, caution and stability.

Safeguards adopted.

This same principle is applied also to the practice of lending. Loan association though the association is—for safety's sake, it deliberately makes borrowing, not easy, but difficult. Indeed, the whole machinery is so framed as to *check* borrowing rather than to encourage it. Money is, indeed, to be provided for every one who needs it ; but in every instance he must first make out his case, and prove alike that he is trustworthy and that his enterprise is economically justified. There is nothing which the associations more determinedly set their face against than mere improvident borrowing, stopping up one hole by making another. If an applicant make out his case, be he ever so poor, the money will be placed at his disposal. Without such proof, be he ever so wealthy, the money is sure to be refused. And once the money is granted, to the specific object for which it was asked must it be conscientiously applied. Once every three months the Council of Inspection review the position of debtors and their sureties, and consider the employment given to the loan money. Should a surety be found to have deteriorated in value, in the interest of the association, a better surety is at once called for. And should that demand not be complied with, or should the debtor be found to have misapplied his money, under a special clause the loan is at once called in, at four weeks' notice. This may seem harsh dealing. But it is

absolutely necessary for the security of the association. And in practice it has not been found to work at all harshly. Those who apply it are the debtor's own neighbours, who are sure not to have recourse to such *ultima ratio* except in cases of positive necessity. As a matter of fact, it has scarcely been resorted to at all—which just shows its value as a birch-rod on the mantelpiece. In another respect the banks are—wisely—equally inexorable. Alike interest and principal, so they insist, must be paid to the very day. The principal is, for all loans running any length of time, made repayable by equal instalments; and on any point rather will the association give way than on that of prompt and punctual repayment. Not only does this arrangement materially facilitate the carrying on of the business, but it is far more valuable still as training the borrowing folk to habits of punctuality. "Our country folk"—so says M. Garreau, a man of some experience, in agreement with many other writers—"are capital repayers, but without training they have absolutely no idea of the lapse of time." The service, then, which these associations render by instilling into these men both business habits and the sense of a duty to meet engagements promptly, is very considerable.

Simplicity of the Method.

In the matter of method, lending is advisedly made as simple and as easily intelligible a process as possible. All that, as a rule, is asked for is a note of hand, unbacked, or else backed by one, or more generally two sureties, according to the circumstances of the case. That, of course, precludes all raising of money by passing on acceptances. The difficulty has been met, in the case of the Central Bank requiring additional money, by asking societies, in special cases, for acceptances earmarked for the particular purpose of being passed on. Such acceptances are, of course,

pure accommodation bills. Occasional recourse to such expedient was judged preferable to forcing acceptances, of which the rural population have an unconquerable horror, upon the latter. Otherwise every farthing that is wanted, so far as it is not supplied by the savings or other deposits paid into the banks, has to be raised by borrowing. At the outset that may appear rather a cumbrous proceeding. But what with a high reputation secured by exemplary business habits, and the substantial guarantee of unlimited liability of all members, the banks have long since gained for themselves a position commanding ordinarily easy credit at the cheapest market rates. Confidence in their security is so well established that (as appears on official evidence from a report published in 1875) in Rhineland Law Courts actually allow trust moneys to be paid in to them on deposit; and in those two critical epochs of crucial testing of German credit, the years of the two great wars, 1866 and 1870—when deposits were withdrawn wholesale from other banks and when even diplomatists like Sir R. Morier found it difficult (so he himself reports) to supply themselves with money—deposits were actually *pressed* upon the Raiffeisen Banks, for safe keeping, though it should be without any interest at all.* In truth, the savings deposits alone go a long way. Some banks have, at the outset, to do as good as altogether without them. But in not a few of the older established they supply actually all the local demand and even more.

How the Village Banks are trusted.

Raiffeisen co-operation has been the first form of co-operation to reveal to the world the unlimited possibilities contained in co-operative credit as a promoter of other forms of Co-operation. In the matter of co-operation—whether for supply, distribution, pro-

They generate Co-operation of other Forms.

* The same thing happened in the case of the Schulze-Delitzsch Banks.

duction or common work, or whatever the object may be—before Raiffeisen credit developed, rural Germany was a barren waste. Credit came upon the scene and forthwith the soil brought forth flowers and fruit in abundance, shaming us by the number and the remarkable success of its agricultural co-operative organisations. In the wake of Credit co-operative supply, production, dairies, and any number of distinctive co-operative organisations have sprung up. Not to speak of supply and the like, co-operative dairies have been organised freely—to a large extent under the generating shelter of credit societies. There are co-operative dairies formed without such assistance, some with very substantial capitals subscribed by members. But in many cases the credit society has proved the direct parent and first feeder. The bank has found the money, repaying itself out of the business. Keeping back 1 pfennig ($\frac{1}{8}d.$) on every two pounds of milk delivered enables the dairy, as a rule, to pay off such debt in about ten years.

Co-operative Dairies.

Co-operative Vintries.

Then there are the useful vinegrowers' associations, which have from Germany found their way into Transylvania and France, where they answer equally well, and which Mr. W. Bevan is now trying to introduce into Cyprus. In Germany they have had their periods of trouble. But the advantages of cheapness combined with purity of the product have generally managed to carry the association triumphantly over such shoals. On the Rhine, the Ahr, the Moselle, and in Transylvania such associations prosper well. Their work consists as a rule in common pressing of the grapes, though there are some societies which simply act as sale societies, collecting the ready made wine and disposing of it. Generally speaking the grapes are delivered to the common press, where they are at once tested

for sugar, which is the determining factor of their value. According to the percentage of sugar shown the grower is at once credited with the money value, in accordance with a scale fixed beforehand, which money value a credit with the bank enables the society to pay in cash. The scale is always so fixed as to leave the society on the safe side and keep some balance to be handed over to the grower at the close of the financial year. However, growers attach importance to being paid the major portion at once. And thus far all the wines produced are "small" wines, which do not want to be kept long. The wine is then disposed of as opportunity permits, and the accounts are eventually closed. The addition to the price realised is generally rather more liberal than that which the grower used to obtain when operating for himself. Thus grapes which used to sell at 18 to 20 pfennigs per pound have, through the associations, realised 30 to 48 pfennigs, grapes which used to sell at 12 pfennigs, 25 pfennigs, and so on. The result depends upon the hold which the co-operative vintry can manage to establish upon the market. Their supremacy cannot always be maintained in the face of opposition from the professional dealers. At such times the public, which has an interest in the purity of wine, should stand by its friends.

Purchase and common Use of Machinery.

The societies for the purchase, in some cases the manufacture, very often the common use, of implements and machinery, have proved decidedly successful. Entire installations of electric power and machinery have been provided in this way. In a similar way local banks have assisted towards the formation of hop-growers' associations, and, lastly, towards the formation of grain-selling societies which, although the problem attacked by them is generally admitted to be beset with difficulties, have under good management

Co-operative Granaries.

achieved some signal triumphs and substantially benefited their members.

Federation of the Banks.

The multiplication of Village Banks has as a matter of course led from co-operation among individuals to co-operation among associations. Throughout the Empire societies have been grouped in unions, of which there are now thirteen, extending from Eastern Prussia, Posen, and Silesia to Rhineland and Alsace-Lorraine, each with its own Committee and chairman.

The Central Council

And at the apex of the whole fabric stands the *Generalanwaltschaft*, with its Representative Council and the Annual General Meeting to check and direct its action.

The Central Bank.

Since 1877, moreover, the union of associations possess their own Central Bank, in which the affairs and interests of the whole system are, so to speak, focussed, and which has proved a very appreciable convenience and source of common strength, and, moreover, a most useful intermediary between local banks and the general market, as Dr. Koch, while President of the Imperial Bank of Germany, has testified in the German Parliament.* The Central Bank is really a joint-stock company, based on *limited* liability only. It derives its strength from the local associations. The bank is intended as an institution only for the benefit of the Raiffeisen associations. It does absolutely no business beyond that of the Union. It is intended to serve as common cash box, equalising excess and want, and facilitating common business. Since the dividend payable on capital is limited to $3\frac{1}{2}$ per cent.—all surplus being carried to the reserve fund—and since the business has become large, the bank can lend out to local associations at very reasonable rates, all the more so since, originally, the Imperial Bank, and subsequently the State-endowed *Centralgenossenschaftskasse*, has entered into a standing agreement with it which entitles

* *Kölnische Zeitung*, 27th March, 1895, No. 269.

it to advances and rediscounts on favourable terms. The Central Bank, which has quite recently been removed from Neuwied to Berlin, lends out to local societies in ordinary times at the rate of $3\frac{3}{4}$ per cent., and allows them $3\frac{1}{4}$ per cent on deposits up to the sum of £500 and $3\frac{1}{8}$ per cent. beyond. Its business is so simple—I have seen it all done on the spot—that 1 per 1,000 of the turnover suffices for all expenses. The turnover has grown very considerably. In 1877 (four months only) it was £9,000. By 1880 it had risen to £56,000, by 1890 to £500,000, and by 1894 to £1,400,000. It was then decided to create provincial branch banks acting as *succursales* to the Central Bank. There are now thirteen such, severally established at Königsberg, Danzig, Berlin, Erfurt, Breslau, Cassel, Frankfurt, Coblenz, Brunswick, Strassburg, Nuremberg, Posen and Ludwigshafen. None of these branch banks did a considerable business before 1895. But the aggregate turnover rose at once in that year to £3,000,000. By 1908 the annual business of the Central Bank and its branches—in money only—had risen to 758,190,505 marks (£37,909,500). There were then 4,272 local banks holding shares in it, and the total share capital subscribed stood at 8,596,000 marks (£429,800), of which 8,556,000 marks was paid-up. And so far from being in debt to the State-endowed bank, the Bank had 3,088,000 marks (£154,400) standing with it to its credit. The Central Bank of Neuwied by itself did an annual money business of £16,841,300. That does not represent the total amount of lending and borrowing done between bank and bank in the Raiffeisen connection. Much business is done among local banks without the interposition of the central institution. Herr Cremer, when at the head of the Union, estimated that, thanks to such co-operative banking, the current rate of interest generally in Germany had

Its Services.

been reduced by about 1 per cent., and credit had been cheapened to that extent. The Central Bank with its branches has become a veritable Little Providence to the local institutions, enabling new banks to establish themselves and grow up with a credit granted to them, which places them in a position to do without other borrowed money, and to dispense even with local savings, while weak and not qualified to attract such.

Co-operative Supply.

The possession of a Central Bank has enabled the Central Office to multiply its services in a very acceptable manner to the local associations and their members. Among other things, it has helped it to establish centralised co-operative supply, mainly for agricultural purposes—implements, feeding-stuffs, manures, seeds, and also coals—which was very much needed. It amounted in 1908 to 72,258,921 marks (£3,612,946) in respect of business passing through the Central Bank alone, out of the profits of which it is a standing rule that (after writing down depreciation) a dividend on purchases should be allowed at a rate rising from $33\frac{1}{2}$ to $66\frac{2}{3}$ per cent. according to the smaller or larger amount of business done—the more business the higher the dividend; out of the balance remaining $3\frac{1}{2}$ per cent. is allowed on share capital, and 20 per cent. is added to the regular reserve fund, all remaining surplus being carried forward. To this in due course has been added a much appreciated distributive service for the sale of household requisites, that is, groceries, dry goods, and everything that is likely to be wanted in the household. Originally such trading was carried on, not by the Central Bank, but by a distinct central body, a trading firm formed as a joint-stock company, in the hands of individuals. It was to disarm criticism on the score of such arrangement not being "co-operative," that

the trading firm was dissolved and its business handed over to the Central Bank as the only then existing common central body. Such arrangement, as I have frequently pointed out, entails many drawbacks. It is apt to confuse accounts, and to lead the Central Bank into difficulties. It is therefore satisfactory to be able to report that the entire separation of the trading branch from the money department has recently been decided upon. Each branch is henceforth to be conducted as a distinct institution. The trading business, though not as substantial as one would like to see it, and as it may be expected now to become, is very considerable. Like the focussing of business in a Central Bank, this new feature of Village Bank co-operation has been pretty widely copied by other co-operative and *quasi*-co-operative institutions, and by this means co-operative supply has of late years spread very rapidly all over rural Germany, so as to have far outstripped anything that we have to show in our country.

Further Developments: Credit for Distributive Societies.

The uses of centralised co-operation—among a body of societies which now exceeds 5,000—do not end here. The local associations have long since learnt to carry on not a little co-operative trading on their own account in their own localities, in some cases forming supply associations by the side of the banks, which employ bank money raised by credit, but keep their operations and liabilities distinct. There are local associations which in this way do in their own little villages as much as £2,000 worth of supply business in the year, and, indeed, this business is now increasing very rapidly. To focus supply business a special organisation has been created with twelve headquarters, which do a very large business. Those Central Supply Departments require credit for trading purposes as banks do for credit purposes. And they raise it from the Central

Bank by a distinct service, the volume of which in 1908 reached the figure of 255,644,020 marks (£12,782,200). Beyond this the Central Bank provides, by means of agreements which it has concluded with large insurance companies, insurance against fire, hail, burglary, embezzlement, mortality among live stock, employer's liability, and also—a practice very usual in Germany—against loss of money *in transitu*, as well as for life insurance, at materially reduced premiums.

Extension and Results of the System.

With the help of its centralised institutions, and in virtue of its own inherent sound principle, the small "grain of mustard seed" planted in the obscurity of the barren Westerwald has long since become an "exceeding great tree." To measure its results and gauge its full utility we must not stop at the border of the Raiffeisen Union itself, with its more than 5,000 societies—more than 4,300 of which are simple credit societies—imposing as those figures are. We shall have to extend our view to the "Adaptations" in Germany—more in number, though less pure in principle—and to the host of imitations occurring in other countries, now including, in addition to Austria, Russia, Belgium, Holland, France, Italy, Servia, Bulgaria, &c., also Ireland, Cyprus, and India—of all which organisations the Neuwied Society is the direct parent. Here is a vast good work done, the beneficiaries from which have good cause to remember with gratitude the half-blind Burgomaster of Rhineland. In Germany the Raiffeisen Union proper at the close of 1908 embraced no fewer than 5,047 societies, 4,340 of which were credit societies, and 707 productive. Of the powerful impulse which Raiffeisen Credit Co-operation has directly given to agricultural co-operation in a wider province, as represented by dairies, vintries, as well as by breeding societies, distributive, common

purchase, and common-use-of-machinery societies—only a mere handful of which class of organisations existed before, I have already spoken. At the close of 1907, 4,102 credit societies sending in returns reported their collective membership as 405,819. The collective balance-sheets showed 490,734,834 marks assets, and 489,234,357 marks liabilities. The collective share capital amounted to only 3,625,045 marks. But there were reserve funds of 13,698,485 marks. There were 390,052,933 marks of deposits and 18,300,581 marks cash balances due to members. Of the former sum 146,194,777 marks had been paid in during the year. The total amount outstanding in advances was 373,733,100 marks, consisting of only 71,464,079 marks in cash credits, and 302,269,021 marks in specific loans. Of the latter amount—most of which runs for long terms—63,780,931 marks had been granted during the year 1907. The business on current account showed 97,105,757 marks paid out, and 80,792,709 marks received. Management expenses figure at the low figure of only 2,949,030 marks.

There can be no doubt, as is attested on all sides, that Raiffeisenism has proved a success.

It may be well now to examine the causes of such results. Perhaps the present German Imperial Chancellor, Herr von Bethmann-Hollweg, was not altogether wrong in the explanation which he gave publicly a short time ago—which explanation contrasts strangely indeed with the gloomy picture drawn, from pure imagination, in our House of Lords by a spokesman of the Government of Mr. Asquith, speaking with curious positiveness.*

The German Chancellor on "Raiffeisenism."

"Your movement," so Herr von Bethmann-Hollweg remarked, "embraces the entire German Empire and

* See Lord Denman's Speech, 9th July, 1908, Parliamentary Debates, Fourth Series, Vol. 192, pp. 4 to 7.

deals out enormous sums of money. Yet with all this, its work is 'detail work,' on a small scale. In providing personal credit on a secure basis for those who need it, you satisfy an economic want. However, at the same time you exercise a most powerful ethical influence upon your members. The careful examination of cases coming before you, which is indispensable in the interest of safety, gives you a profound insight not only into your neighbour's purse, but also into his heart. You become bound together by the link of common work and common love of your neighbour. This is, as I said, 'detail work,' carried down into minutiæ. It may be troublesome, but its reward is great. We live in an age of great dangers. But the dangers reside less in the fists of men than in their dispositions. To work upon dispositions, it is necessary that one should exercise moral power. Only by means of such may we hope to compass the end aimed at. And of such moral power your daily work, of neighbour influencing neighbour, is the source. Your work is not obtrusive or interfering, but it is permeating and transmuting. It draws people together and enables the good to triumph over the evil."

However, let us go into particulars.

Common Liability.

Above all things, there is the common, the joint and several liability—call it "unlimited" if you like—without which Raiffeisen would have no bank to adopt his name, and without which, indeed, a sound Raiffeisen Bank is inconceivable. The liability is not really "unlimited," as I shall show. It is to the interest of the society itself that it should be *strictly* circumscribed—even beyond what can be done by the very obvious and desirable expedient of limiting the lending powers of the governing body, in the case of collective lending as of individual loans—and that no risk of any kind should be incurred. But so far as the

principle "one-for-all and all-for-one" is adopted, its adoption must be *absolute*, and absolute with *full equality* among members, assigning equal rights and equal liabilities to all. That is the very pillar of the system, the pivot upon which the whole organisation must necessarily turn. This consideration has become of even more compelling importance than it previously possessed by the barriers which under the twofold dictation of prudence and the law have been placed in the way of the retirement of members. Previously a member was allowed the right to retire whenever he might please and thereby at once to become quit of all liability except that contracted prior to his withdrawal, in respect of which the German law prescribes a limit of two years. It has now been judged advisable to limit retirement to the conclusion of a financial year, and to make it conditional upon notice previously given. The object in this and in all similar limitations is to provide as absolute security for the protection of creditors as is possible. The avowed object for which you co-operate is, by means of collective effort, by, so to speak, the creation of a "faggot-liability," to obtain for yourselves the credit which in an isolated condition you do not, or every one of you does not, command. That means that *within* the association you must provide an efficient substitute for that pledge credit which Léon Say condemns, and which your members have it not in their power to purchase; and *outside* the association create security ample for your borrowing, and such as will make inquiry by the outside lender in every specific case superfluous. The ostensible financial value which you collectively pledge to the outer world may be that of one man only in the whole association. That is his contribution to the common stock, perfectly legitimate, if it is safeguarded. But please observe that in this application "credit"

and "liability" do not at all mean the same thing as "money." We do not ask any man to give a single penny, be it to a fellow-member, be it to the association collectively. Quite the reverse. We particularly beg him *not* to give. We tell him that, not in his own interest only, but even more in the interest of the association, it is essential that he should carefully *abstain* from giving. He is to *support*—to help others to help themselves. The employer, who has his employee financially well in his power, may unhesitatingly assure his credit by lending him the use of his name. The banker who holds, not perhaps directly negotiable, but ultimately adequate, security from his client, may well grant that client an overdraft, or accredit him with another institution. In the same way in the Raiffeisen associations we try to create—and have indeed succeeded in creating—a security which acts as a very effective substitute for a pledge, and secures those who lend their credit by making it their fellow-members' direct interest, not only to be honest themselves, but also to see that others are honest. That is Raiffeisen's great triumph; the creation of such security, where previously there was none, is his peculiar merit. The lively sense of responsibility required, for one's self and for others, is absolutely not to be assured without the enlistment of liability, not only direct, but going a good deal beyond the value of a share or a good many shares, be they small or be they large. There is nothing to sharpen the wits of people concerned, to make them watchful, critical, observant, inexorable, like effectual liability. You have the principle in germ—and in germ only—in Scotch Cash Credit.

Scotch Cash Credit contains the Principle in Germ.

The Report of the Lords and Commons Committee of 1826 on Scotch Banking already quoted indicates two important elements of security as explaining its

success :—establishment by inquiry of the borrower's trustworthiness, and control of his action of employment. There were at the time then spoken of 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 should they threaten to go wrong. That explains the whole satisfactory working of the system. Here are the two main pillars of co-operative credit recognised—*joint liability* and *individual checking*. The sureties become an intermediate body between capital and want, helping the latter, but also effectually safeguarding the former.

Now this is co-operative banking applied in a very halting and middle-class sort of way, among people who possess property and also some commercial education. Our object is to dive deeper—so we must proceed upon very much broader and more popular lines. We must multiply our sureties and quicken the vigilance and control by responsibility carried still further.

The Germ Developed.

The fundamental idea of co-operative credit banking is, as has already been explained, that a number of men —poor alone, or else poor and wealthy—join together to pledge their credit in common, in order thereby to obtain the temporary command of money which individually they cannot secure, with a view to disposing of that money among themselves, likewise for temporary employment, and for profitable purposes. The practicableness of the scheme hinges upon the feasibility of ensuring repayment from members, and thereby creating a good foundation for credit by secur-

ing—*absolutely* securing—those who pledge what they possess, practically "up to the hilt," for the benefit of others. That is done by selecting your members, by watching the borrower, by watching the loan, and reserving to yourself effective power for calling it in, and by subordinating everything that is done to the one consideration of safety. Now see how unlimited liability directly serves to supply all this.

Common Liability secures careful Selection of Members.

Without unlimited liability, to begin with, you can never make sure that your bank will be sufficiently careful in the selection of its members. Such selection, limiting your membership to persons absolutely trustworthy, is the primary condition of success. With only his 5s. or £1 share at stake no person in town or village would care to say "No" to an applicant for admission unless he be a downright disreputable neighbour. Why should he disoblige him? However, we know from experience that co-operative banks have had to be broken up because some black sheep had in this way found their way into the fold. Make people understand that in electing the new member they practically make themselves liable for any default which he may make, and all considerations of etiquette and mere neighbourly courtesy are sure to vanish. The breeches-pocket knows of no etiquette. Hence, in a great measure—though not solely—that marvellous morally educating power which it is generally admitted that Raiffeisen banks exercise upon their members. This it is which has helped to make the Village Banks such admirable moral reformers, instilling principles which previously were not altogether common. People soon find out the value of a cheap lending institution, when they see their neighbours regularly employing it. Once they are made to understand that membership is altogether dependent upon their good character and good conduct, and its continuance upon their perseverance

in such virtues, it is astonishing how fast the drunkard forsakes his sottish ways, the spendthrift his extravagance, how fast the idle becomes industrious, the quarrelsome man peaceful, and the reckless careful.

It secures Good Administration.

Next, without unlimited liability, you would not, at any rate to the same extent, secure the admirable management which is admitted to distinguish these little village institutions. M. Alphonse Courtois recognises this as one of the chief causes of their success : "*Elles sont d'ailleurs remarquablement administrées; cette division très nette des attributions entre pour beaucoup, présumons nous, dans le succès de ces unions.*"

It is not only that the unlimited liability of members prompts those members to be careful to select none but the most competent officers. We know that that is necessary. But there is more. "*Il ne suffit pas d'avoir une bonne machine,*" so remarks Léon Say, addressing himself to this very point ; "*il faut aussi avoir un bon mécanicien.*" At the outset, at any rate, the success of the banks has, as Emile de Laveleye, one of their warmest admirers, has pointed out, invariably been the work of some individual zealous workers who have taken up the cause for the sake of the good to be effected—*des hommes dévoués*. The attractive idea—the *idea morale*, as M. Luzzatti calls it—may suffice to secure such. But it is the unlimited liability of officers which leads them to be extremely discriminating in their disposal of bank moneys and very strict in their demand for prompt repayment, which is one of the most essential conditions of success, alike economic and educational. Not only their own money is at stake and may be lost ; any risk incurred would jeopardise other people's money as well, the money of those whom they particularly desire to benefit. If this consideration touches more particularly wealthy people who may be in the bank, and who may be

answerable in a higher degree for its liabilities than others, it will have to go without saying that such wealthy people must be represented on the governing body. And since it is they who supply at the outset the apparent backbone of solvency, and their presence in the bank is on that account sure to be desired, they have the power practically of insisting upon anything which they may consider necessary in the interest of safety.

It secures Efficient Watching of the Loan.

Without unlimited liability, furthermore, there could not possibly be all that watchfulness and control which really make up the Raiffeisen system and which keep it safe, that "admirable" principle, as the late Duke of Argyll has called it, "of strict payments and watching the application of the loan." Stimulated by the sense of liability brought home, you are careful to keep your members generally under control. More especially do you control your borrowers, and take care, in addition, to ascertain that they *remain* honest, thrifty, careful, and deserving of credit. You watch specifically the employment of the loan, its application to its proper purpose, failing which you call it in unmercifully—otherwise there can be no success. You insist upon prompt repayment. You build up your whole fabric upon a system of mutual checking, the borrowers being checked by the Committee, the Committee by the Council, the Council by the mass of members, all without offence or invidiousness, all in the interest and for the protection of the very people checked. "*Ecartez la solidarité*," so says Father de Besse, "*et personne ne voudra même dans une association, ni corriger son prochain, ni se laisser corriger.*" "*Semo in cento che se femo la spia un con l'altro onde x imposibile che nessun fazza un bruta parte.*" So a member of the first Raiffeisen bank formed in Italy, that of Loreggia—of which I speak

at greater length elsewhere—explained the case in his uncouth Venetian patois. It means: "We are a hundred persons who watch one another like spies; it is not possible that any one of us should fail in his duty." And all this, as observed, without offensiveness. Quite the reverse. All that zealous, lively, warm, and loving interest in their local association, which every observer remarks upon as a distinctive, striking feature among members of Raiffeisen Village Banks, is plainly traceable to the principle of unlimited liability, which makes every one feel that he and his fellows have become "members one of another." Under this system an association becomes what Ettore Levi says that every genuine co-operative association should be—*una famiglia onesta e laboriosa*—an honest and industrious family, with a community of aims, of interests, and of sympathies. Every one knows that there is no hostility in this mutual observation. In no system of associations have I witnessed the same manifest feeling of "belonging together," and at the same time the same lively interest in the affairs of the association as in this. In the Schulze-Delitzsch associations and the Luzzatti banks 100 members will attend a general meeting out of 1,000 or of 15,000. I know of a bank in which 11 men could with difficulty be whipped up out of 11,500. In the Raiffeisen associations you may be sure that the members will be represented to a man, so far as that is at all possible, and that every member will bring his ears and wits with him. Often may you see members about the office where there is an important committee meeting. It is to their interest that they should know what is going on. And know it they *will*. Publicity in respect of everything except savings, and democratic government, the full equality of all who are in the association, are absolutely essential for success. However,

that close touch, that insistence upon full equality, where equality sometimes at first sight appears difficult, that strong feeling of social and moral, as well as financial, solidarity—all these things are impossible without common liability. When the poor man knows that he may have to pay for his submissiveness, his shyness and his awe of social superiors soon wear off.

It is only fair to add that under the protection of the safeguards adopted the "solidarity" required—the joint and several liability of all-for-all, meaning, of course, that, so far as is possible, every member shall be made liable in the same degree, although one and all answer to the outside creditor—has in practice proved altogether innocent of the serious consequences which it is not unnatural for people unacquainted with the matter to apprehend from it. I have never heard of a case in which *liability* has had to be drawn upon. There have been defaults, as a matter of course; but in every case the debtor's estate, or his sureties have—with an occasional draft upon the reserve fund—proved equal to the liability—as must be the case under careful management.

Small Districts Conducive to Safety.

Another very important element of success, assuring safety and at the same time materially helping to remove the danger of unlimited liability, is the smallness of the district assigned to every bank. The followers of some other leaders will not understand this, because in their own systems—which are essentially different in their entire construction—success means a large "business." In the Raiffeisen system, where there are no salaries, no expenses to speak of, and where "business" consists merely of simple borrowing and lending—the "detail work" that Herr von Bethmann-Hollweg speaks of—whether the sum be 1s. or £1,000, the object to be aimed at is not "business," but absolute safety. Profits scarcely come

into account. In any but a small district there could not possibly be that knowledge, and vigilance, and checking of one another, upon which stress has already repeatedly been laid as constituting a *sine quâ non* of success. "It is the smallness of the districts," writes, officially, Herr Gau, of the Agricultural Department of Saxe-Weimar, "which makes the Raiffeisen associations so generally trusted." Creditors know that in such districts strict control and supervision are likely to be efficient. The Raiffeisen system is, in truth, essentially one designed for small, self-contained rural districts. Raiffeisen dubbed his associations specifically "rural." He never contemplated the application of his system to towns. I know of one or two Raiffeisen banks only which flourish in larger districts than those which Raiffeisen himself contemplated. One of these is in Saxony. It is really abnormally large. But its success is entirely due to the peculiar organising capacity and efficiency in supervision of its chairman. The other is in Prussian Lusatia. The district of this bank—which I happen to know very well—was formed after about two years of careful preparation, covering about 22 square miles of territory. It is decidedly successful. But the district is quite peculiarly constituted. There are, so to speak, five little hamlets, each of which contributes a committeeman. But under ordinary circumstances a parish is the ideal area, because within such district watching can certainly be made easy and effective inasmuch as every one is within reach of the bank, and moreover every one knows every one else. The creation of such bank, it ought to be remembered, is not purely a question of numbers. Some years back I found that in the new agricultural settlements of the eastern provinces of Prussia—where truly admirable work is being done in cutting up large estates into small holdings, by

which means entire new villages are being raised up—although the use of more money was unquestionably appreciated and numbers were adequate, Raiffeisen banks could then be formed only very sparingly and slowly, because the settlers, gathered together from all parts of the Empire, did not yet sufficiently know one another. In the great majority of cases it is just the smallness of the district which ensures success, not merely by making the vigilance required possible, but also by giving to every association an entirely local character, and bringing thoroughly home to members their personal interest in it.

They quicken Interest.

This really cannot be understood at a distance. To realise it you must go among the people, and see and talk to them, watch the pride with which they contemplate their successful institution, the zeal with which they make themselves acquainted with all its transactions. They can show you the books and explain everything to you. They are not a bit afraid of what on paper appears espionage among themselves ; rather do they accept it willingly as an effective bulwark of safety. They have their savings bank and put money into it, because it is *their own*. They watch at all points to make sure that the association may suffer no hurt. They discuss all that goes on in connection with it. It has linked them together with a new bond of union which firmly establishes peace and kind feeling. The seemingly rapturous language of M. von Dobransky is not a bit too strong for the case. I have never been more interested in my life than when going into one or other of these villages, in which there is a co-operative credit bank, and judging from the evidence presented what that bank has done for its members. Here is one case—that of the village of Mülheim on the Rhine, not very far from Coblentz. The peasant of the Lower Rhine is as a rule—what-

ever the "peasant girls with deep blue eyes" may have been in Byron's days—not a particularly genial or attractive specimen of humanity. But it is surprising what a metamorphosis the advent of this humanising instrument has brought about. The best among the population of Mülheim, some two hundred and fifty persons, had then joined the bank. Though the soil around is rich and well watered, the place is said to have been some time ago rather neglected, and not a little pestered with "Jews." The latter have quite disappeared.

They Facilitate the Suppression of Usury.

That is another advantage of small districts. "*L'usure ne peut être combattue que de près,*" rightly urges Léon Say. In Germany it has baffled even Bismarckian methods of eradication, which did not usually err on the side of gingerliness. What the Prince's "blood and iron" could not accomplish, co-operative gold and the silken bond of union have brought about with ease. Whole battalions of these greedy gentry have been put to the rout, and driven discomfited from the field.

Instance of Mulheim.

To come back to my instance of the Village Bank at Mülheim—the old wattle and post-and-pane houses, with their rickety timbering and ramshackle roofs, have disappeared, and given place to neat, substantial stone buildings. There is an unmistakable look of plenty, of order, of neighbourliness observable everywhere. Of course, according to the teaching of our own agricultural authorities, these people are farming on an entirely wrong principle. But there are no signs of agricultural depression about their properties. The gardens are tidily kept, the fields and orchards look throughout *bien soignés*, and everything appears prosperous and flourishing, so that, after all, perhaps facts are more correct than theories. Land, at the time of my visit, fetched about £1 the German rod,

which sums up to £288 an acre. On such soil of course good husbandry tells; and co-operation has perceptibly stimulated it. You see drainage, new implements—even a steam threshing machine has been provided by co-operation, one of those expensive implements which our English wiseacres periodically assure us that the small peasant could never manage to purchase out of his small purse. Here is one purchased by him—and purchased without money, to begin with, and without cost in the end. He has let it out, to members at 8*s*. 6*d*. per hour, to non-members at 9*s*. 6*d*., and that has paid for the machine. He does a good deal in the way of co-operative supply, both agricultural and otherwise. By the side of his co-operative credit association he has set up a co-operative supply association, which did then from £1,800 to £2,000 worth of business in the twelvemonth, for all of which it borrowed the requisite money from the bank. Himself and his neighbours paid in about £2,000 in savings every year. Moreover the association does a considerable business in *Verkaufsprotocolle* (assignments for unpaid purchase money). All the dangers arising from that once very formidable process have been overcome with the assistance of the Village Bank. It buys them at a moderate discount, and all goes on peaceably and merrily as if there never had been any "Jews." This little bank had then annually about £2,200 worth of these bonds coming into its possession, and held generally something over £6,000 worth in its hands. All in all, it had an annual turnover of about £35,000, leaving a net profit of about £250, every farthing of which went to reserve. By this means, though the bank served all its customers very cheaply, since 1880, when the association was formed, a reserve had at the time accumulated of about £1,500, enabling the bank to

allow to its customers six months' credit on co-operative purchases without adding a penny to the wholesale price. The bank employed a cashier, who acted also as secretary, at a salary of £37 10*s.* a year. He had all the bookkeeping at his fingers' ends, and knew all, financially, about every one with whom he had to do.

Advantages of Gratuitous Services.

The gratuitousness of services is another distinct factor in the success attained, and an additional safeguard to the common liability pledged. The idea of the association is that members should give that which they have got in order thereby to purchase that which they have not got. They have *not* got money, which under ordinary circumstances purchases credit; so they give vigilance, labour, effort, time. In giving it it is only reasonable and consistent that they should labour without demanding remuneration. But there is further justification. What is, under circumstances like those here contemplated, freely given, among neighbours, is most likely to be honestly given. Schulze objects that "the labourer is worthy of his hire." True. But then his hire may be worth something to him. He is dependent for it upon the votes of his fellow-members. Those fellow-members may be applicants for loans. Their applications may be improper. Is every officer likely to stand firm when the member who can give him his salary or take it away puts to him the brutal Bismarckian "do ut des"? "Officers of co-operative credit banks," says M. Luzzatti, "should have a conscience free from all personal pre-occupations and from pressure of any sort." They should know "neither father nor mother," and consider business coming before them purely on its own merits. The only way to ensure this is to keep the "cash-nexus" entirely out of sight.

There is another important feature making for suc-

Benefits of Disallowing Profits and of an inalienable Reserve Fund.

cess, closely allied to the last, and that is the disallowance of all profits, all individual pickings out of the bank, which is not intended as a profit-bearing institution ; and, necessarily allied to that, there is the creation of an inalienable reserve fund belonging absolutely to the bank and not divisible under any circumstances. To purely economic and commercial co-operators that fund is a monstrosity. An "anomaly" it may well be called, but an anomaly which, as Felice Mangili has pointed out, is justified by its circumstances and results. There is no magnet, nothing to bind members to their association, like money laid up, in whch every one entitled is naturally anxious to retain his interest. There is no danger of breaking up an association or diverting it from its object when there is a good "Stiftungsfonds." And everything that tends to keep members together, to make it their interest to strive to continue worthy of membership, that stimulates their interest, everything also which tends to attract others to the association, and accordingly incites them to make themselves morally eligible, amounts to a direct gain. Beyond this, the immediate benefit arising from the inalienable reserve fund in fortifying security, in providing funds for useful enterprises, in cheapening credit, and making it more convenient for members, is considerable.

Simplicity of Business insures Safety.

Lastly, there is the simplicity of the business. Raiffeisen's original rules positively interdicted "banking," or business, or risk, or speculation of any kind. Their "business" was simply to be to lend and to borrow. If a loan *should* go wrong under such circumstances you would know exactly what in the worst case you could be made liable for. That £1 or £10 would *absolutely* limit your loss. There could be nothing ulterior. Only since a very recent date do the more advanced societies of this sort grant cash

credits and lay themselves out generally to become, in a very modest way, village "banks" for general purposes. That is an advance which was not contemplated by Raiffeisen. It presupposes a certain amount of business training among members. And joined to this simplicity of business is the simplicity of business arrangements, bookkeeping, organisation, and so on. Everything is simple, everything is readily intelligible. M. Durand says, after careful investigation :—"*Avec les garanties présentées par l'organisation des Darlehnskassen la solidarité n'a aucun danger et ne saurait effrayer les grands propriétaires.*"

Success.

By such means, simple in themselves, but telling, Raiffeisen has made it his task to raise up his system of educating and lending societies. It cannot be doubted that he has succeeded. His work has been subjected to many a test. Unfortunately, like every good work, it has had opposition and prejudice to contend against, which have, however, led only to its more brilliant vindication. In 1874 the late Emperor William appointed a Royal Commission to inquire into its work, presided over by the late Professor Nasse, and having Dr. Siemens for a member. The Report, published in 1875, proved so wholly favourable that the banks have from that time forward counted the Imperial Family among their warmest patrons, including the Empress Frederick, who has more than once given proof of her interest. Among the evidence collected by the Commission mentioned occur the statement already referred to of the Rhenish parson, who confessed that the Raiffeisen bank in his parish had done more to raise the moral tone among his parishioners than all his ministrations, and the deposition of the presiding judge of the Court of Neuwied, which shows how materially litigation had diminished in his district, owing to the conveniences afforded and the good

Report of a Royal Commission.

principles instilled by the local Raiffeisen Loan Bank. Doubtless our County Court judges would find them productive of the same good. Those good effects have since been sustained. In 1886 the Diet of Lower Austria sent two experts to inquire into the system, who expressed themselves so entirely satisfied of its merits, that that Diet, and other Diets of the Austrian Empire following in its footsteps, at once resolved to encourage the formation of Raiffeisen associations in their several territories, and backed that resolution with grants of money. In Saxony, in Baden, in Hesse, in most provinces of Prussia, Governments are giving proof of their desire to have these banks multiplied.

"A Happy Combination of Business and Philanthropy."

And by economists and philanthropists who have seen them the societies are warmly eulogised and recommended as justifying the verselet (in German it is one) with which a writer on the subject recently headed his pamphlet: "The setting up of Raiffeisen associations means the pulling down of workhouses." M. Rostand commends as their distinguishing traits: "extreme simplicity and cheapness, non-allowance of any dividend, limitation of the district to a parish or a hamlet, the strict prohibition to touch the reserve, the support of the clergy, the common liability replacing the helplessness of agricultural units, the prevailing spirit of devotion and sense of social duty." Sir F. A. Nicholson, in the preface to his admirable official Report, sums up the teaching of the prolonged and painstaking inquiry into various systems of co-operative credit for agriculture which he had carried on under orders of the Madras Government in these words: "Find Raiffeisen!" "I have examined many systems," so writes M. Durand, who has himself become a zealous and most successful apostle of co-operative credit in France; "I have not found one which reconciles so fully the requirements exacted by Credit:

security of operations and the social and moral requirements of rural populations. I do not hesitate emphatically 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." To the mind of M. Rostand they conclusively settle the question whether the small agriculturist requires credit at all. It has been denied. It has been affirmed that if he had it he would abuse it. Here, says M. Rostand, is the answer.

It is undoubtedly a great work which Raiffeisen has accomplished—greater than some other co-operative triumphs gained, because it begins upon less, compasses more from a moral point of view, and rests upon a more popular foundation. To the system of Herr Raiffeisen as to that of the *banche popolari* may justly be applied M. Rostand's felicitously-worded phrase: "*C'est l'heureuse union de l'esprit d'affaires avec les sentimens d'une véritable, d'une pratique philanthropie.*"

CHAPTER VIII

ADAPTATIONS

Causes Suggesting Free Imitations.

SCHEMES that had worked so satisfactorily as Schulze's and Raiffeisen's were sure to find adapters and imitators. Schulze's system, it is true, does not lend itself very readily to adaptations—apart from such free remodelling as M. Luzzatti effected in Italy. Its backbone is business—pure business. And business permits tampering with itself just as little as, according to Alfred de Musset, does "love." However, not all are of Israel that are Israel. There are priests who would be high priests; and in a composite nation like the German there are sections that do not desire to be mixed up with other sections. In this way, *more Germanico*, two smaller, but still not insignificant, "unions" have splintered off from the main host—in one case because Württemberg is a kingdom as well as Prussia, and likes to paddle its own canoe (it has done precisely the same thing in the Raiffeisen movement); in the other because some gentlemen in Hanover desired to have a union reserved altogether to credit societies, whereas the *Allgemeine Verband*, that is, the "General" Union, was determined to keep co-operation of all forms united, as in reason they should be. Both unions have otherwise loyally adhered to Schulze's methods. The Hanover *Verband* does not appear to have published any figures. But it is not small. The Württemberg *Verband* numbered in 1907 about 47,000 members, with about £990,000 share capital, £291,840 reserve funds, £3,278,630 deposits, and, at the close of the year, £3,985,068 outstanding in advances, having lent out during the year £8,321,132.

Two Independent Schulze-Delitzsch Unions.

More substantial reasons are responsible for the separation of another union which used to form part of the *Allgemeine Verband*, once more without any abandonment of principle.

The Union of Polish Societies.

The Poles of Prussia have, like other Slavs, exhibited truly remarkable aptitude for co-operation in all its forms, more specifically co-operative credit—in the first instance under Schulze's own teaching and as members of his Union. Their societies separated and formed a union of their own, because the Prussian Government and its pan-German henchmen made close association with Germans most distasteful to Poles. Their credit associations are still very facsimiles of those founded by Schulze himself. The only difference is that the one are composed of Poles who speak Polish, and the other of Germans who speak German—and who, not being themselves "Hakatists" like their masters, fully recognise the merit of those Slav organisations. A minor point of difference is this, that the Poles have formed their own Central Bank, as a "bank of banks," in which proceeding two of Schulze's provincial Unions have since with advantage followed their example. More seem likely to do so, because the innovation answers, and because limited liability, now permitted, does away with Schulze's objections. The excellence of the Polish banks, heightened no doubt by the peculiar clannishness of their members, has made these societies to prosper and gather strength rapidly. Their Union set up for itself in 1873, with only 43 societies, comprising in all 7,660 members, having subscribed £31,174 share capital. In 1908, according to the last issued Report, there were 234 societies, with 105,793 members, £961,519 paid-up share capital, £428,325 reserve funds, £7,286,683 outstanding in the shape of advances made, and an annual profit of £126,188, against which there was only £534 loss to pit. The quality of co-operative banks

may, as a rule, be judged by the amount of deposits which they succeed in attracting, because such indicate both the confidence which the banks command and their application to their proper business. Judged by this test the Polish societies have done admirably; for at the close of 1908 they had £7,418,594 deposits in their keeping. The Union, as observed, possesses a very useful Central Bank with limited liability, formed as a union of banks. Of its £100,000 paid-up share capital, £70,000 is held by banks in the Union. The proportion of bank members to individual members (who had necessarily to be invited to provide some of the first capital) is steadily rising.

One interesting feature about this Union, of which our would-be organisers, who persistently identify Schulze-Delitzsch banking with purely "urban" business, would do well to take note, is this, that of its 105,793 members in 1908, as many as 73,575 were directly connected with agricultural land, either as owners or else as tenants, 58,042 being "agriculturists" by calling. Of such number 1,683 were more or less substantial landowners, 54,292 small cultivating owners, and 2,067 tenants. The remainder consist of small manufacturers, artisans, and people of other callings who own their acre or two of land, or it may be less. These are certainly results to be satisfied with.

Le Crédit Coopératif de Lorraine.

There is one more organisation on German territory congenerous with the Schulze-Delitzsch societies, deserving of mention. This society, however, represents rather a ricochet from the Italian and French adaptation of Schulze's organisation than an offshoot from that organisation itself. The *Crédit Coopératif de Lorraine* was formed at Metz in 1892, racially rather under French than German influence. Like M. Luzzatti's banks, it adopted limited liability. But at the same time, it followed the Schulze-Delitzsch precedent in issuing rather

substantial shares of £10, with 5*s*. entrance fee levied with them. The shares, it is true, may be paid up very leisurely, at the rate of 3*s*. a month. In all other respects Italian and French methods have been adhered to. The management is entrusted, not to three members, but to six, with the addition of the two salaried officers as fully equal colleagues ; and the inspecting body consists of only three *reviseurs*. Excellently managed—more particularly thanks to the happy choice of M. Prével as managing director—the bank has amply justified its existence, rendering very substantial financial help alike to trade, industry and agriculture. For its members' roll includes 586 small cultivators. It began in 1892 with only 90 members and £7,000 share capital. At the close of 1908 it numbered 539 members, with collectively £185,385 paid-up share capital, and £35,222 reserve funds. Its turnover in 1907 amounted to £8,700,000, and in 1908 (under the effects of a financial crisis) to £7,700,000, leaving a net profit of £14,150 in the former year, and of £13,571 in the latter. It is a thoroughly "people's" bank. Half its advances are under £50. And in 1908 only 85 out of 2,267 exceeded £300. One rather remarkable feature about the bank is that, although the management deliberately does not favour cash credits—for the same reason that London bankers will not have overdrafts, namely, because they lock up capital—yet by far the largest amount of business done comes under that description. This is a testimony to the utility of overdrafts.

Raiffeisen Imitations.

The Raiffeisen system lends itself far more readily to adaptation. For it really represents three distinct elements rolled into one, any one of which may be picked out and made the main feature, to the partial or entire exclusion of the others. There is an *economic* element in it, of course ; a *religio-educational* one, and an *altruist*, in the sense of inducing the well-to-do members to pro-

What Prompted Them.

vide money or credit for the poorer. According as one or the other of these three elements is made to predominate, the organisation adopts a different character. So we see three distinct systems taking their birth in Raiffeisenism, namely, one purely economic (and, for the matter of that, "agrarian"), one "catholic," and the third altruist in the sense of making the community provide tax-raised money wherewith to finance institutions of one interest supposed to be particularly necessitous.

As regards the last-named transformation, it has met with unmistakable favour in almost every country of Europe, and given a perfectly new colouring to "co-operative credit." From the wealthy philanthropist placing his credit and judgment at the disposal of a village credit society, it is of course only one step to the State taxing the community for similar service—to be rendered, not, indeed, to the poor, but to a distinct class of profit-seekers. Once more, from the morally elevating aim of the Raiffeisen banks to subjection to denominational rule is only one step. In truth, in practice the one thing shades off so imperceptibly into the other that it becomes extremely difficult to draw a precise dividing line. Like the first-mentioned adaptation, this one has found numerous adherents. In both cases a certain degree of success has been attained—economic in the one, benefiting a Church in the other. However, in either case the balance among the three composing elements, which makes the beauty of the Raiffeisen system, has been sacrificed. The second deviation from the true Raiffeisen path mentioned I deal with in a distinct chapter. The third we shall have to take into consideration as we wander through the several countries.

The "Peasants'" Associations.

In Germany we may without injustice consider the Peasants' Associations (*Bauernvereine*)—which have become the prototype of the distinctly "catholic" Dutch

and Flemish *Boerenbonds*—as coming under the denominational head, albeit there are also Lutheran *Bauernvereine*, in which the "minister" replaces the "priest." Under the teaching of experience, "Catholicism," or else Church rule, was in Germany not found a sufficiently powerful attraction. Accordingly a second bait had to be added, which appeals to all denominations alike. That bait is the furtherance of the particular interests of a distinct class, the class of "peasants"—not "agriculturists" only, but distinctly "peasants," which term in the German sense of the word comprises anything between what we should call an independent yeoman and the small cultivator owning just sufficient land to support a family upon. These societies gladly accept high-born gentlemen—papal counts, German barons, and bishops or canons—as leaders. But the rank and file, the benefiting members, must be *bonâ fide* "peasants." And "peasants'" rights, "peasants'" interests it is which they are called upon to vindicate. That means more than a mere provision of credit, or even the collective purchase or sale of goods, assistance in the purchase of land, or gratuitous legal advice and assistance—all which things the associations assiduously practise to their members' gain. However, they go further in watching legislation, fiscal and other, in the peasants' interest, and protecting the indivisibility of their holdings under the shelter of a new German "homestead" law. In matters of credit the *Bauernvereine* have adopted the Raiffeisen rule in all its purity. So much are the two systems alike that officers exchange backwards and forwards, as interest may move them, without the slightest inconvenience.

Their Origin and Extension.

It was a well-known Roman Catholic territorial magnate of Westphalia, Herr von Schorlemer Alst, who formed the first Peasants' Association in 1862 in his own province, and advisedly dubbed it "Christian" and

"educational." He forced the rule upon it that only "peasants" should be eligible as ordinary members. From Westphalia the institution spread into Rhineland, where there are now several unions acting side by side; next into Baden, Bavaria, Ermland, Silesia, and finally into Luxemburg, which is, of course, German in character though not forming part of the German Empire. The different unions vary very much in size. The largest, in Silesia, numbers about 120,000 members, the smallest, that of Alsace-Lorraine, about 1,000. The majority are Roman Catholic in profession. Whether "Catholic" or Lutheran, the stamp of religion is strongly impressed upon them all. Up to a short time ago the unions worked, each in its own district, without any connecting link. Lately they have joined together to form a "Christian German Union of Peasants' Associations." One of the most active of these unions is that of Trêves, the "catholic" character of which is very pronounced, and which for some time has had its own Central Bank. A happy thought of joining forces in business matters has of late led it to attach itself, for Central Bank purposes, to the most powerful union of the country, the *Reichsverband*, of which I shall next have to speak.

The "Reichsverband ländlicher Genossenschaften."

Without question the secession of the few Hessian and Baden societies, which have in course of time developed into the mighty *Reichsverband ländlicher Genossenschaften* (German Imperial Union of Rural Co-operative Societies), constitutes one of the most noteworthy occurrences in the history of German co-operation. The *Reichsverband*, numbering, together with the Raiffeisen Union, 86 per cent. of all agricultural co-operative societies in Germany, is a direct offshoot from the Raiffeisen Union, professing in the main to follow Raiffeisen rules. It has grown to be the largest union of agricultural co-operative societies in the world, embrac-

ing some 8,000—or, with the addition of the Raiffeisen Union, which has formally allied itself with it in 1905 in a working arrangement, more than 12,000—credit societies, not reckoning about 6,000 other co-operative societies—extending all over Germany and numbering at the present time something like 2,000,000 members, doing an amount of business of nearly £400,000,000* in all forms of co-operative business.

Herr Haas, who stands at the head of this Union, has taught his countrymen a most important and valuable lesson, which unfortunately sadly wanted to be taught, namely, the lesson of unity and "bulking" demand.

That really sums up the case for his movement, both from an economic and from a co-operative point of view. But it means a good deal. It may readily be admitted that the movement has brought the agricultural interest, as distinct from other interests, considerable gain; and that it has furthered the sentiment of all-German unity and patriotism in a peculiar and rather pugnacious way, which sometimes becomes, as we shall see, needlessly hostile to other nations. But such points we have here nothing to do with. And we can cast only a very passing glance at the magnificent development of agricultural co-operation of other forms which has in the *Reichsverband* kept pace with the growth of co-operative credit.

Beginnings of Agricultural Co-operation in Germany.

Until co-operative credit came upon the scene other forms of co-operation were not thought of in agriculture. The first agricultural supply society was formed in Hessia in 1846; four more were started in 1858 and 1859; by 1870 there were in all Germany, so far as is known, still only 59. An inquiry by Royal Commission established the wonderful value of Raiffeisen societies. These thereupon multiplied rapidly. And, keeping pace with them, other co-operative societies overspread the

* Most of this is counted twice over, first under Central Banks and again under local banks.

country. And the *Reichsverband* in course of time became the premier Union among them in respect of numbers and business.

There are, as will be shown, other influences, external to the movement, which have helped towards such result.

However, the credit societies formed and maintained under the shadow of the *Reichsverband* cannot rank as a distinct type. There is really neither uniformity nor a clear acceptance of what would commonly be regarded as principle in them. Their one principle is to form as large a body of persons of the same interest as can be got together. But that is probably the only programme upon which so many agriculturists could be joined together in one union in Germany. Raiffeisen, who was guided above all things by principle, looked askance at the secessionists, declaring that they lacked "the right spirit."

The Founders of the "Reichsverband."

Herr Haas, with his friends Dr. von Langsdorff, Herr Märklin, Dr. Weidenhammer, and some others, began as a loyal and ever ardent follower of Raiffeisen. But there was something in the Raiffeisen organisation which he could not stomach. He wanted to cover territory, to produce the largest possible—because only the largest can be the cheapest and the most effective—co-operation, to benefit agriculture as a calling. Raiffeisen kept thinking of his poor. His chief aim was to help them. And the point which he—like some of our own early co-operative pioneers—perpetually put foremost was religious principle. Such care for the poor, the rich resourcefulness shown in devising a system which out of neighbour's help produces the purest self-help, it is which has endeared his work so much to all people of heart and soul. But the pursuit of such noble aim had necessarily to be paid for by a sacrifice of elasticity. There must be strict uniformity ; there must be vigilant super-

vision ; therefore there must be centralisation of the straitest sort. The whole organisation necessarily centred in Neuwied, and Raiffeisen became its personal master. That was admirable from Raiffeisen's point of view, but it rather militated against expansion. Herr Haas had for some time—as an organiser of agricultural supply in his native Grand Duchy—worked for a federal development, under which every district was to have its own distinct and self-governing union, and such local unions were to combine to a national federation. His appeals to Raiffeisen for a change of policy in such sense do not appear to have met with an encouraging response. Accordingly, after some consultation with his friends, about the year 1880, he determined to break loose from his master and strike out a path for himself. Raiffeisen held rather a strong position at the time. A Royal Commission, composed of economists of the very first rank, had inquired into his system and pronounced it excellent. On the strength of this the late Emperor William had paid £2,000 out of his privy purse towards the Union fund. To succeed, Herr Haas appears to have thought that he must make sure of the support of Schulze-Delitzsch, who was at the time, on economic grounds, at daggers drawn with Raiffeisen. He sneered at his "Christian" and "philanthropic" spirit ; he abominated his taking a donation from the Emperor and some other, very trifling, State-aid—not towards business, but towards propaganda ; and he never wearied of denouncing Raiffeisen's unpardonable arch-heresy of wanting to start co-operative banks without shares. To secure Schulze's aid Herr Haas accepted the whole of his objections. He tore the "Christian" label off the organisation, to substitute for it in due course the not invariably unselfish interest of the agricultural community. He made his appearance at the annual Schulze Congress in 1881 and bravely declared : "We take our

Why they Seceded from the Raiffeisen Union.

Herr Haas, Chairman of the "Reichsverband."

stand upon the principle of Self-help and will have nothing to do with State help."* And to crown all, he pronounced in favour of substantial shares, and recommended £25 as the proper standard, which is not exactly a poor man's figure.

That was all very fine, and Schulze applauded. However, time showed that none of it was to be taken as a pledge. It figured in the programme; it was not adopted in practice. In spite of Herr Haas' emphatic declaration against State help there is no Union which has accepted and applied for so much State help—and grown fat and big upon it. Without that *Verband* the State-endowed Central Bank would for a time have found its occupation pretty well gone. And it is only now, since the roll, which seemed so sweet in the mouth, has turned out so decidedly bitter in the stomach, that the *Reichsverband* has turned over a new leaf and begun to show its appreciation of the virtue of independence won by self-help.

The large Shares a Myth.

The £25 shares look beautiful upon paper. However, they never were made compulsory. In the very best case only one-tenth of that sum need be paid up. And the balance in truth means nothing, since in any case acceptance of a share involves unlimited liability, which, of course, covers all possessions. Herr Haas' own annual Report for 1908 shows that the average paid-up share even now stands at no more than 18*s.*; and according to an account which Dr. Grabein, the General Secretary of the Union, has quite recently given at a Middle-Class Congress, there are still among 13,133 credit societies sending in returns 127 with only 1 mark (1*s.*) shares, 3,586 with shares not exceeding 5 marks, and only 4,967 with shares exceeding 10 marks. Even allowing for the 4,000 or so Raiffeisen societies

* "*Wir halten fest an dem Grundsatze der Selbsthilfe, und perhorrescieren Staatshilfe und Staatsaufsicht.*"

included in that return, that leaves the average a long way off the boasted £25. There is no harm in all this, of course, because you can very well form a Raiffeisen bank without shares. Only it comes a little bit strange after the "prave 'orts" of early days. It is quite true that there are exceptional unions with shares up to 91 marks, on an average—for instance, among the model societies of the Bonn district. But they number only four or five unions among nearly forty. Under such circumstances, instead of the Union being, as Schulze wanted, in a position to rely upon its own resources, with only about £5 borrowed to every £1 of its own, Herr Haas' Report for the year already quoted states that only 1.23 per cent. of the funds employed are the societies' own.

Altruism Discarded.

The "Christian" spirit it was not difficult to get rid of. It is quite true that it has recently reappeared —in official circulars and addresses. That was the price which had to be paid for the working arrangement which it was desired to conclude with the Raiffeisen Union. However, that does not appear to have modified the general character of the Union.

Merits of the "Reichsverband."

All this notwithstanding, Herr Haas' work has proved exceedingly useful. What defects it may have, judged from a purist point of view, are necessary incidents to the accomplishment of the task which Herr Haas had in the main set himself to do. He wanted to have *comprehensiveness* and *expansion*. Accordingly he must be indulgent in the application of principle. Provided that societies were businesslike, and could stand the test of periodical audit and inspection, they must be made welcome. I have found, within an easy walk of Herr Haas' official headquarters of the time, a bank which consisted of only about forty members, who advisedly kept up the value of their shares and the entrance fee, *in order* to keep out others from sharing with them the spoils of

Its Comprehensiveness.

10 per cent. dividend earned out of the dealings with about 700 non-members, who should have been members but, being outside, had to be content with their 3 per cent. interest on deposits. When I remarked upon this at headquarters, and pointed out that it was not co-operation, I was met with a shrug of the shoulders.

A few Limited Liability Banks

From Herr Haas' point of view, quite naturally, things must be made agreeable to all. The more the merrier. Thus it comes about that within Herr Haas' Union—and only there, except in Hungary under quite peculiar circumstances scarcely deserving of imitation—the anomaly is to be met with of so-called "Raiffeisen" banks formed with limited liability, which is practically a contradiction in terms. The thing is not approved of at headquarters, and it applies to only 8 per cent. of the entire number of societies. But it was not thought worth while to stand out for principle at the cost of keeping these societies out of the Union. Such anomalous banks are to be met with in Pomerania, where limited liability was adopted avowedly to induce large landowners, whose money was wanted, but who did not care to take the trouble of looking after things themselves, to come in; and in Prussian Saxony, where the collapse of some unlimited liability banks of a totally different type had frightened people who were not sufficiently masters of the subject to be able to discern the difference between the two forms.

But it is really not a great "unifier's" business to trouble about such points. The societies do their duty by the Union; they can pass the audit. And their orders for money or goods are as good as anybody else's.

Distinctions from the Raiffeisen System.

The marked difference between the two systems is very clearly seen in the development of business —"business" on one side, business only of a peculiar kind on the other. Thus the Raiffeisen Union is particularly chary in permitting cash credit and real

"banking" or commission business, stockbroking and the like. Cash credit is most convenient, no doubt. But it deprives the bank of the oversight of the employment of the loan, which is an essential feature in Raiffeisen banking. In the Haas societies commission business is carried on, also stockbroking; and cash credit has actually become the general rule, preponderating largely over specific lending. Thus in 1907, in the two Unions collectively—it is impossible to separate the figures—in comparison with 265,701,028 marks lent out in specific loans for stated purposes, 471,091,222 marks were lent out in cash credits. That really means much greater preponderance in the Haas societies than appears. For we know that the Raiffeisen societies, whose business is included, grant but little money in cash credit. A candid actuary of the *Reichsverband* has let the cat out of the bag in explanation of this practice: "asking the Committee every time involves too much bother." Aye, but it provides an efficient safeguard.

"Agrarianism."

The Haas Union, then, must be looked upon as an *omnium gatherum* of societies, good, bad, and indifferent, which have adopted the co-operative principle in a form which will stand the test of an audit—without aspiring to the lofty ideals owned to by the Raiffeisen societies; without, on the other hand, studying the strictly businesslike character, the sturdy self-reliance and absolute neutrality as to class interests of the Schulze-Delitzsch Union—aiming at the promotion of the interests of one particular calling. It is essentially an agriculturists' union—*professionnelle*, in the French sense of that word. Of its members fully 60 per cent. are said to be agriculturists by calling, and about 20 per cent. more are interested in agriculture as owners of agricultural land. Such position has led it to become friends and enemies in turn with both its sister movements. Excessively

bitter things have been said on all three platforms, one against the other. However, it has all ended peaceably. After a long estrangement Herr Haas has made friends once more with both his neighbours, joining forces with Raiffeisen and striking up a friendly *entente* with Schulze. And through his friendly mediation one may almost hope that the long-standing feud between Raiffeisen and Schulze, for which there is no true ground, may in due course be patched up as well.

Herr Haas' plan, as observed, required decentralised organisation. That gives scope to local initiative and the assertion of local talent and power of leading. The effect of this it is, in part, which has attracted so many large landowners, people of "county position," as we should say, into Herr Haas' camp. But his pronounced, and somewhat declamatory "black-white-and-red" patriotism — which sometimes outruns discretion—his identification of his Union with Agrarianism, and his very happy knack of placing himself in high favour with the several Governments, are accountable for more. There is no Union favoured by crowned heads, Ministers of State and "Prussian Excellencies," like the *Reichsverband*, upon which a perfect Leonide shower of decorations has come down. And that, in its turn, has brought in the rank and file of the agricultural calling. The movement is not, indeed, all growth, although growth preponderates. In the last year, it is admitted that the general tightness of money brought the Union many hungry recruits. But, on the other hand, there are liquidations and dissolutions, the number of which specifically for the *Reichsverband* is not stated. For all Germany it amounted, in 1907, to the loss of 69 credit societies, 220 societies in all. Since the *Reichsverband* composes the major portion by far of all these (86 per cent.), the lion's share in this collapse is likely to have fallen to its account.

And so it comes about that, in spite of the Union's having existed more than twenty-six years, its societies average an age only of eleven years—not long ago the figure stood at only eight years.

The peculiar "black-white-and-red" patriotism which has helped the Union forward to so large an extent, appears sometimes to grow a little uncharitable to neighbours. Possibly it is just that which has made it so telling in high quarters. What, for instance, could be less called for than the verse which Herr Haas' Committee included in the festal song prepared for the Congress held at Mayence in 1908, and which was sung at the banquet, as the report states, "amid deafening cheers," which says :—"Never mind if John Bull and the Frenchman go into 'mad staggers' with envy; we have William of Hohenzollern to keep us safe"? * Provocative Patriotism.

What on earth such a verse has to do with a co-operative banquet, and why it should be suggested that English and French are going into "mad staggers" —not a very polite word to use—because Germany is prosperous, and that things will be less glorious when the next Emperor begins his reign, one is at a loss to divine. And where do the "war-whoop" and the "rifle at full cock" come in at a Congress dinner? It appears to me that our own co-operators exhibited far more co-operative and also more Christian spirit, such as Bonifacius went out from us ages ago to awaken in

* The precise words are these :—

"Zum Kampf nach aussen mögen d'rum
John Bull und Franzmann kollern,
Das ficht uns nicht so lang regiert
Wilhelm von Hohenzollern.
(Dröhnender Beifall!)

"Den Hahn in Ruh! Die Flinte blank!
Lasst nie die Schwerter rosten!
Kein Kampfgeschrei! Doch wenn es gilt
Seid Alle auf dem Posten!"

Germany, when, at a Congress following shortly after, they received, likewise with "deafening cheers," Mr. Maddison's resolution expressing a fervent hope that good relations may be maintained with all foreign powers, but above all things with our neighbour Germany. Evidently Herr Haas and his Union have still something to learn in the matter of Co-operation.

Herr Haas' societies are of all sizes, from seven members up to, in one exceptional case, 1,291. The average number of members is 91 or 92.

Dependence upon State-help.

One great flaw in Herr Haas' action has been his long-continued dependence upon State help. His big shares would not go down with his people. Money there must be, because there were to be magnificent results. The State-endowed Central Bank opened its doors. The Schulze Union said No; the Raiffeisen Union said No. The Haas Central Banks hurried in asking for money. What abuses such borrowing from the State gave rise to, how, to comply with the prescribed form, immense liability, in some cases centupling the amount of the capital subscribed, was piled up upon an infinitesimal foundation of cash, I explain in another chapter. Fortunately the evil—which must have done much mischief—has in the end worked its own cure. Abuses of the sort referred to the Bank was bound for its own sake to meet with special precautions. The precautions did not please the Haasists. There was wild rebellion at their Congress in 1898. However, the Central Bank had the whip hand, and rightly enough would not be shaken in its resolve. After some wriggling and struggling the Haas Union, like a wise body of men, came to understand that the only remedy against State restrictions is its own independence. And it very sensibly sought to attain such. That has been the burden of Herr Haas' late pronouncements. "Make yourselves independent." The practice of thrift was studied, and the lesson learnt

Independence Sought by Collection of Deposits.

was put into practice, with the result that large amounts of savings deposits came in, as they always do in such cases, when asked for in the proper way. In comparison with only 64,493,274 marks lying to the credit of depositors at the close of 1896, there were at the close of 1907 1,360,299,616 marks—about £68,000,000 (including the Raiffeisen banks with about £19,500,000 to their credit). The deposits per member came to amount to 1,132 marks (£56). As much as 414,083,578 marks had been paid in during the year. Since only 1,367,000,000 marks were employed in advances, the banks had been brought to the point that their own members' thrift provided nearly all the money that was required for loans. Of course, all this money was withdrawable, and additional cash was wanted for the productive societies. The societies' own capital—shares and reserve funds—amounted to only 62,000,000 marks. Going the rounds to collect deposits has become a common practice. It is more convenient to have such money than State advances. A further judicious step was taken by the introduction of a higher rate of interest allowed for long term deposits, subject to three months', or else six months' notice. It may have been thought previously that such deposits might become a dead weight. However, the banks find that they can employ all that comes in, and the notice is not resorted to on their part. The next step has been to insist once more upon the issue of substantial shares. Some societies—thus, for instance, those of the admirably administered Rhenish Union—have gone so far as to recommend doubling the amount of £25. To what extent that recommendation will produce results remains to be seen.

Reconciliation with the Raiffeisen Union.

The estrangement between the Raiffeisen Union and the Haas Union was perfectly natural while the sore was raw. But that is no reason why it should have been kept up so long. In those days, unfortunately, Herr Haas

was little accessible to overtures and even to inquiries. I expressed regret at such uncalled-for division of interests, which meant a frittering away of power, as long ago as in 1892, when I wrote the first edition of this book. In 1898, at the Haas Congress held at Carlsruhe, I ventured publicly to suggest that there should be union. Such union was brought about in 1905. It strengthens very materially the working power of both Federations. But, as already observed, it really amounts to little more than a working arrangement. Competition among organisations had become so keen that in Rhineland there were as many as five distinct co-operative unions bidding against one another. Such a state of things imperatively called for redress, which was happily found in the conclusion of an alliance between the two principal bodies, and which has incidentally introduced some little decentralisation also into the Raiffeisen Union, inasmuch as its various provincial unions had to be recognised as independent *Revisionsverbände*, that is, inspecting unions. However, it would be a mistake to look upon this alliance as a full amalgamation. The Raiffeisen Union has not let go either its independent organisation, within the larger organisation, nor its autonomous position. Much persuasion has been employed to induce it to forego its principle of small shares (since under the existing law shares there must be). Unquestionably this is inconvenient to the Haas societies, inasmuch as, wherever societies of the two sorts are found in juxtaposition, the one practically underbids the other ; and hence in large part the fruitlessness of the attempts made on the Haas side to increase the value of the shares. However, the Raiffeisen Union has rightly stood firm. It does not require shares. It has more deposit money on its hands than it knows how to employ in credits. Why add to its stock of cash ? Moreover, it must be obvious that substantial shares keep out the poor. And it was the poor

that Raiffeisen thought of, not the "agricultural calling," in which large landowners set the tune. In addition, on the Haas side there appears a want of reality about the demand for large shares. If members there were to do as members do in the *Schweizerische Volksbank* or the *Crédit Coopératif de Lorraine*, that is, subscribe large shares and pay them up, so far as they are well-to-do men, leaving only the poor to contribute the money slowly, by instalments, a middle way might be struck out permitting both well-to-do and poor to take part side by side. However, to such course the well-to-do appear now averse; and they cannot be compelled.

Value of Comprehensiveness Demonstrated.

There is no overlooking points like this. They make an essential difference. But the benefits of union, which Herr Haas has brought about, are very great. Propaganda has grown far more active. There is life, independent life, under the same banner, in every province, every union vying with the other to add new descriptions of services. The result of this is increased utility. Business has extended beyond what was to have been foreseen. Large orders make cheaper prices, often better quality. The organisation of such business is excellent. Only one would wish to see purchase separated from banking, as it henceforward is to be in the Raiffeisen Union. Bulking business has likewise enabled the united Unions to advance substantially on the road of organising the sale of produce—although I cannot help thinking that our way of doing this by means of an alliance with our distributive societies is a better one than soliciting orders from public authorities as a matter of favour. The grouping together of large numbers of societies has placed the Unions in a position to undertake descriptions of business which only large bodies of consumers can venture upon. In this respect, it is quite true, they have sometimes overshot the mark—for instance, when

buying up nitrate mines in Chile, and propping up enterprises which never stood on a solid foundation. On the other hand, they have done exceedingly well by their cellective contracts for potash-salts. And their institutions for the common purchase of machinery and implements, and for the construction of machinery and installations for productive works, such as dairies, distilleries, granaries, electric motive power and the like, appear to be answering well. In respect of dealings with money, as a matter of course, the lumping together of business has given the Imperial Union a much-improved position in the money market, thanks to which it has been able to provide funds for its members during the recent financial crisis at rates of interest only little above the ordinary level. Its main supply, apart from what it gets from deposits, remains the State-endowed Central Bank, which, being in a position to do so, has stipulated for *all* business done in Prussia. So far as that country extends, the State bank has an absolute monopoly, which is exercised through the Neuwied Central Bank, acting as a collective institution, and thirty-seven autonomous provincial Central Banks of the Haas Union as conducting channels. However, there are societies beyond Prussia. For such the *Reichsgenossenschaftsbank*, established at Darmstadt by the Haas Union, acts as central institution. And there are provincial co-operative unions of other kinds—distributive, supply, productive, dairies, granaries, and the like—within the Federation, which are allowed credit just like Central Banks, and take it in a steadily increasing volume. Such credit has been found an active stimulus to business, and both the *Reichsgenossenschaftsbank* and the Neuwied Central Bank do a considerable amount of business with such bodies. The thirty-seven Central Banks of the Union (including the Raiffeisen Union) had in 1907 a collective business

The "Reichsgenossenschaftsbank."

of 4,832,000,000 marks (£240,000,000). The two chief banks, at Neuwied and Darmstadt, dispose between them of working funds amounting to more than £14,000,000, viz., 206,000,000 marks in Neuwied, and 77,000,000 marks in Darmstadt, which money consists for the smaller part (about £3,000,000) of share capital, for the remainder of deposits. One questionable item in the business done is the money still lent upon mortgage, which amounted in 1907 to 198,263,072 marks (£9,913,153). And it does not exactly bode well for the Union, from a banking point of view, that it considers itself patriotically, and from loyalty to its agricultural members, bound to take an active part in the redemption of debt on landed estates, much after the manner in which the Court of Wards proceeds in India. No doubt such indebtedness is very great. It is to be reduced by limiting the borrowing powers on estates which are brought under the new rule and converting the last, which are also the most risky, mortgages into personal advances, which will necessarily have to run for some length of time. It is at this point that the Union is called upon, and feels itself bound, to come to the landowners' rescue. One may hope that this will not land them in loss.

What German Agriculture owes to Herr Haas.

No doubt in the *Reichsverband* one is apt to regret the restriction of principle. One regrets to see Co-operation made the handmaid of a distinct interest, to the prejudice of other interests. One cannot help feeling pained at the very different tone to that which we are used to associate with " Co-operation " prevailing in this Union, the class interest, egotism, and that peculiarly bellicose and invidious patriotism introduced into a movement which, according to Schulze-Delitzsch, should " mean peace." One cannot help noticing that there is still far too much reliance upon the State, partly for the supply of funds, partly for peculiar favours and a market for pro-

duce. And one cannot help thinking that among the business undertaken there is not a little that is just a trifle risky, and, under the lax system practised, may mean mischief. But certainly it was a great achievement to collect 86 per cent. of the agricultural co-operative societies of Germany—17,630 societies they were in 1908—together into one Union, to bring them to act together and organise their supply, their sales, their credit, on the large and effective scale thereby permitted. And for such services the agricultural world in Germany remains Herr Haas' debtor; for the result has been mainly his work.

CHAPTER IX

"ASSISTED" CO-OPERATIVE CREDIT

Natural Impatience for Results.

TO the eye of the zealous social reformer co-operative banks, though multiplying fast, do not multiply nearly fast enough. There is so much good that might be accomplished if there were more of them! There are such veritable worlds of creditless desert crying out for their aid! And, again, there is that troublesome difficulty about providing the first funds, when in truth there is good enough security to pledge, but nobody to recognise it!

Now could not co-operative banks be helped over these two troublesome stiles by a little judicious aid?

There is no country in which this question, most seductive in itself, has not been asked. The object seems so good, the remedy so simple! In some cases private beneficence has come forward, and has shown that it can at any rate do something—more especially when backed by political or social influence, such as Count Joseph Mailáth had in his mind when he wrote about the Hungarian credit banks formed by wealthy landowners: "Here was the money, to begin with; however, the main advantage was that public servants now considered it to be their duty to promote the undertaking with their influence, and bestirred themselves actively in its behalf."*

There is, then, something more effective even than

* Report of Proceedings of the Sixth Congress of the International Co-operative Alliance (published by P. S. King & Son, Westminster),

money. A host of political officers enlisted as propagandists, acting with the approval of their superiors, can "stamp banks out of the ground," as Count Mailáth says that at one time they did in Hungary.

State-assistance.

But that only means that, if private action can do something, State interference can accomplish more. The State has all these officers at its beck. It need but say "Go," and they go. And, in addition, it disposes of the entire wealth of the nation practically without limit. Does not a work of "common utility," like that of popularised credit, justify a little outlay at common expense?

There is not a country, as observed, in which this question has not been asked. And in not a few countries it has been answered in the affirmative; and effect has actually been given to such answer. I have not space here to review all that has been done in this way. With the kind assistance of our own Foreign Office and of foreign Governments I, a few years ago, compiled a very full account of all that was known to have been accomplished up to 1904, for the Sixth Congress of the International Co-operative Alliance.* From a social point of view that account will be found highly instructive. The State has been active in this way in Germany, in Austria, in France, in Ireland, in India—in Russia, of course, and in Finland, and in the Balkan countries—since that date also in Italy—practically everywhere. The method most generally favoured in early days was that of a free grant for first establishment expenses, and afterwards advances at easy rates, for a limited number of years, to provide the requisite working funds and to set the bank upon its legs in a parasite existence. At the same time the army of *fonctionnaires*, so plentiful abroad, and so dependent upon favour for their promotion, have set to work canvassing, teaching, leading, pressing. In some countries the formation of Raiffeisen banks became the accepted

* See the Report already quoted.

test of administrative efficiency in country districts, and, as a consequence, administrative officers vied with one another in promoting such banks at public expense.

It is first Methodised in Prussia.

But all this was desultory, experimental, groping. A decided change came over the scene when, in 1895, the Prussian Minister of Finance carried his scheme for creating in his kingdom a State-endowed Central Co-operative Credit Bank—a bank, that is, which, helping itself freely to money out of the taxpayers' purse—on which money only a very small interest need be paid—should come to the aid of co-operative banks wherever justification could be shown. Such justification was to consist in security given, measured according to a peculiar—rather mechanical—standard. The governing idea was that every bank finding other banks willing to combine with it in a "Union"—which act was to be accepted as a proof of its genuinely co-operative character—should have a blank credit — that is Dr. Hugenberg's term—opened to it in current account proportionate to the security which it had to offer. In this way it would have adequate funds placed at its disposal to work with. In addition the new State bank was, in substitution for the *Reichsbank*, the Imperial National Bank—which had previously rendered such service, but found, amid the growing claims made upon it and, in view of the very peculiar nature of such co-operative business compared with its ordinary commercial banking, that the co-operative work had better be transferred to other shoulders—to act as common money institution for all co-operative banks, to be drawn upon by them, and as balancing centre for their periodical overpluses and deficiencies, and, in doing this, to fence off, so to speak, a certain economic area, like a breakwater sheltering what through its interposition becomes a calm sheet of water in the midst of a troubled sea, so as to preserve it from all disturbance which might affect the great money market :

Creation of the State-endowed Central Bank.

violent changes of the discount rate, flatness and panic, and other disorders which no co-operative business can stand. By this means steadiness of the rate of interest was to be secured.

These were the main points in the Government programme, and their adoption had a marked effect upon the position of the question of co-operative credit in the entire world. What had previously been only haphazard and empirical now became methodised. A new standard came to be set up, and practical application made of the Prussian example a generally recognised model for imitation. Other German States were, of course, the first to follow in Prussian footsteps, so as to make its new practice virtually all German ; France came next, with some characteristic departures from the original model ; then Italy, once more with adaptations ; afterwards Roumania and other Balkan States ; later Austria and Belgium ; and even otherwise independent little Denmark is understood to be considering whether it cannot adapt the Prussian method to its own circumstances, the money being already voted. To have effected all this means a "*succès d'estime*," for which the authors and administrators of the Prussian scheme are entitled to take not a little credit.

Other Countries follow the Example.

People with great ambitions are apt to overrate the power of their own pet institutions when pitted against cosmic forces. We shall see how—in this case, as in others—an error of such kind was committed. The peculiar aim adopted of keeping the co-operative market, so to speak, within a sheltering ring-fence, within which no commotion was to be possible, and business generally was to be distinctly centred in the new State bank (but, of course, with the *Reichsbank* to fall back upon in cases of want of money), postulated that within that financial "world within the world" all credit institutions should be systematically organised, so that credit might be con-

Methods of the Prussian State Bank.

veniently dispensed through regular channels, like water in a scheme of irrigation—first to the principal feeders, and from these to the distributing conduits. As a matter of fact, such organisation was actually ready to hand—at any rate, in the great agricultural unions, for which the scheme was mainly designed. That being so, the State bank could, with reason, maintain that in offering aid it rigorously abstained from all interference in the management of societies, such as is generally set down as the main drawback to State aiding. We know from what has happened in Ireland, how hindering that may become. The Prussian State bank does not in fact interfere, save to refuse to deal with any *individual* society—except in special cases, in which security of a particular kind is exacted. Societies, to be qualified to deal with it, must be first brigaded in unions.

The stipulation is not a very onerous one. For, in the first place, all those societies which the State bank was above all things intended to benefit—that is, the agricultural credit societies, which are the *bons enfans* of the Government—were, as observed, already thoroughly brigaded. All that the State bank had to do in the matter was, as the preamble to the Bill creating it puts it, to place itself "at the head" of an already existing—"thus far headless"—organisation. In the second place, since under the German law only seven persons are required to form a society, in the same way seven societies will suffice to form a union; so that forty-nine persons in all, agreeing among themselves—this fact has been pointedly put forward in France, as showing how easy it is to qualify for State aid—may, by a purely formal act, bring themselves within reach of the proffered benefit.

There appears to have been another ground, besides, for desiring that the State bank should become the "head" of the existing organisations. It has been

A Political Motive.

plainly stated in the Prussian Chamber that all this organisation of so many thousands of people—there are more than four millions of professing co-operators in Germany—might involve "danger," had not the State placed itself at their head. The State as a rule has some object of its own in view when giving aid, which object may, according to Lord Randolph Churchill, be summed up in the formula "Votes, votes, votes!" However, that object is not always as openly avowed as it has been in this case. With creditable frankness Herr Hugenberg, late chief of the very department of the Prussian Ministry of Finance interested, goes on to own in his book * that the artisans' and tradesmen's co-operative credit societies—which are likewise supplied with money out of the State bank—were created with a view to "getting the men away from Liberalism," which political belief still constitutes, as in the dark days of the Manteuffels, the special bogey of the "Prussian Excellencies."

"Capacity for Liability;" how Ascertained.

There were, as observed, plenty of "unions" all ready to hand to transact business with the State bank. Their doing so, however, involved a danger to themselves which had, thus far, been kept dormant. To transact business collectively, these banks must interconnect their liability, making themselves practically liable for one another, without at the same time acquiring power to control one another. A reckless society A might inflict loss upon all the remaining letters of the alphabet. This was for the State bank's protection, and to its distinct advantage; for it secured it a number of backers to every bill. But it was distinctly not to the benefit of the individual society. Schulze, who readily detected the danger of such proceeding, would never allow anything of the sort among his own societies. And his followers

* Dr. A. Hugenberg, Geheimer Finanzrath: "Bank-und Kedit-wirthschaft des deutschen Mittelstandes," München, 1906.

held, and still hold, fast by his salutary rule. Raiffeisen, though he formed a Central Bank, wisely steered clear of the danger indicated, by making that bank—through which at first all business had to pass—a joint-stock company with strictly limited liability, so that no society joining made itself answerable beyond the actual amount of its own shares. The State bank distinctly claimed joint and several liability of societies—within certain limits, which are regulated on the following principle. The State bank, having, by permission of the Ministry of Finance, a free run of the Register of Income Tax, and of that "complementary tax" about which so much nonsense has recently been written in this country, and which hits—that is its great recommendation under the present aspect—small people in respect of their small incomes, not liable to income tax proper, as well as wealthy people in respect of certain excess income, takes advantage of the insight so obtained to value the "capacity for liability" of every person interested, the total of which "capacities" constitutes its security. In the case of societies with unlimited liability it ascertains the declared property of every member and takes 10 per cent. of that sum as the measure of recognisable security—although of course at law the man is liable to his last farthing. That 10 per cent. appears a moderate estimate. it is intended to be so, in order to be safe. However, it will have to be borne in mind that members' "declared estates" are not existent in a readily realisable shape, and would, if realised, produce considerably less than the declared value, and that moderate proportion only after considerable delay. In the next place, the declaration for income tax does not state what debts the "estate" may be charged with. The man may be deeply in debt to the very society for which he is made to answer as security. In addition, Dr. Heiligenstadt, the President of the State bank, to whose ability as presi-

How it is Pledged.

dent I wish here to bear witness, has stated at a congress of Rhenish societies that in certain instances his bank, in a spirit of kindness, exceeds the limit, allowing a more liberal measure of credit. And supposing that the co-operative bank undertakes to do what by rights no bank in its circumstances ought to commit itself to, that is, to guarantee mortgages, which are bound to be risky, as ranking after all others, for fifteen years at a stretch —the Government desires this to be done as a means of eventually reducing the indebtedness of the agricultural mortgagors—the State bank has declared itself willing to extend its credit to such bank still further. On the other hand, the State bank may also, to save itself trouble, take each member's liability roughly at anything between £5 and £15. (It should be borne in mind that we have here in the main societies of small peasantry to deal with.) Should, on the other hand, members' liability for their society be limited, the liability attaching to each share is accepted as security, with a deduction of 10 per cent. made for the bank's safety, to which deduction another 12½ per cent. is added in the event of the union of which the society forms part declining to pledge itself to doing business exclusively with the State bank. That pledge of exclusive dealing is an awkward burden upon a union, but there is a great deal to be said for it, on business grounds, from the State bank's point of view, especially as the terms of business are well understood beforehand, and the monopoly cannot be abused. Incidentally it shows in an interesting way how near State patronage draws to Socialism. "Exclusive" dealing with their particular wholesale societies is just what Socialist distributive co-operators now clamour for as a means, not of serving their members more cheaply, but of securing greater power in the State for their movement.

Liability becomes Inflated.

One questionable feature about such acceptance of "liability" is this, that under German law "liability" by no means necessarily means liability limited to the amount of the share, but may signify a multiple, even a large multiple, of that value. Fifty times, seventy-five times, even a hundred times that amount has been known to occur. The arrangement here referred to has indeed directly encouraged a most mischievous inflation of liability, which has become so serious that the State bank itself, after helping to produce it, has had to take measures against it, namely, the building up of an unconscionably large credit upon a most diminutive share capital, all of which need not even be paid up. Herr Carl Heuzeroth, in an interesting paper printed in the Report of Proceedings of the Sixth Congress of the International Co-operative Alliance,* quotes some curious instances of such malpractice. Thus, one Central Bank, having a share capital of only £457, borrowed from the State bank, on the security of its members' liability, £8,692, and, in addition, another £5,000 on the security of promissory notes, which made its total borrowing £13,692 in all. In 1895 all the Central Banks of the Haas Union among them borrowed from the State bank, on the strength of share capitals of £36,426, as much as £183,625; in 1896, on the strength of £50,713, £692,246, and so on, quite apart from other loan money borrowed from individuals or collected in the shape of deposits.

Restrictions Imposed.

In 1902 President Heiligenstadt found that he must put a stop to this. Co-operative credit was becoming a regular South Sea bubble: all credit and no cash. Accordingly he gave notice that, although the old method of calculating liability would be adhered to, a maximum line of credit to be given would from thence-

* Published by P. S. King & Son.

forth be drawn at ten times the amount of the share capital *subscribed*, of which one-tenth must be paid up, with the understanding that all dividend accruing should be carried to capital account until in this manner shares came to be fully paid up. The limit so left was still in all conscience wide enough, but it involved a serious reduction in comparison with what had previously held good, and hit some societies very hard.

The liability ascertained in the way described serves as a measure for what has been rightly called "blank credit," opened to every society affiliated in current account, to be drawn upon at pleasure. That was the original idea formed of the intended service to be rendered by the bank, the money so lent being designed for working capital, to be placed at societies' disposal for a considerable length of time. Such programme has in course of time had to be extended. For, in the first place, it was found that societies wanted more money. *L'appétit vient en mangeant.* And, in the second place, the State bank discovered that in lending in nothing but current account, it was emptying its cashbox, to receive in return nothing but promises to repay. It wanted fresh money. Accordingly it had recourse to discounts and loans on security as well as on mere liability. The bills discounted it could, in case of necessity, pass on to the *Reichsbank* for rediscount, so as to yield it fresh working capital. I cannot find that any deduction is made from the general liability pledged in consideration of such discounts or loans, although of course they must reduce the security.

The State Bank's Business.

Under these two distinct methods of dealing, the State bank's business specifically with co-operative societies has become considerable. The bank was in 1908 in account with fifty-three Central Banks, or unions, standing collectively for 11,728 local societies with 1,213,194 members. There had been some diminu-

tion since 1907 owing to the secession of one union. Of the said fifty-three unions, thirty-three, with collectively 11,227 societies, and 1,074,081 members, doing by far the larger amount of business, were of a rural or agricultural character—the remainder, of which I shall still have to speak, being industrial, that is, tradesmen's or artisans' societies. The sums advanced to the fifty-three unions within the twelvemonth—being a mere fraction of the bank's general business, the major portion of which is carried on at profitable rates with the general market, to make this slow-going co-operative business possible—are stated at £25,615,068 in current account, and £7,775,177 in discounts—£33,390,245 in all. At the close of the year, however, only £4,960,460 was actually outstanding in this way, as compared with £5,129,205 in 1907, which was an exceptionally heavy year, owing to the financial crisis. Such business does not, however, appear to have been particularly lucrative. For the dividend paid by the State bank was in 1907 1.49 per cent., in 1906 1.09 per cent., in six previous years on an average 3 per cent.; in 1898 it sank as low as .49 per cent. That year was a turning point in the history of the bank, to which attention will be called again. Evidently, if there has been any advantage given to the customers of the State bank, the general taxpayer has had to pay for it.

It does not Pay.

I now go back once more to 1895. The new bank found favour at once with the agricultural credit societies, which were, as has already been shown, intended to be its principal customers. The Raiffeisen Union hung back for a time, feeling itself strong enough, in possession of its own Central Bank, backed up by the *Reichsbank*, to dispense with State aid, and of course resenting State interference. Probably official pressure proved too much for it; also the further assistance of

the *Reichsbank* may have become questionable, otherwise than through the mediation of the *Centralgenossenschaftskasse*. The Haas societies fattened on the State bank's ministrations, waxing numerous with such aid and relying to a large extent upon borrowed capital, as the instances quoted above plainly enough indicate. The bank was blessed as a boon to agriculture.

However, it soon turned out that in its constitution several miscalculations had been made. In the first place, the £250,000 voted proved wholly insufficient. Under the favourable conditions offered everybody seemed desirous of borrowing. The capital was progressively increased to £3,750,000, which seems a good halfway house on the way to further endowment. In the second place, those current accounts caused much greater inconvenience than had been anticipated. Accordingly the alternative system of advances on bills or promissory notes, or else on effects, already referred to, was introduced as a safety valve. In the last place, the very freehanded management practised by Herr von Huene, Dr. Heiligenstadt's predecessor, was found to have led to very unsatisfactory balance-sheets. There was 0.89, 1.17 and 0.49 dividend declared, only in one year 2.98 per cent. Dr. Heiligenstadt rightly lost no time in altering the terms. To some extent he restricted credit business, and at the same time put a stop to those "preferential terms" on which discount and loan-on-effects business had been transacted, substituting ordinary market rates, which makes a considerable difference. That materially improved the position of the bank. However, to the eyes of the agricultural beneficiaries it altered the aspect of affairs very much for the worse. Their indignation was great indeed when the amended terms were announced at the annual Congress of the Haas societies in 1898. I was present and witnessed the revolt. These men threatened to leave the State bank

Disappointment of the Banks.

to "stew in its own juice." Had they not £1,500,000 of deposits laid up in their banks? Unfortunately for them, that did not make them nearly strong enough to detach themselves from the State bank, in the face of the laconic but significant reply returned to them: "Either you bring us all your business, or you bring us none." Reflection has taught these angry co-operators what was to others absolutely plain on the face of things, namely, that Dr. Heiligenstadt's precautions were not more than the occasion called for, but in truth less. No more than four years after they had to be supplemented by further restrictions. The State bank had in fact been doing too much for these people to its own loss. It still does a great deal; but its patronage has wisely been brought within limits of businesslike management. It may indeed earn the State only a small dividend; but at any rate it makes both ends meet. Dr. Heiligenstadt himself, if I mistake not, has told his agricultural protégés that no institution except his own bank, which is very strong in capital, and strong also in credit, could give them the credit which they claim. To be able to do this it has to earn a profit elsewhere. It does this by means of its non-co-operative business, which is carried on on a large scale and on ordinary businesslike and therefore remunerative lines. Such balancing of loss with gain, earning something here in order to be able to sacrifice something there, in itself shows the extremely artificial character of the whole arrangement. For the sake of the good agriculturists the *Centralgenossenschaftskasse* has to rob Peter to pay Paul. In spite of all this it has not found it possible to satisfy those same agriculturists for very long. One cannot wonder at it, nor find fault, nor yet regret what is happening. Servitude is bound after a time to become irksome. The societies had relied a little too much upon State aid. Their own share capital remained

small—it is even now only as one to nine loan capital. State aid as a matter of course brought such consequence in its train. And they were indifferent to the collection of deposits. The measures of 1898 and the restriction of credit in 1902 showed them whither they had drifted. The most natural thought to present itself to them was that of independence, and after long-continued thraldom they are, tardily but seriously, labouring to emancipate themselves. The Haas Union very wisely began by offering prizes for the best essays on the organisation of thrift. The successful essays have been circulated far and wide, I believe by the hundred thousand, with the result that very much collecting is done, and that veritable heaps of money have come in, so that not infrequently there are now more assets than liabilities in the account with the State bank. However, all this, though highly satisfactory, still means only an accumulation of loan capital, subject to withdrawal. Accordingly, next, the Haas societies laid themselves out for making a reality of their boasted "substantial shares." The pressure upon societies now is to bring their shares up at least to the recommended figure of £25, but if possible to £50. At one of the most recent annual congresses the burden of Herr Haas' presidential admonitions was: "Try to make yourselves independent."

They turn to Self-help.

A great show is now being made—at present more particularly outside Germany—of the supposed merits of State bank finance and of the benefits which it is believed to secure. But when we see its chief beneficiaries turning away from it, straining every nerve to acquire sufficient means to make themselves "independent," we have no reason to sigh for State-provided fleshpots.

State-assisted Co-operation among Tradesmen and Artisans.

Among industrial co-operative banks the State bank did not fare equally well. Those banks were at the time of its starting under the sway of Schulze's principles. And Schulze's followers thoroughly declined to believe

in the new principle adopted. Schulze would have no State aid, no linking of liability among different banks; he was all for decentralisation, for what Major Poore has called "dividing down," all for accumulating much share capital and deposits in every particular bank, in order that it might stand altogether by its own strength, have little need of bank credit, and command credit by reason of its own resources. Therefore on all principal points his own programme was the very antipodes of the State bank programme.

The refusal of his banks to have anything to do with the State bank evidently caused disappointment. This appears plainly, not only from the statement made in the Prussian Parliament, that the State bank was intended to form the head of *all* co-operation, in order to avert possible "danger," but also from a remark offered by Dr. Hugenberg, the late chief of the particular department in the Ministry of Finance dealing with this matter, in his book already quoted. He says that the Schulze-Delitzsch societies would have done much better to join the connection of the State bank than to make the Dresdner Bank their balancing centre. It is, however, to be presumed that those societies know their own business best; and they do not appear thus far to have had reason to regret their choice.

The refusal of these banks notwithstanding, the Government decided to make an effort for bringing industrial co-operative credit under its sway. There are votes to be got in that quarter, and there is credit to be earned by ostensibly favouring trade and small manufacture. Continental Governments are particularly keen at present upon assisting "middle-class" trade—as a counterpoise to Socialist working-class agitation. Accordingly it was decided—in opposition to the Schulze Union, which is all for the mingling of interests in one bank, in order that there

may be the broadest possible basis and a maximum of dovetailing of abundance and want—to promote credit associations formed in each instance for *one particular trade* only: butchers, bakers, shoemakers, &c. These trades had already organised their own "trade" societies, for the promotion of common interests, for common purchase of raw material or "power," common sale of manufactured goods and the like. In respect of all such services "trade societies" are of course entirely in their place. For on such ground there is palpable community of interest inside each particular trade, and an interest as palpably distinct from the interests of other trades. These societies accordingly render very useful services, and have proved a success. But when it comes to credit, the position of affairs presents itself as all the other way. So far from separation being a help, it is a distinct hindrance. Abundance is likely to occur in all quarters at the same time, and so is deficiency. The Hungarian Government, which likewise has the good of the "middle classes" unmistakably at heart, recognising this fact, has wisely insisted on a *blending* of trades in credit societies intended for the benefit of artisans and small traders, while confining co-operative action for other purposes to distinct callings. Even in such co-operation "for other purposes," the experience of Austria has shown what a most deceptive "help" are grants-in-aid and preferential advances given by the State. The societies most "helped" have been the first to go down.

The Prussian Government has none the less tried to proceed with its plan, and it now parades certain ostensible results, which appear not very far off Lord Beaconsfield's well-known definition of "statistics."* However, it is only too manifest that the plan has not

* "There are three kinds of lies: lies, d——d lies, and statistics."

answered. There are now probably about 300 such credit societies among 721 trade societies generally. There were at a recent collection of returns 289 to reply to the questions sheet. There is no denying that some of them have rendered very useful services. The societies acting for butchers, more particularly, have proved a benefit to the trade, next to them those acting for bakers. However, all this appears to be owing rather to the introduction of banking practices, such as we possess here—the use of the cheque, that is, and clearing at the big markets—than to credit.

As a matter of fact, the amount of credit afforded to trade societies by the *Centralgenossenschaftskasse* has remained comparatively circumscribed ; and it certainly does not satisfy the societies. They complain that in being charged higher rates than agricultural societies, and in having unwieldy methods of doing business forced upon them—which suit agricultural societies well enough, but do not at all suit them—they are being sacrificed to the *junkers* and the peasantry. Dr. Otto Lindecke, late Secretary of the General Union of Artisans' and Traders' Societies, maintains that during the recent crisis, when "State-aided" credit societies were in some instances made to pay as much as 10 per cent. for their borrowed money, unaided societies of the Schulze and Raiffeisen types supplied their members far more cheaply. Affiliation to the *Preussische Centralgenossenschaftskasse* involved this further loss, as he points out, that societies so affiliated were debarred from doing business directly with the *Reichsbank*, which they would have found it more advantageous to deal with. And Herr Hugenberg, already quoted, frankly speaks of the probability of early re-union with the Schulze-Delitzsch Union, which would be about the best thing that could happen to the "trade societies." *

* See note at end of chapter.

Results of State-help.

Before casting up an account of pros and cons with reference to State aid generally, in the matter of co-operative credit, it may be well briefly to inquire how far State aid has, in its most notable application, that is, in the case of the Prussian State bank just spoken of, carried out its promises.

It was to provide ample credit at a low, and, by means of the elimination of the influence of the general market, more particularly at a steady rate, in a convenient and accessible form, to co-operative societies generally, and more specifically to those of an agricul tural character, and thereby to stimulate the formation of such societies.

The last-named effect without question it has secured. The advance in the ratio of increase of agri cultural co-operative societies since the creation of the State bank has been very marked. Only, it does not follow that the societies so formed are all genuinely co-operative and capable of standing on their own legs, and certainly they do not exhibit all that staying power which according to accepted notions co-operative societies ought to possess. The number of liquidations and dissolutions of societies has increased concurrently with that of new formations ; and it is as a rule the newly formed, the " provided " societies which succumb quickest. As to the genuinely co-operative character of all the newly and rapidly formed societies, I see reason to own to doubts. We shall see presently what so well-qualified a witness as Herr Mager, Inspector of Banks, has to say on this point.

Next, there can be no doubt that the State bank has put plenty of money in circulation, more particularly, as observed, among agricultural co-operative societies—which money, it is only fair to hope, has been judiciously laid out. And it has done so in the main at low, and, in ordinary times, at steady rates. It is a State institu-

tion paying only a very small interest on its own rather abundant capital, and dealing, when requiring more, with a public institution (the *Reichsbank*), whose resources are, for this purpose, practically inexhaustible.

Still, £5,000,000 outstanding at the close of the year is not really very much, seeing that at the same period members of co-operative societies owed to their several societies in all £125,000,000. That is in Germany, whereas the £5,000,000 applies only to Prussia. At the same time it must be admitted that to the unions to which it was lent that £5,000,000 represented much substantial assistance.

Only the rate of interest has not been quite so low as is made to appear ; nor has the promised result of keeping out the effects of the general market been secured. The power of the market is under any circumstances sure to assert itself. It is absolutely not to be kept out. During the financial crisis of 1907 co-operative banks relying, not upon the State bank, but upon their own independent resources, have been able to dispense credit as cheaply as, or more cheaply than, the State bank. Precisely the same thing has happened in France, and owing to the same cause. Those who hoped to keep out the influence of the general market appear to have forgotten that there must be rediscount, which cannot come from any source but the great market. And for water coming rushing in a small opening is quite sufficient.

The rates of interest at which the *Centralgenossenschaftskasse* deals out its money are made to appear lower than they really are by two little artifices. In the first place, the rates stated—" preferential " rates, as they are called—really apply only to money lent out *in current account* in the way explained, and not even to all such money. There is some such money lent for which the ordinary discount rate of the *Reichsbank* is charged. And that rate has run up to 7½ per cent. Apart from

that, for all money advanced by way of discount or on the security of effects, or in fact in any way except in current account, ordinary market rates are charged, subject, in the case of bills secured collectively by the general liability explained above, to a small rebate—to set off part of which there may be a small commission charged. That, as a matter of course, brings up the general rate not a little. The principle—and in all probability the practice—of the bank is to lend money for long terms in current account—the current account running for a year at a time—and to ask for bills in respect of all short lending.

The second artifice is this, that the State bank places the comparatively low rates which it charges to *Unions* or *Central Banks* in comparison with the rates which societies not affiliated to it charge to their *members*. But there is a stage between the two. And the interposition of that stage may mean a good deal. The union, receiving money on State bank terms, as a matter of course charges additional interest upon it, when passing it on to its members. Dr. Otto Lindecke—who has been already mentioned—estimates such additional charge on an average at $1\frac{1}{2}$ per cent. Even supposing it to be less, here in any case is an addition to the original charge which must make a difference. And there is not overmuch margin to begin with.

The Prussian—or German, as we may now call it—scheme of "assisting" co-operation—which, of course, I have thought it right to dwell upon at greatest length, since it represents the first methodised, and also the most fully methodised, form of "assistance," and since it has served as a model for all similar institutions—started with co-operation already in existence, and confined its aim simply to carrying its benefit further, albeit by means which run directly counter to the true principle of co-operation. It fastened its view upon one result only,

overlooking some other, more important results. The authors of schemes modelled upon it—as is not unusual in such cases—have carried things to greater length. They have created "assistance" before there was co-operation, with the hope of evoking co-operation out of nothing. Of the French scheme, the Austrian and the Hungarian, and some others, I speak under the headings of their several countries. I must, however, find a place in this chapter for a very summarised account of what has been done in the matter in Italy.

State-help in Italy.

Like the French Government, the Italian was impatient to see "results." It found no stock ready upon which to graft its "assistance." There were arid wilds lying waiting, thirsting, pining for Co-operation. There can be no doubt about this. However, Co-operation would not come. Reversing the golden rule, which had under M. Luzzatti's guidance worked such wonders in northern Italy, of providing security first and money after, it provided money liberally—though not altogether out of its own pocket—hoping that, lured by such bait, security would come in its turn; it scattered its grafts over the ground, hoping that they would strike root. In taking such action, it appears to have wholly overlooked the fact that, if there is to be Co-operation, there must be at any rate rudimentary capacity for it pre-existent. You cannot reasonably give indigestible food to an unweaned infant. The infant could not assimilate it. It would act as poison instead of as nourishment. The poor people in the South and in Sardinia, of whom the Government was thinking, were in this matter infants, scarcely used even to mother's milk. However, the experiment was to be tried.

The matter was carried into effect in this way. Public funds were made available. In the first instance the *Banco di Napoli* was instructed, in 1901, to apply up to one-fifth of its savings deposits to loans for agricul-

tural purposes, to be served out through some co-operative organisations to be created, within its own province and in the island of Sardinia. Next, in 1902, a special banking institution was created by law, for the province of Latium, to perform the same service in that province, the money being found by gifts of altogether 500,000 lire from the two savings banks of Milan and Rome, with the addition of an advance of 500,000 lire more from the bank of Italy. In 1904 a similar institution was created for the province of Basilicata, the State advancing the requisite funds, 2,000,000 lire, by loan running for sixty years, free of interest during the first decade, after that at 2 per cent. for five years more. In addition the new institution was endowed with the Crown and other public lands situated in its province and with all the rights pertaining to the Crown in respect of any land recovered from rivers by means of embankments, on condition that such land should be handed over to properly qualified land settlement societies for cultivation. Similar provision was made in 1906 for credit in Sicily, the newly-formed bank there being endowed with 3,000,000 lire taken from the *Banco di Sicilia*, and another 2,000,000 lire from the Bank of Palermo.* In the same year the earthquake in Calabria prompted a similar provision of credit for that province, by means of a three-headed institution having *quasi-*

* This arrangement has quite recently been modified by fresh legislation in the sense of greater centralisation. The last completed financial year showed a deficiency of 33,500 lire. It appears that about 1,500,000 lire was employed in advances, and that 125 distributive agencies of the kind projected had been formed. The general position of affairs was not considered satisfactory. Accordingly a fund of 3,809,467 lire, originally appropriated, likewise in 1906, to a number of "provincial agricultural banks," has been embodied in the capital at the command of the *Banco di Sicilia*, which, so it appears to be held, will be able to deal it out to better advantage through its very numerous local agencies in the island.

independent headquarters at Cosenza, Catanzaro, and Reggio. A special fund was created for its endowment, to be recovered out of an addition to income tax payable in respect of estates yielding more than 6,000 lire annual revenue. This institution is authorised to issue 30,000,000 lire in debentures. It was Sardinia's turn next. Three million lire were made available for its benefit free of interest. In the last place, last January a law, long debated upon, was passed, providing "agricultural credit" for the Marches and Umbria out of a fund of 700,000 lire, to which the State is to contribute 200,000 lire, and the Savings Banks of Milan and Bologna the rest. Agriculturisits complain that housing is in this case to receive more money than agriculture.

The money provided by the means described was not to be dealt out directly to the intended ultimate beneficiaries. They were first to be made to organise themselves in more or less co-operative societies, which were to act as intermediaries, in order that there might be greater security and better supervision. As a matter of course the borrowing powers were carefully hedged in by means of mechanical rules. A loan for labour, seeds, fertilisers and the like must not exceed 1,000 lire, nor be granted for more than a twelvemonth ; a loan for live stock must not exceed 2,000 lire, a loan for implements or machinery not 3,000 lire. Both must be repaid within three years. And so on. Beyond this certain rights of priority of claim were reserved to the lending institution, as under a previous very hampering law of 1887. The intermediate bodies—co-operative associations, as it was intended—were to fulfil the duty of educating their members, training them to thrift, and carrying on an active propaganda for Co-operation. Great hopes were entertained, more particularly with regard to the stimulating effect thus to be brought to bear upon thrift.

None of all these results have thus far been attained. People will not combine. Neither will they save. They will not, in fact, accept any responsibility. Since the public institutions are good enough to press their money upon them they will oblige them by taking some of it. But as a matter of fact not a little of this money goes a-begging. The *Banco di Napoli* has more than 20,000,000 lire lying ready to be dealt out in advances of this kind. But only a small part has been claimed. In the disappointment so created the *contadino impreparato*, as he has been called, stands for a great deal. He does not understand the thing, and there is no one to teach him. Of the intermediate bodies formed not a few have been discovered to be altogether unsuited for the work for which they are intended. Their *missione educatrice*, so it is complained, has proved badly carried out and barren. The mechanical rules have turned out hindering and inadequate. The majority of advances claimed are made under the protection of the priority provisions resembling our old laws of distress and hypothec. Even so they will not work. And when fresh legislation was under discussion some time ago in Parliament a suggestion was openly put forward that for recovery recourse should be had to the criminal law. Besides, if the legislative provisions do little to assist the *bonâ fide* borrower, they open the door pretty freely, so the *Tribuna** has pointed out, to very easy fraud. Patience is said to work "experience." Here is "experience" very gratuitously worked by impatience. But it is not of a satisfactory nature. The experiment affords fresh proof of the old, well-known, hackneyed truth, that Co-operation, to be worth anything, must be organised, willingly and knowingly, by the co-operators themselves; that it cannot be created for them by anyone else.

Whether better results will be obtained from the pro-

* *Tribuna*, 25th January, 1908.

posed new incursion of State and State-regulated assistance into the domain of commercial economics, to be developed by means of co-operative organisation, that is, the State-endowed Bank for the promotion of the exportation of agricultural produce and the State-endowed Bank for the support of "Labour"—which the renewed advent of M. Luzzatti to office appears to place within the reach of early realisation—remains to be seen. *Auspicia dubia.*

What is the Value of State-help?

We ought now to be able to judge what benefit State aid in general brings to co-operative credit, and to weigh its advantages against its drawbacks.

To take propaganda first — no doubt a Government may, by exerting its authority or temptingly chinking its gold in the ears of necessitous people, bring about the formation of a large number of credit societies. Now, unquestionably, the formation of a considerable number of societies must appear in itself a desirable object. However, there is an object even more desirable still, and that is that the societies formed should be *sound* societies, and qualified to stand by their own strength and endure. Government propaganda does not provide for this, because it cannot discriminate, because it does not leave it to the judgment of the members themselves forming the society—who are the only competent judges —whether they want a society and whether they will do their best to support it; because it simply urges Tom, Dick, and Harry to combine, in order that there may be banks. The Government and its officers have no means of discriminating, no means of probing the convictions and intentions of the people whom they urge to form a society. In France we shall see that those people will not form; or that, when they form, they will not burden themselves with any responsibility, which responsibility is the soul of co-operation. In Italy likewise people hang back, and allow the money voted for

them to go a-begging. You cannot—even the wisest German bureaucrat cannot—determine for another man whether he wants a credit society, nor make him put his shoulder to the wheel to make such society answer. But if he does not, and if he does not want the bank, his society is more likely to do harm than good. There had better in that case—our British would-be organisers would do well to remember this—be no society at all. Why will these all-wise Governments so needlessly overshoot the mark? There truly is so much that they might do for co-operative credit in a thoroughly legitimate way! They might remove hindrances, they might pass appropriate and amend inappropriate laws; they might do any amount of good in the way of instruction in co-operation in schools and in special classes. And no one would grudge a penny that they might choose to spend in such ways. Instead of this they put the cart before the horse—urge people to form societies without taking care that they know what forming a society means.

To go on to the next point, that is, to assistance with money—the essence of co-operation, its absolute *sine quâ non*, is self-reliance. A co-operative credit society is not to be simply a station for the distribution of enduring or else ephemeral public largess. It is to be a body rooted in the soil, possessing sufficient stamina to endure, grow, and, as Mr. Gladstone called it, "make men." The same clear-sighted statesman insisted, when our Industrial and Provident Societies Act was before Parliament as a Bill, that, in consideration of the particular object in view, the Government might well remit taxation in favour of co-operative societies, but that it should not on any consideration support them with gifts of money. However, foreign Governments open the taxpayers' purse freely, and thereby positively train their supposed protégés away from self-reliance! State aid so applied does grievous

mischief, in the first place, because it teaches so-called co-operators to look to the supply of money rather than to the creation of security, which is, once more, and in a far more dangerous sense, to put the cart before the horse. For security will at all times *command* money. In looking for such supply of money, in the next place, State aid thus falsely applied teaches people to rely upon others and not upon themselves. Under the sway of such false principle they cannot be expected to want to make an effort. We see the result everywhere. In France they will not undertake any liability. In Italy they even refuse to form societies. In Germany members will not either raise share capital or collect deposits, so long as State aid lasts. They go on piling liability upon liability till the foundation almost gives way. And can you make sure that, under such circumstances, they will repay what they borrow ? In India State-aiders openly talk of the necessity of summary powers of collection by the tax-gatherer. There is at any rate no motive for members to work off any liability incurred, as there is in a society which has to take care of itself, since it naturally wishes to make itself free of debt. To a State-aided society debt becomes a natural condition of existence, to the burden of which, like the Indian *rajât* pledged to his *mahajan* for generations to come, he grows absolutely callous. Take State aid away—or, more correctly, provide a motive for getting rid of it—as Dr. Heiligenstadt did in 1902—and effort becomes apparent at once ! Money is collected, debt is paid off. Without effort and self-reliance there can be no co-operation.

Next, there is the most important question of management. Governments try to provide for the good quality of such by pressing for annual, biennial, or triennial inspection and scrutiny. That is a right principle in itself, but as wrongly applied as if you wanted to peel apples with a carpenter's saw. Inspection by officers of the

State—except in respect of the observance of legal requirements, such as our Registrar of Friendly Societies inspects for—is valueless—worse than valueless, because it makes people believe that this provides a safeguard when in truth it provides none. There is no one to inspect efficiently except officers of the union formed by the societies themselves, because nobody else possesses the requisite knowledge and the requisite motive for strictness and looking for the thing rather than the form. Government inspection naturally degenerates into formalism and arbitrary dictation.

There are cases, no doubt, in which it might be held that the State would be acting rightly in advancing first funds—where such are very difficult to obtain from other sources. The uphill fight to be gone through by any society may conceivably under circumstances become an utter deadlock, though not in Europe. The money of the State is, of course, in its proper place as good money as the banker's—no better and no worse. But that can only be, provided that the State in making the advance makes it on *precisely* the same businesslike terms that any banker would. But can it? We see that, in most cases—in Europe, at any rate—it cannot. The fact is admitted by the adoption of those purely mechanical rules which are of necessity resorted to wherever the State takes a matter in hand. The rules by their very nature become either too stringent or else too lax—they keep out too many or else admit too many. Napoleon III. made his rules too strict, and his money, to be employed, had to be loaned to the Khedive. Gambetta could not for the life of him fit his *Caisse centrale* into co-operative organisation. The *comptoirs agricoles* and the *comptoirs d'escompte* measured their procrustean bed wrongly in other ways. Herr von Huene let in too many borrowers, and his bank was threatened with ruin. Dr.

Heiligenstadt remedied the mistake, and his protégés in their discontent at once set plotting for removing their custom. Credit is a delicate thing to handle. It wants to be judged at close quarters, under a realisation of every circumstance affecting it. But how is the State to apply an elastic rule properly? The rules that it makes must apply indifferently to all, for that is every citizen's right. By committing credit to it you set the wrong authority to work. Beyond this, the State cannot apply a fair scale of interest. "Preferential" rates of interest are sheer nonsense in this application. The object of co-operative credit is to train members to business, above all things to make them understand the proper value of money, as a commodity to be bought in the market, not as manna dropping down from the skies. "Preferential" interest will not teach that. Co-operative credit in truth loses all its value when it comes to be treated as charity. "Preferential" interest is to it, not kindness, but downright poison. Government authorities have in India in their unwisdom tried to benefit co-operative banks by lending them public money at 4 per cent., when the proper rate would have been 9 per cent. The Registrar of the particular district at once very properly lodged a complaint on the score that the authorities were upsetting his work. People declined to co-operate on business principles when they saw others treated on lines of charity. The people ostensibly "benefited" as a result only found themselves deprived of the particular benefit that co-operative banks were intended to bring them. In France the "preferential" rates, or rather no rates, have made people fail to understand what the whole thing means. In Germany similar rates have only raised false hopes and eventually led to disappointment.

Attempts at State-help in India.

Experience in India has shown that with respect to the provision of money, people are often apt to cry out

before they are hurt. There was said to be no money in India, and depositing savings was alleged to be a sheer impossibility. However, although—as I am glad to reflect, at my instance*—State grants were advisedly kept within narrow bounds, yet money has in general been forthcoming in such volume that in two provinces Registrars pronounce State grants to be henceforth superfluous. Wherever money has to be provided from outside, it is much better that it should come from friends of the movement, whether acting singly or in combination ; only I would advise them not to be in too great a hurry to dub their financing institution a " Central Bank." " Banking " it will not be called upon to do for some time ; and the failure of a " Central Bank " to fulfil its mission is apt to bring discredit on the movement. Only a brief time ago Herr Haas very reasonably explained the collapse of the first Neuwied Central Bank as having been the consequence of the bank—which was good in itself—being started too soon, before conditions were ripe for it. Private persons providing money for co-operative banks are in a position to look after their interests. They can make their own contracts. They are in a position to discriminate between cases a hundred times better than a State authority or a County Council committee can. They can accordingly introduce that elasticity which is absolutely necessary in dealing with credit, in respect of which every case wants to be judged on its own merits. But if private persons decide to make advances—gifts they should not be—they had better take care in the interest of the banks themselves which they wish to befriend not to make their assistance a " coal-and-blanket club " charity. That might secure them the goodwill—it may be the votes—

* See Lord Curzon's speech, as reported in Sir Thomas Raleigh's " Lord Curzon in India," p. 179.

of the people pampered, but it would infallibly spoil the bank and take away from it all its educational value.

The Lesson of it all.

Hard facts want to be looked in the face. A pilgrim cannot expect to obtain his pardon by walking on peas that have been boiled, though that may make his walking easier. It is sometimes a tough struggle for a bank to make good its position. That is not always absolutely indispensable. In many cases it may be obviated without the bank being any the worse. However, early struggles are most useful in teaching the principles of banking, and training men to business. They are never thrown away. "You have no idea," so Herr Mager, a public Inspector of Banks, addressed the last Congress of Co-operative Trade Societies—of the Union of which he is a vice-president, being otherwise in favour of State aid—"You, none of you, have an idea of the severe struggles that the older co-operative credit societies have had to pass through. But the result is that they are now thoroughly sound societies, which know the value of money; and we may make quite sure that they will not place any money which we may lend them in jeopardy." Better in any case that they should struggle and issue sound, self-reliant, thoroughly businesslike than that they should grow up like rank weeds under hothouse forcing—showy plants that will not stand a frost and that can bring no fruit to perfection. We see in Germany how such hothouse creations topple over like ninepins when trials come.

You cannot make Co-operation a different thing from what it is. In its proper place it is highly useful, and when sound it may always be depended upon. But you cannot ensure its benefits by simply giving a non-co-operative process a co-operative name. If you want to distribute State charity, call it by that name, and no one will be disappointed if it fails.

One may be thankful that the German societies con-

cerned, having had a taste of what State aid means, are resolutely bent upon getting away from it, and one may sincerely hope that in such effort they may succeed. The State has business of its own to look after, and it should confine itself to that. Co-operation can mean only one thing. It can only proceed from a man's self, and to a man's self it ought accordingly to be left. The man who realises his responsibility may, like Herr Mager's older societies, occasionally have something of a struggle to pass through—it is not really so very serious—but he may also after that be trusted with money with the assurance that he will not employ that money insecurely, because he fully realises that he himself would be the sufferer. That will make subsequent business so much the easier. And that is the condition which we must have fulfilled if we would practise credit.

NOTE.—While these sheets are passing through the press I receive the statistics for 31st December, 1908, of the "Hauptverband deutscher gewerblicher Genossenschaften," a union of co-operative societies formed specially for tradesmen and artisans.

This Union comprised at the date named 705 societies in all, of which number 335 were credit societies. Of 304 such societies furnishing returns, with collectively 65,219 members, 288 were formed under limited liability, with shares ranging from 5*s.* to £300, and involving liability rising from 10*s.* to £400. The total share capital is returned as 12,575,464 marks, to which have to be added 4,477,902 marks of reserve funds. Add to this 85,800,526 marks savings deposits, 4,825,787 marks balances on drawing accounts, 10,647,036 marks balances on current accounts (cash credits), 4,341,223 marks cash at other banks, and 2,372,413 marks mortgage loans, and the working capital of the banks is brought up to 125,040,351 marks. The discounts granted in 1908 amounted to 128,503,066 marks. Of the 304 banks 290 declare a net profit of 1,415,700 marks, and twelve a loss of 119,096 marks. In addition there were sixteen Central Banks, apparently without shares, but with accepted liability amounting for fifteen sending in returns to 13,091,000 marks. The turnover of fifteen Central Banks sending in returns amounted in 1908 to 455,726,159 marks (counting both sides).

CHAPTER X

CO-OPERATIVE CREDIT IN AUSTRIA AND HUNGARY

AUSTRIA and Hungary are distinct countries, peopled by different races, with different customs, different traditions, different aspirations. However, Nature has placed them in such close juxtaposition, and History has brought them into such close correlation, that whatever is done in one country cannot long remain without direct effect upon the other. Austria.

I propose, of course, to deal with the two separately, in alphabetical order.

When Schulze and Raiffeisen began their propagandist work, Austria still formed part of that Germany, the unity of which—*une et indivisible*, it was to have been, as in France—German patriots of the time resolutely insisted upon. Raiffeisen's work as yet sent no echoes across the Bohemian mountains—save that in Moravia an isolated offshoot, of the existence of which nobody not directly concerned appears to have had any inkling, was planted in the early sixties as an early outpost. But Schulze's message soon procured for its sender active disciples among the industrial population, more particularly of the whilom kingdom of Bohemia, that is, in Bohemia, Moravia, and Silesia, where factories are busy and business is understood. Credit associations of the genuine Schulze type sprang up spontaneously, and gladly took their places in the Union that Schulze had meanwhile formed at Weimar. The seven weeks' war came, and at its close separation as between Judah and

Israel. However, the Austrians, under their leader Ziller, remained true to the German union until 1872, when on practical grounds it was judged advisable to form a distinct union of Austrian societies speaking the German tongue, which union has until the present day continued a faithful replica of the German, and in constant close intercourse with its twin sister.

Its peculiar Difficulties.

Unfortunately Providence, when it determined that there should be an Austria—or rather a federation of countries under the Hapsburg Crown—also decreed that it should be a veritable Babel of races and tongues inextricably intermingled. And curiously intermingled as they are, bound to come into daily contact with one another, these several races spurn one another like Jews and Samaritans. Whatever good comes to the nation must be cut up into so many fragments, one for each race, in order that there may be no contamination.

Such state of things is very naturally reflected in the country's co-operation. Statistics are in Austria slow in finding their way into publicity. By favour of the Imperial Statistical Office I am enabled to quote some figures extracted for the purpose from the proofs of the forthcoming volume, which show that on 1st January, 1905—that is the date to which they go down—there were, west of the river Leitha, in all, 6,977 registered co-operative credit societies—and presumably some more unregistered. Of the 6,977, 3,306 were German, 1,918 Czech, 878 Polish, 242 Italian, 223 Ruthenian, 220 Slovenian, 100 Roumanian, and 90 Serbo-Croatian—not taking any notice here of sundry intermediate shades, such as German-Polish, Slavo-Italian, and the like. That almost takes away one's breath. And it means a terrible frittering away of power, for none of the federations —there were eleven in 1902, with twenty-five Central Banks—have any dealings with one another, even of a purely business character.

Along with considerable inconvenience, however, this division also has its distinct advantages. It has brought about rivalry in good work, emulation, and accordingly —at any rate, among non-Germans, who for a long time suffered, as they thought, under German domination— earnestness and strenuousness. But it has also proved an insurmountable hindrance to co-operation on a large scale. It has bred loose organisation, practices as lax in some instances as they are bewildering by their number and diversity, and a rather hopeless confusion of figures.

The societies are, of course, all governed by the same law, which is very like the German, but with this noteworthy difference, that it allows limited liability since as long ago as 1873, whereas in Germany (barring Bavaria, where, however, the power given in 1870 to form limited liability societies was promptly withdrawn in 1873) the law did not sanction such until 1889. The consequence is that limited liability—which in this application I judge decidely preferable — is much more largely practised in Austria than in Germany. In 1908 there were in Austria, in all, 9,316 co-operative credit societies, of which 2,140 had limited and 7,115 unlimited liability (sixty-one societies being unregistered). Deduct from the said 7,115 unlimited liability societies the 6,575 Raiffeisen societies—which, of course, have all of them unlimited liability—and there are only 540 credit societies left with unlimited liability (to 2,140 with limited), the majority of which appear to be Czech, and to be met with in Bohemia and Moravia. Even this section of unlimited liability societies promises to be considerably reduced ; for the Czechs report themselves anxious, as soon as the law will permit conversion without previous liquidation, to adopt the limited form of responsibility. As it happens, it is just in Bohemia, Moravia and Silesia that limited liability is most largely

represented among German Schulze-Delitzsch credit societies, whose number is recruited from those territories to the extent of two-fifths of the entire Union. The above quoted figure of 9,316 co-operative credit societies owes its magnitude in a great measure to the comparatively recent acclimatisation of the Raiffeisen system and its somewhat excessive coddling by the public authorities, both of the Empire and of the various "countries," which has very naturally led to a rapid increase of societies, not in every instance accompanied by a retention of an ideal character. The first Raiffeisen societies in Austria were formed, to a great extent, by the exertions of the Diet of that territory, in the metropolitan territory of Lower Austria. The praise of the German Raiffeisen banks had been so loudly and so persistently sung in the Diet that the local Government felt it to be its duty to send two experts into Rhineland to see what Raiffeisen banks were really like and report upon them. The experts came home delighted with what they had seen and the Diet accordingly forthwith resolved upon acclimatising this form of society in their territory, supporting it by substantial grants of money and other favours—to save "the infant thrown into the raging sea," as Dr. Ertl has put it, pleading for his Department, "the dangerous struggle of battling with surging waves and subterranean mines"—which, as it happens, have in no other country been found to show themselves a danger to rising co-operation. The support given in money has subsequently turned out to have been altogether superfluous, since the banks collect, easily enough, more than they want from their own members in deposits. From Lower Austria the bank soon found their way, first into Styria, the *Landesausschuss* of which had likewise despatched an officer into Germany, in 1887, to inquire into the merits of Raiffeisen banks; and next into Upper Austria, the

Tyrol, and so on, so that at the present time there is not a territory—not even the quite recently acquired whilom Turkish provinces of Bosnia and Herzegovina—in which there are not duly organised, federated, subventioned and supervised Raiffeisen banks, which take deposits, deal out loans, and, in addition, exercise, to the great benefit of the rural population, those powers which the Treasury in 1908 very unreasonably denied to us, of collective purchase of goods for resale to members. Thus it comes about that of the 9,316 credit societies registered in Cisleithania in 1908, as has been stated, as many as 6,575, that is 70.5 per cent. of the entire number, and 92.4 of the number of credit societies with unlimited liability, are of the Raiffeisen type, leaving only 2,741 to the Schulze-Delitzsch system. That is the difference in numbers ; but in respect of membership, share capital, and business done, the division follows altogether different lines. The Schulze-Delitzsch societies have, society for society, many more members, much larger share capital, and do an incomparably larger business. There are no recent statistics on this point. However, the official statistics show that in 1902, when the Schulze-Delitzsch societies numbered 2,227 (593 limited, 1,634 unlimited) and the Raiffeisen societies 3,880, the former possessed 1,165,394 members to the latters' 385,405, the average number per society being severally 556 and nearly 100 (comparing with 613 and ninety-one or ninety-two in Germany), severally 109,547,954 and 5,333,100 crowns * share capital, 65,502,289 and 3,486,883 crowns reserve funds, 1,122,264,642 and 235,446,239 crowns deposits, 10,477,817 and 18,282,841 crowns other loan capital, 1,099,034,985 and 86,793,247 crowns lent out during the year. Such marked difference must not be

* The Austrian (and Hungarian) crown is about equal to 10*d.* of our money.

set down to the prejudice of the Raiffeisen societies, which were deliberately intended to be small parish societies, operating with only a very limited share capital—since under the law share capital there must be; Raiffeisen would rather have done without—doing a small business. Against Schulze societies, on the other hand, it may, I think, be objected that they do a tolerably large business with non-members. That, of course, helps to produce "business" and a good balance-sheet. But it is not co-operative, and indeed opposed to the object of the banks.

There are no complete figures to compare with those just quoted of a more recent date. However, for 1907 398 Schulze-Delitzsch societies of the *Allgemeiner Verband* (the Union of German Schulze-Delitzsch societies in Austria) report 177,378 members, 39,252,314 crowns share capital, 17,574,950 crowns reserve funds, 336,155,365 crowns deposits, and 525,613,329 crowns credits granted, against which figures I am in a position to quote the collective data for Raiffeisen banks only for the year 1906, viz., 5,352 societies, 664,908 members, 9,732,367 crowns share capital, 8,996,909 crowns reserve funds, 488,133,561 crowns deposits, 354,312,826 crowns advances made, and 948,243,648 crowns total business. It will be seen that in the interval of four years the Raiffeisen societies had made considerable headway, more particularly in the collection of deposits.

For the Schulze-Delitzsch credit societies of Austria the German Union—which, like its sister union in Germany, calls itself *Allgemeiner Verband*, and which has its headquarters in Vienna—may be regarded as typical. It embraces, according to the figures given for 1908, 414 credit societies (there are 309 co-operative societies of other forms), as many as 253 limited liability and

only 161 unlimited liability societies. Of these, once more, 398 report, in round figures, 525,000,000 crowns of credit granted in the year, 366,000,000 crowns remaining outstanding. Their total working funds are given as 460,000,000 crowns, of which amount 87.63 per cent. stand for loan capital. The profits netted are returned as 3,600,000 crowns; the losses sustained as 3,000,000 crowns, which is 17 crowns per member (considerably more than in Germany), on 26,600,000 crowns gross profits. There is a great deal of good, sound Schulze-Delitzsch banking in Austria, and the non-German races are certainly not wanting in energy in practising it. But among some of the latter races there is also not a little hybrid, relaxed, nondescript practice, which, among the Poles—or rather the Jews—of Galicia is understood to amount to absolute usury.

The Schulze-Delitzsch societies are in the main so much of a piece with those of Germany that really not much more need be said about them. So far as the number of the societies goes, their main strength lies in the Slav and semi-Slav territories of Galicia (727 societies in 1902), Bohemia (544), and Moravia (413). No other territory comes near that. Even Lower Austria, the metropolitan territory, numbered in 1902 only 179 societies. One rather noteworthy difference, as compared with the German societies, appears to call for notice, namely, that the Austrian societies are far more conciliatory towards their supposed competitors of the Raiffeisen school—so much so that the *Allgemeiner Verband* has actually admitted several Raiffeisen societies into its Union.

Next, it appears—though I have no statistics of occupations to quote from—that the agricultural element is rather more strongly represented in the Austrian societies than in the German, which is probably to be accounted for by the fact that Austrian agriculturists

realised the necessity of credit before the Raiffeisen societies came into the field, when there were only Schulze-Delitzsch societies to go to. A fair amount of credit was indeed at the time provided in some districts—more particularly in Bohemia, Moravia, and Silesia—by public institutions. On the other hand, oddly, the Raiffeisen societies, which were intended for rural communities only, have in the territories just named gained a considerable footing among industrial populations, where, all things considered, they appear to be working fairly well. This is mainly among Czechs. Otherwise it may in general be said that Schulze-Delitzsch co-operation is practised most in the wealthy and industrially busy parts of the Empire, whereas Raiffeisen co-operation has fastened by preference—at any rate, at the outset, until pressed upon people by Government influence—upon the poorer and more sparsely peopled districts. Somehow, although perfectly neutral in design, Schulze-Delitzsch co-operation appears to generate Liberal opinions, whereas Raiffeisen co-operation pays due homage to the powers that be, whether of Government or of the "big house," or else of the Church—which is, of course, one reason why it is so much officially favoured.

The prevalence of limited liability among the Schulze-Delitzsch societies in Austria favours observation as to the differences which in course of time have become apparent as between the two kinds of liability. In contrast with what has been noticed in Germany, in Austria limited liability appears in general to make for large share capital. Thus in 1908 237 of the registered limited liability societies, numbering 113,269 members, had 29,707,658 crowns share capital, to only 9,544,656 crowns held by 161 unlimited liability societies with 64,109 members, which means in the first case 262 crowns per member, and in the second not quite 149 crowns. That is all as it should be. For the security

of the bank's "capital of guarantee"—being (considerably) less, the defect has necessarily to be made up for by a heavier liability. However, under the head of reserves the 161 unlimited liability societies show 9,711,525 crowns to only 8,014,555 crowns of the 237 limited; and under the head of deposits 187,214,220 crowns to only 148,941,145 crowns. This is, once more, perfectly natural. For members bound in unlimited liability are everywhere found reasonably anxious to ward off danger by interposing a solid wall of reserve; and, on the other hand, the security offered by unlimited liability societies attracts larger deposits. This tells in two ways. We find the unlimited liability societies, which are largely trusted by the public, contracting debts up to nearly twelve times (the precise proportion is 11.8) the amount of their own capital (shares and reserve funds), whereas limited liability societies keep to the safe proportion of one capital of their own and six borrowed. But when it comes to business done, the limited liability societies appear once more greatly in advance. They show (237 banks) 384,826,107 crowns business done, at the rate of 3,397 crowns per member, to only 140,777,322 crowns—that is, at the rate of 2,196 crowns per member—done by the 161 unlimited. There are several explanations of this, which ought to make one cautious in drawing a definite conclusion from the figures given. In the first place, it is likely that the limited liability societies, which rely to the extent of more than 63 per cent. of their business on personal security, do a larger amount of business with non-members; in the second, the business of the Vienna societies, which bulks very large among the limited liability banks, is known to be to a considerable extent made up of advances on book debts, which are in Germany considered rather inconvenient security. Otherwise the credit given on personal security tells

decidedly in favour of limited liability societies, seeing to what questionably large proportions—61 per cent. of all advances—mortgage credit has grown among unlimited liability societies—in utter disregard of Lord Sydenham's well-known rule.

The Austrian *Allgemeiner Verband*—the German Schulze-Delitzsch Union—is organised precisely like the German, but it has only seven sub-unions, only four of which are composed of credit associations. Within the Union the two forms of Co-operation, credit and distribution, are kept distinct. For balancing and rediscounting purposes the *Allgemeiner Verband* has, since 1897, a working arrangement with a business bank at Vienna, which does such business for it. Under this arrangement the *Allgemeiner Verband* nominates two members to the Board of the bank referred to. With the help of such an institution to fall back upon, the societies of the *Allgemeiner Verband* have been able to maintain much the same rate of interest as their German sister banks, namely, $3\frac{1}{2}$ to 4 per cent. for deposits, and 4 to 6 per cent. for advances. Only in the Bukovina, where money is scarce, has the rate for deposits been kept up at 6 to 7 per cent., and that for loans at 10 to 12 per cent.

The non-German societies show, as has been observed, in some cases most laudable activity and sound organisation. This applies more particularly to the Czech societies of the three territories already named. Some of the other races are not equally particular in the matter of sound practice. Great liberties are here and there taken with the system, and the consequences are, besides a further addition to the confusion which is already great, questionable business and unsatisfactory results. Apart from the Czech societies, which have their home in the whilom kingdom of "the holy crown of St. Wenceslaus"

—the hero of our Christmas carol—a word of praise seems due to the Slovenian, whose district extends over Styria, Carniola, Carinthia, and the Coast country. The worst banking of this sort is probably to be met with in Galicia, where co-operative banks are understood to be not unfrequently abused for purposes of usury. The very large sum of credits raised in 1902 by 638 out of the 727 Galician credit societies, namely, 269,539,649 crowns (being more than one-fourth of the entire amount of credits raised by 2,082 reporting societies, and that, not in an industrial, but in an agricultural country), and the high rates of interest returned for Galicia, viz., nothing under $5\frac{3}{4}$ per cent. and not a little at $7\frac{1}{2}$ per cent., seem to lend colour to this supposition. Among German societies the rate of interest fluctuates between $4\frac{1}{2}$ and $5\frac{1}{2}$ per cent., and there is nothing above $5\frac{1}{2}$ per cent. Among Czech societies the rate is mainly 5 per cent., fluctuating between $4\frac{1}{2}$ and $5\frac{1}{2}$ per cent. The Galician societies, as a rule, occupy large districts, extending over 80 to 120 parishes. And, generally speaking, the desire to do much business is written large upon all their doings. So is also Jewish management of the societies. Jews number full 11 per cent. of the population of Galicia. That is a good deal. But it does not nearly account for the large preponderance of Jews (50 per cent.) on the managing bodies. However, business is among Poles as a rule gladly left to Jews ; and the presence of so many Ruthenians, who are in the main poor and oppressively kept down, does not improve the situation. Of the 701 credit societies existing in 1905 as many as 434 were reported to be, if not altogether composed of Jews, at any rate, under Jewish management committees. Indeed there has been a purely Jewish union formed, and another mainly Jewish. It is an old trick of usurers, which has been practised in Germany and in Italy as well as in Austrian

Poland, to become members of co-operative banks in order to borrow money cheaply for the purpose of lending it out, outside the society, at high interest. One difficulty about reporting on these non-German societies is that in some of their unions the two forms of credit are advisedly combined; there are both Schulze-Delitzsch and Raiffeisen societies in the same union. Another difficulty is the number of quite irregularly formed societies existing. And a third is that there are unions and unions, employing the same language and working in the same district, but advisedly in separation from one another. Under such circumstances it is not easy to obtain correct statistics, such as are not given, classified according to races, in the official publications. But it will give some idea of the bulk of business done, if I state that in Bohemia, Moravia, and Silesia—there is one union for the three countries—there were in 1906 668 Czechish Schulze-Delitzsch societies, with a membership of 359,658 in 1905, probably more in 1906. Some of these societies have pawn departments attached to them. The collective share capital stood at 20,851,166 crowns, the average share being about 30 crowns. The reserve funds stood at 43,000,000 crowns. Of the 668 societies 624 returned the deposits received during the year (1905) at 208,969,181 crowns, the balance remaining at the end of the year at 582,316,820 crowns. The amount of advances made in the year was 374,661,800 crowns. Of this sum nearly 60 per cent. was lent on mortgage, which is of course not good, but probably excusable in view of the "good lying" character of the deposits and the pronounced racial patriotism peculiar to this union.

Army and Civil Service Credit Societies.

One peculiar institution which is much developed in Austria is credit banks for officers of the army and navy and civil servants, of which there were seventy-five registered in 1902. No special mention that one could

detach from other figures is made of their share capital or business ; but they are understood to give satisfaction to their members.

Raiffeisen Banks.

Austria has—the same as Hungary, and under very similar circumstances—taken most kindly to the Raiffeisen system ; but, once more like Hungary, only in a relaxed, in some instances really deteriorated form. The Raiffeisenism to be met with there is not the self-reliant, sturdy Raiffeisenism of Neuwied or Transylvania, but in the main a pampered, Government-protected, Government-subsidised form, with relaxed rules. The dominant note in it is State patronage. One is glad to see Raiffeisen credit established anywhere where it is needed. And it must be owned that there is in places a kind of justification for State initiative. Thus in Galicia —usury-ridden, Shylock-infested Galicia—Raiffeisenism would absolutely not take root until, in 1899, a "Patronage Department" was created by the local Government, endowed with 2,000,000 crowns of State money, for the purpose of financing Raiffeisen banks. After that the societies multiplied rapidly, so as to attain by the close of 1907 the respectable number of 668 with 134,902 members, 1,131,275 crowns of share capital, 904,451 crowns of reserve funds, 25,542,378 crowns of deposits in hand, and 25,201,712 crowns of advances outstanding. That is apart from some few independent Raiffeisen societies which have not subjected themselves to the *Patronatsbureau*. Official supervision had caused the societies to be pretty evenly distributed over the whole of the territory, and Government financing, being probably accepted practically as implying Government guarantee, had attracted much deposit money. But of course under such influence the banks fail to exhibit the principle and backbone of true Raiffeisen societies. This is apparent, among other things, from the fact that close upon 58 per cent. of their advances have been claimed

State Forcing.

and given for more or less permanent employment, which Raiffeisen principles do not really favour to that extent, such as the purchase of land.

State Aid in Money.

In other territories there is much less excuse for the State-coddling practised, and more particularly for the advances on preferential terms (as a rule 4,000 crowns at 3 per cent. for three years) and the free grant for formation expenses (500 crowns per society) allowed by local Diets as an encouragement. For the Austrian Raiffeisen societies are in the happy position, as the figures above quoted show, of having attracted more cash in deposit money than they require for loans; accordingly they might have raised all the money which they wanted for themselves. However, it has become an official tradition in Austria that Raiffeisen banks are wanted, and that the authorities cannot do too much to promote and favour them, since the existence of Raiffeisen banks is taken as a proof of rural well-being—which is much like applying rouge to a man's cheeks in order to give him an appearance of health. Accordingly executive officers are understood to have stimulated the creation of Raiffeisen banks as a step to promotion. However, not a few of the banks so created are known to be simply "Potemkin villages." The money lightly raised is lightly dealt out. And there is a reverse side to the medal. Professor Thiess, at the time of the Haas Union, has written that co-operators in Germany would scarcely be able to trust their senses were their own authorities—who in all conscience do quite enough in the way of spoon-feeding and superintending—to presume to apply the same amount of interference as do the Austrian. The Government, or else the Diet, has a hand in everything. It forms and endows Central Banks—and directs them. It draws up the bank rules. It makes the Raiffeisen banks—the Schulze-Delitzsch societies have in this respect preserved their free-

dom—come to them for the biennial inspection which the law of 1903 (being copied from the German) makes obligatory. It is all leading-strings, which is bound to keep its victims leading-string infants without permitting them to acquire the qualities of manhood, however portly they may become. Not in any country, so Dr. Ertl, of the Austrian Agricultural Ministry, has reported to the International Co-operative Alliance, has so much been done for Co-operation by the State as in Austria. Yes, but the coddling has left its mark upon the societies. In respect of governing provisions the Austrian Raiffeisen societies are, as Professor Thiess has pointed out, copies rather of the Darmstadt societies than of the Neuwied. They are grouped in independent territorial unions, allowed larger districts, made to pay dividend on shares, and to curtail the periods for loans. The societies began with shares rather larger than those usual in Germany, but have now generally come down to 10 or 15 crowns.

Raiffeisen Banks as Savings Banks.

The ample inflow of deposits is unquestionably an encouraging sign. Probably, as observed, Government patronage is largely answerable for this. It does not, however, follow, that because more is taken than is claimed, further credit is not wanted. It is quite as likely that the good people who deposit and do not borrow are not yet aware how much good they might do to themselves by employing more money on their farms. One explanation of this happy development of thrift is admitted to be that there was a want of rural savings banks. There are admirable savings banks in towns—the one in Vienna is the largest in the world. But the country districts were insufficiently provi ed with them. Judged from this point of view the Raiffeisen banks supplied a real want. And they are in a position to allow a fair rate of interest—3 to 4 per cent. On the other hand Austria is tolerably well equipped with public

institutions dealing out money in credits. Thus there are the *Bezirksvorschusskassen* of Bohemia, the capital of which, before they were converted into local credit banks, with compulsory membership of the residents in the parish, were ascertained to hold 18,000,000 crowns of money. They were originally a creation of Joseph II., recalling another Joseph's grain stores, similar to the Spanish pósitos, endowed with corn or money in view of possible years of dearth. There are also other funds —*Contributionsfonds*, *Jubilaeumsfonds*, and the like—all of them instituted to be employed for the relief of the smaller cultivators, who under the circumstances were not overbadly looked after at the outset.

A Raiffeisen Union.

By 1897 the Austrian Raiffeisen banks had become so considerable a force that the time was held to have arrived for annual musters. The first Raiffeisen Congress was accordingly called to meet at Vienna. In that year also the agricultural co-operators in the country, with the countenance and direct assistance of the Government, ventured upon a new departure, gathering their territorial associations together into one large Imperial Union, which, formed in imitation of the German *Reichsverband*, then still known as the *Allgemeiner Verband landwirtschaftlicher Genossenschaften*, adopted the latter name with the prefix of "Austrian." Austrian agriculture has already derived much benefit from such union of forces, for which a capable and devoted chief has been found in the person of Baron von Stoerck. Only one regrets to see the help and interference of the State so very much in evidence. The *Verband*, which unites within it all forms of co-operation applied to agriculture, of course also includes agricultural credit, all of the adapted Raiffeisen type. In one respect it is more comprehensive than the Schulze-Delitzsch *Allgemeiner Verband*, inasmuch as it embraces, as sub-unions, unions of agricultural co-operative societies of

all races and languages — Czech, Italian, Slovenian, Roumanian and Ruthenian, as well as German—which it found ready organised in nineteen local unions. Each of these nineteen has its own Central Bank. The membership of the Central Banks collectively is made up of 4,151 local credit societies, apart from 988 other co-operative societies entitled, as in Germany, to credit. The collective share capital stood, at the close of 1606, at 815,746, crowns, the deposits reached the respectable sum of 108,749,363 crowns, against which the outstanding credits amounted to only 47,193,114 crowns. The local banks belonging to these unions numbered at the same time 471,993 members ; their collective share capital was 8,101,972 crowns, their reserve funds were 7,450,583 crowns, their deposits 413,846,140 crowns, and their outstanding credits 293,808,028 crowns. Here is once more a notable excess of deposits over advances. The same feature is, in fact, to be met with all over "happy" Austria. It presents itself in the same way in the local and Central Banks of the Raiffeisen type, which are not attached to the *Verband* of Baron Stoerck. There are 1,119 such banks, with 192,915 members, 1,630,395 crowns share capital, 1,546,326 crowns reserve funds, 74,287,241 crowns deposits, and 60,504,797 crowns outstanding advances. These are mainly Polish, in Galicia (two unions) ; Czech in Moravia and Silesia ; Slovenian in Carinthia ; and Italian in Trieste and Istria. Most of these, that is, 1,035 societies, are joined together in five unions, each having its own Central Bank, severally at Lemberg, Bruenn, Klagenfurt, Trieste, and Parenzo, with 28,390 crowns share capital, 13,291,099 crowns deposits, and only 8,691,933 crowns outstanding credits. In all, therefore, Austria had at the close of 1906, 664,908 persons grouped together in Raiffeisen banks, disposing,

in Central and local banks between them, of 10,566,503 crowns of share capital, with 8,996,900 crowns reserve funds, 610,173,993 crowns deposits, and 410,198,473 crowns outstanding in advances for the benefit of agriculture. Some of the items are sure to be counted twice over, namely, a portion—probably only a small one—of the credits, and probably more of the deposits, part having been handed over to Central Banks. But with our "nil" to pit against all this, it is quite enough, even so, to make any British agriculturist's mouth water. The only point calculated to cause regretful reflection is that so much of all this is artificially produced, constructed as a lean-to shed rather than as a well-foundationed house qualified to stand by itself, and that in consequence of this there is so much laxity of principle and interference from without to deface it, such as cannot fail to deprive it of the necessary nerve and backbone, which make for educational efficiency and permanence. The ancient Romans used to say—

Rustica gens
Optima flens,
Pessima ridens.

Modern Governments take care to make their rural population smile, knowing that in exchange for this they will receive a return in the shape of valuable support, strengthening the Executive, but not in every instance benefiting the other producing interests.

Hungary.

Notwithstanding Dr. Ertl's proud—and possibly officially interested—boast on behalf of his own Government as the most generous promoter of agricultural co-operation—at the taxpayer's expense—it appears to me that in proportion even more has been done in this direction in Hungary — mainly, perhaps, by the territorial magnates, although the State has helped not a little.

State Patronage.

The fact strikes one at first glance. For in Hungary —excepting, of course, the territory of Croato-

Slavonia (which its inhabitants claim to have considered as an independent kingdom), and that 1 per cent. of the total population which in Transylvania calls itself "Saxon"—Co-operation, such as it is, presents itself as sharply divided into two camps: the host affiliated to the Central Credit Institution, founded by that genuine patriot and philanthropist, the late Count Alexander Károlyi, and the "independent" societies. And although numerically not much superior to its rivals, the Union created by Count Károlyi, with much help from the State, by reason of its potential wealth, its union and ordered organisation, predominates in prestige and "holds the field." The other camp contains some excellent, self-relying institutions. The Raiffeisen Union of Transylvania represents pure Raiffeisenism; so does the Croato-Slavonian Union, with an admirable record. So do, on a smaller scale, the two little "Servian" Unions of Zagreb and Ragusa. And some of the Schulze-Delitzsch societies of the "independent" group have rendered, proportionally to their number, considerably more substantial services of purely co-operative work than Count Károlyi's legions. However, barring the three Slav and the Hermannstadt Unions named, there is on their side a want of uniformity and union, of common aim and common action, which in itself must go far to mar their work, even had not faulty organisation and practice led to actual failures.

Present Strength of Co-operation.

Counting for the nonce Croatia and Slavonia, with 681 co-operative associations, as part of Hungary, the kingdom of "the Crown of St. Stephen" numbered in 1904—which is the last date for which trustworthy statistics are obtainable—4,981 co-operative associations, of which number 3,088 were credit societies. From data to be picked up here and there in the last official Statistical Year-Book, of 1909, it appears

that there were at the date of its being written 3,467 co-operative credit societies, which marks a moderate but not by any means contemptible advance upon 1904, but on the other hand nearly a trebling of the number of such societies within the preceding ten years, that is, the ten years during which Count Károlyi's Central Institution was at work. For in 1898 there were only 1,186. The 3,467 societies among them had 468,764,000 crowns outstanding in credits, for the most part secured by simple bond. Of the 3,088 societies returned in 1904 more than half, that is, 1,574, styled themselves Raiffeisen banks, being affiliated to Count Károlyi's Central Institution, leaving 1,514 as "independent" societies.

The figures having been stated, let us now cast a hurried glance at the history of Hungarian co-operative credit.

History of Hungarian Co-operation.

Co-operative credit of a certain sort—really of the friendly society type—is in Hungary more or less coëtaneous with German. There was a "Thrift and Help Society" for artisans formed in 1851. Others followed in 1854 and 1857. After that multiplication went on more rapidly, until about 1870 the country was invaded by "large-scale" manufacture, which oppressed the hand-working artisan. His need, under the circumstances, of course, called for all the larger assistance with credit, at the same time that his dwindling resources rendered such assistance all the more difficult. A central institution created some years after succumbed to want of support after a short life. At that point the State felt itself called upon to intervene. Its assistance with countenance and money dates from 1891. In helping it had the wisdom, unlike the Prussian Government, to favour societies for distinct callings only for common purchase, work, sale, but for purposes of credit to insist

upon a free blending of callings, so as to supply the broadest possible foundation. By 1894, thanks to such favouring, no fewer than 752 credit societies of this kind had been formed—the majority (627) with limited, only 125 with unlimited liability. Of that number 648 were credit societies and nothing more; in the remainder various services were combined. Since 1898 such societies are placed under the protection of the National Central Credit Institution already mentioned.

All this was friendly society co-operation. Genuine co-operation, as we understand it, confessedly came into Hungary from Germany. Some few pioneer societies of the Schulze-Delitzsch type were formed in various parts of the kingdom in the sixties—seven, with 4,225 members, in Transylvania (among the "Saxons"); others in Raab, and Fünfkirchen, and subsequently in Komorn and Pressburg. Those early societies began rather heterodoxly, not with shares, but with weekly or monthly payments. That method of raising capital has been retained to the present day. In not a few "independent" societies the share capital is raised in "cycles" or "series," one starting each year, in which novice members pay up gradually what after four or six years' continuance becomes converted into real shares. In this way the "independent" Schulze-Delitzsch societies have been built up, generally speaking, strong in capital, but not a few fated to come to grief for want of good management and owing to reckless lending and usury, more especially during the financial crisis of 1907. Such occurrences necessarily deterred new members. Not a few, however, although discarding the German tradition of unlimited liability, proved themselves faithful and useful pupils of their German master in general practice, if not in all points of detail. A nucleus of a union was formed in 1900; but it never numbered more than fifty-one societies; and although it did

Independent Schulze-Delitzsch Societies.

good work in forming a small Central Bank for the support of weak local banks, by the issue of a co-operative paper, and by the formation of a central institution which, like the German *Giroverband*, enables co-operative banks to trace and keep clear of fraudulent customers, at the present time it has ceased to exist in all but name. A return relating to 149 societies of this "independent" type, however, shows how useful these small banks have been. All but gratuitous services by their officers, and restrictions—in practice—of dividend to a maximum of 5 per cent., enable them to keep down working expenses, without thereby prejudicing good management. These 149 societies—which are all situated in the metropolitan county, having a collective share capital of 57,514,549 crowns, and only 19,500,000 crowns borrowed money—lent out in 1903 79,489,635 crowns, which seems to indicate that they are a little overcapitalised, but which compares well with the 86,870,000 crowns lent out, in all, in the same year, by 1,653 societies of Count Károlyi's "assisted" type. The 1,653 societies referred to possessed at the time a collective share capital of only 17,146,000 crowns (not being intended to possess much). In addition they held 21,190,955 crowns of deposits (savings), and had borrowed as much as 46,000,000 crowns from the richly-endowed National Central Credit Institution. This is by no means too much borrowed capital. Indeed, the small amount of loan money entering into either account shows to what small extent the Hungarian societies have thus far become "banks." They are rather loan societies. The 149 societies first referred to, so it will be seen, owned in 1902 a full third of the collective share capital of 2,085 societies registered, on which they show rather a substantial output.

Among Raiffeisen societies those of Transylvania

Raiffeisen Societies of Transylvania

indisputably deserve the palm for purity of principle and good practice. They have advisedly kept themselves distinct from all other co-operative organisations. Fidelity to Raiffeisen principle and sturdy German race patriotism have deterred them from throwing in their lot with societies of any other connection, even with the societies of Count Károlyi's Union, with which they are otherwise on friendly terms. The first little bank of this group was formed in 1885. Its veritable "father," as also the "father" of the whole rapidly increasing family of such banks, is Dr. Karl Wolff, who, as Director of the General Savings Bank of Hermannstadt, was able to place funds at their disposal, which might be borrowed without prejudice to principle, inasmuch as the entire transaction was of a purely business character, without the shadow of suspicion of a gift. By 1886 a sufficient number of such banks had been formed to justify the creation of a union. By October, 1909, their number had increased to 147, scattered over 140 villages —for in the main they are one-parish societies—and having 11,526 members. They are formed with share capital, which now amounts to 274,065 crowns, and with unlimited liability. By the date named their indivisible reserve funds had grown to 538,170 crowns, and they had amassed 6,446,355 crowns of savings deposits, which is a good record. With such means they were enabled to lend out over 8,200,000 crowns in the year and net a clear profit of 117,756 crowns. One most commendable feature about these humble institutions is the strictness of the control which they exercise. The societies are inspected from headquarters at least twice a year. So well trained have members become to account-keeping that in most of the societies the services of schoolmasters as cashiers and secretaries—which are otherwise greatly in request—can be dispensed with, and the work is supplied by simple peasants.

Croatia and Slavonia.

Equally pure Raiffeisenism has found its way into Croatia, the home of the historically most interesting *zadruga*, the ancient *antimurale cristianitatis*, whose fate it appears to be, under the ruling of Providence, to live in a continuous state of defensive warfare, from the earliest beginnings of its existence downwards. For centuries it bore the brunt of the battle against the intruding Turks. And now its sword seems, figuratively speaking, never in its sheath in its defence against the Magyars, whom it likewise looks upon as intruders and oppressors. Anything like blending of its own institutions with those of Hungary proper accordingly is wholly out of the question. It is enough to have to tolerate a Hungaro-Croatian Parliament, in which Croatia finds itself in a minority. Nowhere were Raiffeisen banks more urgently wanted than in Croatia. Banks of other types would not have served the same purpose. And fortunately there was a maternally-minded Church to hold its shield protectingly over its faithful children, at the point where Orientalism and Occidentalism meet, and at which accordingly children are of value to a church. The first "Catholic" Congress held in Croatia, in 1900, resolved that there should be a Central Bank. It was not thought to be practicable to begin on other lines. That bank was formed in 1902. Its declared object was to form Raiffeisen societies of the genuine Neuwied type—with small districts, unlimited liability, small shares (the mean figure is *7s. 6d.*), no dividend and an indivisible reserve fund. Under such stimulation something like 250 or 300 local societies have been formed. I have no later figures than those for 1906, which show 214 in existence with 33,329 members. Of this Union only 145 societies, with collectively about 20,000 members, are affiliated to the Central Bank. The societies hold property in land (353,105 acres) representing a value of £3,416,666,* or, including buildings

* All these figures were given to me in English money.

and live and dead stock, £4,083,333. That I suppose to be a tradition handed down from the *zadrugas*. Their share capital stood in 1906 at £13,629, with £10,590 reserve funds, and £67,911 deposited by members (savings). They had lent out to members £373,094, £359,939 of which had come from the Central Bank. Of the amount stated £3,111,739 was secured by acceptances.

"Servian" Societies.

The "Servian" societies of Croatia likewise practise pretty pure Raiffeisenism. The first of these was formed at Kamenica in 1897. At the close of 1908 their number stood at 283, with 9,082 members (8,161 being genuine peasants). Their collective assets amounted to 68,472,000, and their liabilities to 6,415,455 crowns. Of the members 260 had been ascertained to possess no property at all, 4,684 property under 5,000 crowns (about £200), and only 87 more than 50,000 crowns. Close upon 30 per cent. were illiterate. The loans outstanding to their credit at the close of 1908 figured at 2,445,965 crowns. Of the 12,960 advances made, 2,824 were under 50 crowns, 3,649 from 50 to 100 crowns, 3,702 from 100 to 200, and only 188 above 1,000 crowns. Among the objects for which advances had been asked, purchases of draught cattle bulked largest by far; next, purchases of breeding stock, feeding-stuffs, machinery, seeds, in the order named. One hundred and four of these societies held and cultivated 45,109 acres of land in common.

So much for the several outliers.

Count Károlyi's Union.

The main interest among Hungarian co-operative credit institutions, however, unquestionably attaches to the societies formed under the influence of the late Count Károlyi's movement, which culminated, in 1898, in the formation of a large National Central Credit Institution, for which a number of territorial magnates provided the bulk of the money—three millions of crowns to begin with—and the State another million, purchasing for

itself thereby, in addition to the privilege of minute supervision in all things, the right of nominating the President, two Vice-Presidents and two other members of the Board which administers affairs. The King contributed 50,000 crowns from his own privy purse. The taking up of the shares mentioned must not be understood as exhausting the benefactions of the State, for the Minister of Agriculture dispenses further grants. And the State has placed a credit of some millions at the disposal of the Institution, besides authorising the issue of debentures, recognised as marketable security, of an amount equal to that of the promissory notes held, and providing the guarantee fund of 3,000,000 crowns required as a security for such issue, and in fine—not to speak of very valuable privileges conceded, such as priority of claim in recovering debts, and recovery by summary process, in addition to exemption from sundry duties and fees—free disposal of the interest due to itself in respect of its shares and guarantee capital provided (should that prove necessary) for the benefit of the Institution, and in case of need public money to the extent of 100,000 crowns a year, to make up any deficit. These are valuable concessions indeed, after the enumeration of which one feels inclined to ask : Where does Co-operation come in? However, even beyond this, public authorities have been prevailed upon to deposit substantial sums of money with the Credit Institution, so that in very truth that organisation has become what Professor Horváth expressly calls it, " the great reservoir (*das grosse Sammelbecken*) for co-operative societies, from which money is sent out into all parts of the country . . . and from which members of co-operative societies are enabled to satisfy their requirements of credit."

"*C'est magnifique, mais ce n'est pas de la co-opération.*"

There is no need to enter at length into the history of this Institution, of which the considerable number of local banks created by it are in truth only parasite excrescences, drawing their sustenance from its sap. Nobody who has had the privilege of knowing the late Count Károlyi can be in the slightest doubt as to the absolute purity and benevolence of his intentions. He sacrificed his life to the realisation of his humane idea, and he had the satisfaction of seeing his scheme triumphant in the very teeth of the adverse opinion with which it was at first greeted both by the authorities of the State and by Hungarian society. Both ended by becoming really too kind to the institution which he had created, and so going far towards spoiling the child which they meant to befriend.

Its History.

Count Károlyi began on a small scale. His first venture in centralisation was the formation of a central society for the county of Pest alone, which in due course became absorbed by the larger body. Avowedly, when he set his hand to the creation of the latter, it was his intention to follow the model of the Prussian State bank, which was formed in 1895. Only he wanted to go considerably further. He would not only fix "a head" upon an already existent organisation, but create such organisation afresh; and he would not only assist by credit but by every means that could be resorted to by combined action. His scheme accordingly proved rather prophetic of what was going to be done some years later in France, than imitative of what had already been accomplished in Prussia. His institution was to become, not "the head" of Co-operation—mainly agricultural—but the very fundament upon which all should rest, the root-stock, sending out shoots and plantlets in all directions and covering the desert with a richly productive crop. Unlike the Prussian Central Bank, he did not by any means abstain from interference in the

internal affairs of the local societies, but on the contrary advisedly made his central institution their mistress in respect of all vital points, holding them tightly in leading-strings. Not only did he compel them, in return for the patronage and assistance in money received, to advertise the central institution, making "member of the National Central Co-operative Society" an integral part of their title, but also stipulated for the right of nominating one member of the executive and one of the inspecting and auditing body of every society, and in conclusion the right to wind up the society of his own motion if it should be shown that it had lost half its original share capital—which is a contingency not at all unlikely to occur. That goes beyond even the interference of the Ministry of Agriculture in France, and makes of the so-called local societies mere distributing stations of the Central Bank. The result is not Co-operation, but action under orders.

The "National Central Credit Society."

The "National Central Co-operative Society for Credit" so created cannot be otherwise described than as an institution owned and directed by great territorial magnates in partnership with the State and with the active countenance of the Church. So far as the territorial magnates are concerned there is no suggestion of unkind, self-seeking action in this. There can be little doubt that the Hungarian magnates are actuated by as purely patriotic motives as are to be met with anywhere. It should be remembered to their credit that they emancipated their serfs freely, without compensation. Hungary is a backward country, and probably no other scheme would have proved effective at the time. The peasantry, who come mainly into account —constituting as they do nearly 70 per cent. of the population—could scarcely have organised anything of the sort for themselves. They still look upon the magnates as their natural leaders, and gladly

follow and obey them while they show themselves kindly disposed. The idea was that of a great magnate, supported by other magnates ; the money provided was theirs. However, please God, this is not to continue so until the Day of Judgment. The Hungarians pride themselves upon having extorted their own Magna Charta much about the same time that our barons extorted ours. But we have not stood still at Magna Charta. The main object of Co-operation is not to put a little money into people's pockets for a limited time, but, in Mr. Gladstone's memorable words—and in the words also of all our British co-operators of any note—to " make men," by which is meant men acting on their own responsibility. Co-operation was intended to be an educating and emancipating force. There is no educating, much less any emancipating aim apparent in this Magyar " co-operation." Peasants and artisans are by it made beneficiaries, but not full " members." Whoever says " benefaction " thereby implies " a return." And such return is evidently to be subservience. That cannot be set up for a model to follow.

The formation of the Central Credit Institution necessitated a special law, to secure to the founders their right of management, to sanction the employment of State funds, and the potential charge on the Exchequer, and to confer rights of priority and power of collecting by summary process. Such law was passed in 1898. Under it members are divided into two categories—in the first place " founders," who provide the money in 1,000-crown shares, on which not more than 4 per cent. interest may be paid, who are to exercise the right of management, but must not borrow ; and " ordinary members," the selection of whom remains restricted to agricultural or industrial societies—not individuals—who are required to take up a 200-crown share in respect of every 6,000 crowns of share capital of their own, who

may receive advances, and who are liable for the liabilities of the Institution up to the fivefold value of the shares subscribed, whereas the "founders" are not liable beyond the actual value of their shares. The share capital, by the way, so it is understood, is eventually to be paid off; however, the realisation of that aim appears at present still in the dim and distant future. Special clauses provide for the "in-and-in" transfer of "founders'" shares, should death or a desire to transfer render any such available.

Its Effect.

The advent of this great Central Bank brought about a truly remarkable change in the development of "Co-operation." Under its stimulating influence "co-operative" societies, more particularly co-operative credit societies, sprang up apace and spread themselves out over half the surface of the land. At the close of 1908 they could be seen at work in no fewer than 6,000 parishes, which is very nearly half the number of parishes existing in Hungary. There were then 2,096 societies affiliated. This was mainly for the benefit of agriculture. For of the number named full 90 per cent. are nominally "agricultural," which does not imply that they are composed exclusively of agriculturists. For there is—to the credit of Hungarian Co-operation be it said—a good deal of blending of class interests in them. Thus in 1903 it was found that among 1,182 "agricultural" societies existing, there were only 108 composed exclusively of agriculturists. The remaining 1,074 included no fewer than 19,053 artisans and the like, holding among them 46,867 shares, of the collective value of 2,334,441 crowns. In addition there are some purely industrial societies—there were in 1908 78 credit societies of the sort, with about 17,000 members, in addition to 49 other societies, for the common purchase of raw material—which, being at the same time supported by the Government, draw their loan money from the Credit Institution.

Such industrial societies are, however, not permitted to borrow in excess of the fifteenfold value of their shares in the Central Institution. The membership of the 2,096 societies referred to figured at the time named at 551,514, the collective share capital at 50,641,902 crowns (31,839,810 crowns being paid up), with 5,976,000 crowns reserve funds, and 63,177,450 crowns on deposit (savings). With the help of 22,731,000 crowns issued in negotiable debentures, the Central Institution had been enabled to accommodate the local societies with 75,105,000 crowns, which went a good way towards providing the 166,880,000 crowns—that is, be it remembered, not the actual sum of money handled, because much of it must have come in and gone out again—which they themselves lent out in credits to their members. The " founders' " shares of the Central Institution represented then a value of 4,398,000 crowns. The amount of " ordinary " shares is not given, but it is stated that shares (of both descriptions), reserve funds, and deposits among them amounted to 91,800,000 crowns, which leaves 12,297,000 crowns for reserve funds and ordinary share capital. It is to be apprehended that the amount of the reserve fund is not large, seeing that the Institution has apparently encountered some difficulty in making both ends meet. In the first years it paid only 1.3 per cent. and 3 per cent. dividend, and though subsequently for some years 4 per cent. was paid (on shares of both descriptions), in 1907 the Board found itself compelled to declare to members that there could be no dividend, inasmuch as the losses sustained by over-confiding lending—such as is bound to occur under bureaucratic management and wherever the State is paymaster—had absorbed literally all the profit earned—293,145 crowns. There had been 50,000 crowns lost in one productive society in Temesvár, 250,000 crowns in another at Budapest, 250,000 in

Consequences of State Help.

another at Debreczen, 80,000 in a fourth elsewhere, 300,000 in a fifth, and so on.

All this is bound to follow where under bureaucratic administration mechanical rules have to be adopted to regulate credit, and where people know that there is a "great reservoir" to draw upon. And yet, not being able to take care of its own money, the Central Institution has set up for a "guide, philosopher, and friend" to all local organisations of its union, which are absolutely dependent upon its supervision, as the Central Institution in its turn is upon that of the State, whose control cannot be otherwise than formal. There is, therefore, over-riding of members' self-help and self-government at all points. The Central Institution looks after the propaganda, the credit, the general inspection. In other words, with the best intentions in the world to be co-operative and to act for the good of the peasantry and the artisan classes, it is a patronising and interfering organisation, a carefully constructed conduit through which money granted by others is conducted to the humble strata in which it is to be used and where in truth it should have been produced. That is not exactly self-help, and it does not appear at present how it is to be converted into such, although the one thing which one is bound to wish in connection with this matter is that it may become so. Only by such means as those employed has it been possible to organise so-called "Raiffeisen" societies upon the basis of limited liability—such as would be altogether repudiated at Neuwied. The late Count Károlyi explained this to me some ten years ago. People were frightened at the thought of unlimited liability—no wonder, when liability was deliberately separated from management! The difficulty could be got over, so he thought, by creating a "strong financial institution for them to lean upon." The thing has been done, but the result is not Raiffeisen banks, nor genuine Co-operation.

It is indeed to be hoped that out of this excellently intended but un-co-operatively conceived system of distribution of money in course of time may be evolved some genuinely co-operative organisation, the benefits resulting from which could not fail to be alike much more substantial and more enduring, and also more educating—which is, from a co-operative point of view, the most valuable result to look for. The readiness with which Magyars have adapted themselves to the ostensibly co-operative methods which their good friend the late Count Károlyi has pressed upon them may be taken as a proof of their natural aptitude for genuine co-operation, the benefits resulting from which must be far more enriching both to themselves and to their country.

CHAPTER XI

THE "BANCHE POPOLARI" OF ITALY

Why Italian Co-operative Banking should specially Interest us.

FROM an English point of view, no form of co-operative credit established abroad is likely to command a greater amount of interest than that which has found a congenial home in Italy, because no form yet adopted fits in so readily into our system of business.

Italy, when M. Luzzatti began his regenerating work, stood in sore need of popular credit. Usury was rampant, as in the fifteenth century, when three Franciscan friars, in pity for the suffering poor, gave to the world the valuable institution of the Monti di Pietà, which to us are known only in their deteriorated form. In the nineteenth century, so M. Luzzatti would have it, it behoved Democracy to render to the poor the service which in days of greater youth and union the Church had supplied, and to draw its sword for "War with Usury."

Moreover, the country was commercially undeveloped. Protracted divisions and oppression had kept it poor in the main sources of national production. Even its banking, its own distinctive line of business, so M. Magaldi has shown, was backward and out of date. The country which had taught all nations banking possessed little commerce; the country in which the Georgics were written owned an agriculture little advanced upon that which Virgil had described. Many attempts had been made to provide help. As Spain had her *pósitos*, so Italy had her *monti frumentari*,

her *monti nummari*, and *monti dei paschi*.* Governments had sought to furnish assistance in their own paternal way, and even while M. Luzzatti was taking up his economic apostleship, ministers like MM. Torelli and Grimaldi might be heard strenuously urging banks and public corporations to make their funds available for the rescue of the needy. The measures then taken had the effect of bringing relief in the shape of reasonable credit to some *large* proprietors. But to the poor their result was *nil*. All this Government and capitalist meddling and peddling evidently was powerless to ensure real and lasting improvement.

Past Attempts to create Popular Credit.

Better success had attended the useful reconnoitring work which two distinct classes of banks had tentatively ventured upon in the field of popular credit, pointing the way—dimly and vaguely, it might be, but

The Italian Savings Banks.

* All these institutions may be assumed to have done good work, but work rather charitable. In 1878 there were still 1,465 *monti frumentari* (some of which were already known as *monti pecunari*) in existence, dispensing among them 14,781,998 lire in loans. The majority were practically abolished, compelled either to convert themselves into institutions of a different type or else to close their doors, by a law passed in 1887. Since then there has been a further law, passed in 1904, favouring the conversion of *monti frumentari*—which are, so to put it, grain banks (*dharma golas*)—into money institutions. A number of *monti* have taken advantage of the facilities offered. At the present time, according to special information—which I owe to the kindness of Dr. Magaldi, of the Ministry of Agriculture, Industry and Commerce—there are *monti frumentari* still in existence in Basilicata and Sardinia, namely, thirty-five in Basilicata, after thirty-three have quite recently converted themselves into money institutions (*istituti di credito agrario*), though evidently retaining in part their original character as grain banks; for their possessions are returned as consisting of 350,937 lire in cash and 4,200 hectolitres of grain, which grain is, at the current price of 20 lire the hectolitre, valued at 84,000 lire. In Sardinia there are 319 *monti frumentari* on the register, but only 228 are actually at work, returning available property of 3,386,728 lire. Some of them are co-operatively organised, and in such shares are paid for in corn. At Cuglieri, for instance, two hectolitres of wheat are reckoned as a "share"

still, generally speaking, correctly—for more thorough-going reform. The Italian Joint-Stock Banks have detected very much sooner than any of their sister-institutions elsewhere the immense value of what may, by analogy, be termed "third-class traffic"—the banking business of those millions of comparatively poor people who make up by their numbers what they lack in individual wealth. By a variety of little experimental expedients they have studied to attract such humble customers to their counters. The Savings Banks did even better. Some of the Italian Savings Banks rank among absolutely the best in the world. They have a thrifty population to deal with, pouring in their millions of lire with a readiness which in a poor country is surprising. And it is satisfactory to know that all through the years of distress and crisis, while great commercial establishments crumbled to pieces, and taxes were imposed on the top of taxes, the flow of savings deposits steadily kept increasing. Of the ample money so coming in only a comparatively small portion is invested in our pet security, Government Bonds, and not over-much in mortgages, which on the Continent constitute the favourite investment. For the remainder a use must be found in the exercise of personal credit. The sum so laid out, practically in competition with the banks—the directors being allowed a perfectly free hand by the law—and applied, thanks to judicious discrimination and admirable local knowledge, with only infinitesimal loss, is very considerable. Still, with all these aids, the great national want remained unsatisfied. Means and end did not fully agree—the machine was evidently not adapted to its work.

Luigi Luzzatti, the Creator of Italian Co-operative Banking.

Luigi Luzzatti, with the shrewdness of a born financial leader, discovered what was needed. His has been a career peculiarly fruitful of excellent work,

benefiting the poorer classes. Long before his public services in Parliament had earned him the reward of political office all but the very highest, the position attained by him in his country was such that, as his friend E. de Laveleye testifies in his "Letters from Italy," high and low treated him with a degree of respect reserved only for the most esteemed and distinguished citizens. The reason of this was, that everybody knew him to be giving up his life to the service of his neighbours. Altering only the one word "*regno*," he might well apply to himself the noble words spoken by the first King of United Italy: "*Le classe lavoratrici sono quelle chi me stanno più a core. Il loro miglioramento è il programma del mio regno.*" Substitute "*vita*" for "*regno*," and you have a precise description of the "great idea" governing M. Luzzatti's life. There has not been a work of social reform taken in hand in Italy during the past five-and-forty years of which he has not been either the inspirer, or else at any rate one of the most prominent supporters. And now, what with his captivating presence, his fascinating and convincing eloquence, his peculiar knowledge, and his transparent honesty, he continues, without doubt, the foremost leader of thought in Italy on social questions, the person whose counsel is most largely sought, and the man possessing the greatest power of influencing his countrymen, the man upon whom the politicians of Parliament, the scholars of the Universities, and the large masses all look as upon their best teacher.

Originally a Follower of Schulze-Delitzsch

He began his work of economic reform in 1863, when, being still quite a young man, he proclaimed to the world his ideas upon "The Diffusion of Credit," in a little book which at once fixed public attention upon its author. He had learnt credit co-operation in the school of Schulze-Delitzsch, and to this day to

his admiring eyes Schulze-Delitzsch remains "*il sommo maestro della cooperazione*." But he also perceived very clearly that a mere mechanical copying of Schulze-Delitzsch's system must lead to disappointment. To answer in Italy, the machinery applied must be, not only simple and business-like, but also of a national and modernised type. Remodelling Schulze's work with a happy skill, M. Luzzatti produced that of which he might well say with justifiable pride—"We have not copied an institution, but produced a new type, and, impressing upon it the stamp of Italian originality, we have created the *Banche Popolari*." Experience has amply justified his independent action.

Italy wanted People's Banks fully as much as ever Germany had wanted them. But the circumstances of the country, its habits of thought and of action—everything, in fact, which was likely to tell in their creation and work—were different. Accordingly, to be at all useful, the principle must be put into a new garb.

His departures from Schulze's System.

The first stumbling-block to be cleared out of the way was that obnoxious principle of unlimited liability. In Italy, whatever Francesco Viganò might say to the contrary, that would never answer. "Our people would never have joined an association which threatened them with such grave danger," frankly avows M. Ettore Levi. M. Giustino Fortunato goes so far as to say that in the southern provinces of the kingdom the adoption of unlimited liability must have made co-operative credit "absolutely impossible." Sir J. Lumley, in his Blue-Book Report, wholly confirms this opinion. We shall see presently how, in circumstances in which it is indispensable, unlimited liability has nevertheless proved acceptable to the Italian temper, and has been accepted by M. Luzzatti himself. And I am bound at once to say that, even at the present

He limits Liability.

day, there are some among M. Luzzatti's followers who consider that his *banche popolari* would be all the better for the adoption of unlimited liability; that unlimited liability would awaken more interest and sense of responsibility, and arouse more of what is known as "co-operative spirit." But such men are to be met with only in places in which the omission of safeguards against excessive capitalism and selfishness, such as M. Luzzatti now strongly recommends, has led the older and wealthier People's Banks into malpractices, the intrusion of which may very well be guarded against by much less drastic expedients.

He reduces Shares and the Time allowed for Payment.

Another decidedly objectionable feature in the German system M. Luzzatti perceived to be those forbiddingly formidable shares which Schulze had deliberately recommended in order to compel his members to commit themselves to a protracted course of saving, but which place the acquirement of full membership for poor people at so remote a distance that to any one ungifted with German patience the task must appear well-nigh hopeless.

The utility of large shares for certain purposes is, of course, not to be denied. Naturally they help to hasten the production of a large share capital, which is in itself a valuable consideration. But M. Luzzatti has shown that an equally large share capital is to be got together by less constraining methods. And Schulze's main object, so it should be borne in mind, avowedly was that of making his banks "compulsory savings banks," by compelling to thrift. M. Luzzatti had greater faith in human nature. He considered that people might be led into a steady course of saving by means very much less coercive. Accordingly, he entirely reversed Schulze's method on the point of shares and, instead of issuing *large* shares, to be paid up in a very *long* time, he laid it

down once for all that shares must be paid up *within ten months at longest*,* so as to give the bank, in the place of an indefinite and unascertainable liability "in the bush," its "bird in the hand"—a definite, if small, capital, absolutely within its own power. Paying up within ten months necessarily means comparatively small shares. In the place of Schulze's £15 or £25, with a minimum assigned of £5, we find in Italy shares exceeding 50 lire (£2) in only rare instances. The major portion of shares range between 25 to 50 lire (£1 to £2). There are some instances of smaller shares (down to 5 lire or 4*s*.), and only very few of larger, up to 100 lire (£4), which for ordinary purposes is the legal maximum. That places the member's minimum holding rather low. But his liability being limited, there is no reason why he should not, if so inclined, invest in more shares than one, as one after another becomes paid up, up to the extreme figure which the Italian law, like our own, allows—namely, £200. The result has generally justified M. Luzzatti's trustful judgment.

Under such circumstances the member's average holding in shares is in Italian *banche popolari* undoubtedly smaller than in German *Creditvereine*—according to the figures quoted by M. Luzzatti in his Introduction to the last full Statistics of Italian People's Banks issued, then applying to 1898, 195.73 lire to 315.55. But, such as it is, Italian share capital has proved as fully equal as German to its object of attracting adequate loan capital, which is the great test of its utility as a "capital of guarantee"; and that is really all that the share capital is intended for.

* The term of ten months is occasionally exceeded. Thus the People's Bank of Cremona (*Società Cooperativa Popolare di Mutuo Credito*) allows fifty months for paying up a share of 50 lire. This bank is very strong in capital.

According to the statistics quoted by M. Luzzatti for 1898, the proportion of loan capital so attracted (635,673 lire deposits on an average per bank to 125,662 lire share capital, and 48,977 lire reserve funds) was as about $3\frac{2}{3}$ to 1, whereas in Germany (732,196 lire deposits to 177,021 lire share capital, and 56,248 lire reserve funds) the proportion was as $3\frac{1}{7}$ to 1.

He insists on Sound Security.

Having got rid of these two German incubuses, M. Luzzatti found himself at liberty to address himself constructively to the organisation of his business. We shall see, when discussing the details of his scheme, that, like Schulze, he was careful to found his business dealings on business principles. Business must be business. Credit must imply security. Money must be bought or earned, not obtained as a gift. We shall see how he provided the funds, not by begging for them, but by creating security which *commands* their supply, even from ordinary banks and savings banks (which of course treat such matters purely as matters of business), and did so from the very first ; but that, holding fast throughout by the principle that his banks must be independent of other institutions, and also that they must accept as the foundation of their business the accumulation of capital, he based their supply of working funds mainly upon the collection of savings deposits, in the attraction of which his banks, according to the testimony of all who have observed them, have proved exceedingly successful. The bedrock of security, however, so he held, must be the firm establishment of a reputation of the members for honesty and solvency (*onestà e solidità*). He proposed—to the astonishment of the world—to "capitalise honesty." That means, of course, not that he would miraculously convert his members into saints or angels, but that he would make it their direct interest to be honest and

The "Capitalisation of Honesty."

punctual, and to see that their fellow-members were the same. They were to be put upon their responsibility. And responsibility was to be "divided down" so as to fix every particle of it upon some particular member. So viewed, his ambitious scheme, in spite of the ring of miracle about it, becomes very manageable and practicable.

The way in which the object aimed at was to be attained was to be by careful selection of members for admission, in order that their mere admission might be taken as some sort of guarantee of good character; and by careful distribution of the several functions of administration, with strict enforcement of duties upon members, and careful study of security for credit given; searching control of all business done; and, to crown all, that "maximum of publicity" which Sir R. Morier has contended for, and which acts by business as oxygen does by the atmosphere, keeping it sound and pure.

Organisation of the Banks.

Such objects are, of course, studied in the body which M. Luzzatti has given to his idea, the organisation of his societies.

In the construction of his machinery of management he in general, followed Schulze's lines as they were before the remodelling of the German law.

The Consiglio.

The general management of the business, which includes the election of members, is committed to the *Consiglio*—that is, the Board or Committee of Management—which, like Schulze at the outset, he would have large, indeed even larger than Schulze made his, but, unlike Schulze, he would have it unsalaried. This body, wielding—next to the general meeting—supreme authority, varies in number from about seven, in the smaller banks, to 130 or 140 in the large Bank of Milan, every member of it being unpaid, and, for the security of the members in general, elected with care. M.

All Services Gratuitous.

Luzzatti insists more and more urgently, as time goes on—in opposition to his master Schulze-Delitzsch—upon purely *gratuitous* services. In the larger banks, of course, there must be a paid staff, and, in accordance with a resolution formally adopted at one of the great Congresses of People's Banks, these are paid not only by salary but also by commission on "profits," not on "business." This is found to act as a useful stimulus to good work. Some banks make such payment dependent upon the dividend attaining a certain minimum figure.

It is held very essential that the *Consiglio* should be a body thoroughly representative of the membership. The bank determines its own district, according to what it believes that it can manage. There are large memberships and small; large districts and small. The *Consiglio* should have members in it from all parts of its area, and also from all various interests, in order that it may be armed with particular knowledge at all points. For, in spite of the generally middle-class character of these banks, membership is as a rule composed of a variety of distinct elements, let alone that it may cover a goodly area and therefore must comprise a number of groups identified with distinct local sections.

The Sindaci.

Being, by reason of its number, unable to attend to the daily routine work, the *Consiglio*—like the German "Council" before the alteration of the law—tells off from three to five of its members to serve in the executive capacity of *sindaci*. Only they do not so act *in corpore*, as does the German *Vorstand*, except for some few collective functions, like the drawing up of the annual Report. Separately, however, they are at all times during office hours represented in the bank. One or other of them is expected to be in daily attendance, representing for the time the

supreme authority. And without his approval and signature no transaction is recognised as valid. The *sindaci* may portion out their time among themselves at their own pleasure. Their work being rather laborious, they are, if they so choose, allowed to retire at the end of a year. The *sindaci*, as intimated, at the close of the financial year draw up a Report upon the actual business done, which is distinct from that of the *Consiglio* as a whole. The latter, of course, takes wider ground.

That is for the general management ; and in small banks such machinery has proved perfectly sufficient for all purposes. However, there is specific business to be attended to, the most important of all, to which the *Consiglio* itself could not in banks of any size devote adequate attention. We shall still have to consider the means by which funds are raised with which to carry on the business of the bank. That may be dealt with in a general way and is therefore legitimate matter for the *Consiglio*. However, credit must necessarily be dealt with in detail ; every loan must be considered *per se*, in order that there may be sufficient security for every advance that is granted.

Credit to be Personal.

Members are, by the constitution of the bank, entitled to easy credit in various forms—credit in respect of specific security which they may have to offer, and credit in respect of their own financial value and trustworthiness. Credit, so it has been laid down once for all, should in these banks be mainly *personal*. "*Ce qui me plait dans les banques populaires, c'est qu'elles font du crédit personnel.*" So wrote Léon Say after seeing these banks. Credit is rightly in the main based upon personal security, because that provides the least hampering, the most elastic and the most educating form of credit. Pledge credit of other sorts is necessarily admitted. However, mortgage

credit is decidedly not favoured. In that respect Lord Sydenham has no more obedient disciples than Italian people's bankers. Besides being in the main personal, People's Bank credit is necessarily and rightly cut up into very small amounts, which gives considerable trouble, alike in respect of inquiry and also of watching, but ensures additional security.

Accordingly, it was very properly judged that for dealing with credit there must, in every bank of any size, be a distinct body, adapted to the business and elected on such ground.

Risk to be Excluded.

It may be at once explained that—more particularly in view of the manifest want of familiarity with the subject prevailing in this country—for these banks, as for all others which adopt a co-operative character, it is a standing, irreversible, golden rule that not on any consideration should risk of any kind be incurred in any transaction, be it of credit or be it of investment. That is made the first consideration in all dealings : be careful to avoid risk ! Committees are never to lose sight of this one maxim. There must not be risk. They are dealing with other people's money. And their banks are there, not to earn a profit, but to provide cheap credit and to keep money safe. Therefore, above all things, it is their duty to avoid risk.

Beyond this there are various points to consider. Members are, as observed, in the first place, entitled to credit in respect of security, whether of pledges or of "character," for which they may be able to show good cause ; and pledges are, if possible, to be avoided, at any rate otherwise than as collateral security. *Onestà e solidità* are to stand in the first rank. That means that as an instrument or record of credit transactions the bank must select for general use what has in point of fact long since become the financiers'

The Acceptance.

currency, that is, the acceptance. The acceptance offers various advantages.

It is the most convenient record of a debt. And it has this additional recommendation, that it is in its turn reconvertible into money, yielding, to a bank of good repute, a profit in the process, since the bank is sure to obtain discounts at a lower rate of interest than the original borrower.

There are, of course, two kinds of acceptance, with both of which the People's Bank will be called upon to deal. There is the trade bill, which possesses the special recommendation of recording a genuine business transaction, such as co-operative banks would by preference make the foundation of their credit business. A practised eye can detect whether a bill is an honest bill or a "plant." M. Luzzatti desired to attract trade bills. However, to discriminate among such there must, as observed, be a practised eye, which means that there must be a distinct discriminating body. On the other hand, there are accommodation bills, which are generally speaking less welcome, but which there must likewise be in a co-operative bank's business. These, once more, require a practised eye, and, even more, an informed mind. It was with them that the business began. And such business has greatly extended, now that cash credit—which is as a rule protected by an acceptance for purposes of easy recovery—has taken its place by the side of discount business and is, in point of fact, getting much beyond it. The secret of success in People's Banks has been found to lie in what M. Ettore Levi has called a "well-mobilised portfolio," that is, a bill-case, the bills in which, being "liquid," may be readily passed on. To provide such "portfolio" there must be a body having means of ascertaining to what extent every member—there is no business done with non-

members—may be trusted. For it is understood, as already indicated, that every member is to have his own "credit value" allowed to him, according to his financial worth, which value will determine up to what point he may be allowed to come to the bank for money.

The Comitato di Sconto.

The body upon whom the direction of credit operations with members devolves is the *Comitato di sconto*, a volunteer committee elected at the annual meeting, and consisting variously of from fifteen to forty members, taking their duty in turn, whose special office it is to consider and approve, or else reject, applications for loans or advances, and requests for credit to be opened in the shape of current accounts. There is no more important body of officers forming part of M. Luzzatti's co-operative organisation than this *Comitato di sconto*, upon whose *fiat* it depends whether the credit of the bank shall be pledged or not. M. Luzzatti accordingly will have them amenable to no influence whatever which might in the least degree draw them aside from the narrow path of impartiality and caution. His own wish is, that by a self-denying ordinance they should forego their own right of borrowing. That, however, he has not been able to carry.

The "Castelletto."

The *Comitato* prepare themselves for their active work of recommending or disallowing loans, by drawing up, independently of any actual application, a register, kept always in readiness, as their constant guide, but always strictly secret, which shows to what extent each member of the association may, in the opinion of the *Comitato*, be trusted with credit. Such register is called the *castelletto*. It is carefully revised from time to time and, should the estimate fixed in it for any particular member decline while a loan is out to him, or to any one else for whom he acts as surety—or, again, should securities pledged for a loan depre-

ciate by 10 per cent. or more—the debtor is at once called upon to make good the difference, in the one case by providing a new surety, in the other by handing in additional security. On this *castelletto* people may combine to borrow. For instance, if A is considered good for £40, B for £30, and C for £60, on the strength of their joint signatures, any one of them is entitled to a loan of £130—provided that no other paper is out signed or backed by A, B, or C. Supposing that the *Comitato* are correct in their appraisement, the *banca* in this way makes sure of keeping its lending within safe limits; and experience seems to indicate that the valuation is generally trustworthy. Credit given in the shape of a current account is withdrawn if it shows no business. For that is held to indicate that the credit is asked, not for trade or productive purposes, but merely for accommodation.

Comitato dei Rischi.

Some banks have, in addition to the *Comitato di sconto*, a distinct *Comitato dei rischi*, which has been found extremely useful. The *Comitato dei rischi* keeps account of all the transactions done with individual members and with non-member sureties. Every loan, every endorsement, is chronicled in its books, as well as any other fact which may have a bearing upon the qualification of members as borrowers. If they are punctual in repayment, if they give trouble—all these things are noted in the books of the *Comitato*, which for reference are invaluable.

Upon the manner in which the *Comitato di sconto* discharges its duties it will depend, not only whether the bank keeps solvent, so to speak, in the abstract, having value for its money, but also whether it keeps actually prepared for business at any time that such may offer, in the sense of having its resources "liquid."

The Probiviri.

To complete the account of the mechanical organisation of the banks, there is one more body, quite peculiar

to the Italian *banche*, and intended to mark more plainly their democratic character, namely, the *probiviri*. There are three such, sitting in common, to whom an appeal may be carried on any point whatever arising in the administration of the *banche*, and whose judgment—to be pronounced only *in banco*—is final. A candidate refused admission, a member refused credit, a member sentenced to expulsion—whatever the question may be, an appeal lies to them, and their judgment, which is final, has in practice been found a rock of strength in maintaining harmony and keeping things in a satisfactory groove.

The offices of the bank, then, are systematically graduated. The General Meeting is supreme, under the law. Under the General Meeting the *Consiglio* directs affairs alike as an administering and—so far as the executive functions of the *sindaci* come into account—an inspecting and reviewing body, laying down general rules, electing new members, and disposing of the bank's funds in the intervals between General Meetings. For the daily supervision of the bank's business there are the *sindaci* as executive officers. And as arbitrators in cases of dispute there are the *probiviri*. All these are unsalaried. M. Luzzatti would not, like Schulze-Delitzsch, have the "labourer" receiving his hire in money, because he considered that he receives it in another shape and that to make the office worth money would disqualify him for the impartial and thoroughly conscientious discharge of his duties.

Grouping of Societies.

It may be convenient, before going on to the business of the banks, to mention that attempts have repeatedly been made to carry organisation higher up. There was, as in Germany, to be a General Union, divided up into a number of local sections. The idea has only been very partially carried out. There are nominally

nine *gruppi regionali*, the first of which, in the province of Treviso, was formed, and for a long time led, by the late Gaetano Schiratti, one of the most capable captains of M. Luzzatti's army. There are others in the districts of Mantua, the Romagna, Emilia, in the Marches, in the Abruzzi, in Campania, in Maremma and in Calabria with Sicily. But they are all of very loose formation and exercise no authority whatever over their societies. In truth, only the one group formed by Schiratti may be said to have any real existence. A comprehensive union has never been formed. There is a "Federation." But that is only a body of subscribers, who raise funds among themselves to publish a journal—which the subscriptions do not always quite pay for—and organise occasional Congresses, the meetings of which are so irregular that after the sixth, held at Bologna in 1895, there was not another till 1907, when representatives of *banche* —and many others, being invited—met at Cremona. There is no general directing or reviewing body as in Germany, and whatever resolutions are passed at Congress bind actually no one. Hence the lamentable looseness and want of uniformity among the Italian *banche popolari*, of which no one has expressed deeper regret than M. Luzzatti himself. There is no touch, no common rule, no inspection by a superior body representing the *banche* themselves, which bond of union in Germany gives so much unity to the movement, and, so to speak, also an equal, or almost equal, value to each bank. There are in Italy accordingly banks good, bad, and indifferent. The good are very good. But there are many otherwise.

Even now one may hope that this state of things will be altered. Inspection has been urged upon the banks again and again, among others with all impressiveness by M. Luzzatti himself. The case for it is

unanswerable. But it has been shortsightedly resisted by banks which have grown so used to doing everything for themselves that they resent the idea of being "pried" into. No doubt before long the State will intrude inspection on its own behalf, which is likely to be far more "prying" and much less useful.*

This state of things has brought about consequences which I consider are to be regretted.

No Central Bank.

Among other things there has been a talk repeatedly of crowning the edifice of co-operative banking institutions by the formation of a Central Bank, to serve local banks as Central Banks do in Germany and Austria. Although advocated by M. Luzzatti himself, with all his wonted eloquence and all the weight of his personal influence, the proposal has invariably been defeated, and that for reasons which to a certain extent will pass muster. Had the proposal been brought forward early in the history of the movement, in all probability it would have been gladly adopted. In the interval, however, large banks had grown up, like those of Milan and Cremona, which already act, and act satisfactorily, as Central Banks for a large number of local banks seeking shelter under the cover of their ample capitals. Such banks, of course, are loth to surrender at once both profitable business and prestige. The greatest stumbling-block in the way, however, is the very marked difference in quality subsisting between bank and bank. Sound and solvent banks are not likely to commit themselves to a common venture with other banks of only

* Since the above was written, M. Luzzatti, who had in the meantime become Minister of Agriculture, Industry, and Commerce, has foreshadowed in *Credito e Cooperazione* a Bill, which he expects to see passed with little opposition, making inspection obligatory, by preference by Unions, but failing that by the State. M. Luzzatti at the same time declares that in his opinion inspection by the State, where there is a Union, is worse than no inspection at all.

doubtful quality which must, as shareholders, be admitted to the same rights of a say in the management —which means a voice in the bestowal of credit—but which might render the whole fabric insecure.

Methods of Credit

We may now turn to the consideration of the banks' business. The main part of such is, of course, lending, which is carried out in a variety of ways. The granting of credit on a member's *castelletto* value has already been referred to. That is lending on what we call "character," and is now by preference done by means of cash credit. A more questionable method of lending appears to me to be that practised on the security of members' shares. I call it questionable, because obviously the value of the share to the bank consists in its being in members' hands. Were the bank to have to seize the "pledge," it might one fine morning find itself all shares and no cash. However, this method is very popular, and appears thus far to have led to very little loss. Banks do not, indeed, stop at lending on the share as they would upon "effects," keeping below the actual selling value. Some of them, at any rate, advance up to twice the amount, upon the security of a share, holding that membership stands for some security, inasmuch as the member is not likely by default to forego the valuable privileges which as member he possesses.

Reference has likewise already been made to the common practice of discounting acceptances, in respect of which the law is in Italy far more favourable than in Germany, which may help to explain why acceptances are so well understood and so readily both given and taken. Also cashing of acceptances is made remarkably easy. Postmen, even rural postmen, are authorised to collect on their rounds. It is self-understood, of course, that in dealing with acceptances the bank should be careful to insist upon sufficiently

good endorsements, which business the *Comitato di sconto* and the *Comitato dei rischi* are there to attend to.

Credit to be Short.

Now from the adoption of the acceptance several things follow, more particularly since it is made an instruction to banks to study a "well-mobilised portfolio." To put it in a French way, whoever says "acceptance" thereby at the same time says, in the first place, "short credit." Co-operative principle is accepted as requiring that as between large and small advances asked the preference, if preference there must be, should be given to the small, because the bank being intended in the first instance for small people, who have nowhere else to go, it is in duty bound to provide for them first. There is something to recommend this also from a mere business point of view—provided that the question of security is gone into with sufficient care. For over the broader surface liability is distributed, the more it is divided into particles, the better secured is it ordinarily held to be. Fifty eggs are safer in ten baskets than in one. The bank's own interest requires that the credit, for however long intended, should be actually short. The shorter the term, the more effective control does the bank retain over the loan. But in addition to this—and this is the second point implied in the selection of the acceptance—the shorter the term, the more readily convertible is the acceptance. And that is a point which managers of co-operative banks will do well to keep constantly in view. A bank's stock of acceptances held should be of such a nature that they may at any time be converted into money by being passed on. That means that not only should they be good in themselves, but beyond that also timed for a short period. Three months is the regulation time, and very strait-laced banks still adhere to the rule

originally adopted that after such term there should be only one renewal tolerated, but not encouraged. So narrow a rule it is, however, difficult to enforce. And the main point after all is that the acceptance should be readily saleable. Long bills are not.

Credit to Agriculture.

In respect of agriculture an exception has to be made to the rule just laid down. I shall have to speak upon this point at greater length. Suffice it now to say that in advances made for agricultural purposes longer periods are permitted, but the acceptance is all the same in most cases dated at three months, though in some at six. It is understood, however, that a number of renewals will be permitted, subject to a definite proportion of the principal being repaid at each renewal. By this means the total term is extended, generally to thirty months, sometimes to forty-two.

Variety of the Banks' Operations.

Although bills of exchange form the favourite medium for loans, they do not constitute the only one. Very much credit is, as observed, now given in the shape of cash credit, which may be, but is not invariably, secured by acceptance. When it is, such acceptance is not kept for the purpose of "liquidity," but for easy recovery. Although pledges —other than effects—are not in general favour, some lending takes place upon security of such kind, in the main to assist poor people, to whom such security is the readiest and most available. Some lending is done on note of hand. One bank, at any rate, that of Bergamo, which is a good bank, lends on pledges *sans dessaisissement*—pledges which remain in the borrower's use, as they might here under a bill of sale, only without the ignominy of a public record of the act. Mortgages, as observed, are generally forbidden. But the banks lend on "dock warrants" and on invoices, on labour bills, and on a variety of

similar instruments common among trading and manufacturing folk, but not generally negotiable except as an act of special consideration and at a high discount. To be able to borrow on such at ordinary rates of interest constitutes a material convenience to the public. For instance, a tradesman having money owing to him from a customer need but obtain the latter's acknowledgment of the correctness of the debt —provided that the debtor is "good," or can make himself so by security—to have the account discounted. Under this arrangement builders carrying out contracts can receive the money wherewith to pay their workmen while the work is in progress; a printer working for a publisher who demands long credit can obtain his money. It is very common for poor people to buy sewing machines with money borrowed from a People's Bank, which practice of course they find exceedingly useful; it secures to them all the conveniences of the "hire-purchase system," without exacting its extortionate price. It is doubtful if by any method the *banche* have rendered to the humble trading classes and small folk generally more material and more welcome service than by this convenient, popularised lending. The practice has proved useful beyond that; for it has to a considerable extent altered the custom of trade by its example, and made cash payments the rule in the place of credit. Again, banks advance money on rents falling due, or indeed on any prospective claim sufficiently assured and acknowledged. The People's Bank of Bergamo has advanced money on cocoons, secured by the undertaking that the spun silk shall not leave the spinner's house till the debt has been repaid. To the small silk-growers this has proved a substantial benefit.

And as a matter of course the banks have not stood still at the dispensing of credit. In small banks,

acting for a limited number of members of humble financial status, no more than credit was required. The large banks have become banks indeed, banks in the fullest sense of the term, rendering every variety of banking service—busy hives of business the largest are, in which every banking requirement is readily satisfied.

In lending invariably the preference is given to small amounts, which has resulted in a low mean figure for advances granted. Some recent statistics show that 20.97 per cent. in number, 19.37 per cent. in value, have ranged from 201 to 500 lire; 10.18 per cent. in number, 21.14 in value, from 501 to 1,000 lire; 4.30 per cent. in number, and 29.00 in amount, from 1,001 to 5,000 lire. Accordingly, close upon 70 per cent. of the money was lent in sums ranging from £8 to £200. Only .53 per cent. in number, 13.45 per cent. in value, went beyond 5,000 lire; and 67.02 in number, 17.04 in value, fell short of 200 lire.

The "Prestito sull' onore."

As has been said, it was M. Luzzatti's desire that the poor—those too poor to join a bank as members—were to derive some direct benefit from the banks. This is one means by which banks laying themselves out for much "business" seek to salve their "co-operative" conscience. "Co-operation" is in Italy not rarely confounded with "philanthropy." Many fine things have been said in praise of the *prestito sull' onore*, the "loan of honour," by means of which loans, not intended as gifts, are distributed among deserving poor folk. But this is not really business, although it apes its form. I have found competent bankers rather disposed to withdraw from it. They would sooner give money in the form of charity.

Of course, the banks do not give their money to every vagabond who may claim it. They have special committees appointed to inquire into cases. Thus the

Banca Popolare of Bologna nominates a distinct committee of five to deal with the matter. Some other banks—as, for instance, those of Cremona and Bergamo—entrust the distribution of the money voted to some allied friendly society. The *Banca Popolare* of Milan makes a point of having always some representatives of local friendly societies on its "loans of honour" committee. Most of the loans granted are small. But I have come across grants to one man of 500 lire (£20), and even more. The *Banca Popolare* of Milan and the *Banca Popolare* of Bologna never grant more than 200 lire to one applicant. The *Banca Cooperativa Operaia* of Milan (founded only in 1884, with a subscribed capital of 134,800 lire) had in 1890 granted 1,455 such loans, 655 being under 50 lire each, 595 between 50 and 100 lire, and 25 upwards of that amount.

The "loan of honour" is always made repayable by instalments—as a rule, in ten months, though in some cases the time of repayment is spread out over sixty weeks or even longer. Some banks charge a moderate interest, others lend gratuitously. From the *banche popolari* the useful institution of *prestiti sull' onore* has spread over the whole network of provident institutions in Italy. The *istituti di mutuo soccorso* have taken it up, and most friendly trade societies—stonemasons', barbers', sign painters', and so on—practise it as a regular part of their business.

The *Banca Popolare* of Milan for some time handed over its annual quota to the *Banca Operaia*, a workingmen's bank, to distribute. However, that little bank soon came to grief through bad management. I cannot find any very recent data recorded as to *prestiti sull' onore*. It deserves to be mentioned that losses from *prestiti sull' onore* appear to have been few and trifling. In the case of the *Banca Popolare* of Milan,

in twelve years they did not amount to 10 per cent. In 1890 the *Banca Popolare di Credito* of Padua reported only 2,000 lire of losses out of 100,000 lire; only 43 "doubtful" loans out of 2,000 contracted. The *Banca Popolare* of Bologna in the same year set down only 2,000 out of 100,000 lire lent as "doubtful." In 1889, out of 9,250 lire lent out in 93 loans, it had lost 313 lire.

"Banche Popolari" as Distributors of Relief.

Incidentally it may be deserving of mention that in cases of floods, earthquakes and similar catastrophes *banche popolari* have been found exceedingly useful organisations for distributing charitable relief, making the same amount of money go further by, in a sense, lending it rather than giving.

It remains to discuss one decidedly important form of credit which figures very prominently indeed in the catalogue of services rendered by *banche popolari*.

Credit to Agriculture.

Time has been when in the teeth of very patent facts it was denied that *banche popolari* of the Luzzatti type could be useful to agriculture. It was the old fable carried across the Alps from Germany. Guelphs and Ghibellines were at war. That war, in which very disproportionate forces were pitted against one another, was in Italy brought to a happy conclusion in 1907 at the Congress of Cremona. From that date forward "Luzzatti" and "Wollemborg" have fought and worked as allied forces. Would that a similar agreement between "Schulze" and "Raiffeisen" could be brought about in Germany! Beyond doubt the Italian *banche popolari* have done and continue to do a great deal indeed for agriculture; and it is really not their fault if they have not done more. A mere look at the business of such banks as those of Cremona, Lodi, Brescia, and Rovigo must prove this. The statistics of 1898,* moreover, show that in that year the *banche*

* There are no later statistics.

popolari reporting advanced "to agriculture" the goodly sum of 104,943,582 lire—more than £4,000,000. The *Banca Popolare* of Bologna in the decade preceding that year lent out in all 84,074,297 lire for agricultural purposes, of which sum 49,207,788 lire went in 4,046 loans to large landowners, 4,416,978 lire in 804 loans to large tenants, 25,974,660 lire in 21,494 loans to small landowners, and 3,454,871 lire in 2,075 loans to small tenants. The *Banca Cooperativa* of Padua reckons that about a quarter of its general lending goes to agriculture. And in such business there has long been a steady, though slow, advance observable.

Without question, the Italian *banche popolari* do a great deal of lending in support of agriculture.

Various Methods tried.

Credit to agriculture has, in truth, long been the peculiar pet child of Italian legislators and economists. It has all along been felt to be so much needed. And at the same time it has proved so difficult! As the outcome of an agitation immediately succeeding the establishment of political union, the Italian Government in 1869 passed a special law which authorised a number of banks to issue notes for specified amounts —30, 50, and 100 lire—on the security of certain cash balances held. The notes issued serve as legal tender in their provinces, and pass current, indeed, much beyond. One would have thought that this must be a highly profitable business for the banks. However, the country has never taken to the system. The brief term to which lending under this law is restricted—three months—was of course against any extensive business. In addition, the difficulty of having to be prepared to cash whatever paper was issued the moment at which it might be presented, prompted the issuing banks themselves to keep their issue within bounds. There are now only two credit institutions issuing

The Law of 1869.

under this law, namely, the excellent Savings Bank of Bologna, and the equally well-managed *Monte dei Paschi* of Siena, and their joint issue has dwindled to about £64,000 in all, which is an inconsiderable sum.

"Cartelle Agrarie."

Approaching the same task from a more independent, but perhaps a more practical, standpoint, M. Luzzatti endeavoured to adapt our practice of Exchequer Bills and Treasury Bonds to the Italian market. He introduced the *buoni di tesoro d'agricoltura* or *cartelle agrarie*, which under the shape of bills or bonds secure credit for long periods. Before issuing such, he prudently made sure of the willingness of the large banks to discount them. It is interesting to note that in thus adapting themselves to the demands of agricultural credit, the *banche popolari* have introduced into their *regolamento* a rule evidently borrowed from the Raiffeisen banks, which requires borrowers to state the object of their loan beforehand and to adhere to it on pain of forfeiture.* The business actually done has not realised the hopes entertained. So far as I can gather, the *cartelle* have been taken up in the main by friends of the movement, as a means of lending support to a good cause. There is no *bonâ fide* business done in them in the market. It wants, as has been already said, a stronger body than co-operative banks to make Exchequer bills pass current.

The Law of 1887.

In 1887, when the law of 1869 had incontestably proved a failure, the Italian Government decided experimentally to adopt M. Luzzatti's new plan, which was based upon the provisions of our Lands Improvement Act, fortifying it by the imposition of Government authority. The Act of that year gives power to credit

* Regolamento Provvisorio per l'emissione dei Buoni agrari presso le Banche Popolari del Primo Gruppo italiano (Rule 4 in Ettore Levi's Manuale, p. 548).

institutions to issue bonds running for a fixed period (*cartelle a scadenza fissa*), for the length of which no limit is laid down. In practice I believe that two years is about the longest term permitted. The loans issued under this law may be secured either by mortgage, or else by a "privilege" equivalent to that given under our law of distress. To ensure this, lenders must have their claim registered. This is done free of charge. But it means a great deal of trouble and delay and entanglement in red tape. The Savings Bank of Bologna, which probably does the largest business of this sort among non-Government institutions, had some time ago about 1,700,000 lire (£68,000) of such *cartelle* in circulation. That is not very much. Generally speaking, the second experiment is admitted to have resulted in failure like the first.

"Cartelle scadenza fissa."

To Signor Sani, late Manager of the *Banca Popolare* of Bologna—one of the largest and most enterprising and original of Italian People's Banks—the method prescribed by the law of 1887 appeared from the outset so little contrived to serve its purpose, that he preferred to make the ordinary practice of lending, on acceptance or by cash credit, available for agricultural uses. Being exceptionally strong in capital and deposits, his bank was in a particularly good position to venture upon the experiment. Long terms could not occasion any serious inconvenience to it. The agricultural population of the district consists mainly of freeholders. However, mortgages would be inconvenient as a security. So the bank secures itself by sureties or deposited effects—mainly by sureties—lending on acceptance for the term of six months—after which a renewal may be granted—or by cash credit for the term of a twelvemonth, on the expiration of which the credit may likewise be renewed. In either case interest stands

M. Sani's Method.

at 5 per cent. This method has proved not only acceptable to the agricultural population, but also very safe. It is easily applicable, even without the precaution of local committees such as are usual in Germany, because the large council of the bank includes men from all districts, persons who know sufficient about the agricultural population to be able to ascertain and advise what borrowers deserve to be trusted. In any case there have been no losses.

How it is applied.

M. Sani's method, being simple and practical, is the method which, roughly speaking, all agricultural banks dealing at all in agricultural credit have elected to put into practice—Lodi, Brescia, Bergamo, Cremona, Rovigo, and that whole cluster of smaller *banche popolari* which the late Postmaster-General of Italy, M. Maggiorino Ferraris, has helped to raise up in his native country of Piedmont, established mainly for the service of agriculture. The cash required is provided either by the steady inflow of deposits, the command of a strong reserve fund, or the issue of long-term bonds, which, after all, secure something to strong banks. Or else banks of this kind adopt the precaution of keeping a comparatively large proportion of their funds invested in readily marketable securities of steady value, so as to be prepared for sudden calls. These securities are made to answer the same purpose as the "mobilised portfolio." In Italy, where Government Consols pay $3\frac{3}{4}$ per cent. interest, and Post Office Savings Banks accordingly make a profit, this is an easier process than it would be in the United Kingdom. In any case the banks show that they can provide the money. To ascertain the borrowing value of their clients they employ pretty much the same methods as the German banks. They have branches, or local committees, or else local men to whom they can apply for information. In many cases the task is facilitated

by a combination, very usual in the country, of tax-gathering with banking, which provides useful information, brings people to the "shop," secures a small profit, and materially reduces the otherwise heavy taxes levied upon the bank itself. On the other hand, the work is more difficult than in Germany, because among the agricultural population the proportion of *tenants* is very large, and tenants have rent to pay, in default of which, as in England, they may be distrained upon, under a law which is as severe as our own. That is one reason why it is absolutely indispensable that the credit granted should be *personal*. "This is all the more important in a province like our own, in which large properties predominate, and tenant holding makes of it an absolute necessity." So wrote to me the late Tullio Minelli, Chairman of the Co-operative Bank of Rovigo, which in 1894 lent out, out of 7,900,000 lire in all, about 4,740,000 lire (£189,600) to farmers. "Tenant-farming imposes personal credit as a necessity." In the district of Rovigo, the landlord is generally applied to for information about his tenant, and in many cases he readily goes bail for him. In the Lodigiano, where there are many ***large*** farmers, farming 600 to 800 acres and more, who may require substantial sums, and who consider themselves every bit the landlords' equals, such practice is out of the question. However, really, the landlord's testimony being unavailable, the tenant borrowers are all the more careful to satisfy the bank with regard to the danger of a distress. In any case the losses are infinitesimal.

Personal Credit a Necessity.

I abstain from entering in any detail into the semi-charitable or philanthropic lending of a purely agricultural kind (for small holders) practised by some co-operative banks, because that is not business but almsgiving.

In another chapter * a new method has been explained by which the Government is endeavouring to develop co-operative credit for the benefit of agriculture, and more particularly of small agriculture, with the help of State funds.

Credit through other Co-operative Societies.

Before taking leave of the subject it may be well to refer to a further method of assisting agriculture with credit practised by the *banche popolari* which, simple as it is, has been found exceedingly helpful—so much so that it is now being gladly adopted by French agricultural syndicates. This method is in principle the same which has for some time back been practised with good effect in the Raiffeisen associations of Germany. The members of the agricultural syndicate, so far as they wish to avail themselves of credit, join, or else form, a co-operative bank, which, upon any demand for credit being made, of course, satisfies itself with regard to their trustworthiness, and, if desired, opens to them a cash credit secured by sureties or otherwise. That credit, or part of it, the member assigns to the agricultural syndicate, which thereupon opens him a corresponding credit for the purchase of the articles in which it deals. He may make use of such credit, or he may not. If he does not, he will have nothing to pay. The practice effectually helps farmers over the difficulties which I have found to stand in the way of agricultural co-operative supply in this country—viz., a want of ready cash. The farmer buys practically on credit, like our own poor or thriftless farmers ; but, having made sure of a credit with the bank, he at the same time obtains all the benefits of cash payment and co-operative purchase with respect to price and quality, being charged only a moderate interest by the bank upon the money actually drawn. The method is simple, but it has its distinct advantages.

* "Assisted Co-operative Credit," p. 209, &c.

It is time now to turn to the consideration of the supply of funds.

The Provision of Funds.

For the provision of funds there are shares, of course. But such shares are not really intended to supply working funds, but as "capital of guarantee." There are, again, entrance fees, by which M. Luzzatti sets some store—but rather because they tend to keep people in the bank than because they help to swell the volume of available capital, which they are far too small to do. The largest entrance fee levied is of the amount of £1 ; but most are smaller, some very small indeed. Next, there are the reserve funds, to the systematic building up of which, once more, M. Luzzatti attaches great value, and to the accumulation of which Italian *banche popolari* pay considerable attention, raising the reserve fund in not a few cases above the amount of the share capital. So it is in the People's Bank of Bologna, which has 2,931,664 lire reserve funds to 1,586,728 lire share capital. So it is in the "Catholic" Bank San Paolo of Brescia, which has 484,088 lire reserve funds to only 100,000 lire share capital. There are more. People's Banks as a rule carry from 20 to 25 per cent. of their annual profits regularly to reserve. That is the proportion recommended by an old expert, M. Ettore Levi. However, reserve funds were intended, not to be absorbed in business, but to be kept in reserve against unforeseen contingencies.

In the earliest years of their existence the co-operative banks were allowed the privilege of issuing notes, which was at that time considered exceedingly valuable. It so happened, moreover, that small notes were at that period very much appreciated in Italy. By 1872 accordingly the *banche popolari*, then eighty in number, found themselves with as much as 1,022,000 lire worth of these notes in circulation, for the most

part of the five-penny denomination. However, the privilege was withdrawn in 1874. The note issue ceased—and the People's Banks have not suffered any loss by the change. Since that time, indeed, other banks have discovered that note issue is not all gain.

The Banche as Savings Banks.

M. Luzzatti accordingly looked further for his supply of cash. And in strict accordance with the principles taught by Schulze, he looked for it above all things to the collection of deposits, more particularly savings deposits.

One reason for this is that, as he has often impressed upon his followers, he desired his banks to be independent. One of his watchwords is : *siete independenti sempre, isolate mai,* that is : let it be your constant endeavour to exist by your own strength, but never cut yourselves off from others of your kind. There is no source of supply which makes so much for independence as savings deposits. Other deposits lump heavier at first, but are withdrawable at somebody else's wish than the banker's, and then leave big voids. To guard against this M. Luzzatti has fallen back upon *buoni fruttiferi a scadenza fissa,* that is, interest-bearing bonds issued for long fixed periods. For such a higher rate of interest may be paid. After rather a protracted period of not very successful struggle, these bonds have in a limited number of cases of very good and strong banks succeeded in ingratiating themselves with the public, more especially—which is not in itself particularly desirable—the larger denominations running for a long period. They appear to be purchased, as M. Minotti, Managing Director of the People's Bank of Bologna, advises me, for the purpose rather of more or less permanent investment, than of temporary deposit. However, useful as these bonds have otherwise shown themselves to be, they possess the drawback of burdening the bank with a debt at a

comparatively high rate of interest whether it require the money or not.

Savings deposits, besides being educationally a good thing in themselves, are far more convenient to rely upon. In urging their collection M. Luzzatti pursued a wider object than that of providing his bank with funds. He aimed at training the people systematically to thrift, and at the same time at keeping the money produced in a district within that district, to fructify there and benefit the section of the population from which it had been gathered. "But for that institution," so Sir J. S. Lumley quotes M. Luzzatti as saying, while applying his observation to the *banche popolari* generally, "the whole of the savings of Lombardy would be concentrated at Milan, and the blessings of commercial and agricultural credit would be unknown, not merely in small places, but even in large towns such as Bergamo, Brescia, Cremona, Pavia, Lodi, &c., where the savings deposited in savings banks amount to millions of francs." The *banche* are antagonistic to monetary "wens," they localise and decentralise. The collection of deposits has accordingly been made one main feature in the Italian system, and, as we shall see, not without distinct success.

Large Inflow of Savings Deposits.

As an encourager of thrift there could not be a more effective agency. The *banche* have become one of the most favourite species of savings banks known—not because, as has been suggested, they allow a higher rate of interest than the public savings banks. The official returns published show the rate of interest to vary considerably in individual banks, descending as low as $2\frac{1}{2}$ per cent. (which is *below* public savings bank rate), and rising in some instances as high as 7 per cent. The reason why the *Banca Popolare* is the general favourite seems to be that it is the local people's *own*. In 1894 the *banche popolari* had among

them 206,825,358 lire (£8,273,014) of savings money in their tills. The *Banca Popolare* of Milan alone in 1890 held 35,500,000 lire. The little *banca* of Lonigo, which from being a *succursale* of Vicenza in 1877 set up as an independent little establishment, with a capital of 150,000 lire (£6,000), held in 1890 1,522,728 lire of savings banks deposits, in addition to 1,213,706 lire of other deposits (practically also savings), and 336,677 lire balances on current accounts. "*Voilà plus de* 3,000,000 *lire d'épargne constituée goutte à goutte*," remarks M. Rostand. And he goes on to explain: "The local Post Office Savings Bank has few customers; as happens everywhere where the initiative is strong, these intelligent workers prefer independent private action to the action of the State, and understand the advantage which they derive from carrying their money to a place from which it will return to them as a fertilising dew in the shape of loans or the discounting of bills." Official statistics show that in the year 1893, with their small capital of 114,722,132 lire, People's Banks in Italy had attracted 372,164,388 lire of deposits, whereas ordinary banks, commanding share capital more than twice as large, viz., 260,465,920 lire, had been able to attract only 349,093,984 lire, actually a smaller sum, in the deposit market. By the end of 1906 the share capital of People's Banks had increased to 132,686,132 lire, and their holdings in deposits to 718,653,571 lire. I have not the corresponding figures of other banks. There is nothing to account for this striking difference except the greater confidence reposed in People's Banks.

Re-discounts.

However, deposits are after all withdrawable, and not in themselves likely to provide as much money as an active bank may be expected to require in busy times. There are banks for which deposits are entirely

sufficient. M. Scotti, of Acqui, has laid it down that "a good deposit bank should stand in no need of further supplies." But his experience has been gathered in a comparatively small bank in a distinctly rural district. Banks in active industrial centres, and even in some rural, are differently situated, and must at any rate have a safety-valve open, by which to help themselves. Mere commonplace borrowing—so much money for such a time—will not answer the purpose, because it ties down the bank to fixed periods and may involve its having borrowed money lying idle. So here we come back once more to the indispensableness for banking purposes of the convertible acceptance, which for this reason, once more, M. Luzzatti made the preferable medium of credit in his banks. And what with deposits and rediscounts the *banche popolari* raise all the money that they require.

Merits and Defects of the System.

Thus judiciously constructed, "fitly joined together" in all its parts, the fabric of Italian People's Banks has shown itself admirably adapted for the discharge of a surprising variety of functions.

Quite enough has surely been said to show with what liberal hand the *banche popolari* deal out their money, be it in showers or be it in driblets, to the small artisan or to the substantial yeoman—readily, smoothly, safely, with remarkable adaptability to varying circumstances.

What a stream of almost exhaustless beneficence does this system of People's Banks seem to turn loose upon a thirsting world! And how wasteful do our own profuse, but carelessly distributed, gifts appear by the side of these self-repaying loans! It may be said that we have the money, and need not look to economy. But our carelessness leaves such a wide margin of distress which goes without benefit. And the greatest benefit of all, the lesson which teaches people how to help

themselves, how to make the help received from others go furthest, the lesson of thrift and businesslike habits, in our free-handed but easy-going giving—which is the product rather of instinct than of reflection—we generally miss altogether.

Spread and Growth of Banche Popolari.

As might have been expected, once the "Utopianism" of M. Luzzatti's scheme had been disproved by facts, once the People's Banks had shown themselves truly beneficent associations, hindrances disappeared, and the banks multiplied pretty rapidly. Up to 1883, indeed, the adverse law stood in the way. Their number increased by nine, two, seven, five, ten in the year. Nevertheless, in 1882 it already stood at 206 with an aggregate capital and reserve of 57,822,000 lire (£2,312,880), that is, about £11,200 per bank, and a members' roll of 114,072 (821 per bank); and their collective lending amounted to annually 156,042,366 lire (£6,241,696). By 1889 the banks had increased to 714 (as against 159 non-co-operative credit institutions), with 114,979,542 lire (£4,599,180) capital and reserve, and lending out annually 285,936,946 lire (£11,437,476). Their annual transactions had risen from 206,899,142 to 425,339,827 lire. In 1893 there were 730 banks (of this system only, without counting the *casse rurali*), of which 662 sending in returns under this head showed a collective members' roll of 405,341.

From that date forward their number increased much more rapidly. There have been times of setback, as immediately after 1893, when depression and slack trade found out co-operative as well as other banks, though with very much less severity. The number of *banche popolari* then went down by ten. In every respect their movement has been characterised by greater steadiness than that of other banks. It is impossible to quote figures to show a common rate

of lending. The rates of interest vary considerably, which is in part to be accounted for by the greater value that money possesses in the backward provinces. Although the quality of the banks varies not a little as among themselves, losses have throughout remained trifling. Every now and then a co-operative bank would forget that it was co-operative, and, attracted by the prospect of profit, would dabble in business which was not legitimate for it. However, generally speaking, such catastrophes—which are entirely due to departures from accepted rules—have remained few indeed. And there can be no question that generally the business of the Italian co-operative banks is sound and conducted on safe lines—sounder and safer, more uniform in its management, less exposed to risks and dangers, than that of other Italian banks.

Of course the spread of the banks has been very uneven. The "Utopianism" of the scheme having been exploded, converts to the idea sprang up in the most widely separated places, and apostles arose in diverse with 2,10 carry the new gospel out into the world. In the South of Italy banks grew up like mushrooms—only, in many cases, to disappear as rapidly. There is no specific against bad or careless practice. The main strength of People's Banks now undoubtedly lies in the North, that is, in Lombardy, Venetia, and Emilia with Piedmont following on.

The present strength of the banking movement may be gathered from the following figures. There were on 31st December, 1906,* 832 *banche popolari* registered under the Act, of which number, however, only 710 sent in returns. Those 710 banks had collectively a subscribed share capital of 92,549,384 lire, 90,136,491 lire of which was actually paid up. Their

* That is the latest date available; the new statistics are in hand but may not be issued for a considerable time.

debit holdings in deposits, cash-balances, and bonds issued amounted to 735,443,052 lire, their holdings in acceptances to 455,341,310 lire, in addition to 76,970,683 lire advanced otherwise. Four of the banks referred to possessed share capital in excess of 2,000,000 lire, rising, in the case of the *Banca Popolare* of Milan, to 9,373,300 lire. These banks were shown to be very unevenly distributed over the kingdom. Campania possessed the largest number by far, viz., 141, but then 101 of these reported a paid-up capital of only 6,252,091 lire, whereas in Lombardy, the leading province in the matter, seventy-eight banks, out of a total of eighty-three, reported 36,501,988 lire paid-up share capital, and 37,394,377 lire subscribed. Their holdings in acceptances and bonds amounted to 181,525,447 lire, their holdings in deposits, bonds issued, and customers' cash-balances to 295,126,400 lire. Venetia follows next, at a considerable distance, then Emilia, and in fourth rank Piedmont. It is in these four active provinces mainly that the co-operative banking business is concentrated.

For more detailed particulars we have to go back to the Statistical Returns of 31st December, 1902, issued in 1904. Out of 736 banks registered at that time 696 reported a collective share capital of 85,627,364 lire, with 37,231,141 lire reserve funds, and, by the way, 129,242 lire invested in "loans of honour." Their ordinary deposits stood at 104,615,030 lire, their savings deposits at 313,407,272 lire, out of a debit total of 755,910,379 lire; their holdings of acceptances discounted stood at 355,220,997 lire, the sum of other advances due to them at 49,466,558 lire. In 1898 (there are no more recent data in detail) there were in 594 of 696 co-operative banks then registered, which furnished returns, in all 381,845 members. The entire lending of the 696 banks within

that year amounted to 824,182,661 lire. The mean value of each discount given was 441.96 lire, of each advance not made by discount 379.45 lire. The percentage of advances not recoverable at the time, whether lost or only doubtful, had gone up, owing to reckless lending in Apulia, Campania, the Abruzzi, and Calabria, to 3.04 per cent. For Lombardy it stood at only .37 per cent., and for Venetia at only .19 per cent. M. Luzzatti at that time publicly compared the Italian banks with the German, and found that in the place of 561, as in Germany, the Italian banks averaged 642 members, and that the average share capital stood in 594 of these banks at 125,662 lire as compared with 177,021 lire in the German (962 banks), the reserve funds at 48,977 lire as compared with 56,248 lire, the deposits held at 635,673 lire as compared with 732,196 lire, the profits at 11,498 lire as compared with 13,081 lire, the allowances for philanthropic purposes at 211 as compared with 91 lire, and the lending at 1,426,724 as compared with 2,107,370 lire. The two sets of figures appeared to him near enough to prove that both sets of institutions are carrying on more or less the same kind of work in the same sort of way. Of course the German banks are stronger. But M. Luzzatti argues that the best Italian are more co-operative. In M. Durand's words, they have become "the envy of Europe." They represent a fabric which, as a financial power, ranks side by side with the Rothschilds ; which does a full third of its own country's banking ; and which through its thousands of channels dispenses annually a stream of millions, trickling down to the very spots on which help is most needed, and bringing forth prosperity in trade and agriculture, planting comfort in myriads of homes, and feeding, by the enlarged market which it supplies, the commerce and industries of Italy.

Movement. Its beginning.

That is the picture which presents itself to our eyes to-day. However, things wore a very different aspect in 1863 and 1864, when M. Luzzatti entered upon his crusade against usury. He then found himself face to face with a task of no little difficulty. He had his "plan of campaign" ready. But his army for fighting it had still to be created. There were only very few who believed in his "chimera." The very friends who consented to join him were sceptical, and contributed their small subscriptions rather "to oblige their friend," or "as one engages in a doubtful charity," than with any faith in the scheme. Like Schulze in Germany, he found himself hampered by a socialist Lassalle, one Boldrini, perpetually crossing his path and acting the Shimei by him. However, Boldrini had no Bismarck to back him up, and so his opposition came to a speedy collapse. A more serious hindrance was to be found in the backward state of the Italian law, which recognised no societies with unlimited capital, such as co-operative associations must needs be. Until 1883 the *banche* were compelled—innocently enough—to sail under false colours, styling themselves joint-stock companies, and altering the figure of their "limited" capital from year to year, in order to comply with the law. That helps to explain the comparatively slow progress made up to the date named.

The Pioneer Bank of Milan.

In spite of all these hindrances, M. Luzzatti—after a little co-operative experiment made in connection with a friendly society at Lodi in 1864—late in 1865 decided upon starting his first People's Bank in Milan. He found, as it happened, amid a world of obstacles, two forces favouring him. In the first place there were vast stores of money lying ready to his hand in the keeping of joint-stock banks and savings banks, whose custodians were not only willing, but even

Bankers befriend the People's Banks to Invest their Money.

eager, to let the new organisations have them, if they could at all satisfy them of their trustworthiness. The managers of those institutions readily detected in the new organisation an agent who might be turned into an exceedingly serviceable ally and feeder. He could open to them a wide additional field of business, all the trouble of cultivating which would fall to his share, while most of the profit would come to them. They resolved to trust him. In M. Luzzatti's words, they actually "vied with one another" in their efforts to take the new People's Banks under their "maternal guardianship." "In doing so," M. Luzzatti frankly insists, "they have only consulted their own interest." But all the same, he gratefully acknowledges the most opportune assistance received.

The Friendly Societies support them.

The second helping force which from their birth stood the new *banche* in good stead was the friendly societies. "We have issued," so says M. Luzzatti in one of his addresses, "from the womb of the friendly societies (*delle viscere materne di quei sodalizi di reciproco aiuto*)." Friendly societies were well developed in Italy. The point may become of considerable importance to at any rate one section of our own friendly societies, namely, those known as "dividing societies." With a co-operative bank handy, in which to lodge the money received when the annual "great divide" takes place, the objection which is quite naturally often raised against such societies comes to be met.

They at once detected the social and economic value of M. Luzzatti's idea, and took it up readily. Such societies were, as a matter of course, wholly debarred by their rules from themselves practising co-operative banking. But if they could not convert themselves into loan banks, they could at any rate supply the *banche* with members and secure to them support by

making their system understood among those for whom it was mainly intended. From the first they stood by the *banche*. The two institutions have become sworn allies. And the *banche* have had many an opportunity of repaying the favour of early support by substantial pecuniary services rendered when they had become strong.

On the 25th of May, 1866, M. Luzzatti opened the doors of his modest little establishment at Milan in a small hired room. It was a puny little affair. The bank had but £28 for its capital—oddly enough, precisely the same sum with which our Rochdale Pioneers entered upon an economic reform destined to revolutionise commerce. "*Moi, je souscrivis* 100 *lire, j'étais le millionnaire de la bande.*" Of course they could employ no paid clerks or officers. All work must be gratuitous. But there was a good will at the back of the enterprise. "Half my heart," long after said M. Luzzatti himself, "is wrapt up in the People's Bank of Milan."

Resource shown in a National Crisis.

The bank began its petty business amidst sneers similar to those which greeted the early labours of our co-operators of Toad Lane, in the humblest of ways. There seemed to be a long uphill fight in prospect. However, in its very first year fortune stepped in to befriend the bantling institution in quite an unexpected way. It had not been in existence many days when a monetary crisis, throwing all business into confusion, furnished to its founders an opportunity for showing their ready resource, and enabled them, by turning that chance to account, to raise their bank at once into public favour and reputation. The late Felice Mangili, who was Secretary of the Bank, relates the incident in his *Memoria*, published in 1881. Barely had the Bank of Milan opened the doors of its modest office, when Italy was plunged into war. In

the then state of affairs war necessarily meant a financial crisis, and the Italian Government, by way of aggravating such, had anticipated the opening of hostilities by enacting forced currency for the notes issued by the National Bank. There was general consternation. Gold was at a high premium, paper money was correspondingly depreciated. The Savings Bank of Milan alone lost about 800,000 lire before it rightly knew where it was. The public were in a state of ferment, and serious disturbances were apprehended. The *Banca Popolare* promptly came to the rescue, offering to issue *buoni di cassa*—bonds, or bills, that is, not notes—for small amounts, five, three, two lire, against security. The public jumped at the opportune suggestion. The Municipal Council readily approved it, and the printing press was at once set to work with admirable effect. A serious crisis had been averted—and the reputation of the *Banca Popolare* was made.* Within a year the number of its members rose from 400 to 1,153; its capital grew to 217,000 lire, its reserve to 7,902 lire; at the end of the twelvemonth it had discounted 687,606 lire worth of acceptances, had received 341,251 lire of deposits, the total of its transactions stood at 10,957,086, its profits at 16,030 lire. It was enabled to pay its members a dividend of 5 lire per share, that is, 10 per cent. The ship was fairly launched, and sailing along with a favouring breeze.

* It may be interesting to note that in 1893, during the great monetary crisis, something of the same sort was done, once more at Milan. There was a great dearth of token coin. Lire pieces were not to be had for love or money, and even bronze pieces were scarce. Trade threatened to come to a standstill. A local committee in Milan hereupon resolved to issue one and two lire notes on its own authority. The act was illegal. However, so much was the issue appreciated as a relief that even the Post Office gladly took those little green paper tokens,

Early Troubles. They are overcome.

In its subsequent career the bank has had more than one severe crisis to weather. However, the good fairy which befriended it at its birth stood by it all through. In no experience do the merits of co-operative banks show themselves more brilliantly than in their capacity to live through crises. Every crisis that has visited Italy has left far less impression upon the People's Banks than upon their non-co-operative rivals. More recently, it has taken about six years for the general monetary crisis, which affected ordinary banks at once, to penetrate into the citadel of co-operative banking; and when it did reach it, it led only to a diminution of business, not to any disastrous collapses. During one of these commercial disturbances the *Banca Cooperativa Operaia* of Milan actually went on increasing its roll of members from 4,268 to 4,929, its share capital from 58,547 to 63,856 lire, its available funds from 2,927,350 to 3,192,800 lire. The *Banca Popolare* weathered the storms which troubled it triumphantly. In the first fifteen years of its existence, up to 1880 (inclusive), its losses amounted in all to only 191,636 lire (£7,664), of which 68,567 lire was owing to frauds committed by employees and 3,606 lire sacrificed in support unwisely given to a co-operative printing establishment. And since that date the bank's losses have remained as trifling. The greatest danger which the bank ever had to face arose, not from a crisis, nor from outside pressure, but from its own midst. In the years from 1871 to 1873, when the promotion fever was raging throughout the world, and in Italy took the shape of what Signor Mangili has called *bancomania*, the shareholders grew greedy, and clamoured for the conversion of their bank into a joint-stock concern, in order that they might through it engage in speculation. The Committee offered a stout resistance, and just managed

to defeat the motion. Their constituents grumbled, but have lived to thank their leaders for their firmness.

Signal Triumph.

The face of things is changed, indeed, since those early days of struggles without and dissensions within. The Milan Bank has become one of the marvels of Italy. It is lodged in a palace. It employs, in addition to about 70 unpaid officers, more than 100 clerks. The number of its members stood at New Year 1909 at 24,774. Its paid-up capital amounted at the same date to 9,619,550 lire, consisting of 192,391 shares, with a reserve fund of 4,809,775 lire at the back, to raise the sum total to 14,429,325 lire (£577,172). In addition to 129,066,147 lire of ordinary deposits, the bank held 34,583,226 lire in savings. It had lent out in the course of the year 140,243,954 lire (£5,609,758) on acceptances. It carried on business with more than 300 other *banche popolari*, acting in a manner for them as a Central Bank. On a total turnover of 2,678,467,278 lire (£107,138,691) it had realised a net profit of 1,531,178 lire, which enabled it, after the deduction of the usual amount for profit-sharing and charities, to pay dividend at the rate of 7.20 lire on the 50-lire share. Its management expenses figured at 462,221 lire (not including rates and taxes). "*Toute cette organisation*," remarked M. Rostand, struck with admiration on seeing it, "*est remarquable comme ordre, ingéniosité, perfectionnement technique*."

Effects upon Commerce and General Prosperity.

What millions of money dispensed to those who could not by other means have obtained any does the forty-five years' work of that bank represent! And really that is the smallest portion of the service which it has rendered. "By its influence on legislation," says M. Rostand, "and by the model which it has supplied, the *Banca Popolare di Milano* has laid in Italy the foundation of co-operative credit." Of those

hundreds of banks which dot the Italian territory from the Alps to the Mediterranean, so says M. Léon Say, the People's Bank of Milan is either the mother or the nurse. "*La Banque Populaire magistrale de Milan et les grandes caisses d'épargne de Milan et de Bologne dominent, de la hauteur de leurs dizaines ou centaines de millions, tout le peuple de ces petites banques avec leures petites caisses d'épargne qui se meuvent dans leurs orbits et puisent les épargnes partout pour vivifier partout l'agriculture et les petites industries.*"

Summing up the history of the bank, Signor Mangili ascribes its success to the gratuitous rendering of services by the officers, the non-limitation of capital, the smallness of the payments exacted from members, the restriction of each member to one vote, the studied division of business into small units, with the extension of credit to every member who has shown himself deserving of it, the preference given to cheap credit over substantial dividends and the avoidance of any risky operation.*

All M. Luzzatti's banks have not grown to as great power as the one whose rather meteoric history has just been told. Nor can it be alleged that all have done well. It will still be shown that some have fared otherwise. But wherever right principle has been adhered to the tale has everywhere been more or less the same. It does not require superhuman effort to start a People's Bank, once you grasp the principle. But the right principle must be adhered to if there is to be success.

It may be advisable to give in brief words instances of other good banks, to show how the system works,

* La gratuità delle cariche, il capitale illimitato, le quote di tenue imposto pagabili anche con versamenti a piccole rate, l'unicità del voto, il frazionamento delle operazioni, l'elargizione del fido a chi fra i soci si ne mostra veramente meritevole, il credito anteposto agli utili, l'esclusione d'ogni operazione aleatoria.

how it will adapt itself to a great variety of environments and what good it will produce.

The great "Queen Bank" of Milan, indeed, with its mighty volume of business, I desire to hold up rather as an instance of signal success than as an absolutely perfect model. M. Luzzatti himself has awarded the palm for quality among all his banks to the excellent *Banca Popolare* of Bologna, which he speaks of as undoubtedly "the first in the world." These words were uttered at Bologna, otherwise they might appear unkind to the banks of Cremona, Bergamo, Vicenza, Lodi, Pieve di Soligo, and not a few others. However, a better model certainly could not be held up for instruction and imitation than the People's Bank of Bologna, which at the close of forty years' existence finds its paid-up capital increased from 111,756 to 1,586,100 lire, with a reserve fund of 2,931,664 lire at its back, and its turnover grown from 700,295 to 71,106,088 lire. Its annual profits have correspondingly increased from 4,787 to 317,529 lire. In the place of the modest 696,450 lire which marked its first year's business, it now lends out annually, among its 5,573 members, 46,153,166 lire. The brilliant success secured is not, however, what either M. Luzzatti or myself would wish to hold up most conspicuously to admiration. That success has been attained by excellent management, evidenced by the careful attention given at all points to the convenience of members—but concurrently with a practical display of philanthropy and public spirit bound to attract support. The bank has shown itself largely given to good works, not only in the way of "loans of honour" and contributions to useful and charitable funds and enterprises, but also in spending freely for technical education, which is to bring profit to the Italian vine-growers, artisans, and husbandmen. Its "loans of

The Banca Popolare of Bologna.

honour" it grants, up to 100 lire, free of interest; but it insists upon prompt repayment. In interest-bearing loan business it makes it a strict rule to give the preference to small business. Of its loans it is interesting to note that since 1899, when this branch of its business became considerable, 18,253,986 lire has gone to agriculture, lately at the rate of about 2,500,000 lire per annum, about half in discounts and half in cash credit.

All this money has been lent at the rate of $4\frac{1}{4}$ and $4\frac{1}{2}$ per cent. And never, not even in periods of greatest crisis, has the rate of interest for other loans or discounts been raised above $4\frac{3}{4}$ or 5 per cent. The rates allowed on deposits ranged from $2\frac{1}{2}$ to 4 per cent., according to the period for which the deposits were made. Losses have been infinitesimal. In the years 1907 and 1908 they amounted severally to 5,695 and 2,370 lire. One would wish to see every People's Bank animated by the same spirit.

It may be worth mentioning that the People's Bank of Bologna is the only institution of its kind which has taken advantage of the authority given by the law to collect very small savings in the shape of stamps which the Post Office cashes at a discount of 1 per cent.

Cremona.

The People's Bank of Cremona, having about twice the capital of the Bank of Bologna, is as excellent a type, and is interesting more specifically on the ground of its considerable agricultural business in a district quite as much devoted to agriculture as to industry. At the back of 3,302,250 lire share capital it has reserve funds of 2,678,900 lire. Its business amounted in 1908 to 382,842,926 lire. Its rate of interest charged has since 1870 never exceeded 6 per cent., since 1890 never 5 per cent. It holds nearly 43,000,000 lire in savings deposits. Of 30,987,299 lire acceptances discounted in 1908 6,702,900 lire

came from large farmers, 4,343,740 lire from small cultivators, 71,056 lire from rural labourers, 10,954,315 lire from larger manufacturers and traders, 7,543,449 lire from small, 226,054 lire from industrial labourers, 683,901 lire from clerks, schoolmasters, and the like, and 461,889 lire from persons of unknown occupations. Its losses in 1908 amounted to 121,761 lire.

Lodi. The Bank of Lodi—*Banca Mutua Popolare Agricola*—really the oldest bank of the Luzzatti type, is another admirable bank bearing a strongly agricultural character. Of something over 7,000,000 or even maybe 8,000,000 lire lent out annually, quite 4,000,000 lire goes to agriculturists, generally speaking of the large tenant class. Such loans are as a rule made in the form of cash credits, and losses are practically *nil*. As a proof of the confidence which banks like that of Lodi inspire, I may mention that an English engineer on the spot, holding an appointment in the service of the "Light Railways" of the district, informed me that he had advisedly drawn his money out of the local joint-stock bank in order to put it into this co-operative bank, "because he knew it to be safer."

Rovigo. The Bank of Rovigo has only 2,761 members as compared with the 7,400 of Lodi, and its capital is only 690,574 lire as compared with 2,793,772 lire (in both cases including reserve funds). It is equally agricultural but caters for a different *clientèle*—the smaller tenantry. The Bank of Rovigo in 1908 lent out 22,168,783 lire on bills, in addition to cash credits. Its losses on agricultural business are infinitesimal.

Credito Agrario Bresciano. The *Credito Agrario Bresciano* is an independent institution, but following generally Luzzatti lines. Its *clientèle* is specifically one of what in Italy counts as "medium" farmers—generally speaking freeholders. The larger farmers go by preference to the local Savings Bank, which, like all Italian Savings Banks,

is allowed by law to lend on personal security. The small go to the *casse rurali* of their districts, adapted "Raiffeisen" banks, of which I shall still have to speak. The Bank of Brescia is interesting as working for a long time side by side with an industrial co-operative bank established in the same place, and in a district in which co-operative credit has not been called into being by the extortions of usury. Even without such provocation, in a district in which good cultivation makes all the difference between profitable and unprofitable husbandry—one-third of the area is under irrigation—the urgent need of ample working capital, upon which I have laid stress elsewhere, has naturally come to be recognised. The Bank of Brescia has slightly over 2,000 members, a paid-up capital of 810,650 lire, with 1,215,075 lire reserve funds, and lends out some 10,000,000 lire at about 6 per cent., which enables it to pay its shareholders from 4 to 6 per cent. in dividend. The Bank of Acqui, almost purely agricultural, is interesting because it has raised itself to acknowledged strength from what was practically bankruptcy. The bank was formed in 1883, to serve an exclusively agricultural—that is, viticultural—district, and within little time found itself with 400,000 lire to the bad, owing in the main to depreciation of land and agricultural produce. The present manager then took charge of the establishment. Fortunately, as it happened, another bank in the neighbourhood came to grief about the same time, and people in the district transferred all their deposits to Acqui. Since then the bank has made deposits its principal source for the supply of funds. It takes bills from neighbouring smaller banks, but rarely passes its own on for rediscount. "A good deposit bank," so the manager, M. Scotti, puts it, "should stand in no need of credit." To secure itself against danger

Acqui.

which might arise from a sudden withdrawal of deposits, the bank keeps a comparatively large portion of its funds invested in readily marketable securities, which means that, to keep itself safe, it does less lending in proportion to its money than industrial banks. It is now strong in funds, and pays a good dividend.

Spigno.

Speaking of agricultural banks, I am bound to mention the little host of small banks, specifically agricultural, of Piedmont. Actually the smallest of these is that of Spigno, which has little over 200 members. In 1894, when I visited it, there were 228, of whom 18 were medium cultivators, and 163, the bulk of the *clientèle*, decidedly small men, alike freeholders, tenants, and *mezzadri* (*métayers*). Thirty members were village tradesmen. Of the 228 members, 112 held only one share of 20 lire (16*s.*) each. The small share capital could not obviously go very far, and evidently savings deposits were not very considerable. The people are very poor. The friends of the movement have come to their aid, paying in deposits and taking long-term bonds. And the local friendly society, which is really the parent of the bank, and which still provides the bulk of its members and lends its office, pays in its funds. So does the *municipio*—the parish council. By that means the little bank, holding only 11,849 lire of paid-up capital of its own, was enabled to lend out in 1894, 179,670 lire, of which the major portion was lent in amounts under 300 lire. As much as 49,327 lire was lent out in amounts of less than 100 lire (£4). This little bank is to me one full of interest. But what with the support which it receives on the strength of the "moral" responsibility which Cavaliere Spingardi, the President, frankly owns that men like himself—he is the "little Providence" of the bank—owe to their poorer brethren, in excess of the duty which their limited liability lays upon

them, I can scarcely look upon it as a *bonâ fide* "People's Bank," however useful and beneficent it may be. And I cannot help thinking that in so small and so distinctly rural a district a Raiffeisen bank would be more in place.

The Banca Cooperativa Milanese.

In Italian towns, as in the country, to see how the *banche popolari* can do good work, it is well to step down from the level of large institutions like those of the *banche popolari* of Milan, Cremona, and Bologna, to a lower stratum. On a smaller scale there is quite as good work to be shown. There could not be a more co-operative bank than the *Banca Cooperativa Milanese*, which, having begun on rather humble lines, now commands a share capital of 3,447,050 lire, held in 68,941 shares by 5,674 members, with 907,083 lire reserve funds at its back. It has a name for being greatly helpful, more particularly to small tradesmen, and also to co-operative productive societies. Its deposits amount to about 8,500,000 lire. In 1908 it discounted acceptances to the amount of 25,607,598 lire, and granted 13,175,455 lire in cash credits. Its losses amounted to only 11,105 lire. In Bologna, side by side with the pretentious *Banca Popolare*, you have the modest

La Banchina.

Operatives' Bank, locally known as *La Banchina*—its correct title is *Banca Cooperativa per gli operai e la piccola industria della città e provincia di Bologna*. The bank has now 10,190 members, dispersed over all the province, and disposes of a paid-up capital (with reserve fund) of 241,180 lire. The members are all small folk with small wants in respect of loans. The majority of loans vary between 200 and 300 lire. Serving a large district, by means of local agencies—which, in conjunction with the large amount of work necessitated by the smallness of the transactions, swell the expenses and make a margin of $2\frac{1}{2}$ per cent. between lending and borrowing imperative—the bank

deals out about 4,000,000 lire in loans in the course of a year. Descending lower still in the scale, there is the *Cassa Cooperativa di credito della Società Operaia maschile*, which issues only 5-lire shares, thereby securing a capital of 49,205 lire, with reserve funds of 31,297 lire raised self-denyingly by assignment regularly of 30 per cent. of the annual profits. Thanks to the collection of 237,329 lire in savings, it managed in 1908 to lend out a considerable sum to its working-men members. This little bank is really one of the triumphs of working-class self-help in Italy. It was set up in 1883, with only 464 members, subscribing 10,980 lire (£439) in share capital. For ten years its shareholders were content to do absolutely without dividend. By dint of sacrifice and pegging away the society has managed to raise itself to its present position. From 14,670 lire its savings deposits have gone up to 237,329 lire ; its credits have grown from 23,663 to about 281,000 lire. And the little institution maintains itself and keeps solvent, and does an immense amount of good in dispensing relief to working folk by loans which up to recently must not in any one case exceed 150 lire (£6), if the loan be an advance, or 200 lire if it be granted by way of discount of an accepted bill. Quite recently the limits have been raised severally to 300 and 500 lire. The interest charged is necessarily rather high, $6\frac{1}{2}$ per cent., and the maximum length of time is fifteen months. No member is allowed to hold more than five shares. The whole concern is humble, but thoroughly republican, and has been raised up out of palpable weakness. By good management it has succeeded in maintaining itself, and maintaining itself creditably, by self-help alone.

A Working-men's Bank.

M. Luzzatti, in his Preface to the last Statistical Return of *Banche Popolari*, calls attention to the

Employees' Banks.

increase in the number of credit associations formed specially for the use of civil servants, railway employees, and others forming the staff of large establishments, and dependent upon salaries. The employees' societies include associations of school teachers, a very suitable class, to whom occasional credit must be of considerable importance. Railway servants are in Italy very conspicuous alike in this and in other forms of co-operation. They are answerable for no fewer than five credit associations in Italy. The employees of the Ministry of Agriculture, Industry, and Commerce have formed their own co-operative credit bank, as have also the clerks of the large Bank of Naples. Lastly, the Italian "Army and Navy Stores," an establishment smaller, of course, than our own in Victoria Street, the *Unione Militare*, has introduced a system of credit which is very discreetly managed, but is found useful, mainly to junior officers, when money happens to be scarce—though the sums advanced are not generally large, never exceeding £80, lent at 4 per cent.; and the entire practice really only amounts to an equivalent to credit for purchases at the particular store.

"Catholic" Banks.

People's Banks having proved popular, one cannot be surprised at seeing the Church of Rome, always a good strategist in matters affecting her interests, studying to take advantage of the magnetic power of the useful institution, to add one more material support or bulwark to her fabric. Denominationalism is not in itself a desirable factor to be introduced into banking, and it is to be doubted if a bank attracting recruits by relief offered for their material needs constitutes the best possible missionary for the Church. However, we ought to bear in mind that among purely Roman Catholic populations institutions which we should set up as generally "Christian" or "philanthropic" or

"educational," as a matter of course assume the name "Catholic," under the dubbing of good men to whom "Catholic" appears identical with, if not indeed superior in expressiveness to, "Christian," or generally "good." The "Catholic" banks have done not a little to popularise credit—more particularly small credit for the artisan and small farming classes—all over the kingdom. In my second edition I had still to speak of them as centred mainly in Venetia, in which province the movement began. Since then they have spread out their net all over Italy. According to the *Annuario Statistico* for 1905, which is the most recent that I have been able to obtain from headquarters, there were on 31st December, 1904, sixty-eight of these banks established all over Italy—independently, of course, of the Roman Catholic village banks, which by this time number about 1,600, and to which the "Catholic" *banche*, being strong more particularly in deposits, lend very substantial assistance. "Catholic" banks muster most strongly in Lombardy, Emilia, the Marches, Piedmont, and Venetia. But there are outliers also in Umbria, Tuscany, Apulia, Campania, Calabria, the Abruzzi, and even in Sicily. Their accepted grouping in unions is, however, not according to provinces but according to dioceses, the bishops of which in all cases stand at the head of the unions. Of course they make the best show and flourish best in well-recognised "Catholic" centres, where wealth gives them much support, and poverty seeks shelter freely under their canopy. Such banks as that of *San Paolo*—each of them has some patron saint—of Brescia, with still only 100,000 lire paid-up share capital, but by the side of it 484,088 lire reserve fund, and no less than 14,192,967 lire savings deposits (on which it allows $2\frac{3}{4}$ per cent.), and 13,987,330 lire outstanding

in credits (11,562,059 lire in cash credits, and 2,425,271 lire in discounts); and again the *Banco Ambrosiano* of Milan, with its 3,000,000 lire paid-up share capital, and 15,782,911 lire savings deposits (13,942,644 lire of others) are real banking powers. The *Banca San Paolo* was, I believe, the first propagandist centre, and very active as such under its able director M. Tovini. The table published gives no number of members. But it shows that the entire sixty-eight banks had collectively 7,439,407 lire share capital, 2,423,223 lire reserve funds, 124,994,977 lire savings deposits, 46,317,912 lire other deposits, and 117,405,510 lire outstanding in loans (71,229,925 lire in cash credits, and 46,175,585 lire in discounts). The figures for savings deposits are generally rather remarkable.

One peculiar feature about these banks is the attention given to small credit, *piccolo credito*, from which about a dozen banks take their name: *Piccolo Credito Bergamasco*, *Romagnolo*, *Bussetano*, *Comasco*, and so on. This particular line of business was first taken up in the strongly "Catholic" city of Bergamo, under the leadership of Nicolò Rezzara, who possessed an extraordinary gift as an organiser. These are by no means small banks, although they deal in small, and sometimes very small, credit. The *Piccolo Credito Bergamasco* has a share capital of 292,740 lire, with 136,311 lire reserve fund, and 7,147,923 lire savings deposits; its outstanding credits amounted in small amounts to 5,778,838 lire. The *Piccolo Credito Romagnolo*, which has offices at Bologna, Ferrara, Faenza, and Rimini, is about equally strong. These banks do very much for small tradesmen, and are active forming village banks and constituting themselves centres of provincial "Catholic Unions," agricultural and otherwise, "Catholic bakeries," "Catholic young men's

provident societies "—and "women's" ditto—"Catholic working-men's clubs, soup kitchens," and the like.

Recently the "Catholic" banks have combined to a Federation, which was, of course, much easier to form than a union among non-denominational banks, and which carries out an annual inspection of banks.

A Tribute to M. Luzzatti.

Whatever be the merit of this specifically "Catholic" movement, and of all the other more or less independent co-operative banking—which of course one must expect to see overflowing from a vessel so rapidly filled to the brim—all that work is manifestly due to the good example set by the *banche popolari*, introduced more than forty years ago by M. Luzzatti, whom, in view of the magnificent work accomplished, and still in progress of accomplishment, I accordingly have good cause for calling, as I have done in my dedication, "the benefactor of his country."

The Result.

We should now be in a position to cast up very briefly the main merits of the *banche* and to compare them with such defects as of necessity such very merits carry with them. For there is no good quality which is not apt, by exaggeration of itself or else by neglect of some other quality necessary for the balance of the institution, to generate a defect.

Admirable Management.

Nobody who has seen the best known Italian *banche popolari* has failed to remark upon the admirable management under which these banks have, generally speaking, found themselves from the beginning—the businesslike practices and the astonishing resource of those who were placed at their head. A mere glance at their work must show that, as Léon Say has put it, these banks are "as skilfully organised as if the best actuaries of London and New York had given their help." Balance-sheets, the smooth flow of business, the remarkable order prevailing throughout, all go to prove this.

The quality of the management on the whole is, indeed, eloquently attested by the remarkably small percentage of losses sustained. Losses have averaged .22, .27, .33 per cent. of the lending. In 1898, which is the last year for which there are comprehensive official figures, on a business of 824,182,661 lire there were 1,119,910 lire lost. In the best banks the proportion is smaller—in the *Banca Popolare* of Bologna about 10 centesimi on every 1,000 lire lent out, say, 1*d*. on £40.

How the Banks spread.

Quite evidently the business of the co-operative banks is not only sound, but the soundest that there is in Italy. And although their activity has met with a temporary check—just as in Germany—the marked difference in comparative decline between them and other banks, telling strongly in their own favour, shows that they are destined, not only to maintain themselves satisfactorily, but to renew their advance as times improve. There is no more encouraging feature about these banks than this, that one of them is never set up without calling up within very little time a family of others, clustering around it, to serve for different *clientèles*—more or less pretentious as the case may be. By the self-evidence of its advantages the business seems to propagate itself. Thus around the *Banca Popolare* of Milan have sprung up in that city alone eight new banks, as on a graduated scale; round the Bank of Bologna five; round that of Naples twenty—all of them more or less *étagées*, "ranged in tiers," suiting their requirements to their own peculiar public, and issuing shares of from 5 lire (4*s*.) up to 100 lire (£4). They push forward in their own peculiar way. A Central Bank begins by sending out *succursales;* after a time the *succursales* decide to turn themselves into independent banks; the Central Bank, without a suspicion of jealousy, readily helps

them, and their business doubles and trebles. Thus province after province is taken possession of with a regularity of method, and a certainty of success, which remind one of the conquest of a country by a victorious army. There are cases in which the unselfish parent-bank has, like a pelican, fed its offspring on its own flesh. Thus the Bank of Cremona has four *succursales*, which did not at once pay. Indeed, three of them—Soresina, Casalmaggiore, and Piedana—among them in 1890 made a loss of 6,000 lire. Nevertheless the 5,100 members composing the five establishments —holding, in all, 42,000 shares—went on working together as one body, drawing precisely the same dividend throughout. The thing would right itself in time. The old Bank of Lodi has five *succursales* and eight agencies, the Bank of Novara seven, and so on. The common feature throughout is amicable co-operation, carried out on the principle which M. Luzzatti ever presses upon his banks, namely: "*Independenti sempre, isolate mai*"—union combined with decentralisation, independence, and yet general alliance.

One or two catastrophes have, as observed, occurred, but only by a departure from accepted rules. The Bank of Alessandria lent out too much money on mortgages and had to close its doors. The Bank of Genoa provided money for speculative enterprises. The Bank of Brescia (not the *Credito Agrario Bresciano*) speculated in sulphur. All three came to grief. Generally speaking, the banks have proved remarkably safe, and there can be no doubt that they have done much good. There have been telling figure-charts prepared by the Royal Statistical Department to show this. There have been fewer losses, and the movement of business has been much less disturbed by temporary incidents, such as feverish inflation and calamitous drops than in other banks. In respect of the formation of

capital, the transaction of business, the avoidance of losses, co-operative banks, *as a whole*, show a steady upward movement, comparing most favourably with the zigzag lines, recalling a mountain chart, of ordinary banks.

Defects.

But unquestionably there are also some defects to be noted. Whether the want of a "popular" character, which has sometimes been alleged, ought to be set down as one is in my opinion rather questionable. Like Schulze-Delitzsch, M. Luzzatti intended his banks as in the main middle-class organisations. He himself would not have the very poor as members in them —the 4*s*. banks are of later origin, and only show that his methods are more widely applicable than possibly he himself anticipated at the outset. Poor people were indeed to be benefited, but not by membership. No doubt, accordingly, working-men are few. And very accountably so. Obviously, the demand of a share, say of 50 lire, to be paid up in ten months, is rather a heavy tax upon a wage-earner, more especially since there is an entrance fee levied in the bargain, which in some cases—for instance, in that of the *Banca Popolare* of Milan—stands for as much as 25 lire. That is the highest amount levied in such way in Italian People's Banks. In many cases it is much smaller. Add to this that, by what I cannot help thinking an ill-judged introduction of commercialism into Co-operation, in prosperous banks the share rises in issue value in proportion with the growing reserve, by 25, 50, and 100 per cent., and no one can be surprised at finding the "poor" element rather scantily represented. In some recent statistics we have, on an average of 639 banks, 6.56 per cent. of the members classified as substantial landed proprietors, 24.12 per cent. as smaller cultivators, 4.66 per cent. as rural day labourers, 4.77 per cent. as large

Composition of Membership.

manufacturers and merchants, 25.25 per cent. as small tradesmen and manufacturers, 8.11 per cent. as factory hands, 18.86 per cent. as civil servants, clerks, teachers, &c., and 7.67 per cent. persons as without an occupation. These proportions are pretty constant from year to year. In Cremona, which may be taken as a typical bank, with its branches, there were in 1908 out of 10,919 members, with 65,795 shares of 50 lire each (7,994 men and 2,925 women), 423 large landowners and farmers (holding 5,595 shares), 2,185 small (holding 9,911), 196 day labourers (640 shares), 242 large manufacturers and traders (3,016 shares), 3,191 small (16,408 shares), 785 artisans and workingmen (1,630 shares), 1,267 clerks, employees, schoolmasters and men and women of liberal callings (8,020 shares), and 2,630 without a known calling (20,575 shares). As between bank and bank, of course, the proportion varies. In the large People's Bank of Bologna, for instance, you have, out of 4,971 members, 1,842 small tradesmen, 917 small freeholders, 818 clerks and civil servants, 441 teachers, medical men, chemists, &c., and only 301 day labourers. On the other hand, in small banks like the *Banchina* and the *Cassa della Societz Maschile*, you have the working-class element preponderating. But such banks are few. One very satisfactory feature observable in the figures is the rather striking increase in the number of "small agriculturists" who have become members of People's Banks. Such small cultivators figured in 1876 at only 16.80 per cent. of the sum total of members; their proportion now stands at 25.03 per cent. The proportion of rural day labourers has likewise steadily increased, though only from 3.20 to 4.37 per cent. On the other hand, the number of small traders, &c., has (proportionately) decreased from 32.15 to 24.47 per cent., and that of persons without a calling from

13.15 to 8.75 per cent. On the whole, accordingly, there has been something of an advance in the direction of greater "popularisation" of the banks, though not, perhaps, at a sufficient rate of progression.

Distribution Holdings.

The picture presented shows even more of a middle-class hue when you come to give a turn to the kaleidoscope, so as to bring into view the proportionate *holdings* of the several interests represented. The 6.56 per cent. of substantial landowners in the banks generally held 17.95 per cent. of the shares, the 24.12 per cent. of small cultivators only 14.69 per cent., the 4.66 per cent. of rural labourers 1.80 per cent., the 4.77 per cent. of large merchants and manufacturers 14.90 per cent., the 25.25 per cent. of small tradesmen 20.86 per cent., the 8.11 per cent. of factory labourers 4.05 per cent., the 18.86 per cent. of the professional classes 15.34 per cent., and the 7.67 per cent. of persons of no occupation 10.95 per cent. There is, of course, nothing exceptionable in this ; it is perfectly natural, and indeed proper, that the better-to-do should have the largest holdings. The figures will, however, deserve consideration when we come to consider the question of a limitation of dividend. Group a bank as you will, once you adopt the principle of *shares*, you cannot avoid receiving into it two distinct classes, whose interests *may* become antagonistic ; and in the interest of the weaker, if you want to keep the bank co-operative, you will have to interfere to maintain the balance even.

What follows will show that, notwithstanding all this, M. Luzzatti's Co-operative Credit finds its way down into humble strata enough and works there with singular beneficence, not only among artisans of the towns, but also among very small cultivators in rural districts.

It is a far graver reproach that these banks, by the

very businesslike character of their management, are apt to engender a spirit of very un-co-operative greed, and to degenerate into profit-seeking, money-grubbing institutions, to the benefit less of the credit-seeker than of the contributing capitalist. There are many banks of doubtful, and worse than doubtful quality. Somehow they "scrape" along, keeping their heads above water, but their position is known not to be sound. Occasionally one or other surprises the world by a phenomenal crash, like the banks of Genoa, Alessandria and Brescia, that used to be. Undoubtedly there is a great deal of gain-seeking which directly defeats the original object. The reason is, in M. Luzzatti's words, uttered with an unmistakable sigh, that "we have succeeded too well." Like Schulze, acting in Germany, M. Luzzatti was at the outset very accountably unable to estimate the effect of the bids which he held out to capital, and in consequence bid too high for its support. There was no limitation of dividend—for the reason, as M. Luzzatti has explained to me, that it seemed doubtful whether there would be much surplus to divide. There has come to be ample. Banks have paid 10, 14, 15, up to 20 per cent., in one or two cases even more still. That has meant excessive interest levied upon borrowers—consideration rather for the capitalist than for the credit-seeker, for whom the banks were really intended. That again has brought in its train a premium upon shares, which in some cases rises very high, being calculated, not only according to the dividend paid, but also according to the amount of reserve fund accumulated, to a share in which membership gives a title. And these appreciated shares are in some cases openly dealt in in the market. That is altogether un-co-operative. And that, so it may be not out of place to state, does not occur in Germany, where, despite some other abuses

which have crept in, "shares" in "credit associations" really constitute not shares at all, but *parts sociales*, unvarying contributions to a common fund. Such study of gain has led to some banks being regarded simply as "shops," to transact business yielding advantage to the individual, regardless of its effect upon his comrades, like joint-stock banks. In point of fact some whilom "co-operative" banks have even been formally converted into joint-stock banks, as in Germany. Not a few more are so in fact, although retaining the co-operative form. Members in such consider themselves simply customers; their society is to them a shop. They do not attend General Meetings; they are quite satisfied if they get their banking done. That has in some cases led to the establishment of prætorian rule. The bank's employees are expected to be members. Accordingly they have votes. They are on the spot, and their vote decides by whom they themselves are to be governed.

Good men in the banking movement—M. Luzzatti at the head of them—are endeavouring to remedy this. They now urge banks to limit their dividend. Some banks have responded to the call. One or two have gone further and have introduced the *ristourne*—the "dividend to custom," as we call it—which in limited liability banks ought certainly to be allowed. However, at the present stage it is difficult to interfere, impossible to insist. People have got used to their ways. They prize their fat dividends. They have bought their shares at a premium and do not wish to sacrifice part of their money. They have grown quite content with simply receiving banker's services from their society. Much of this, at any rate, would have been avoided if the banks had followed Schulze's example betimes and joined together in a union exercising certain prerogative functions over

them, bringing the force of co-operative opinion to bear, and above all examining their accounts and reporting upon them.

One ought not, however, to exaggerate the several abuses enumerated. There are excellent banks, and there are many of them.

"A Nation in Banks"

Throughout Italy these banks have become a power for good; and if Lord Jeffrey spoke truly when he laid it down that the greatness of a nation and the happiness of its people do not depend so much upon the increase of its military strength as upon "the spread of banks and the increase of banking facilities," Italy, with her smaller army, has no need to shrink from comparison with her more powerful military neighbours with their mighty "nations in arms" —against which she has to pit her "nation in banks." Looking at all these busy, laborious hives, in which not a drop of honey is allowed to run to waste, you cannot fail to realise that they represent a great and beneficent national possession, a richly-yielding horn of plenty, and that, in M. Durand's words, "This magnificent network of institutions of popular credit, for which Italy is beholden to M. Luzzatti, may well excite the envy of Europe." "It is impossible," says M. Luzzatti, with just pride, in his presidential address of 1887, "not to acknowledge that we have delivered the small folk and the middle-classes from crushing usury, that we have assisted commerce, and, lastly, that we have helped to cultivate throughout the fruitful tree of thrift on ground which previously appeared absolutely barren."

CHAPTER XII

THE "CASSE RURALI" OF ITALY

Need in Italy of Small Village Banks.

AS in the person of M. Luzzatti Italy had its own Schulze-Delitzsch, Providence so ordered it that it should have also its own Raiffeisen—not a mere mechanical imitator, but an intelligent adapter, taking into due account the peculiar circumstances of his country. There can be no doubt that the ***banche popolari*** do not adequately occupy all the ground which calls for cultivation. They do wonders among small trading folk with moderate means. They do a great deal for substantial farmers. They do very little for the large class of small agricultural cultivators, who need help very sorely.

Common Features in Rural Italy and Rural England.

The case of rural Italy ought to be interesting to us, because there are some features which link it rather strikingly with our own rural economy. In Latium, in Umbria, in the Marches, and in parts of Lombardy and Venetia, there is the same paucity of landowners, a very similar system of land tenure, even more absenteeism, and—here is a point of difference—incomparably greater harshness practised in the collection of rents. In Italy the need of the humble tenant classes is, indeed, owing to peculiar circumstances, even more accentuated than among ourselves. To the mass of the people in the country life is a perpetual struggle. Everything, of course, is backward—tillage, trade, family economy—in that little cottage which poverty has stripped bare of every comfort. The farm implements are primitive, the manure is of the scantiest, and

so is the fodder given to that poor, mis-shapen live stock, which, in nine cases out of ten, belongs to a usurer, who draws all the profit out of its rearing. Rents are rigorously exacted, and to the little household, perpetually in debt, "money" is as much of a meaningless "expression" as "Italy" used to be geographically before the Union. Even wages offer but a slight alleviation to the cultivator's lot. For their scale is very low—50 centesimi for a woman, from 80 centesimi to 1 lira, or at most 1½ lira for a man.

Need begets Usury. Instances.

Of course such an economical desert must needs bring forth its own peculiar weeds. Usury is rampant. Its practice is scarcely even held disgraceful. Indeed, the usurer has come to be looked upon as quite respectable. There is nothing on which he will not lay his hands. If the poor peasant wants money, he can have it at rates varying from 50 to 1,200 per cent.—often with a Sunday dinner thrown in as a prescriptive condition. Or he may have it from a bank in the town, at which, in consideration of a heavy fee, the usurer consents to act as surety. Should the peasant require a sack of maize—as he sometimes does—he can have that in kind, of inferior quality, at the rate of 24 lire for what in the market costs only 12 lire, but at three months' credit—a matter of 400 per cent. per annum. Should he require live stock, there is the same friend in need to provide it by an arrangement called *soccida*, which throws all the risk and cost of keeping upon the hirer, while securing a sure half of the profits to the lender. Should he want goslings for his wife to rear up and fatten for the market—as favourite an industry in Venetia as chicken-cramming is in Sussex—the usurer will let him have his £2 wherewith to buy fifty goslings, claiming back as interest, at the close of five or six months, five fat geese, representing a value of £1.

That has proved merry business for the usurers, but it has kept the peasantry in abject poverty, which was rendered more marked when hard times came, and either the earth refused to yield her fruits or the market its prices. Their condition became worse than mere poverty, for it crushed all hope and elasticity out of them. After the year 1880 had brought on the critical period of depression, there seemed scarcely anything left to work for. Cattle, implements, furniture, were all pledged to the usurer. And feed as poorly, clothe himself as scantily, live as miserably as he would, all the peasant's toil went but to enrich his oppressor.

The Earliest Propaganda.

For such a population as this the Raiffeisen Village Banks, with their aptitude for conjuring money out of nothing, appeared the one thing needed. Of course their fame had penetrated across the Alps, and in 1883, just before Dr. Wollemborg resolved to make himself their champion in Italy, M. Luzzatti cleared one hindrance to their introduction out of the way by publicly declaring that "if the ardour of an apostle were to raise up banks similar to those of Raiffeisen, they should be welcome; he would not in Italy renew those useless and disgraceful polemics with which these banks had been met by his friends in Germany; if they did not disdain to accept it, there he offered them his hand for alliance and help."

But, unfortunately, the fame was as yet nothing but fame. The Italians "heard the message, but they lacked the faith." No one really believed in the practicability of the thing. Signor A. Keller had championed it in speech, but gained no converts. And when Dr. Wollemborg made up his mind to try his hand at a practical experiment, "everybody told me," so he himself says, "that my undertaking was 'impossible.' And I silently recalled to mind that fine saying

of Carlyle's: Every noble enterprise is 'impossible' at its outset."

In his own Venetian home of Loreggia Dr. Wollemborg had a good district to begin upon. Loreggia is a biggish parish, with something under 3,000 inhabitants, mostly devoted to agriculture and small trade. It was at the time a typical "depressed" place because, barring Dr. Wollemborg himself, none of its landlords ever came near it, contenting themselves with drawing their rents—which were heavy for land not naturally fertile and poorly developed. With a tolerably well-filled purse come to him by inheritance, Dr. Wollemborg might have done a good deal by charity to relieve actual distress. But that would have been missing the best part of a good deed: the raising and educating of the people. So he decided to take his place by the side of his poorer neighbours as one of themselves, and to make every one contribute to "his own emancipation"—claiming distinction above them only in the prerogative of work. In June 1883, having secured the support of in all thirty-two members—including, of course, the *paroco*—he opened his little pioneer bank. "*La date mérite d'être notée*," says M. Rostand; "*elle marquait la naissance d'une institution.*" His first work proved very uphill. There was no good fairy to stand by the bank. Every inch of ground had to be conquered. To provide the first funds, Dr. Wollemborg himself opened his purse, advancing £80—besides, I presume, paying in the bulk of that £280 of deposits which the bank managed somehow to attract in its first term of business of four-and-a-half months. Later, the public Savings Bank of Padua consented to lend £160.

Dr. Leone Wollemborg.

The First Cassa Rurale.

Ever since, the Italian Savings Banks have all through stood loyally by the little *casse*—once they found them to be safe. Dr. Wollemborg himself con-

fesses that, but for their support, he would have found it difficult indeed to accomplish his purpose. The Savings Banks have not lost a penny by their confidence. And long since the *casse* have conquered for themselves a position which places them above the necessity of begging favours in any quarter.

However, I am anticipating events. When the Bank of Loreggia had been in existence three months, great was the surprise of the peasants who had become borrowers, on receiving an advice from the *ragioniere* (the accountant or actuary), to the effect that they owed 1½ per cent. on their loans. One-and-a-half per cent. ! Surely that must be a mistake. Incredulous, they brought their books back to the *ragioniere;* such a thing had never been heard of ! When they found it to be correct all the same, the fame of their *cassa* travelled abroad as on wings. "The propaganda begun," says M. Rostand, "the diffusion worked its own way. Here, there, the author of this new institution found himself summoned, sometimes by a landlord less indifferent than the rest, sometimes by the *sindaco* or the *paroco*." A little while ago the bank numbered 128 members. It is not actually overburdened with cash ; it has to study strict economy in all things ; many of its transactions are humble and small. But it raises all the money that it wants. It had, at the time spoken of, a little reserve of 2,996 lire laid up, which has grown very slowly, but promises, now that it has reached such a point, to increase more rapidly. To do them justice, the members are anxious to increase what they know must in the long run prove the backbone of their bank. At a special meeting, composed mainly of borrowers, in the early history of the bank, they resolved rather to go on paying a somewhat higher interest than was absolutely necessary—that is, 6 per cent.—than stint the reserve. The bank has generally about

£600 or £800 out in loans fructifying in people's farms, in the shape of cows, or pigs, or goats, or implements, or manures, or feeding-stuffs ; or else earning a profit in village shops in the shape of raw material which gives the tradesman employment for his labour.

Its Organisation.

In respect of organisation Dr. Wollemborg has in all essential points proceeded on Raiffeisen lines. His associations are smaller than the German—generally speaking, more needy, to begin with. Strict economy, even in small things, is accordingly a matter of even greater moment. Under the circumstances an active participation of each member in the work becomes more of a necessity, while at the same time its application is made easier. The members meet oftener and administer their own affairs more in common. Hence, if possible, an even more lively interest, even fuller co-operation in small things than is seen in Germany. There is not a meeting at which all members who are able do not attend. Should any fail, they are looked upon by their brethren much as were the ἰδιῶται, who would not vote on public matters, by the Athenians, and are visited accordingly—not, indeed, with the capital punishment meted out by patriotic Greeks, but with a fine of 50 centesimi, which to their thrifty notions seems quite heavy enough. There is something naïvely simple, almost patriarchal, about these co-operative "parish councils," in which every member claims the exercise of his right to vote. There the members settle the instructions for the elected Committee—which meets once a fortnight, to overhaul accounts, to receive savings, and to consider applications for loans. In most banks the general meeting will limit the lending powers of the Committee to 300, or 500, or 600 lire, as the case may be, per credit to any one individual ; and to a larger figure for collective lending ; while at the same time determining the interest to be charged on

loans and allowed on deposits. At Loreggia the members began by limiting their Committee's discretion to 10,000 lire, which they soon extended to 16,000 lire. At Vigonovo they began with 20,000 lire, to substitute, shortly after, 30,000. All the expenses are cut down to a minimum. The poor *cassa* of Loreggia, to state one instance, cannot afford to pay its cashier £37 10*s*., as does the opulent *Darlehnskasse* of Mülheim. It allows him 40 lire (32*s*.) per annum, and all its annual expenditure totals up to only about 60 lire (£2 8*s*.).

One would think that with a Post Office Savings Bank always open, the villagers would for convenience prefer to deposit their savings there, rather than wait for the fortnightly meeting of the Committee of the *cassa*, which allows them not a farthing more. But the vast majority bring their money by preference to the *cassa*. It is their own. It is administered by themselves and their officers. It keeps the money in their district. They take a pride in its success. For loans, of course, the villagers have no other bank open to them except the *cassa*, and they appreciate its beneficent ministrations all the more. And hence its rare educational value. In respect of personal qualifications it is strict as strict can be. A man may be as poor as a church mouse ; that is no bar to his election. But he must be honest, and sober, and thrifty, and well conducted, and thoroughly trusted by his neighbours. And he must be able to write and read, at any rate rudimentarily. Under the joint influence of the *banche* and *casse*, illiteracy, which used to be as rife in Lombardy and Piedmont as ever it can be in Ireland at election time, is being rapidly stamped out. In the applications and receipts preserved by the *ragioniere* you can trace the progress of sexagenarian scholarship in elementary caligraphy, in the gradual softening and

rounding of those straggling characters which stand for members' names. "The illiterate learn to write, in order to be admitted to the *cassa*," so reports M. Rostand, "because every member must be able to sign his Christian and surname. The door is closed mercilessly against those who have contracted the habit of drinking; they have mended their ways, and after that have been admitted. The rules demand guarantees of personal morality: the small field-thefts have diminished, because such or such an one has been expelled. The principle of mutual aid has grown more vivid. People have learnt to be punctual in their payments." The little band, in fact, realise almost to the full Signor Ettore Levi's ideal of a co-operative society—"an honest and industrious family," in which all members feel strongly drawn to one another, where all gladly render gratuitous service, well knowing that in studying the common good they are at the same time furthering their own private advantage. Hence the volunteer service, willingly given, hence the love which binds all members to their bank, hence the power which enables them scrupulously to carry out all the work which they have undertaken.

Among such a constituency as this there is rarely any occasion to refuse a loan. The borrower has to state his object, as in a Raiffeisen bank. He may want to buy a heifer, or some artificial fertiliser, or timber for carpentering, or some leather for making shoes. All these items are recorded in the minute-book, which shows a surprisingly varied collection of different wants supplied. And to the object stated he must adhere.

A Slight Departure from the Raiffeisen Method.

Dr. Wollemborg has not adopted the four-weeks'-notice clause, which in the Raiffeisen banks ensures conscientious employment of the loan. But he secures the same object by a different method, which at first sight is bound to appear a little roundabout and self-

contradictory, but which works well in practice. For whatever term the particular loan be granted—in respect of length of time and repayment by instalments Dr. Wollemborg adheres altogether to Raiffeisen methods—it is actually *lent* only for three months. Every three months it has to be formally applied for and granted afresh. By this means, so it seems to be held, the sense of the *conditional* character of the loan —conditional upon proper employment—is more forcibly brought home to the borrower, and he is effectually put upon his good behaviour. The interest ordinarily charged upon loans is 6 per cent.—which may seem just a trifle high in comparison with the Raiffeisen rate, but must be allowed to be justifiable in view of the greater need in its early years of so poor a society to build up a reserve, and also of the higher bank rate prevailing. To that reserve every surplus is religiously applied. There are no salaries beyond that modest allowance paid to the *ragioniere*, and there can be no dividend because there are practically no shares.

On some other points as well adaptations considered appropriate to Italian circumstances have been considered necessary or advisable—in deference partly, to local preferences, partly to the *Codice di Commercio* which governs the societies. More particularly has this been the case since, at the Congress of Cremona—when M. Luzzatti gave effect to his earlier offer already mentioned, and tendered his helping hand to the "Italian Raiffeisen"—a union was struck up between the originator and leader of the *Banche Popolari* and the "Federation" of *Casse Rurali*, of which from that date forward M. Luzzatti became an active helper.

With respect to some special reasons prompting such union something more will still have to be said. Suffice it here to explain that M. Luzzatti and his

friends had discovered the high value of the *Casse Rurali*, and naturally desired to support them in their striving for social progress, and to make practically one united movement of the two thus far proceeding on distinct, and not in every instance on friendly lines. The two Federations were not to be merged into one. There would be inconveniences in that. "Schulze" and "Raiffeisen" do not readily blend. Each Federation was to retain its own independent existence, with its own chiefs, selected from its own midst, and has done so. But the two were to work in friendly concert, in token of which M. Luzzatti was elected Honorary President of the Village Bank Federation. In deference to him, probably, the institution of *sindaci* —five in number, that is, three effective and two substitutes—was made similar to that in force in his own movement, which is a rather striking departure from Raiffeisen methods. There are some rather curious features about this arrangement. The *sindaci* must not, under the law, be in any way related, by consanguinity or affinity, to any member of the Managing Committee, within the fourth degree. On the other hand, non-members are declared eligible to the office. Once more, the *sindaci* are authorised—and in the main apparently desired—to act singly, looking after the daily administration of the bank, like their namesakes in the *Banche Popolari*, and it is expressly explained that even when they act in common, the dissenting *sindaco* is not committed by the vote of his colleagues, who are in the majority. There is an intermingling of reviewing and administrative functions in this, which might conceivably become distinctly inconvenient. The approved principle, both in Schulze-Delitzsch and in Raiffeisen banks, is to separate *as completely as possible* administration from control, and any infringement of this principle is likely to lead to mischief. Also the

Executive Committee (*Consiglio*) is made larger than in Germany, so as to consist of a President, a Vice-president, and five members, the President to be elected for four years, the remaining members for two. Furthermore a recommendation has been inserted in the rules to form a small share capital, each member taking up a share of either 1 or else 2 lire (10*d*. or 1*s*. 8*d*.) in addition to a small non-returnable entrance fee (which Raiffeisen would not have) in the place of the entire absence of shares, which had previously been the rule —except in Crema where, to meet the peculiar views of a local judge, shares of the value of 1*d*. had been issued. It is this legal aspect which determined the recommendation, the meaning of the governing clause being rather doubtful.

It cannot be said that the above described adaptations have removed the *casse rurali*, at any rate in practice, far from the Raiffeisen principle.

Thus the whole system, though in some particulars a little differently organised, is in the main the same as in the German Raiffeisen banks: simple borrowing and lending, careful checking of everything, cheapness in service, caution in granting loans, strict avoidance of everything involving a risk. And the result has been equally happy, though not yet, of course, equally large. Unlimited liability has proved devoid of any element of danger. There have been scarcely any losses.

Increase of Casse Rurali.

Slowly the *casse* have multiplied. Their increase was at first by nines, and eights, and sevens, till a more powerful propagating force was, as we shall see, brought into the field. There are at present one or two groups, in addition to 450 of independent formation, and, of course, all that host of "Catholic" *casse*, which official statistics early in 1909 put at 1,200, but which their own leaders claim to stand at 1,600 or even 2,000. And they have remained small,

modest, humble little institutions, for the most part with a small number of members only—20, and 40, and 60. Not a few have more than 100, and there is one even with 600, and one with more than 800. But these are exceptions. Some of them do a considerable amount of business, having loans outstanding to the amount of £600, £800, £1,500, and more.

The total amount outstanding in credits on acceptances on the 31st December, 1907, in 1,526 *casse* (including the "Catholic" banks still to be spoken of, which are in a considerable majority), according to official statistics—which are not always complete—was 36,848,433 lire, in addition to 632,226 lire advanced on note of hand, and 1,118,399 lire advanced on mortgages, 38,599,058 lire (£1,543,962) in all —25,294 lire (over £1,000) per bank. This is a substantial advance upon the figure of £172 per bank, given thirteen years ago; but it is difficult to determine how much of the increase is due to the growth of undenominational, how much to that of "Catholic" banks. The collective share capital stood at only 456,762 lire, but the collective indivisible reserve funds amounted to 1,058,254 lire, and the amount of deposits (savings) to 43,308,302 lire (£1,692,232). About midsummer 1909 the figure for deposits was estimated to stand at about 50,000,000 lire (£2,000,000)—which, surely, is a curious comment upon the avowal of helplessness made in this country, unless there should be a part of the Development Fund to keep our coming village banks in cash. Such sums as those named, helping poor people to earn a living, mean a great amount of good done in the small communities. Give such a *cassa* to every agricultural village, and reckon up what the result will be! And think of the relief, the comfort, the independence, the education which such work has brought to the poor! Wherever they have

Their Success

gone they have done well. There is but one opinion as to the result :—"*Elles sont administrées avec un enthousiasme et un dévouement*," so wrote Léon Say, "*qui ne se démentent nulle part, et elles réussissent partout*." Theirs has been the task of seeking the hundredth sheep, and sweeping the floor for the lost piece of money. They were planted on dry and thirsty soil, and their fertilising work may be compared to that of the lupine, which, sown on barren sand, where no other plant could live, sends down its roots feet below the surface, to draw up from the subsoil, particle by particle, the valuable mineral constituents sparsely distributed in the soil, and, with the treasure of nitrogen absorbed from the atmosphere and its own vegetable fibre added in the shape of humus, builds up, layer by layer, a mould able to bear far more valuable crops. M. Yersin, using an equally apt simile, compares the People's Banks to a forest, which at the same time accumulates fertilising matter, dispenses shade and freshness, yields a valuable crop of timber, and improves the climate and atmospheric conditions of the district.

The Village Bank of Loreggia.

To see what a bank is in practice, let us go back to the pioneer bank of Loreggia. You could not find a better one to serve as a type. Nor, at Loreggia, or indeed elsewhere, could you have a better guide to explain to you its work than old "Corazza," in respect of age the "father" of the bank, when some years ago I went to visit it. His real name was Bernardo Pietroni ; you could not tell that from his signature, which he had learned to scrawl after he was a grandfather, merely to qualify himself for admission to the bank. In the village his opinion counted for as much as that of any other six men. If he was deficient in knowledge of letters, you soon found out that he had plenty of common-sense and sound judgment, and had not allowed experience to go by without drawing profit

from it. Indeed, in conversation he discovered familiarity with the principles of modern farming rather surprising in so self-taught a man. "It is the bank that has taught me that," so he candidly admitted. In providing him with the money which he required for his farming operations, under certain safeguards, it had made him think how he might best employ it. If you would go about his field and his yard, up to his corn-loft, and into his cow-house, you soon learnt why he loved his bank. "I could not keep my farm like that formerly." His house was a large, simple and primitive, but substantial building, according to the custom of the country, affording room for his numerous family, comprising children and grandchildren, of twenty-eight, among whom he lived like a patriarch of old. Such large families are not unusual in Venetia. These twenty-eight were Corazza's "children." So far as they were capable of work, they were also his "hands." He required no hired labour. Corazza would show you his maize-cobs, plump and bright in colour, his full-grained barley, his well-shaped potatoes. "We used not to grow them like that. It is the bank that has found the manure and the implements for good cultivation." "But could not you have saved what you wanted for that out of what you were making?" "There was nothing to save," replied he. "It all went to the usurer. We never had a farthing over. Besides, if I had saved for buying implements, or manure, I must have starved the farm at some other point, where starving would have meant loss. The bank came in from outside. It gave me the additional pound or two, and never taxed me except out of the produce of that additional pound itself. It was content to wait till that had borne fruit. So I could well afford to borrow. It cost me nothing." Corazza would go on to show you his beasts. He was

The Benefits which it has assured.

very proud of them. Here were two draught-oxen worth 1,000 lire—the ordinary price of a peasant's bullock is somewhere about 200 lire. He never had a stableful like that in former times. These beasts and his cows fed Corazza's family with milk, and they fed, what he appreciated as much, his fields with fertility. "Put into the ground as much as you can," he said, having learnt, with the bank's help, a lesson in high farming. "Our soil wants it. But it will give it you all back."

Corazza had more to tell of the benefits of the bank in other households—real cases, which would bear inquiring into. There was such and such an one in the parish, the tenant of a farm—he had it still—of about twenty acres. It was wretchedly neglected. Everything was pawned, and the only person who got anything out of it was the usurer. It was a hard case. The man joined the bank, but the bank was at a loss how much it might trust him with. It advanced him £4. That sufficed to stop a hole. He repaid the money and borrowed more. [The bank at present lends no more than £30 to any one man. But that little sum may be kept continually coming and going, earning and repaying itself, giving the poor fellow £30 perpetually to work with.] The *quasi*-bankrupt of ten years before then had his farm in tolerable condition, he had six beasts of his own and £60 laid by in the Savings Bank. "Then why does he not use that instead of the bank money?" "No, no," said Corazza, "that would never do. What he borrows from the bank he knows that he must repay. So he is careful with it. He will cast over exactly what an outlay will bring him back. Aye, we have learnt to calculate. The other money is far safer where it is now. It is a good security to the bank, and the man will not fritter it away."

There was another man with a similar holding. He

was miserably poor. But the bank trusted him in 1883 with £8 wherewith to buy two calves. He had borrowed again. He had put in a little here and a little there. He had then five beasts and about 1,400 lire-worth of belongings, instead of practically nothing, and was only 100 lire in debt to the bank.

Corazza had other cases to tell you of. There was that poor old widow woman, who carried fruit to Padua to sell. What with her poverty and her debts she never felt safe from day to day. The bank let her have a few pounds. That gave her the ground to stand upon. Her profits came to herself, instead of going to the usurer. She was soon quit of anxiety. Her earnings benefited herself.

There was that small tradesman. He was a pauper, receiving parish relief. As such he was not eligible for the bank. But a kind friend lent him a little to get himself off the rates. The bank admitted him, gave him a few pounds to buy cheap wares with to hawk about. Some years after he had his little shop.

All the Benefit got is Self-earned.

Nowhere has gold dropped down in great lumps upon the people. They have not made fortunes suddenly. But they have been helped to earn fairly and to live respectably. It is this being able to get an extra pound or two to do a thing well which was formerly done badly, this power of drawing on a fund never failing at any time that an opportunity offers for employing it profitably, and this pressure put upon people to calculate what they are doing, which makes this bank so tellingly useful. The aspect of the farms whose tenants belong to the bank has been materially changed within the past few decades. There is order and tidiness where there used to be the neglect inseparable from penury. "We could not then eat such good polenta," remarked Corazza's wife, as you stopped to look at that huge mess of really appetising maize-

porridge brought into the common room to serve as meal for the twenty-eight mouths, large and small. "We had to live on the inferior grain."

A Committee Meeting.

To see the bank at work in another aspect, come to the *municipio* to attend while the elected committee hold their sitting. There is the *sindaco* ready to bow you into the room. These village mayors know the value of a village bank. It makes government easier for them. They help it by depositing municipal moneys. Charitable and friendly societies will do the same thing—at first, it may be, to help and strengthen the little bantling, but later certainly for safe keeping. As a meeting-place the *municipio* is always open to the bank. In some parishes—as in Vigonovo—the priest will allow to the banks the use of the church. The committee meet every fortnight, or oftener, should occasion require. At Loreggia, Signor Wollemborg, as President, takes the chair. His brother, who, to save the bank expense, at the time spoken of discharged gratuitously the functions of secretary, sits by his side. And there are the other members. It is surprising what power of following business, of mentally seizing important points, and also, in a rustic way, of expressing themselves, this bank business will infuse into these simple village folk. It is their first education in public affairs. If there are still people who believe that what village folk want to arouse their interest, and educate them to better things, is a circus and not a parish council, let them go to one of these village bank meetings, and see for themselves what a remarkably stimulating effect such council work has upon small rural folk. They take nothing for granted; they will have everything made clear. And be the other man a squire or a day-labourer, they will argue the case with him thoroughly. At the general meetings, which are held twice or three times a year, to discuss the limits to be

fixed for loans, the rates of interest to be charged or given, or any appeal from decisions of the committee, to elect the committee-men, the council-men, or whatever the business may be, there are debates which indicate real arguing power.

Elections.

But the present is a committee meeting. There are candidates waiting for election. Election is no farce. Drunkards, idlers, evil-livers, and the like, the bank will not have. So, if there are any such who apply, they are rejected without much to-do. In a good many more cases than one have they come back as reformed characters to find themselves elected. Here is a market which pays value for honesty and good conduct. Job is not expected to "serve God for naught." Hence that marvellous educating power which has made priests own that the bank in their parish has done more to make good men of their parishioners than all their preaching. And that is so not at Loreggia only. Abano, Vigonovo, Crema, Faller, and whatever other places possess banks, have all similar tales to tell.

Savings.

Now come the savings. Here comes in a little girl with her few centesimi; next an old woman brings a few lire. There is a lad with his bare legs still all purple from treading the grapes in true Old Testament fashion, in a water-tight cart from which the juice runs out scarcely appetisingly by a spout. He has earned a little money, and he carries the lira or two to the bank. These people all bring their savings themselves—not as a matter of distrust towards others, but as wishing to manifest their own keen personal interest in the common institution. This is altogether a different affair from the public office work of the Post Office Bank. This bank is to its members a living creature, whose pulse they may feel. Members do not come merely to bring their savings; they want to hear something of what is going on. They are entitled to see

the balance-sheet, which is drawn up every fortnight at the close of the committee meeting, and hung up for view in the public room of the *municipio*.

Loans.

After the receipt of the savings comes the consideration of applications for loans. As a rule, there is the *vacca*, or the *vitella*, or the *maiale*, to be bought—though the pig is not yet as much honoured in Italy as he deserves to be. Sometimes, in the place of a cow or a calf, there will be a goat. Or else the village wheelwright will want to buy wood, the shoemaker leather, and so on. Every case meets with careful consideration. Is the applicant trustworthy? Is his case good? Is the sum a legitimate one? Is the time proposed for repayment excessive? Are the sureties good? It may happen that the loan is refused, though such cases are not many. It may happen that the amount is reduced or the period curtailed. According as the committee decide, the applicant is advised, and then he may come with his sureties to receive the money from the cashier in exchange for a bill of exchange, which runs only for three months, for whatever period the loan be granted—two years or more—in order that he may be compelled to employ the money as was stipulated. Should he fail to do so, the bill is not renewed.

The Good which Village Banks have done.

It would be ridiculous to say that our "Village Bank" has brought about the millennium in Loreggia, or anywhere else. But it has brought the local people very material and welcome help. It has sent the usurer to the rightabout. He has left the place discomfited. It has taught members to bank their money instead of locking it away in a drawer or hiding it in a stocking, where it could not possibly do any one any good. It has taught them to calculate the profitableness of their enterprises, and made them familiar with simple accounts. It has added a fresh stimulus to thrift. It

has brought public opinion and class opinion to bear upon people in the most effective way—stimulating, checking, restraining. It has made the people better men and better neighbours. Where there used to be grudging and envying, ill-concealed delight in another's troubles, there is now fellow-feeling—because people have learned that they are bound together by a common interest, that their neighbour's hurt is their own, their neighbour's good their profit.

I will not say that to an untrained eye the difference is likely to be very striking. But any one acquainted with agriculture will be pretty sure to detect the contrast between an Italian village which has no bank, and one in which such a bank has been at work a few years. Where there is such a bank, cultivation is sure to be better. Crops look cleaner and heavier. The live stock are better kept. The buildings are in better repair. There is, generally speaking, less poverty, a look of greater prosperity about both people and farms ; and if any visitor has time to look into the social life of the village, he will find that there is a good deal more still to distinguish a "bank" village from an ordinary one, even apart from increased economy, sobriety, thrift, and saving. Once more to quote Léon Say :—"*La petite culture se développe avec une énergie croissante et les opérations de crédit agraire du réseau des petites banques ne sont pas un des moindres encouragements donnés a cette petite culture.*"

Testimonies to their Work.

"As deposits grow," so writes the parish priest of Faller, Don Filippo Poletti, "the taverns are forsaken." Neat houses spring up where there used to be hovels, gardens are seen carefully trimmed, the live stock become the peasant's property, and everywhere the usurers find their occupation gone. "*Tout cela,*" writes M. Rostand, after his second visit of

inspection, "*c'est bien la réalisation pratique de l'idéal coopératif au village. Il n'est pas possible que par l'union, l'esprit de la solidarité.*" "In truth," he goes on, "this second visit has satisfied us more and more that the small co-operative institutions with unlimited liability possess, along with their practical utility, manifest on the face of them, a social utility peculiarly worthy of notice. Freed from usury, the peasantry have regained courage and confidence." One more testimony I quote from Dr. de Portis, the surgeon practising in Loreggia, with regard to the *cassa* in his own village :—

"The peasant who previously, helpless and forsaken, proved a ready prey to the most shameless usurer, and had no choice for himself but between extreme misery and dishonesty, has now risen to a sense of human dignity. He is proud of being a member of the Association, and of taking part in its management. In it he acquires a sense of self-respect, of independence, a love of work, of honesty, and punctuality. Usury finds its occupation gone. The usurers themselves are compelled to acknowledge the good done by the Association, though they have to leave the district. Our peasants declare, 'We mean to bring up our sons with a love of work, in order that they may take their place among the *galantuomini*.'"

Does it not make one's mouth water to read of the magician's work done by these "*attachantes institutions, dont l'humilité est la beauté*"? It is all so modest, so simple—so small, if you will. It is all purchased with personal pains, with watchfulness, care, and scrupulous thrift. There are as yet none of those millions which make M. Luzzatti's work so imposing, none of those marble palaces and masses of gold accumulated. But the persons whom the beneficent work has enriched could not possibly have been reached by any other agency. The happiness diffused, the culture spread, the prosperity of which as yet really only the seeds have been sown, but sown surely, are likely to weigh as heavy in the balance of success, when accounts

are made up, as the much larger riches more easily accumulated, where populations are dense, and the materials of wealth lie all ready to hand. Brick upon brick, "here a little and there a little," the structure is being raised, which is likely to stand all the more enduringly, and the more securely, and to prove the better stronghold of thrift and wealth, because every inch of it was raised by an effort, and cemented with virtues and sound principles instilled.

If more Englishmen would go and study the work of these banks on the spot, as I have done at Loreggia and elsewhere, I doubt if our own villages would much longer remain without so useful an institution, which has only to be seen to be appreciated. Before the proper appreciation of its work, such as seeing would bring with it, the supposed difficulties would melt away like wax.

Like the Raiffeisen system in Germany, Dr. Wollemborg's has given birth to several distinct offshoots—in the main two, both being founded alike on the provisions of the *Codice di Commercio*—leaving out of account an indeterminate, but not very considerable, number of societies formed under the *Codice Civile*, as well as the State promoted societies now in attempted formation, about which something has been said in a preceding chapter.* There is happily no *junker* element in Italy, to adopt the peculiar *quasi*-Raiffeisenism which has proved so attractive in Germany. But there are "Catholics," and there are Savings Banks—savings banks which are independent of the Treasury, which consider it their duty, instead of locking up their funds and employing them solely to appreciate Consols, to do good among the poorer population and to spend some of their overplus in educational and wealth-diffusing

* See p. 209.

work. They have, among other things, rendered yeoman's service to the *Casse Rurali*, as well as to the *Banche Popolari*, in providing substantial sums for them by way of loan. Some fifteen years ago, or more, it occurred to M. Poncini, the philanthropic and very active President of the large Savings Bank of Parma—which among other excellent services rendered to agriculture, has invented the "moving lecturer's chair," the *cattedra ambulante*—that his bank might with advantage to the public act directly, as well as indirectly, for the diffusion of popular credit, coupled with more extended technical instruction. We shall see presently in what manner the same idea has been carried out by well-intentioned savings banks both in Belgium and in France. "Form your village banks under our rules"—rules, that is, which in all essential features are on all fours with those recommended by Dr. Wollemborg—"give an undertaking that you will contract no debts with any other financial institution, and will submit to our supervision and control, and you shall be allowed to draw upon us for the money which you require, within certain limits." That is practically what the Savings Bank said to its intended beneficiaries; and the offer was expected to help the infant banks over all initial difficulties of formation and practice. At the outset such banks were required to deposit their surplus funds with the parent Savings Bank; but that provision appears to have been abandoned as unnecessary.

The principle here set forth is, in effect, the same principle as that embodied in the Prussian State-aid scheme, with this distinct improvement, that the money-providing authority is not the State, but a private institution. However, it is still a body to which small sums of money may be presumed to be of no account, a

"little Providence," which in addition keeps the banks in a state of dependence. The appeal to members of such banks to work strenuously for their own economic uplifting comes in such form in a very enfeebled shape. It is a totally different thing to providing money in a business way for a little organisation which retains its full independence and pledges its full responsibility. There is in this method of procedure a *sous-entendu* of patronage, which is rather out of harmony with the aim of evoking manly effort. For a long time the results continued insignificant, and it is only due to the vigorous exertions of the late deputy M. Guerci, a peculiarly well-qualified champion for such a cause, that the "neutral" *casse*, as they are called, have made better headway of late—within their own circumscribed district of Parma—in perfect amity with Dr. Wollemborg's *casse*, although, of course, inferior to them in numbers, and scarcely their equals in educational efficiency. There are, however, no figures to quote from to show what is their present strength.

A very much more important movement, initiated in imitation of Dr. Wollemborg's rural *risorgimento* was that which has become known as distinctly "Catholic." The "Catholics" and the "Liberals"—that is, the "Catholics" submitting unreservedly to the authority of the Vatican, and the Italians, catholic and otherwise, who decline to render to the Vatican more than what, in their opinion, is due to it—keep up a merry fight, in co-operation as well as in other matters. Wherever the one party "erects a house of prayer, the other surely builds a chapel there." So it is in the matter of rural co-operation, aiming at stores, and production, credit, dairies, vintries, and common renting of land, which the Socialists are actively setting on foot. Wherever the Socialists start a "society" of the sort, the "Catholics" at once respond by forming a "union,"

which is to do the very same thing under the Church's authority and encouraged by the late Pope's bull *Novarum Rerum*. To such point has this rivalry been carried that the "Catholics"—like the Belgian Socialists led by MM. Anseele and Vandervelde—have their *Maisons du Peuple* (*Case del Popolo*)—most notably so in the papal stronghold of Bergamo—to "take the shine" out of the *case* slowly being formed by M. Garibotti and his friends. And they have added to the co-operative programme—with very good results—on their own authority, the services of housing combined with life insurance, which leaves the borrower's family free of debt, but in possession of their house at his death; and also the helpful co-operative wine-pressing societies, of which I am glad to think that Don Cerutti first learnt from my writings. Both these additions have proved decidedly serviceable. Competition has indeed proved helpful in furthering good work. It is, of course, keenest between "Catholics" and Socialists. But there have been pleasant bandyings of such terms of endearment as "Belial," and—I forget what the precise word was, used in answer to this—also between "Catholics" and the strictly neutral co-operators who follow M. Luzzatti; and that after I had fondly flattered myself that I had acted successfully as peacemaker, inducing M. Luzzatti, always large-hearted, to invite Don Cerutti to meet me at his hospitable table. Seeing how very conspicuous a part the parish *paroco* has played everywhere in the promotion of village banks, it cannot create surprise that the "Catholics," acting through their leader of those early days, Don Cerutti—at the time assistant priest at Gambarare, close to Venice—should have turned their attention very pointedly to village banks. Here was the very chosen adjunct to the faldstool and the confession box, intended so by its first inventor in Rhine-

land, and commended in all quarters as the natural ally of the pulpit. Don Cerutti's parish lay in the midst of a district not unfruitful but neglected, backward, undeveloped. The fields and vineyards were sighing for manure, and for better cultivation. The peasants' cottages were crying out for comforts, and even for mere necessaries of life. In 1889 things looked particularly black, because, on the top of other distress, the grape crop had failed, and its failure brought ruin upon many a little household. Don Cerutti resolved to set his hand to the plough, and no doubt his ploughing has been to some purpose.

The First "Catholic Bank.

On the 26th February, 1890, he founded his first "Catholic" bank. It did not really begin work till the 1st July. The bank was a modest institution enough to begin with, with only twenty-six members on its roll, including three priests, the village doctor, the village chemist, three owners of tiny freeholds, an artisan, two employees, and fifteen small tenants. There was not a stiver in the bank's coffers. All the money which was to be lent out had first to be borrowed. Friends put in some deposits. The Savings Bank of Venice granted a loan at a rather high rate of interest, viz., $5\frac{1}{4}$ per cent. With such help the bank managed to deal out in the first half-year, at 6 per cent. interest, about £370 in thirty-three loans. The greater portion of this money went for the purchase of stock and poultry, about £62 for farm work, £48 in loans to small tradesmen for stocking their shops, and, lastly, £20 for household purposes. At the outset the bank limited the borrowing powers of any one member to £20. The figure was subsequently doubled. The maximum of aggregate lending authorised at one time, I believe, still stands at £1,400. The whole business is small, modest, and unpretending. But the help given is sufficient for the humble purposes for which it is asked.

Its Work.

And it is self-earned. In point of time the limit laid down for loans is three years as a maximum. But there are many short loans down to a month. By a very judicious provision, borrowers repaying before the time stipulated are allowed a rebate in the interest. To make ends meet, expenses had to be kept down to a minimum, and actually not a centesimo was spent in fees or salaries to officers. Nevertheless the first year's working, very accountably, resulted in a loss—a very trifling one—somewhere about 16*s*. Since then there has always been a surplus, small but sure, which, lira by lira, accumulated in three-and-a-half years to something like £36, a tiny reserve, all that the bank actually possessed, but a sum never to be shared out. It was the bank's collective property, and belonged to the bank alone. The next year the bank did better. Increasing success secured it more funds, more supporters, a larger business. I am not in a position to state its precise present strength—my friend Don Cerutti has long since become Vicar of Murano—but I will give a few instances of its work. Here are three, taken from the bank records. A poor cottager was in distress for money whereby to pay his rent. He was £14 in arrear, and the landlord would hear of no further delay. What was the man to do? The only property on which to realise were his two cows—his very bread-winners—ill-bred beasts that our farmers would scarcely deign to look at, but which meant very much to him. That would be draining a well to slake a moment's thirst. The bank stepped in, took security—thereby compelling the borrower to husband his means and lay by from his weekly earnings. And within four months the cows had paid off the debt, with interest, out of their milk. Another poor fellow was in a similar dilemma, with his Martinmas rent due and no money in his stocking. There were a hundred quintals of hay to sell. But the

Instances.

price was, in November, only 3.25 lire per quintal. If he could but tide over till Spring! He enrolled himself a member of the bank, obtained a loan at the rate of 6 per cent., and in May sold his hay at 5.25 lire the quintal, thus saving 200 lire by the transaction. Lastly, there was a poor widow who wanted to buy a pig. The village Shylock was ready to advance the money at his usual moderate rate of 5 lire per month, and the loan of 30 lire to be repaid within a year. That is at the rate of 200 per cent. Why not join the bank and borrow at six, asked Don Cerutti? Why not, indeed? The woman took the advice, and within a few years found herself nearly 60 lire in pocket. These are petty savings, it may be said. But they mean a good deal to the people by whom they were made. For "little things are great to little men."

Here is an analysis of 783 loans granted by the Gambarare Bank, with the object and amount of each set forth :—

	Loans.	Lire.
Purchase of breeding stock	155	28,890.45
Purchase of draught cattle	53	12,360.20
Seed, breadcorn, &c.	32	4,730.00
Poultry for fattening	35	1,167.36
Sulphur and vitriol for vineyards	290	5,861.81
Insurance (hail)	112	2,798.40
Purchase of land	1	800.00
Household requisites	46	6,470.85
For trading purposes	27	6,215.05
Land improvements	32	9,050.05
	783	76,044.17

Since Don Cerutti began his work, which soon earned him the Vatican's particular blessing, "Catholic" village banks have made way fast. It is not possible for me—perhaps at the present moment not for anyone out of the Vatican—to give precise figures with regard to their number and strength. The movement

has become, organically at any rate, rather decentralisedly diocesan than united. The societies of every diocese group themselves together, placing themselves under the authority of the episcopal See, and manage to provide for their own funds locally. A "Central Bank" was formed a fair number of years ago at Parma. But it found its services rarely in request. The movement as a whole maintains a common, not very pretentious, journal. But—except for what the Vatican might direct—united action has only quite recently gone further. Only within the past few months, on a motion proposed without notice, at a Congress convened for quite another purpose, has it been decided to invite "Catholic" banks to unite to a general "Federation." The invitation was responded to on the spot by a large number of banks. And now that the Pope has, in a rescript dated 25th January, 1910, pronounced his Apostolic Benediction upon the new Federation, provided that it shows itself *apertamente e schiettamente* "Catholic," there can be no doubt that the entire number of "Catholic" *casse* will seek shelter under its banner. Diocesan "Federations" can adopt what rules they severally choose, making them binding on their own banks only. According to statistics collected for 30th June, 1909, there were then about 1,200 "Catholic" village banks, among 1,680 village banks altogether, all of which are governed by the same law, the *Codice di Commercio*. But it is some time since the *Cooperazione Popolare*, the "Catholic" co-operative journal, proudly announced: *siamo* 1,600; and since then Professor Bertone has gone so far as to claim 2,000. Since banks are allowed to form also under the *Codice Civile*, which exempts them from the obligation of sending in returns to Rome, probably one of the higher figures is correct enough. An inquiry instituted in the summer of 1909

by the *Federazione Italiana dei Consorzi Agrari* showed that of 1,608 village banks brought under survey, as many as 1,238 were situated in northern Italy, only 112 in central Italy, and 258 in the south. That is practically the same tale as has been told with regard to the *Banche*. The north has proved here also, as in Robert Burns' estimation, "the birthplace of valour and country of worth."

It is interesting to pursue the progress of the village bank movement under the various stimulating influences enumerated, not the least powerful of which was the coming on the scene of "Catholic" institutions. The movement began on 20th January, 1883, with only one village bank, at Loreggia; at the close of 1884 there were six, in 1885 fourteen, next twenty-four, thirty-five, forty, forty-two; in 1892 there were still only ninety-three. After that the "Catholic" propaganda began to tell. By 1896 there were 628, by 1897 860, by 1901 1,006, by July, 1906, 1,446, by December, 1907, 1,526.

To return specifically to the "Catholic" banks. Unless it be for denominational influence, there is nothing essential to distinguish them from other similar institutions, although, as already observed, there is no complete unity of practice among them, inasmuch as there are no common rules for all. Every diocese may issue what rules it pleases. Like the other village banks, the "Catholic" have generally, or pretty generally—in order to be on the safe side, in view of a doubtful law—adopted the principle of making membership dependent upon the taking up of very small shares, the fixing of the amount of which is left to the discretion of each diocese. They carry all surplus to reserve only until the total assets of the society equal a prescribed fraction, say, one-twentieth, of the liabilities. After the assets have become equal to, say,

one-tenth, only half the annual surplus goes to reserve; but the balance is not distributed in dividend—not necessarily so, at any rate—but is applied to common purposes, as the Committee may decide. On the dissolution of the society the reserve fund is not to be shared out, but to be applied to some kindred object of common utility. Each society is at liberty to fix for itself the number of members to compose the *Consiglio Direttore*, that is, the Managing Committee. The *sindacato* is borrowed from the other village banks, but interferes less in the management, confining itself to reviewing the *Consiglio's* work. The "Catholic" banks combine common purchase of agricultural and household necessaries with the dispensing of credit, and find it answer. Like the agricultural co-operators of Eastern Switzerland, they may be doing this with the distinct aim of preventing their members from enrolling themselves in the urban co-operative stores, which are to some extent—at any rate in a good many cases—marked by socialist proclivities.

The great point in dispute, upon which the specific value of the "Catholic" village bank must turn is that of their alleged subservience to political ends under the direction of ecclesiastical authorities. Among non-"Catholic" co-operators the entire apparatus is regarded as soaked in clerico-political influence. The object of the Curia is said to be—whether the members of village banks are aware of it or not—to "create by means of economic organisation a powerful 'faggot body' (*fascio*) of 'Conservative' electors ('Conservative' here stands for 'clerical'), and in such way to possess itself of power, as against the Government, by means of which, once the 'Catholic' and clerical party comes to be sufficiently strong, to obtain concessions in favour of the clergy and the Church." An official writer, directly

representing the Government, says with regard to these banks: "The explicitly religious character given to these societies has not failed to manifest itself as a political force of the very first order and as a powerful instrument in the hands of the 'Catholic' party, since that party by means of 'Catholic Congresses' has made itself the public proclaimer of rural credit co-operation, gathering together proselytes in little time throughout the whole of Italy in innumerable denominational village banks, which have in course of time grouped themselves in local, regional, and diocesan federations." On the other hand, it should be borne in mind that almost all religion now recognised in Italy, more particularly in rural districts, is of the Roman type, and that it would be impossible to enlist the assistance of the parish clergy—whose help has proved of the greatest utility—and to call upon the banks to promote the moral improvement of the people, without permitting them to teach religion in the only way known to themselves. Something may have been concealed from me. But—although, of course, I am altogether in favour of undenominationalism in such societies—I have never found anything co-operatively amiss in "Catholic" banks, no more than has a good friend of mine, who is certainly an expert in co-operative banking and not a "Clerical," who lives among these people.

The "Catholic" bank rules, although insisting that every member should be a *bonâ fide* Roman Catholic —*praticare la religione cattolica*—yet lay it down that there should be no political object—*qualunque fine politico*—in the bank. Indeed, the banks have grown very much less outwardly "Catholic" than they used to be in early days, when every society was named after its own particular patron saint, and it was provided that, in the case of dissolution, the funds were to be

appropriated, not as now, for the benefit of *istituzioni affini*, but for some *opera cattolica*. Opponents contend that such change is all moonshine—*lupus pilum mutat, non mentem*—that although the words have been suppressed, the spirit has remained the same, and also the power to enforce the will of the Church.

Who is to decide when the object in dispute is not one of fact but one of intention ?

Certainly one may be thankful that the fear of the "Catholics" has led the non-catholics, in two distinct branches of the movement, to compose their differences and to join forces for the common good.

Looking at facts as they are, one may be equally thankful that through the agency of the Church—the beneficial effect of which in the fifteenth century M. Luzzatti has allowed—the blessings of Co-operation, not in the matter of credit alone, have been brought to the doors of hundreds of thousands of poor country folk who sadly needed them.

The Casse as a Factor of National Regeneration.

What with Wollemborg banks and Catholic banks, a very considerable portion of Italy is now occupied by what has already become a little army of village banks. Doubtless the *casse rurali* are destined to increase still further—much more rapidly as time goes on. They have the same satisfactory tale to tell of success and good work, accompanied by almost an entire absence of losses, which makes the position of their prototypes so triumphant in Germany. They have shown themselves remarkably applicable to Italian habits and circumstances, and have in many a village proved a veritable godsend to the population, which under the crushing heel of usury had lost all pleasure in life and hope for an earthly future. If rural Italy is to be regenerated and made prosperous once more, this evidently is one means by which it may be made so.

CHAPTER XIII

CO-OPERATIVE CREDIT IN BELGIUM

Interest of Belgian Co-operative Credit for Ourselves.

BELGIUM, vigorous, pushing little country that it is, akin to ourselves in many things, and therefore frequently styled "the little England of the Continent," has its own history of co-operative credit, conveying several useful lessons which, in view of an admitted similarity of circumstances, may well commend themselves to our notice.

In respect of such credit it has exhibited quite peculiar aptitude and a love of independence which one is sorry to see, under the strain of untoward circumstances, giving way to a yearning for State help. For it is not likely that the failures hitherto experienced, forming a disappointing contrast with some brilliant successes achieved, will be remedied in such way.

As in the case of France, Belgium's first love in matters of co-operative credit was credit to be applied to agriculture—intended, in the first instance, to rouse backward cultivators in some parts to greater efforts; next, to provide the sinews of war for tillage which has shown itself resourceful beyond the average of common practice, but which requires monetary fuel, with which to feed the forcing flame. And like many first loves, this one has not proved altogether satisfactory. Other wooers than administrative and Parliamentary authorities, more particularly the Church, appear now to be achieving better success.

In the province of industrial co-operative credit, based upon pure manly self-help—that *démocratisation*

du crédit, which its foremost champion, the late Léon d'Andrimont advocated with so great fervour throughout his lifetime—much better successes have been attained—but successes unfortunately only partial, striking at one point, utterly failing at another.

"Unions du Crédit."

The history of actually applied co-operative credit in Belgium may be said to begin with the creation of *Unions du Crédit*, an institution which has answered well wherever it seemed called for, and which certainly does credit to its originator, François Haeck. The *Unions du Crédit* have, like cash credit in Scotland, played a very important part in the development of the industry and commerce of their country. And the fact that they have spread into France and Switzerland and answered equally well there argues well for their applicability in other countries. At the present time—partly owing to the competition of the more fully co-operative People's Banks, their number in Belgium has dwindled to six, only one of which—the one first formed, at Brussels—is doing any really active business. However, the business of that one *Union* with its 5,500 members or so is so considerable, and enters so much into the business life of the capital, and even of the entire little kingdom, that one does not quite know what would become of Belgian industry and commerce if this useful institution, which dispenses annually about £10,000,000 in credit, were to disappear.

The Organisation.

The *Unions du Crédit* may be said to have been an outcome of the French revolution of 1848, which, after some very trying years preceding it, directly affected little Belgium very seriously. There were at that time only two banks in Brussels, namely the *Société Générale* and the *Banque de Bruxelles*. Credit was badly needed, if trade was not to come to a standstill. The Government accordingly provided, as a temporary measure,

for the formation of a *Comptoir d'Escompte*, the capital for which was raised jointly by the two banks named, to maintain the supply of credit. The *Comptoir d'Escompte* is understood to have rendered useful services. But it was by its very nature only a temporary institution. François Haeck resolved to put something permanent in its place, founded upon the principle of reciprocity. He invited people of the classes to be benefited—that is, tradesmen, small manufacturers, farmers, and the like—to join, pledging their liability only. His organisation, as originally conceived, was to be one "without share capital or shareholders, dividend or profit." The plan—now greatly modified—was extremely simple, but not such as would be likely to commend itself to a British public. A member taking up a share (so to call it), say of nominally 200 francs, would, of course, make himself liable for that sum, as well as for anything more that he might borrow by an exercise of his right to credit, but he was required to pay up only one-tenth, that is, in our assumed case, 20 francs. His share of 200 francs, however, would entitle him to a credit of 2,000 francs, for which the Union collectively would subscribe his bill of exchange, making itself collectively liable for the sum—with the right of recovering from the borrower. As a rule, whatever the value of the share may be, only one share is allowed to every member. But, more particularly in Switzerland, there are cases in which members are permitted to acquire more than one.

The wonder to a Briton is that a scheme built up upon so seemingly slender a basis should not only have failed to bring about signal financial disaster, but should on the whole really have answered remarkably well. Evidently borrowers have proved honest and managers circumspect. In any case the *Union* of

Brussels, which was originally formed for twenty-five years only, has lived down to the present day and has, in truth, never given better promise of enduring, by reason of its financial strength and utility. The remaining *Unions*—of Charleroi, Ghent, Liége, Mons and Verviers—are of much less importance. But the *Union* of Brussels has proved so successful that as a consequence, after the Crown had thrice renewed its charter, Parliament in 1901 passed a special law for such *Unions*, under which most of them have become registered, either as co-operative societies or else as joint-stock companies.

Their Success.

So signal, indeed, was the success of Haeck's first *Union*, that he based upon that scheme a very much larger and more ambitious proposal for organising private credit in his country, which he formally put forward in 1857, but which, like most of these over-bold plans, came to nothing. Under his scheme credit of all kinds—personal, mortgage, and whatever it might be—was to be organised in a system over-spreading the entire country and carrying the benefits of easy credit into every hamlet. Every village was to have its own independent *Union*, on which, of course, the liability for credit given to its members must ultimately fall with all its weight. But such parish *Unions* were to be brigaded into sections ; and the sections, once more, grouped in a Central *Union*, which would act as equaliser and feeder for them all. The shareholders in the Central *Union* or Central Bank were, in addition to the local *Unions*, to be individual capitalists, The scheme failed to recommend itself in the days of undisputed individualism, more particularly to the latter. But now that we are "all Socialists" the proposal has been revived with the substitution of the State for private capitalists as provider of money for the Central Bank.

The "Union" of Brussels.

Under the new law of 1901 the rules of the Brussels *Union* have been recast. There is now a share capital corresponding exactly to the figure of credit opened (whether used or not) for all members collectively, every member subscribing the precise sum which is allotted to him as cash credit. This means, of course, that the share capital—which must not, according to the rules, at any time amount to less than 1,000,000 francs—is a variable quantity, moving up and down. In 1890 it stood at about 48,000,000 francs, in 1904 at about 74,000,000 francs. The smallest amount to be allowed as credit is 500 francs ; but the figure may be carried up to any point that the Committee consider warranted. The largest credit at present recorded is for 350,000 francs. Whatever be the liability that the member makes himself responsible for in taking up his share remains in force on his retirement up to the end of five years after his withdrawal.

From what has been said it will be understood that the ministrations of the *Unions* have been carried much beyond the narrow limit of "small" trade for which they were originally designed, and made to include very substantial firms—not necessarily for the sake of actual credit. For, the same as in Germany, the bills drawn to a great extent serve for what we should call tradesmen's cheques ; the bill is in such connection the recognised instrument for payment. And for the collection of money due upon such drafts —being mostly small amounts, as representing the small tradesmen's orders given to the large manufacturer—the *Union*, acting as a bank, is found exceedingly convenient. Much of the "small business" that is done is understood to consist of such collection.

The credit allotted stands at the member's service to be drawn against, without any need of endorsement, as

what is called "ordinary" credit. But the member has a right also to bring accepted bills of exchange to the *Union*, to be there discounted on their own merits. This is in the terminology of the *Unions* known as "extraordinary" credit.

Whatever be the amount of the share—corresponding to the credit allowed—the member is required to pay up in cash, as his first instalment, 5 per cent. of the value. That secures to the *Union* a certain amount of working capital, as well as a kind of guarantee to offer to its creditors. For other supply of working capital the *Union* relies upon its reserve funds, upon unclaimed dividends left in its possession, upon the money brought to it (in increasing amounts, betokening growing confidence) for current accounts, and, lastly, upon a small sum which must not exceed the interest becoming due upon it, levied upon every bill brought to it for discount. The last-named item was originally intended less as a supply of funds than as an insurance against bad debts. For such purpose it is said to have proved exceedingly effective. With such means at its command the *Union* has succeeded in rather substantially improving its liquid resources in comparison with liabilities. In 1887 the ratio stood as $36\frac{1}{4}$ to 100; in 1904 as 54 to 100.

Magnitude of its Business.

The useful services rendered quickly gained the *Union du Crédit de Bruxelles* the favour of the particular public for which it was intended. That clientèle includes small traders of all descriptions, but, very naturally under its circumstances, no one directly interested in agriculture. It became, in fact, the small traders' particular credit bank. Its business—the same as the business of other *Unions*—very accountably had its fluctuations, determined in part by the vicissitudes in the general trade of the country, in part also by the competition in which it was soon driven to engage

with the *Banques populaires*, the first of which made its appearance in 1864. From 1861 to 1880 the business of the *Unions* increased steadily and rapidly, mounting up to 200,000,000 francs of discounts in the year, of which sum nearly 156,000,000 francs stood to the account of the *Union* of Brussels. Next followed a period of stagnation, which lasted till about 1890. From that date forward a fresh upward movement carried the annual figure to 394,000,000 francs—the figure for the Brussels *Union* alone standing in 1903 for more than 250,000,000 francs. However, as the business grew in bulk, it also changed not a little in character. M. L. Hanssens, chairman of the Board of the *Union du Crédit de Bruxelles*, quotes the "small" amounts for which business was done in 6,631 distinct transactions that he has classified—among which 5,175, that is 78.04 per cent., stood for transactions under 200 francs, and 3,683, that is, 55.54 per cent., for such not exceeding 100 francs—as a proof that the Union still serves in the main the class of small traders, for whom it was primarily intended. Against this Professor Hector Denis with justice points out that those 6,631 transactions represent less than 10 per cent. of the total transactions, and that the remaining portion are for much larger amounts. There is more to evidence a substantial change of character. In the first years of the Brussels *Union* it was in the main its "ordinary" credit, advances at first hand, which was drawn upon. The "extraordinary" credit —that is, bills brought for discount—proved insignificant. In 1855 and 1860 it amounted to a bare 600 francs or so, calculated per member, as compared with more than 9,000 francs per member of "ordinary." By 1904 "extraordinary" credits had risen to 41,721,700 francs, that is, 7,900 francs per member, as comparing with only 32,825,000 francs, or 6,100

francs per member, of "ordinary." A more striking fact still in the evolution of this business institution is the rapid growth of balances held on clients' behalf in current account, which has gone up from 33,631 francs in the early years to 18,667,972 francs in 1902. And what is more significant still is that of that sum 4,374,561 francs, that is, about 25 per cent. of the whole, was held on account of non-members, with whom the *Union* has done business since 1874.

In other words, from a credit institution on mutual, though not co-operative, lines, the *Union* has developed into a business bank for all, an ordinary discount firm.

There has been just one feature introduced to preserve it its "popular" character. M. Hanssens has stated that since the year 1866 his *Union* allows a certain amount of credit every year to "working men" —presumably jobbing artisans—known to be honest and industrious—although not declining security, yet in the main on the ground of their established character. That corresponds to the Italian *prestito sull' onore*, which was likewise introduced to mark People's Banks with a philanthropic aim. Such advances never exceed 1,000 francs in any one case. In 1875 advances of this description amounted to 267,000 francs on 318 accounts. They are no longer entered in the balance-sheet under a distinct head, and there is nothing to show with what completeness they are repaid. But probably the money has come in fairly enough.

In general it may be taken that the *Unions*, although distinctly useful to trade, do not serve out genuinely "popular" credit. And there is, of course, nothing whatever "co-operative" about their organisation. But they are an institution which does honour to the inventiveness of their author.

Léon d'Andrimont, the Founder of "Banques Populaires."

It was the late Léon d'Andrimont, as already explained, who provided for his country a more democratic and more educating form of credit. He had sat at the feet of Schulze-Delitzsch and taken in his teaching with eager attention and full faith. A young man still, he returned to his country full of enthusiasm, resolved to secure for it the same benefits which at Schulze's hands Germany was deriving from the new institution. There were cases in plenty waiting for it. M. d'Andrimont tells of a hawker baker whom he found in Liége, hiring his barrow at the rate of threepence a day. A People's Bank afterwards enabled him to purchase the barrow out and out, by instalments of the very amount which he had been paying in hire, in less than a year, and to find himself afterwards every year £4 10*s*. in pocket. Of course there are thousands of similar cases.

And there was agriculture with all its needs.

With the exaggerated fidelity of a zealous disciple he would transplant co-operative credit, precisely as it was practised in Germany, into his own country—large shares, large districts, unlimited liability and all.

Facts were too strong for him. Unlimited liability showed itself as little acceptable to Belgians as it was to Italians. At the outset it was accepted only because its significance was not understood. When in one of the banks some years later it was proposed to limit the liability to—I think it was fifty times the value of the share—members, who had up to that time made themselves answerable for the bank up to the hilt, with absolutely the *whole* of their possessions, shrank back in alarm, declaring that they could never accept so heavy a responsibility. In respect of other points, no less, M. d'Andrimont's close adherence to his German model has for some time stood in the way of entire success. For a long period the movement dragged heavily.

Some banks grew up rapidly, but their number and their business remained stationary, with one or two added or withdrawn every year—sixteen, seventeen, then fifteen—representing a constituency of 10,000 or 11,000, keeping very solvent, doing a fair amount of business in a very businesslike way, but never really extending their sway or becoming genuinely popular, even among those teeming millions of the most populous and the busiest little country of Europe, in which Ministers and economists—like M. Graux and M. Beernaert—never weary of calling out for some popular form of credit, more especially agricultural. "How is it," plaintively asks M. d'Andrimont, as President, at the Congress held in 1888, "that, having been founded nearly twenty-five years ago, the People's Banks have not grown more numerous?" The French economist, M. Limousin, in agreement with M. Julius Schaar (Director of the *Banque Populaire* of Brussels), supplied a very plausible answer: the banks were not sufficiently "popular." "The People's Banks," so writes M. Charles M. Limousin in the *Journal des Economistes*, "become in Belgium less and less popular, that is to say, less and less useful to the poorest class of the population. Soon they will have nothing that is popular about them except the name." M. Schaar complained that "the People's Banks cannot be useful to simple artisans."

We will deal with that point presently.

After a time came better luck, and co-operative banking appeared to be asserting its sway, at any rate in industrial centres. For during a long time little progress was made in country districts.

Hindrances to Co-operative Credit.

One hindrance to more rapid progress evidently was the rivalry—for such, after all, it amounted to—of the *Unions du Crédit*. To some extent, at any rate, the two institutions overlap; and the simplicity and

direct business utility of the *Unions* disposed many people, who thought more of their own momentary wants than of the creation of an enduring institution to provide for them in the future, in their favour. Not content with running against one another, particular organisations of either kind have in some places constantly changed their character, becoming the one thing or the other, as co-operative spirit or business inclination predominated; or else they took to aping one another. That is the standing temptation to institutions of this sort. The love of lucre tempts to deviations from the path of principle. It has to some extent spoilt the co-operative institutions, without making the non-co-operative more co-operative. In respect of bulk of business, very naturally the *Unions du Crédit* occupy the foremost place. They have "bigger" members with "bigger" wants. The total value of bills discounted by the six *Unions* existing at the time amounted in 1903 to 344,262,401 francs, in comparison with only 96,208,424 francs discounted by seventeen *Banques populaires*. But in respect of membership the *Banques populaires* since 1876 take a decided lead. Their 15,721 members in 1903, compare with only 6,546 in the six *Unions du Crédit*, more than five thousand of which, as observed, belong to the one *Union* of Brussels. These figures sufficiently indicate the difference of status existing between the two classes of institutions. It is the *small* men with *small*—but urgent—needs who flock to the *Banques populaires*. It is the *business* men, with a going business which requires the services of a bank, who go to the *Unions*. It makes nothing against this differentiation that the *Union du Crédit* of Brussels numbers no fewer than fifty co-operative societies among its members. Such societies represent collective bodies of small men, with a fairly considerable

Membership in Co-operative Banks.

business. The composition of the *Banques populaires* on the other hand is thoroughly popular. Careful account is kept of it in most banks, but in too detailed a shape to warrant reproduction here. The majority of members in every case consist of small shopkeepers and manufacturers. But it deserves to be noticed that in several of them, situated in towns, there is a sprinkling of small farmers and market gardeners. Some banks, like that of Verviers, also include a considerable number of working men ; but such join rather to have a receptacle for their deposits to their liking than with a view to borrowing. There are further differences in the two organisations arising from the essential difference of aim and of character. The one distinctly aims at the encouragement of thrift. The deposits which it collects are mainly savings. The "deposits" of the other are balances on current accounts. The one aims at educating its small adherents. It watches over advances, inquires—in fact, at the Committee table, if not formally in bargaining with the applicant—into the intended employment of the loans. The other—apart from the insignificant business done with working men—is perfectly satisfied if it knows that there is adequate security. The one, after all, however faulty its organisation may be—and, in truth, in not a few cases is—still manages to link its members together and provide them with a common interest which goes beyond the actual loan. The other, like Gallio, cares for none of these things.

Organisation of "Banques Populaires."

The pity perhaps is that Léon d'Andrimont began his work so soon, before the German Union had become a really effective organisation, before M. Luzzatti had shown how the German institution may with advantage be adapted to non-German methods. He carried, so to speak, a German plant into his country, and planted it there in a Belgian pot, in which its roots had little

room for expanding—whereas M. Luzzatti judiciously grafted Italian sets upon the transplanted German stock and planted it in an open field, where the roots could strike out freely and the entire plant, absorbing indigenous nutriment from the native soil, could acclimatise itself in its new home.

D'Andrimont took the German bank as he found it, under its earliest form of organisation, with a General Council sufficiently large to represent all sections of members, and elected by the latter at their annual meeting. As a rule it consists of fifteen members, with either five or else seven forming a quorum. Its members were not, according to M. d'Andrimont's conception, to be remunerated; but it has become usual now to allow them small fees for attendance. This Committee is the real governing body, appointing and removing the salaried officers who are of the number of two—the *gérant* (manager) and the *caissier* (cashier), neither of whom may be a member of the Council. For the practical conduct of current affairs, an executive Committee is elected by the Council from out of its own number, consisting generally of two, viz., the President and another member, to which two the *gérant* —who has also a seat, but not a vote, on the Council, and is called upon to act as secretary to that body—is added as a third, with full power of voting. Some banks have adopted the German practice of requiring the signatures of two out of these three to give any act validity. The shares are, as a rule, fixed rather high—by preference at 200 francs, in addition to which a small entrance fee, say 3 francs, is collected. But the money for such share may be paid in very gradually indeed—in as much as 400 weeks, by payment of 50 centimes per week. The unlimited liability originally attaching to shares has long since been discarded—rather in the teeth of M. d'Andrimont's

is proceeded with as elsewhere and is entrusted to either three *commissaires*, or else to one *contrôleur*, the latter being by preference a skilled accountant or banker. In good banks there is no disposition whatever to shirk such inspection; indeed the more searching it is made the better are members pleased. But, judging from the bad debts made in banks that have had to be wound up, it is to be apprehended that an equally favourable disposition is not shown everywhere.

What has been said will give an idea of the organisation of *Banques populaires*.

Its Merits and Defects.

It cannot be contended that these banks have proved a disappointment; but no more can it be maintained that they have proved an unqualified success. There are brilliant specimens of co-operative banking to be met with among them. No co-operative bank, for instance, could be better than that of Liége, the oldest of the number, formed by d'Andrimont in 1864, and of which for a long time M. Alfred Micha has been the life and soul. But there are also rather questionable specimens. No more conclusive proof of this fact could be found than the comparatively large number of conversions, either into business banks or else into *Unions du Crédit*, and also of actual liquidations which burden the record. No fewer than twenty-one *Banques populaires* have thus disappeared from the scene, leaving at the present moment only sixteen alive; and of those sixteen the table given on p. 388 will show that not by any means all are prospering alike. If we deduct the two small banks of Argenteau and Goë-Limbourg, as being, in profession at least, agricultural, there remain only fourteen with, collectively, 15,526 members.

It may be interesting, before inquiring into the causes of the absence of greater success, to give a

brief sketch of two of the best of these banks, which are qualified to serve as types, inasmuch as their surroundings and membership represent the two principal phases of industrial town life to be met with, each differing in this respect materially from the other.

Instances Liége.

Liége, the oldest, has all along ranked as premier bank in respect of management. It is not now the largest, although it has recovered its pride of place above Verviers, because the bank of the arrondissement of Antwerp, formed twenty-two years later, has, in virtue of its favourable position and the active life prevailing in the enlarged port, outstripped it in respect of membership, share capital, deposits, and business. Verviers shows best among all as a deposit bank, by reason of its large working-class population. But Liége still ranks above it in respect of that most important feature, share capital, on which Schulze laid greatest stress, and which, accordingly, d'Andrimont—for nearly forty years President of the bank—as a faithful pupil, did his best to see studied. The possession of such ample share capital has enabled the bank to avoid the perils of reliance on an excessive amount of borrowed money, which has shipwrecked other banks. It has very plainly manifested its great value during the financial crisis of 1907, since, in M. Micha's words, it has enabled this bank to keep clear of rediscounts. Only a bank strong in share capital and—partly on that ground and partly on account of a well-established reputation for good management—in the possession of public confidence could have weathered such crisis so well. I have been permitted to sit at its committee table and see the business transacted, with care and circumspection, and no sparing of pains, and can, therefore, vouch for the quality of the management.

Liége is a town of small trade—the very place, one

would say, for a People's Bank. And as a veritable *People's* Bank both M. d'Andrimont and M. Micha intended theirs. Its transactions are, by choice, individually small. There is nothing mentioned about this in the rules, but of its own free will the bank has, on M. d'Andrimont's insistence, made it a practice not to make advances above 5,000 francs to one applicant. For larger advances, so M. d'Andrimont held, an ordinary business bank is the right place; and he also owned to a belief that such larger credit may be more advantageously obtained from such bank—on which point there may be two opinions. The membership of 3,825 (there were only 2,486 in 1895) is composed mainly of small tradesmen. There are bakers, shoemakers, printers, tailors, plumbers; moreover teachers, male and female, clerks, also better-class artisans and small manufacturers. And there are seventy-five small farmers and forty-one market gardeners. Although jobbing artisans are plentiful, the wage-earning class is only sparingly represented. The Bank of Liége still holds fast to liability in excess of what is paid up—five times the amount. Opinion within the bank, I believe, is favourable to contraction to the actual amount of the share, which would get rid of that inconvenient and unsafe source of credit —unpaid-up liability. However, in deference to the late President, the larger, nondescript liability has been thus far retained. The present President, M. Micha, is strongly favourable to a change. It is to M. Micha, who is a consistent co-operator, that the bank owes its very recent adoption of the practice of profit-sharing for the benefit of the employees. In addition this bank has been the first in Belgium to adopt the practice of *ristourne*, that is, a dividend upon business, which in a co-operative bank with limited liability is plainly called for. Once more, it is M.

Micha that the bank is beholden to for this advance. Also the bank is moderate in its payment of dividend, which seems to be generally limited—in practice—to 4 per cent. This means that the benefit of prosperous business goes to the right quarter, that is, to the borrowers, who are thereafter charged less on their loans. It is a fact worth noting that in this bank cash credit is well-developed. The outstanding accounts on cash credit alone amounted at the close of 1908 to 2,071,418.79 francs, in comparison with only 492,919.06 francs on acceptances. The People's Bank of Liége is particularly strict in respect of its checking and auditing of accounts and transactions.

Verviers.

The *Banque Populaire* of Verviers is quite differently situated. Verviers is a town of large workshops, with only little of that small trade which is supposed to account for the success of its sister bank of Liége. Out of its population of somewhere about 50,000, as many as 40,000 are "hands," working in those large cloth mills and yarn factories which employ 160 steam engines or more, and turn out annually above 400,000 pieces of cloth, besides yarn, clothing the entire Belgian army, and exporting at least £3,000,000 worth into the bargain. Walking in the busy streets of Verviers, you might fancy yourself in Bradford or in Leeds. The character of the people is, of course, reflected in the bank, which numbers a considerable proportion of working men, though—the members being grouped in the list of callings according to occupations only, without a hint as to who is master and who is journeyman—it is not easy to say precisely how many. These men, of course, have little need of credit, but they gladly carry their savings to an institution which, having remunerative employment for their money, is in a position to allow higher interest than the Savings Bank. In this way,

the People's Bank acts very beneficially in favour of decentralisation. Once more, there are some small farmers (117) in the bank, and fourteen market gardeners, and—as a proof of how little business banks have to apprehend from People's Banks—three ordinary banking firms. Like the People's Bank of Liége, that of Verviers favours cash credits. It had, at the close of 1908, 3,328,745.97 francs outstanding in such, as against 1,349,178.89 francs in discounts, and 555,452.78 francs in balances of specific debts.

Review of "Banques Populaires" generally.

If all Belgian *Banques populaires* were, or had been, like these two, Co-operative Credit would have an excellent account to give of itself in the country. However, many others have done badly—so badly that a special inquiry has recently been judged called for. For the Belgian Government thinks much of its "middle classes" and is anxious to place adequate—and even, so it seems, more than adequate—credit at their disposal for the protection of their existence.

Now it is not denied that some co-operative banks in Belgium have disappointed expectations. A collapse or conversion of twenty-one out of thirty-six banks formed in itself presents a rather alarming proportion suggestive of some serious defect. Nothing of the sort has happened either in Germany or in Italy. Certainly the result ought to be a warning to would-be organisers who are disposed to rush light-heartedly and without due consideration into a venture of which they do not appear to realise the import. But when Government writers, pleading on that account for State intervention, are pleased to generalise from such—it is true all too frequent—occurrences to the general condition of the movement, it is quite plain that they are guilty of rather reprehensible exaggeration. Let us look at the facts!

In 1895, as shown in the second edition of this book,

there were twenty-three banks ; to-day there are sixteen. However, those sixteen banks number 15,877 members as against 13,749 in 1895. Their collective share capital stands at 3,669,017 francs, as against 2,714,962. Their reserve funds amount to 1,613,711.40 francs as against 653,204.09. Their deposits (chiefly savings) are returned as 19,334,929 francs, as against only 4,815,786 francs. There is no retrogression in this. It is not possible for me to carry the comparison between 1895 and 1908 further, because the business of the banks is recorded in different ways—in respect of 1895 the total business done, and the credits granted during the year ; in respect of 1908 only the amount of acceptances kept in the bill case at the end of the year, figuring at 261,969,727 francs, and the advances made at 43,308,086 francs. In any case it is impossible to infer from the balance-sheets of most of the banks for 1905 lying before me that there has been a contraction of business. Quite the reverse ; business appears to have grown concurrently with capital and membership.

The truth is that pessimists have become unduly frightened because co-operative credit has not spread faster. There are reasons for this. But when people will not borrow, although bank counters are accessible to them, one does not quite see how things are to be improved by the provision of State funds still further to swell the amount of available money not drawn upon. It is not capital that has been wanting ; it is business. The "middle class" does not live by credit alone ; and credit is, like fire, an excellent servant—none better—but an execrable master.

Let us see what it is that has caused this alarming thinning in the ranks of co-operative banks in this one country.

The causes of the conversions are, either that greed

Conversions and Collapses and their Causes.

for gain has overpowered the leaders in some particular bank, or else that those leaders have discovered, after they had light-heartedly formed their bank, that there was no need for it. Thus the Bank of Andenne and the *Crédit des Syndicats Bourgeois* of Brussels have converted themselves into joint-stock companies. *Le Crédit et l'Epargne* of Brussels has been amalgamated with a business bank, the Co-operative Bank of Tournai has transformed itself into a *Union*, and the Bank of Mons has amalgamated with one. The Banks of Gilly, Grammont, Hasselt, Herve, La Louvière and Soignies have gone into liquidation because there turned out to be no business for them. On the other hand, the Banks of Ghent, Saint Gilles, Namur, and another bank at Brussels have had to close their doors, because indifferent management had permitted a few cases of embezzlement, but had, more generally, led to credits being carelessly granted—which mistake was visited upon them with all the more deadly effect where the bank, falling into it, relied too much upon borrowed money. There is no greater snare to a co-operative bank, the object of which is to do things *safely*, than the ambition to do "much business" and parade a showy balance-sheet. The most striking case of such mistake is that of the Bank of Ghent, which at one time was, in respect of business, the premier co-operative bank in Belgium. In the best year of its existence—1895—it laid out 23,083,117 francs in advances, and did a total business of 113,044,499 francs. No other Belgian bank came near that. And all this it did upon a share capital of 329,240 francs, with a very respectable reserve fund of 134,797 francs already laid up. I foresaw its fall when I visited it in 1893, in which year, on the ground of its possessing a financially very strong membership—about 1,500 members, some 1,000 of whom the *Banque Nationale* professed to

know to be equal to their liability of 5,000 francs on a 200 francs share—it still enjoyed the best of credits. The *Banque Nationale* discounted its bills freely. However, it really never was a co-operative bank. It was capitalist, seeking business, ready to incur risk for the sake of profit. That meant ruin sooner or later ; and the ruin has duly come.

The underlying root cause of all these catastrophes is that there has been no uniformity, no common standard, above all things no common control, no oneness of any sort among these banks, and in consequence none of that checking on behalf of an authority outside each particular bank, which makes the inspecting bodies inside the bank do their duty. There is a sort of Federation, formed in 1869. But, like the Italian Federation, it exercises very little authority upon the banks which compose it. It holds Congresses where people talk. It does not, and it cannot, keep the banks up to their duty. It forms no link among them. More than once has M. Micha proposed that in the interest of all there should be inspection on behalf of the Federation. But in every instance has the proposal been rejected, because, in truth, it came too late. These things want to be done at the beginning of the movement, when every particular bank feels that it needs support, and is willing, in consideration of such, to submit to authority. When the proposal came the strong banks had grown too strong and resented what they regarded as an intrusion ; and the weak were shy of letting in the bull's-eye light of an inspection, lest it should reveal the nakedness of the land. When opening their annual Congress in 1897, I begged the banks to study more mutual touch and unity. But when M. Micha's warning passed unheeded, how was I to expect my admonition to be acted upon ? When more than half the banks of a particular type come

to grief the public can scarcely be expected to repose much faith in the movement as a whole. Local people may trust the Bank of Liége, or the Bank of Verviers, the Bank of Dinant, or the Bank of Saint Nicolas. But it will be odd if they have unqualified faith in the movement.

An intended Remedy.

Belgians are hoping to remedy this. Unfortunately they set about it in what appears to me to be an entirely wrong way, because they attribute the evil to the wrong cause and aim at the wrong point. The Government is thinking of its pet child, the "middle class." And the "middle class" is supposed to require credit, and, therefore, is to have it whether it asks for it or not. It will not borrow as much as the Government thinks that it can do with from People's Banks (other banks are for such purpose out of the question). So, like the suffragettes, they are to be fed with the Government "tube." Professor Denis complains that not 3 per cent. of the people paying licence tax as carrying on a trade, borrow of either the *Unions du Crédit* or the People's Banks. The Government have made this reasoning their own and submitted a Bill to Parliament creating a State bank which is to pour a gallon of liquid into the bottle which at present will not absorb a pint. That is putting the cart before the horse. The means for obtaining credit at present exist and have given proof of their adequacy. The reason why they have partially failed is that they have not been put to their proper use. The true remedy is to improve their management, insisting upon better security and more effective checking, without which two precautions all the money in the world will be thrown away upon this "middle class" credit. The new State bank, so it is said, is to rediscount People's Banks' bills. Why should a special institution be created to do this? So, very pertinently, asks M.

Proposed State-Aid.

Bouillenne, President of the People's Bank of Verviers; "good bills can always be discounted; people discount ours." The only good that is to be looked for from the new measure is the stricter inspection which in the interest of the proposed State bank the Government is bound to insist upon—provided always that the banks keep such inspection in their own hands—the hands of their Federation; for inspection by Government inspectors is of very little value.

"Banques Populaires" and Agriculture.

Rural Belgium has, like rural France and rural Germany, its own history of co-operative credit to tell.

Features of Belgian Agriculture.

Everything, one would say, seems in Belgium to favour some co-operative form of agricultural credit. There is money, there are means of communication, there is knowledge of business, there are, in fact, all the elements of successful and remunerative banking present, with an intelligent and active class of cultivators to take advantage of them, most of them being tenants. Of about 5,000,000 acres under cultivation, 76.155 per cent. are in the hands of tenants. And most holdings are small. Only about 3,000 holdings, of tenants or owning cultivators, are estimated to exceed 125 acres; 35,000 holdings range from 25 to 125 acres; and the vast remainder, about 1,000,000 holdings in all, are of less than 25 acres. On these it is, mainly, that Belgian labour and Belgian agricultural skill produce those heavy crops of what is really garden produce, which competes so embarrassingly with the fruits of our native fields, turning every favouring accident to account, down to the shale in the soil, which being fired, enables these resourceful husbandmen to supplement the solar warmth wanting in their climate for producing fruit considered the monopoly of more southern countries. For such high cultivation, above all things, money is wanted. But

co-operative credit, which could give it, cheaply and conveniently, remained for a long time an unrealised aspiration.

Why was this? There are sufficient reasons, of course.

Belgian co-operators, when addressing themselves to the creation of co-operative credit in their own country, deliberately adopted the Schulze-Delitzsch system as the *one* system applicable—the Schulze-Delitzsch system in its straitest and narrowest application, it was to be.

This system has rendered admirable service to agriculture in Germany and in Italy. But somehow it has refused to answer in Belgium. Two little "agricultural" banks of this type have been formed—one in Argenteau, the other in Goë-Limbourg. Between them they number 351 members; they have about £2,800 share capital, with about £400 reserve funds, and about £13,000 deposits, with only £2,500 outstanding in loans. And when we come to look at the list of members—I have such only for Goë, which is the more active bank of the two—we find that among thirty-nine members in 1905 * (there are now 300)—only six were *cultivateurs*. That is no help for "Agriculture."

Attempts to Create Agricultural Credit.

However, "Credit for Agriculture" there was to be. Accordingly, the matter having been frequently discussed in Parliament, by a law passed in 1884—the same year that saw the French law on agricultural syndicates adopted—the Government placed the practically exhaustless treasures of the National Savings Bank at the service of cultivators through the intervention of *comptoirs agricoles*, stationed in various districts and endowed with ample discretion.

* I take this figure from *Mémoirs et Documents réunis par le Secrétaire de la Commission nationale de la Petite Bourgeoisie instituée par arrêté Royal du* 10 *avril* 1902.

The "Comptoirs Agricoles."

That is the old method of creating credit by the provision of funds instead of security. The law also invested the lending institutions with certain "privileges" for securing themselves, similar to those accorded in Italy under the older and ineffective law.

The experiment has, however, led to scarcely any results. The simple cultivator who, as both M. Graux and M. Beernaert have pointed out, habitually shrinks from "the indignity" of borrowing, and can only be coaxed into it by having credit administered by men with familiar faces and heads which understand his case and needs, would never take to those strange gentlemen.

There have, in all, been fourteen *comptoirs* created (ten of them since the appearance of the second edition of this book, which shows how resolutely the Government cling to the hope of attaining success in the teeth of scarcely encouraging results), of which number three have been subsequently suppressed. So there are eleven now in existence. These in 1908 lent out among them 3,028,145 francs, but had at the close of the year 12,099,650 francs owing to them, which shows that many loans were granted for a considerable length of time. The loans were, however, of such amounts as indicate that they were not generally taken by small men. Such conclusion has long since been generally accepted. The entire lending of the fourteen *comptoirs* formed, from 1884 to the close of 1908, amounted to 25,339,674 francs—a little more than a million sterling in twenty-four-and-a-half years! The number of loans granted being 4,838, the mean amount comes very near 5,238 francs, that is, over £200. There were 544 loans granted under 1,000 francs, averaging about 633 francs (£25), 2,771 ranging from 1,000 to 5,000 francs, 959 rising to 10,000 francs, 366 to 20,000 francs, 119 to 30,000 francs,

and 79 beyond, ranging up to 50,000 francs. This form of credit continues to be maintained. It has its uses; but the result is not considered satisfactory. Something far more "popular" was held to be needed. To provide it, the National Savings Bank was once more put into requisition, and the provision of credit was begun, as usual, at what must be considered the wrong end, that is, not the ascertaining of demand, but the provision of supply.

Professor Francotte's little banks.

Before such action was taken the Raiffeisen system had made its influence felt in the country. Belgium borders upon Prussia; and whatever was done in Prussia was sure to send its echo into Belgium. In addition, Abbé Mellaerts and Professor (subsequently Minister of State) Francotte had tried their hand on "Catholic banks." Church and State are not in Belgium at loggerheads as they are in France. Accordingly the Government viewed the economic action of the "Catholics" with favour. A law passed in 1894 authorised the Savings Bank to advance money to village banks on certain conditions, and the late M. Mahillon, then Director General of that institution —being a man sincerely desirous of helping the necessitous—lost no time in preparing model rules. The idea was that, as in Italy, the village banks formed should be independent in themselves, but governed by rules approved by the National Savings Bank and permitted to deliver up the savings deposits taken to the institution befriending them. The organisations so created by Government initiative have subsequently become so much blended with independent village banks—having a Roman Catholic flavour, and formed by the *Boerenbond*, Abbé Mellaerts' creation—which were admitted to the same privileges, that it may be well before giving figures (which it is impossible for me to separate as between the two classes of institu-

The "Boerenbond."

tions), to deal with that rather powerful and continually extending organisation, and content myself for the moment with saying that as a scheme for the diffusion of credit the Government scheme has failed, inasmuch as the village banks created under it have deposited far more money than they have drawn out. The Report of the Director General of the National Savings Bank recognises this, explaining that the village banks obtain, as a rule, as much money as they need from their own deposits, which they prefer to employ directly in loans to passing them through the National Savings Bank and claiming them back at a higher rate of interest. The rate at which they receive them from the National Savings Bank is $3\frac{1}{4}$ per cent., the $\frac{1}{4}$ per cent. to be retained by the Central Bank becoming security, as its recompense. The National Savings Bank allows credit up to 200 francs per member. Relations with the National Savings Bank imply much red-tape, and the submitting of accounts and documents relating to the loans to the latter institution. Therefore, the village banks prefer raising their money themselves, or, so far as they possess their own Central Bank (there are now seven such), taking it from such, to borrowing it from the National Savings Bank. For such purpose they must, under the rules now in force, in any case employ the mediation of one of the Central Banks, which has to become surety to the Savings Bank on their behalf. The National Savings Bank allows loans for varying terms of years. It is for this purpose that, apart from the Central Bank of the *Boerenbond*, at Louvain (which is, of course, wanted), other Central Banks have been formed and continue to be formed. They have each their own district. The Central Bank of the *Boerenbond* acts, so far as there is demand from societies of the *Bond*, all over the kingdom, and therefore, in some districts, com-

The National Savings Bank's Services.

Independent Central Banks.

petes directly with other Central Banks. Although, as will be shown, village banks generally fail to accept the benefits offered to them by the National Savings Bank, they are not equally chary in respect of other State help. For they gladly accept the grant of 100 francs which the Ministry of Agriculture allows to every new bank of the kind whose registration is notified in the *Moniteur*, to go towards first establishment expenses ; as well as 25 francs a year granted by the same Ministry, to pay for inspection and audit. This annual grant is paid to the inspecting Union. *Non fit sine pulvere*, says Saint Augustine, meaning thereby exertion and effort ; *non fit sine munere* seems to be the accepted maxim abroad for "self-help" in agriculture. And "self-help" organisations accept such gifts, because they have not yet learnt the truth of Sterne's axiom that "all is not gain that is got into the purse."

Belgian Deviations from Pure Raiffeisenism.

The Raiffeisen principle is not applied in Belgium in its absolute purity. Village banks are required by the law to issue shares ; but such shares may be small. They are bound to pay dividend ; but that dividend has been strictly limited. In the last place, they must not make their reserve fund permanently indivisible ; however, by ingenious regulations they have succeeded in making it practically so. In any case there is no inducement left for members to "share out."

Organisation of Belgian Raiffeisen Banks.

The Raiffeisen village bank movement in Belgium owes its origin to Abbé Mellaerts who, when vicar of Rillaer, and General Secretary of a Peasants' League having its headquarters at Louvain, was attracted in 1892 across the border to study in Prussia the organisation and work of the Raiffeisen village banks, of which at that time everyone had heard—with the exception apparently of our Treasury and its recent spokesman in the House of Lords. Professor Francotte's little societies,

moulded on the German *Bauernvereine*, and likewise distinctly "Catholic," were in other respects rather landlord-ridden than independent. There were landlord members (*membres fondateurs*) and peasant members (*membres effectifs*), the former supplying the funds or liability, and guidance, the latter raising advances and suffering themselves to be led. In one of these societies—that of Perck—membership went as a matter of course with tenancy. The *membre fondateur's* tenants became *ipso facto* members of the society and as such entitled to credit.

Abbé Mellaerts' societies have not adopted this principle. The cassock is very much in evidence in them and the Roman collar leads; but the societies are *bonâ fide* members' societies, adopting the Raiffeisen principle in all things—parish districts, nominal shares (1 franc, or in some cases even only 10 centimes) and unlimited liability. They were evidently wanted in Belgium. For they have gone on rapidly increasing in number and are valued as a benefit. There were in 1895 thirty-three such little parish banks, with collectively 1,160 members (980 of them being agricultural cultivators); by 1900 the figures had risen severally to 264 and 11,669 (9,783 of the members being *bonâ fide* cultivators). At the close of 1908 there were 584 societies, with seven Central Banks, of which that of Louvain took the lead. I cannot give the number of members. It stood at 19,972 (for 428 banks) in 1905, 16,079 being *bonâ fide* small agricultural cultivators. At that time the number of Central Banks was only six.

What a contrast to our British village bank movement, which began much about the same time, and has resulted only in fourteen or fifteen struggling little banks!

There is no need to describe the Raiffeisen principle over again. It may, however, be of interest to pick

out from the regulations adopted by the *Boerenbond* one or two practical precepts which appear to have answered well. The *Boerenbond* village banks have, like the village banks of Germany, an executive committee of five and a larger Council of Inspection. The executive body is authorised to grant credits to members up to a limit settled by the General Meeting, which limit as a rule stands at 1,000 francs. Should a larger amount be asked for, the Executive is required to consult the Inspecting Council at a joint sitting. To make the vote taken at such joint sitting valid the majority of members of both bodies are required to be present. Whether a sitting be joint or distinct, the vote is in any case taken by ballot—"yes" or "no"—and the majority in favour of granting the loan must be absolute; thus, if there should be six members present the majority must consist of four. Should the application for a loan come from a member of the Executive Committee, it is for the Council of Inspection to decide upon it. No applicant is ever allowed to be present at such deliberation. The *Boerenbond* does not prohibit a member of the Executive from being surety for a borrower, but it strongly discourages the practice. No decision is considered valid unless it is entered on the minutes.

Present Strength of the Raiffeisen Movement.

It will have to be borne in mind that the *Boerenbond* is, like the *Raiffeisen-verband*, a Union pursuing more objects besides that of providing credit. It organises common action among the peasantry in every way for purchase and sale, and also for insurance of every kind; it educates, gives free legal and other advice, and endeavours to show itself a "guide, philosopher, and friend" to the class for which it acts in every conceivable way. Its own Union now comprises 286 village banks (that is the figure for the close of 1908). The number has grown by twenty or thirty every

year. In the provinces of Antwerp, Brabant, Limbourg, and East Flanders it positively monopolises agricultural credit, there being no village banks but its own there in existence. Those four provinces answer for 244 of the banks. The resort of the banks of this Union to the assistance of the National Savings Bank is very circumscribed indeed. In the years 1903, 1904, 1905, 1907 and 1908, when 926,850 francs was lent out (242,550 in 1907, and 402,000 in 1908), not a single penny was raised from the National Savings Bank; in 1902 only 5,000 francs, and in 1906 only 3,000 francs. The *Boerenbond* banks have in point of fact used their credit with the Savings Bank only while they were themselves still weak in capital and other credit, and have had the resolution, while doing so, to build up resources of their own and then to throw away the crutch. At the close of 1908 the loans outstanding on the part of the *Boerenbond* banks amounted to 544,519 francs in respect of advances made of 2,043,000 francs. However, only 14,305 francs of this was owing to the National Savings Bank, in respect of advances amounting originally to 211,900 francs; whereas the balance due to their own Central Bank amounted to 530,214 francs, in respect of loans figuring in all at 1,831,100 francs. The Louvain Central Bank belongs exclusively to the *Bond*. At the close of 1908 it disposed of a share capital of 3,293,000 francs, subscribed in 1,000-franc shares, with 7,378,852 francs deposits from local banks, and 293,849 francs from individuals. The entire working capital of the bank is put for 1908 at 16,035,019 francs. Apart from granting loans and taking deposits, the Central Bank acts in a manner as central organ for the Union in general, providing, among other things, for Union inspection, for which purpose it maintains three qualified inspectors.

Taking a wider view of the movement, there were at the close of 1908, including Central Banks, 584 Raiffeisen village banks in existence in Belgium, of which number, however, only 400 had sent in returns, accounting for 9,305,730 francs lent out and 18,627,485 francs collected in the shape of deposits. No wonder the services of the National Savings Bank are not in request. But it is no small achievement to have in this way brought about to some extent the decentralisation of national saving. Of the deposits spoken of only 4,695,120 francs had found their way into the National Savings Bank, which allows 3 per cent. interest up to sums of 2,000 francs, and only 2 per cent. beyond, and which had in the same year approved of 831,832 francs of advances asked for, but actually granted only 213,144 francs. In fact its assistance in this matter is very near *nil*. On the other hand, the Raiffeisen banks, although expanding only slowly, appear to be doing so steadily and surely, and to answer the requirements of the rural population. So much, indeed, is their help appreciated that since some time the Socialists have made attempts to create an opposition movement of the same sort. There are, of course, many among the rural and cultivating population who are not very devotedly attached to the Church of Rome, and among such the Socialists would like to secure adherents to themselves. They have not, however, thus far met with any very notable success.

Co-operative Mortgage Credit.

Since 1904 the *Boerenbond* has added to the services which it already renders a new one in the shape of mortgage credit. At a meeting of members held in the year named, at which the proposal was formally put forward and explained, it was loudly acclaimed by those present. There is something very seductive in the prospect of bringing mortgage credit near to

every peasant by means of his own parish bank, the members of which, so it is argued, are sure to be better informed upon the value of his property than any valuer from elsewhere can be, and also in a better position to exercise influence over him to prevent abuse or depreciation. The money for such advances is, of course, not taken from the funds provided for personal credit—deposits and the like, which are liable to withdrawal—but by the issue of long term bonds, paying $3\frac{1}{4}$ per cent. interest, such as it cannot be very difficult to place among a "Catholic" population for a "Catholic" cause. There seem to be no hard and fast regulations laid down regarding the proportional amount to be lent. As the matter now stands, the issue of mortgage loans is in the first instance to be left to each local bank. It is to that body that the applicant is required to address his application, submitting at the same time his title-deeds and any other papers. It is also the local bank which values the property. Only in the event of there being no local bank in the district is the applicant entitled to address himself to the Central Bank, which in such case undertakes the valuation on its own behalf, and which in any case, for greater security, examines the title-deeds and papers. But it is in every case the Central Bank which raises the requisite money and completes the advance. It raises the money by means of "obligations"—bonds, that is—of 100, 200, 500, and 1,000 francs, which run for terms of up to twenty-nine years. That is also the term up to which mortgages may be granted. The mortgages are repayable by sinking fund, without precluding repayment in the lump or by instalments at earlier dates. Up to the close of 1908 in this way 1,823,950 francs had been lent out in 369 advances, averaging a little under £200 each, namely, 1,085,800 francs in 201 advances through

the local banks, and 738,150 francs in 168 advances by the Central Bank at first hand. The business shows a very slight advance as time has gone on. The mortgages granted in 1908 amounted to forty-five, of the value of 205,000 francs, allowed by local banks, and thirty-eight, of the value of 204,520 francs, taken from the Central Bank. It is to be apprehended that some of the questions of liability involved have not yet been brought home to these small co-operative bodies. But one may be interested to see the matter develop. As a rule it is more advisable to leave mortgage lending to distinct bodies raised up upon a very much broader basis.

General Summary.

From the sketch here given it must be apparent that Co-operative Credit in Belgium at the present stage finds itself, if in a somewhat threatened, certainly also in a highly interesting and instructive position. There is some brilliant light in the picture, and there is also some very gloomy shade. In view of the most disappointing effects—allowed to be so—produced by State aid in the provision of funds (in the cases both of the *comptoirs agricoles* and the *caisses rurales*), it puzzles one to conjecture what it can be that has led the Belgians to the resolve to apply State-help as a strengthening resource to industrial credit. With union and inspection providing a common standard, and the certainty of its being maintained, there is little doubt that other *Banques populaires* might have done as well as those of Liége and Verviers, the success of which is not questioned. But for the opposition for a long time offered to Raiffeisenism by M. d'Andrimont and his friends, Raiffeisenism, which evidently suits the rural population well, might have been introduced much sooner, and would probably by this time have been strong and covered much more ground; and it might under those circumstances

CHAPTER XIV

CO-OPERATIVE CREDIT IN SWITZERLAND

Switzerland a Country of Popularised Credit and Thrift.

WITH only fifty-five co-operative credit societies registered in 1908—leaving out of account the ninety or a hundred small village banks quite recently formed—Switzerland is sometimes held to rank, in matters of "popular" credit, as a decidedly backward country. The figure named, however, provides only a very inadequate measure whereby to estimate the democratised credit business done in the "Eidgenossenschaft," even though some of the institutions here referred to conceal under a co-operative name only very little co-operation in fact. The form of registration, as it happens, affords in Switzerland no sort of clue to the character of an organisation. For legislation is in that country a veritable medley, permitting much hoisting of false colours. Up to 1883, when it proceeded from the cantonal Councils, it was nothing short of Chaos, and the control nominally exercised over the societies—to see that they were, and were kept, sound—was as much a matter of form. Since 1883, when the Federation took such legislation in hand, matters are materially improved. Nevertheless, there are many "co-operative" societies not by any means truly co-operative. On the other hand, also, there are joint-stock companies which exhibit much co-operative spirit, and certainly dispense much democratised credit in a thoroughly public-spirited way. Beyond this, for purposes of small credit, Switzerland is happy in possessing its veritable host of thrift

institutions of every grade and shade, which do much to minister to the wants of those in whose dwelling places they first collect their funds. There are also some *Unions du Crédit* of the Belgian type, and there is much small credit business transacted by the capitalist banks, public and private, so that a not unplausible case could some time back be made out for denying that Switzerland needed co-operative credit.

The Savings Banks.

In very truth, as you enter into Switzerland, you enter into an atmosphere of popularised credit, just as you enter into an atmosphere of organised thrift—which is one of the most striking characteristics of the country. Nature, spreading out its rocky mountain covering over the land, forcibly urges man to thrift, and man has made the lesson his own. Barring—possibly—Denmark, there is no country in which thrift is more methodically and more largely practised, and has been so for long back. For the oldest Swiss savings banks date from the seventeenth century. There is a savings bank in Switzerland to every seven or eight square miles. Of 3,189 parishes within the Federation there were in 1882 only 283 unprovided with receiving offices. In 1897 there were 40.52 depositors to every 100 inhabitants, with an average sum of 760 francs to each depositor's credit, 325.30 francs deposits per inhabitant, in the savings banks alone. At the present time—there are new statistics in preparation but not completed at the moment of writing—there are probably at least 1,500,000 depositors (among about 3,500,000 population) and £60,000,000 deposits accumulated. How does that compare with our £215,000,000 or so to 43,000,000 inhabitants! Thrift is in Switzerland taught in schools, from the elementary institutions upward. The pupil of the lowest form has a school savings bank at his elbow. The factory workman finds a factory savings bank close at hand

in every factory of any pretensions. Very schoolboys form their "compulsory savings bank societies," in which they bind themselves to lay by, centime by centime or else franc by franc, it may be for a year, it may be for three, in order so to form an infinitesimal nucleus of a future fortune. Savings banks are not above accepting halfpenny deposits (5 centimes) and even single centimes (*Rappen*). And the State, although it has no Post Office Savings Bank, comes to the assistance of petty thrift since 1895 by issuing (at 1 per cent. commission to itself), savings stamps to recognised savings banks, to be used on cards. Men continue the practice of compulsory saving begun at school, and the small sums so accumulated very often go to buy a share in some co-operative savings association, in which tolerably substantial shares are the rule, so as to carry thrift further.

With no National Debt to speak of (about £4,000,000 for the Federation and £16,000,000 for the cantons) —and that only of recent origin—thrift institutions have almost been compelled to seek employment for their funds by lending. Savings banks are free in Switzerland. There is no Chancellor of the Exchequer selfishly to claim all that people lay by for a means artificially to drive up the price of Consols. The Constitution recognises no right on the part of the Federal or National Council to interfere. Some cantons have introduced official supervision. Aargau inspects, and St. Gall allows no new savings bank to be opened without Government authorisation, and insists upon the accumulation of a reserve fund, which is gradually to reach 10 per cent. of the deposits. Other cantons do not go even such length. Some cantons and parishes are generous enough to guarantee deposits in savings banks. But generally speaking savings banks—not a few of which are joint-stock companies—are absolutely

free to do with their money whatever they please. And they find a very convenient outlet in credit given. Mortgage loans, of course, stand foremost in public favour as investments, although it is recognised that they lock up the money. About 56 per cent. of the funds in the keeping of the savings banks proper are so invested. That recalls the existence of another favourite substitute for co-operative credit in Switzerland. Borrowing on mortgage is made exceedingly easy in the Federation, and will be made still more so under the new law coming into force in 1912. The expense incurred is trifling; the amount borrowed may be very small—there are mortgage loans for as little as £6. And after 1912 mortgage-deeds will be issuable in a form that makes them readily transferable, like bonds or shares. Accordingly, whoever has real property to pledge thinks of a mortgage first. And this accounts, among other things, for the slow progress made by institutions for co-operative agricultural credit. Whatever money in mortgage banks credit on real security cannot absorb goes to personal credit, or to credit secured by effects.

However, this does not by any means exhaust the machinery provided for cultivating thrift and giving credit.

Congenerous Institutions.

In addition to the savings banks proper there are, in the first place, thrift institutions known as *Ersparnisskassen*. These are intended for very small folk; but with many small folk to deposit, some of them accumulate considerable sums. Of such is the society of Konolfingen which, formed in 1828, has, by means of the practice, not unusual in Switzerland, of carrying every penny of annual surplus to reserve, managed long since to repay every farthing of its original share capital, so making the institution the property of the local community. Its holding in savings deposits now

amounts to something like 14,000,000 francs, to which has to be added about 7,000,000 francs of other funds. Its money is all laid out in loans—19,140,000 francs in mortgages, 1,768,000 francs in loans on personal security. The *Ersparnisskasse* of Berne, formed in 1823, holds 18,500,000 francs in savings deposits, all of which is laid out in mortgages. To meet calls there is a reserve fund of 777,000 francs. The *Ersparnisskasse* of Aarberg, formed as long ago as in 1812, holds about 9,000,000 francs in deposits, with 1,800,000 francs reserve fund to serve as till money. There are more such institutions, most of them of very early foundation, whose long existence has enabled their early founders and their heirs to get rid of every shred of liability, while retaining a right to manage, for the public interest, but no right to claim any benefit.

Next to these humble but useful institutions there is a cognate organisation of a rather more pretentious type, the *Spar-und Leihkassen*, which likewise take savings freely and loan out money. In order to be able to do the latter all the more plentifully, they go beyond collecting cash by savings deposits alone and contract debts or else raise funds by means of bonds or debentures. They may accordingly be considered to approximate rather closely to ordinary business banks.

There are no statistics to show how much money they circulate in this twofold way. There is one such "Kasse" in Berne, registered as a joint-stock company, with 6,000,000 francs share capital, in addition to which it possesses 2,050,000 francs in reserves. It holds more than 18,000,000 francs in savings deposits, on about 32,000 accounts, in addition to about 12,000,000 francs of cash balances on current accounts and 10,000,000 francs ordinary deposits. Its ordinary

dividend on shares is 8 per cent. It is a useful institution, because it lays itself out for providing credit more specifically for the classes of medium and small tradesmen and manufacturers, who would otherwise be most exposed to exploitation by usurers.

From what has been said it will be gathered that this type of society is rather substantial for its position.

Cantonal Banks.

The cantonal banks, the oldest of which—that of Berne—was formed in 1834, and which are maintained as public institutions by their several cantons ; furthermore the ordinary business banks, whose character is known to stand high ; and the well-developed mortgage banks, which are a speciality of their country, are all helpful towards the provision of small credit. The first-named two take small deposits ; all three types grant small credits, the mortgage banks by means of mortgages, the others in other forms. The *Kantonalbank* of Zurich, in a public-spirited way, cultivates small credit even at a loss.

There is, then, tolerably liberal provision made for "popular" credit even without the addition of co-operative banks proper. However, as time advanced, and modern developments raised greater claims, it could not be made to cover all the ground. Agriculture clamoured for more. Switzerland is not nearly to the same extent an "agricultural" country that it used to be. Its agricultural population has shrunk to 33.25 per cent. of the whole. But all the same agriculture still constitutes an important interest, more particularly peasant agriculture practised in holdings under 12½ acres. When provided with adequate working capital that is also found to be the most remunerative. It has been calculated that out of such small holding the occupier manages on an average to net 650.95 francs (more than £10 8*s*.) of profit per acre,

whereas cultivators of $12\frac{1}{2}$ to 25 acres net only £10, cultivators up to $37\frac{1}{2}$ acres £8 8*s*., cultivators up to 75 acres £8 3*s*., cultivators of larger areas only £7 11*s*. By means of a protective tariff, which they were successful in carrying some six or seven years ago by a referendum, the peasantry manage to obtain prices for their produce—more particularly for meat and milk—which are so inconveniently high for the industrial population as almost to compel the latter in self-defence to combine to co-operative distributive societies, the number of which under such stimulus increases by several hundreds every year, and the business of which goes up by leaps and bounds. The great distributive store of Basel, which does an annual business of about £200,000, was first started to provide for a cheaper and better supply of milk, and such trading in good and cheap milk made it at once popular with the entire population of the city and absolutely ensured its success.

Arrondissement Banks

But for all this improved high farming money is required. Cantons and "communes" (which often enough include a number of parishes) endeavour to do their part towards providing such, sometimes on a large scale. Thus there is a credit bank for the *arrondissement* of Burgdorff, which ministers to the needs of twenty-five surrounding communes. The various communes have in this case provided 101,000 francs as a "capital of guarantee," but decline to make themselves responsible beyond that sum. Since all surplus—beyond 5 per cent. allowed on share capital—is carried to reserve—which fund already amounts to 771,000 francs—and there are 18,000,000 francs of savings deposits, no further liability is likely to be required. But in some other cases the "commune" takes the *entire* liability. There are credit banks directly "run" by "communes." And there

is a quite peculiar institution which has become very common in the cantons of Thurgau and Zurich and there renders very acceptable service.

Co-operative Purchase of Cattle.

By the very nature of the conditions in which Providence has placed them, the Swiss are almost compelled to practise co-operation. They could scarcely make their cheese, which constitutes their most characteristic national product, except by clubbing together to form co-operative *fruitières*. Co-operation in dairying it may have been which, more particularly in the Canton of Thurgau, led, by a natural sequence of ideas, to co-operation for the purchase of cattle. There are in the Canton of Thurgau no fewer than thirty-five cattle-purchasing co-operative associations in existence, ministering to a population of 22,230, one in each parish, no matter whether that parish have but sixty inhabitants, or close upon 2,000. For more than forty years have these *Caisses Thurgoviniennes** kept the inhabitants in bullocks and milch cows, rendering most useful services in their own humble way, and receiving their money back in full and punctually, with interest, which promises to enable them in course of time to extinguish the debt incurred at the outset, and put in its place a sufficient self-supporting fund. And all this has proceeded from the initiative of the parishes themselves. Only quite lately has the Cantonal Government voted subsidies to the amount of 1,500 francs a village, not by way of necessary assistance, but as an encouragement to the extension of a useful practice. The *modus procedendi* is really very simple. The commune—that is, the parish—by a vote of its inhabitants, resolves to raise a fund by loan. Out of that fund any villager who can make out a case and show that he really desires to buy a beast, and has keep for

* For fuller information about these institutions see my article, "The Poor Man's Cow," in the *National Review*, October, 1894.

it, is entitled to receive an advance. He must enter into a bond to repay the sum, with interest, by regular instalments, and also not to buy from anybody else on credit. That done, he receives his money, and may buy wherever he chooses, paying cash. Should he fail in any of the duties undertaken, his loan is at once declared forfeited, and repayment is enforced. For the debt contracted by the parish, of course the parish is collectively responsible, which involves unlimited liability on the part of every parishioner up to the amount of the debt. The needs of different parishes naturally differ according to circumstances. In 1889 the little village of Wattenweil, having only 140 inhabitants, lent out, 4,750 francs, the larger village of Marweil (311 population) 5,980 francs. The repayments in these two cases amounted to 3,980 francs and 4,597 francs respectively. Sometimes the fund raised proves excessive, at other times insufficient ; but the difference is never very great. The village of Tägerweilen, in the year mentioned, having a fund of 22,987 francs, found itself called upon to grant 27,000 francs in advances ; in Huttlingen the demands made on a fund of 18,470 francs amounted to only 17,980 francs.

Some few years ago, when I was in Thurgau, there was in all about 550,000 francs owing, which may have stood for 2,000 or 2,500 cows, purchased, for the most part, with borrowed money. Tägerweilen alone had about 600 or 650 cows standing to its credit. The *caisse* of Illnau, in Zürich, which was newly established, had already purchased 800 or 900 cows. The consequence is that, as the chairman of one of these *caisses* informed me, three cows are now kept where there used to be one. And the whole country is richer by its cultivators' prosperity. The funds are kept in a state of equilibrium by moneys coming back, and the losses are infinitesimal.

Industrial Credit.

However, the industrial population likewise was thought to stand in need of additional help. Switzerland is one of the chosen homes of small trade, the character of which, indeed, changes, as large factory work edges its way into its preserves, but which nevertheless as a whole manages to hold its own. Of the 3,500,000 of the total population of Switzerland, some 100,000 persons are now actively engaged in domestic industries alone, working for their own account or else for that of some among themselves, in 70,873 little establishments, which represent 12.4 per cent. of the entire number of establishments of such particular trades. The industries so pursued are above all things weaving, spinning, embroidery and tailoring—with watchmaking (which is now yielding ground to factory work), strawplaiting (which is likewise giving way), shoemaking, jewellery, glovemaking, and woodcarving following. For this interesting and picturesque class of industry the supply of working capital and of facilities for tiding over bad times, collecting sums due, and the like purposes, are of the utmost importance.

Co-operative Banks.

The genuine co-operative credit societies—whether registered under that name or under another—are all of fairly modern origin. Probably the *Schweizerische Volksbank* (*Banque Populaire Suisse*), which was formed forty years ago—and which will call for a special notice—is the oldest among them. They can scarcely be said to have followed the example of the German banks. Only two among them, for instance—that of St. Gall and that of Thal (in the same canton)—have adopted unlimited liability. In the remainder liability is limited, in many cases to the actual amount of the share. Some few really have no share capital at all, being guaranteed by communes or philanthropic institutions. However, generally speaking, there is not much philanthropy in their work. They

are, on the contrary, exceedingly businesslike—aiming, it is true, not at high profits, but at absolute security and sound business, which is, perhaps, their most conspicuous characteristic. Shares, as a rule, run from 200 to 500 francs, but there are one or two banks with 2,000 francs shares, and also others with only 10 francs shares. There are some which allow a member to take up only one share; others permit more, up to—in one case only—200. Voting is usually per member; but one or two small banks have adopted voting per share. Government supervision of these societies was extremely lax, and control became only nominal, while legislation rested with the cantons. Since 1883 a Federal law has placed the societies under very much more stringent surveillance, which has improved their status, and, with it, public confidence in them. There is no kind of union among these banks, and hence, among other things, there are no statistics. Hence, also, there is a considerable variety among them with regard to business principles and transactions.

Tradesmen's Banks

To quote a few as, let me say (without any intention of giving offence) subordinate types—there is the *Handwerkerbank* of Basel, with a share capital of 10,000,000 francs and 3,450,000 francs reserve fund, which specially studies the interest of small trade, and, among other things, makes advances on the security of goods exhibited in the permanent Industrial Exhibition of that city. Another society, in the same city, the *Gewerbebank*, has only 1,000,000 francs share capital and 194,000 francs reserve fund. It advances a fair amount of money for building purposes, but is in such business exacting in respect of security, which helps to make building transactions sound. There is a *Gewerbekasse*, very similar to the *Handwerkerbank* named, at Berne, with only 300,000 francs share

capital, a *Volksbank* at Interlaken, a *Bank* at Langnau, which was originally a branch of the "Schweizerische Volksbank." At Geneva there is the *Banque populaire génevoise*, formed in 1868, with 1,726 members, 2,602,150 francs share capital, and 951,464 francs reserve fund, which grants cash credits freely, and next the *Coopérative génevoise*, formed a year later, with 569 members, 462,600 francs share capital, and 112,000 francs reserve fund. This bank allows members to draw upon it at their pleasure up to half their paid-up share capital. The *Kreditgenossenschaft des Aargauer Gewerbevereins* at Baden, formed only in 1907, goes further in this not over-secure practice, allowing members to draw up to 500 francs in respect of each paid-up share of 150 francs held, which involves liability up to 400 francs. The *Genossenschaftsbank* of St. Gall, already mentioned as one of the two only banks having adopted unlimited liability, is maintained by a "Christan-Socialist" society and is—according to its programme, published on the formation of the bank in 1905—"destined to become the backbone of all the Christian-Socialist organisation in Switzerland." To a great extent it really acts as Central Bank and endowment fund for the Raiffeisen village banks, which have only quite recently made their way into Switzerland, and are there, to a considerable extent, "run" on "Christian-Socialist" lines, under the guidance of the Roman Catholic parish clergy. But it also makes advances to working men's societies—like M. Durand's *caisses ouvrières* in France, which are likewise to a great extent led by the priesthood for religious and educational purposes. This bank, though still quite young, already does a considerable business on the security of a guaranteed capital of 500,000 francs. Its annual turnover amounts to about 23,000,000 francs, and it has already accumulated

about a million francs of deposits. The most ambitious of the banks at present spoken of is the *Neue Kreditgenossenschaft* of Zurich, which was only formed in 1908, and proposes, having a share capital of only 66,500 francs, to render a great variety of services to the class of smaller tradesmen and artisans, assisting them in purchasing real property, in obtaining mortgage loans, in granting personal credit, and placing banking facilities within their reach.

The "Schweizerische Volksbank."

However, the leading specimen of Swiss co-operative credit institutions is without question the *Schweizerische Volksbank* (*Banque Populaire Suisse*), which within forty years has worked itself up into a most commanding position, overspreading the whole of its country.

The *Schweizerische Volksbank* was formed in 1869 with only fifty-three members to begin with and a share capital of 2,627 francs (£105). At the close of 1909 it numbered 48,133 members—the net increase for the year being 4,732—with 55,775,938 francs share capital, of which 46,906,013 francs had been paid up, with 8,300,000 francs reserve fund, and an annual business steadily increasing by thirty or forty millions every year, and which in 1909 stood (on one side of the balance-sheet only) at 349,871,376 francs. The bank has its headquarters at Berne and maintains fourteen branches: Geneva, Basel, Fribourg, Zurich, St. Gall, Winterthur, Montreux, Lausanne, Uster, Saint Imier, Tramelan, Porrentruy, Wetzikon, and Saignelégier. Its staff of employees numbers 465. Its membership is decidedly "popular," consisting of 24,996 men, 22,973 women, and 164 societies. Among the members 5,021 (1,178 women) are artisans working for their own account; 2,442 (224 women) are agricultural cultivators and market gardeners; with 145 (thirty-three women) assistants or labourers to com-

plete the agricultural quota ; 2,882 (979 women) are simple wage-earners ; 3,463 (711 women) are commercial employees ; 1,859 (194 women) are railway employees ; 4,101 (496 women) are small traders ; 1,938 (seventeen women) manufacturers, architects and contractors ; 1,740 (676 women) are tavern-keepers, jobmasters and cafétiers (including assistants) ; 6,027 (1,203 women) are persons of liberal professions ; and 18,351 (17,262 women) are persons of no occupation.

This bank is exceedingly businesslike in all its transactions. For lending it favours cash credits, which exhibit a marked increase from year to year. At the close of 1909 it had 168,652,511 francs so employed. In addition, it had in that year discounted bills to the amount of 287,701,852 francs, besides lending out 48,859,044 francs in specific advances. Its position must be pronounced thoroughly sound. It raises its money partly by cash balances on current accounts, standing at the close of 1909 at 50,360,566 francs ; partly by savings deposits, standing at the same date at 73,522,220 francs (about 50,000,000 from non-members) ; partly by ordinary deposits, standing at the date named at 2,858,822 francs ; and partly by debentures redeemable only upon three months' notice given, varying in rate of interest, according to the time for which they are issued, from $3\frac{1}{2}$ to $4\frac{1}{4}$ per cent., and standing in all, at the close of 1908, at 165,165,000 francs. The proportion of its own capital employed to that of borrowed money stands at about one to five, which is a safe ratio.

Its Organisation.

The organisation of this bank is interesting, because it covers so large an area, which is sometimes a stumbling-block to co-operative banks. It is thoroughly representative. Every branch possesses its own properly elected and responsible Council of nine, with its own chairman, managing director, secretary and so on, and

also its three *censeurs*, acting as a Council of Inspection. At the head of all stands a Council of thirty, with fifteen substitutes elected, temporarily to fill vacant places, supplemented by elected delegates from the various branches, proportioned in number to the relative importance of each branch, the collective number of whom stands at present at sixty-five. There is an executive body (*Direction générale*), of course, composed of six members and two substitutes, and a managing Director-General, with an adequate staff, who attend to the daily business. Thus every branch manages its own local affairs under the vigilant control of headquarters, and there can be no uncertainty about the proper organ to which to address oneself. The branches are regularly—and also irregularly—visited by the Director-General and his officers. All accounts are reviewed by the local *censeurs*, and afterwards come up for further review by the *censeurs* at headquarters. In this way the whole organisation is fitly joined and compacted, every part being in its place and contributing its share to the common work.

Its Services.

The *Schweizerische Volksbank* has proved an inestimable benefit to the trading and agricultural population of Switzerland, more particularly to the medium and smaller classes. Its quite phenomenal extension over the entire country, and the yearly addition to its number of members and mass of business, conclusively prove that it was wanted and is appreciated. It has proved a godsend to those small industries already referred to, with whose workshops the Swiss mountainside and valleys bristle—watchmakers, makers of musical boxes, weavers, wood-carvers, straw-plaiters, basket-makers, and the like. In its report, issued for the twentieth year of its existence, the Council set forth the objects which it has steadily aimed at from the beginning.

"Our first object," so the report says, "is, by means of the joint action of many, to provide a credit and the requisite cash for small folk; our next, to earn a fair profit for our members; and our last, to promote thrift, as a means of converting into a small capitalist the man who is not such already." There is very little altruism in this programme. But the object pursued—simple, purely economic, but very genuine co-operation—is thoroughly legitimate, and answers a most useful purpose in the economy of a commonwealth.

To effect this, the bank has made it its aim, for the sake alike of custom and of security, to enlist as large an army of members as it possibly can, and to induce those men to do all their business at its counters. That is the dominating idea in all its practice, and it studies its realisation in every detail.

The late M. Yersin, for many years the active Director-General of the bank, has set forth the principles upon which he has acted in the following precepts:—

"Keep down your demands made upon members in respect of instalments; make those instalments as small as possible; for the lower are your demands, the more 'popular' will be your institution, the more members will you attract. If possible charge no entrance fee, because even that is likely to be felt as a 'tax.' Offer your members special advantages in the shape of a rather lower discount charged on bills, a rather higher interest allowed on deposits. Interest them in your work by every possible means; to this end make your administration thoroughly representative and democratic, allowing to each member a vote, and one vote only, whatever be his holding, and giving to each branch bank full self-government. Make people understand that you pay precisely the same attention to small business as to large. 'Third-class traffic' is, in the aggregate, the

safest, the most remunerative, and the most constant. Spread out your machinery, cover what ground you can, multiply banking facilities ; the more 'popular' you make your institution, the better will you succeed."

It speaks well for the bank that its savings department, in addition to being largely employed by its own members, is also used—to three times that extent—as a receptacle for deposits of non-members. This plainly shows what confidence is reposed in the bank ; and I venture to put it that the money so deposited is better employed in the bank's business than our millions sunk in Consols.

Members are admitted by election of the representative Council of Management, from whose decision an appeal lies to the General Meeting of Delegates, should ever occasion arise—which is not likely to happen. The administration is thoroughly representative. Obviously, it would be impossible to call all the 11,826 members scattered all over Switzerland together. But each *succursale* has its own constituency, which may very well be convened from time to time. For every hundred members it is entitled to return one delegate to the central representative body ; and by this means a tolerably popular representative assembly is constituted, quite large enough for practical purposes. The delegates elect a Council, and the Council in their turn nominate a Board of Directors.

The share to be taken up is of the value of 1,000 francs. Originally members were allowed to pay up that amount by monthly instalments of 1 franc, which gave them more than eighty years for completion. Of late the rule has been modified, and now at least 25 francs has to be paid up in every year ; that still leaves forty years for the process. However, a member's right to use the bank begins upon his paying his first instalment. And, as a matter of fact, shares are, as the

figures above quoted show, paid up in very reasonable time.

Generally speaking, the *Schweizerische Volksbank* is careful to see that it has good security for the credit which it gives. However, under one aspect, like a good many other co operative banks, it deviates from that golden rule by permitting members to borrow on the security of their share up to three times the amount of money paid upon it, therefore in no case more than 3,000 francs. For such credit, which is by preference given in the form of cash credit, an acceptance is in every case insisted upon, to facilitate recovery.

Danger of Lending upon Shares.

The lending upon shares opens up rather a troublous question in banking. The share is rather the member's bond than his asset. It constitutes him a part-proprietor in the bank. But the bank's security to its creditors is the share, not in its own hands, but in the member's. Therefore, by accepting the share as a pledge, instead of strengthening its own position, in one aspect it rather weakens it. For in parting with the share, it parts with potential security. Were the share to be forfeited, the bank would obviously be so much the poorer, and offer its creditors so much the less security. Accordingly, one is not surprised to see other co-operative banks in Switzerland, though actually granting such credit, yet declining any obligation to do so, except subject to their own judgment. In practice, indeed, no loss worth speaking of appears to have been sustained under such method of lending, which has become a great favourite with members and is freely resorted to. However, there is no blinking the danger of abandonment of shares. To guard against it, the *Schweizerische Volksbank* has adopted a rule which enacts that upon one-fourth of the members surrendering or giving notice, a general meeting shall

forthwith be called, to vote upon the question, whether the bank is to be liquidated while the intending seceders are still members, or is to go on without them.

Raiffeisen banking has been much slower in making its way into Switzerland. For a long time it has been argued that there was no room for it. Recent facts have to some extent refuted such assumption. However, Raiffeisen banking certainly came very late in the day, and has extended only slowly. Raiffeisen Banks.

Twenty odd years ago, in 1887, some "Christian Socialists," in and near Berne, succeeded in forming the first Swiss village bank at Schosshalde, a village closely adjoining the federal capital. There were only twenty members to join. After five years I found on a visit that there were then sixty. All the work of the bank was then, however, thrown upon the schoolmaster, who zealously devoted himself to it. But it dragged rather upon his hands. The Government of course supported the venture with a grant of 500 francs. Yielding to the ingrained Swiss predilection for rather substantial shares, this society, rather in the teeth of Raiffeisen principles, and without any compulsion by the law, fixed the value of its shares at 50 francs, each member to be limited to one, in addition to which it collected from every incoming member an entrance fee of 5 francs. Its business does not appear to have been very considerable.

The next bank of the same type to be formed was that of Zimmerwald, in the organisation of which the parish priest took the lead. It had smaller shares, of only 30 francs, in addition to which it received a proportionally smaller Government grant, of only 300 francs.

For a considerable time these two, with the addition of a third in, I forget what parish, formed the whole posse of Raiffeisen banks in Switzerland. But from

1900 forward a new spirit appears to have come into the movement, under the inspiration of Father Traber, the parish priest of Bichelsee in Thurgau. His parish received the first Raiffeisen bank of the new departure. The Bichelsee bank was opened on New Year's Day, 1900. By 1902 the number of such banks had increased to ten, which combined to form a federation. Things then began to move rather faster. In July, 1906, Nationalrath (that is, Member of Parliament) Jenny—undoubtedly the best informed authority—was in a position to report that there were fifty-six societies with 3,300 members, whose business in 1905 amounted to 13,697,000 francs. The federation, acting presumably as central bank, had done 3,834,000 francs business on its own account. In that year the *Genossenschaftsbank des christlich-sozialen Genossenschaftsbundes*, already mentioned, was formed at St. Gall, to a great extent with a view to its acting as central bank and feeder to the then rapidly growing Raiffeisen federation. It allows Raiffeisen banks to draw upon it, without cover, collectively up to 100,000 francs. By 1907 the number of societies had increased to ninety, with about 6,000 members, and a total business in that year of 24,619,703 francs, to which must be added the business of the federation, amounting to 5,377,458 francs. Since then I understand that the number has risen to 100, ninety-four of which return for 1908 a members' roll of 6,637 and 13,327,995 francs business. These are the banks in the federation. But there are understood to be a few—very few—outside. The federation banks muster strongest in German cantons. In 1906 out of a total of seventy-seven banks (with 4,905 members), as many as sixty-seven were in German cantons, four in French, five in mixed Franco-German, and the remaining one in the half-Italian canton of Grisons. The collective reserve

funds of the ninety-four referred to are returned as 68,026 francs. The central bank is reported as having done a business of 3,165,608 francs, and as having carried its reserve fund to 1,005 francs. These banks are organised on the well-known Raiffeisen principles, having only small shares, on which, however, dividend is paid, though limited to 5 per cent. One half of all accruing surplus is rigorously carried to the indivisible reserve fund, which, speaking for the ninety banks then existing, had in 1907 grown to 98,305 francs. Like the Raiffeisen societies in Germany, these little Swiss societies also provide for their members' wants in the matter of supply and distribution of goods.

As must be plain from what has been said, the object of these banks is at least to the same extent educational as it is economic. So far as they thrive they thrive under the protecting shelter of the Church of Rome. One may be glad to see them increasing in number and making their influence felt. For Raiffeisen societies never go anywhere without raising the tone of the rural population, in addition to benefiting it materially. But, as matters stand at the present moment, one must be hopeful indeed to look for a very substantial extension—unless, indeed, Raiffeisen altruism were come to be subordinated to class egotism, such as appears at present exceedingly active and is undoubtedly powerful in Switzerland, as appears from the protective tariff passed some years ago. Similar deterioration has, to some extent, been witnessed elsewhere, justifying in every instance the old proverb : *corruptio optimi pessima*. One may indeed hope that the reverend gentlemen at the head of the movement will know how to prevent such degeneration.

As for the other co-operative banking, in no country should its teaching be more welcome and more attentively studied than in our own, in which unquestionably

credit of the same kind and for the same classes—those classes, part of whom have never enjoyed credit at all, whereas others have had it taken from them by the absorption of local banks in great monster concerns—runs seriously short. The admirably managed *Schweizerische Volksbank*—with its cash credits and discounts, its substantial deposits, its varied and ready services, its active business and its steady and increasing growth—affords, like the great co-operative banks of Germany and Italy, an example full of meaning and stimulating instructiveness for ourselves to follow.

CHAPTER XV

CO-OPERATIVE CREDIT IN FRANCE

Early Gropings for "Popular" Credit.

FRANCE has a richly interesting tale to tell of its groping for co-operative credit; but it is a tale largely mingled with disappointment. There is not a country in which more research, and labour, and money, have been expended upon the quest of a practicable and effective form of paper credit; and, had but the authors of the experiments possessed the perseverance to go through with what they had begun, the world might stand indebted to them for highly valuable and original forms of co-operation. Unfortunately, patience was just the one element lacking. There has been start upon start; a restless pushing hither and thither; a thing taken up only to be laid down again, but very little sustained effort.

The result is as astonishing as it is disappointing. For a long time back popular credit, more particularly for the benefit of agriculture, has been a favourite, almost an obsessing, dream in French minds. The French authorities have given their attention to it since 1837. A resolution in favour of it was enthusiastically adopted by a representative gathering of agriculturists in 1845. Proudhon and other imaginative innovators tried their hand upon it at the time of the Revolution. Yet of all this thinking and scheming nothing has come till quite lately. And now it is only an imitation—whether useful or useless it remains for time to show—of what is done elsewhere, that has crowned such protracted efforts.

What, so one is tempted to inquire, is the cause of such very partial success ? It is not, as the late Ernest Brelay would have it, unsuitable laws. Existing laws are bad, and confusing ; yet good organisations manage to get on with them. It is not, as Father de Besse will insist, the *furia francese*, which spells "more haste, worse speed." It is not a lack of national aptitude ; for upon occasion constraining them, no men make better co-operative bankers than the French. It is want of trust in themselves, that fatuous reliance upon *l'Etat-Providence*, which completely paralyses the individual's arm. Even now, when popular credit is diffusing itself rapidly over the whole breadth of the country, there is scarcely any self-help in it, very little sacrifice of a few pounds or a little responsibility ; it is for the most part looking up to the State—very clamorous, dissatisfied looking up, but nevertheless dependence upon the State for favours.

Story of its Development.

Let us briefly review the history of popular credit in France.

The official mind was turned to it, as observed, in 1837. The year 1845 produced a vote in its favour, as applied more particularly to agriculture. The Revolution, stepping rapidly upon the heels of this unanswered appreciation, produced a large crop of new, and for the most part very unpractical schemes. Proudhon started his "People's bank," which was to regenerate mankind, but lasted only a few months. Co-operators in Cognac founded their well-intended but short-lived *Caisse fraternelle du petit commerce*. Lefour elaborated a scheme which was to supply the peasantry with live stock purchased on credit—something after the manner of the *Caisses Thurgoviniennes*.* (Oddly enough, something very similar, a most elementary arrangement, has now once more found favour

* See page 396.

in the east of France.) Buchez at the same time put forward very impressively his idea of *Crédit au Travail*. "*Il faut créer le crédit au travail, comme on a créé le crédit foncier, le crédit mobilier*, &c." The Assembly, half in response to this demand, in the teeth of Thiers' violent protest against "*cette grande folie*," voted 3,000,000 francs as working funds for national workshops. It really seemed as if among this exuberant, although heterogeneous, growth of schemes something must come up that would last.

But the *Coup d'état* dealt a serious blow to French operation. The productive workshops, which had in 1849 been started with public money, were after 1851 called upon to repay their loans. They could not, of course, do so. But they could be declared bankrupt and compelled to dissolve—which was just what the Government desired.

The "sixties" brought about a change for the better. Sensible of his want of popularity, the Emperor courted it by ostensibly favouring co-operation. He had but to speak the word to set a whole army of prefects at work, carrying out his behests—in the wrong way. Some sound little urban co-operative societies sprang up at the same time, under the forcing warmth of such fleeting sunshine. However, the Emperor's desires were directed mainly towards assistance to be afforded to the country folk, whose votes tell most heavily in the elections. With a fair capital, he in 1860 formed the *Société du Crédit Agricole*, to deal out loans on easy terms and under proper safeguards to small cultivators. The *Société* never lost a *sou* by its agricultural lending. So the late M. Josseau has testified; and M. Josseau ought to know. The agricultural borrowers indeed surprised the official administrators by their honesty. However, there were not nearly enough of them. The red tape conditions

The Earliest "Crédit Agricole."

for borrowing were so tightly drawn that very few indeed mustered courage to come to this distant and much too fine-looking establishment. By 1870 the *Société* managed to get into "correspondence" with about five hundred cultivators, who were probably large men. Since that did not provide anything like sufficient employment for its money, it lent a huge sum, 208,000,000 francs, to the Khedive Ismail—and lost it.

Soon after, the Empress, anxious to identify her son with a good popular work, started in his name the *Fonds des Prêts de l'Enfance*. The *Fonds* collapsed.

While this was going on, a plain banker, M. Giraud, gifted with common-sense, managed to score that success in the Nièvre of which I have already spoken.*

Comptoirs d'Escompte.

The lesson was not lost upon the banking authorities at Paris. To turn it to account, the Bank of France appointed *comptoirs d'escompte*, consisting of local gentlemen properly accredited and considered trustworthy, whom it stationed in various districts, to receive applications and negotiate loans with agriculturists. However, in the majority of agricultural districts there is little wholesale fattening; and so there was no demand for comparatively short-term loans. For the small farmers these pretentiously composed *comptoirs d'escompte* proved much too fine and too strange. Thus one more promising attempt ended in failure.

For industrial lending the Emperor Napoleon III. had tried his hand unsuccessfully at a discount bank for co-operative societies. Similar ingenious experimenting was continued in the days of the Republic. Gambetta in 1880 started a *Caisse Centrale*, to advance money to the same class of clients. The *Caisse* was to have 50,000,000 francs of capital, of which, however, only 12,000,000 was subscribed. It opened its offices with a grand flourish of trumpets, setting

* See page 66.

up "Collection Bureaus" in various suburbs, and offering its money freely to co-operative associations. The co-operative associations—at least, the solvent ones—however, would not accept the invitation, and in 1887 the *Caisse* escaped a collapse only by throwing over its original object, and converting itself into an ordinary business bank.

At the time when the cause of Schulze-Delitzsch scored its first great triumphs in Germany, co-operative banking may be said to have been dead in France. One curious institution providing popular credit had managed to survive in the African dependency, an institution tracing its origin back to those early days when Spain received its *pósitos*, Portugal its *celleiros*, and Italy its *monti frumentari* and *nummari*. Algiers was in those days provided by its Moorish rulers with a cognate institution termed *silos*. The *silos* were originally granaries, but in course of time became converted into credit associations. Some time ago the interesting little People's Bank of Algiers, thoroughly co-operative, but entirely local, still did good work among its own members—less than 300 in number. There were then also reported to be about sixty other little popular banks of the same type scattered over French Africa—all of them very humble institutions, small and unpretending, but thoroughly useful and genuinely co-operative—descendants, it may be, of the ancient Moorish *silos*—lending out among them about 3,000,000 francs annually to their members.

The "Silos" of Algiers.

Apart from some modest little associations, resembling rather our Slate Clubs than genuine People's Banks, that small cluster of *silos* was probably all of its kind existing under the shadow of the tricolor, when the pæans of triumph raised by Schulze's friends sent their echoes across the Rhine. Among a population so quick to seize upon new ideas, and standing

Buchez.

so much in need of popular credit, those sounds were bound to touch a responsive chord, and to stimulate to emulation. Buchez, the father of French co-operation, who devised for Co-operation the well-known motto which Republicanism has since appropriated to itself—"Liberty, Equality, Brotherhood"—had already familiarised his countrymen with the idea of "Credit to Labour," proclaiming in words which seemed to anticipate Sir R. Morier's dictum already quoted —"*Il faut créer le crédit au travail, comme on a créé le crédit foncier, le crédit mobilier*, &c." Beluze, taking up the idea thirteen years later, made it his ambition to acclimatise Schulze's creation in France, at about the same time when it was being acclimatised in Italy and Belgium. In 1863 he started an institution which has become historic—his well-known *Crédit au Travail*—a co-operative banking society, organising *en commandite*, without shares. Such organisation, he judged, would enable members to pay in an indefinite amount of cash by instalments, as they pleased, and at the same time it would protect the association against being taken possession of by a few greedy capitalist shareholders. On the 27th September, 1863, when the society was called together, formally to pass the rules, and legally to constitute itself, there were 172 members, subscribing among them a capital of 20,100 francs. However, only 4,082 francs was actually paid in by 1st October, when the *Crédit* opened its doors for business. The *Crédit* was to collect savings and deposits, issue long-term bonds at 6 per cent. interest for terms not exceeding five years, cash and discount bills, grant loans, and all the rest of it. Its success was not very brilliant, but it *was* a success; and it is all the more to be regretted that untoward circumstances, more particularly the locking up of too much money in loans not readily recoverable—followed up

The "Crédit au Travail."

by the disastrous war which, along with the empire, swept away a good many things which were much better worth preserving—brought this particular phase of French credit co-operation to a close. While it lasted, the *Crédit au Travail* kept indisputably solvent, and did very good work. Its losses were trifling. It should be borne in mind that it was carrying on its business under a Government which, though outwardly coquetting with co-operation, was in spirit so hostile that in the very year in which the *Crédit au Travail* first became really strong—that is, in 1867—the Emperor would not allow Schulze to come to Paris to take part in a Co-operative Congress at which he was expected as the hero of the occasion. By February, 1867, the *Crédit au Travail* had increased the number of its members to 1,500, and its capital to 250,000 francs. Its annual business exceeded 10,500,000 francs. The smaller tradesmen and manufacturers speedily learnt to appreciate the advantages which it offered, and gladly availed themselves of them. So did—unfortunately, as it happened—the productive co-operative societies, not all of them sound. It was they who brought the institution to grief by failing to repay loans. So successful, in fact, was the *Crédit au Travail* held to be, and so much satisfying a genuine want, that similar institutions, moulded upon the same model, sprang up in considerable number in various industrial towns of the Empire—Lyons, Lille, Nîmes, Strasbourg, Colmar, Bordeaux, Mulhouse, and elsewhere—though the Paris institution itself did a great deal of provincial business. The Lyons *Crédit au Travail*, founded in April, 1865, with 50,000 francs capital subscribed in 500 franc shares, did exceedingly good business at a minimum of cost. The *Crédit au Travail* of Lille had 389 members, and a capital of 105,700 francs; the Saint Etienne *Crédit* had 292 members

and 32,000 francs. In Paris, as a rival institution, the *Caisse d'Escompte des Associations Populaires*, rose up, fathered by Léon Say, besides a *Caisse des Sociétés Coopératives*, both being supported by philanthropy rather than by *bonâ fide* co-operation.

"Groupes à deux sous."

But concurrently with these more or less pretentious institutions there grew up in France an entire little host of small co-operative credit associations, formed by working men for working men, in the humblest of ways, but on genuinely co-operative lines, and answering well in their own modest sphere. I will not say much of the infinitesimally small "*groupes à deux sous*" of Lyons, in which working men, never exceeding twenty, clubbed together to subscribe their penny a week in order to be able to borrow tiny sums up to 20 francs, repayable at the rate of 2 francs a month.

The "Société Mère" and its Offspring.

That is not banking. But there was the *Société Mère* of Paris, with its family of children, some seventy or eighty, in and around Paris, plenty more in the provinces—in Lille, and Saint Etienne, and Valence, and Lyons, and other places—the *Sociétés du Crédit Mutuel.* They were all small, modest, in their way obscure. They had from twenty-five to fifty members each, meeting once a week or once a month in a private workshop, administering their own funds, doing their own work gratuitously. The same man would sometimes be president, cashier, and secretary all in one. In the year 1866 France possessed no less than about 300 such modest societies, all doing well, all supplying in a humble way a real want, readily and easily, at small cost to any one. They levied their weekly or monthly subscriptions, of from 50 centimes to 5 francs, and dealt with the money so provided—not exactly cheaply for borrowers, for they charged interest at the rate of from 6 to 10 per cent.—but beneficially. None of them disposed of large funds. The

richest held a capital of 31,712 francs, with 750 francs of reserve, in all £1,300. The majority had very much less. Yet they did a large amount of lending, and lost almost literally nothing. The *Société Mère* had in 1866 lent out 252,223 francs and lost only 5 francs. One of the most pretentious societies of this sort, established in the Faubourg Saint Antoine, had in six years' business, upon loans which amounted to about 6,000,000 francs, only two small losses to record. It was the very humility of the thing, the lively sense of responsibility, the rigour of "self-help," which made these small societies flourish and answer their purpose, while the millionaire enterprises of an emperor, of republics, and of capitalist associations failed. "The smallness of the losses," reports Sir Edwin Egerton in our Blue-Book, "proceeded from the members being well acquainted with each other; for the societies were small though numerous. . . . Their main strength was in the mutual confidence from *mutual knowledge of each other of their members.*"

Effect of the Franco-German War.

All this useful work was put a stop to by the war of 1870; which, entered into "with a light heart," ended by leaving millions of very heavy ones, tearing associations asunder, breaking up circles and federations, and replacing union by isolation. It is a thousand pities that the good work of these little societies was not taken up afresh when times changed for the better. But by that time Frenchmen had forgotten the things that were behind, and were reaching forward to others which were before, more ambitious, and, may be, destined to become more useful.

Influence of the Italian Example.

The first seed of this new crop, wafted across from the fruitful soil cultivated by M. Luzzatti, took root and ripened under the forcing sun of the Mediterranean littoral. The French Riviera had worn the blue tricolor instead of the green for thirty-six years, but the char-

acter of its population was not essentially changed, when Providence selected it, no doubt in virtue of inherited aptness and old links with Italy, for the birthplace of an economic movement new to France, and destined to become of considerable benefit, repaying in course of time the debt which it owed to Italian example by sending an offshoot back across the frontier to become a new centre of propaganda at Bordighera. One little experiment was first made on soil which had been French before ; but it failed. In 1875, Francesco Viganò, the "father" of Italian co-operation, took in hand the formation of a co-operative bank at Cannes. Cannes wanted such a bank. The bank founded by Viganò grew up promisingly, but after a little time became a profit-mongering joint-stock undertaking. The lesson taught is an old and familiar one. It is not enough to found a People's Bank. You must watch and look after it.

Viganò's First People's Bank at Cannes.

More satisfactory work was in store for Mentone. Whatever French annexation may have done for that little settlement, its occupation by the English has certainly made a more prosperous place of it. It used to be a quiet country town, living upon the produce of the surrounding olive gardens, lemon groves, and flower beds. The advent of English visitors put new life into the place, and practically turned nearly every one among the 9,000 population into a speculator, building hotels and houses for visitors to live in, and laying out terraces and roads and gardens, for which nothing but credit could provide the funds. In 1882, one of the six joint-stock banks existing in the town, having lent out its money too recklessly, failed with 2,000,000 francs of deficit. The little community found itself thrown into a state of consternation. Nobody knew whom to trust, or to whom to turn for credit. M. Palmaro and a few more of the older resi-

The Banque Populaire of Mentone.

dents kept cool heads upon their shoulders, and at once summoned a town's meeting to consider the condition of affairs. A proposal was made to form a People's Bank, after the example of the Italian *banche popolari*. It was agreed that the thing should be done if 20,000 francs was subscribed. People had learnt so painful a lesson of joint-stock banking that every one jumped at the proposal. By the 18th February, 1883, 150,000 francs was subscribed. According to the resolutions adopted, only 100,000 francs could be allotted. On 9th April accordingly the new bank opened its office doors, in the most modest of ways. Its office was a little room, taken at a half-yearly rent of 200 francs. The furniture was of the scantiest and the cheapest. The management expenses were kept down to 625 francs a month. But the bank buckled to its work in good workmanlike style, and, to create confidence, posted its balance-sheet outside its door every evening. Before the year was out business had assumed such considerable proportions that it became necessary to double the capital. At the present time the capital of the bank stands at 591,700 francs, held by 982 members in 100 francs shares, on which now a premium is charged, with 204,454 francs of reserve fund laid up* ; in spite of very keen competition forced upon the bank by branches of the "Crédit Lyonnais," the "Société Générale" and the "Comptoir National d'Escompte," which have established themselves in the locality, the annual business figures at 81,689,091 francs, which is nearly double what it was in 1896. It maintains branches at Monte Carlo and Beaulieu, and has just established a third at Bordighera. It grants credit in a variety of ways. The method most lately added is cash credit, which, with an annual business of

* My figures are taken from the last balance-sheet, for the year closing on 30th June, 1909.

nearly 17,000,000 francs, has already in magnitude surpassed the old-fashioned credit on securities. In addition to promoting provident institutions of various kinds, the bank actively studies instruction in thrift, so as to teach Frenchmen to become the guardians of their own savings. On 30th June, 1909, the savings deposits in its charge amounted to 306,115 francs. Not content with becoming virtually the *Caisse régionale* of agricultural banks of its department, under the Ministry of Agriculture—supplying both the office and the executive officers for such *Caisse*—it has gathered around itself the majority of the other co-operative banks in the department, of both the Luzzatti and the adapted Raiffeisen type, in a *Groupe départemental*, which has become a union of inspection and propaganda, as well as of discussion and comparing of notes, representing a membership of about 2,750, and banks doing an annual business of 92,500,000 francs, with 42,008,307 francs annually dealt out in advances.

There can be no doubt that the bank has been amply successful—successful in a way that ought to be highly interesting to us, with our convenient banker's credit from ordinary banks practically gone.

It is solvent ; it keeps growing ; it enjoys the confidence of its customers and the banking world ; it has become an example in France for other banks to imitate. It is also co-operative. Its customers are for the most part its shareholders. It studies "service" as well as "business," dealing with the small men on the same terms as with the wealthy ; avoiding risk ; limiting its dividend to shareholders, and sharing profits—with its employees. It also renders very useful service to the co-operative banking movement in training managers for smaller banks as a regular practice in its office. Nevertheless there is something about it

which seems, to our British minds, a little against it. The working-class element is only very sparingly represented upon its members' roll. By the side of sixty-one hotel-keepers—we know what Mentone hotels are—fifty-one *entrepreneurs*, thirty-five grocers, and 109 general traders, there are among its 975 members (according to the report for 1909) only very few artisans and working-men. And on my inquiries in the town, some years ago, I found that among small folk there was some prejudice against the bank. It was thought to be too " mighty fine " for them. It seemed intended for *des messieurs*. There were the wealthy hotel-keepers coming to deposit their *bordereaux*, the *entrepreneurs*, and all that class of people ; and, in addition, faultlessly clothed foreigners. For there are notices up in the bank, printed in four different languages, stating that " circular notes are cashed and foreign money is exchanged here." Linen blouses and broad-cloth frock-coats do not willingly rub shoulders even in republican France. However, the supposition that the small men would meet with less attention than the wealthy, that the former would be treated differently in the general meeting or on the committee than the latter, and that a large stake in shares is demanded of members, is of course completely unfounded. It also deserves to be borne in mind that the bank was originally formed by middle-class people for middle-class purposes. It was to replace the old collapsed private bank on a safer basis. And that it has done, while adding at the same time the " popular " side of banking, by which small folk benefit, whereas such service was entirely denied to them previously. Therefore on such score no fault whatever is to be found with the Bank of Mentone.

Whatever be thought of the Bank of Mentone's " popular " character, in the development of French co-

operative banking that bank occupies a very distinguished position. In general, it has become the French standard institution of its kind. Whatever other co-operative banks exist in France are formed in imitation of it.

The pity is that there are so few. It is truly mortifying to contemplate that, in spite of undoubted success, after twenty-six years of steady and active propaganda, there should be no more than twenty-two banks of the kind in all established in France, and only two of these—Mentone and Lorient*—which latter has rather outstripped its older sister in the amount of business done—of any business pretensions. All the glowing eloquence of M. Eugène Rostand, and of Father Ludovic de Besse, all those annual congresses of which M. Rostand has made it a boast that none has ever been held which has not left its mark behind in the foundation of a new local bank, not all that writing, speaking, stumping, agitating, which seemed at the time irresistible, have brought about fully satisfactory results. The *Crédit populaire urbain*, as it has been called, remains on the whole, as a movement, a failure; and, even under the authority of the *Centre Fédératif*,

The Banque Populaire of Lorient.

* The Co-operative Bank of Lorient was formed in 1898, the occasion for its formation being the removal of the one only banker who had carried on business in that active seaport town with about 45,000 inhabitants, to Mentone's 12,000. This bank is modelled upon that of Mentone, but its business is of an essentially different type, owing to the difference of environment. It acts mostly for the preservers of articles of food, such as sardines, and the seafaring population of the two departments of Morbihan and Finisterre. At the close of 1908 the number of its shareholders amounted to 701, holding among them 1,000,000 francs in 10 franc shares, issued, in consideration of 142,868 francs reserve funds accumulated, at 2.50 francs premium. The entire turnover amounted in 1908 to 97,646,038 francs. There had been nearly 43,000,000 francs advanced in discounts, 1,036,033 francs in cash credits, 381,518 francs otherwise. The dividend paid on shares was 5 per cent.

rural or agricultural credit, which was at first eyed a little askance in that quarter, has become out and out the ruling form of credit.

And yet there can be no question that France needs co-operative credit of the industrial type as much as did Italy when M. Luzzatti began his beneficent work. Its non-co-operative banks, it is true, are better organised and more up-to-date than were Italian at the time spoken of. M. Luzzatti's almost magically electrifying and convincing propaganda cannot of course be reproduced at will. But the main cause of failure after all is that old French habit of relying upon someone else rather than upon oneself, that easy-going way which will not put itself out for the sake of doing a little better. The Sibylline books have been offered and have not been taken. The higher price is in consequence paid to non-co-operative bankers. In default of co-operative banks we see people clamouring for the Austrian postal cheque system, which means banking by the State at a huge profit taken from the customers. But industrial co-operative banking has remained almost a blank.

Agricultural Credit.

There is an altogether different tale to tell when we turn to agricultural credit. On that particular ground —the chosen hunting-ground for inventive co-operative fancy in France since the earlier half of the past century—necessity powerfully impelled the people interested to action ; and additional inducements have not been wanting to stimulate their zeal. France, with its close upon six millions of distinct agricultural properties, of which about half measure under 25 acres apiece, unquestionably stood in need of agricultural credit. Its agriculture was backward, in large part admittedly owing to the lack of working capital. " We still live in the era of the old Roman plough " ; that is what the representative of the Ministry of Agriculture

in the famed, fertile, Lauragais, the original "Cockaigne," remarked to me in 1893. The want of funds indeed stared every intelligent observer in the face. In the east peasants could not even manage to stock their little farms with their own cattle. They were driven to borrowing beasts from usurers, by the antiquated practice of *cheptel* lending, which, at a profit of 20 or 30 per cent. to the lender, provides the peasant with beasts to till and manure his ground and to fill his pail, but keeps all the fat for the capitalist. Under this system the small capitalist supplies the cow or whatever the beast may be—as a rule it is a cow—for three years, during which time the hirer is required to feed it and pay a heavy insurance premium upon it.

Pioneered by Professor Tanviray in 1883, the agricultural syndicates—which have since multiplied to about 4,000—came on the scene with their lessons of collective buying, selling, working and higher farming. The "old Roman plough" would no longer suffice for French agriculture. Implements and machinery of modern type were called for. The sale of artificial fertilisers went up by leaps and bounds—and concurrently the price of such commodities came down. The difference in price between now and then is calculated as amounting to no less than 50 per cent.; and yet dealers own themselves contented with the change, because the consumption has increased in a much larger proportion. However, for all such beneficent improvements money was required. And money was a commodity which mere combination could not at once secure. There was known to be plenty of money in the country—money waiting for employment—particularly in the country districts. In such districts much was stowed away in the famous *bas-de-laine*, under beds, under the thatch and elsewhere, in

unknown quantities. But it was not where it was most wanted, that is, in the cultivator's hands.

Early Experiments.

Various expedients were tried in a haphazard, groping sort of way to get it there. The French had of course heard of Raiffeisen and his astounding doings, and were eager to obtain similar results. But they did not yet know his secret. That is not to be learnt, as some among ourselves would do well to realise, simply by reading a flowery speech of M. Méline's and translating it into English. As in times past, as in the cases of Louis Napoleon's *Crédit Agricole,* and of the Bank of France's *comptoirs agricoles,* people in their ignorance looked for money first, and for money coming from a big hoard. At Poligny, in the Franche Comté, a benevolent wealthy timber-merchant offered to provide some money and the office and office work. He was also willing to guarantee 4 per cent. interest on deposits—for he was shrewd enough to perceive that more than his own advances would be required. In Genlis, in Burgundy—where the suggestion of agricultural co-operative credit is said to have been first formulated as long ago as in 1840—a generous landlord handed over to his local syndicate £500 worth of bonds to pledge with the banker for raising money. He has assured me that he has not lost by it. Elsewhere some kind country gentry provided agricultural machinery, at their own expense, to lend out, in some cases free of charge, to members of their syndicate. In this way the late Count de la Bouillerie did much for the small peasantry of Anjou in respect of thrashing machines. In Lyons the great savings bank, the second largest in the country, offered to advance, out of its abundant capital, £2 for every £1 that members might subscribe in the shape of share capital in rural credit societies to be formed under its own rules, if engaging to lodge all their deposits with itself and

to go into debt with no other financial institution. In numbers of agricultural syndicates wealthy people became *membres fondateurs* or *sociétaires*, that is, they provided the money and undertook the main management, without claiming any right to borrow, for the benefit of cultivating small holders, *membres effectifs*, who were to borrow the rich men's money, and to make themselves liable, but not to govern. This arrangement appears to have commended itself particularly to some well-meaning wealthy people also on this side of the Channel. But it has not yielded satisfactory results. It is the very antipodes of the Raiffeisen system, under which wealthy members place themselves on precisely the same footing as poor, and occasionally even serve as bellwethers to teach the shy poor people how to borrow. In not a few credit societies in France it is now just the wealthy members who are of valuable service to the cause, accepting unlimited liability, but leaving the rank and file unpledged. By the side of such patronising societies there were others, where borrowing from the syndicate really meant obtaining a collective endorsement to a bill which, in consequence, banks would discount. There were other societies which furnished advances "in kind." That applied more particularly to loans of cattle, and seems to have been borrowed from the *Caisses Thurgoviniennes*, in which it is the parish which raises and advances the money. A member was allowed to select a cow at the fair, the veterinary surgeon of the society assisting him in his choice. The beast, however, became the property of the syndicate, which paid for it and legally remained its owner till all the instalments were paid. And there were also some fully democratic societies, like that at Auxerre, the secretary of which declared to me : "*nous sommes une vraie petite république*."

All this was mere elementary groping and feeling

one's way. Nobody quite understood how to do the thing. There was no chart to sail by; there was no real union of effort.

Raiffeisenism.

The credit of having brought down the life-giving spark from the Rhenish Olympus and having familiarised Frenchmen with the system of Raiffeisen, whose principles in a more or less pure form now dominate this entire domain, is due to M. Louis Durand, of Lyons, who has become the chairman of an important union of rural banks—real "village banks" of the genuine Raiffeisen type, which, in a manner, serve as standard for agricultural credit co-operation in France. The Government, and some individuals, have been glad to learn from M. Durand, and from time to time to appeal to his judgment. But they have not generally accepted his teaching in full. The reason is that M. Durand holds staunchly by the Vatican. He is a Raiffeisenist to the finger-tips. But for that very reason he looks upon Raiffeisenism as something more than an economic theory or a financial convenience; he detects beneath its earthen crust a religious flame; and, being a pronounced Roman Catholic, he very naturally looks upon religion as identical with Romanism. Not that he rejects people of other creeds. In the Cevennes district, where Protestantism is the ruling faith, there are societies of his Union composed entirely or in part of declared Protestants. But Christian belief, a high religious aim, a moral conception of co-operation by the side of the economic (on which he is fully orthodox), M. Durand insists upon as of the essence of the matter. Unfortunately in France, Vatican and Government, Catholicism and popular sentiment are at issue with one another, and M. Durand probably detests the Government and the republicanism of the present day quite as heartily as the Government, in its turn, distrusts, and the anti-Catholic portion of the public con-

Louis Durand.

demns, Ultra-montanism. Accordingly, peace is for the moment impossible between the two. The Government will not recognise M. Durand's *caisses*—except in a very small union—as entitled to State benefits ; and on the other side holes are continually being picked in whatever the Government may be doing. Thus it comes about that M. Durand's apostolate has run anything but a smooth course, and that in the end the Government, though evidently accepting Raiffeisenism as its general guide, has elected to strike out an independent path.

However, about 1890, when M. Durand first entered upon the scene, there was only one system of rural co-operative credit believed in, and so for a time M. Durand absolutely held the field. Herr Haas' system was still unknown, and the State-endowed intended "universal provider," that is, the Prussian Central Bank, was not yet thought of. M. Bouvet and the early pioneers have admitted to me the superiority of the Raiffeisen system to their own. The *Centre Fédératif du Crédit Populaire*, a society formed for the propaganda of co-operative credit in France, gladly enrolled M. Durand among its leading members and made him a vice-president, inscribing Raiffeisenism upon its banner, although below the more favoured system of M. Luzzatti. And even when, owing to a difference of opinion, M. Durand seceded from that body, and took to pursuing an independent course—with unquestionable success, for a time stamping village banks out of the soil as Pompey did legions—the *Centre Fédératif* would not by any means cast off its Raiffeisenist creed, by the help of which indeed it has in the end secured its greatest triumphs.

M. Durand's *caisses rurales et ouvrières* are absolutely faithful reproductions of Raiffeisen's *Darlehenskassenvereine*—with unlimited liability, without

either shares, dividends or other pickings, or remuneration of any kind, restricted to small districts, in which they work in their own humble way, and making the reserve fund common indivisible property. Of their success there can be no question—more particularly with respect to this point, the great desideratum of co-operative banks: that they have effectively managed to attract deposits from those sterilising "worsted stockings" in quite sufficient volume to keep their till always adequately filled, so as to be able to satisfy all demands. In addition they have been able to maintain a steady and cheap rate of interest, cheaper in times of trial (as in the crisis of 1907) than their rivals, for whose use the State provides money by the million (of francs) absolutely free of interest. They have spread pretty well, though thinly, all over France. There have been about 1,900 actually formed. However of that number more than half were ruthlessly swept away by an adverse interpretation of the law. The laws governing co-operative credit societies in France are in so confused a state as to constitute a veritable enigma even to the learned. Under such circumstances the Government generally has its own way. At the present time there are only about 800 *caisses* of this kind in existence. Of these, owing to the illness of two inspectors, only 549 furnished returns for the financial year 1907, which is the last at present reported upon. Those 549 had among them only 21,943 members, which is just about forty members per bank. They are accordingly all more or less small. The collective deposits, however, stood at 7,017,195 francs, that is, about 320 francs per member, and nearly 1,200 francs per depositor (5,877 depositors). The assets, including reserve funds and outstanding claims, are returned as 7,669,818 francs. The losses sustained amounted to only 948 francs;

but there were thirteen items, representing collectively 3,762 francs, classed as "doubtful." The annual turnover amounted to 13,076,211 francs; the profits netted to 35,788 francs. All these figures mark an advance upon those of 1905 and 1906. And for the size of the Union, which one could wish magnified, that certainly appears a satisfactory record.

Undoubtedly the Union does not represent a large population. But it has shown itself thoroughly self-reliant, which is the secret of its strength and also its particular distinction. Among its working funds there is only an altogether trifling sum advanced by the State to some favoured societies. I am not in a position to give the precise amount; for in the balance-sheet it is lumped together with advances from the banks' own Central Banks, which are entirely independent institutions, mere balancing centres, in which the excess of one bank is made to equalise the deficiency of the other. These banks do anything but encourage borrowing from themselves. Quite the reverse, they urge local banks *not* to borrow, but to rely mainly upon their own resources. M. Durand himself has pronounced a local bank in debt to a Central Bank to be, figuratively speaking, "in hospital." The State has excluded M. Durand's banks from the benefits of the State-endowed *Crédit Agricole*, the meaning of which I shall still have to explain. It is ostensibly a question of law. As it happens, aid from the outside appears to be altogether dispensable. For M. Durand has told me that whenever one or other of his Central Banks (central for a district) is in want of money, it need only issue a notice, to receive within a few days from its local banks more deposits than it cares to have.

Causes of its Success.

The results obtained do not, as observed, bulk very large. But they are excellent in kind. And it may be well to inquire to what causes they are due.

The first cause to be noted—in comparison with what is to follow—is that, proceeding on sound economic lines, M. Durand has built up his fabric systematically from the bottom to the top. Every bank of his stands, so to speak, on its own foundaton. Every new erection set up finds a solid wall of bricks to rest upon. Were it to be removed, the rest of the fabric would in no wise suffer.

In the second place, true to the Raiffeisen principle, M. Durand has begun, not with money, but with security. He has made it a necessity for each bank, if it would exist, to provide sufficient security to justify people in trusting it. There are no shares, but there is unlimited liability, and that compels people to be careful in the choice of their members, in the selection of their officers, in the management of their business, in the inquiry into security tendered, and the rest of it. It also constitutes an absolutely sufficient pledge to the depositor or lender ; for the security offered by the society is many times more than what is borrowed upon it. All this is made, not a matter of choice or of preference, but a question of constraining necessity. The result is that money has not had to be asked for. It has come of its own accord. The " worsted stockings " have given forth their contents. M. Durand assures me that it is not the " Catholic aristocracy " who have lined the purse of the banks. It is humble people who have brought the cash.

Proceeding further, the advantages secured by the independence of these banks are to be seen in this, that, just as they may exclude whomever they please, the banks may also elect whom they like. The Government-favoured banks, which I shall still have to speak of, are by law precluded from electing any members except "agriculturists," and from lending for any

except strictly "agricultural" uses. The tradesman or artisan who wishes to benefit by their ministrations may do so only in so far as he happens to be at the same time also an "agriculturist"—that is, he may borrow for distinctly agricultural purposes, not otherwise. The money comes in part from him as a taxpayer, but it may not go to him as a borrower. That is meat for his master. M. Durand's banks are free to receive anyone within their own district whom they feel disposed to trust; and they may lend to him for *any* purpose that they approve. They are an institution for the *people*, not for a class. In the same way they are free to lend for any length of time that they may consider justified. We shall see how very differently situated are the banks formed under Government patronage. M. Durand's banks may advance money for housing purposes, for drainage, irrigation and other permanent improvements, for the purchase of land, and even on mortgage. Lending on mortgages, which locks up money, is, of course, not by any means an ideal practice, and should, generally speaking, be discountenanced. But there are instances in which to a small extent it may be judged legitimate, provided that the bank is generally well supplied with cash. Such an instance is that of M. Durand. The French peasantry cannot, as a rule, go for their comparatively paltry loans to the *Crédit Foncier* or any other big capitalist institution, for which the rate of interest is regulated by the money market. They are still restricted to the small capitalists of the countryside and the provincial towns. And these people would not for a long time recognise the reduced price of money, but went on insisting upon their accustomed 5 per cent., when the market rate justified only 3. M. Durand stepped in to teach them a lesson. He could afford to lend at 3 per cent., and he did. As a consequence the

current rate came down and small proprietors as a class have been benefited.

The importance of all the points here mentioned is so self-evident that there is no need of further demonstrating it. There can be no doubt that in co-operative banking independence and self-sufficiency are essential pre-requisites to success. And they are only to be acquired by making the creation of security, which commands credit, and not the fishing for money, a paramount object, and by building up from the bottom to the top, so that every individual bank may be able to answer for itself. In teaching Frenchmen this truth and setting the example M. Durand has performed a work of merit, even though his out-turn of societies, in the face of powerful competition, have remained comparatively small.

"Caisses rurales" of the "Centre Fédératif."

There is a difference rather of character than of form between M. Durand's village banks and those formed—thus far, so far as I can ascertain, in about the same number—by the *Centre Fédératif du Crédit Populaire de France*, which body, from the very outset of its existence made it its task to promote banks both of the Luzzatti and of the Raiffeisen type, and which, when in its hands the Luzzatti type prove barren seed, devoted itself with all the greater strenuousness to the propagation of Raiffeisen banks. It would not be quite easy to explain to people not closely acquainted with the characteristic traits of various forms of co-operation in what the difference consists. It is a question rather of spirit than of rules.

M. Rayneri.

M. Rayneri, when first taking the village bank movement in hand, was to a large extent governed by a favourite idea, which at first blush presents itself as plausible enough, but to which nevertheless there are serious objections. He appears to have looked upon the town as the home, not only of business but also of

money, and on the country as the district of want and economic helplessness. Therefore he would have the town serve as granary, feeder and guide to the country. His assumption is not altogether well founded in respect of any country, less so even in respect of France, where the countryside is indeed the chosen home of the *bas-de-laine*. The ease with which M. Durand collects deposits affords striking proof of this. What is wanted —in the country as in towns—is not new cash, but something that will tempt the gold and silver pieces out of the stocking. However, the more active town bank is considered in a position to have habitually funds to spare—which is a mistake. It is the same mistake as that which led the Neuwied Central Bank into imprudent ventures. There is the money—like the Russian millions which made such an impression upon an English journalist M.P., but which were no actual proof of affluence. To apply Bastiat's favourite formula *ce qu'on voit* in the town bank is the chinking gold ; *ce qu'on ne voit pas* are the calls which may be made upon it and must therefore be provided for. According to M. Rayneri's idea the town bank was to surround itself with village banks, for which it was to become the financial centre, the cash-box as well as the guide and tutor. That is on the lines of what the savings banks of Lyons, of Parma, and of Belgium have tried to do, not with unqualified success.

I am anxious here to point out the defects of this rather specious system, because from Mentone an Indian civil servant, who—having little time left for studying very profoundly the subject which he had really come to Europe to inquire into—accordingly, instead of visiting successful village banks in Germany or in Italy, where he might have learnt something valuable, contented himself with turning to account the introduction which I gave him to the People's Bank at Men-

tone, to study the local system there, which has not become very general. Through him the curious and mistaken division of banks, not according to systems, but according to "town" and "country," has been carried to India, and with it the notion that town banks, formed under a totally distinct system, are particularly fitted to become the founders, rulers and supervisors of what are intended as Raiffeisen banks. In view of the all but failure of the "town bank" movement in France, this ingeniously conceived interconnection of banks has of course not proceeded very far. Mentone may continue to befather its little cluster of village banks. It possesses an exceptionally able chief. But town banks, which themselves do not get beyond a struggle, obviously have no strength to spare for shepherding village banks. And of course the proper rule is that every bank should stand upon its own bottom, be administered according to its own system, be answerable alone for all its liabilities, and keep the command of all its funds to itself. Like Schulze-Delitzsch, M. Rayneri's own chosen chief and teacher, M. Luzzatti, has given judgment against interconnection, when urging his banks to be *independenti sempre*, although *isolate mai*.

The *caisses* promoted by the *Centre Fédératif* have, according to a return supplied to me by an officer of the *Centre*, multiplied to the number of 914. However, it seems doubtful to what extent the *Centre Fédératif* is entitled to claim the paternity of these *caisses*, albeit that they, as well as forty-five *caisses régionales*, have actually joined it. In official quarters a much smaller number is named. Very probably a good many *caisses*, upon being formed by the Ministry of Agriculture, have considered it to their advantage to join the *Centre*.

The great defect of both M. Durand's and M.

The Beginnin of State Action.

Rayneri's banks in the eyes of French agricultural reformers was that neither of them would cover sufficiently wide ground in sufficiently short time. People were impatient. They wanted to see big results, and at once. What were those 1,600 banks—there were less at that time—with their few millions of francs, in comparison with the great needs of Agriculture? A mere drop in the ocean. There should be as many milliards, and, willy nilly, ready facilities for credit must be placed within the reach of every peasant.

The awkward point about this demand, from a co-operative point of view—upon which, however, no parleying was permitted—was the "willy nilly." To provide credit for willing beneficiaries is not difficult; but to hunt with unwilling hounds, as the Latin proverb has it, makes an altogether different problem of the chase.

The thing was, however, to be done. And as it was to be done, there was no one to do it except that old fetish friend of Agriculture, who had so often before come to the rescue, though with very indifferent results: the State. It was admitted that Napoleon the Third's *Crédit Agricole*, the *comptoirs d'escompte*, and some other schemes, had proved failures. However, "we are going to alter all that"—so the late M. Senart told us in 1894, in the *Société des Agriculteurs de France*, when pleading the Government's cause in support of a proposal made, that the State should contribute a wretched million of francs towards the creation of a Central Bank, which proposal was very rightly rejected by those to whom it was submitted.

That did not put the Government off its pet plan. Unfortunately it persisted in looking upon the matter still, in the first instance, as a question, not of security, but of money. What was considered a particularly favourable opportunity offered in 1897, when the charter of the Bank of France had to be renewed.

That opportunity it was decided to turn to account, because by such means the country might be juggled into an impression that it was not the taxpayer who was being made to pay, but a financial institution, which was considered fair game. Ostensibly, indeed, it was the Bank of France which was made to open its coffers. French agriculturists happened to persuade themselves that the Bank of France owed them reparation for long neglect. It would not discount their bills. That was not because those bills were specifically "agricultural," but because most of them were for inconveniently small amounts, all of them were for inconveniently long periods, and nobody could tell whether, when the time came, the money would be paid, or whether they would have to be indefinitely renewed. "*L'échéance agricole n'est que nominale.*" Nevertheless, on the part of agriculturists, it was contended that, however the case might stand, the Bank of France was by its charter ***bound*** to discount bills for them. It was chartered for the convenience of *the whole* of France, not of commerce and industry only. Therefore, if it found that it could not itself conveniently act as bill discounter for Agriculture, it must at its expense find some one who could.

Money taken from the Bank of France.

Such pleading prevailed, for agriculturists are strong in the Chamber and all-powerful in the Senate: and on the renewal of the Bank charter in 1897 it was arranged that the Bank should pay down 40,000,000 francs on the spot, to serve as an endowment for an Agricultural Credit Fund. That 40,000,000 francs was to be debited to such Fund as a loan, on which no interest should be due, but which should be refunded on the termination of the Bank's charter in 1920. Beyond that first endowment the Bank was also required to hand over to the said Fund every year as a free gift a certain proportion of its annual profits,

to be determined by rather a complicated calculation, the upshot of which was that there must not in any year be less than 2,000,000 francs so paid over; as a matter of fact the annual contribution has never fallen short of 5,000,000. Here was a possible 200,000,000 francs—the sum paid in already amounts to about 100,000,000 francs—made available for distribution to Agriculture by the Government! And a subsequent measure, passed in 1899, placed the Fund at the sole disposal of the Ministry of Agriculture, to be dealt with at its discretion—provided only that the money was to be made to benefit "Agriculture" and nothing but "Agriculture."

It is not without interest at this point to note the rather striking difference marking off this French experiment from the Prussian, which may be assumed to have suggested it. At first glance the two appear very much on all fours. In either case, it is the State—that is, of course, the taxpayer—who is impressed as benefactor. But in Prussia the State came on the scene only when the whole organisation was practically complete. The societies to be benefited were formed; they were brigaded in unions; the whole thing was built up from the bottom to the top. There were properly organised representative committees tapering up to the point where the State, simply fitting itself into the existing organisation, placed itself at the head of the whole fabric, just serving out the money required. Whatever money it provided under the circumstances would not go a-begging. Nothing was altered in the arrangements for receiving applications and dealing with them in detail. There was simply a new source provided for the money.

In France there was nothing of all this—no organisation, no machinery, no representative bodies of any kind, no apparent willingness to borrow, no systematic

apportionment of responsibility, no manner of bringing responsibility home. Everything had still to be created —and to be created in the teeth of manifest indifference. For at first the money provided was not to be got into circulation. And even at the present time, after about ten years of vigorous urging and pressing, and of opening new channels for its freer outflow, as we shall see, the Ministry of Agriculture has got rid of only about a third of the funds which it has actually had placed at its disposal. And one of the complaints that it has more particularly placed on record is this: "*C'est un de nos chagrins, de voir que l'élite intellectuelle de la France n'ait pas encore compris l'intérêt national et social de la mutualité.*"

Therefore, in comparison with the Prussian case, the position of things appears entirely reversed.

The problem to be dealt with was undoubtedly not an easy one. With some ingenuity and with much good will the French Government has tried to solve it in the following way.

French Scheme of State-Aid.

Under the peculiar circumstances prevailing, organisation must necessarily proceed from the top to the bottom. Credit must be organised like a scheme of irrigation, the main conduit feeding the irrigating channels from the top; the land must next be laid out in ridges, every one of which must have along its back its own branch channel, fed from the main conduit; and from the ridge-channels the water must be made to trickle down in countless rills across the land to be watered. The Ministry of Agriculture, then, acting as main conduit, would deliver its funds directly to a number of Central Banks formed in each case for a "considerable district"—a "*région*," as it is technically called—which may comprise either more or less than a department, but is, as a rule, co-extensive with such.

The regional bank, once more, was to distribute the

funds received, and divided accordingly, among a number of small local banks, of which there should, if possible, be one in each parish, which should deliver them in the required driblets to the individuals who might stand in need of them.

In respect of organisation, this system was intended to be permanent. There are always to be regional banks and local banks using the regional as balancing centres. But in respect of supply it was to be only temporary. Out of the State-aided movement, as it grew stronger, was, in course of time, to emerge a thoroughly independent movement, raised up, indeed, on outside help, as a child is on mother's milk, but, when arrived at maturity, fully self-sufficing. From the very outset the banks were not to be formed to order. The Government would stimulate, instruct, provide the money. But it would not actually form banks. Even the regional banks must be the result of free, local effort. Accordingly it was laid down, even to begin with, that the regional bank must start with a sufficient share capital subscribed within its district, to precede Government help. Such share capital was, as far as possible, to come, not from individuals, but from local banks to be affiliated—probably to be created for the purpose—whose entire possession the regional bank was, if practicable, eventually to become. To prepare the way for such evolution, it was made a regulation that of the first capital actually subscribed—there is no limit to the subscription—two-thirds should be reserved entirely for local banks, and allotted to such, should they make the claim. Otherwise individuals might assist. As a stimulus to generous subscription—for the sake of producing a large share capital—it is provided that for every £1 subscribed (on which either in regional or in local banks only 5*s*. need be paid up) the State will, subject to the approval of a

"Committee of Inquiry," advance £4 by way of loan, absolutely free of interest, and running for five years, but renewable. That, so it was thought, would make it the local banks' interest to subscribe generously. For in respect of every £1 subscribed—that is, every 5*s.* paid up—they would stand to receive £4 of loan money, giving them £4 5*s.* in all. So far as the stimulus has acted at all, it certainly has acted in the desired way. For many local banks have subscribed literally *every penny of their own capital*, denuding themselves wholly of working funds, which they have afterwards borrowed back from the regional bank. The governing idea was that the local banks would require no working funds, inasmuch as their lending would be carried out on the security of acceptances, which they would in each case send up to the regional bank for discount. But the very fact that only about a third of the sum available has been paid out to regional banks goes some way to show that the effect has at any rate not been complete, that sufficient share capital has not been subscribed to entitle to the loan of the full sum available.* The money must be dealt out to the regional banks free of interest, because the Ministry of Agriculture itself receives it on such terms, and it is not to make any profit on the transaction. Moreover, the whole object of the measure is to enable the local banks to deal out money cheaply. For, in the first place, they are expected to accumulate substantial reserve funds; and, in the second, they have management expenses to pay, however small such may be. No positive precepts are laid down as to the rate at which they are to lend. But, generally speaking, effect is given to the intentions of the Government to this extent that local banks,

* The collective share capital of "regional banks" now stands at 12,400,000 francs; that of local banks at 11,200,000 francs, only 7,000,000 francs of which is paid up.

in their turn, are in a position to lend out to individuals at about 4 per cent., which must be admitted to be moderate. After the 8 to 12 per cent. previously paid to moneylenders, that is a sensible improvement.

Regional Banks.

In respect of organisation, the regional bank is required to appoint a *Conseil*, or Committee of Management, whose members must be unremunerated, at its own pleasure. The *Conseil* is expected to meet at least once a month; but it is left to the bank to fix the number of its members. The *Conseil* is at liberty to delegate its powers.

Here we have the main distributing channels, whose number at present stands at ninety-four. The local banks, formed to a great extent on their initiative, and acting as distributing rills, number at present about 2,636,* grouped around the regional banks in varying numbers. Since there are known to be 33,000 or 36,000 communes in France, the ideal of one bank to every parish is for the present far from having been attained. Only about one-fourteenth part of France is provided with banks. The local banks, as a matter of necessity, suffer from the defects inherent in the manner in which they are created. Rather unwisely, excessive latitude is given them in respect of the size of their districts. For a Raiffeisen bank, of which each local bank is intended to be something of a reproduction, we know that the regulation area is one parish. The French local bank may act for several "communes" at once, and even for an entire "canton." Such area is too large to ensure the requisite closeness of touch, mutual knowledge among members, and automatic control. Like the regional bank, the local bank is required to have an elected Council, but allowed to fix the number of its members for itself. The members of

Local Banks.

* The figures here given are those of the last Official Report, published in September, 1909.

the Council must, once more, be unremunerated, and the Council is required to meet at least once a week, by preference on a Sunday morning or else on a market-day. It is advised to nominate a *Bureau*—that is, an Executive Committee—and authorised to appoint a director or manager. As regards share capital and liability, it is left a comparatively free hand. There must be shares. These are as a rule fixed at the value of either 20 or 40 francs. But only one-fourth of such sum need be paid up, so that, as the official handbook particularly points out, it suffices if seven men among them pay down 35 francs (28*s.*) to form a local bank. As regards liability, local banks may make such limited or unlimited, as they prefer. Unquestionably the Minister of Agriculture desires the liability of members to be unlimited, because, with practically no share capital in their possession, without joint and several liability these banks have scarcely any security to pledge. And for the money which it advances, and will in its turn have to account for, the Ministry is naturally desirous to hold security. The same consideration does not apply to regional banks with anything like the same force. Nevertheless, not a few regional banks have judged it opportune to fortify their not very strong position by committing their shareholders to a liability amounting to a multiple up to four times the value of their share. This cannot in any case be judged a desirable arrangement, because it leaves a great deal in uncertainty; it would obviously be altogether out of place in local banks. In such banks of course members are loth to burden themselves with unlimited liability without need. And, as a matter of fact, only the local banks of three "regions" out of ninety-four existing, that is, those of the "Midi," the "Basses Pyrénées," and "Tarbes," have made their members unreservedly liable. Accord-

Limited and Unlimited Liability.

ing to a statement made at the Congress of the Federation of Regional Banks, held at Bordeaux in 1908, those banks reap the benefit of their judicious boldness in being able to have their acceptances discounted without the Government's intervention.

Applications for advances by individuals have in every instance to be addressed to the local bank. But in dealing with such applications those banks are placed in an awkward position, paralleled nowhere. The money which the Government has made available, and which is practically all that is available for the purpose of loans—for deposits are few and far between, and reserves now amount only to 2,000,000 francs in "regional" banks and 1,000,000 francs in local—was voted, not for the banks, but for "Agriculture."

Methods of Credit.

Borrowers must, indeed, be or become members of a bank—and this is often enough done in a formal way with a deal of going "in" and "out," as occasion may prompt. But it is not members of banks, bearing the responsibility for liabilities incurred, who are entitled to loans, but "agriculturists," and such only for strictly "agricultural" purposes. The test applied, as distinguishing an "agriculturist" under the Act, is membership in an "agricultural syndicate" or an "agricultural co-operative society" (the two are not the same thing) of the locality. Only such are eligible as members of a bank. That creates a curious and rather confusing state of things. Elsewhere the member of a bank is elected to be such not because he is an "agriculturist," but because he is considered trustworthy. The bank may reject him if it judges him to be otherwise. Being elected, he becomes entitled to loans, whether for agricultural purposes or otherwise, but is in his turn held responsible. That is not all. Elsewhere a bank may lend for any term that it pleases and in any proportion to the value to be created

that itself may determine. Under the French Act a local bank may make advances only for a very limited number of objects, according to schedule. Anything not "agricultural" is *à priori* excluded. But not even every "agricultural" object is admissible. Permanent improvements, well sinking, drainage, irrigation, buildings—the very things in respect of which the Raiffeisen banks have rendered their most valued services—are excluded once for all. Practically nothing remains but collective purchase or sale, collective work and the like. Of this category of objects practically only purchase—of feeding stuffs, fertilisers, implements, &c.—comes into account. Once more, the period for which an advance may be made is not in any wise left to the free decision of the committee, as circumstances may suggest, but is fixed by an iron rule. It is limited by schedule. A man asking for an advance to tide over a slack time—say cheap markets after harvest—will be allowed his money for three months. A man purchasing nitrate or other fertilisers for a top dressing in spring will be allowed the use of his money for six months ; should he want to purchase the same or other fertilisers in the autumn for his winter crops, he will be allowed a year. Money required for purchasing a cow may stand over for longer ; but there must be repayment by regular instalments.

All this marks off the French system very clearly from the systems in force elsewhere. The Prussian Central Bank does not interfere in such a hampering way. The method adopted is terribly wooden, rule-of-thumb, and hindering.

Defects of the System.

But, supposing the application to be approved by the committee of the local bank, that committee is not thereby placed in a position to give effect to its own approval. In most cases it has not got the requisite money in its till. The money has gone up to the regional bank. In no case is it authorised to make the

loan on its own responsibility. It is required to send the approved application up to the regional bank, the committee of which—or more generally a committee of allotment (*Comité de Repartition*) appointed by that body for the purpose—will sit in judgment upon it and authorise it or otherwise. To enable itself to do so it places itself in possession of as precise information as it can obtain about applicants and the security which they offer. Aye, not a few regional banks collect information respecting all possible applicants and possible sureties about whom they can obtain such, tabulating such information in registers and cataloguing it in card catalogues—just as we have seen Italian *Comitati dei rischi* and German *Vorstände* do under far more appropriate circumstances, that is, in more manageable districts. Under the French system the local bank, instead of being an independent organism, standing upon its own security and responsibility, becomes in effect nothing but a receiving and paying-out branch of the regional bank, which latter really is the determining authority and the operative portion of the machinery, inquiring, voting the money, charging itself with the responsibility. This arrangement also accounts for the fact that the local banks have no "councils of supervision" or "inspection," which elsewhere are considered of cardinal importance. The regional bank becomes their "council"—without, so it is to be feared, being altogether fit for the office.

Results.

In spite of all its obvious defects—which very likely are not avoidable—the French system of providing "agricultural credit" has met with some measure of success. Of course there has been a good deal of urging and prodding. But as a result, by midsummer, 1909, ninety-four regional banks* had been formed

* There were ninety-eight, but four small ones have been amalgamated with others.

in France (not counting Algiers, which has its own *Crédit Agricole*), leaving actually not a single department unprovided with one, and below these about 2,600 local banks, with collectively 116,000 members. The fund at the Government's disposal, amounting at that time to about 98,112,000 francs, had been drawn upon to the extent of a little more than 42,000,000 francs. But, as that money had been lent out again and again (sometimes, it is to be presumed, by mere renewal), in all, within ten years, about 415,000,000 francs had been set in circulation. The loans issued in 1908—1909 are returned as 105,000,000 francs. And a decidedly satisfactory feature of the business done is, that the losses made are reported as only trifling (the amount is not stated) and that the regional banks had carried on their business at an almost insignificant cost, something like 2.70 francs per 1,000 francs lent out.

These are certainly not contemptible results, and it deserves to be borne in mind that the money lent out has either replaced other money previously borrowed at a much higher rate of interest, or else has added fresh productive power to French agriculture.

Points of Failure.

But, after all, even if one could make sure that such results would continue, as the business grows still larger and more difficult to control, and as farmers and peasants discern by experience the weak spots in the machinery applied and, shrewd and cunning as they are, learn to profit by them—is that the main object aimed at by the measure? The amount of money disposed of in "agricultural credit" is, so it should be remembered, not considered satisfactory. Here is 100,000,000 francs withdrawn from business, and only 42,000,000 francs actually employed! And to hook even such fish the Government has had to throw out further bait. First, to make things easy and palatable to farmers, it has had to sanction, even to invite to,

a retrogression from personal to pledge credit, passing a special measure which authorises the use of agricultural "warrants"—which "warrants" are merely "bills of sale" with their invidious publicity omitted. Farmers and cultivators may pledge crops and the like, handing them over in bulk for agricultural syndicates to take care of, or they may pledge them—or else the *instrumenta muta* and *semivocalia* of the farm, that is, the implements, machinery and live stock used for purposes of cultivation—without actually parting with them, pledging them as *gage sans dessaisissement*. The authorisation of such novel practice appears to have had rather a marked effect upon the business; something like 9,000,000 francs is reported outstanding on "warrants" in 7,668 loans. But I cannot think that it is a healthy development. Next, to find employment for its money, still going a-begging, the Government has had to authorise advances, of an amount to be determined upon in each case, for terms up to twenty-five years, to what we should call agricultural productive co-operative societies, formed by members of recognised agricultural syndicates. About 1,500,000 francs are reported to have been so lent out, for periods varying from ten to fifteen years, to seventy-five societies, dairies, distilleries, societies for preparing produce for the market, &c. With all these helps the work has gone on so slowly as to suggest to a Minister of Finance, M. Rouvier, a raid upon the fund for the benefit of his budget.*

But be this as it may, the fund was not voted for

* To provide a further outlet for the idle money, the Government in February last brought in a Bill authorising loans, not to exceed 8,000 francs in any one case, nor to run for more than fifteen years, in aid of the purchase of holdings (for which kind of assistance there has not up to now been any demand), or else for the improvement, consolidation, exchange of portions of holdings, &c.

the purpose of its circulation only. As M. Decharme, the able and zealous head of the department which administers it, rightly keeps reminding the beneficiaries, the sands of the fund are now running pretty fast. Within a measurable distance of time the money will have to be repaid—the 40,000,000 francs certainly to the Bank of France, the balance probably to the Government—unless indeed it is to be written off as a bad debt. The fund was really intended as early leading strings only, a financial go-cart for the new-born baby, to afford that temporary sheltering protection which some people claim for "infant industries," as a help to their development. The mischief is that so protected they as a rule will not develop. Will credit fare otherwise? Or what evidence is there to show that under Government covering the young plant has struck root and is growing strong?

There is, as a fact, very little proof indeed of such kind to bring forward. In truth, the Act and its objects appear to be by no means fully understood on the part of the intended beneficiaries, just as little as, on the other hand, the difficulties attaching to the application of its principle have thus far been adequately realised on the part of the Government.

Causes of Failure.

The patronage entrusted to the Ministry of Agriculture was in the earlier period—almost as a matter of course—exercised in a very arbitrary and haphazard way, as if requiring little forethought and weighing of claims; and accordingly the "manna"—as it has been termed—which the Minister distributed, dropped in very unequal quantities upon what appeared to be severally favoured and unfavoured areas. This was not only because certain societies, like those of M. Durand, were ruled out altogether on principle. Government favour appeared also to depend upon the interest possessed by the advocates pleading for each several

caisse. Serious complaints have been made on this score; and, as a result, a distinct *Crédit agricole* Department has been formed, which deals systematically with all applications, directs and superintends propaganda, issues model rules, and does all congenerous work. And, as an adjunct to that department, a committee of allotment (*Comité de Repartition*) has been appointed, consisting of forty-one members, every one of whom represents something or other with a title to a voice—thus four senators, six deputies, eight representatives of agricultural banks, the Minister of Agriculture and twelve other members of his department, the Governor of the Bank of France and various officers of State. This Committee or Board, which evidently is a trifle large for deliberative work, and on which—barring claims pressed by senators and deputies—the Department is likely, as a rule, to have its own way—passes in review applications for advances, coming from regional banks, and adjudicates according to the apparent merits of each case. Complaints have not altogether stopped, as they are not likely to stop; but in any case matters are now disposed of with far greater attention and an evident desire to be fair among the societies recognised by the Department.

However, some of the regional banks, and by far the greater number of the local, manifestly do not yet understand what it is to "play the game"—as how should they, when they are made to accept favours, not because they desire them, but because the Government which dispenses them presses them upon them? One gentleman, closely connected with a rather active regional bank in the south, writes to me: "We might very well have done without the Government advances; we have quite enough money ourselves; but as the Government money was to be had for the asking, we have taken it in order out of its proceeds to build up all the

more rapidly a strong reserve fund." Under such circumstances, are the Government advances justified? And, unfortunately, the reserve fund is what some other directors of regional banks think of least of all. They consider themselves to be there just to distribute what money they receive, as irrigation ditches and hydrants are there to distribute water. If there is anything left over, they feel as if they ought in fairness to return it to the borrowers in the shape of what, among our co-operative societies, passes by the name of "dividend to custom"—and what in France is known as *ristourne*. Since there always is something over, wherever money is lent out at Bank rate, they judge it simpler, and at the same time answering the purpose quite as well, to charge so much less on the loan to begin with, thereby underselling the market by lending at 2 or $2\frac{1}{2}$ per cent. That means that they defeat the very object which the Government had mainly in view, by failing to accumulate a sufficient reserve fund to make the bank in course of time independent of Government assistance. It also means that they do not provide sufficient security to attract savings and other deposits, such as it was likewise designed should help to replace State aid and ensure ultimate independence. It means, in the third place, that in times of dear money, like those of 1907 and 1908, banks which act in this hand-to-mouth way are bound to make a loss, supposing that business becomes at all extensive. In the period referred to naturally enough comparatively considerable demands for credit were made upon the regional banks, which the Government money in their hands alone would not satisfy. So they had to pass on their bills, on which they earned 2 or $2\frac{1}{2}$ per cent., for rediscount at the rate of 5 and 6 or 7 per cent., which meant a loss upon every transaction. In the last place, and mainly, such practice means that the banks fail

altogether in their principal object of all, which is to inculcate business habits and business knowledge, and educate members to businesslike conduct. Members are to be made to understand the value of money, the benefit of borrowing it at market rate in order to secure a profit out of its employment. They are to be taught to calculate cost and return. But in this case the money is brought to them almost like manna from heaven. They get into the habit of looking for it from the State as a matter of course. Why make any effort themselves? We have experienced precisely the same disappointing results in India, occasioned by the very same cause. The upshot is that in the place of instilling effort as it desires to do, the State has by its bounty impressed upon its beneficiaries a lesson of Socialism and trust in someone else. Of course, what the regional banks ought to do is to lend out the Government money at market rate and create out of the surplus accruing a strong reserve fund capable of replacing, in course of time, the loan capital that they begin with—just as the regional bank of my friend in the South of France already alluded to is endeavouring to do. Very rightly has the Federation of Regional Banks, at the instance of M. Decharme, the chief of the Banks Department in the Ministry of Agriculture, recommended that advances by regional banks should be made at not less but, by preference, at a little more, than Bank rate. If that is done, it bids fair to keep the market steady, to make borrowers understand what they ought to understand, and, none the less, to enable local banks to lend out at 4 per cent. only.

When we come to local banks, we find that they have thus far learnt to grasp the lesson intended for them to an even less degree than the regional banks. It is, perhaps, in the nature of things that it should be so. For, under the system adopted, local banks have

scarcely any responsibility put upon them ; they are not even endowed with an independent existence. They form because they are told to do so. They forward applications and transmit money. And that is all.

It is not even really for them, but far more for the regional bank, to inquire into cases coming before them and to check business done. In the Government's intention they were, with the help of money advanced to them, to make themselves independent, rooted in their own resources, and to accomplish this the sooner the better. As matters actually stand, they have practically no security to offer to the regional banks, and are in consequence not in a position to lead an independent life. They become mere receiving and paying-out offices. And, barring some lending on pledges, they are by their system restricted to advances on bills of exchange. They could not possibly, even if they possessed working capital of their own, grant cash credit. To be able to do anything independently they must be able to offer security. And security, so we know, can be created only in one of two ways : either by the creation of share capital, or else by the acceptance of unlimited liability. In respect of share capital things are advisedly made easy for members. They need provide only 28*s.* ; but 28*s.* will not purchase much credit. As regards unlimited liability, the choice of either form of liability is left entirely to themselves. Naturally, while money which they do not ask for is almost forced upon them—whether they make themselves liable or not ; while they are compelled to lend to anyone who can make out a case as being an "agriculturist"—whether they believe in him or not ; and while all business has to be carried on strictly according to schedule, with scarcely a modicum of discretion left to themselves, members do not care to saddle themselves with unlimited liability, however much the

Government naturally desire them to do so. However, without such liability, there is, under the circumstances, no independence to be attained ; there can be no transaction of business with banks ; there cannot even be deposits. The paucity of deposits in these banks is one of the most disappointing features that they present. It is openly admitted that the bulk of the funds employed comes from the Government grant. And the small balance not so accounted for is made up rather of share capital than of deposits. So much are the drawbacks attaching to this state of things realised that in a fair number of banks the members of the committee of management have self-sacrificingly taken the burden of unlimited liability on behalf of their banks upon themselves. In one district, one philanthropic millionaire has even placed himself all alone in the breach, endorsing every acceptance approved by local banks, in order to give it currency. That may be magnificent, but it is not business.

How strikingly different is all this from the free, healthy and vigorous independent action of uncoddled village banks in Germany, where people have to provide security because otherwise there would be no money—*pas d'argent, pas de Suisses*—where the life-spring of the whole movement resides in the local banks, which among them raise up their own central bank, not as their master but as their servant ; where they are free to restrict advances to borrowers of their own choosing, but free also to grant them for any purpose and any length of time that they may consider proper ; where, security being provided and independent interest awakened, the old stockings give forth their coin and deposits come in in plenty ! Under such circumstances banks lend out more money, and to better purpose ; their educating effect becomes truly surprising.

Conclusion.

The truth is that there is only one way of building up popular credit, just as there is only one way of setting up a house—and that is by making sure of a sound foundation on which a strong structure may be raised. You must begin at the bottom. No doubt the French Parliament were, and the Department administering the fund still is, animated by the best intentions. But in attempting to carry such into execution they have forgotten sound building maxims. It would have been best of all, of course, if they had confined their assistance only to the province of teaching. Nobody would have grudged almost any amount of money spent on such purpose. They chose instead to play the banker—with taxpayers' money. Doing so, they had no resource open to them but to seek their security, such as they must have, by means of mechanical expedients—which can never make good business. They complain now that banks will not provide for their own independence by means of large share capital, reserve funds and deposits.* It was themselves who taught them to do so. They warn banks that the sands are running and the loan will soon have to be repaid. That means nothing to the banks, because there is no penalty attaching to neglect of the warning. So far from the *Crédit Agricole* having trained agriculturists to a sense of responsibility and independence, there are indications to show that it has already extended its demoralising effect to other classes. Not to mention makers of artificial fertilisers, of machinery and implements and the like, who have claimed loans as coming

* A circular from the Minister of Agriculture addressed to the regional banks on 25th November, 1909, calls attention to the fact that the reserve funds accumulated in regional banks are, generally speaking, altogether insufficient and unequal to meeting such losses as may arise, even from only a few bad debts ; it accordingly admonishes such banks not to make advances under Bank rate, and to carry all surplus accruing rigorously to reserve.

under the description of "*industries agricoles*," fisheries, commerce, industry are clamouring for the same treacherous Government "rainbow gold." And why, indeed, if all this is good political economy, should they be left out in the cold ?

The only way to make the *Crédit Agricole* bear the desired fruit is to decentralise, to go down to the foundations and render them strong enough to sustain the weight of the fabric upon their pillars instead of being kept in a precarious sort of equilibrium by the superstructure. One would rather not see State money employed in this way at all. But if the State will play the banker, at any rate let it play him according to bankers' rules, provide the money but secure to itself a certain—and educating—way of getting it back. It has not got that at present. If the banks do not repay, the Government may stop the grant ; but it cannot do more. That would mean a collapse of the whole structure. From a constraining responsibility thrown upon the banks for finding security, all the desired good practices—the adoption of unlimited liability, careful inquiry, careful checking, the collection of deposits, the securing of a place in the market entitling to independent discount at banking institutions—would follow as a matter of course. Would that such a transformation could be made to take place ! Why should it not ? The German *Reichsverband* began with relying almost wholly on State support ; it has come to prize the advantages of independence. In Egypt—which, like India, is in this matter far ahead of this most civilised country of ours—the Government began by sending out men with bags filled with gold pieces among the fellaheen, pressing loans upon them. We now see it, almost under pressure of public opinion, preparing to adopt genuine co-operation. The French Government might do the same.

* * *

Algeria.

Whatever is done for France must, of course, be done also for Algeria. Circumstances are in that country a little different; there is a smaller area and there are corresponding smaller figures to reckon with. But the principle applied is the same. The Bank of Algeria has been made to advance 3,000,000 francs free of interest, and to contribute in addition 200,000 francs annually out of its profits during the period from 1900 to 1905, afterwards 250,000 francs annually up to 1912, and during the last stage for which its charter runs 300,000 francs annually up to 1920.

There were at the close of 1908 thirty-four regional banks in the colony, possessing an aggregate paid-up share capital of 1,117,550 francs, and reserve funds among them of 230,438 francs. The official report complains that, as in France, the reserve funds increase "too slowly."

With the addition of 3,450,470 francs provided for them by the State (out of 4,945,000 francs paid to the Government by the Bank of Algeria)—nothing is said in the official Report about deposits, which may be taken to be non-existent—the regional banks had been enabled to discount in the course of 1908 14,625,625 francs of acceptances received from the 177 local banks now existing, passing on 8,689,825 francs for rediscount to other financial institutions. At the close of the year they held in their bill-cases 3,711 acceptances of the value of 3,248,492 francs. The profit netted annually is returned as about 175,000 francs, apart from gains on rediscount. The local banks receive their advances at from 4 to $6\frac{1}{4}$ per cent. interest, and pass them on to their members at from 4 to 8 per cent. In view of the insufficient employment given to the money paid by the Bank of Algeria in credit to cultivators, quite recently powers have

been conferred upon the regional banks to make advances also to other co-operative societies, as in France.

Land Settlement in Algeria.

Village banks acquire a special value and importance in Algeria in view of the settlement of that dependency progressing rather slowly with husbandmen from France. An intending settler who can show 5,000 francs in cash as belonging to him, is allowed a free passage and receives on his arrival a free grant of 100 acres of land, representing a value of from £320 to £480. That seems very liberal. But a failure of crops in the first year is apt to exhaust his ready money. Under such circumstances settlers find their account in investing 1,000 out of their 5,000 francs in shares in the nearest local bank, which entitles them, if needed, to an advance of 4,000 francs, so that in that case they have at any rate 8,000 francs of cash to work with.

* * *

All things considered, it will be admitted that there is at present in France, in the province of co-operative credit, really more fair show, depending on outside support, than solid substance. There are fair beginnings, no doubt, here and there. But there is a great deal of artificial hothouse forcing, produced with purchased fuel rather than by natural sunshine, and in general co-operative credit must in France be looked upon as rather still in process of development than in a stage of maturity. One may sincerely hope that out of the present struggles and strivings something solid, permanent and self-sufficing may be evolved.

CHAPTER XVI.

OFFSHOOTS AND CONGENERS.

Spread of Co-operative Credit.

BEFORE turning from the larger examples quoted to ourselves, it may be desirable to cast a rapid glance across the countries not yet touched upon, to show how co-operative credit is making its way there, actively, although still only on a smaller scale.

The Netherlands.

The NETHERLANDS stand nearest to ourselves, alike in geographical position and in common descent. Forward as they are in other forms of co-operation, more specifically of the agricultural type—they had admirable co-operative dairies before we even thought of such—the Netherlands have not taken up co-operative credit till very recently. Some of their distributive societies indeed since some time maintain savings and loan departments. But the business done in them—being of a piece with what is done in our friendly societies exercising credit powers—does not amount to much. The idea of co-operative credit appears to have first come from Belgium ; and the Belgian adaptation of Raiffeisen credit, for the present still rules supreme. The local societies all make religious education and moral and economic training one of their main objects ; they enforce unlimited liability ; they have small districts ; they issue only small shares, on which dividend is limited to 4 per cent., and take no entrance fee higher than half a florin (Dutch).* The Central Banks will not accept them as members unless they bind themselves to such conditions.

* The Dutch florin is equal to about 1*s.* 8*d.* of our money.

"Boerenleen-banks."

The first Dutch *Boerenleenbank* was formed at Maasbracht, in Limburg, in 1895; the second followed at Louneker in 1896. And now there are about 550 banks, with about 35,000 members. It is difficult to quote exact figures, because co-operative credit is much divided. There are three distinct Unions, with a central bank to each; and a fourth Union is threatening to rise up in protest against alleged neglect of the religious principle in the Union of Utrecht. Some few banks, moreover, are altogether unattached. And in any case statistics are brought out tardily.

Division is unfortunately for the moment very strongly impressed upon the entire Dutch movement. But nevertheless, there are good results which have led to the ideal state of things in which there are more savings than there are loans asked for. The 234 societies attached to the Utrecht Union hold 5,739,131 florins to only 4,413,629 florins outstanding in advances; and the 216 banks affiliated to Eindhoven similarly hold 6,930,133 florins to 4,963,032 florins. This does not mean that at all times every bank holds more deposits than it deals out loans. There are times when for want of cash the general market has to be tapped. And there are many banks with more demands for money than they can satisfy from deposits. Under either aspect the Central Bank asserts its utility, in the one case as a balancing centre, in the other as a link accredited with the general market, making a draft upon it possible.

There are two principal Unions, representing the bulk of the movement. There is a third at Alkmaar answerable for at most thirty banks. In addition, some thirty societies attached to the Utrecht *Co-operatieve Centrale Raiffeisenbank* are, as already stated, threatening a secession, in order to form a Union

which is to place "God, the family and property" foremost on its programme. The Utrecht Union is religious and educational in its aims, like the Raiffeisen Union; but it is neutral in matters of denomination. The denominational principle is not the sole dividing feature in the Netherlands movement, though there is keen antagonism between Roman Catholics and other Christians and no-Christians. There is also the struggle so much in vogue now between *bourgeois* and "collectivists." Of the two principal Unions, that of Utrecht finds its main support in North and South Holland, the Eindhoven Union in Northern Brabant and Limburg. In Gelderland and some other provinces the two Unions operate side by side.

Central Banks.

In either Union business is centred in the Central Bank, which at the same time acts also as inspecting and propagandist authority and as Union generally. The Central Bank of Eindhoven exercises a very far-going prerogative power over local banks. The banks affiliated to it are not only not permitted to join any other Union (of credit or otherwise) without its express sanction; they are also forbidden to incur any *serious* liability without such authority. The Central Banks are each administered by a committee of five and an inspecting council of six (or more), with at least one member in each case retiring every year. In addition, the Eindhoven Central Bank, which is peculiar in more ways than one, has an advisory committee of three, to represent the "individual" banks, which committee is separately elected at the general meeting, and endowed with precisely the same prerogatives of inspection and admonition, reference of cases to the general meeting, &c., as the council of inspection. Also the two important societies, "*Landbouwerbond*" of Limburg, and the "Christian *Boerenbond*" of Northern Brabant, are in this Central Bank allowed the

privilege of nominating one member each to the council, in such way that they propose two candidates each, one of whom has to be elected by the general meeting. In the last place the general meeting of this bank also elects a "spiritual adviser" (*geestelijke adviseur*).

All this is a little unusual.

Affiliated banks are required to take up at least one share each in the Central Bank. However, this does not necessarily involve a great pecuniary sacrifice. For in Eindhoven it is quite sufficient if on the share of 1,000 florins only 1 per cent. is paid up. That left in 1908, out of 474,000 florins nominally subscribed, 468,791 florins not paid up. However, the Central Bank had 2,125,054 florins on deposit from affiliated banks, which gave it quite sufficient working funds. The Central Bank of Utrecht has shares of only 500 florins. It divides its shareholders into two classes, one of which is required to pay up 10 per cent. of the share value, the other (the larger portion) only 2 per cent. That gave it at the same date out of a nominal share capital of 229,500 florins only 15,500 florins paid up. This bank limits its advances to local banks to 40,000 florins (the figure has recently been temporarily raised to 50,000 florins) in each case, charging $4\frac{3}{4}$ per cent. on such loans, while allowing $3\frac{3}{4}$ per cent. on deposits.

The Dutch lesson of the advantage of collecting sufficient money by deposits is certainly worth heeding on this side of the water.

There are no figures extant as to business done, beyond those already quoted for the two principal Unions. Certainly the banks are appreciated. Why on earth, in view of such plethora of money, the Government should have judged it necessary to come pecuniarily to the aid of these societies one is at a loss to conjecture, except that that is now the almost

universal fashion on the Continent. However, it votes a grant each year to either Union. In 1907, 3,400 florins was so granted to Utrecht and 2,500 florins to Eindhoven. Utrecht having taken the lion's share and holding large deposits, was not satisfied with this, and claimed 500 florins more, by which it protested that it was short. That is the result of accustoming societies to spoon-feeding!

Scandinavia.

In the three SCANDINAVIAN kingdoms, to keep among Teutons, co-operative credit is still as good as unknown. A very few co-operative banks formed on the Schulze-Delitzsch model, when Schulze's name was a power, have lived down to the present day in a languishing way. But they are of little account. There are other means of satisfying such demand for small credit as may arise. Large employers look after their workmen, and business banks endeavour to accommodate small folk out of a portion of their funds. In SWEDEN the *Kassakreditiv* is still much in vogue for such purposes.* In DENMARK the *Dansk Arbejderbank*, which is a savings bank, employs about 4 or 5 per cent. of its funds in loans to small people, making only a moderate loss upon such transactions. Within the past fourteen years £6,677,600 has been laid out in this way, and the loss resulting has not exceeded £442. But, generally speaking, the working population are considered too well off to require credit, and small trade has moved on in the old rut. Scandinavia is, of course, the home of those excellent co-operative mortgage banks, of which I have spoken elsewhere.† But they do not concern us here.

Slav Countries.

SLAV nations appear to have a natural bent for co-operation. They exhibit it in all branches of their

* In Sweden the co-operative societies have quite recently decided to form a distinct bank for their own use.

† See "Co-operative Banking," p. 268.

widely diffused family. In the Prussian provinces of their whilom kingdom the Poles have organised exemplary societies ; in Austria, German co-operators complain that Czechs and Slovenians put far more " back " into their co-operation than ever the Germans have done. Both these movements have already been referred to in their proper places. The country of the Southern Slavs is the chosen home of the *zadruga* and similar more or less co-operative organisations. Russia, in its turn, has given birth to the widely-known *artels*, as well as to the *wataga* and congenerous associations, which, though in most instances not fully co-operative, nevertheless manifest a distinct disposition towards action in common.

To take these countries one by one, with the exception of the provinces already spoken of, in RUSSIA " co-operative " credit, although still in only few instances anything like fully co-operative, has undoubtedly made substantial progress since, in 1895, the State bank was first instructed to come to its aid. The late Revolution, which awakened the spirit of independent action, added a further stimulus. It must have been a surprise to many to learn at the first National Co-operative Congress, held in Russia in September, 1908, that there are now no less than about 8,000 co-operative societies of some sort or other registered in the empire. In other respects the Congress gave distinct promise of further advance. For the proceedings were unmistakably marked by spirit and warm interest. And the inclination shown was throughout towards greater freedom, self-reliance, and more independent action. Thus, for instance, a motion submitted by a representative of the Government in favour of the creation of a State-endowed Central Bank, more or less after the model of the Prussian, was rejected by a large majority, which immediately afterwards

placed on record its desire that co-operative societies should establish their own free and unsubsidised Central Bank, to be managed by themselves. All this promises well. For if there is one objectionable feature which makes itself observable all through the struggles of the co-operative movement in Russia, it is that everlasting meddling and muddling — meddling and muddling of a peculiarly unreasonable kind, which gives with one hand while it takes away with the other, which unnecessarily subsidises, in order afterwards foolishly to restrain and hamper. Under such treatment no institution could possibly thrive. There appears to have been an idea afloat in official quarters that co-operation must be favoured, but that co-operative societies must be bullied and harassed, as being potentially revolutionary committees.

Among the co-operative societies existing in Russia credit societies bulk largest. It is no more than natural that this should be so. With its all but immeasurable expanse of cultivable soil, some lumped together in immense properties of 1,125,000, 1,500,000, and even 2,125,000 acres, other portions divided into petty holdings scarcely sufficient to nourish those of the 25,000,000 or so peasant families who are called upon to live upon them, empty purses are bound to be the rule.

Russians are, as M. Thoerner has shown, easily contented. But they are not thrifty. They do not save. On the other hand they are always ready to borrow.

Popular Credit Studied by the Authorities.

To place them in a position to do so, State and local authorities have long laboured, endeavouring to devise suitable measures. The State bank was made to offer credit through its many local agencies. In Russia proper the *zemstvos*, and even the *mirs*, in Poland the *gminas*, all being local administrative bodies, have set funds apart for loans to necessitous

peasants of their particular district; special banks have been formed for the Bashkirs and Khirgizes; "Apanage" and "Orphanage" funds have laid out money in loans; and as long ago as in 1840 local "Peasants' Banks" were formed in considerable number. All these institutions are of course altogether non-co-operative. However, collectively they hold a good deal of money. At New Year, 1907, 5,049 peasants' banks surviving were returned as having among them 30,624,000 roubles share capital and 25,013,000 roubles* deposits, with 50,156,000 roubles outstanding in credits. That means that on an average every bank, acting in a district peopled by about 1,000 cultivating owners or occupiers, has about 11,000 roubles working capital at its disposal. Much as that seems in the aggregate, it is considered far too little. The knell of these institutions was really sounded when the Emperor Alexander emancipated the serfs, and thereby altered the entire structure of Russian society.

Apart from this, many *zemstvos* make advances to the peasantry on the security of grain pledged. And some capitalist banks cultivate small credit as a special branch of their business. The loans so made are likely to appear to our eyes ridiculously small. Thus in the district of Rouza Prince Tcherbatoff found the maximum to stand at 25 roubles, that is, roughly speaking, 50*s*. Of the *Gmina* banks, which are institutions peculiar to Poland, 872 were in 1907 found endowed with State money, the remaining 463 with money provided by municipal bodies. Their collective capital then figured at about 1,500,000 roubles. In addition there were 20,000,000 roubles of deposits, but the annual business done did not exceed 20,000 roubles per institution.

* One rouble is equal to not quite 2*s*. of our money.

Mortgage Credit.

It ought to be borne in mind, while dealing with peasant borrowings, that a great deal has been done in Russia to facilitate mortgage credit. There are more than twenty public mortgage banks, the largest of which, at Moscow, does a more substantial business even than the far-famed French *Crédit Foncier*. Two of these banks, at Odessa, have about 100,000,000 roubles of debentures in circulation. The entire business of the twenty or so banks is said to amount to about 2,000,000,000 roubles. In addition there is a "Nobles' Bank" and a "Peasants' Bank"—the latter being specially established to assist peasants in acquiring their own holdings, and so shaking off the yoke of the *Mir*.

Beginnings of Co-operative Credit.

On the top of all this "provided" credit, late in the day came credit which passes by the name of "co-operative," without in the majority of cases really deserving it. It is true, there are said to have been genuinely co-operative banks formed by German settlers in the days of the great Catherine. However, nobody seems to know precisely what they were. Something of a beginning—a pretentious beginning it looks, but figures do not always tell true—was made in the "sixties," when a philanthropic Russian landlord, M. Louguinine, who had sat at the feet of Schulze-Delitzsch, played the part of an economic Cyril or Methodius to his race, and carried the new gospel among it. As many as 2,456 societies of its type are known to have been registered. But a considerable number (about 960), though registered, never really came to life; and nearly an equal number met with an early death. However, there are 1,390 now in existence, and without doubt they represent the purest co-operation, such as it is, to be met with in Russia. But even 375 of these borrow money from the State. They appear to be practically the only

"co-operative" banks which collect any deposits to speak of.

Prince Vassiltchikoff and M. Jakovleff were the next economic evangelists, being of the school of Raiffeisen. Their banks appear to have multiplied freely, but in utter dependence upon the State. There are said to be now 1,912, every one of which borrows money from the State and disposes of little besides. When M. Jakovleff formed a number of these banks in his own district, requiring that members should qualify by taking a share each, numbers joined. But the small share taken proved to be only the sop given—the "egg" of the French proverb—in return for which a very much larger loan—in French parlance a "bullock"—was expected. It never seemed to occur to the people that they ought to provide at any rate a substantial portion of their own cash.

Stimulating Legislation.

New laws more or less friendly to co-operation were sanctioned in 1895 and 1904. The first was designed to stimulate the action of the State bank, which between 1872 and 1895 had already laid out 20,000,000 roubles at 5 per cent. in credit to the peasantry and to co-operative banks. It was particularly instructed to befriend the latter. The law of 1904 conceded to co-operative societies the right to lend to members on the security of goods and chattels, which were to be allowed to remain in their owners' use (*gage sans dessaisissement*), up to 60 per cent. of their value. Also it conferred on co-operative credit societies the power, which our Treasury still so jealously withholds from our own, to purchase goods collectively for their members. On the other hand it introduced absolutely confusing provisions regarding supervision, not only by the State, but in any case in which money has been borrowed from the State—which condition applies to literally all Raiffeisen

societies and, as observed, also to 375 claiming to be of the Schulze-Delitzsch type—in addition by the *zemstvo*, by the "Committee of Petty Credit," and other authorities, none of whom probably know much about co-operative credit and accountancy. The law also places restrictions on the credit to be given. The persons and bodies entitled to receive such are householders only, being members, and, besides these, co-operative societies. But the credit is limited, if "short," to twelve months, if "long," to five years; if secured by guarantee to 300 roubles, if secured by pledge to 1,000 roubles. One of the more important privileges conferred by the law is that of combining to "unions"; only the unions must not act as Central Banks—which is really what it is most desired that they should do. The proverbial "coach and four" to drive through this provision has been found in the practice of "depositing" on the part of the union with local banks, though even that has not been much resorted to. Probably the unions themselves are short of cash. As for their taking deposits from local banks, there appears to have been no call for such action. But unions are, like local banks, permitted to purchase goods collectively for their members. And that right has been freely made use of. The Union of Taurida, for instance, consisting of only nine societies with, among them, about 2,000 members, in 1907 purchased goods to the value of 32,500 roubles.

Hybrid Organisations.

A halfway stage between doles out of the public purse and genuine co-operation was reached some time ago by means of a peculiar description of societies, now numbering 373, which strongly recall the Belgian and Swiss *Unions du Crédit*, and which are designed, and suitable only, for business men engaging in rather considerable transactions. These societies are accord-

ingly to be met with only it towns—105 at present—in which substantial business is transacted. Any member claiming a loan from such society is required to pay in to the funds of the society 10 per cent. of the amount which he proposes to borrow, but of course to make himself liable for the full amount. Subject to this general rule, every society is free to fix the minimum of credit to be given, the amount of which, multiplied by fifty, is recognised by the law as the permissible maximum. At New Year, 1907, the 373 societies had among them 256,800,000 roubles outstanding in loans. Evidently they carry on a not inconsiderable ordinary banking business, by the side of pure credit. For at the date named they had in their possession 108,000,000 roubles due to customers on their drawing accounts, whereas the amount due to them from members (on cash credit or overdraft) was only 11,700,000 roubles.

Schulze-Delitzsch Societies.

The societies styling themselves after Schulze-Delitzsch, as already observed, come nearest to the co-operative standard. They are tolerably large, averaging 540 members apiece. It may surprise our British amateur organisers that of these banks, which they quite needlessly dub "urban," only 385 out of 1,390 find their working sphere in towns. The remainder provide credit in the country, among agricultural folk, who include landed proprietors of the larger order as well as small men. Of the 1,390 societies existing, 847 are known to have possessed in 1906 a collective share capital of 14,560,000 roubles, with 3,501,000 roubles of reserve funds and "special" capital at its back. The deposits held amounted to 32,248,000 roubles, in addition to which 5,062,000 roubles had been borrowed in some other form. The loans outstanding, at the date mentioned, amounted to 49,943,000 roubles. The balance sheets of 236 test

associations of this description in 1905 balanced at 26,250,000 roubles on either side, to a collective working capital of only 5,505,000 roubles. The law limits the face value of the share to 100 roubles, and the interest payable on share capital to 10 per cent. After all, all things considered, the record of these banks is not a bad one, and they are fortunately admitted to be gaining on the non-co-operative credit institutions.

Raiffeisen Societies.

What passes in Russia as an adaptation of Raiffeisen banks is much more of a caricature. The Raiffeisen features retained by them are the absence of shares, unlimited liability and non-division of profits, which go to make up an indivisible reserve fund. However, whereas the genuine Raiffeisen banks advisedly confine themselves to small districts, their Russian facsimiles make their districts large; and whereas the Raiffeisen societies make all services gratuitous, officers of Russian societies are, as a rule, paid. Above all things, the moral, educating and elevating element and aim, which constitute the distinctive feature of Raiffeisen banks, are wanting. The law even forbids ministers of religion to take any active part in the management. The societies are smaller, of course, than the Schulze-Delitzsch banks, averaging only 320 members to the society, in spite of their large districts. Even that is too much as an average figure. About sixty of them seek their work in towns. A return recently published shows that on 1st October, 1907, 1,746 of these societies had collectively 19,293,000 roubles outstanding in loans. The capital belonging to them amounted to 551,000 roubles, in addition to 549,000 roubles reserve funds and 208,000 roubles "special" capital. The deposits in their hands figured at 11,467,000 roubles. Besides that money balance they had goods in stock, purchased

for resale to their members, to the value of 191,000 roubles.

Unions. There are, as observed, "Unions"—however, only eight, and of those eight only five are actually at work. They are composed of every variety of society, not purely of credit societies. Their main object appears to be propaganda, supplemented by inspection of societies. They appear, in fact, to have been suggested by the German *Revisionsverbände*.

Evidently co-operative credit in Russia requires a great deal more to be done to it before it can be admitted to qualitative equality with that of other countries. Even in bulk it is still inferior to non-co-operative credit of corresponding pretensions. The number of non-co-operative institutions is given as 6,500, that of "co-operative" as 3,650. There are no figures to indicate how the business of the two sets of institutions compares. But it is said that by means of the two between them the opportunity for borrowing has been brought within the reach of 3,280,000 people, 1,785,000 of whom are reported to have actually taken advantage of it. Seeing what countless millions of people Russia harbours, there remains much to be done in bulk as well as in quality.

However, although things are undoubtedly still backward, there must be admitted to have been very noteworthy advance, and there is now an unmistakable desire among the Russian people to perfect and extend co-operative credit institutions. Co-operative spirit has already been aroused. And with the Duma in power one may hope that "Third Section" methods of Government interference will cease. There is immense scope for co-operative credit, notwithstanding the absence of thrift. The national character is well adapted to it. And, please God, Russia will soon

benefit by it in a large measure in its genuine undiluted form.*

It is necessary for one moment to overstep the Finland.

* While these sheets are passing through the press, the following statistics are published relating to co-operative banks in Russia :—

(*a*) BANKS OF THE SCHULZE-DELITZSCH TYPE.

Balance-sheets of 1,644 banks with 443,000 members on 1st January, 1909.
Corresponding figures in 1905, 847 banks ; 399,000 members.

Assets.	Roubles.	*Liabilities.*	Roubles.
Advances outstanding	55,275,000	Share capital	15,679,000
Deposits with other banks	3,073,000	Reserve funds	2,989,000
Effects	4,071,000	Other funds	595,000
Cash in hand	1,539,000	Deposits	38,215,000
Goods in stock	75,000	Credits	5,332,000
Plant	1,381,000	Money owing	1,719,000
Loss made	133,000	Various	4,000
		Profit earned	1,514,000
Total	66,047,000	Total	66,047,000

(*b*) BANKS OF THE RAIFFEISEN TYPE.

Balance-sheets of 2,853 banks with 1,420,000 members on 1st April, 1909.
Corresponding figures for 1st January, 1908, 1,871 banks; 820,000 members.

Assets.	Roubles.	*Liabilities.*	Roubles.
Advances outstanding	43,031,000	Share capital	1,821,000
Deposits elsewhere	1,231,000	Loan capital	4,940,000
Effects	320,000	Reserve funds	1,016,000
Cash in hand	976,000	Other funds	612,000
Goods in stock	483,000	Deposits	22,381,000
Plant	642,000	Credits	14,914,000
Loss made	1,030,000	Money owing	225,000
		Various	71,000
		Profit earned	1,732,000
Total	47,712,000	Total	47,712,000

boundary line of the Slav race to consider co-operative credit in FINLAND. Like the Danes after their discomfiture in 1864, the Finns have sought relief after Bobrikoff rule in agricultural co-operation, into the practice of which they have thrown themselves with rare resolution as a patriotic duty. And, being well led, they have already accomplished not a little. However credit, though sadly wanted, has for very intelligible reasons been the last phase to be taken up. Population is sparse, and, accordingly, comparatively large districts are a necessity. Such are not in themselves congenial to the Raiffeisen principle, which was considered to be alone suitable to the circumstances. The peasantry were furthermore afraid of unlimited liability, which the Raiffeisen system absolutely requires, and which for that reason the Central Bank, formed to provide local societies with funds, with greater wisdom than that exhibited by the Central Institution of the Finns of the South, that is, the Magyars, inflexibly insists upon. And in the last place co-operators found a serious obstacle laid in their way by the existing law, which prohibits co-operative societies from taking deposits from non-members, whereas members of course have only little to deposit.

All these hindrances have been overcome. Districts have had to be made rather extensive, measuring often 6 to 12 miles in diameter. But sufficient touch has been established, and societies which began in 1903 with from fifteen to twenty members, in 1909 numbered forty, sixty, 100, and even 150. Management is well conducted by committees of five, and advances are honestly repaid, although in some instances no security is taken and the lending is simply on note of hand, running for a few months only, or a year, or in some cases up to eight years. The people know whom they have to deal with. In every case the object of a loan

has to be stated, approved and adhered to. Such loans are as a rule small, often not exceeding 10 Finnish marks,* though they may be granted up to 2,000 marks. The rate of interest fluctuates between 5 and $5\frac{1}{2}$ per cent., the money being obtained from the Central Bank at about $4\frac{1}{2}$ per cent. Shares are a little larger than in Germany, but in some cases only of the value of 10 marks, more commonly of from 50 to 60 marks, and in some instances of 75 to 100 marks. There is no real departure from principle in this, especially as very long time, up to ten or twelve years, is allowed for paying up. One rather regrettable departure from Neuwied rule is that the reserve fund is not made indivisible. Part of it is, however, made available for local purposes of public utility.

A State-Subsidised Central Bank.

The real hitch lies in the provision of money. Savings deposits there are as good as none. So the Finns have thought that they must fall back upon a Central Bank, and that that bank must in its turn fall back upon the State. The Czar having signified his assent, the Central Bank was formed in 1902 with 300,000—since increased to 333,000—marks share capital, subscribed by individuals—for at that time there were not yet any local banks—but to be eventually transferred entirely to local banks, when there will be such. The Central Bank is administered by a board of six, two of whom, together with the managing director, form the executive. Two additional representatives are consulted whenever credit (which is always given in the shape of current account) is asked for by a local society. However, the bank's own share capital does not go far. The bank was not formed until the Government had agreed to let it have a long State advance of 4,000,000 marks, which not proving any longer sufficient, an additional credit of 5,000,000

* A Finnish mark is about equal to a franc.

marks has been applied for. In addition, the State allows, for ten years, 200,000 marks a year towards management expenses, inspection and the like.

With such assistance—the recourse to which is to be regretted, although it may under the circumstances have been unavoidable—by summer, 1909, 364 local banks had been established. There are precise figures obtainable only in respect of 308 societies existing in 1908, which numbered 11,878 members, estimated to own among them property to the value of 52,780,000 marks. The share capital and—for the present still infinitesimal—reserve funds of the societies amounted to about 40,000 marks, being 8 per cent. of the entire sum of money employed. The Central Bank, to which 268 of the societies were affiliated, advanced 3,257,000 marks to them, having at the close of the year 2,878,000 marks standing to its credit. The local societies in their turn had lent out 3,168,000 marks to their members.

It will be seen that the State-endowed Central Bank still plays the most important part in the whole movement. This may have been unavoidable, as the local peasantry had first to be educated up to the proper standard. It was large landowners who took the matter in hand. Even now the small peasantry represent only about 15 per cent. of the membership. The Central Bank, among other things, acts also as inspecting body. The local societies appear scarcely ripe for carrying out the inspection themselves. In any case the Central Bank acts in this way and appears to give satisfaction. One may hope that as co-operation brings about education in business, something more truly co-operative may result from this elementary leading and feeding from above.

In respect of one point, the Finns have certainly the advantage of ourselves. Their Government has readily

accorded to this highly civilised race powers of purchasing and selling goods in common on behalf of members which our Treasury still jealously withholds from us backward Britons. The exercise of those powers has been found not only absolutely free from danger, but, in addition, highly useful to the rural population. Oh, for an enlightened Russian to preside over our Treasury!

Now we go back to the Slavs.

Servia. SERVIA has in its co-operative credit institutions of course absolutely less substance to show, but, on the other hand, far greater loyalty to principle than Russia. And it is not only the country which is forward in co-operation. It is also the race. Apart from the Union of People's Banks in emancipated Servia, there are distinct Servian unions in Croatia (embracing 283 societies with 9,082 members, and doing an annual business of 16,636,145 *kronen*), in Dalmatia, and one at present forming in Bosnia; and even in Turkey Servians are, so far as is known, the only race to have ventured upon co-operative action, having formed a small cluster of Raiffeisen banks.

Servia has indeed, in its brief time of independence, set a brilliant example to other nations by organising co-operation, and more particularly co-operative banking, with a degree of assiduity and success which certainly deserve commendation. Servia needed co-operative credit, for usurers were fleecing its peasantry—that is to say, the great bulk of the nation—to the tune of 400, 500, and even 1,000 per cent. of interest, to such an extent that the Skuptchina felt itself called upon to interfere, and to pass a law which, in theory at any rate, vests *all* property in land in the State. Mortgaging and selling are accordingly made impossible without the consent of the authorities. This law is held to have worked well, and to have accomplished

its end—thanks, I should say, to the concurrent creation of convenient institutions for providing credit on more reasonable terms. Servia is a country with only about 2,000,000 inhabitants, 99 per cent. of whom are engaged in agriculture, the majority—that is, about 79 per cent.—being occupiers of holdings of from 5 to 25 acres (of land not nearly in the same state of cultivation as ours), 15 per cent. of holdings of from 25 to 50 acres, and only 5 per cent. owning larger properties.

Such an economic situation makes co-operation—at any rate co-operation for purposes of credit—almost a necessity. Servians were not slow to set their hand to it, once emancipation made such move possible. Political reverses appear to have added a fresh stimulus—just as they have done in Denmark and in Finland—and, baulked in their political ambitions, Servians have turned with redoubled energy to the development of co-operation as a means of advancing material progress.

Industrial Banks.

In the early days of the movement it was rather "urban" co-operative credit—so to call it—which made headway. Trade is in Servia all on a small scale. There are no large factories; all is petty, very much in want of money; and it was, accordingly, for the relief of small trade that co-operative banking was first introduced. The first Servian People's Bank was formed at Belgrade in 1881. It has a managing committee of fifteen, a supervising council of seven. There are practically no legal limits to its transactions; accordingly its operations have been comprehensive. But credit remains the principal business, being dealt out in exchange for acceptances, which are well understood in Servia, at rates of interest which vary, commonly speaking, between 7 and 12 per cent. That is moderate for Servia.

Such business, for reasons still to be explained, has

proved attractive, and accordingly "urban" banks have multiplied and exist now to the number of about 120, commanding collectively about 30,000,000 dinars (francs) share capital, with about 12,000,000 dinars reserve funds, and doing an annual business of about 1,500,000,000 dinars.

But, alas, for the profession of "co-operative" principle, which is—like the professions of "religion," according to Mme. Rolland's famous "mot"—made to cover a multitude of iniquities, from labour politics on one side, masquerading as non-political co-operation, to rank usury on the other! There is no co-operative character whatever about these banks. Just as the "interest" in shares permitted by the law is not limited, so there is no limit set upon dividend; nor is there any provision made for the restriction of business to members only. Accordingly these banks do business with whoever offers such. They pay their shareholders dividends up to 10, 12, and 15 per cent. And, liability being limited, they allow members to hold any number of shares. Investments are scarce in Servia, and co-operative bank shares are reputed "good." Accordingly wealthy members have bought up shares to the number of 200, 300, and even 1,000 each, practically converting the concern into a joint-stock business. All is fish that comes to their net, so they lay themselves out for insurance business and "*toutes sortes d'affaires d'agence et de commission.*" They "run" *succursales* at Salonica and Ueskueb, acting in one place as agents for the Ottoman Government, in another for the Servian, and lay themselves out for promoting foreign trade like a German "Export Bank." The hands are the hands of Co-operation, but the voice is the voice of Profit.

The agricultural banks of Servia stand upon an altogether different footing. They are Raiffeisen banks

Agricultural Banks of the Raiffeisen Type.

of the purest type—under difficulties, because Servian law is adverse in not allowing unlimited liability—without dividend, every overplus being carried to an indivisible reserve fund; and they deal only with members. Their liability is really unlimited, although, to make it so, Servians have, like ourselves, had to strain the law a little, making this a matter of "contract." The oldest of these institutions, the "bank" of Smédérévo, was formed by M. Michel Avramovitch, who is really the leader and the soul of the movement, in August, 1893.

At the close of 1908 there were 827 such banks registered, all being organised in the same way, with about 40,000 members, all being heads of families, among whom there were about 150 men of liberal professions, about 400 school masters, 300 parish priests, and the remainder all *bonâ fide* peasants. Their registered capital stood at 2,500,000 dinars, their deposit capital (savings) at about 3,000,000 dinars, and their annual business amounted to 36,000,000 dinars.

Co-operation of other Forms.

As has happened elsewhere, the presence of such rural co-operative credit has given an effective stimulus to co-operation of other sorts, which did not previously exist. There are about 110 village stores of the true Rochdale type, 180 societies for the common purchase and use of machinery and implements, fifteen co-operative dairies, seven vintners' associations, and nearly 100 agricultural co-operative societies of other descriptions, among them a number of co-operative granaries, such as we do not yet possess.

A Central Bank.

In common with the rural banks these societies have formed a Central Bank, at the service of all, taking deposits and making advances, with 2,000,000 dinars share capital, all of it subscribed by societies, and all but 200,000 dinars already paid up. In every continental country, it appears the State must needs have a finger in the co-

operative pie, and so in this case it has placed a credit of 2,000,000 dinars, free of interest, at the disposal of the Central Bank. That bank deals only with members and, having the free credit from the State to draw upon, and having placed a limit upon dividend, so as to make it to correspond exactly with the rate allowed upon deposits, makes to such advances at from 3 to 5 per cent.—never charging more than 3 per cent. to dairies and other agricultural co-operative productive societies. In such way the Central Bank did in 1908 a business of 28,000,000 dinars. It acts at the same time as controlling authority, and has organised a very searching inspecting service, sending its skilled inspectors about from bank to bank, and levying on local banks as remuneration for such and other services 10 per cent. of their annual net profits. The "Union" is active at propaganda and co-operative education. Since October 1908, it maintains a special "co-operative school," in addition to organising lectures and local classes, the pupils of all of which are periodically subjected to examinations.

Educational Results.

There can be no doubt that these banks are in their humble way doing economic good, though the bulk of the good to be done is of course still to come. As regards their educational results I cannot resist the temptation to translate from M. Avramovitch's Report the following record:—

"Peasants who used to spend their days in the public-house, playing cards and boozing, have thrown off that habit. In the village of Rattarée, before a bank was there called into being, the publican paid 480 francs rent for his café, and did well. This year scarcely could he be brought to pay the parish, which owns the café, as much as 210 francs. And even on that lower rent he has made a loss. One day, making the round of our village banks, I went into the tavern of the village in which I happened to stop, and there the publican at once began complaining to me about the distress in which he had been landed, since scarcely any one now comes to his inn, either to drink or to play cards. And indeed, whereas at other times I have in this inn seen plenty of beer, wine, absinthe, and other liquor about, this time I

found none. In the village of Mihailovatz there used to be two inns; but one has had to close its doors at New Year. On one occasion a member of a village bank was seen playing cards and losing four francs. He was brought before the Committee and summarily expelled. Other members, who were suspected of indulging in play, took warning, and are now rarely to be seen in the public-house. Throughout Servia the municipal elections serve as an occasion for fighting and quarrelling. Wherever village banks have been established, the elections now pass off in perfect peace and good feeling. The Annual Report of the Managing Committee of the Village Bank of Azagna says on this point: 'Our association has drawn us together and made us friends of one another, as should be the case amongst honest and well-conditioned folk. It has taught us to respect one another and to help one another, to enable each to live better and to work better. In little time it has made us learn many useful things which our schools have failed to teach us.' Our schoolmasters and priests (*popès*), who were formerly political agitators, have become agitators for the cause of co-operation. In one year only Servia has seen fifteen village banks start up in three Departments. There would be more if the ordinary banking establishments would open their credit to our *caisses*. They have now promised at their next annual meetings to introduce regulations into their rules providing for this. No doubt the parishes as well will find means of employing their large capitals now invested in various stocks and effects for the benefit of agriculture by the interposition of our village banks."

The Balkan Peninsula.

Even apart from Servia, which in this matter leads the way, the Balkan peninsula seems all alive with more or less successful attempts to organise popular credit for agriculture—everywhere except in Turkey, which has its State-endowed Agricultural Bank, and only a few straggling Servian co-operate credit societies to vindicate the merits of self-help on co-operative lines. However, everywhere except in Greece, which moves drowsily along, declaring that at the present stage it requires no co-operative credit, such "co-operation" still shows itself inspired, guided and fed from above. It is everywhere a State Bank, endowed with public money, which provides the funds; it is officers of the State, priests and schoolmasters who attend to the propaganda; and all that co-operation is expected to do for the present is to arrange the organisation.

Not to overstep for the present the limits of the Slav family—of which, to be sure, BULGARIA is only an adopted, but by the present time a closely assimilated, child—there is that pushing little principality, lately become a kingdom, keen for the development of business and national prosperity (very desirous, among other things, to form business connections with ourselves), setting an example, it is true of State aid, but certainly of laudable activity. It is, of course, a country of peasant holdings, but of holdings of peasants possessing little or no working capital. A few banks more or less after the model of the Schulze-Delitzsch societies, have found their way into urban or semi-urban districts in comparatively early days, to struggle on without making much headway. One little bank of the Luzzatti type has been formed in Sofia, and is said to be progressing surely, although only very slowly. The type which Bulgaria mainly depends upon for credit services to agriculture is that of Raiffeisen. However, such dependence is of quite recent date. Up to some years ago eighty-five non-co-operative agricultural banks, consolidated in 1894 into an Agricultural Bank, endowed by the State with 40,000,000 leva (francs) share capital, having branches (about 200 in all, including "agencies") in all towns of even the smallest importance, and laying itself out especially for cultivating credit business with the peasantry, were held to supply all that was needed. In 1894 M. J. E. Guéchoff, at the time Minister of Agriculture—having made a special study of co-operative credit elsewhere—first called attention in the Chamber to the utility of Raiffeisen banks, and carried a resolution which authorised the Agricultural Bank to advance money to banks of such description. By 1897, on the strength of this concession, two little Raiffeisen banks had been formed in the district of Roustchouk. However, both proved doomed to an early death. The matter was not yet understood—*tout comme chez nous*. A fresh beginning

Bulgaria.

Raiffeisen Banks.

was made in 1899 in the same district, and the three little banks then formed may be said to have become the parents of, or at any rate models for, the little host of (in September, 1909) 559 credit societies which now cover a goodly portion of the ground in Bulgaria. Such rapid advance is, in the first place, of course due to the generous ministrations of the Agricultural Bank—which has supplied about 70 per cent. of the funds employed*—but above all to the stimulating propaganda of the local clergy and schoolmasters who appear to be everywhere at the head of the movement. This shows at any rate that the banks are of a thoroughly "popular" character, composed, under more cultured guidance, of the small peasantry, who readily follow such leaders, and whose wants, in the majority of cases, take the shape of advances only between 50 and 300 leva (£2 to £12). There is little at all lent to one borrower above 500 leva. At the close of 1907 there were 24,870 advances outstanding, for collectively 5,416,9[illegible] leva.† Of these 4,777, of the amount of 152,927 leva, were for 50 leva and under; 5,595, representing 473,066 leva, for loans from 50 to 100 leva; 5,977, of 988,114 leva, for 100 to 200 leva, 3,309 of 885,703 leva, from 200 to 300 leva, 1,905, of 703,592 leva, from 300 to 400 leva, and 1,279, of 560,527 leva, from 300 to 500 leva. There remained 2,028, for collectively 1,653,031 leva, of larger amount. Of the sum named 2,337,585 leva, that is 44 per cent. (in value), of the whole amount had very accountably been borrowed to pay off old debts contracted at higher rates: 1,301,140 leva for purchase of real estate, 425,812 leva for purchase of live stock, 245,902 leva for payment of taxes,

* At the close of 1908 returns furnished by 228 village banks showed their collective indebtedness to the Agricultural Bank to be 5,405,760 leva. A year previously the amount borrowed was returned as 3,902,456 leva. (These figures are M. Guéchoff's.)

† These figures are taken from a Report published in the *Bulletin* of the French *Centre Fédératif*.

363,504 leva for purchase of food, 15,323 leva for harvest expenses, 101,814 leva for seed, 46,192 leva for the purchase of implements, 7,900 leva for funeral expenses, 125,173 leva for domestic purposes, and the balance of 446,614 leva for divers uses not specified. At that time the banks held only 266,617 leva in savings deposits and 712,413 leva in long term ordinary deposits. The latest figures, for the close of 1908, are not attainable for the entire number of banks.

A Federation.

The village banks held their first Congress at Sofia in 1907, when it was resolved to form a Federation, which has, however—owing to some misunderstanding between its committee and the Board of the Agricultural Bank—failed to enrol the entire number. Only 306 have joined; and of these only 228, as observed, have furnished returns, which apply to September, 1909. These 228 banks at that time comprised 18,887 members, which gives each bank on an average eighty-two to eighty-three members. Those 18,887 members are still indebted to other creditors to the extent of 2,358,864 leva; but they have been found to own property collectively valued at 71,951,621 leva. The business of these 228 banks in 1908 reached 15,373,740 leva—5,416,961 leva remaining outstanding in advances at the close of the year. Of that sum, and the balance of cash in hand, 3,902,456 leva was supplied by the Agricultural Bank, 1,094,517 leva by deposits (including 597,661 leva from non-members) and 419,046 leva by payments of members. The last-named item indicates that the application of the Raiffeisen system is not pure. Members are required, as in a friendly society, to make a fixed contribution every month, varying between 50 stotinki (centimes) and 2 leva. That makes the societies "compulsory savings banks," with the object of raising in due course, by continued thrift, a small capital for each member. On their business of 1908 the banks collectively had earned net profits amounting to 61,369 leva. Since they own real

estate valued at 84,896 leva, and have accumulated reserve funds of 83,570 leva, besides endowing a fund for charitable purposes of 65,769 leva, they cannot be said to have managed badly.

Indeed, these banks now feel so strong—and, very probably, are so much disappointed at the misunderstanding with the Agricultural Bank—that the proposal has been made to form a Central Bank of their own, for which, *more solito*, a grant from the Government is claimed. It is suggested that two or three million leva should be taken for the purpose from the endowment of the Agricultural Bank.

The Federation is active, inspecting banks and organising and pushing propaganda, in which last-named work parish priests and schoolmasters assist it manfully. For purposes of inspection it employs two skilled men. During the course of 1908 not less than 937 general meetings were held, and 393 propagandist lectures were delivered, in addition to twenty-four courses of classes.

There is a good deal of State aid in all this, such as one must expect in a backward country. But after all the movement goes forward, usury is being repressed, and cultivation improved.

Montenegro.

One more Slav nation it remains to mention. Even little MONTENEGRO has learnt to value and adopt co-operative credit, which official England still spurns, and of all forms of such credit precisely that of which we have recently been officially told in the House of Lords by a spokesman of the Treasury, that our Government will never, never, never tolerate its adoption among ourselves, that is, Raiffeisen credit. There are several Raiffeisen banks in the little principality, and they are said to be doing well.

Roumania

Crossing the frontier northward, we find in ROUMANIA a state of things which is at the present moment particularly instructive. It shows a remarkable development of co-operation—it is true, only in a primitive form—on

scarcely favourable ground and a progress of evolution which is highly interesting.

Roumania, so there is no denying, is a backward country, with an illiterate peasantry standing for three-fourths of the population, who not long ago were still practically serfs, under the *boyards*—owning most of the land—wholly unskilled in banking transactions. Industrial business, being largely speculative, is there altogether unfavourable to co-operation. In agricultural districts there was poverty, and accordingly helpless dependence upon usury as rapacious as any that has been known, exacting interest up to 200 and even 500 per cent.—nothing under 63 per cent. And there was, and to some extent still is, thraldom under other landlords besides the *boyards*, namely, a race of middlemen, for the most part foreigners, who come into the land to exploit the *latifundia* which they rent wholesale, at the sub-renting peasants' expense. To such peasants they advisedly let the land in holdings not sufficiently large to sustain a family, in order that the tenants may be compelled to seek wage labour in addition, for which any remuneration has to be taken that the middlemen, being absolute masters of the situation, choose to offer. To relieve themselves of such oppressive yoke, be it parenthetically observed, the Roumanian peasantry have with really creditable resource since only five years successfully organised co-operative land-renting societies (*obstei*), of which at New Year 1909 there were already as many as 229 in existence, with 19,647 members and a collective share capital of 2,168,444 lei or francs (upon which 1,319,898 lei had been paid up), occupying 164,377 hectares (410,942 acres) of land, to obtain which they had given 1,662,562 lei security, and which they sublet among themselves for 4,623,060 lei. The number of such *obstei* keeps constantly increasing. They rather shame us n the West, who are only just now attempting such an effort in co-operation.

When it is added that, to obtain their firewood and timber—for which they are dependent on the forests in the hands of large landlords and the State—at low prices and with a certainty of supply, the peasantry had also up to the same date formed 71 co-operative forest exploiting societies, there is likely to be less surprise at the remarkably rapid development that co-operative credit, of which the tale is now to be told, has experienced.

Among industrial folk co-operative credit has budded freely but has brought no fruit to anything like perfection. There are no statistics published, but it is known that there are a fairly considerable number of "co-operative" banks in existence in towns, but that they are, in the first place, scarcely co-operative, and, in the second, scarcely successful. We may accordingly here pass them by.

On agricultural ground, on the other hand, all is progress and, in the main, success. There were at New Year, 1909, 2,410 rural banks, with 346,707 members, 317,554 of whom were *bonâ fide* peasants, 5,864 village tradesmen, 5,953 village artisans, 7,965 Government and municipal employees, 2,151 large proprietors, 3,323 priests and 3,897 schoolmasters. The annual growth in membership is noticeable mainly in the number of peasants, which in the year 1908 increased from 269,375 to the figure stated. The authorised share capital of these banks was at the period named 35,052,195 lei, as comparing with 27,431,196 ei a year previously. And on that amount—odd as it may seem—37,851,898 lei had been paid up. This unusual disproportion is readily accounted for by the fact that the Roumanian law allows each member to take up more than the number of shares allotted to him on formation of the society, when a certain share capital has to be registered —up to the £200 which has, in imitation of our well-known provision in the Industrial and Provident Societies Act, become the recognised maximum "interest" capable of being held by any one member nearly all the world

over. Adding other funds at the disposal of the banks, which include 6,158,745 lei deposits and 3,204,138 lei reserve funds, the banks had at the period named 50,558,136 lei at their command, which compares well with only 36,461,269 lei held a year before. The amount of business done in 1908 was 58,670,708 lei.

That, so it may be said, is the result of five short years only. And it will have to be owned also that to a considerable extent it is the result, not indeed of State initiative, but certainly of State assistance. The initiative was in every instance the peasants' own. No kind of pressure was employed to make them form banks. These men had, in their sequestered nooks, among snowy peaks up in the Carpathians, and in the wide, sparsely peopled plain watered by the Danube, heard of the wonders that co-operative credit had brought forth in other lands, more particularly just across the frontier, in Transylvania; and having no other resource to fall back upon, they readily turned their minds to that. There were priests and schoolmasters to give these unlettered men their help as guides. All along it is these pastors and teachers who have taken the lead. And if at the present time they are anxious to be rid of their burden, it is only because they have built their fabric so well that it has grown too big for their unaided hands; to continue this work must under the circumstances mean neglecting their more sacred duties.

The Government had in its turn given its attention to "popular" credit since 1881. And in 1884, with a view to establishing it, it founded its *Creditul Agricol*, as an agricultural bank, endowed with 20,000,000 lei, to lend money at 10 per cent. to proper borrowers among the peasantry. That *Creditul*, so it may at once be explained, has not proved a success—as institutions of its kind rarely do; and it is now gradually being got rid of. The reasons why it did not succeed are, that it centralised business overmuch, and that in addition it dealt purely in

pledge credit—pledge credit, it is true, made easy to the peasantry by means of the *gage sans dessaisissement*, the pledging of articles, that is, which are allowed to remain in the borrower's possession for use in his farm. This kind of pledge credit, I believe, Roumania was the first country to adopt. Such credit, however, turned out to be not only materially unsatisfactory, but also directly demoralising. For it drove people to telling lies. A high authority has given it as his opinion that more than half the values ostensibly pledged in this way never had any existence at all. Co-operative banks having come upon the scene, the *Creditul* has been forbidden to carry on business in any district in which there is a co-operative bank. The bonds which it holds from borrowers are by arrangement being gradually transferred to co-operative banks. And its endowment is being made over for sole use to the Central Agricultural Bank, which was formed in 1903 and has thus far shared in the same supply of funds. However, when the Central Bank came on the scene the problem of credit had already been in essence solved by the peasants themselves in those little village banks already spoken of, which had been produced *entirely* by private initiative. They were Raiffeisen banks to begin with. However, just as in Bulgaria, unalloyed Raiffeisen banking did not for some reason or other recommend itself to the local population, and so a substitute, more congenial to the habits of these primitive folk, had to be devised. It was found in credit societies started with an authorised share capital to be gradually paid up by monthly contributions varying from 1 leu to 5 lei, under which system liability becomes limited to the actual amount of the share subscribed.

Of such banks there were forty in existence, of which no one outside their own villages appeared ever to have heard. It was to give greater impetus and body and more rapid extension to the movement, that the Govern-

ment in 1903, in addition to greatly modifying the existing inconvenient law, founded the Central Bank, which was to be open as a source of credit to all village banks of the kind which might form, without, however, forcing their formation or interfering in their internal management, or even compelling them to join it. The object was to provide money, and at the same time also to provide guidance, and above all things, to provide searching examination and inspection, to keep the banks straight. In this respect, although the Central Bank does not interfere otherwise in the internal affairs of the banks, very ample powers have been given to it, to the length of removing officers of banks who in its opinion are incapable or unworthy of their position. We should bear in mind that in Roumania, authorities have, to a large extent, a very uncultured membership to deal with, people who know well enough how to lay out their money agriculturally when they have it, but to whom banking practices are more than Greek. Among such a population interference, such as would be altogether out of place among a more better educated membership, may in the earlier stages be held legitimate. The funds which the Central Bank is in a position to place at the disposal of local banks have enabled it to fill the void from which they then suffered. But it could undertake to do so only thanks to the ample power of direct control with which the law has invested it. With such powers, the Central Bank is placed in a position, at a considerable cost of labour, which its officers have begun to resent, to judge what banks may be trusted and to what extent. The benefit was not to be got without being paid for. The benefit obtained, therefore, is not undiluted gain.

With such assistance co-operative credit has expanded as under the touch of a magician's wand, and many of the banks existing are already strong in capital, having share capitals, in some instances, of up to £4,000 and

£8,000. One there is even with £24,000, but that is quite an exception. On the other hand, there are also a goodly number very feeble, alike in endowment and in business capacity.

The movement has now reached a point of so great development that the Central Bank, as well as the priests and schoolmasters, are, as observed, growing weary of their burden. The Central Bank finds that its staff can no longer cope with all the work laid upon it, and the priests and schoolmasters have to think of their churches and schools. Accordingly, efforts are being made to induce the banks to group themselves in Federations, whose managing committees might take much of the work off the Central Bank's hands, and organise matters so as to relieve the priests and schoolmasters. However, at this point one of the drawbacks of State assistance reveals itself. People have been so long used to official leading strings, that they are shy of walking by themselves. That is what they have not been taught. Their very chains and they have grown friends. Like Byron's "Bonnivard," they sigh at the thought of regaining their freedom. One may hope that they will nevertheless succeed in using it, and henceforth develop as genuine self-help banks. For, to borrow an illustration from the realm of nature, they have now evidently grown beyond the stage in which forcing promotes growth. The young shoots have come up lustily, but the stems and roots require strengthening, and to give them the necessary force and hardness there is only one means, and that is being left to themselves. Up to that point, however, under abnormal local conditions—which are not to be compared with those of countries in western Europe—judicious State coaching and State feeding will have to be admitted to have proved helpful.

GREECE has but little co-operation to show, and very little indeed of what there is takes the shape of credit.

The population is said to be at present unadapted, and legislation is adverse. There are one or two nominally co-operative banks—one at Athens, one at Domoko in Thessaly, another at Phersala, in the same neighbourhood, and one at Donussa in the Peloponnesus—which are said to have to some extent mitigated the exactions of usury. But that is apparently all; for the "Currants Bank" is an institution, not for giving credit, but for restricting production.

Turkey.

And TURKEY, of course, has as yet nothing that can be termed "co-operative" except a few little Servian outliers. However, if there is any analogy between the two cases, what is now happening in Egypt in respect of its Agricultural Bank—which has awakened a decided taste for agricultural co-operative credit among the population—a similar evolution may surely be looked for in Turkey, now that it has become a free country. It has had an Agricultural Bank for very much longer than its whilom vassal States, namely, since 1888, and through it serves out considerable and increasing sums of money—up to 1st March, 1908, £T.9,944,505* to 1,228,091 borrowers, in amounts the mean value of which grows continually smaller, which shows that the money is going to the right, that is to small, people. In 1892, the average amount of each loan stood at £T.11.12. It has now dwindled to £T.6.12. There was, at the close of the financial year 1907—08, £T.316,924 outstanding in such loans. The bank represents an amalgamation of a number of small local institutions (*manafi-sandik*) formed from 1868 downward. It is endowed with the property of those institutions, and with an additional eleventh to be levied on tithes due to the Government, until its capital, which on 1st March, 1908, already stood at £T.9,458,353 (of which, however, only £T.5,142,956 was reported "*utilisable*"), will have reached £T.10,000,000. Its managing council is entirely

* The Turkisk lira is equal to a fraction over 18*s.* of our money.

official, composed of the Minister of Agriculture and delegates from other public departments. It lends in the main on real security, only to about one-tenth of that amount on personal, at 6 per cent. plus a commission, only once levied, of 1 per cent. Its lending is done in two ways—either for terms of from three to twelve months, in which case the principal may be repaid in full at the end of the term; or else up to ten years, in which case repayment must take place by instalments—unless the borrower choose of his own free will to anticipate the terms of repayment. Loans on personal security are conceded only since 1900, *à titre d'exception*, up to amounts of 300 piastres (£T.3), and for one or two years at most. A certain amount out of annual profits is voted for useful public purposes, such as agricultural education. By means of a system of *succursales* and agencies, which now stand at 464, and the number of which keeps continually increasing, the service is extended all over the country and brought near to many hundreds of thousands of peasants.

Here, no doubt, is a useful service rendered. However, very naturally it cannot compare with co-operation. Mahomedans, as we see in India, with their lively sentiment of brotherhood among themselves, make excellent co-operators. Under such circumstances perhaps it is not too much to hope that under the new rule of freedom, co-operative credit may soon make its way into the Ottoman Empire.

After what may, after all, be called only a brief delay even EGYPT is turning its thoughts to co-operation, to supply its fellaheen with credit. It was a cruel disappointment to me, after I had been told that the Government of Egypt was thinking of promoting the formation of co-operative banks, to find that—presumably under the two-fold influence of the Agricultural Bank of the suzerain State and of the Indian *takkavis*—a State endowed, or, as in respect of loans for agricultural purposes it has now

become, a State-guaranteed, bank was to be introduced instead. My prophecy at the time was that in the long run such an institution would not be found sufficient; and that prediction appears to have been very soon verified, although since then the capital of the bank, as happens in the case of all such institutions, has been rapidly increased from £2,500,000 to as much as £10,310,000.* There can be no doubt that the Agricultural Bank of Egypt has rendered useful service. It has, according to the latest official report, up to the close of 1908, lent out no less than £E.15,140,000, which the intelligent fellaheen have known how to lay out to good advantage, more particularly with the help of such technical guidance as the Agricultural Society has given them, and the superior cotton seed with which the Agricultural Bank has likewise supplied them at reasonable prices—although in the first instance it required a good deal of persuasion on the part of the messengers going about with bags of gold to press upon the people, to induce the latter to accept the loans. There is no complaint in respect of repayment—as how should there be, when it is the ordinary tax collector, coming armed with all the powers of the executive, who collects the money? Under such circumstances it is not surprising that arrears remain small. Loans are made at what is for Egypt a low rate of interest, *viz.*, 8 per cent. (it used to be 9), in two ways, the one for short, temporary purposes, on personal security, in amounts not exceeding in any case £E.20, and for a term not exceeding fifteen months; and the other for terms extending to ten years as maximum, in amounts reaching up to £E.500, which have to be secured by mortgage under a rather troublesome procedure, the best feature of which perhaps is, that a British public officer is required to be present at the paying out of the money, to prevent extortion or fraud. The mortgage loans are the general favourites. Their

* The Egyptian pound is worth £1 0*s.* 6½*d.* of our money.

total amount has been £E.13,030,000, as comparing with only £2,110,000 of the others.*

To have put such sums in the fellaheen's hands under restrictions which pretty well ensure prudent employment, is a useful service. However, the most useful of all services rendered in the matter probably is that of having prepared the public mind for co-operation, which is wanted in more forms than one, and which is now, as I am told, being clamoured for by all concerned with so much vigour that the Government has felt bound, after some inquiries made in countries where agricultural co-operation has been long established, to prepare a Bill for the Khedive's acceptance. Indeed, under the pressure of necessity, even without legislation, rough and ready co-operation in credit is already practised. Borrowers combine to borrow from ordinary banks on the security of their joint signatures. That is useful, no doubt; however, it precludes control of the borrowing, which in a country like Egypt is desirable for the borrower's own sake. Such control, so it was thought, was not to be got without legislation. However, after the Bill had been drafted with very great care, it was discovered that after all no new legislation was required. Co-operative credit is therefore to be proceeded with under the old law. With more ample money resources placed at their command, Egyptian fellaheen have shown a gratifying appreciation of the use of artificial fertilisers and also of implements and machinery. The Agricultural Society has thus far intervened to provide such for them. However, the demand has outgrown its capacity of supply. And so "agricultural syndicates" are to be formed, which are really intended as co-operative supply associations and

* At the close of 1908 £E.6,640,000 had been repaid, viz., £E.2,018,000 small loans, and £E.4,622,000 mortgage loans. There were then outstanding in credits, in all, £E.8,500,000, viz., £E.92,000 small loans, and £E.8,408,000 mortgage loans. £E.296,000 was reported in arrear, of which sum £E.100,000 had been recovered at the time when the balance sheet was issued.

also sale associations; for there have already been some primitive beginnings in a junction of forces for the better disposal of cotton.

Spain and Portugal.

The IBERIAN peninsula, although the home of a most interesting but now decaying institution which is by some held to answer the same purpose as co-operative banks—namely, the Spanish *pósito*, of which the long defunct Portuguese *celleiro commun* formed a kind of replica—has not as yet much to show in the way of co-operative credit, nothing that others might learn from. The need of co-operative credit in these countries is generally admitted, alike among the industrial and the rural population. However, in spite of the continued endeavours of such zealous champions of co-operation as Don Francisco Rivas Moreno in Spain and Dom Costa Goodolphim in Portugal, little of real value has thus far been produced. There are most ingenious new devices set in practice, which are expected by their originators to facilitate the unavoidable passage over first rough ground among a population which as yet does not understand unlimited liability. But the entire movement is still in an elementary stage, consisting rather of tentative groping and wriggling than of solid progress. Don Rivas Moreno freely explains the main hindrance to be a want of aptitude among the peasantry, which has been selected as the body to be first experimented upon, chiefly by champions of the Church. His own narrative shows that such want of aptitude, and more particularly the indisposition which he complains of to keep good faith, has very probably been aggravated, if not entirely produced, by the gross abuses that have found their way into the administration of the provident institutions already named, which, after nearly four centuries of indifferent working, seem fully ripe for supersession.

Spanish Pósitos

A brief word or two may be due—if on no other account, on that of historic interest—to the *pósitos*, about which recently some inquiries have been made, more particularly

in view of the desire which has arisen among some intending social reformers in India, to create a kindred institution in our Asiatic dependency in the shape of *dharma golas*. Favourers of such an idea will do well, before proceeding further, to read attentively the report of the Commission recently appointed to inquire into the working of the *pósitos*, published in two portly tomes, or else the briefer, but perhaps more pregnant observations upon the *pósitos* offered by an author so well informed concerning the condition of the rural portion of his country as Don Rivas Moreno, in his little book "*Las Cajas Rurales.*"

Spain owes its *pósitos* to the provident action of Philip II., who could be kind to the people whom he governed at any rate in this one thing. He began forming them about 1555. Public authorities, territorial magnates and bishops fell in readily with the fashion set by their royal master. More particularly bishops. The Cardinal de Belluga alone founded thirty-two *pósitos* in Murcia—which province, so it will be seen, now once more takes the lead in provident action. Cardinal Cisneros founded two very large ones, severally in Alcala and Torrelaguna. Within little time Spain possessed a veritable host of such granaries, which differed from those founded by the patriarch Joseph in this, that they did not sell the corn which they had stored, either for money or live stock, nor yet for land, but only lent it, to be returned to them again in kind. By 1558 there were more than twelve thousand in existence. In 1584 the king ordered an inquiry into their wealth and administration. The value of the corn stored is said to have been something prodigious. But the administration was anything but perfect. When famine came, the governors, with a sound commercial instinct, lent away what grain was available to themselves, selling it afterwards to the poor at high prices. This was soon put a stop to, and the *pósitos* went on flourishing till, what with the ravages of wars and revolutions and the growing needs

of the Crown, serious inroads were made upon them, materially reducing both their number and their wealth. When Napoleon I. overran the land, the small balance remaining was prudently hid away for safety—and then was forgotten, to be unearthed once more in 1863. By a law passed in 1887 the administration has been completely reformed. But their old mediæval character still clings to the *pósitos*, and they have become an anachronism. They were all very well, so judges Don Rivas Moreno, in olden time when there were no means of communication, and each parish had more or less to rely upon its own fields for its food corn. But to-day they seem wholly out of place. However, the abuses and frauds which appear to have become inseparable from them, and which Don Rivas Moreno pronounces downright "inconceivable," and veritable "vermin" (*polillas*) eating their substance away, are held to constitute an even more damning feature. Politics have found their way into the *pósitos*, as of course they would do. And under the mask of politics personal considerations, care for "near and dear relations," are allowed free play. Then there is hopeless confusion. Some hold their property in wheat, others in money, others again in land, and others still in a little of each of these three possessions. A little while ago the property of the still existing *pósitos* was estimated at 40,000,000 pesetas (or francs). Don Moreno believes that this is far from the truth. In any case, whatever the endowment may be, it is becoming daily unbeautifully less, and being daily applied less to its proper purpose. Some years back a national gathering of agriculturists meeting at Valencia unanimously voted in favour of the management of the *pósitos* being taken out of the hands of their present guardians, the local authorities —every member of the *ayuntamiento* or municipal council is supposed to be responsible for their property, but not much faith appears to be reposed in their being able to answer for it—and handed over to the Ministry of Agri-

culture. There may be some selfishness in this suggestion; for it is these same gentlemen who would like to have the use of the money. Don Moreno himself advocates transfer of such property to a body to be nominated for the promotion of "agricultural banks," in exchange for 3 per cent. debentures of the "Central Agricultural Bank" so to be created. Whether that be the right solution or not, the *pósitos* appear to be doomed.

Experimental Banks.

However, Spain has not rested content with such early attempt to provide the use of money or money's worth for her necessitous producing classes. Not to speak at length of a promising institution, "El Hogar Español," introduced by Don Angel Ramirez specifically for building credit—which had up to the end of 1908 distributed 5,283,479 pesetas in building loans—there have been credit institutions created tentatively, both in town and in country, in intended imitation of German and Italian credit banks. *Montepios*, which are not really co-operative banks, but rather humble money clubs, are pretty common in Spain. Valencia, generally to the fore in this movement, has tried its hand upon a working men's loan society, "El Credito Obrero." Civil servants, more particularly those of the telegraph department, have their own credit societies. And there have been other similar loan institutions.

Agriculture, more in particular, made its claim heard—and to some extent respected—years ago. Spanish agriculture is backward and stands in urgent need of working capital. The situation has grown even more painful since the market has turned against low-priced Spanish wines. Usury has, as a matter of course, fastened upon the distressed wasting body, and is sucking its blood at the rate of 70 per cent. and more. Worse, there is the *pacto de retro*, which under the guise of very moderate interest charged by one neighbour to another, appears, when terms are not properly observed, to swallow up

property at the rate of 100 pesetas taken where 10 are due. Against all this the *pósitos*, with all their vaunted wealth, proved powerless. Two promising banks were formed some time ago, severally at Segovia and at Oviedo, to minister to husbandmen's wants—mainly *métayers* and *enfiteutas*. Adequate precautions were taken, as was thought. The bank of Oviedo exacted the usual three signatures in respect of what personal credit it granted, and, not content with that, it made inquiries respecting the three persons concerned in every case, of the alcalde and the parish priest of their several districts. Alas for such forethought! Bad debts were made in considerable quantities, and the bank found itself in no small embarrassment. No inquiries of persons not materially interested will serve as a substitute for the mutual touch and quite natural mutual supervision in co-operative organisations. What careless credit failed to do, locking up money in loans difficult to recover achieved to perfection. The very "indulgence to borrowers" enjoined upon the governing bodies—standing in marked contrast to the inexorable strictness demanded in co-operative banks—helped to aggravate the evil and hasten the inevitable catastrophe. The bank of Segovia found itself paralysed by the amount of irrecoverable debt locked up—of course, in very plausible mortgages. The disaster overtaking these two banks was much to be regretted. For both studied to grant credit in a thoroughly "popular" way, in small sums, with a preference given to small borrowers. The loans given by the Oviedo bank averaged under £12; the Segovia bank granted loans from £2 to £40. In eight years it lent out in this way no less than £586,700, which must have relieved a good deal of distress. However, in matters of credit you must not "bore with the wrong tool."

"Cajas de Socorros."

Then there were the *Cajas de Socorros* of the Counts of Crespo Rascón, in the province of Salamanca. These

were philanthropic institutions, endowed by wealthy patrons and governed by them generally in a business-like way. They were to deal out loan money in amounts from 50 (£2) to 2,500 pesetas (£100). In six years they disposed in this way of 4,434,467 pesetas (£177,378). What led to their discontinuance we are not told.

Raiffeisen Credit.

In course of time the merits of the co-operative credit institutions of Germany and Italy became too loudly proclaimed to admit of their being further ignored. And a "Catholic" Congress held at Burgos, in 1899, clinched the matter by passing a resolution framed strongly in favour of the introduction of Raiffeisen banks, as being the most promising means of bringing relief to the suffering peasantry. The demand for relief coming mainly from the agricultural side, it is natural that attention was most largely directed to the Raiffeisen system, which, moreover, possessed the advantage of recommending itself specially by its religious and educational aspirations to "Catholic" authorities. The movement has become "Catholic" to the core, with the bishops fighting for it in the front rank, becoming in some places ex-officio presidents or vice-presidents, and the governors of provinces following them close with their official protection. Wealthy patrons of rank are numerous; and even the Bank of Spain lends the movement not despicable assistance. There is, as the Governor of the Bank has been careful to remind managers of branches, a special clause contained in the Bank's articles of association, and also in its *regolamento*, which makes it a duty of the institution to promote the formation of commercial, industrial, and agricultural organisations, such as agricultural banks. The circular admonishes branch managers to "pay the greatest possible attention" to this point and to promote the formation of "institutions of agricultural credit and village banks (*cajas rurales*) . . . by all such means as their zeal and intelligence may suggest." With an intelligence, superior to that possessed

"Cajas Rurales."

by our Treasury, being quickened by self-interest, the *gobernador* urges managers to insist upon unlimited liability in the banks that they lend to. The *sobgobernador* of the bank appears to have exerted himself with even greater vigour. And the consequence is that more than thirty such institutions have been entered on the books of the Bank of Spain as credit takers. The *caja rural* of Amusco in the province of Palencia—probably the first of its kind formed in Spain—has had a credit of 40,000 pesetas opened to it. And the branches of Murcia, Granada, Reus, Lerida, Soria, and Guadalajara have all given effect to the *gobernador's* exhortation, and in this manner some money has been made available. It does not appear in all cases to have turned out particularly cheap, notwithstanding the "4 per cent." rate nominally accorded. In practice, so the *caja* of Amusco has found, what with commissions and fees and the like, that 4 per cent. really spelt 5·7 per cent.—which Canon Anacleto Orejón, writing on behalf of the bank, pronounces "*grave inconveniente*," as no doubt it must have been, seeing that the *caja* had lent away not a little money at 5 per cent. It appears promptly to have raised its rate to 6·7 per cent., which probably kept it right, but which is much above what *cajas* are desired to lend at. Don Rivas Moreno in his carefully elaborated rules for his *cajas* of Murcia—which province is now leading in the movement—prescribes 6 per cent. as the maximum. But generally organisers wish the rate kept at about 5 per cent. Partly with a view to meeting the inconvenience of such extravagantly high rates, as that just spoken of, some years ago a *Banco Popular de León XIII.* was formed, being endowed with money collected for the late Pope's jubilee celebration, which bank is, so it seems, intended to act in a measure as central bank for the *cajas*. Being mistress of only about £6,000 share capital, with no deposits apparently to back it up, it seems for the moment scarcely equal to

much assistance. Thus far it has lent out—in 1906, twenty-six loans of 92,547 pesetas; in 1907 thirty-nine of 157,455 pesetas; and in 1908 fifty-six of 186,906 pesetas, earning sufficient to be able to allow a "moderate" dividend on capital in 1908.

The co-operative credit bank movement in Spain exhibits thus far plenty of good will and determined resolution, but no uniformity or generally accepted principle whatever. What the Board of the *Banco Popular de León XIII.* says of its own institution, namely that "it is not precisely a philanthropic undertaking" (*una obra benéfica*), no doubt holds good also of the *cajas*, of which there are a number in Murcia, Granada, Valencia, Jaén, Palencia, and elsewhere. They are intended to be business-like and prepare the ground for self-help. But there is a strong flavour of patronage about them, to which, as Don Rivas Moreno has complained, the peasantry—for whose sake the sacrifice is made—do not adequately respond. In some banks there are *socios fundadores*, who provide the money, govern, and forego the services of the bank, and *socios activos*, who have to submit to being governed, but are privileged to borrow at rates that are to be kept low. Many are endowed by donations, or else by a temporary purchase of shares, which are to bear no interest, but to be redeemed in a few years (wind and weather permitting), so as to leave the *caja* eventually its own mistress. In other cases there are compulsory contributions for a certain number of years from *bonâ fide* members, which are graduated so as to suit all purses, say from 50 centimos a month up to 3 or even 5 pesetas. As is the contribution so will the share be when it comes to be allotted. But in any case by such device the door is kept open to the poor. In some instances priority in borrowing is—whenever a distinction has to be made—adjudged to those who have subscribed most money, which is not precisely co-operative. In others it is the smallest men

who are allowed precedence. In one *caja* this principle is in a very questionable way applied to repayment of savings deposits—supposing that there is not sufficient cash to meet all claims. That can scarcely be regarded as an encouragement to depositors, any more than can be the stress continually laid upon the supposed necessity of fixing fairly long periods of notice for withdrawals of deposits. In some cases the rate of interest allowed is graduated in a very high degree. Thus, in Sagunto loans for 2½ to 12½ pesetas are charged with only 2 per cent. interest, loans up to 25 pesetas with 4 per cent., and loans beyond that point with 7 per cent. Notions as to what constitutes severally the Raiffeisen and the Schulze-Delitzsch principle appear for the moment still as hazy as they are in England. One bank proclaims itself Schulze-Delitzsch apparently on no better ground than that it lends against acceptance dated at ninety days. There is one good feature certainly about these *cajas*. Taught by the painful experience of the agricultural banks of Oviedo and Segovia, they are careful not to lock up their money in mortgages, but study personal credit.

In its report for the year 1908 the *Banco Popular de León XIII.* gives the number of *cajas rurales* then in existence in Spain as 538, as comparing with none in 1903, and 359 in 1907. Some of these *cajas* seem fairly big; for there was one founded with about 1,440 members. Supposing the figures given to be correct, it is to be apprehended that there are not a few idle *cajas* among the number. There appear to be no statistics available of the business done.

One may indeed hope that out of the present experimental wriggling and groping something really workable may be evolved. For the moment the leading feature is rather variety than understood and recognised principle. What seems mainly wanted is a little more fidelity to

principle, mutual touch and reliance on self-help. There are provincial unions. The *cajas* would do well to unite across the whole country, so as to enable pioneers among other things to benefit by one another's experience and to advise and check one another. However, above all things, the active interest of those for whom the good work is intended wants to be aroused. This does not appear sufficiently understood. Hence what disappointment there is. "Catholic" or not, the co-operation established can accomplish no real, no enduring good unless it is made the co-operators' own. One may hope that such an evolution will take place now that, thanks to the labours of devoted pioneers, a foundation sufficiently broad has been laid.

It would not be fair to our fellow subjects to pass by unmentioned the beginnings of co-operative credit thus far entered upon under the "Union Jack."

Cyprus.

CYPRUS made a very promising little beginning indeed a few years ago, which, unfortunately, for the want of a little looking after, has come to a premature end. No fewer than twenty-two little village banks, being as co-operative and as much like Raiffeisen societies as circumstances would permit, were formed in the district of Paphos. Fourteen of these—the others were formed subsequently to my receiving the information—had in one year collected a larger amount of savings in their poverty-stricken little district than the Government Savings Bank in the whole of the island during five or six years. The Commissioner of the district in his annual report said: "I have been surprised to find how public-spirited the committee, as a rule, has been in the administration of the funds." He found the banks "singularly free from irregularities." But he pointed out that they must be kept for some time under the direct supervision of some official authority. That stands to reason. The members have everything still to learn,

which cannot be done in a day. And there is no one to teach it to them but a public officer. However, when the Commissioner, who took a warm personal interest in the movement, came to be removed to another post, there was no one left to direct the committees, and so the banks came to an end.

There is now a scheme on foot for forming village banks by means of a central bank to be supplied with money by the Savings Bank of Nicosia, which was the first of its kind to be started in the island as a joint stock concern. This bank is in itself almost a co-operative credit bank. For its shareholders are in the main recruited from the humbler classes, and since the bank is left entirely free by the law to do whatever it pleases with its funds, it is at liberty to dispose of them in loans to small folk, which loans are very much appreciated. The shares of this savings bank are of £10 each, with an entrance fee of 5*s*. added. Of the 2,000 shareholders in all, by the way, 766, holding among them 1,271 shares, are women, nine-tenths of whom are *bonâ fide* working women—that is, weavers and servants. The new scheme of starting fully co-operative banks with the help of savings bank money took practical shape last December in the village of Lefkonico by the formation of the first bank of the kind proposed, as fully a Raiffeisen society as circumstances will permit—with a small district, no shares, no dividends, gratuitous services, careful election of members, an indivisible reserve fund, a managing committee, a council of inspection, and unlimited liability. There is, however, an entrance fee of 2*s*. per member. M. Economides, the managing director of the Savings Bank, to whose initiative—under the inspiration of Mr. William Bevan, of the Agricultural Department of Cyprus, a zealous worker in the cause—the new move is due, has acted wisely in selecting with care the first twenty-three members in virtue of his personal knowledge

of them as trustworthy persons. Some of them are men of means. It will be for these men to select their future fellow members. The Savings Bank has also, with appropriate safeguards, opened to the little bank a credit to draw upon. The rates of interest are high in the island. Accordingly the little infant bank has to begin with rates of 8 per cent. for deposits and 10 per cent. for loans. One may well wish the new enterprise God-speed. For circumstances in Cyprus are—more particularly in view of the oppressive "tribute" which our Government still permits to be levied at a rate of interest which was fair enough in 1854, when the loan was contracted, but which is fair no longer—none too prosperous. If anything is calculated to bring relief it is such convenient credit, which the islanders appear to understand.

Canada.

CANADA likewise has to complain of indifference in high quarters. But it has done well all the same—very well, and it is particularly gratifying to me that this is so, since it was the perusal of "People's Banks" which led to the attempt now crowned with such signal success. The beginning was not altogether easy. Laws were adverse. But I advised my friend, Mr. Alphonse Desjardins—who had become a believer in co-operative credit through reading my book—to go on in the teeth of the law. He did so in what appears to be a particularly congenial little world, that of the French Canadians, in the province of Quebec. Acting upon my advice he adopted in their entirety the rules and methods of the Italian *banche popolari*. And they have answered. The pioneer bank of Lévis—close to Quebec—was formed in 1891. On the 30th November, 1909, there were thirty-two banks of the same type in the province of Quebec, in addition to one formed without a law to favour it in Ontario. And in all probability that number will be exceeded by the time that these pages appear in print. For success having been brilliantly established, invitations to Mr. Desjardins to

teach people elsewhere how to organise keep pouring in, and not much difficulty is now experienced about formation. The reason why the movement has thus far remained confined to Quebec province is that that province alone has passed a law legalising such societies. To obtain that was no difficult task after their utility had once been proved and public opinion had been enlisted in their favour. The law was passed in 1902, and its passing proved the signal for a rapid expansion of the movement. Bills have repeatedly been brought into the Dominion Parliament with a view to obtaining authority for forming People's Banks throughout the Dominion, but they have invariably been lost. The thirty-two banks—many of them being quite recently formed—number among them at least 15,000 members, and do an annual business of £200,000. Their collective assets exceed £40,000. Up to now there has never been a sou lost in them, and hence the public confidence which supports them.

The bank of Lévis on 30th November, 1909—which date closes its financial year—having been eight years in existence, numbered 1,100 members. Its paid-up share capital stood at $65,536.73; its annual turnover was returned at $617,483.45, leaving $7,460 for distribution in dividend. The savings department is active, having received in the past year $142,576.20, and paid out $116,155.63, so as to leave a balance in hand of $26,470.58. The money lent out in advances to members within the year is returned at $463,070.60, and of this sum $88,960.35 remained outstanding at the close of the year. The management expenses are trifling, amounting to only $1,774.79. There was a reserve fund of $4,101.87, in addition to a provident fund of $912.59. There has not been a single halfpenny lost during all the time that the bank has been at work. Mr. Desjardins deserves great credit for what he has done, and one may indeed hope that the Dominion Parliament will soon learn wisdom from

the action of the provincial assembly, and the good fruit which such action has borne. It would be a becoming tribute to so enthusiastic a co-operator as the present Governor-General to submit a Bill for the sanction of the Crown while he still holds the reins.

The United States.

Mr. Desjardins' propaganda has not stopped at the boundary of his own country. The UNITED STATES are habitually quicker than ourselves to detect utility in what is new. Mr. Desjardins has been invited to Boston in Massachusetts, and the Massachusetts Commonwealth has promptly passed an Act which permits the formation of co-operative banks, and forthwith the first People's Bank in the United States—being an offshoot, through the Canadian banks, of M. Luzzatti's *banche populari*—has been formed at Boston. This is due in the main to the initiative of Mr. Pierre Jay, at that time Bank Commissioner in Massachusetts. In addition a co-operative bank of the same description has been formed in Manchester, New Hampshire, without the protection of any particular law.*

The West Indies.

BARBADOS has made a beginning in co-operative banking, and so has JAMAICA—both only in a primitive way.

Of the success achieved in India I speak in a distinct chapter.

The Philippines.

Beyond British territory JAVA has taken action, and the PHILIPPINE Chamber has declared unanimously in favour of Raiffeisen banks, to revivify our dead agriculture (*nuestra muerta agricultura*). Unfortunately the Senate has—after the manner of some Upper Chambers—thrown out the useful measure passed to that effect.

Japan.

There are germs of co-operative credit to be met with in JAPAN, where Ninomiya Sontaku several centuries ago started altruist-collectivist societies, which have—wrongly—been pronounced to be like Raiffeisen banks,

* Mr. Jay advises me that there are now more such banks forming in the United States.

but which at any rate embody the principle of common action for the benefit of the poor, among other things for the obtainment of money; and where Parliament has in 1896 passed an Act giving power to form joint stock companies dealing in agricultural credit, another in 1899 authorising the formation of land improvement societies, and a third in 1900, giving power to form co-operative credit, purchase, sale, and productive societies. All these Acts appear to be producing fruit of some kind. Mortgage credit has been practised in Japan for some time. The mortgage bank of Japan was formed under an Act of 1856, with a capital of 10,000,000 yen* (the minimum share capital allowed for such banks is 200,000 yen). A land improvement bank for the island of Hokkaido (Yezo) was formed under the law of 1899 with 3,000,000 yen capital. It grants long-term loans at a low rate of interest for improvement purposes in support of settlement in Hokkaido. Under the Act of 1896 "Agricultural and Industrial Banks" have been formed all over the Empire, granting long-term loans at low interest. Under the Act of 1900 co-operative societies are said to be forming, but thus far rather for sale, purchase, and production than for credit. No figures are given. Add to this the rudiments of co-operation to be met with in the primitive, but apparently useful, more or less co-operative societies existing in CHINA, which General Tcheng-ki-Tong—who knew something about co-operative credit in Europe—speaks of as *banques mutuelles*, and in which certainly the small peasantry are in the habit of acting together with the utmost confidence, for the obtainment of credit—and you will find that co-operative credit has indeed "cast a girdle round" this whirling globe—leaving practically only one country unblessed with its ministrations—which country, so one is ashamed to confess, is our own.

* The yen is equal to a trifle over 2*s.* of our money.

CHAPTER XVII

CO-OPERATIVE CREDIT IN INDIA

Want of Co-operative Credit in India.

OF all countries, in the old world and the new, there seems none so specially marked out for the practice of co-operative credit as our great Asiatic dependency of India.

The two postulates for successful co-operative credit are: poverty and opportunities for production. And of both India has enough and to spare. In all its economy want of money is what stares one obtrusively in the face. Industry is backward. In rural districts need is great, rising from time to time to the point of famine. The poorer population are hopelessly under the yoke of the *mahajan* and the *sowcar*, who rule despotically over these hundreds of millions of rayats that, sunk in debt up to the neck, bestow their toil only for the payment of outrageous interest. Agriculture—the great interest of the country—though bristling with opportunities, is undeveloped. There is soil in India which in its unmanured state equals our British acres in its yield of wheat. But it wants to be irrigated. Irrigate social economy with a stream of gold, and you are likely to produce corresponding results. For in economic opportunities India is fully as rich as it is in natural. There is hidden fertility in the soil there, to which as yet nothing like justice has been done. If the people are usurer-ridden and accordingly chronically destitute, backward in education, often distrustful, and easily led astray, they are, on the other hand, constitutionally honest. They repay their debts. And, given hope—which the usurer takes from them—they work. They are easily

organised. Their *panchayet* rule and caste dispose the Hindoos towards submission to elected authority. The sentiment of common brotherhood and "one for all," which is one of the distinguishing features of Mahomedan character, naturally prepares Mussulmans for co-operation. And, like the water for purposes of irrigation, the gold for economic improvements is there too. It is not stored up in the form of snow in the Himalayas, but scattered all over the country in displayed ornaments or hidden hoards, the value of which, really not ascertainable, has been estimated at £300,000,000, more or less, but which, it is the lament of economists that no lure has thus far been discovered potent enough to tempt out of its unprofitable storing places into fructifying employment—in arid territory thirsting for it since decades, if not centuries.

Money, then, in a readily available form, is what above all things is needed.

It is not only to-day that such want has been discovered. Statesmen and natives alike have long laboured to remedy it. The Government has tried its hand in an ill-advised way at its *takkavi* advances; but the practice, not being spontaneous, and exposed to leakage, and also to abuses by summary methods of recovery, has proved wholly inadequate, making about £1,700,000 available at any one time, for the whole of India, which is like a drop in the ocean, and that not of the proper sort. Natives, on the other hand, have organised their *nidhis* and *akharas*, severally in the South and in the North, which are imitations of our friendly societies, and have indeed yielded evidence of aptitude for co-operation, but only infinitesimal material benefit.

Something more effective was wanted; and that "something," so it was not difficult to discern, must be co-operative credit. When, some fifteen years ago, I explained the principles of Raiffeisen credit to the then more than nonagenarian Sir Arthur Cotton—of Coleroon

anicut fame—in his little home at Dorking, he almost bounded out of his chair with delight, exclaiming: "That is the very thing for India; it must succeed; and whatever estimate you may have formed as to results, multiply it by twenty and you will still find it exceeded."

Other Anglo-Indians as well had discovered the promise of utility of co-operative credit. Officially it has been before the Indian public since about 1883. It was in that year that Sir Henry Storks brought it under official notice. Nevertheless the movement hung fire. I candidly confess that, early in the nineties—after an attempt made by the Salvation Army, to which I had been an advisory party, had for obvious and sufficient reasons failed*—I considered it dead. It was then that kind fortune brought me into contact with the late Sir Charles Bernard, whom —so far as my knowledge goes—I feel that I must look upon as the real father of Indian co-operative credit, as we now see it. He took up the idea with keen and unflagging interest, and materially helped to convert it from an idea into a living movement.

Sir F. Nicholson's Inquiry.

Nevertheless, even at that time there was admirable work being done in India by an excellent worker. Lord Wenlock, when Governor of Madras, told off Mr. (now Sir Frederick) Nicholson to study the theory and practice of co-operative credit in Europe. A most painstaking inquiry Sir Frederick carried through, and upon its conclusion he produced a most admirable report. If

* "General" Booth sought my advice, because he found, as he told me, that the heavy indebtedness of the natives stood most hinderingly in the way of his attempts to convert them to Christianity. The usurer threatened them with calling in his loan in the event of their turning Christians. The movement, although well officered—by a gentleman who, after serving his King in Sweden as a captain in the Guards, got promoted to a colonelcy in the Salvation Army, only to return in course of time to the service of his country, which now counts him an ornament of its diplomatic service—had to be abandoned because the land settlement movement with which it was bound up proved unworkable.

gentlemen in our Treasury and in Abingdon Street could only be induced to read that official document, which is well worth the trouble—as well as the Blue Book reports of Sir R. Morier and Sir E. Malet (who were, after all, men deserving of consideration)—they would not once more put up a spokesman to talk on the subject so wholly wide of the mark as did Lord Denman in the House of Lords on the 9th July, 1908.*

The Co-operative Banks Act.

However, I still believe that it really was in the main Sir Charles Bernard's action at headquarters at Westminster which led to the legislation which in a twofold form—a principal Act for India generally, and a supplementary special Act for Baroda—passed in Council in 1904. Were that legislation all that in his masterly exposition of its principles the late Sir Denzil Ibbetson explained that it was intended to be, India might well be satisfied with the result. Unfortunately, as Blücher complained that the men of diplomacy habitually spoilt with their pen what soldiers had achieved with their sword, the men of the law are in the habit, in drafting, of spoiling a good deal of what statesmen take a great deal of trouble in conning out in Council. In more respects than one has the Act failed to answer its purpose and supplied cause for justified complaint. One may sincerely hope that it will be amended, as Registrars have for several years consistently urged that it should be. However there it is, and under it at any rate co-operative credit may be organised and set to work.

Pioneering.

Some little pioneering had indeed preceded legislation. The present Lord Macdonnell had, like Lord Wenlock, turned his attention to co-operative banking, and caused some little experiments to be proceeded with in the United Provinces, which experiments began most promisingly, but do not appear to have lasted. And Mysore entered the field early with credit organised on a wrong principle,

* See "Parliamentary Debates," Fourth Series, Vol. 192, pp. 4—8.

which soon led to disappointment. Mysore has since taken its place in the phalanx of Indian territories proceeding on sounder lines, and its prospects have correspondingly improved.

Rapid Results.

Whatever the faults of the Co-operative Credit Societies Act of 1904 may be, under the vigorous and resourceful application given to its provisions by the several Registrars in their various territories, it has borne fruit in such abundance as has never before been witnessed in this particular movement. Such result is all the more satisfactory and creditable since rapid expansion and phenomenal multiplication of banks were not by any means particularly aimed at, rather the restriction of the movement within *safe* bounds, in order that something might be organised which might be depended upon to answer, to last, and to serve as a model hereafter to new societies forming—as may be hoped, and now anticipated, over the whole length and breadth of the country.

The return of co-operative (credit) institutions under the Act—there are some unregistered banks in addition, over which the Registrars have no power of supervision, and which furnish no returns—shows that there were on 30th June, 1909, after only four-and-a-half years' operation of the Act, no less than 2,008* societies in existence and working order, as compared with 1,357 a twelvemonth previously, with collectively 184,897 members, as against 149,160; and 8,067,648 rupees† working capital, as against 4,414,080 rupees; of which capital it is important

* The figures here given are subject to revision, being taken from an advanced proof of the Report. But they may be safely assumed to be generally correct. Of the 2,008 societies mentioned a deduction of 47, namely, 27 "urban" and 20 "rural" societies, must be made, as representing co-operative societies other than of credit, registered under the Act. The figures for membership, capital, &c., applying to these societies cannot be separated from the totals. They are known not to be very considerable.

† The rupee may be taken to be equal to 1*s.* 4*d.*

to note that only 686,143 rupees, that is, about one-twelfth of the entire amount, came from the coffers of the State, whereas as much as 1,477,254 rupees was provided by share capital, 195,808 rupees by reserve funds (which ought by rights not to be ranked as "working" capital), 1,618,018 rupees by deposits, 2,493,814 rupees by loans from private persons (which are in truth likewise deposits, paid in the shape of loans, because the Act very unreasonably does not allow "deposits" from non-members), and 1,596,611 rupees by loans from banks and other business institutions, which have already learnt to trust co-operative banks to such extent. Within the year these societies (the credit societies alone) had lent out 5,999,924 rupees, in addition to which there had been 674,383 rupees invested in goods. Losses had been infinitesimal, and the collective profits worked out at 326,265 rupees.

That is a record which has nowhere yet been equalled within the very first stage. The elasticity shown by co-operative credit presents a striking contrast to the stagnancy displayed by the *takkavi* business.

Very great credit for such progress made is of course due to the—on the whole very judicious—action of the Registrars, some of whom have, in contrast with organisers acting in England, made it their special task, as soon as appointed, to qualify themselves thoroughly for their posts by mastering the whole practice of co-operative credit by study and observation in the principal European centres.

Results of Avoidance of State Coddling.

However, it deserves to be remarked as well that in respect of one essential point the success achieved is owing to the very wise policy adopted by the Indian Government in refusing more than a very modicum of State aid, alike in the shape of funds and in that of ministerial assistance. It is to myself a source of particular satisfaction that this is so, seeing that it was avowedly in deference to my objections that Lord Curzon refused the more abundant

State aid asked for. He expressly stated that it was not niggardliness which closed the Government's pockets, but acceptance of my warning that more help would spoil that co-operation, on the purity of which the success of the entire movement must depend.* On both points Lord Curzon's chariness has proved the truest helpfulness. Not only have further supplies of funds by the State, and has power for the summary collection of debts—both of which were at the outset rather clamorously asked for—been shown by experience to be altogether unnecessary; but it is safe to say that without their refusal, which placed people on their mettle, and on their responsibility, and nerved them for effort, we could not possibly have the same results now to look back upon—that ample collection of loan and deposit money, that successful tapping of the capitalist market by means of central banks, that tempting of hoarded gold out of its concealment (of which some particularly striking instances are reported from Eastern Bengal) and, in the last place, among the most salient features noticeable, that strictness in management and anxiety for supervision and control—not shrinking from the expulsion of members and the liquidation of banks—which really constitute the life-blood of the whole practice. Whatever else Indian experience may teach, in the matter of co-operative credit it serves, in the foremost place, as a splendid justification of the avoidance of State aid, as yielding ten times better results than anything that State aid could accomplish. Compare the eagerness and the good practice of the non-State aided Indian rayats with the listless indifference and sluggish backwardness of the French and Italian peasantry now being urged by government officers to array themselves in State-fed banks against their will! You will quickly enough come to a conclusion which of the two systems is the better. And, large as the results of State-assisted agricul-

* See Sir Thomas Raleigh, "Lord Curzon in India," p. 179.

tural co-operation in Germany and Austria have been—where people are systematically drilled into obeying State orders—they can still not compare in degree with what has been accomplished, in little more than four brief years, in India, by a puny staff of organisers, which even at present numbers only twelve Registrars,* with a handful of inspectors and clerks (no assistant registrars), to a population of 300,000,000, and districts to work in, which in area every one equal continental kingdoms, empires, and republics, without their ready means of communication.

Organisation by the Registrars.

On the whole the Indian Registrars, upon whom the main work of organisation has thus far fallen, must, then, be taken to have proceeded judiciously, although quite naturally there have been more false starts and mistaken moves than one. And there are at any rate dangerous moves in progress even now, the peril of which time will certainly reveal. It will not, however, do to compare what has been done in India with what may be seen in operation in Europe. Some Registrars talk very glibly of "Raiffeisen" and "Schulze-Delitzsch," without—that is quite evident—fully realising what those two names, as exemplifying systems, imply. We have had banks declared to have quitted the "Raiffeisen principle," on no further ground than that—just, in fact, like the Raiffeisen societies in Germany and Austria, and now in Italy, and to no greater extent—they make their members take up shares. As for "Schulze-Delitzsch societies," I doubt if there is one in India that would be recognised as such at Charlottenburg. However, that does not matter. The Registrars were not placed where they are to form "Raiffeisen" or "Schulze-Delitzsch" societies with the home brand upon them, but to organise *Indian* co-operative banks, suitable to the novel environment and embody-

* That is, eight for the eight Indian provinces, two for the minor administrations of Coorg and Ajmer-Merwara, and two for the native States Mysore and Baroda.

ing *mutatis mutandis*—which may mean a very material mutation—Schulze and Raiffeisen *principles*—not because they are Schulze's or Raiffeisen's, but because they are the only principles which have thus far shown themselves equal to the task proposed to co-operative banks.

Rightly enough, in speaking of the distinctive objects aimed at in the Act, by the side of "simplicity" Sir D. Ibbetson stipulated for "elasticity." Quite necessarily the Registrars must embark in experiments. Theirs was new soil, marked by new conditions, and with a population differing very essentially in its characteristics from that of Europe.

Difficulties to be Grappled with.

The task seemed at first most formidable. Deposits, so it was contended, were not to be thought of. No Indian could be expected to lay by. There was caste, separating the population into distinct, watertight compartments. There were thousands of villages in which there was not a single man capable of keeping the society accounts. Without summary process to compel them, borrowers could not be counted upon to repay. All such forebodings have happily proved groundless. Not only do rayats deposit, and deposit very fairly, but some of them—a little rashly, perhaps, under the circumstances—willingly bind themselves to regular permanent depositing. And, beyond this, the general market has been successfully drawn upon, by means of central banks—which are certainly called for; and, apart from Maharajahs and Anglo-Indian philanthropists paying in their lakhs, there are by this time a whole array of joint-stock banks loaning money freely, and even admitting central banks to the privilege of current accounts—which is the proper relation to subsist between the two species of institutions—on strict business lines, so that the question of "financing" societies may be taken to be in the main satisfactorily solved. In three provinces even such moderate State aid as there has been has been declared no longer needed. In the place of

thousands of societies left without a penman to keep accounts, every society possesses its accountant—although in the less literate districts one such accountant is still made to serve for a number of societies, which is, under the circumstances, not a bad arrangement. It would be a gross exaggeration to say that among the people benefiting by co-operative credit Co-operative Credit is already thoroughly understood. However, apart from the most backward aboriginal tribes, it is already sufficiently understood to make credit workable everywhere under such competent guidance as is fortunately forthcoming. There is in truth nothing more gratifying in the progress hitherto made than the readiness and devotedness with which volunteer workers have offered themselves for the work—and conducted it with judgment and zeal. The movement has now reached a stage from which forward progress and expansion will depend more upon them than upon the official Registrars, and very rightly are they studiedly drawn into the movement and allowed a voice in it, more specifically, at provincial and imperial Conferences. Fortunately, furthermore, caste has proved no hindrance whatever—in some instances even a direct help. The breeches pocket overcomes social distinctions. All that is required, so it is now pointed out, is the separation of the two extreme ends of the scale in distinct organisations. That can easily be managed. Even the dreaded opposition of *mahajans* and *sowcars* has proved very manageable. In a good many cases *mahajans* have indeed looked glum, and raised obstacles, mainly by declining partial repayment of loans. However, in other instances, they have even—they alone can explain the reason—provided money for banks and given expression to their good will.

Variety of Types Produced.

In spite of the removal of apprehended hindrances, however, the case remained one for experimenting. Mere pedantic copying of European examples would never have

answered. And in experimenting freely, and in very varied manner, Registrars have here and there ventured upon dangerous, in some cases even on wrong ground, and have in the end produced a very considerable variety of "types," every one of which possesses more or less its own characteristic features. Such variety is not to be wondered at; nor is it to be altogether regretted, although it may be with safety predicted that experience will work just a little havoc among some of the "types" and call for substantial modifications. The case was one of "prove all things, hold fast that which is good." In his opening address to a recent Conference of Registrars, Mr. Carlyle, Chief Secretary to the Governor of Bengal, very fairly summed up the main characteristics of the work accomplished in some of the principal provinces in the following words:—"In Bengal, perhaps more than anywhere else, strenuous efforts have been made, and with a very large measure of success, to teach perhaps the humblest and smallest collections of humanity that have formed themselves into co-operative societies in any part of the world the true principles of co-operation and proper methods of management." (That is really what is most wanted.) "In the United Provinces a powerful union has proved itself capable of attracting capital and supervising the work of its component societies. In the Punjab great success has been achieved in attracting the confidence and savings of the genuine agriculturist. In Madras the confidence of non-members has been shown by their readiness to make deposits on business terms, and in many districts the influence of the societies has compelled the money-lender to reduce his rate of interest."

That, of course, does not give anything like a full idea of the striking variety of methods prevailing, which there is no space here to review and which this is not at all the proper place to criticise — especially as Registrars kindly allow me other opportunities for expressing my

opinion—let alone that it would be presumptuous and at the same time unfair to venture on a criticism of acts performed amid circumstances upon which one is not fully informed. The object of pioneering is to ascertain what will suit certain existing conditions; and there is many a new method which in its proper place serves to set in operation an old, established, and approved principle that cannot well be departed from.

Some few remarks upon some principal points which have engaged the attention of organisers in India, however, may seem to be called for.

Faulty Classification of Banks.

The question of the proper form to give to the organisation has been needlessly confused by the adoption of a not very reasonable distinction of societies under the Act as "urban" and "rural," which distinction was evidently prompted by the general idea that the "urban" are likely to be by their very nature sufficiently strong in capital and also in banking skill to finance and direct the "rural." This may in course of time prove to be a false presumption; and certainly the infraction of the sound general rule that every bank should scrupulously stand upon its own bottom and be answerable for itself alone, is likely to lead into mischief, were trials to come. The "rural" societies are by preference to be based upon unlimited liability, whereas the "urban" are allowed the choice between limited and unlimited, at their discretion. "Rural" societies are to be formed where at least four-fifths of the members (at starting, or throughout?) are "agriculturists"—over the meaning of which term very inconvenient disputes have already arisen. In "urban" societies, correspondingly, "non-agriculturists" are to number at least four-fifths. That has been found a very hampering provision, in defence of which there is nothing to be said. At the last conference of Registrars a demand for revision of this clause—borrowed from the practice in one little district o

France, in which it has not proved altogether a success—was generally agreed to. On the same occasion one Registrar, representing a territory which has undergone rather painful experience with unlimited liability, plaintively asked: "And are we not to be allowed to form limited liability banks in country districts?" Of course they should be. Rather curiously there appears to be in India a pronounced predilection for unlimited liability, which one ought not to discourage, since unlimited liability is valuable as putting members on the *qui vive*; and that is just what is most wanted in India. The reason for such predilection obviously is that unlimited liability is of the two forms the most readily understood, even by untutored minds. In Madras there are even societies which have deliberately converted themselves from limited into unlimited liability societies. Oddly enough, in spite of the alleged extreme poverty of rayats, which was to stand in the way of their making deposits, that predilection for unlimited liability is coupled with a strongly declared desire to create share capital, for the sake of which members are willing to practice some self-denial. One Registrar not quite correctly describes yielding to such desire as a "departure from Raiffeisenism." It is no such thing. And, once more, one would not wish to discourage this, because taking up shares—the term for doing which is often enough extended over a period of ten years, in order to make the sacrifice bearable—is of course, in one sense, the same thing as depositing, which is recognised as desirable; and because, *cæteris paribus*, a society with share capital is obviously stronger than a society without. However, the practice carries with it some rather awkward consequences. In the first place, all denials notwithstanding, the issue of shares *does* keep out poor people. In Madras several societies have lost members heavily in consequence of the issue, or else the raising of the value, of shares. In the second place, share capital makes people think of pelf, when

Indian Predilection for Unlimited Liability.

they should be thinking only of common benefit. Having paid up their shares, it is true that they show themselves quite willing to wait a considerable time for dividend. Their practice in this respect is, indeed, most praiseworthy. But sooner or later they claim their dividend. And dividend is an awkward factor to reckon with in co-operation. It suggests covetousness. Already we have complaints made that members of committees ask for "sitting fees," and *sarpanches* for even more regular remuneration. In one province at any rate society shares are already dealt in at a premium, which is not at all co-operative. Beyond this, it has turned out that there are "dividend-hunters"—President Heiligenstadt has aptly termed them "dividend-pirates"—who aim at a good return for their invested money—at the borrower's expense. And Registrars accordingly declaim, very naturally—but quite wrongly, according to European notions—against allowing members that borrow and members that do not borrow, to continue side by side in the same society. Why, that is the very thing that we want to bring about! That is why both Raiffeisen and M. Luzzatti distinctly plead for the admission of wealthy people into societies, by the side of poor. Where else is the money—or marketable liability—to come from readily? In Germany and Austria it is held up as one of the main advantages attending the coupling of distributive business with credit, that it will bring members into the society who do *not* want to borrow. There is, then, something wrong on this point in India, which should be remedied. Not only do we distinctly want monied people in the banks, for the sake of their money; but in addition the banks ought to be allowed to take deposits from non-members—which the Act now prohibits—in order to have more money. Such amendment is the more called for in India, since there is a paucity of savings banks there, of the effect of which, in dealing with cash balances and in transmitting, Registrars reasonably

complain. It is partly for this reason that they ask for privileges in respect of the transmission of money—which privileges might be conceded. For when our Industrial and Provident Societies Act was before Parliament as a Bill, Mr. Gladstone laid it down, with the approval of the House, that the State ought indeed to abstain from making gifts, but that in such a cause it might well remit fees.

Doubts about Legitimate Objects.

The choice of objects for which money may be advanced appears to have puzzled Registrars and bank *panches* not a little—but quite needlessly. The rule has been laid down that the advance must be for "productive" purposes, and that has of course proved in practice much too narrow a definition. The co-operative principle is, that advances should be limited to applications in which, whether by economy or by production, the outlay will repay itself in reasonable time. The very first claim under such aspect is that of what the Romans used to call *versura*, that is, the getting rid of an oppressive debt by the substitution of a cheap one. And that, so it has been found, has had a surprisingly telling effect upon social economy in India. The rayat who has long groaned helplessly under the burden of a debt to the usurer, for which he was charged from 25 to 75 and 100 per cent. and even more—one Registrar instances a case of 1340 per cent.—with sundry keep for cattle, sugar for children, or meals for the usurer himself, thrown in—being bound for life by a chain that he appeared powerless to shake off—has recovered his solvency easily, once the bank had stepped in with a substitution of 12 or 15 per cent., which is in India a reasonable rate. Parenthetically I would remark here that the Government has, as Registrars complain with reason, done absolute mischief by lowering the rate for borrowed money apparently below market rate. That has led people back to the belief that here is government manna distributed in an eleemosynary way, and frustrated attempts properly made to keep co-operative banking upon business lines,

training members to a knowledge of business principles. The difficulty in the case of such *versura* as has been referred to is, that the usurer often declines to let his victim off part only of his debt. Hence the practice has crept in—which has its dangers—of taking over the entire debt from the usurer *en bloc*, to recover from the debtor piecemeal. That gives an unscrupulous or impecunious member the whip-hand of his society. The propriety of such course has been much discussed. It is not in itself a convenient thing to do, since no member is to be trusted with more credit than the bank can be certain that, in company with his sureties, he will be able readily to answer for. But, provided that the society can make sure of sufficient money for long enough to admit of the borrower's paying off the entire debt by easy instalments, and provided that it holds adequate security to compel him to keep up his payments, there is no reason why it should not assist him in such rather heroic way. In all such transactions, and whatever the object of the loan may be, however, sufficient security is essential. I am not sure that that is sufficiently realised; and with so habitually honest a people to deal with as the Indians, it is apt to be overlooked. However, one case of fraud has already occurred, and just a little litigation has proved necessary, which ought to help to put committees on their guard.

Objects of Loans.

Apart from paying off old oppressive debts, quite a variety of objects have been put forward—purchase of fertilisers, of seed, of live stock, building of houses, purchase of land. The last-named is, once more, an operation calling for caution. Evidently wistful eyes have already been cast upon mortgages which—barring, it may be, a few exceptional cases—it ought to be left to other institutions to deal with. The trouble begins when it comes to Hindoo marriages, Mahomedan funerals (sradhs), pilgrimages to Jaggarnath, and the like. There have been searchings of heart over this, and some Registrars have

proposed in the definition to substitute "necessary" for "productive." Necessity alone, however, will not justify loans if there is no certain prospect of recovery. If there is, under local circumstances, a Hindoo marriage may unquestionably be allowed to rank as an object of "economy," like buying household requisites wholesale. As a matter of fact, the advancing of money by co-operative banks for such object has already led to a welcome and promising curtailment of expense on such occasions, such as, when giving an opinion in favour of it, I ventured to foresee. Money being borrowed for "litigation" reads rather curiously. However, the *panches* explain that they have gone into the cases carefully and hold the advances to be justified. A good committee and a good council—for we have councils already in India—considering each case on its own merits and making sure that there will be economy in the transaction and that the loan will be repaid, is in this matter worth any ingenuity in definition.

Provision of Funds.

The question of the obtainment of money has naturally given Registrars a great deal to think about. Closely connected with it is the other great question of "thrift," which co-operative banks are specially designed to stimulate. Only, while stimulating thrift, their managers will have to bear in mind what description of persons they have to deal with. These people join the society, not because they have money over, for which—it is true, in the absence of a sufficiency of savings bank offices—they might require a receptacle, but because they are without money that they want, and therefore desire to borrow. To tell them that out of their borrowings they are to bind themselves to deposit so much every year is to teach them false economy, more particularly when deposits are to become "fixed" deposits, tied up for a long term. And when you go further still, and tell them that such measure is resorted to because it is desirable that they should be made to feel that they have an "interest" in the bank—

to which they have already pledged themselves in unlimited liability for all that they are worth*—you tell them what is on the face of it not altogether reasonable, and the unreasonableness of which they may detect all the more readily because on the share, paid for out of the money borrowed, you allow them less interest than you charge upon your own money, with which the member is to buy the share. The time will come in India, as it has come elsewhere—one Registrar plainly foresees this—when members will have plenty of money to deposit. That will be the time to stimulate depositing. Meanwhile the advantages which the use of low-priced money brings them may be trusted to inculcate the merits of thrift quite sufficiently for all practical purposes. What you want in your banks at the outset is, not members', but *other people's* money. Now the Act, as observed, unwisely prohibits non-members' deposits; but the difficulty appears pretty fairly to be got over simply by calling deposits "loans."† The amount in which such "loans" have come in constitutes one of the most gratifying features of past experience—all the more that, in addition to public interest and sympathy, it argues on the whole good management of the banks, without which sufficient confidence in them would not have been awakened. The money paid in comes for the most part from what may be termed "private" sources, the general public, joint stock banks, wealthy philanthropists, and patriotic Indians who, now that a bestowal of money is made possible to them

* If the Advocate-General of Madras is correct in giving the opinion that the one year's liability of retiring members legally only takes effect in the event of the society being wound up, the Act certainly requires amending on this point. There may be cases in which a call has to be made, although the position of the society is not hopeless enough to warrant liquidation.

† This, obviously, meets the case only of wealthy people. The small man cannot "loan" his rupees, though he may well "deposit." The Act should certainly be amended on this point.

which promises to benefit their own race and their own neighbours, freely part with their possessions—as, for instance, those Hindoo and Mahomedan ladies in Eastern Bengal have done who are spoken of in one of the Reports—which possessions previously were not to be tempted into investment.

Advantages and Dangers of Central Banks.

However, there was more needed than all this, and the way in which, to provide that "more," what I will here call by the collective term of "central banks" have been formed and developed is most satisfactory. Without them—that is, without some appropriate means of tapping the general market—co-operative banks must indeed have become, as one Registrar puts it, "a few State-aided, under-capitalised and semi-philanthropic institutions." Central banks have in a great measure prevented this, and over the success eventually achieved—which is most distinctly proclaimed in the regular relations established with already quite a number of joint-stock banks loaning them money and likely before long to admit them to the privilege of standing current accounts—one might be content to overlook the faulty way in which some of them were originally organised, as pledging the liability of members of so many banks without giving such people a proportionate direct say in the management, were it not that similar proposals are now once more on the carpet. Of all dangers that to be most carefully guarded against is the inter-connection of liability among various banks. That may lead you you do not know where. That is, in fact, a serious drawback to that intertwining of "urban" and "rural" business already remarked upon, which an early pioneer—who had "no time," while in Europe, to visit other co-operative banks—has carried to India from the narrow French district in which alone it has thus far been practised. The matter becomes more serious when the interlinking is with central banks. The scheme of a colossal central

bank "for all India" recently put forward is too bold, at any rate for the present. But it is much to be hoped that central banks will be further developed and that relations between them and local banks will be placed upon a proper footing. The question whether central banks ought to engage in other business besides that of local banks is one touching the peculiar character of each bank. Local banks, however, ought certainly to keep their hands scrupulously off outside business, which would be to them a snare; and one is sorry to see their engaging in it already suggested. *Ne sutor supra crepidam!* As for central banks, they are differently situated. There are some such which ought distinctly to abstain; and there are others which will do all the better for engaging in outside business. I have argued this point in "Co-operative Banking." Whichever course be chosen, it is desirable that the central bank should be a quite independent body, self-governed, however many local banks may be shareholders in it, and that all local banking business should be centred in it. With central banks to go to, that mutual borrowing and depositing among local banks which has hitherto been practised should cease. It is in many cases harmless; in early stages it may be beneficial; but it involves dangers which, when there is such an alternative as is here instanced, it is well to avoid.

Dangers of "Commercialism."

There is another danger in central banks which one Registrar was happily quick to detect and point out at a recent conference. Oddly, President Heiligenstadt, knowing nothing about Indian banks, called attention to the very same point not long before in Germany. In some quarters business may easily become too "commercial" and too "capitalist." Business must, of course, always be business, wherever transacted. However, here we are, dealing with a distinctly co-operative institution, which wants to be carried on in a fully co-operative spirit. The leading principle in co-operation is service without profit,

for common benefit; the leading idea in capitalist business is the earning of a profit for the few, to be taken out of the pockets of the many. Seeing how things are done, how remuneration is already clamoured for, and shares are in one territory sold at a premium, and so on, I must own to some misgivings. Danger appears to be, at any rate, within a measurable distance.

At another point of banking organisation, central banks have in India rendered very effective help. Whether they are, in the long run, the best qualified institution to continue rendering it, whether the burden should not rather be shifted upon the shoulders of those "unions" which Registrars are already rightly talking of forming,* is another matter. For the present we may be thankful that the service is given at all, as, in some form or other, it will under all circumstances have to be given by some institution.

Benefit of Avoidance of "Officialism."

Under the special circumstances of India, the duty of inspecting, as well as of promoting banks, has thus far of necessity had to be laid upon the official Registrars, who, so it is only fair to explain, are in this matter really not at all acting in an "official" way—like, for instance, the German *landräthe*, or the French *préfets*, or, in Austria, the territorial Diets. Very properly do they appear to have kept Collectors and other political officers out of the movement as much as was possible, and the Government itself has emphasised its determination that officialism shall *not* be brought into it by refusing the privilege of summary collection. Official supervision of some sort, of course, there will always have to be, just as we cannot in the United Kingdom do without it in our co-operative societies. The State must see that its laws are obeyed. But, once the proper stage of development is reached, further than that official interference should not go. We cannot yet be said to have arrived at that point in India.

* The Act shortsightedly does not yet permit them.

For some time still the Registrars will have to go on directing the work in the movement, taking for the time the place of the coming "union." However, by this time the movement has, at any rate, already outgrown the possibility of supervision solely by Registrars, unless we are deliberately to come to a standstill. Restrained as it has been—in the sense of expansion not being pushed, while efforts have been in the main concentrated upon consolidation—the movement has nevertheless grown too big for that. Apart from conducting the propaganda, the Registrars have practically had to fill the place not only of the councils of inspection or of supervision of the several banks—which councils it is always difficult to form on new ground, not in England alone, although they must be regarded as an absolutely indispensable part of the organic machinery—but also of the superior body which, like the German and Austrian "unions," inspects from outside. And for all this work the Government has allowed them only an inadequate staff—pinching at the very point at which it might without danger have practised a little generosity. This cannot go on, not only because, after all, Registrars are only human, with limited physical powers, but also, and in a very much higher degree, because that would threaten to spoil the movement altogether. For the movement can, as a co-operative movement, succeed only if based upon self-reliance and independence. The point of time has in truth come when, as one Registrar very properly put it at the last Registrars' conference, the movement must, from a *quasi*-official, be expanded into a *national* movement, if it is to be carried any further. Fortunately, the question of internal inspection is to some extent, slowly it may be, settling itself. One of the most gratifying features in the progress of the movement, more gratifying even than its financial success, is the educative action which it has already brought to bear upon those engaged in it. As

Educative Action of Banks.

recently as in 1906, a Registrar, now promoted to other office, pointedly complained of the dominant illiteracy of his public. That same "public" has now, by the light of the bank's teaching, discovered the drawbacks attending upon such illiteracy—just as have, under the same influence, the peasants in Italy—and is, accordingly, clamouring for measures that will remove it: for vernacular schools, night schools and so on. The Government, so I would venture to suggest, might, in view of the utility of co-operative credit already established, very well meet such laudable aspirations by causing co-operative principles to be taught in such elementary schools as exist. That would be no altogether new feature. It is done with success elsewhere; and it would be a material help to the further extension of the banking movement and prepare the way for more co-operation. For people are already asking for co-operation of other sorts—distributive, productive, and, above all things, agricultural.

Demand for Co-operation of other kinds.

The opportunites furnished by the banks have whetted the popular appetite for more productive methods of husbandry. Rayats are beginning to farm better, they employ Meston ploughs and other perfected implements, and they ask for better seed and more artificial manure. And they would like to carry improvement still further. That is just what has happened among the fellaheen of Egypt; and it makes one's heart glad to see it. Distribution is evidently likewise on the approach, and in view of such prospect Registrars are becoming more urgent in their demand that the Act should be amended so as to permit the practice of other forms of co-operation, besides credit, which now, under a clause pressed upon the Government at the last moment by Sir James Wilson, is indeed possible, but only by special authority to be first asked for. Registrars, evidently unfamiliar with this aspect of Co-operation, appear needlessly distressing themselves about the precise manner in which co-operative distribution should be practised. In small

rural societies it may very well be combined with the practice of credit. Both will probably thrive the better for the union. Above that point the two should be kept strictly separate. In Switzerland distributive societies have actually gained in membership and in business by limiting sales to members. In India circumstances are altogether different, and limiting distribution to members would certainly obstruct progress. No "dividend to custom" to non-members, or half-dividend, or even whole dividend earmarked as an instalment towards a share, as a step to membership, would help organisers over most difficulties.

Inspection.

But, to return to inspection—practice has likewise had the educating effect of clearing the sight of not a few among those benefited by co-operative credit to the extent of making them understand the utility and, indeed, necessity of inspection. Supervising councils have been formed and are beginning to act upon their own initiative. Their proper function is not, indeed, everywhere fully realised. Indians have a rooted respect for their "panch," and, like the schoolmaster who would not uncover before King Charles I., lest his boys should lower their respect for himself by discovering that there was some one in the world greater than he, they will not allow the Council to sit in judgment upon the Committee. That will have to be altered in course of time. But in the meanwhile at least accounts are inspected, the application and justification of advances are inquired into and watched, and in this way things are put, *independently*, upon a sounder footing. For the superior inspection, which is likewise necessary, there is at present—apart from the Registrars—no body available except the Central Banks, so far as their operations go; and Registrars, once more, deserve credit for keeping this matter closely in view and utilising the Central Banks for such purpose. A Central Bank doing business with a local bank will in any case have to be allowed full insight into

the local bank's affairs. But that will be for its own security. Superior inspection is required even more pressingly for the safety of the banks themselves. And in view of that a "Union" of banks, which has no selfish interest, certainly appears the best adapted body. There can now, fortunately, be no fear of *official* inspection, other than that practised temporarily by the Registrars. For the Registrars themselves object to it, as being likely to become a matter of red tape, routine and favouritism.* On more grounds than this is it desirable that sooner or later "Unions" should be formed to take the conduct of affairs into their own hands, and leave the Registrars to carry out only their proper official supervision within set limits. But as to the subsidising of such Unions, about which something was said at the latest conference, I would at once warn Registrars that their colleague who endeavoured to justify such by reference to what has happened in England is hopelessly wrong in his facts. It is not at all the *co-operators* in the English body subsidised who were content with the payment of a Government grant, which was really pressed upon that body by its Ministerial Committeemen. It was the *non-co-operators*, who have not yet found out that "all is not gain that is got into the purse," who welcomed it. The co-operators objected strongly, but in the end vainly. In truth, like the Highlander's "drops of water," every one of which is said to spoil the whiskey, every pound of Government subsidy may be taken to spoil Co-operation.

Objections to Summary Powers of Collection.

As regards summary collection, which some Registrars unfortunately still hanker after—quite apart from the argument urged by one Registrar, that it must be damaging to banks, after they have exercised summary powers, to have them withdrawn, as in course of time must surely

* M. Luzzatti, in an article recently published, declared that inspection in the present sense, by officers of the State, where there is a Union, is worth less than no inspection at all.

happen—the experience of our English Loan Societies, which in 1840 were endowed with such powers (which have never formally been taken from them), should be a conclusive deterrent. Magistrates soon grew tired of being asked to issue warrants for such purpose. In the words of a memorial presented a long time ago by the Bench at Leeds, the matter "stank in the nostrils" of magistrates, because they saw that summary powers made managers utterly careless whom they lent to, since it did not matter whether they had security or not, seeing that the magistrates would in any case collect the debt for them. A co-operative bank which cannot ensure repayment of loans by means of security and moral authority has in truth no right to exist. On the showing of Registrars themselves only in rare cases has recourse to law courts proved necessary, and in such cases such remedy has also proved sufficient.

After the foregoing, by no means exhaustive, consideration of points which the present position of affairs rather forcibly suggests, it may be interesting to review very briefly the actual movement in its several parts, whatever the merits of the division adopted may be held to be.

Present Strength of Indian Banks.

The first interest will probably attach to those banks which minister to agriculture and have accordingly been dubbed "*rural.*" They are all, or nearly all, based upon unlimited liability. Their number has in the past year increased from 1,219 to 1,766, with 117,159 members in the place of 93,972, and 4,032,806 rupees working capital in the place of 2,239,124, of which sum only 542,009 rupees came from the State. Of the same sum 559,635 rupees represents share capital, 106,470 rupees reserve funds, 1,414,616 rupees had been borrowed from other societies (mainly Central Banks), and 712,109 rupees from non-members, who, as observed, must not deposit. Deposits made by members figured at 610,314 rupees. In the course of the year 16,112 rupees had been received

in entrance fees and 238,621 rupees in payments towards share capital. The amount of deposits paid in stood at 306,942 rupees, against 92,337 rupees drawn out. Government assistance had been drawn upon to the extent of 184,639 rupees, but 61,577 rupees of this had been repaid. Other sources had been drawn upon to the extent of 1,568,049 rupees, of which 712,471 rupees had been repaid. Members had received 3,756,049 rupees in advances, and repaid 2,072,183 rupees. The balance outstanding, fructifying in their pockets, was 3,665,633 rupees. The number of societies quoted includes twenty "non-cash" societies—probably for the most part "seed societies"—which had at the close of the year 12,461 rupees' worth of stock in hand. All balance-sheets save one close with an overplus, which sums up to 216,450 rupees.

All this indicates healthy growth—the more healthy, because the movement was rather restrained than forced, and because faulty societies have been ruthlessly liquidated. The apprehension to which the opinions expressed in some quarters give rise is that possibly the distinctive feature of smallness of such societies—which really is proper to Raiffeisen societies alone—may be carried too far. Smallness is not in itself an advantage. Its justification in practice is that close touch, intimate mutual knowledge among members, and opportunities for unforced observation are absolutely indispensable. They are to be secured only in a small district; but it does not follow that the number of members must be very small.

Turning to "*urban*" societies, there were 225 such registered, most of them based upon limited liability, twenty-seven of which have to be deducted as not being "cash" societies. That compares with 158 societies in the preceding year. Their collective membership was 66,592, as against 56,899 in 1908; their working capital 3,347,489 rupees, as compared with 2,275,695 rupees. Of such available capital only 87,478 rupees came from the State;

829,504 rupees was share capital, 666,885 rupees deposits, 1,444,923 rupees consisted of loans from non-members, and 90,195 rupees of loans from other societies. The societies which are not "cash" societies had 131,657 rupees' worth of stock in hand. There was 2,035,776 rupees owing from members, held in the shape of advances. During the year 2,212,561 rupees had been paid out in advances to members, and 1,690,713 rupees had been repaid. Deposits received during the year amounted to 711,818 rupees, deposits withdrawn to 435,075 rupees. Entrance fees taken during the year figured at 5,997 rupees, and payments towards share capital at 311,171 rupees. The reserve funds amounted to 86,885 rupees. All but two societies, which closed with a trifling loss, had earned a profit, the collective figure for which was 138,772 rupees.

A fair number of such "urban" banks are distinctively clerks' societies and societies of employees in Government and commercial establishments, which seem to answer exceedingly well and are accordingly multiplying. It is perfectly natural that co-operative credit should be readily adopted amid such surroundings which, by providing touch and the realisation of responsibility, create in a manner an ideal membership for co-operation. Of late co-operative credit is reported to have gained ground also among artisans—brass workers, ekka drivers, shoemakers, fruit sellers, and the like—who apparently organise themselves in very small societies of one calling only, with what seems like a strongish dash of Raiffeisen principle infused into them. It is impossible to judge at a distance whether such separation of callings—which in Europe has not answered—is in India a necessity. It may very well be that members will not organise otherwise. It would be odd if such beginnings among such a class of men did not lead to co-operative production, for which evidently a taste has been developed among natives.

At the apex of the pyramid stand the central banks, whose main object is to take charge of the overplus cash balances of local societies, and tap the general market in their interest—in virtue of the greater confidence reposed in them by reason of their broader foundation of liability—in order to loan the money so collected to local societies. There were at the time named fourteen such central banks, all but one based on limited liability, with 937,526 rupees working capital, of which only 56,657 rupees came from the Government, while share capital stood at 88,115 rupees, reserve funds at 2,453 rupees, deposits at 340,820 rupees, and other loans at 428,582 rupees. The sum of 890,521 rupees was owing to the banks for advances outstanding. The annual receipts in entrance fees figured at 1,306 rupees, in share capital at 52,105 rupees, in deposits at 336,966 rupees. Against this there had been 119,881 rupees deposits and 1,300 share capital withdrawn. The advances made amounted to 966,703 rupees, against which 302,189 rupees had been repaid. The balance-sheets all close with a profit, which stands collectively at 12,489 rupees. Of course, all these central banks are "cash" societies. They are scattered over various provinces. There are two in Bengal, three in Madras, three in the United Provinces, four in the Central Provinces, and one in Burma.

Benefits of Co-operation to India.

A review of the foregoing figures, and of all the incidents relating to them, can leave no doubt whatever upon one's mind that the seed of co-operation has in India fallen upon good ground. The progress made is quite phenomenal, such as has nowhere else been previously known. Of course we shall have to admit that all that has been established is not perfect—there is, indeed, a great deal still capable of improvement. Also, it will have to be owned that the movement has not by any means yet passed out of the experimental stage and shown its mettle by weathering trials. There appear to have been few

such; and it may be well to warn Registrars that some of their rather original devices—it may be some pet ones—which promise well enough under a fair sky, are likely to suffer under stress of stormy weather, such as is sure to come. That is no reproach to their resourceful and original workmanship on altogether untried ground, where novel methods are undoubtedly wanted. But, make what allowance we will, it is evident that the institution of co-operative credit has gained a foothold in India and revealed its efficacy as a remedy for distress and backwardness—a remedy of greater utility than anything that State tutelage or State financing could have produced. It has brought money to many a spot thirsting for it, generally in the right way; in many cases has it replaced hopeless insolvency by solvency already attained or else in prospect; there are at any rate hundreds, probably thousands, who have by the aid of this helpful ally effectually liberated themselves from the usurer's yoke; there are villages in which the *mahajan* and the *sowcar* now find their occupation gone. The institution has accordingly inspired new hope into the debt-burdened rayats, and opened to them a way to higher existence. At the same time it has already quickened their intelligence and awakened their power of thought, understanding of business, and sense of responsibility. They have learnt something, and they are showing themselves anxious to learn more. They want to master rudimentary letters, to fit themselves for keeping accounts and for checking them. They are learning the art of society management. They want to farm better and produce more—in part at any rate for our benefit, as well as for their own. For it is for us also that their better tilled fields will bring forth. Their young men are working together—with the assistance of men like Sir Daniel Hamilton—to enable themselves to form new land settlements. And all this has been, and is being, attained—it should be a telling lesson to our friends on the Continent—with-

out more than very moderate assistance from the State, such as was at the beginning necessary, but is now gradually being discontinued. Well-wishers of their country and their own neighbours have come forward with funds. But over and beyond this, private hoards have been tapped and the funds of the general public have been attracted. Patriotism and race feeling have begun to achieve what persuasion and instruction have failed to accomplish, that is, to make natives employ their hoarded gold for productive purposes. In these various ways co-operative banks have been set upon their own feet. "By far the most important source is the general investing public," so writes one of the Registrars. "Without any advertisement there has been no difficulty in raising all the money required" at the current market rate of interest. Poor people have deposited money, wealthy philanthropists have lent it, and joint-stock banks have done the same, with a view to sound investment. "After some years each (bank) will have more capital than it can fully utilise in loans to members." "Some years" may be rather a sanguine estimate. However, just as in Germany, the time when this prediction will be made true seems destined to come. And then, the same as has happened in the agricultural Co-operative Unions of Germany, and in our own great (distributive) Co-operative Union, we are likely to see the surplus funds devoted, for the good of the working and cultivating population, to the creation of co-operative productive enterprises, more particularly of an agricultural character, and to agricultural and other improvements—irrigation, larger outlay upon machinery and implements, upon employment of fertilisers, improved breeds of live stock, improved seeds and the like. This cannot be expected all at once. However, India is marching on to such goal, and it bids fair to attain it. Certainly to India co-operative credit promises to prove a boon.

CHAPTER XVIII

CONCLUSION

Economic Results of Co-operative Credit.

AFTER what has been said I think it will have to be admitted that by the creation of co-operative credit a new force, alike economic and educational, of singular potency and efficacy has been placed at the service of humanity. Reckon up the mere volume of money which this co-operative mint has drawn from the capitalist market, and placed at the service of small producers—cultivators, traders, and wage-earners—distributing it judiciously at the very points at which there was greatest need for it and at which it promised to prove most productive, dividing it according to the requirements of each case, watching over its employment, and then, after having given bread to the eater and seed to the sower, gathering it all up again with scarcely any loss and with adequate interest! That sum, so we know, must now tell up to many hundreds of millions.

And all this, so I should wish to point out, is *new* business. Barring some very few instances of what I consider abuse, or usurpation, it has not taken away a stiver from any other bank's dealings. Rather has it raised up a large host of recruits for ordinary banks, and given them the means wherewith to become the regular customers of such. Ordinary banks, in fact, *could not* have supplied the want that these co-operative banks have met, because they could not have recognised the security which alone members of co-operative banks, as they should be, are in a position to offer, nor stooped down to such humble ministrations as such people require. The

co-operative banks have therefore in very truth acted as pioneers for the direct benefit of those other banks.

And this new productive force has shown itself of universal applicability. It recognises no frontier, geographical or racial. It has the power of adapting itself to all surroundings. The Mahomedan and Hindoo of India benefit by it, as do the German and Italian, the Finn, the Slav and the Fleming. It conjures treasure out of the soil, it crowns small trade with success.

Seeing what it can accomplish, it is not surprising that this novel practice of credit should have spread out rapidly all over Europe, and beyond Europe—with the exception, sad to say, only of our own laggard island. There the Augustan God "Terminus" appears to have erected his altar, constructed of Whitehall prejudices, which are harder than Aberdeen granite. Elsewhere progress has of late been by leaps and bounds, to such a degree that entire new worlds of co-operative credit seem to have sprung up even since the second edition of this book appeared in print. To the eye of those who have not stopped to analyse the forces at work in it, its development appears little short of miraculous. And thus Jules Simon's words prefixed to this volume have been made true, and "the greatest banker of the world" has been proved to be he "who disposes of the mite of the poor." And, as well as the greatest, he has also proved the *safest* —the man to whom rich and poor alike may without fear of loss entrust their deposits, well assured that, since he has no inducement to incur risk, he will incur none.

Moral Results.

That is not the result in the creative work accomplished upon which I should wish to lay greatest stress. I should be disposed to set an even higher value upon the diffusiveness of the work done—upon its reaching down to the very humblest and necessitous, whom nothing else would help, and raising him by education and by training to business ways, in addition to providing him with means

for turning such ways to account. To the application of such power it appears, moreover, impossible to set any limit. Its raw material abounds wherever there is opportunity for work. Its opportunity for converting that material into money's worth, by the specific expedient of making it men's interest to be businesslike and honest, exists wherever there is need. To my mind there has never been a more prolific source of potential temporal good placed at the disposal of those who are dependent upon labour. For to them co-operative banking means, if they choose to profit by its gifts, not democratisation of credit only, but, by the help of democratised credit, *democratisation of production* also, the securing to the toiler of the full reward for his labour—and emancipation. Do not let us quarrel over the legitimacy of such a change! It will never do away with capitalist enterprise. It will never bring about the establishment of an economic ochlocracy. But it may open a fair field for capacity and industry, and the proverbial "career" to "talent" in the very poorest. It may unbuckle the knapsack of the soldier in the great industrial army, in which, according to tradition, lies concealed the marshal's bâton. To a nation it must mean much more. It means—or at any rate, it may mean—concurrently with democratisation, an indefinite *increase* of production, a wholesale mobilisation of productive forces, a material diminution of unemployment, fuller satisfaction to the toiler, without additional taxation of any one, diminution of want, a diffusion of prosperity, to a very great extent the disappearance of economic strife, education, elevation, the making the entire community richer, happier, better.

It is quite true that its utility varies—according to the degree of purity in which the principle is applied. Léon Say's words have proved true to the very letter. *Il ne suffit pas d'avoir une bonne machine; il faut aussi avoir un bon mécanicien.* But do not let us pretend that there are

differences of quality as between distinct systems as such.

The Underlying Principle.

There are differences of application. Necessarily so. You cannot serve a densely populated district as you would a country parish. You cannot provide for a tradesman trained to business in precisely the same way in which you provide for an untrained rustic. Again, there are differences of the spirit in which the principle is applied. There are those whose aim ends in the pocket, who would, so to speak, take their ticket in co-operation as they take it in a railway train, which runs for many, but in which every one travels for his own profit. There are those, again, who through the pocket wish to reach the heart, who co-operate as do joint-settlers in a new colony, in which each has his own gift to bring to the common stock for his own, but at the same time also for the common good.

However, the systems, so far as they differ, are still, as Léon Say has laid it down, "of one family." There are two of them, and essentially only two, the one based upon shares, the other upon unlimited liability. But in both the underlying principle is the same. And it is idle to pretend that the one system is good and the other bad. Both systems mean the substitution of effort, close attention, rigorous conditions, for capital, which has the power of purchasing its own credit.

The application of the one or the other should be determined by circumstances. And do not let us suppose that here is a "socialist" or else a "patronised" scheme, which by force or begging would take money out of other people's pockets. In the precise degree in which it does this it is deteriorated. The more fully it recognises ordinary business principles, the more truly is it co-operative. One system differs from the other as does a motor-omnibus from a country buggy cart. The one requires less personal attention, but larger capital to begin with, and

greater study of the further increase of capital. Its strokes are bolder, but it presupposes greater familiarity with business. The educational, morally elevating efficacy which makes the beauty of the Raiffeisen system, is quite peculiar to that scheme. It deals with much smaller values, but it can dive down into the lowest depths of poverty. It has to pay for this by a limitation of its operations, by the foregoing of large transactions, by personal application and devotion to its educating work. Economically, however, the moving power is in both cases identical. Both systems mean thrift, both alike mean gradual training to business, making better men of those upon whom they act. Real differences, affecting the quality of the work, come upon the scene only where principle ceases to be applied in its purity, where by-ends are allowed to assert themselves and to become main ends, where the elements which make up the creative force employed are adulterated. There are unfortunately not a few tares already in the field, giving it a rich and luscious appearance, but meaning at the end of the process an empty garner or else poisoned bread. The forces which assure to them their sway are indolence and impatience. Indolence is perfectly willing to give money; but it grudges the personal effort, the application, the "abstinence," in the economic sense, which self-help infallibly calls for. Impatience adulterates the seed in order to produce an earlier crop of deceptive vegetation which looks like wheat but is only weeds. Common sense requires that such examples should be rejected. We want a plant that will stand "the loud blast that tears the skies," not a vegetable drawing-room ornament which will embellish an ambitious man's title to premature recognition, but will not endure a frost or a gale. Co-operative credit means, as has been shown, not the distribution of largess, but the creation of a new marketable security. Such security is based upon the sense of responsibility of the

individual. Charity cannot supply it; State-help cannot supply it. Friendly assistance in the earlier stages there may be—in very many cases there will have to be. But its degeneration into gifts, which breed a habit of trust, not in oneself, but in others, should be strictly guarded against.

Our Case: Have we no Need of Co-operative Banks?

The question now suggests itself: Has this marvellous, wealth-producing power no gift for ourselves? Do we not want it? We are thus far the only civilised nation that has done without. Is that because there is with us no need, there are no opportunities to be improved, no labour that lies idle for want of capital to employ it?

Alas, we have more than enough of all these. And, in addition, we have direct indications, not only that such help as co-operative banking supplies would bring relief, but that it is distinctly felt that it would do so. What else do those borrowing powers mean which our friendly societies so largely claim and employ for advancing money to their members? And our slate clubs and funding clubs, loan societies, and the rest of them? They all indicate an instinctive groping after co-operative credit. And whenever an opportunity offers for satisfying popular credit in a tolerably reasonable way our poor people and humbler middle classes appear to jump at it. So it has been in the case of small credits opened by ordinary banks, more particularly in Scotland and the north of Ireland (also by one well-known bank in Cornwall). So, again, in the case of a "Bank" formed not many years back, which is not at all co-operative, although it professes to be doing business self-devotingly only in the interest of its humble clients, who come to it for small credit. It deals such out generously—at the rate of 10 per cent. or thereabouts. Its counters are said to be besieged by applicants, and it has to extend its business facilities every year. Whatever be the merits of the bank, here is a declared need of popularised credit! Certainly

it may be assumed that if those same people had a co-operative bank open to them, which would give them their loans at 5 per cent., and as a matter of right, not favour, they would rather come to it. And so would many others.

Some thousand of our civil servants have advanced further on the road to self-helping co-operative credit in their "Share Purchase and Investment Society," of the dealings of which the figures still to be quoted give an encouraging account.

The Case of Agriculture and Small Holdings.

And there is our Agriculture! We are exerting ourselves to create a small peasantry. Agriculture, whether large or small, to be successful, now-a-days absolutely requires abundant working capital. And we give our people the bare land, which is, without money, a white elephant!

Disappearance of the Private Banks.

On the top of all this, recent bank amalgamations have brought upon the scene an entire host of unsatisfied seekers after credit—farmers, tradesmen, builders, manufacturers, some of them very substantial—men that used to borrow from their local bankers, who gave them credit readily, knowing them personally and being able to watch them, while also carrying on a class of business into which such granting of credit well fitted in. The local banker is gone. His species is now represented by thirty-four, where not long ago there were 218. The joint-stock banks have crowded him out, maintaining among them, eighty-four in number, full 5,072 branches. The boards of the companies are not in a position to estimate the security offered, they have no personal knowledge of the applicants, they cannot adapt their rates of interest to the precise degree of security tendered, and, in the last place, this class of business no longer suits their purpose. The people so deprived of their accustomed credit complain, curse their stars, and write letters to the newspapers. They have their remedy ready to hand. Let them form their own

co-operative banks, as men in precisely the same position have done in Milan, Bologna, Augsburg, Leipzig, Mentone, Quebec, and they will become possessed of a right to credit, which no one but themselves can take away again.

Co-operative Banks wanted as Savings Banks.

But it is not only credit that is wanted. Some people have fondly flattered themselves that one of the objects of our Savings Banks, Government-ridden as they are to excess, is to train poor people to "banking." However, a recent circular issued by the Postmaster-General says :—

> "The Postmaster-General desires to call attention to the fact that the cost of administering the Post Office Savings Bank has been much increased of late years by the tendency on the part of some depositors to use the institution for the purposes of a current account instead of for the purposes of simple saving, which it was established to promote. Every transaction, great or small, has necessarily to be reported to London for record in the ledgers at the central office. This renders the business very costly when depositors make frequent deposits and withdrawals, especially when the individual sums are of small amount or when money is merely deposited to be withdrawn again in a short time."

The Postmaster-General appeals to the public to remedy this. And after the many rods in pickle which the Treasury has only with difficulty been dissuaded from applying to its patient milch-cow, the Savings Banks—to the depositors' loss—there can be little doubt that if that appeal is not responded to measures will be taken to put a stop to such incipient banking. However, such banking is required. And it is highly useful. It constitutes a schooling for business. Then will not the people so deprived of the only cash-keeper that they can at present go to for their business, provide themselves with an easy substitute? In any case, while the Postmaster-General deliberately seeks to deprive them of one kind of poor man's bank, the Treasury might be expected not needlessly to place obstacles in the way of creating another.

Once more, our Co-operative Societies — representing something like 2,500,000 members — eager for common

action, but taught by their dog-in-the-manger "distributive" leaders that "Co-operation" means "Collectivism," with a steady eye to "Socialism," and that "Co-operative Banking" is individualist, are racking their brains how to enable themselves to collect deposits from individuals for their "collectivist" Bank—which, naturally, in the interest of the movement, wants as much money as it can possibly scrape together. They go to Parliament for new powers. They have recourse to ordinary banks to serve them as intermediaries, though their own champion in the matter warns them that such banks may any day turn against them and leave them in the lurch. The matter would be simple as an elementary school problem if they would only establish co-operative banks, for which purpose they already possess sufficient powers and everything else that is requisite except the necessary discernment. So unchallengeable a judge of banking as Lord Avebury has pointed this out nearly twenty-three years ago.* In respect of no point of their manifold programme, in fact, have co-operative banks a better record to show than on that of collecting deposits, and more particularly savings.

Lord Avebury on the Point.

"Banking business," so Lord Avebury stated in the House of Commons in 1887, "consists of different parts. One is to collect funds. In Germany no fewer than 900 workmen's banks have been established, and hold large sums of money. They have proved a great convenience and extremely useful to the community." They accordingly — that is the argument — answer the purposes of savings banks incomparably better than our Post Office Savings Bank and the State-governed Trustee Banks, because they obtain a firmer hold upon the depositing public and, having more remunerative employment, can as a rule offer a higher rate of interest. The Savings Bank after all is only a slot in the wall, with a sure grasp, but no tongue to advise with. Having no

* See Hansard's Debates, vol. 319, p. 822.

fructifying use for the money that comes to it from productive employment, it closes over it like a grave, and effectively sterilises it. In words which I quote from a recent statement made by Mr. Asquith—on a very cognate point—"it means that the Government is competing for and locking up funds that might otherwise be available for commercial and industrial purposes." "The result of these banks (our Post Office Savings Bank and the Trustee Banks) is to drain enormous sums from different localities in the country, and bring them up to London, to be invested in Government securities," so Lord Avebury went on; "this may be all very well in fair weather time; but if we have a great war you may find very serious difficulties arise." No one can have seen those foreign People's Banks at work without admiring what both Léon Say and M. Eugène Rostand have particularly noticed to their credit, namely, their wonderful power of interesting people in thrift and attracting them as depositors to the counter of what M. Luzzatti has expressly termed "perfected saving banks." "Ordinary savings banks," so observed Sir E. Brabrook, at that time Chief Registrar of Friendly Societies, in 1897, "he could look upon merely as infantile efforts in thrift." He "regarded a person who deposited his money in a savings bank, so that it should be kept safe for him by someone else, as very much less worthy of encouragement than a person who used his savings in some way in co-operation with other people for his own benefit and for the benefit of others. He did, therefore, not look upon the progress of savings banks with unalloyed satisfaction, but only as one step on the way of self-help."* Savings banks should lead up to People's Banks, as the Swiss and Hungarian "cycles" and "series" have done. And the time may well be argued to have come for us to initiate the new

Sir Edward Brabrook.

* Journal of the Royal Statistical Society, vol. 60, Part 2. (June, 1897.)

departure, so far as our depositors are now prepared for it.

I do not think that this point need be any further pressed. There can be no doubt that we want some institution such as co-operative banks. The want of it is indeed written large upon all our economy.

"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 class 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."

So wrote *Chambers' Journal* in 1883. And our habits of business and natural aptitude for managing our own affairs appear to fit us particularly for it. Such little pioneer experiments as have been made in our midst have, moreover, yielded results which blindness itself could not pronounce to be otherwise than encouraging. The man in need has been helped. The pound in time has saved nine, or more. The artisan has got the wherewithal to purchase his tools, the small holder the wherewithal to stock his little farm or to buy his pig or his cow; the tradesman has been enabled to hold over his stock or purchase more; the ambitious working man has acquired his shop and made it answer. Comfort has taken the place of destitution. And money has been easily got for profitable purposes.

Pioneer Experiments.

It may be as well to review some of those pioneer experiments.*

* I have no space here to discuss them at length, any more than the very elementary gropings after popularised credit that have pre-

"People's Bank" of Edinburgh.

The first place among such is, I think, plainly due to the plucky little "People's Bank" of Edinburgh, which, formed in 1888 as a genuine working men's society, without any idea of copying anything that had been done abroad, with only a handful of members subscribing their £1 shares, and no other rules except the ordinary rules of an industrial and provident society, has amply justified its existence by abundant good work among the working classes of the Scottish capital. Under competent leadership those rules have fully sufficed. Rules, so I ought at once to point out, are really of less importance than understanding the business and administering it conscientiously. Only, being thus poorly equipped in the matter of precepts, the People's Bank has found that it must in prudence confine itself to one kind of advances, on real property only. It advances money for the purchase of dwellings, more particularly of those "flats," peculiar to the capital of Scotland, which lie on different floors, right and left of the "common stair." On such advances the bank has made no loss, or as good as none. Advances on personal security, on the other hand, although it has taken power to make such, it has found to involve rather serious risk, without further safeguard. However, one very essential point this bank, which has proved a veritable boon to Edinburgh working folk, has made abundantly clear, and that is, that for an enterprise of the kind, properly launched and managed, no "good fairy godmother" of any sort is required to provide the means; that, on the contrary, ample money is to be got out of the pockets of the very class for which such institution acts, by means of deposits. Beginning in the smallest of ways, in a little back room, the "People's Bank" has nevertheless been able throughout to raise its

ceded them. I give a fairly full account of both in my little pamphlet, "Le Crédit populaire dans le Royaume Uni. Rapport présenté à la Commission du Crédit de l'Institut International des Classes Moyennes. Bruxelles, 1909."

own money. Once it could afford to take offices which made its existence known to the public, its progress proved very rapid. At midsummer, 1909, its "savings accounts" amounted to £45,132 5*s.* 10*d.*, in addition to which there were £10,824 14*s.* 3*d.* deposit receipts. These are substantial figures; and yet the "People's Bank" pays only the same rate of interest as the Post Office Savings Bank, namely, 2½ per cent., and all this with a share capital amounting to only £5,879, £4,780 being paid up, and a reserve fund standing at the present time at £1,900. During the preceding twelvemonth £48,668 had been lodged in deposits, and £43,488 withdrawn. The advances made on heritable property stood at £33,513, £2,756 having been granted within the year then just expired. In addition to such advances the bank has lately very properly begun opening cash credits to members. At midsummer, 1909, the amount outstanding in such was £709. That is still little, but it is a beginning. So plentiful is money in this unsubsidised, unpatronised and unfinanced, but deposit-attracting bank, that £20,036 has had to be invested otherwise than in loans, mainly in debentures. Within the twenty and a half years of its existence the bank had lent out no less than £110,756.* One could wish that we had a few banks animated by the same spirit of self-help and self-reliance south of the Tweed. The bank makes its advances as a rule in the shape of loans on real security repayable by annual payments, the amount of which, of course, varies according to the length of the term for which it is granted, which extends from twelve to twenty-one years. Nothing is granted beyond twenty-one years. The bank has taken power to pay up to 10 per cent. dividend on shares, but has as a fact never

* The balance-sheet for New Year 1910 shows £47,500 held in savings, and £14,298 in deposit receipts. The figure for "Investments" other than advances on heritable property has been carried to £31,397, the reserve fund to £2,000.

paid more than 5 per cent., and at present its habitual payment is 4 per cent.

The "Civil Servants' Share Purchase and Investment Society" is a society so much worked upon its own lines, under exceptional, and decidedly favourable, circumstances, that perhaps, although it must necessarily be regarded as an encouraging example, it scarcely comes under our present purview.

"Borough of Camberwell Credit Bank."

The "Borough of Camberwell Credit Bank" is on a more moderate scale. It was formed only in 1906 with 138 members, and is therefore not yet four years old. At the close of 1908 it had 570 £1 shares placed, upon which £481 17*s.* 6*d.* had been paid up. Like the Edinburgh Bank, it is quite content to stand upon its own bottom, without "affiliating" itself anywhere or asking for financial help. Under such circumstances it has been enabled to raise only as much as it actually wants, but that is enough for the purpose. Its entire working capital consists of £1,102, of which sum £115 represents unappropriated profits. Deposits stand at £501. With such funds at its disposal it has lent out £1,049 2*s.* 4*d.*

Agricultural Banks in Ireland.

Our most encouraging pioneer experiment is that of Ireland. Evidently the Celts are quicker to get an idea into their heads than the more slow-going Saxons. We notice the same thing in Wales in respect of agricultural co-operation. Also their need may have been most pronounced; or, at any rate, there were more of one particular kind of intended beneficiaries ready to hand—that is, small farmers. Irishmen certainly went the right way to work and might in that respect serve us English as an example. Sir Horace Plunkett having, as he put it—been "converted" by what I had written, in 1894—when he had just formed his Irish Agricultural Organisation Society—invited me over to Dublin to "convert" his colleagues as well. I was heckled by them as I had never been heckled before, and have never been since. But the result was

that my Irish friends grasped the principle—which is the main thing: of far greater moment than rules or money: it creates both. And they have applied such principle in a generally sound and genuinely co-operative fashion. There is a good deal about these banks still that would not pass muster before an examining board of experts. However, members have got hold of the idea, and have learnt how to carry it into effect in an appropriate way. The consequence is that by the people for whom it is intended, co-operative credit is blessed throughout the length and breadth of the island as a veritable godsend. It has helped many a small farmer to tide over a grudging season, or to buy a pig, or a horse, or some much-needed implement, or else seed or feeding stuffs or fertilisers. It has saved many a poor man from something like ruin, and placed comfort in the place of distress. And the upshot is that Sir Horace has more than once declared that if he had his organising work to do over again, it is with banks that he would begin. They are found to pave the way—because they supply the means as well as the training—for other forms of co-operation. It was so experienced a co-operator as Léon d'Andrimont who called co-operative banks the *cheville ouvrière*—that is, the great driving wheel—of co-operation. And would but the Treasury withdraw its scarcely reasonable veto upon our demand for powers to supply goods by common purchase, as well as money by common pledging of liability, an immense advance would be made on the road to Irish prosperity and contentment—in the opinion of a leading Home Rule member of Parliament, more even than Home Rule could accomplish. There is no reason why such powers should not be granted. The Irish banks are Raiffeisen societies, with small districts, small membership and no shares; and Raiffeisen societies enjoy such right all the world over, and their members are found to benefit greatly by it, without incurring any serious danger. On a larger scale, of

course, purchase and credit should be kept wholly separate. On a small scale there can be no danger in the combination, provided that accounts are kept distinct. On the contrary, the two services materially support and supplement one another. A small or poor parish is likely not to have good men enough to man two boards. But the business under either head is also likely to be so circumscribed that one board would readily suffice for the two. Combination must infallibly promote education in the conduct of business, which is a fundament of success. And there is the question of money, which causes our British organisers so much anxiety. It is generally difficult to provide the first money. But here is, in distributive co-operation, a mint ready made to supply it. By joining the Wholesale Society—which is open to all properly constituted co-operative societies—the village bank will become entitled to a supply of goods at the same low purchasing prices as the large societies of our great industrial towns. Such business may be taken to leave on an average a profit of 10 per cent. on the goods bought, to the member's credit. Thus the outlay of £26 in a year would leave the member with £2 12*s.* in hand. What a help that must be towards credit and also towards other agricultural co-operation! A hundred members would mean £260 ready found. And that is not all. For abroad the experience has been that credit societies which are also distributive societies attract a larger number of members, and more particularly members of the most useful sort for our purpose, namely, such as do not join in order to borrow, but come into the bank with fairly substantial means and accordingly provide a broader support for credit. And would it not be an immense gain for Ireland to be able to put a stop to the ruinous usury practised by gombeen traders? In Ireland literally every one—with the sole exception, of course, of the gombeen traders themselves and their friends, against whom the

blow is aimed—is in favour of the proposed powers. Is a red-tape crotchet of some official at Westminster or Whitehall really to stand in the way of such progress, against which absolutely nothing is to be urged except it be official disinclination ?

The history of the Irish agricultural banking movement is most encouraging. The first Irish bank was started in quite a humble way in Doneraile in 1895. It soon attracted attention by its good results. "Your bank"—so wrote the public auditor, Mr. Thomas Scott, after his first inspection—"has made its way among the people without solicitation or advertisement. It can now be taken as an example over the country. It illustrates clearly the unspeakable benefit which may be conferred on the honest poor by co-operative banks. Without them co-operation is to hundreds of thousands of the people an impossible thing. It is therefore not extravagant to say that the modest and unpretentious co-operative village bank ought to be regarded as the mainspring of the whole movement."

Slowly, as in Italy in the corresponding stage of development—advisedly slowly, because it was desired that progress should be sure rather than expeditious—the number of banks has gone on increasing, until at the present time it stands at about 300. The banks have worked their way onward in virtue of the useful services which they have rendered, which, simple as they are, were so obvious to every one that only little preaching or propaganda was needed. *Vino vendibili hedera non opus est.* Their tale throughout is one of timely help given, small in amount but richly fructifying to those who received it : a pig bought, or a cow, or produce held over, or implements and the like purchased. Here are a few cases of such banks, selected at random from a large number, the story of which may be read from week to week in the *Irish Homestead.*

The Killanny Bank is a very small society, with under a

hundred members. Its committee has authority to make advances up to £500. As a matter of fact, about thirty-eight loans are made each year, averaging from £10 to £12 apiece, ranging in value from £4 to £20, and telling up to about £450 in all. In 1905 (the first year of the bank's existence) the amount stood at £456, in 1906 at £410, in 1907 at £463. Advances are granted in every case only for some distinct and specified reproductive purpose, the application of the money to which is watched. There have been no losses, and the management expenses are infinitesimal, amounting in 1907 to only 4*s.* 11*d.* Deposits are still few — only £90, all contributed by women. Accordingly the bank has to be worked on the strength of bank overdrafts. But its position is improving from year to year.

Belmullet is a parish in a very poor district indeed, with very poor men in it. One man is described as renting a plot of bogland, for which he pays £2 10*s.* rent. That sum used to eat up all his receipts and leave him nothing over for seed. He has borrowed £3 from the bank to crop his land with, and now makes a fair profit and goes forward instead of standing still. A similarly poor man was saved from threatened eviction, which would have meant his ruin, by a timely loan from the bank Amid such wretched surroundings, which have often enough taxed the management sorely, the bank has grown up, without shares, so as, at the close of eleven years, to number about 200 members, with an indivisible reserve fund of about £100 at its disposal. The committee report that, in addition to giving much most useful, though in every particular case very small, financial help—like that already described—the bank has to a noticeable extent "raised the moral tone of the people by engendering among them a feeling of self-respect, honesty and decency." The success of the society appears to be due in the main to firmness in management, that is, insistence upon specification of the object of each loan,

upon honest application of the money to that purpose, and upon punctual repayments.

Geesala, in Mayo, is another poverty-stricken parish in a "congested" district. The country is described as nothing but bog for miles around. The little bank there formed by the Rev. Antony Timlin deals in very small transactions indeed, averaging £3 4*s.* 11*d.* However, the loans are employed at the proper points and bear fruit like the good seed of the parable. And there are a considerable number—482 in the year, mounting up to £1,565. The gombeen man, who twelve years ago still flourished in clover on this, to him, congenial soil, claiming his 2*s.* out of every pound, has disappeared. His whilom victims have now deposits in the bank, £647 paid in in one year. In addition the bank has £241 free capital, all its own, taken out of the business. Two public-houses have gone as well and removed temptation. And so the people live soberly and honestly. They do not make their bank suffer any loss, but repay promptly to the day and fully to the penny. The same as everywhere under this system, management is made cheap. The secretary draws his £10 salary. All expenses besides mount up to about £2 a year. Needless to say, the little farms have a different look about them now, of comparative comfort and incipient plenty. This is "Frankenheim" over again.

Judged from a Raiffeisen point of view, there could not be two better examples than those of these little banklets in one of the poorest districts in Ireland.

There are plenty more similar cases.

And this is the movement which Lord Denman on behalf of Mr. Asquith's Government has pronounced surrounded with seeds of mischief and danger, naturally engendering distrust and enmity among members, warning the public of trouble to come by an ominous reference to the disastrous collapse of the City of Glasgow Bank, about the causes of which we older men, who have lived through it, are likely to

know just a little more than he! Cannot the Government provide its noble spokesman with a return ticket to Ireland to enable him to see the true state of things?

The following figures will show the present position of the Irish movement. There were at the close of 1908, 273 societies, marking an increase of ten on the year, with 16,961 members. The total capital at their disposal amounted to £49,840, including £29,749 borrowed from banks, with which the co-operative banks have now made good their claim to credit, and a remanet from the Congested Districts Board, and, moreover, £20,910 deposits. The corresponding figure for 1907 was £17,098. The loans granted within the year, £52,771, show a slight diminution as compared with the figure for 1907, which was £53,112. The number of loans has correspondingly fallen from 9,096 to 8,615, giving an average of £6 2*s.* 6*d.* per loan. The expenses amounted to £461; the profits were £520, which, being added to the indivisible reserve funds, brought up the figure of such to £2,850, being £10 8*s.* 9*d.* per society, that is, considerably more for the older ones, but proportionately less for the societies newly formed. The total loss in the year was £8.

That appears to me a fairly satisfactory record. It left at the end of the year £48,232 fructifying in the hands of small—and grateful—farmers, who had made good their claim to be trusted, although not themselves subscribing a penny of capital.

And the most gratifying fact about all this success is that all has been raised up out of the members' own resources. No doubt more honest overdrafts might have ensured a more plentiful distribution of money, a quickening of the pace. But assistance was not given in that way. There was a time when the Government afforded aid. Who that is man would not have yielded to such a temptation? Here was money, shining, ringing sovereigns, to be had for the asking! "He took the

poison and his spirit died." Not quite so bad as all that. But the discovery was soon made that the acceptance of Government aid meant the withdrawal of volunteer subscribers' assistance, which was more substantial and in other ways more welcome, because it brought the banks more than mere money. It brought them interest—interest shown and interest awakened in recipients. It meant help in the *work*. And its rendering was coupled with no irksome conditions. The Government gave its ducats, but it claimed in return its full pound of flesh, in the form of very vexatious interference, representation on the governing committee, a right of veto, and other hindering clogs on action, which have turned the sweetness of its gift in the mouth into bitterness in the stomach. And after all, when the Government had given its £20,000, it was found that for really useful results that money might just as well have been "chucked into the sea." These are the words of an Irishman in the movement who is in the best position to know.

Deceitfulnes of State-aid Revealed.

Government assistance was withdrawn and—although under its baneful effect the subscription list had shrunk to inconveniently modest proportions—the appeal made to self-help has—precisely as in Germany under similar circumstances—ensured a promising response. Recognition by business banks is worth a good deal more than Government doles, and about £20,000 amassed in deposits, although not nearly as good a figure as that £47,500 collected by the Edinburgh People's Bank (it is true, in much longer time), is at any rate a fair beginning and an earnest of better to come, in a new departure only quite recently entered upon. The matter is of course not yet fully understood. Some people still appear to expect deposits to come in of themselves, unasked. A writer in the *Irish Homestead* rightly points out that the proportions in which deposits are received are "largely a matter dependent upon the energy and character of the

State-aid cast off.

committeemen. "Some Irish banks have been found still indolently working on the original capital of £50 or £100 advanced by the Government." Other banks by dint of a little trouble and by establishing a character for strictness in dealing with borrowers—which means assuring their solvency—have quintupled and decupled their deposits. That is what wants to be "rubbed in" to organisers and their pupils. Wheat and barley do not grow without being first sown and tended. Where they are not so treated the crop is likely to prove one of weeds. If you would have a forest you must first plant trees. Wherever co-operative banks have shown themselves successful as credit institutions they have done so because they have first attained distinction as thrift institutions, carrying out, to the best of their ability, Schulze's standing rule of "gathering up every fragment of spare cash in their district." You will not go far wrong in gauging a co-operative bank by its success in collecting deposits. The German *Reichsverband*, put upon its mettle by an inconvenient tightening of Government purse-strings, promptly took to sending out collectors to hunt up savings in people's homes, in the fields and in the farm-yard. And that promises to help it out of its embarrassing dependence upon the State. "Collecting" is also known among ourselves, although it is not nearly sufficiently practised. There are no more useful institutions than our "Collecting Societies," which employ volunteer workers—generally young ladies—to collect the pence and three-penny bits as they come in, fresh from the pay-table, before temptation has had time to prompt investment in finery or dissipation. Only in rare cases can the societies allow interest. That would mean a tax upon their benevolent members. If depositors want interest, it is not too much to ask them to take the trouble of carrying their money to the savings bank themselves. However, as soon as the account reaches £5, it is by rule paid in to the

"Collecting" Savings.

depositor's credit at the savings bank, which by such means secures an additional customer, as the country as a rule does an habitual saver. In this way, within a very short time, as much as £2,000 has been collected in Fulham, and between £300 and £400 in St. Anne's, Soho. Co-operative banks should act in a similar way. They are in a better position for doing so, because they can allow interest from the first and are under no necessity to pass on their funds to the savings bank.

Co-operative Banking in England.

In our own island, though we have some encouraging little beginnings to record, the lesson of the value of attracting deposits appears thus far to have been taken very little to heart among the handful of co-operative banks that we can boast, except by the few reared up of their own independent action, like the Edinburgh People's Bank and the Civil Servants' Share Purchase and Investment Society. Among rural banks the same thing may be said only of one little banklet, at Scawby, in Lincolnshire, which has, under the able leadership of its devoted founder, rendered admirable service in its small way, and managed, among other things, to attract a fair amount of deposits. That shows how much depends upon leadership.

Scawby.

This society has in thirteen years lent out in all £1,525 in fifty-two loans, ranging from £5 to £50. It has made absolutely no losses, and has out of its annual surpluses accumulated an indivisible reserve fund of nearly £50. Loans are made at the rate of 6 per cent., chiefly to enable small occupiers to add to their stock, to buy seed, implements and the like, and to hold over produce.

Newport, Mc

There have been some promising beginnings likewise in towns, for instance, in Newport, in Monmouthshire, and in a northern suburb of London. But nowhere have there been indications of a capacity for development and growing. All has remained small, stunted, insignificant, as in loan societies.

The present position of co-operative banking in England

Present Strength of the Movement.

—such as it is—may be gathered from the following figures of, unfortunately, uneven date, since the Chief Registrar's Report on Friendly Societies quotes no particulars for distinct societies:—

A.—"AGRICULTURAL BANKS" IN COUNTRY DISTRICTS, REGISTERED AS "SPECIALLY AUTHORISED SOCIETIES" UNDER THE FRIENDLY SOCIETIES ACT.

(Affiliated to the "Agricultural Organisation Society."*) Their position at the close of 1907. (The figures are taken from the Agricultural Organisation Society's Leaflet No. 27.)

Place.	Membership.	Advances made.	Deposits.
		£ s. d.	£ s. d.
Scawby	27	100 0 0	100 0 0
Friskney	32	78 0 0	31 0 0
Spalding	87	20 0 0	—
Wiggenhall	43	105 0 0	—
Wissonsett	23	25 0 0	11 12 3
Hedge End	31	107 0 0	10 0 0
Far Forest	11	32 0 0	—
Castle Morton	22	20 12 6	—
Freeby	6	5 0 0	—
Brookvale	25	125 0 0	—
Mountsorrel	42	*nil*	—
Clophill	16	10 0 0	—
Mayland	16	*nil*	—
Barley	13	18 0 0	—
Dormansland	26	*nil*	—
High Wycombe (only just formed)	—	—	—
Bromley (no return)	—	—	—
	420	645 12 6	152 12 3

The data here given teach their own lesson. There has been a "movement" since November, 1893. People are solemnly warned that there is only one authority to teach co-operative banking—to wit, what is called "the central body." Yet, for all that, "movement" there is none, even sixteen years after it has been ostensibly

* There are not known to be any others.

B.—BANKS IN TOWNS.

Registered under the Industrial and Provident Societies Act. (The figures are taken from the last issued Report of the Chief Registrar of Friendly Societies.)

Name.	When formed.	Membership.	Share Capital.	Loan Capital.	Turnover.*	Investments.†	Profits.	Loss.	Balance of Profits and Reserve.	Deficiency.
			£	£	£	£	£	£	£	£
Civil Service Share Purchase and Investment Society	1885‡	1,044	26,818	11,631	57,086	42,247	1,788	—	2,298	—
Edinburgh People's Bank	1888	357	4,682	57,856	136,687	27,335	372	—	1,821	—
Newport Co-operative People's Bank	1894§	192	383	14	221	514	1	—	133	—
Finsbury Park Co-operative People's Bank	1895‖	142	258	206	440	481	—	5	17	—
National Co-operative People's Bank, Tavistock Square	1898‖	225	522	522	1,120	751	7	—	40	—
Borough of Camberwell Credit Bank	1906	204	573	542	4,327	1,369	154	—	254	—
Croydon Mutual Credit and Deposit Bank	1903¶	360	2,953	176	7,909	3,332	—	27	203	—
Stepney and District Co-operative Bank	1899**	78	169	12	1,184	261	15	—	80	—
Limehouse Co-operative Bank	1905**	59	90	266	782	367	25	—	11	—
Chester and District People's Co-operative Bank	1907††	58	251	35	621	305	10	—	19	—
Hitchin and Garden City Industrial Bank, Letchworth	1905††	winding up		—	—	—	—	—	—	—
Bolton People's Bank	1908††	12	8	10	25	17	—	1	—	1
National Co-partnership Bank, Westminster	1905††	15	818	273	1	418	—	4	—	673
Broadstreet Co-operative Bank, Ratcliff	1905††	56	109	417	554	539	7	—	13	—
South Bermondsey Co-operative Bank	1907††	23	21	—	41	23	2	—	2	—
North Lambeth Co-operative Bank	1907††	20	52	1	139	57	5	—	4	—
Northwood Co-operative Bank	1908††	38	71	25	195	92	—	4	—	4
Worthing People's Bank	1905††	19	5	4	—	2	—	—	—	7
Yardsley Co-operative Bank	1900††	58	140	540	1,047	691	2	—	—	—
Hull Co-operative People's Bank	1900††	364	465	778	5,173	1,347	72	—	—	—
Central Co-operative Agricultural Bank.	1908‡‡	18	403	8	344	395	—	5	—	16
Twenty-one Banks.		3,342	38,791	73,316	217,796	80,543	2,470	46	4,895	701

* Receipts include payments towards shares. † Including outstanding loans. ‡ This is to all intents and purposes a Co-operative Credit Bank.
§ Formed by Alderman Thomas Jones. ‖ Formed by Mr. J. E. Carver. ¶ Formed by Mr. T. Farrow. ** Formed by Mr. Douglas, of Toynbee Hall. †† Formed by the Co-operative (or Urban Banks Association). ‡‡ Formed by Mr. R. A. Yerburgh, M.P.

started. Rural banks show neither increase of number nor growth of business—certainly not any conquest of public confidence. For they take no deposits to speak of. The Chief Registrar's last Report—which in this respect mentions no particulars—gives the number of "agricultural banks" registered as twenty-three. However, of that number, at the time of writing, two are reported "only newly formed," four are "either actually or else virtually in abeyance," and nine "have not yet begun business"!

Among what are called "urban banks" more than a lion's share of what has actually been accomplished—£37,026 out of £38,791 share capital, £70,205 out of £73,316 loan capital (which is not all deposits), £185,979 out of £217,796 turnover, and £74,783 out of £80,543 investments—fall to the share of co-operative banks independently created, which have never had anything to do with the "central body." Add the figures for the Newport bank, which joined the "central body" only long after it was in good working order, and the Finsbury Park and Tavistock Square banks, and one might add the two East London banks promoted from Toynbee Hall, and what remains? Indeed, banks drop out of the ranks almost as fast as they come in. Where is Pembury? Where are Saltley and Blackburn? It is quite unmistakable that there is something wrong. Take the "National Co-partnership Bank" of Westminster, which, with £818 share capital subscribed by fifteen poor people and £273 loan capital, has a turnover of £1—which is expenditure—makes a loss of £4 in the year, and is £673 in debt without cover! Such a state of things is not to be remedied by a "Central Bank" with £403 share capital, £8 deposits, and £16 uncovered debts. The Edinburgh and Civil Service societies show that good work may be done. But there must be understanding of the principle and proper management.

What is the cause of such ill-success?

Causes of Ill-success.

It is simply a desire to produce rapid results without taking the trouble first to learn what co-operative banks should be. Nobody can pretend that circumstances among us are altogether unfavourable. No doubt the matter is new to us. Evidently it is not even yet understood in high places. There is a certain *vis inertiæ*, and there are ingrained prejudices to be overcome. People do not take the trouble to inquire. Whatever is called "co-operative" is in some quarters assumed to be of evil omen for whatever is capitalist. In his "Essays and Addresses" the late Lord Goschen writes about "that socialist abomination, profit sharing." Had he looked seriously into "profit sharing," he would have found that it is the very antidote to Socialism. However, there was something in the name that frightened him, and so he drew his bow of condemnation at a venture. In a similar way some of our bankers conjecture from the *name* that there must be something insuperably hostile to themselves in co-operative banking, although at the same time they hold "banking" without substantial capital to be absolutely hopeless. They do not appear in their fright to give themselves time to reflect that if "banking without a large capital" *must* mean madness, it cannot possibly mean danger to themselves; that by such "banking" must be meant something of quite a different kind from that which they themselves practise. In truth, not only is "co-operative banking" innocent of any aspirations to competition with capitalist banking, but it is its very best "feeder." All bankers are, of course, not of such alarmist way of thinking. Some very leading men of the calling have written to me in an exactly opposite sense, welcoming "co-operative banks" as allies; and one prominent banker has publicly offered to meet them—provided, of course, that the security tendered is adequate—by making advances to them.

Bankers' Dread of Competition.

Co-operators' Prejudices.

Some co-operators allow themselves to be led astray by the will-o'-the-wisp lead given to them by interested leaders, who—believing that co-operation begins and ends with that "distribution" which is all of it that they know, and to which they owe their leadership—accordingly tell their followers that honest, capital-making co-operation, the co-operation of the Rochdale Pioneers, of Thomas Hughes, Vansittart Neale and so on, necessarily means "Socialism"—which "Socialism" is supposed unsparingly to condemn co-operative banking of any sort.

Our Laws.

However, in spite of all that, there is ample raw material ready for co-operative banking, and our new posse of small holders compellingly cries out for it. And our laws are not altogether unfavourable. It is quite true that they might be kinder. There might very well be one Act for both forms of organisation—the most expert authorities bear me out in my suggestion how that might be brought about. And there might be further powers given to village banks, for which there is the most urgent need, but which our law most grudgingly withholds. Such village banks cannot at present in our country become "incorporated societies," like the Indian credit banks, and must still act clumsily through trustees; and they cannot at present unite for the formation of central banks—not safely, at any rate; for I am advised that the combination suggested in an official quarter would be held bad at law, while at the same time it would entail very serious danger for the banks availing themselves of it. For banks organised on a share basis, on the other hand, the Industrial and Provident Societies Act gives all that we can reasonably ask for at present. And for village banks the Friendly Societies Act, under the section applying to "specially authorised societies"—as which the Treasury has recognised such banks—allows us at any rate all that is necessary for a beginning—more particularly since it has been supplemented by Sir Horace Plunkett's "Societies Borrowing

Difficulties Besetting Village Banks.

Powers Act" of 1898. It was difficult at first to find a suitable Act under which to form. We owe it to Sir Edward Brabrook that a convenient way has been discovered out of such difficulty. No doubt more would be acceptable, and we are in the right in claiming it; for it has answered admirably elsewhere. Powers to trade are required more specifically in Ireland. It is to fill up such gaps as have been indicated that a Bill was drafted under my instructions two years ago, to which the Government gave its assent on the second reading, but only to oppose it tooth and nail, without rhyme or reason, in Committee. One cannot look upon that opposition, which is evidently based upon a misconception of the matter, attributable to want of study of the question, as final. And a movement so favourably reported upon by Sir R. Morier, Sir E. Malet, and in full detail, at great length, by Sir Frederick Nicholson, cannot possibly be ruled out of court in virtue of a simple "imaginary statement"—the late Lord Iddesleigh's term—by a youthful peer who has still his first spurs to win and who is evidently without knowledge of even the most elementary kind on the subject.

Knowledge Required.

The trouble is, as observed, that people will not learn before they presume to teach. When the Irish wanted co-operative banks they heckled me, as I have shown, to the very bone, in order to arrive at the bottom of the question. When Mr. Desjardins—after reading my book with great attention—wished to start co-operative banks in Canada, he plied me with letters on point after point, and carefully consulted those practical co-operative bankers abroad to whom I gladly furnished him with introductions and whom he desired to imitate—and has, in fact, imitated. No sooner had the Indian Co-operative Credit Banks Act of 1904 become law, than newly appointed Registrars applied to me for guidance. I took one of them to our

* See Lord Denman's speech in the House of Lords. Parliamentary Debates, Fourth Series, vol. 192, pp. 4—7.

International Co-operative Congress and there introduced him to all the men of light and leading in the movement. He travelled round Germany, at any rate, to see for himself, and qualified himself more fully still by spending four weeks at Neuwied to learn the routine. Others were content with verbal or written information and explanation. But there has been a good deal of that.

Faulty Rules Adopted.

In all these cases good, partly excellent, results have followed upon the acquisition of full knowledge on the matter. I have still to learn who among our would-be English teachers of co-operative banking has gone through anything like a similar schooling, without which no district organiser would be accepted by a German or Austrian Union. The result is to be seen not only in faulty rules, but in just as faulty practice. This is not the place in which to enter at length into the mistakes made. One may hope that they will be amended. But, to speak generally, it does not yet appear to be at all adequately understood that the object of co-operative banking is to provide security, *as absolutely good security as can be created*, rather than to make streams of money available. "Councils of inspection," which are of the essence of the institution, as ensuring security, are held in light esteem. It is only with difficulty that I have by my protests been able to obtain the substitution of "there *shall* be a council of inspection" for "there *may* be a council of inspection." That alteration is of course worth just as much as members choose to make it worth. So far from security being studied, the main preoccupation appears to be how to make things as easy and smooth as possible for patron members. I have come across rules exempting such men from unlimited liability, exempting them from regular attendance—whereas irregularity was to cost the humbler members their office. Nevertheless, the main power was placed in the hands of these grandees. That is absolutely wrong, diametrically opposed to Raiffeisen teaching. And

yet such banks openly give themselves out for "Raiffeisen Banks." To such almost criminal length has this faulty principle of sparing patrons been carried, that members are allowed to retire at any moment and be quit of all liability on the expiration of *six months* after retirement. That means that depositors and creditors may be deprived of the very security on which they placed reliance, *without having the slightest inkling of it.* I am sorry to be told that the Chief Registrar of Friendly Societies, to whom providers of money would naturally look for protection of their interests, has actually sanctioned this preposterous provision. It is likely to expose banks which adopt it to the charge of fraud. They can never hope to obtain much credit on such lines. In Germany and Austria the law fixes *two years* as the proper term. In the Belgian *Unions du Crédit* the term is *five years;* and that is the period which M. Rayneri has, very properly, adopted for his French village banks. In the Raiffeisen Union — the principle of which our English organisers profess, most incorrectly, to have made their own—not only are members bound under the law to two years of liability after retirement, but they are now not even allowed to retire otherwise than at the close of the financial year, after six months' notice given. So carefully are creditors' rights hedged in. I myself have prescribed one year as the *minimum*, taking that term from the Companies Act, because within one year at any rate the annual report will bring the retirement of members under the notice of creditors. But a longer term is in every respect preferable.

If you will create security such as will satisfy lenders, you will have no need to go about fishing for funds, to ask for grants out of the Development Fund, to go begging people to put money into your "Central Bank," which cannot for a long time to come be a "Central Bank" at all, but only a subsidising institution. The indispensable, fundamental rule of the whole system, the corner-stone, without

which it cannot subsist, is, that there should be absolute security for every penny which you propose to borrow. Provide that, and the money will come of its own accord; you will succeed; shirk it, and you are bound to fail.

That is not all. There is carelessness with regard to investments as well as with regard to liability. Once more, to my regret, I see that the Chief Registrar of Friendly Societies has passed a rule which must needs land banks which adopt it in loss. The rule allows a village bank, being a "specially authorised society" under the Friendly Societies Act, without shares, therefore dealing with *borrowed* money only, to invest money at its discretion in shares of "any society registered under the Industrial and Provident Societies Act." I do not pretend to be lawyer enough to dispute the legality of such provision, which other lawyers tell me would be disallowed in court. The Friendly Societies Act allows a society registered under it to join any society registered under the *same* Act; but that is a different thing altogether. There could be no liability arising from that. The Chief Registrar meets this objection with the statement that the Act permits societies to select their own "investments." Shares in an industrial and provident society undoubtedly constitute an "investment." But so does a lottery ticket. Manifestly, the shares of an industrial and provident society are speculative and therefore insecure, and consequently not at all adapted for investment of borrowed money. I had imagined that the Registrar with his discretionary power was there to prevent such unsuitable choice where latitude is given to societies, subject to his approval. The Chief Registrar and Mr. Yerburgh's committee notwithstanding, I must most earnestly caution co-operative banks forming against taking advantage of this dangerous permission to risk their depositors' money where much of it is likely to be lost.

The object of the objectionable provision is to enable

village banks, formed under the Friendly Societies Act to combine for the formation of a central bank. That object will be as fully served, with entire freedom from risk, by the following clause embodied in my Bill :—

"A thrift and credit bank may . . . keep money on deposit with, or borrow money from, any central institution being a company registered under the Companies Acts, 1862 to 1900, with limited liability, or a society registered under the Industrial and Provident Societies Act, 1893, having for its object the creation of funds to be lent out to thrift and credit banks, and having a board of management elected wholly or in part by the bank or by the bank jointly with other similar banks.

"A thrift and credit bank may hold shares in, or be a member of, any such central institution."

There is a good deal more. The whole conception formed is faulty. A most cumbrous, time-absorbing procedure is prescribed for the managing committee, which should, on the contrary, be in a position to act *promptly*, because there may be need of promptness. On the other hand, control and overhauling are, as observed, held of little account.

It would be wearisome to proceed further. What I have said I have said, not with any wish to pick holes, but with the hope of sparing newly forming banks painful experiences such as the rules singled out for notice effectively expose them to. It should be sufficient to show how far from the proper line our would-be organisers —excellently intentioned as no doubt they are—have managed to stray for want of sufficient knowledge—knowledge which is not beyond any one's reach, which may readily be obtained, but which is absolutely essential if there is to be success. You cannot ape the outward form of an institution to produce its proper results, any more than you will produce a working steam engine by setting a funnel and a boiler on six or eight wheels. An institution which has answered admirably all around us, among every variety of race and nationality, in every

climate, under the most varied conditions, ought to answer also among ourselves if it is only properly taken in hand. Our circumstances appear to me to be actually crying out for it.

The Conclusion of the Matter.

The matter may indeed be said to have become one of national importance. The people who find their credit taken from them because private banks have been swept off the board can look after themselves. They will prejudice their own interests by failing to avail themselves of an easy remedy. Should the co-operative societies prefer to persist in making their payments backwards and forwards through other banks, and provide for the collection of deposits from individual members in a roundabout and cumbrous way, that is, once more, their affair. If they choose to continue to send poor people empty away from their stores, driving them back perforce into the arms of the blood-sucking dealer on credit—when their movement was avowedly intended for "the poor"—that will make good people sad, but the responsibility will be theirs. The Women's Co-operative Guild, appreciating the evil, has advocated retrogression to "pawnshops," to be attached to the Stores. The late Mr. Holyoake judged more soundly when he urged co-operators—not once or twice, but often—to form what he did me the honour of calling "Mr. Wolff's banks," in order to clear themselves of the reproach of not considering the poor and needy. No doubt the wisdom which came to Mr. Holyoake naturally will in due course dawn upon those of his nominal followers who still cling to their wooden ways. If our people are content to continue depositing their savings in institutions which so unquestionably competent a judge as Sir Edward Brabrook has pronounced adapted only for an infant stage, instead of putting them where they will, as Lord Avebury has pointed out, bear fruit richly for the promotion of national wealth—that is, once more, their affair. The time of trial predicted by Lord Avebury may come

and teach them better knowledge. But the small holders whom we are trying to create by the thousand threaten to be absolutely helpless without banks, and the Government which called them into economic being, and which has explicitly promised them co-operative banks, will incur a serious responsibility if it further allows high-stool red tape to stand between these confiding victims of its policy and the realisation of its explicit promises.* To what purpose is it that the Prime Minister declares in Parliament, speaking of "credit societies": "This is a subject which has passed beyond the stage of inquiry, as the advantages of the institution in question are generally understood and appreciated," when his own department deliberately opposes the formation of such "institutions"?

In my opinion, the "inquiry" demanded by Sir Gilbert Parker would have been exceedingly useful, not as establishing the utility of co-operative credit banks—that is established, so it is quite true—but as bringing home to our authorities that houses cannot be erected without wood and stone, and to our would-be patrons that a building cannot be put up roof downwards. "The subject of co-operation"—so said the late Lord Derby, a man of sound judgment and knowledge of affairs, if ever there was one, as reported by Lecky—"is in my judgment more important as regards the future of England than nine tenths of those which are discussed in Parliament, and around which political controversies gather." We cannot fail, sooner or later, to realise this, because facts, slower but stronger than Lord Derby's,† are pushing us to this most effective of all forms of co-operation—most helpful to

* Not without good reason has the Chief Registrar of Friendly Societies remarked in his last Annual Report: "It may probably be asserted with confidence that when the societies engaged in providing small holdings and allotments attain their full maturity, an indispensable adjunct to their operations will be found in a large extension of the principle practised by the Agricultural Credit Societies."

† "Facts are stronger than men," was one of Lord Derby's *dicta*.

the "unemployed," whose cause we have at present so much at heart. So great a help to the trader, the farmer, the manufacturer, an absolute necessity to the small holder, cannot fail to force itself also upon us backward Britons. Mr. Chamberlain some years ago asked for £100,000,000 to employ in enterprises which should give employment to more hands. £100,000,000 is just about the sum which less than a thousand banks of one type alone in Germany keep steadily in circulation, not reckoning all the millions that go into agriculture and enable the peasantry to hold their own. The entire sum raised in credit by co-operative banks in Germany (about 17,900) in 1908—not an exceptionally good year—was close upon £240,000,000.

Reasons for Hope.

There are prejudices to be overcome, based upon insufficiency of study. Our people, eager to make the most of a thing, once its merits are understood, are habitually most difficult to move to a new departure. But there are good reasons for hope, looking back upon tolerably rapid changes of mind which have quite recently come over both those quarters which at present still show themselves torpid in this matter of co-operative banking. Our official co-operators, still so adverse, were even much more adverse to the "International Co-operative Alliance," when I laboriously piloted it into existence. I succeeded in spite of them—with *éclat*, as Charles Robert put it—and now there is nothing that they profess to value more. Light has dawned upon them. They would indeed have the Alliance all to themselves. Again, our legislators for a long time would not look at working men's provident insurance against accident, or old age, sickness and the like. In the favoured position of one well acquainted with the matter and having the late President Boedicker for a personal friend, to give me more than ordinary assistance in my research, I took my humble part in its advocacy, bringing out a book upon it in 1897,* which a present

* "Employers' Liability—What ought it to Be?" P. S. King & Son.

Cabinet minister has paid me the compliment of quoting at some length, with apparent approval.*

However, everyone turned away. "Oh, that is excellent": that is what I was told by intelligent members of Parliament; "but we are not nearly ripe for it; you are twenty years ahead of your time." In 1908 Mr. Lloyd George paid a hurried visit to Germany to see for himself the thing worked in practice—and the "twenty years" have passed in a twinkling. There are two Cabinet ministers at work upon Bills to carry the principle into effect, and everyone seems agreed that we must have such insurance.

What has happened in these two cases is likely to happen also in the case of co-operative credit. We want it. We fail to see this only because we have never studied it. Bankers appear to apprehend that it may mean some inroad upon their business. Other old-fashioned people eye it askance because it is "new-fangled"—possibly "Socialist"—and for the moment still "foreign." It is no more foreign than is other banking; it comes to us from the very same countries. And "new-fangled" it can scarcely be after sixty years of most successful and daily extending practice. "Socialist" decidedly it is not. We cannot find Socialists to take it up. There is a mint for employment, for agricultural, commercial and industrial prosperity in it. And so it seems bound to come.

I must warn founders of co-operative banks, no matter of what kind, that in the first years they may very likely find themselves working at a loss. There will be outlay which business may not at once be sufficient to cover. If there is found to be want of a bank in the locality, if such bank be found to develop healthily, that deficit ought not to frighten anyone; it will soon be wiped out. But, generally speaking, if we address ourselves to the work in the right spirit, it is bound to succeed among ourselves as it has succeeded

* Birrell, A. "Four Lectures on the Law of Employers' Liability at Home and Abroad. 1897."

among Teutons, Slavs, Latins, and Turanians, and is succeeding among Mahomedans and Hindoos, under every variety of sky, under the most diverse conditions, bringing good wherever it has taken root, raising the poor where other educating methods have failed, teaching habits of business, thrift, sobriety—making the drunkard sober, the spendthrift saving, the ne'er-do-weel well-conducted, turning the illiterate into a penman—and at the same time stimulating, with its magic wand, as Léon Say has put it, commerce, industry, and small husbandry; substituting plenty for want and happiness for misery; raising, enriching, emancipating the working classes, and flooding the whole country, economically speaking, like the waters of the Nile, with fertilising influences. Here is a work, in view of the magnificent results attainable by it, for the benefit of millions of fellow-countrymen, which ought to have attractions for statesmen, philanthropists, and ministers of religion. Please God, we shall some day see a rich crop growing up from the seed now being sown, and our country the richer, the happier, and the more contented for its growth. For, applying the words of the late Ernest Brelay, we may truly say—I think my narrative must have shown that—that the resources of this beneficent creative power are "illimitable."

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