

PEOPLE'S BANKS

A RECORD OF SOCIAL AND ECONOMIC
SUCCESS

BY

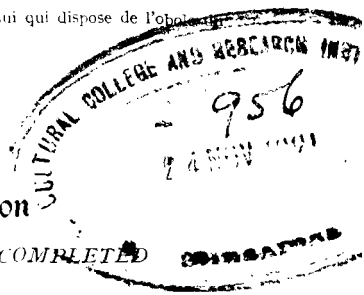
HENRY W. WOLFF

"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'opinion du prolétaire."—JULES SIMON.

Fourth Edition

NEWLY REVISED AND COMPLETED



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TO
HIS EXCELLENCY
THE HON. L. LUZZATTI,
Late 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

SINCE the issue of the last Edition of this book the Co-operative Credit Movement has made remarkable progress in all countries in which it has at all taken root ; and during the late war it has given evidence on a much larger scale than that noticed by Sir Robert Morier in 1866 of its peculiar power of resisting financial crises.

India has come into the Movement with more than 25,000 societies and more than a million members, providing over £8,000,000 working capital and obtaining magnificent results. Japan has increased the number of its societies to about 12,000. Emancipated Russia has become a veritable nursery of Co-operative Credit organizations, which constitute the only institutions in that country which have successfully, even brilliantly, weathered the storm of war and a great political and financial upheaval, greatly increasing their capital and also their business. In Germany and Italy the Co-operative Banks have substantially helped to keep the economic machine going, steadying business and standing firm amid a veritable political and financial cataclysm—and contributing largely out of their collected fortune to their countries' war funds—in Germany to the extent of about £300,000,000. The

same remarkable steadiness amid disturbances had shown itself even in the infant Movement in India, where withdrawals of deposits from Co-operative Credit Societies have been fewer and much smaller in comparison than even in the Post Office Savings Bank.

Although, quite accountably, at the present moment statistics are lamentably in arrear, owing to the war, the growth and consolidation of the Movement, and the changes which have taken place in it, are sufficiently in evidence. Such growth and changes have rendered considerable revision of this book necessary. Seeing that the specific object of this book is to elucidate the methods and effect of the various organizations in use, rather than describe their distribution over various countries, the earlier arrangement according to countries has been now replaced by arrangement according to systems.

I hope that this change will meet with the approval of readers.

H. W. W.

July 1919.

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 Mahommedans 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

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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. Petersburg; 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

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 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 some one else—be it capitalist 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 more, by creating new fields 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.

Léone 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 any one.

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 Westerland, and in a petty provincial town of that portion of Saxony which Prussia annexed—the Saxons say “stole”—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 “capitalized honesty” which plants virtues where there were vices, makes people thrifty, industrious, sober, honest, and enables them to build for whole classes habitations which no financial crisis can wash away—to such question there can be but one answer.

What untold riches these People’s Banks have within the seven 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 economist 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 acclimatize the more perfected organizations 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 realize the existence of such a thing.

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 W. E. 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."

Yes, that is admirably said, and with the purpose 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, economize, 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 an honoured 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?

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?

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 divides, peccasti*). Now let us suppose that through this vast, unwieldy mass of distress a line might be drawn, 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 the cheap rate of the current hiring price of money—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, whatever 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, suppose 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?

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, encircled 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. 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 under 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 decades 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 fertilizers 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 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 decentralization. It is private initiative, it is the decentralization of credit which is the dominating cause of all this progress in wealth. It is co-operation which has created it all (*la mutualité a tout créé*)."

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.”

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 off 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.

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 organization clear to you.

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.¹ "Not a *sou* has been lost," so declared the late Eugène Rostand, the President of one of the largest Savings Banks in France, in praise 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 seventy years, and speaking on behalf of a union now increased to beyond five thousand associations.

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

¹ I have no later figures owing to the War.

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.

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.

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 *compañía 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."

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 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 apt and felicitous words, "he stands in far greater need than does the rich." "He has no credit," says Giustino Fortunato, a leader in the Co-operative Credit Movement in Italy, "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."

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, 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.*"

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 *πρὸ 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 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.*"

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 *compañía 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 both to the landlord and to the money-lender, and thereby enabling themselves to obtain very much more favourable terms alike for rent and 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.

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 the late 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 visible 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 capitalization of honesty," to serve as a pledge of security.

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 "are all of 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 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 outside 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."

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 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 ingratitude. 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.

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 work-

shops—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.

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 great-grandfather of our King—more especially, had been careful to found some such in his dominions—at Götha, Ohrdruff, Zelle, Rulila, 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 General 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.

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 the *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 twenty-two 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, that is, under circumstances in which sufficient mental touch and mental knowledge of one another are wanting, 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 organized their own independent banks, based on touch and mutual knowledge of one another among members, and the new institutions thrived. 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 recognized district at all.

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 organized.

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 organized 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. Chevrotton, 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 1913 there were 463 societies with 55,339 members. Never had grain

of seed fallen on more fruitful soil than that on which the official variety had barely germinated.

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 authorized the formation of *banche agricole*, very similar in constitution and practice to the French *comptoirs d'es-compte*. 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 be most successful establishments.

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.

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 $\frac{1}{5}$ 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.

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.

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 appreciatingly 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.*"

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 organization 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 Belgium—“ *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.*”

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 nations. 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

“capitalization”—just as people who have not seen rivers like the Mississippi or the Ganges could not possibly estimate from the little rills and dribblets 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 droplets 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 “democratizing” 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 realize 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.*

CHAPTER III

THE TWO PROBLEMS

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. Employment, surroundings, class, locality, all these things necessarily impress their own distinct stamp upon the organization adopted. For practical purposes it will be found that we can well group all the objects to be kept in view under two great heads.

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 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 out 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 thinking of 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; however, that security is present only in scattered dribblets, and in a shape which is not currently accepted. To make it available you have to gather your dribblets together and put what is still only latent into a visible and tangible shape. Among the accepted customers 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 attachable 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 economizes cash. That means no evasion of the principle that debts should be paid in gold. In a similar way in "democratized" 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, raising up entire towns of busy factories, and filling its harbours with well-freighted vessels.

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 overdraft, 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, not commonly appreciated by our bankers.

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 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." "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.

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.

At this point the case of co-operative banks ceases to be on all fours with that of cash credit. For, in comparison 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, ground. Cash credit deals with sums which never in any case, so the late Mr. Michie advised me, 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 realize, 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.

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 organizers 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 denaturalize the institu-

tion 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 organization 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, where 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 can be no pardon for walking on boiled peas. *Aydua quae pulchra*. There must be an expenditure of effort, a struggle against winds above and the "pan" 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 assistance should be given in a business-like way and that the people who give it 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.

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. So, once more it looks as if it were destined to be in Ireland, after the Raiffeisen system has rendered good service in raising farmers to a higher financial level. 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 and therefore safer will be the basis.

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

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 recognized 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 realized 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 foodstuffs 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.

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 organization. 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.

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.

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. Wollebörg, 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. Even in Germany the hatchet has at length been buried—opposition to State aid being to some extent the peacemaker—and the followers of Schulze and of Raiffeisen have to some extent joined hands in friendly collaboration side by side. 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

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, and, while improving their position, also to raise their character, to unite them more closely among themselves and lead them, with a fraternal feeling shared among all, to co-operate and assist one another in other things, promoting a feeling of brotherhood. 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 material 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, bringing greater independence, and generally a better position, coupled with a raising of character and a promotion of neighbourly touch and mutual helpfulness 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 covet. Certainly, also, it is better calculated to generate a feeling of satisfaction, and a propagandist zeal and enthusiasm in its adherents.

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 recognized. 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. 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 engender also good morals. We have ere now heard it said that the most effective propagators of European civilization in uncivilized 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.

Now let us consider how the two principles may severally affect our problem. 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—as he has been by Schulze—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.

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 popularized, democratized, decentralized 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."

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

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 the inferno 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 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.

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.”

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

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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

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 Beaconsfield glowingly spoke more than forty years ago, has, under the stress of adverse times and a call for intensification, become changed into a business sorely in need of help and, if evi-

dence collected in many quarters is not altogether wrong, in need of help more specifically in the shape of money.

Apparently improved times, the result of the war, with its raised prices, of which so much has been made, as if they signified profiteering, and which are unfortunately offset by a multitude of hampering restrictions, which take a good deal of the gold off the gingerbread—have in this respect in truth brought about rather an aggravation of circumstances than an alleviation. For a farmer cannot produce that “more” which is now required from him as a means of making the Nation self-feeding, without ample money to do it with. Larger production necessarily means larger outlay. And behind the regular farmer, who is to supply us with food, stands the huge host of allotment and other small holders, to practically all of whom easier and cheaper access to money than is now open to them is a necessity, if they are to accomplish the work, for themselves and for the Nation, for which the Nation looks to them.

Additional importance has been imparted to this question by our confirmed resolve to provide for a large number of soldiers returned from the war by settling them on the land. As in every case of small holders settlement, these soldier-settlers threaten to be lost on the land without adequate working capital, such as, it is to be feared, not many of them possess, and as, under the circumstances, only Credit can supply. And, indeed, the less the technical skill with which a settler embarks upon his farming—whatever be the tuition given to him by a solicitous Department—the larger will be the call upon his purse. For his first farming is bound to be to a large extent experimental, which means, that on one or other enterprise money will be lost.

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.

Under pressure of advancing times agriculture has long since become, from the easy, self-rewarding occupation which it is understood once to have been, a business of money and enterprise like all other businesses—having the

same tasks set to it, but not the same means at its disposal wherewith to accomplish the tasks. We should probably be in a better position to consider what are its needs could we bring ourselves more fully to realize 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 not 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 in which that calling stood before the war. 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 output 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 organization of the industry, arranged our commerce so as to enable men to take advantage of even the slightest turn of 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. And we have added the "overdraft," which is about the most effective help to the business man in practice, who is in a position to command it. 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 and for acquiring those useful implements, that helpful machinery and that 'forcing "power," which modern invention has made accessible, we might make it fare as other industries have fared? All evidence available on the subject seems to support such a conclusion.

"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 fertilizers 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 so 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.

The first is that of a small farm held by a Co-operative Supply Association—the Royal Arsenal Society of Woolwich—which in fifty years has grown up from the most modest beginnings to a position of commanding prosperity. The Society thirty years ago decided to purchase for its own use a freehold farm—the Borstal estate—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—£4 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 realized £2,280 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 made the farm pay in spite of bad times.¹

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 extended over about 335 acres, and used to be worked on the old-fashioned three-field shift, with a capital of not quite £6 10s. per acre. The working capital was increased to £16 an acre. The expenses per acre have grown from about £1 4s. to £3 1s. 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 12s 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.

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 Dipoltshausen from a “white elephant” into a remunerative investment.

¹ The farm has since this was written had to be appropriated as building land for workmen's dwellings.

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, to say the least, very much mitigated. We might almost, applying the word "worth" of our commercial English terminology, 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 habits, a capacity for forecasting and reckoning up results and proceeding accordingly, and for keeping accounts, which Paul Leroy-Beaulieu terms "the soul of business," constitute the most 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 periodical 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 our 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, "industrialize" 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.

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 implements, 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 a land 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 provided cheaply and without difficulty.

I have, some time ago, related¹ 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.² The method adopted represents

¹ *Contemporary Review*, May, 1895.

² Some such help has subsequently been given, evidently for political reasons. The main agent in the movement has in conversation with me pronounced it superfluous.

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 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 sum of capital—need additional working funds, if they are to do full justice to their opportunities.

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 so realized 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 civilized 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.

However, although with the advent of the Allotment and Small Holdings movement small farming has made good

its claim to our attention, in the main to our British mind "agriculture" still 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 employment 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 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 huge quantities of the smaller farm produce—apples, milk, potatoes, vegetables, etc.—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. Though we cannot everywhere compete with the foreigner in cheapness of rent or of labour, 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.¹ We talk of the ruinous effect of “gambling in wheat.” At the first International Co-operative Congress, Rektor Abt, of Brugg, 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.

I have before now quoted an example which appears to me singularly deserving of notice in this country, as

¹ See my *The Future of Our Agriculture*.

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 Nivernais 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 his lean stock in February or March to prepare by a few weeks of stall feeding, then turn out to grass, sell in August, in order to put 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 at Nevers, found that for want of money these farmers were not turning their land to adequate account. The pastures were generally understocked. Perhaps M. Giraud would not have been quite so eager to remedy the defect had he not at the same time discovered that the very same cause which hindered farmers in their calling also seriously inconvenienced the local banks. There was a great "draw" of money in early spring, which emptied the tills. Then in August there succeeded a general scramble, money coming in and going out, causing a great deal of trouble and bringing in very little profit. And in October and November in poured the money realized on the market, in huge unmanageable masses, to embarrass the banks with a plethora all through the slack season. A little ingenuity enabled him to set the matter right, and

kill two birds 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 banker, backed by that financier 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.

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 spirit to

be delivered, 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 recognized 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 mere business. The drawer being "good," his 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 other Commissions and Committees which have followed. 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, recognizing 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, written some years ago, "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—who himself is a banker, a partner in a large bank doing business abroad—fully agrees with me, that if a bank were created capable of making the tenant's security effective, and loaning upon it, the system would be all that could be desired.

It may be objected that there is actually already some sort of agricultural credit. That very point has in fact been raised. There is, no doubt. But what does such credit consist of?

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.

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 inferior 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

PEOPLE'S BANKS.

ays' support if the goods be bought for cash in small quantities, and for three days' support if they be bought or 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, sometimes amounting to peonage, the sacrifice of freedom of action, may not be taken to rank as the heaviest item in the account. Some thirty-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 acknowledged, 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 Laugh-ton, 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 farmer to combine for the common purchase of goods—to which they have since, with exceedingly good effect, added 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.

Again, there is banker's credit already available 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 a 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—standing crops—credit which is intended rather to enable the farmer to borrow out of a difficulty than to supply him

CREDIT TO AGRICULTURE.

ns for engaging in some profitable enterprise. There is a smack of favour about this kind of credit, and a shadow of embarrassment behind it. It seems to cut into the borrower's financial reputation. In any case, every particular instance, to be treated as a matter of bargain and negotiation, is 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 to be of any use. It is a specimen of what Léon has well stigmatized as "illegitimate" credit—"counterfeit credit." Paul Leroy-Beaulieu calls it "credit given to meet expenditure already incurred," credit which cannot yield a profit; as contrasted with "legitimate" credit, credit given for a purpose of production which may, if judiciously employed, assure a gain. Here is, in Scotland, of course, Cash Credit, which has done so much to raise Scotch agriculture. "The far-famed manufactures of Glasgow and Paisley, the unrivalled steamships 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 out to him 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 nineteenth 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 recognizable 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.

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

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.¹

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 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—at that time advanced to agriculture in the course of the twelvemonth not less than £12,000,000.

¹ See *Cologne Gazette* of 27th March, 1895, No. 269.

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 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 General 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 point of agricultural industry. But the difficulties prove formidable, and accordingly little or nothing can be done by those banking giants by direct means.

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 rather largely, not with farmers directly, but with Central Co-operative Banks, which formed 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 such 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 recognizable 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 organization, does not provide a sufficient source for such credit—that accordingly some new source will have to be created.

CHAPTER VI

THE "CREDIT ASSOCIATIONS" OF SCHULZE-DELITZSCH

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.

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 humbler trading class, and led to understand and appreciate their troubles. Schulze had visited England and knew something of our provident societies. Accordingly, it occurred to him to apply for the mitigation of their embarrassments the same means which had already proved effective here. In conjunction with his friend Dr. Bernhardt, of Eilenburg, he set on foot, first of all, a sort of provident fund. Next, the two philanthropists organized an institution which has since become exceedingly popular in Germany,

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 himself, but topped that 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 obstacle 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. Lassalle 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 badgering 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 principle of thrift—mercilessly harassed on his course.

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 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 immaculate.

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 mankind. Nor yet was he thinking of bringing about a working men's paradise. He was thinking of his joiners in Delitzsch, his shoemakers in Eilenberg, and beyond them of people in similar positions—all those toiling and producing myriads whom we rank as the humbler middle-class, who have employment for capital, but at present have no capital, at any rate not 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 certainly out of the surpluses netted there should be contributions paid towards educational and other purposes benefiting the poor.

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 earlier years. But the full list of occupations given below¹ 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 of this description, 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

¹ The figures given in a recent Year-Book are as follows:—

	per cent.
(1) Independent agriculturists, market-gardeners, etc.	27.05
(2) Assistants of the above, and labourers engaged in agriculture, gardening, etc.	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 ship-owners	4.80
(9) Postmen, railwaymen and subordinate employees in railway and postal service, waiters and boatmen	3.09
(10) Domestic servants and commissionaires77
(11) Medical men, pharmaceutical chemists, school-masters, artists, literary men and public employees	7.21
(12) Persons without a calling	8.42
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	100.00
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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 well suited to fill. Beyond this, the matter is bound to interest even purely wage-earning working men, because there is no more liberal 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 individually 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 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 recognized till 1889, six years after Schulze's death. The question of the several merits of limited and unlimited liability in connection with Co-operative Banking came, however, to be raised already in Schulze's lifetime by limited liability becoming legally permissible in Austria, where there were then already banks of the Schulze-Delitzsch type, in 1873. Unquestionably Schulze's successors in office still proclaim themselves, 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 emphasize, 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. Undoubtedly the financially strongest banks of the Schulze type still retain unlimited liability. Limited liability in the German 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 it does indeed mean that. But in the others it rises from the 1.20 fold to the sixfold. Only in seven, however, does it exceed the fourfold; only in 52 in all the twofold. One of the Congresses of the Union held has laid it down that it shall never exceed the fivefold. In other unions, as we shall presently see, this curious authorization of a fancy liability—which is intended for the security of creditors, but may actually tell against it—is answerable for much abuse, that is, for a monstrous liability piled up upon a diminutive holding in shares. There are co-operators who are of opinion that unlimited liability alone is calculated to bring out “the true co-operative spirit.” However, that is not the ground upon which Schulze and his followers base their preference. They value unlimited liability on account of its actual utility. They recognize its dangers. Schulze himself has described it as a “two-edged sword.”¹ But they consider its advantages to outweigh its dangers. And it is only fair to add that unlimited liability does not appear in Germany (and Austria), where people seem “to the manner born,” to have led to many serious losses.

The real “key-stone” of the system, the point upon which all its practice hinges, and by the degree in which societies succeed in attaining it they are judged by co-operators of Schulze’s school, is the accumulation of capital “of their own in the bank’s holding.” Towards that goal all methods adopted converge.

Such capital is to be created, not by gift or by lucky speculation, but by the members’ own honest efforts. This is the foundation upon which the entire scheme is built up. The societies pride themselves upon their devotion to “self-help,” and carry “self-help” even in the name that they have given to their Union. No demoralizing State-help for them! No patronage! There must be money of

¹ Dass die auf unbeschränkter Solidarhaft beruhende Genossenschaft in ungeschickten Händen eine sehr gefährliche Waffe sei, die in den minder bemittelten Volksklassen viel Unheil anrichten könne.—*Blätter für Genossenschaftswesen*, 1886, p. 81, ss.

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 peculiarly circumstanced 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.

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 nonreturnable 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 10s. 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 3s. per member.

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 perceived 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.

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, undesirable 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 this. 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.

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 are 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.

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 one, overmuch. It was the rediscounting banks which suffered most by the crisis.

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 cheaper would be its management, 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 may well coincide with a period of want in another, neutralizing 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.

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 plaît 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 the first 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 headquarters. 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 seems open to criticism.

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

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 organization 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.

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 by their liability, 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—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 *Aufsichtsrath*, acting collectively, and having only limited time at its disposal, to carry through carefully. Hence the recourse, practised in daily increasing ratio, to skilled assistance in matters that appear to call for skilled investigation 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 with its responsibility to answer for it.

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 of the rules—which declaration, bearing his signature, has to be handed in to the law court of the district, acting as registry office—and pay his first instalment and the entrance fee, 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.

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, recognized 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 *Einschätzungskommission* (Appraising Committee)—to appraise 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 facility 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.

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.

On grounds of practical utility the acceptance has long since become the favourite record of a loan.

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 almost too 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 out 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.

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 acceptances 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 inconvenient length of 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 still it is more than there should be. One is thankful to see the figure declining; but it had gone up before. 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 for 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.

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—appraisal of members for purposes of credit, careful examination of the security given from time to time, keeping loans short, and insisting on prompt repayments—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 out-places.

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 customers, opening drawing accounts, purchasing and selling shares and bonds, and doing all that modern usage requires a business bank to do.

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 they have 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 recognized 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 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 agricultural 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 seventy 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.

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 2s. a month. The bank had, ten years ago—I possess no more recent figures—about 13,000 members, who had among them paid up about £90,000. (The share capital had shortly before been advisedly reduced.) The reserve fund accumulated represented £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 even more. The smallest do not exceed 50s. 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 $6\frac{2}{3}$ per cent., all of it payable in advance. The losses sustained had 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 employs agents stationed all over its province, wherever there appears to be an opening and wherever a suitable man can 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 $\frac{1}{8}$ 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 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 principals' 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.

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 2½ to about 2,500 acres each. More recent figures not being available, owing to the war, I quote those of ten years ago, which are near enough to give a correct idea of the bank's position and operations. 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 4½ 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 5s. up to £1,500, but averaging generally £17 10s. 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 unlimited 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 centralization 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 committee-men 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) 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.

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 from the Society 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. However, the majority of loans are for considerably smaller amounts. 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.

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 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 3,000. 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 a similar sum 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 organizations. But it soon came to be perceived that, if the societies were to maintain their recognized 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.

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 of the Rochdale type, 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 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 in it 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 this.

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 very 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 organization 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 originated. 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 localization in the matter. For the inspector's personal acquaintance

PEOPLE'S BANKS.

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 special 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 recognized bodies, of which the Schulze-Delitzsch Union is of course one. From Germany the practice has been passed on to other countries, and it bids fair to become general. The benefits resulting from it are everywhere admitted. Business has become safer; the number of compulsory liquidations has grown perceptibly less; hence confidence has increased. And in each particular Union the quality of the various societies composing it has become much more uniform, giving them a sort of *cachet*, ensuring much increased public confidence. 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 recognized as the soundest lines. I may add that I have found these discussions a

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most interesting and highly instructive part of the proceedings at the various Congresses.

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 realize 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 not 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 quite 2,000, which removes almost every difficulty. The benefit accruing from this arrangement 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 shape—the same clearing union is once more attesting its value as a clearing union

for cheques, and bids fair to accelerate the acclimatization of that useful instrument.

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 organization. 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 money 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-opera-

tive 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 jeopardize 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 some years ago 60 had actually 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 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.

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 organizing co-oper-

ative credit systematically without the intrusion, in this case, of any foreign element.

How inconvenient, and even prejudicial, the lack of some central institution, to rediscount notes and stand in the breach in emergencies, may under circumstances become, we shall have occasion to see when we come to consider the co-operative credit of the Schulze-Dehitzsch type in Belgium and the attempts made to create it in France. For want of a “Clearing House and Financial Reservoir” of their own, the Belgian People’s Banks have been led in a late hour to support the proposal for State action in the matter, which really runs counter to their whole principle; and in France the late Eugène Rostand, who in his lifetime, stood at the head of the co-operative banking movement there, has owned that without some resource such as a Central Bank would afford, to draw upon—he desired it to be supplied by the public savings banks—co-operative credit could not be expected to flourish.

The time may now be thought to have arrived for taking a 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 narrow German Union alone, embracing little over 10,000 members, has accumulated over £15,000,000 of cash belonging to those members, and attracted more in £50,000,000 of deposits—which, with such means at disposal, has raised annually about £185,000,000 of money with comparative ease, and distributed that sum, might almost say automatically, while reducing the normal rate of interest, among the most productive channels, where it employs labour, purchases raw material, and adds to its active employment greatly to the nation’s wealth. And all this is done in a thoroughly business-like way, with what may be pronounced very trifling indeed in the shape of losses. Look at its effect in one area and its benefits become stupendous! It has a figure for only 919 banks in 1908 was above £100,000,000.

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 qualities which are sometimes made a reproach to it—the cold, calculating, prosaic, purely economic action, which fails to warm the heart and twine its tendrils 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.

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 engender 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.¹ It is the “loaves and fishes” of convenient 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 by 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 think only 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

¹ Herr F. Thorwart, one of the Board of the “Dresdner Bank,” in a paper published in the two last issues for 1909 of *Blätter für Genossenschaftswesen*, 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.

snowflakes and become an avalanche bank, which is apt to smother 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 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.

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"

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 organization 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 "exceedingly great tree," spreading out its branches practically over all the world, our own dependency of India included, affording shelter to innumerable living beings rejoicing in its shade, 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.

Born in 1818 at Hamm, in Westphalia, F. W. Raiffeisen found himself in his youth destined for a military career. Before, however, he could, rising from the ranks as an artilleryman, obtain the commission intended for him, he was compelled, by a failing of 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—eked out by hard labour barely enough to keep body and soul together, with the support of the scanty produce of their little patches of rye, of buck-wheat, or potatoes, and the milk and flesh of some half-famished cattle, for the most part hopelessly pledged to 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 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-semitic 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 tra

—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 of exchange and promissory notes, 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 agreeing to pay the purchase money by a number of instalments. In one aspect that is a most convenient practice for both parties—the purchasers being small, cultivating folk. To the vendor it raises the price; and it practically enables the purchaser to pay for his purchase out of its 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 finds himself at the "Jew's" mercy. Thousands of families, so I am assured, have been ruined in this way.

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 peasantry, 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-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 neutralize to poor consuming country folk the evils of Protection, which enriches their wealthier neighbours who have corn to sell. 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. 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. 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.

In the retrospect it seems a puny undertaking. To Raiffeisen's neighbours it appeared hopeless. "Where was the money to come from?" "From there," answered Raiffeisen, pointing upward to Heaven. 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 thousands 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, two or three decades 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.

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 organized. At the present time it stands at over 5,000, with at least 12,000 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 seventy years' experience, they can still make it their boast that losses in them have been infinitesimal.

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 objects in view. Schulze worked in the main in populous centres, and mainly for the benefit of men not of the poorest class. His banks were not intended to benefit the very poor. Raiffeisen worked only in the country where population is mostly sparse, 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 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 twelve-month. 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.

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

tion, 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 organized on entirely democratic lines. No difference of any sort is recognized between poor and rich, except that the better-to-do, bearing the brunt of the liability, are by accepted understanding allowed such part in the administration as will enable them to safeguard their interest—say, like a surety in Scotch “cash credit,” by withdrawing their “surety” before a risky operation is embarked in. 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, not have an association formed) should be in a majority. It may be worth pointing out that it is only recently that the minimum number of members to form the Council of Inspection has been reduced from six to three, that being 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 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—although of course out-of-pocket expenses are refunded. 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 allowed to be 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 fair 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 inspectors 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 recognized 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 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, as they have done there, 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 plaît 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 is apt to make 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 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 organization 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"¹ (that is, endowment fund) to which without fail two-thirds of the annual surplus must go, is an entirely peculiar feature. It belongs wholly

¹ 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.

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. 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.

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 is required first to 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 to 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 conscien-

tiously 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.

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 process. 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.¹ During the great war, which began in 1914, these societies have once more earned for themselves an excellent record as deservedly trusted keepers of depositors' money, and also providers of advances in cases of need. 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.

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, production or common work, or

¹ The same thing happened in the case of the Schulze-Delitzsch Banks.

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 organizations. In the wake of Credit co-operative supply, production, dairies, and any number of distinctive co-operative organizations have sprung up. Not to speak of supply and the like, co-operative dairies have been organized 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.

Then there are the useful vinegrowers' associations, which have from Germany found their way into Italy, Transylvania and France, where they answer equally well, and which an attempt has been made to acclimatize in 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 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 in their valuation. 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. How-

ever, 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 may permit, and the accounts are eventually closed. The addition to the price realized makes the latter 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, realized 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. Also, so it must be admitted, some societies, urged by a spirit of greed, have acted foolishly and attempted too much, with instructively disappointing results. It was over such distinctly speculative enterprises in wine selling, which the Central Bank, with misapplied "co-operative spirit," held itself bound to bolster up, that that institution lost fairly stiff sums of money. *Ne sutor supra crepidam!* In simply selling their members' own produce to better account such societies have generally kept themselves safe.

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 fashion local banks have assisted towards the formation of hop-growers' associations, and, lastly, towards the formation of grain-selling societies, some of which, although the problem tackled is generally admitted to be beset with difficulties, have under good management achieved signal triumphs and substantially benefited their members.

The multiplication of Village Banks has as a matter of course led from co-operation among individuals to co-operation also among associations. Throughout Germany

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. 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. 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.¹ From an early date the Imperial Bank of Germany, a public institution, on the ground of the proved solidity of the Raiffeisen organizations, allowed their Central Bank at Neuwied (now removed to Berlin) special preferential terms for advances, which it made to that body freely. That privilege was withdrawn when in 1895 the State-endowed *Centralgenossenschaftskasse* was created, specially to take over such business. The Raiffeisen Union did not at first avail itself of the services offered by the new *Kasse*. After, some years ago, it had suffered itself to be persuaded to enter into business relations with it, it benefited for a time by the credit so opened to it. Those relations, however, came to a sudden end in 1911, when, provoked by State interference, the Raiffeisen Central Bank withdrew from the arrangement, transferring the business very satisfactorily to the Dresdner Bank. 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 outside the Union. It is intended to serve as a common cash box, balancing excess and want, and facilitating common business. Since the dividend payable on capital is limited to 3½ per cent.—all surplus being carried to the reserve fund—and since the

¹ *Kölnische Zeitung*, 27th March, 1895, No. 269, see page 73.

business has become large, the bank can lend out to local associations at very reasonable rates, all the more so since in the institution of the Dresdner Bank it has a reserve, with for its purposes virtually unlimited resources, to draw upon for advances and rediscounts given on favourable terms. The Central Bank, which, as observed, 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 increased 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, established severally at Königsberg, Danzig, Berlin, Erfurt, Breslau, Cassel, Frankfurt, Coblenz, Brunswick, Strassburg, Nuremberg, Posen and Ludwigs-hafen. 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 are now 4,629 local banks holding shares in it, and the total share capital subscribed stands at 10,000,000 marks (£500,000), of which 9,577,000 marks is paid-up. And so far from being in debt to the State-endowed bank, with which it then for a short time stood in business relations, the Bank had 3,088,000 marks (£154,400) standing with it to its credit. The main office of the Central Bank 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 through the *succursales*. 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 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. At the same time the authorities at the Central Office own themselves satisfied that in the unlimited liability of the members—after inquiry in every case—they have ample security for their advances.

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 centralized 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, since the date to which the figures quoted above refer, the trading branch has been entirely separated from the money department. Each branch is now conducted as a distinct institution. Both branches of business have benefited by the separation. 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 very far outstripped anything that we have to show in our country.

The uses of centralized 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 credit societies, 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 organization has been created with twelve headquarters, which do a very large business. These 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.

With the help of its centralized institutions, and in virtue of its own inherent sound principle, the small "grain of

mustard seed " planted in the obscurity of the barren West-
erwald has, as observed, 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 survey to the " Adapta-
tions " 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, Serbia, Bulgaria, etc.,
also Ireland and India—of all which organizations the Neu-
wied 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 1912 embraced no fewer than 5,286 societies,
4,373 of which were credit societies, and 913 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 organizations 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 373,733,190 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 late German Imperial Chancellor, Herr von Bethmann-Hollweg, was not altogether wrong in the explanation which he gave publicly:

"Your movement," so Herr von Bethmann-Hollweg remarked, "embraces the entire German Empire and deals out enormous sums of money. Yet with all this, its work is 'detail work,' 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 minutiae. 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.

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 organization 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—but in germ only—in Scotch Cash Credit.

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 recognized—*joint liability* and *individual checking*. The sureties become an intermediate body between capital and want, helping the latter, but also effectually safeguarding the former.

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 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 securing—*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.

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 knew him

to 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 an entrance into the fold. Make people understand that in electing the new member they practically make themselves liable for any default of which he may be the cause, 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 learn 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.

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 recognizes 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 jeopardize 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 whose wealth makes them practically 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. And for this reason it is very desirable that they should assist the society not only with their credit pledged, but with their active services as well.

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 (of Gladstone days) 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 *caré*, in addition, to ascertain that they *remain* honest, thrifty, careful, and deserving of credit. You watch specifically the employment of each 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 impossibile che nessun faccia 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.”¹ 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 when 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. ✕

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 qua 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. And its success is entirely due to the peculiar organizing 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. It is decidedly successful. But the district is quite peculiarly constituted. There are, so to speak, five little hamlets, each of which contributes a committee-man. 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.

This really cannot be understood at a distance. To realize 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 Coblenz. The peasant of the Lower Rhine is as a rule—whatever 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 humanizing 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.

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 ginger-

liness. What the Prince's "blood and iron" could not effect, 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.

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 many years ago, one of those expensive implements—a Clayton-Shuttleworth—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 8s. 6d. per hour, to non-members at 9s. 6d., 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 perilous 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 10s. a year. He had all the bookkeeping at his fingers' ends, and knew all, financially, about every one with whom he had to do.

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 success, 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, late Secretary of the *Banca Popolare* of Milan, 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 which 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.

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. Assuming that proper caution is exercised, it is not to be condemned. But it presupposes a certain amount of business training among members. And joined to this simplicity of business is the simplicity of business arrangements, bookkeeping, organization, 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.*"

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 and Professor Held for members. 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 at Neuwied, which shows how materially litigation had diminished in his district, owing to the conveniences afforded and the good 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 and far beyond the limits of Germany, Governments are giving proof of their desire to have these banks multiplied.

And by economists and philanthropists who have seen them the societies are warmly eulogized 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." Eugène Rostand commends as their distinguishing traits: "extreme simplicity and cheapness, non-allowancé 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 wrote the late M. Durand, who had 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 Eugène 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 Engène 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

THE SPREAD OF THE MOVEMENT

THE two types of Co-operative Credit thus far spoken of constitute the standard types, upon the principle of one or other of which the whole array of imitation systems thus far devised have been reared up ; and upon the principle of either one or the other of which, so far as can at present be seen, any system of Co-operative Credit which is to have promise of satisfactory working in it will have to be constructed. It is proverbially impossible to prove a negative. However it is difficult to conjecture what other foundation there could be, supposing that the system is to be *co-operative*, that is, the co-operating members' own. Money may be distributed as largess, or advanced capitalistically on the security of tangible property. But in either such case the assistance rendered ceases to be co-operative. Even supposing that it provides adequate security for loans granted, it still cannot have it in it to produce the best results that Co-operative Credit was designed to bring forth—that is, the educating and emancipating results. A co-operative system cannot escape Léon Say's generally accepted alternative of being based either upon the presence of a "small capital of guarantee," or else upon "unlimited liability." If the first, then that "small capital of guarantee" will somehow have to be created—which, in the case of people of slender means can only be accomplished by thrift, as a work of time, by a systematic saving up of funds, to be safeguarded in the course of their accumulation and by careful control and restrictions. If the latter, the liability engaged will certainly have to be protected, in the interest of those who give it and, on the other hand, to be made

absolute in the interest of those who are asked to accept it as a security.

The two principles so set forth have severally been thought out, experimented upon, put to the proof, perfected and rendered effective in the two systems described, with an unsparing expenditure of thought, observation and an amplitude of experience such as are to be met with in no other. Accordingly, although it cannot be said that either of those two systems, both being typically German in the form of their application, and therefore marked by distinct local peculiarities, want to be imitated wherever it is desired to set up Co-operative Credit, they nevertheless deserve to be carefully studied in all their particulars by all who engage in the organization of Co-operative Credit. They are, in fact, to the student of Co-operative Credit what Greek and Latin are to the student of languages, that is, the root and foundation of all that has been subsequently developed—so to call them, the “grammar and syntax” of Co-operative Credit. Usages in other countries are different, minds in other countries run upon different lines, and what is the German's meat may be the other man's poison. But such differences, much as they affect the application, do not affect the principle. Nor do they affect the practical problems to be dealt with, which are more or less alike all the world over. In these two German systems it will be found upon research that every point that can arise has been examined and subjected to carefully studied handling, as in no other—even pedantically, it may be, in some instances, with a partiality for methods practicable only in Germany, but in any case placed under a mental microscope, mentally analysed, having the effect observed traced to its root cause and discriminatingly dealt with.

The effect having been established, the boundless utility of the system having been proved—along with its ready practicability even among economically untrained populations—it is not surprising that the new gospel should have been taken up eagerly and with more or less enthusiasm in other quarters—in fact by this time practically all the

world over, barring only our own sea and prejudice girt island, which has shown that on it it needs drastic lessons like those of the late war, to bring home to its population truths which have dawned long before upon the less prejudiced "foreign" mind. It is only the war which has led us to think of remodelling our agricultural system, to quicken it with organization and support it with ancillary services of chemistry, mechanics and science; to import into our one-sided banking system—rightly cherished except for its narrowness—the "foreign" features of "industrial" banking and "export" banking and, as Sir E. Holden has put it, the fighting of overpoweringly strong foreign banking combinations with correspondingly potent banking amalgamations on our side; to improve our educational apparatus more particularly on the rural side—where it has long been, in Sir James Meston's apt words (though applied by him only to India), our "Cinderella." The light of Co-operative Credit unfortunately has not yet dawned upon us—although, more particularly in view of our accepted Small Holding Policy we very badly need it, since there can be no successful small holdings husbandry without comparatively ample working funds. We would have the prize, but are loth to pay the price. We expect to be fed, not with bread, but with "manna."

Elsewhere, with many modifications in its outward garb, Co-operative Credit has spread out far and wide, finding new footholds in virtue of its established merits, among practically all races more or less civilized—Teutons and Slavs, Russians, Italians, French, Belgians, the Spaniards of Mexico and the Philippines, in far eastern Japan, with very marked effect and excellent results among both Moslems and Hindoos in India; and even Hawaii is trying to put the newly discovered economic weapon to profitable use among its motley, but throughout laborious and thrifty, population, which can well do with it.

In all this transplanting the parent plant, which has supplied the seedlings and sets, has been made to undergo various more or less drastic, useful or else detrimental transformations. What the German likes, other nations

reject. His usages are not theirs. Unlimited liability, for instance, which is to the true-born German the glory of the system—so Dr. Crüger has expressly written—has an uncanny sound to British ears and other ears besides. German account keeping appears to us cumbersome and over detailed. German handling of business presents itself to us as tied up with red tape, confining that free and unhindered action which we love, like a German baby in its swaddling clothes. There is meddling and muddling, counting the nails in a horse's shoe when the nag ought to be cantering merrily forward towards its destination. There are more such points. All these, however, are not of the essence of the matter. They may be got over and corrected, simplified and "desiccated"—as we have desiccated much valuable but overdry German learning. Nobody would insist upon the German husk, if we could only appropriate to ourselves the co-operative kernel.

The great stumblingblock, outside Germany and Austria, of unlimited liability and unwieldy shares has, outside the whilom "Holy Roman Empire," proved easily removable—where it is not wanted. It comes natural to the German. It will not fit into the habits of other races. *Alia vita, alia diaeta; autres pays autres moeurs.*

A good deal of the transformation carried out must indeed be admitted not to have been urgently needed. That criticism applies above all countries to the native home of the institution spoken of, fissiparous Germany itself, whose early tribes, our forbears, blessed us with the Heptarchy, and whose population a generation ago split up their Providence-given empire into a hundred little states, waging fiscal and other wars merrily upon one another, while other, wiser, nations were consolidating their power and acquiring those colonies which at present Germany covets. They have been splitting up Co-operation in precisely the same way, purely from self-seeking or quarrelsomeness. During the past few decades indeed the all-powerful Government of Berlin has, for political purposes, with its all-ruling might, welded together at any rate a considerable number of specifically agricultural co-operative Unions into one—a

herd favoured accordingly with official blessings and requiring such with valuable political services. But that was not always so. Two decades ago Dr. Haas' deputy leader complained to me that "of course" "big" Bavaria would not allow itself to be led by "little" Hesse—nor yet Wurttemberg or Baden, and so on. Nearly all agricultural Unions have now obediently closed up their ranks into one army which Berlin commands. Outside the agricultural milieu, however, there has been no uniting force similarly at work and accordingly there has been no union, but rather further fissiparation. German disunion has indeed produced a rather bewildering medley of organizations, one or other of which I see occasionally confidently referred to in supposed justification of some not altogether orthodox departure from accepted rule, which, however, fancy disposes this or that ingenuous novice to take up. "There is a German precedent for it." However that is very insecure ground upon which to take one's stand. For, as it happens, there is probably not a bad practice in the world in this connection for which some precedent is not to be found "in Germany." And it ought not to be "Germany" which is accepted as an authority in the matter, but a recognizedly good system in Germany. Among other things I would emphatically warn intending organizers of Co-operative Credit to beware of looking upon single parts of even the orthodox systems of Co-operative Credit as interchangeable pieces of machinery, which may at pleasure be fitted upon other systems. What was adopted in the Schulze-Delitzsch system was there adopted to serve a distinct Schulze-Delitzsch purpose, which does not come under Raiffeisen purview. And vice versa. A particular screw will fit into its own screw-hole, but not into another.

Outside Germany and Austria there has generally been some good, solid, reasonable cause to determine co-operators to deviate from German precedent. So far as Germany itself is concerned the motley multitude of systems has to a great extent grown up from a desire of this man or that to be a "Cæsar" in his own little village rather than a follower in a more important community. But there have

also been other influences at work to submission to which, it cannot be gainsaid, Co-operative Credit readily lends itself.

Co-operative Credit, as we have seen, invariably begins in weakness, and accordingly is under circumstances not unwilling to accept help. Also, the great utility of the institution having become demonstrated, it is not surprising that it should have come to be considered a service to the community to speed its coming and its extension by planing paths for it and helping it along with the provision of cash. Public-spirited people became impatient to see the thing advance, to have this Fortunatus' purse made accessible to all the country. Such desire appears so plausible that in over-indulgence in it people are led to forget the fact that Co-operative Credit owes all its main merit and all its enduring utility to its quality of being a self-help movement, a movement that raises money not out of gifts, but out of work, that as soon as you take the self-help away, or dilute it, you substitute a bogus article for the genuine one and give your intended beneficiaries something that only looks like bread instead of being a real loaf.

However the apparent good object often enough carries the day—more particularly since behind the good things to be acquired for others there is in not a few cases a very good thing also by such make-believe public spirit and generosity to be got for oneself. The altruism professed is in truth very egotistical “altruism,” the giving—often enough out of other people's pockets—of an “egg” as the French say, for a bullock (*donner un oeuf pour avoir un boeuf*). In this way various powers have claimed an interest in Co-operative Credit. The State, the Church, squire-led Agriculture, Socialism and other forces have professed a love for Co-operative Credit and petted and fondled it and lured it with sugar in order to be able to put their bit into its mouth and ride on it to victory for themselves. The Church was the first to detect its opportunity. The Raiffeisen system has the pulpit and the altar for its natural and declared allies. In Roman Catholic countries the priesthood is a power among the rural population. And, begin

ning in Germany, which has a large Roman Catholic population, its most keen-sighted members, with the help of great landlords of the faith, early in the day adopted Raiffeisen's teaching in the formation of their "Peasants' Unions," which at once accepted Raiffeisen's system of Co-operation, and more specifically Co-operative Credit, with so pronounced fidelity to the original that organizers and other officers of one Union can readily exchange offices with colleagues in the other, and drop into their places there to find the work assigned to them precisely the same as what they did before. The protestant clergy have not nearly the same hold upon their parishioners; and they have been much less active. But to some extent they have in their turn followed suit. And in Germany, it may in passing be said, the "Peasants' Unions," formed on either side of the Reformation boundary, are doing a great deal for the peasant population, whatever may be the merits or demerits of a denominational character carried into co-operative organization. The clergy of Rome would not have been what it is if it had not in other countries eagerly followed the lead of its German co-religionists—thus in Belgium, the Netherlands, in Italy, in France, quite lately also in Switzerland. Spain also has its own priestly organization of "Co-operative" Credit with the "Bank Leo XIII" at its head.

The Socialists—who are otherwise since some time extremely busy in co-operative propaganda and have succeeded in effectually capturing a goodly portion of industrial Co-operation in Great Britain, in Germany, in Austria and in Italy, also in Spain (so far as Spanish Co-operation goes)—have thus far made very little inroad indeed, if any at all, into Co-operative Credit. So far as the obtainment of money goes, their policy is rather to claim it from others than to labour for it themselves. Barring only Italy, they have failed to fasten any hold of theirs upon the rural community. And even in Italy, where they have tackled the land question in good earnest, and with good results already achieved, and more in prospect, and where they practise very good Co-operation, they have let Co-operative Credit

severely alone, trusting rather to others to furnish the funds that they want.

All the more active have territorial magnates shown themselves in cultivating this newly discovered field of profit and influence. The old world maxim of—

Rustica gens
Optima flens,
Pessima ridens

has been utterly exploded by the advent of "the Vote." Now that the Vote has become a factor to reckon with, one would much rather see a smile on rustic folk's face than the evidence of tears. And since that smile is to be bought, to buy it has become the aim of people having a use for it. The support given is not all the fruit of generosity, even with this reservation. For much of it comes out of other people's pockets. If there is credit created for the small husbandman, there is money by credit created also for the large landowner. And in countries—say like Hungary—where there are large squires' properties, the value of those properties is greatly increased, to the profit of their owners, by the improvements introduced by the use of Credit into the smaller holdings. Hence we find Agrarianism figuring prominently among the forces which propagate and favour rural Co-operative Credit.

And that Agrarianism finds a most powerful ally in the most insidious pseudo-friend of Co-operative Credit of all, that is, the State—which, as we in this country ought to remember, is on the Continent, more specifically in Germany and Austria, a different institution altogether from what it is among ourselves, inasmuch as it has an existence independent of the people and distinct interests of its own. The Throne there is not necessarily of the same mind as the majority of the population, nor are its interests the same. And the pseudo-friendship shown by such power is the most "pseudo" of all. For the great landowner, after all, in befriending his humbler neighbours and dependants for the sake of securing influence, at the same time distinctly gives *something* of his own and contributes to his poorer neighbour's well-being. The State likewise has an interest

in promoting popular well being. But in giving to one section of the population it necessarily takes something away from other sections, shifting values, and not creating new ones. And in Peter-Pauling in this way it destroys the value of its gift by killing the self-help which ought to have earned it for itself.

Very naturally it is just these pseudo-co-operative institutions which have, in virtue of the high patronage which they enjoy, been most blaringly paraded before the public. There is not a Pharisee who does not make the most of his phylacteries. And the more eager the State and magnates are to grind their own axes, the greater care do they take to make their supposed benefactions known. Thus we hear very much of Hungarian "Co-operation," which is nearly all magnate-ridden—not without its material utility, nor without genuinely generous intentions sharing in the motives for its creation, but necessarily imperfect by reason of the Pandora's gift foisted into them. Thus we hear much also of the "Imperial Union" of Germany and of the French "Crédit Agricole," both of which have political objects distinctly mingling with the economic, and both fed by the State for such political objects. Having very unwisely allowed itself to be placed under official guidance, it was of course to such officially patronized Unions that the much talked-of "American Commission" of 1913 was taken by its cicerones, whereas the really important Federations were given something of a "go-by." The result has been that the voluminous Report elaborated by the Commission has been rejected by American public opinion and the costly inquiry has resulted in little more than a showy jaunt.

With such influences at work as have been described, the adaptations which Co-operative Credit has been made to undergo are obviously not all changes for the better. And seeking among them for light and leading students and organizers elsewhere will needs have to walk warily, lest they should find themselves following a will-o'-the-wisp which leads them into a swamp.

Since the last edition of this book was published, Co-operative Credit organizations have multiplied to such an extent

that it would probably tax readers' patience unduly to adhere to the old arrangement of reviewing existing institutions by countries. The statistics given severally for each country have at the same time that they have become unwieldy also lost much of their value. For a great part, owing to the disturbances of the war, trustworthy recent statistics are moreover not available. And statistics, by the way, are rather a sore point in connection with Co-operative Credit, owing to its divisions and to the ill feeling which has long prevailed among the several sections practising it. I would not subscribe unreservedly to Lord Beaconsfield's famous *mot*: "There are three kinds of lies; there are lies; there are d—d lies; and there are statistics." But to be of any value statistics want to be trustworthy. Recognizing the prevailing chaos I in 1893 at the People's Banks Congress at Toulouse ventured to invite the French Government, as being then a neutral body, to take the collection of those referring to Co-operative Credit in various organizations and in various countries in hand. The representative of the Government rather rashly accepted the invitation. But he was of course disowned by his superiors, as having pledged himself to a work beyond the Government's power. In 1914, shortly before the outbreak of the war, the International Statistical Congress, meeting at Munich, is reported to have appointed a Committee to consider whether the Bureau of that Congress could take the collection of co-operative statistics in hand. The war has in all probability prevented further consideration. But in the public interest it is very much to be hoped that the task may prove practicable, and the Bureau willing to undertake it. In doing so it will be rendering a public service.

All these things considered, it appears to me preferable to review what has been done—with the exception of India, which by its resourceful originality of proceeding and the magnificence of the results obtained, deserves a chapter to itself—severally as adaptations or copyings of the Schulze-Delitzsch system, on the one hand, and the Raiffeisen system on the other, singling out for separate description only the two noteworthy developments under

either head, to be met with in Italy, on the following grounds. They are genuine adaptations, not mere copyings, suited, with resourceful originality, to new surroundings, which surroundings, as it happens, correspond in their main features with those prevailing in most civilized countries outside Germany and Austria. And they were the first adaptations to be made. For what the Poles did in Poſen, and Léon d'Andrimont in Belgium, was mere copying—useful and beneficent, but without originality. In the second place, both these adaptations teach us valuable lessons, on their own account, each by itself, which it is of importance that we should master more particularly in our own country. One is that under M. Luzzatti's remodelling it has become quite plain that where Co-operative Credit is based upon "a small capital of guarantee," limited liability and small shares are absolutely sufficient for the purpose and we need not alarm ourselves about the danger of unlimited liability. And the other is, that Co-operative Credit of the Raiffeisen type is fully as applicable to tenant holding as it is to ownership. That fact has to some extent been obscured, among other men particularly by some who under the sunshine of Government favour set up for chosen masters and teachers, more specifically officers of the German Haas Union. Under their teaching even a very careful official student of the subject, sent by our Government to study the matter on the spot and report upon it, has been misled into assuming that it is the possession of a freehold which makes the Raiffeisen system practicable. He has, to be sure, studied the subject only in Germany. There he has been given the version which he has adopted by leaders in a particular type of Co-operation, such as the distinguished organizer Herr Rabe, who have little to do with tenancy and love to praise up the German institution of peasant freeholds, as against our popular tenant farming. However freehold is not by any means essential to Raiffeisen Credit, nor ever has been. Italian practice distinctly proves this. And so does Belgian in the *Boerenbond*. In Germany certainly there is only very little small tenant husbandry to be met with—as good as none. There are medium and

large tenant farmers—who, by the way, find themselves doing better as tenants than they would as owners. But there is only very little *small* tenant farming. In Italy, on the other hand, tenant farming, more particularly in respect of small holdings, is in some—very important—districts the established rule. And in Belgium about 76 per cent. of the population devoted to Agriculture consist of tenants. Credit which took the freehold—generally speaking the object which co-operators are particularly warned against so accepting—as security would accordingly in those districts—which rank among those upon which it has by preference fastened its hold—be an idle phrase. But it is, on the contrary, a flourishing institution—in spite of “landlord’s distress”—which is as oppressive there as it ever has been among ourselves—and all the rest of the supposed obstacles to its application. To ourselves, accordingly, the lesson taught by the Italian *Casse rurali*—which does not stand by itself—is distinctly worth heeding.

CHAPTER IX

OFFSHOOTS OF THE SCHULZE-DELITZSCH SYSTEM

APART from a whole cluster of minor offshoots in Germany itself, there are three imitations of the Schulze-Delitzsch system which so closely follow their original that they scarcely deserve to be spoken of as "adaptations." They are as faithful copyings as circumstances would permit. For the first we have to go to Austria.

At the time when Schulze's system was first devised, Austria still formed an integral, indeed the ruling, part of "Germany." In consequence of this Schulze's scheme was adopted—first of course by Germans—bodily and as a matter of course, south of the Giant Mountains and Saxon Switzerland. And it has been maintained there in its pristine purity—*totus, teres, atque rotundus*. Severed by the events of 1866, the one Union formed in 1859 necessarily became two. However, the two have remained linked together in one thought and by one principle, like Siamese twins, to the present day. Even where there was not "Union" in the shape of actual alliance—that is, in the case of the Germans in Austria—Slavs, Magyars, Italians and all that motley crew for whose convenience the Austrian official vocabulary, while the Empire lasted, found it necessary to employ no fewer than thirteen different languages—there remains thorough union in principle. It is, however, to the Germans in Austria that I should at present wish to confine my remarks, since the developments among the Slav family of races and the Magyars appear to me to be important enough to claim consideration by themselves.

One brief glance at the collective mass of co-operative credit institutions in Austria and Hungary, or more correctly

speaking, in whilom Cis-and Trans-Leithania, I will, however, permit myself, just to show, by the light of statistics—*more Austriaco* very much in arrear—the distribution of co-operative credit forces among the several races.

And it may be as well to add that, although, of course, in virtue of most commercial and industrial business, as also most landowning, being in the hands of Germans—for landowning is in Austria to a large extent combined with industrial enterprise, the exploitation of coal-mines and beetroot-sugar refining being by preference worked by the territorial magnates from whose soil the raw material is extracted—German co-operative credit bulks heaviest, nevertheless German co-operators themselves admit that Slavs, who now seem to be coming by their own—animated as they are, by race feeling—show more “go” in the handling of the matter, not minding little sacrifices and pulling more readily together.

The total number of Co-operative Societies registered in Austria in 1914 was 19,091. Of these 11,917 were Credit Societies, 8,406 being of the Raiffeisen and 3,511 of the Schulze-Delitzsch type. Of the entire number of societies registered in 1913, that is 17,813, 5,538, being 34·7 per cent., were in the main composed of Germans; 5,303 (28·2 per cent.) of Czechs; 2,917 (15·2 per cent.) of Poles; 1,525 (8·1 per cent.) of Ruthennians; 952 (5·1 per cent.) of Slovenes; 896 (4·8 per cent.) of Italians; 488 (2·5 per cent.) of Serbo-Croats; and 218 (1·1 per cent.) of Roumanians. The Schulze-Delitzsch Union proper comprised in 1913 431 Credit Societies (276 with limited, 155 with unlimited liability). Only 414 had sent in reports, showing 69,702,756 crowns capital of their own (share capital and reserve) and 623,628,473 crowns as having been disbursed in advances or discounts. The loan capital of these same 414 societies amounted to 470,392,068 crowns. I have no particulars to show the strength and business of Raiffeisen societies.

Returns are also very incomplete with respect to Credit Societies in Hungary. The Central Bank, founded by the late Count Alexander Károlyi, had in 1912 2,412 Credit Societies attached to it, number-

ing 665,338 members, disposing of 63,211,216 crowns share capital (41,436,500 crowns being paid up), 11,355,400 crowns of reserve funds and 119,381,900 crowns deposits. The advances made by the Central Bank to the local societies during the year are returned as about 100,000,000 crowns.

One little difference between German and Austrian Credit Co-operation was brought about by the passing of the Austrian Co-operative law of 1873, which permits the adoption of limited liability by the side of unlimited. A similar advance was in Germany made only in 1889. That permission was not given in vain. Limited liability has under its sanction obtained a pretty firm foothold in Austria, long before it did so in Germany, and has subsequently gone on extending its sway, so that among Germans in the Schulze Delitzsch Union there were in 1914 known, to be 276 co-operative credit societies based on limited liability by the side of 151 based on unlimited. It deserves, however, to be mentioned that the financially strongest co-operative credit societies in Austria are still to be found among those working with unlimited liability.¹

The second instance of mere copying is that of the Polish Credit Societies in the eastern provinces of Prussia, the discussion of which I reserve for the present, with a view to linking it on to a review of the spread of Credit Co-operation among Slav races generally. The encouraging influence of race feeling already referred to as stimulating the action of the Slavs specifically in Austria comes out very strikingly

¹ Among co-operative credit societies collectively, of all races, in Austria, there were in 1914 3,222 with limited, and 9,018 with unlimited liability. The last-named figure, however, includes 8,406 Raiffeisen societies, which of course all of them are under unlimited liability, so that the number of Schulze-Delitzsch societies with unlimited liability becomes reduced to 612. But this small number is understood to include the best managed and financially strongest. In Germany there were in 1914 among a total of 19,203 credit societies 16,702 with unlimited, 2,456 with limited and 45 with a modification of unlimited liability, which leaves the liability ultimately unlimited but protects the individual members against proceedings at law until the society as a whole has been sued and found unable to meet the claim. The 16,702 unlimited liability societies include the Raiffeisen societies making up the bulk of organizations under this head.

in Polish Co-operation in Prussia, which is essentially all of a piece with the German, after Schulze-Delitzsch.

The third instance of mere imitation is that of the Belgian *Banques Populaires*, which owe their existence to the spirited propaganda labours of the late Léon d'Andrimont, who was an enthusiastic admirer and faithful follower of Schulze, at whose feet he had learned Co-operative Credit. He adopted Schulze's system exactly as he found it. His Belgian Co-operative Credit was a German tree planted in a Belgian pot, and has accordingly found a limit set to its vegetation. He planted the first seed of his little crop of institutions at Liège in 1883. Belgium admittedly at the time stood in rather urgent need of popularized—as d'Andrimont has preferred to call it, “democratized”—Credit. Indeed, in the active, pushing little kingdom, which has not without reason been described as “the Little England of the Continent,” where there was plenty of hand, head and motive power available, with climatic and geographical conditions still further to favour industrial, commercial and agricultural development, things appeared to be crying out for such credit. Credit for Agriculture, more in particular, had, just the same as in France, been the statesmen's dream and fond vision for decades past. The plaintive cry of M. Graux, as Minister of Agriculture, has already been quoted.

Léon d'Andrimont, who was himself a large landed proprietor, with plenty of tenants on his property, Château de Limbourg, and a man of alert mind, hoped to remedy this. He had, as observed, learnt Co-operative Credit in the strictest school under Schulze-Delitzsch; and in the strictest methods of that school he introduced it into Belgium, following his master in all things—except that he would not allow members of the Committee to be salaried or paid in fees, and that, once more, probably foiled by practical difficulties in his attempt to introduce supervision by a Council, he agreed to substitute inspection by skilled accountants, or bankers, either one *contrôleur*, as at Liège, or else three *commissaires*. Inspection he would have of the strictest and most searching sort, allowing the officers entrusted with it the freest and widest scope. In respect

of payment of members of the Council, human weakness has proved too strong for his altruistic purism. It has become usual to pay such members by fees.

Adopting the Schulze methods in full, with unlimited liability, large shares and all, d'Andrimont very naturally also copied Schulze's system of organization as it stood in the earlier period, the time when d'Andrimont was his pupil. He would have 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, with either five or else seven forming a quorum. 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 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. Some banks have, as a means of caution, 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.

So stood the organization at the outset. However, time has worked at any rate one essential change. Unlimited liability, once its full meaning and significance had been discerned, was found to be decidedly antagonistic to Belgian habits and tastes. It had been accepted in ignorance of what it implied. When in one People's Bank formed under it, it was proposed to *reduce* it to—I think it was fifty times the value of the share—members cried out that they could never burden themselves with so colossal a responsibility. D'Andrimont protested against limitation. However, it was in vain. There is now only one little bank—a good

one, as it happens, but small—that of Saint Nicolas (Waes) which has retained it. However, the remainder have for the most part adopted a fancy limitation, like that in vogue in Germany, amounting to a multiple of the value of the share, say five times that amount.

Liability having been limited, members are allowed to hold more shares than one. There is less provision made for the accumulation of a reserve fund than either in Germany or in Italy. At least 5 per cent. of the annual profits are, however, to be allotted to reserve, until the latter becomes equal to one-tenth of the actual share capital, after which every bank is free to dispose of its surplus as it may think fit. On the other hand, it is generally—and rightly—laid down that the reserve fund shall be indivisible and remain the property of the bank as a whole, no member being allowed a right to claim a share in it. The dividend paid is as a rule not excessive, although cases of 8 and even 15 per cent. have been known to occur—in banks which have subsequently had to wind up. But on the motion of M. Micha, who has all along exercised a marked influence for good on the movement, the *ristourne* has lately been introduced, at any rate in his own bank of Liège, meaning a “dividend to custom” allowed to borrowing members in proportion to the credit which they have received. Unfortunately—in my opinion—the Belgian People’s Banks have adopted the practice of making advances on the security of shares, generally speaking up to one-and-a-half times such amount.¹ No doubt that serves as an attraction to the public; but there is danger in it. In other respects the practice of giving credit does not differ from that usual in Germany and Italy, except that, perhaps, more stress is laid upon repayment by instalments.

D’Andrimont’s path was at first not altogether strewn with roses. There were decidedly “lions in the way.”

The first was a manifest disinclination on the part of

¹ The same practice exists in Italy and in Switzerland. The supposition is that election into the Society in itself constitutes a guarantee serving as security. But this is not sound doctrine.

agriculturists for their part to accept the gift which he brought them, intending that gift more particularly for these people. If the *rustica gens* is no longer *flens*, it is habitually *perversa* and *contumax*. If d'Andrimont has not succeeded in bringing it the desired money help, the Belgian Government has been no more successful in the attempts which it made, almost contemporaneously—in part on the same lines as those adopted in earlier pioneerings in France—in 1884. In that year the Belgian 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.

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 referred to elsewhere.

The experiment has, however, led to scarcely any results. The simple cultivator who, as both M. Graux and M. Beer-naert 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 the strange gentlemen who formed the *comptoir*.

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” and appealing more to the humbler class of cultivators 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.

Léon d'Andrimont was no more successful with his Schulze-Delitzsch bank. Only 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 had recently 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 1905¹ (there are now about 300)—only six were *cultivateurs*. That is no help for “Agriculture.”

However, on industrial ground likewise d'Andrimont found a “lion” to contend with, and that in some respects a more formidable one than he encountered in addressing himself to agriculturists. The realization of a declared want of democratized credit had in Belgium raised up a second “Richmond in the field” years before d'Andrimont, in the shape of the *Unions du Crédit*, which have become a

¹ I take this figure from *Mémoires et Documents réunis par le Secrétaire de la Commission nationale de la Petite Bourgeoisie instituée par arrêté Royal du 10 avril 1902*.

familiar feature in industrial banking alike in Belgium, their native country, and in France and Switzerland. In all these countries they still flourish.

The *Unions du Crédit*, which have, like cash credit in Scotland, played a very important part in the development of the industry and commerce of their country, deserve a brief account of their origin and constitution to themselves. They owe their origin to a Belgian tradesman named François Haeck.

They 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 organization, 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 at the present time 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 acceptance, 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, where the *Unions* have gained a permanent footing, 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 foundation 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, than just before the war. 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. From Belgium the *Unions du Crédit* have spread into both Switzerland and France, in both of which countries they have a good record.

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 organizing private credit in his country, which proposal he formally put forward in 1857, but which, like most of these overbold plans, came to nothing. Under his scheme credit of all kinds—personal, mortgage, and whatever it might be—was to be organized 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, were to be grouped in a Central *Union*, which would act as equalizer 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 in a modified form, with the substitution of the State for private capitalists as provider of money for the Central Bank. However, the success obtained has not been great.

Under the new law of 1901 the rules of the Brussels *Union*, which now numbers 5,500 members and which did, before the war, credit business of about £10,000,000 per annum, 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 the "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 recognized instrument of 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 con-

venient. 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.

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 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 organization. But they are an institution which does honour to the inventiveness of their author.

Although it cannot, of course, for a moment be contended that those successful *Unions du Crédit* meet *all* the wants which Co-operative Credit was organized to answer, they undoubtedly do meet some, and so from the outset created competition, which in places grew serious. So close was the overbidding contest between the two, that *Unions* have been found converting themselves into *banques populaires* and *banques populaires* transforming themselves into *Unions du Crédit* when opportunity tempted them to do so.

However d'Andrimont and his friends were not to be frightened out of fulfilling their self-imposed task. There was much credit work that wanted doing which the *Unions* had it not in their power to accomplish. As one instance of such d'Andrimont tells the tale of a hawking baker whom he found in Liège; hiring his barrow at the rate

of threepence a day. A People's Bank subsequently 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 10s. in pocket. Of course there are thousands of similar cases.

In 1883 d'Andrimont started his *Banque Populaire* of Liège. Although overtopped later in its career in respect of membership by its sister institutions of Antwerp and Verviers, that institution still deserves to rank as the premier People's Bank in Belgium.

Liège 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, about 4,000, 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 Liège 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 Liège is particularly strict in respect of its checking and auditing of accounts and transactions.

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 Liège. 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 decentralization. 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 Liège, 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.

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, it is not denied that some co-operative banks in Belgium have disappointed expectations. And, no doubt, there have been faults committed, such as are inseparable from a very loose formation without uniformity or Union Control. However, there has been no actual retrogression. Let us look at the facts!

In 1895 there were twenty-three banks; a few years ago there were sixteen. However, those sixteen banks numbered 15,877 members as against 13,749 in 1895. Their collective share capital stood at 3,669,017 francs, as against 2,714,962. Their reserve funds amounted to 1,613,711·40 francs as against 653,204·09. Their deposits (chiefly savings) were returned as 19,334,929 francs, as against only 4,815,786 francs. It is not possible for me to carry the comparison between 1895 and the present time further, because the business of the banks is now recorded in different ways.

The underlying root cause of what disappointments have occurred 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.

And there is no Central Bank, no headquarters where bills may be carried for rediscount. Belgians are hoping to remedy this. Unfortunately they set about it in an entirely wrong way. The Government have 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 re-discount People's Banks' bills. Why should a special institution be created to do this? So, very pertinently, asks M. Bouillenne, President of the People's Bank of Verviers; "good bills can always be discounted; people discount ours."

A genuine Federation of banks, with a Council bent upon seeing good work done, and a Central Bank would be a better remedy. Certainly Belgian *Banques Populaires* require more ready and more convenient means of having their bills rediscounted. That is evident from all that has been said in connection with the matter. And some few of the banks have given proof of it by entering into an arrangement with the great *Union du Cr dit* of Brussels for that particular purpose. In truth we see in this case what the possession of a Central Bank, and what the lack of it, means in co-operative credit. The difference between a Central Bank of one's own and other banks is this that, having it, banks affiliated to it can in all cases and at all times *rely* upon having their paper taken at a fixed and moderate rate of interest, which they themselves help in fixing. In Austria Schulze-Delitzsch banks have secured themselves by organizing at any rate a Central Agency (*Centralstelle*) of their own, which also acts as Clearing House. The Belgian *Banques Populaires* have done excellent work. But it has been patchy and uneven, because they have not taken to heart M. Luzzatti's excellent prescription: *isolati mai*.

It remains, among close copying of the original Schulze-Delitzsch organizations, to discuss the Union of Co-operative

Banks, organized among the Polish subjects of the Prussian Crown. Consideration of them leads us on, naturally, to an inquiry into the organization of Co-operative Credit among Slav races generally so far as it is moulded on Schulze-Delitzsch lines.

The Slavs appear born co-operators. They take to Co-operation as a duck does to swimming. Everybody has heard of the popular and widespread Russian institution of "Artels"—which are, not quite correctly, often regarded as identical with "co-operative societies." No doubt in Russian parlance every co-operative society would be an "artel," just as in Greek it is a "hetairia." But not every "artel" is also necessarily a co-operative society. "Artels" are occasionally formed as permanent institutions. But more generally they are designed only for temporary purposes. Waiters in an hotel will form themselves into an "artel," in which to share their perquisites in common and defray common expenses in the same way. Fishermen going to the North seas for the annual fishing campaign form an "artel" for the occasion, sharing expenses, of which one of them on common behalf is the disburser. There are also shipping "artels," owning ships in common, some with many, some with few owners, which ships, though small, are sent with native goods to distant ports. In any case, however, "artels" indicate the racial bent towards working and acting in common. However, evidence of such disposition goes very much further. Slav territory, even more than French in olden time, and Italy of comparatively recent but already bygone days, is the scene of these interesting *communautés*, as the French call them—*zadrugas*, *watagas*, *droujinas* of Slav nomenclature, best known to Western literature by the German name of "Slavische Hauscommunionen"—of which, in their French garb, as still found about the time of writing (about 1840) in the Morvan, President Dupin, the celebrated coiner of the famous "mot" "*le premier vol de l'aigle*," as describing the newly crowned emperor's seizure of the private property of the Orleans family, has given such a picturesque description. But for a few, very poor specimens surviving in the rugged glens of the "Montagne Noire," the *communautés*

are extinct in France—only *la grande marmite* of one is still preserved in an ancient village in the Nivernais. In Slav land likewise these interesting relics of patriarchal institutions, in which a whole cluster of families lived and cultivated and traded together under the lead of one chief, are gradually dying out. They are found to be altogether unsuited to modern ideas.¹ However Co-operation appears to be the natural element for Slavs to move in. In liberated Russia it needed but a touch of freedom to conjure up thousands of societies out of an erst barren ground.

¹ Croatia, so writes a Dr. Krunoslav Janda, "is the very home and birthplace of those interesting *kuch a zadruga* (domestic associations) which political economists delight to study, in which large families of several generations cluster round one common head, live and trade and cultivate in common in a patriarchal way, similar to whilom French *communautés*. In Croatia, in truth, the *zadruga*, that is the enlarged family, has long been the foundation, the unit, of all national organization. The members of the *zadruga*, like the early Christians, had "all things in common." From among their own number they elected a *gospodar kuće*, "father of the house," who was generally the oldest, and believed to be the most capable of the set, and who directed the common business and was well obeyed. When the family grew to unwieldy proportions, it separated, throwing off new *zadrugas*, as hives throw off swarms. However, the unity of the family was never broken up. The new *zadruga* remained bound in brotherhood, *bratstvo* or *bratimstvo*, to the old, and such *bratstvo* was always respected. The *bratstvos* in their turn collectively formed *plemes* of the same descent *zupas*, so that the old family relations were carried as far back as possible. The *zadruga* system suited the Croatians admirably. They thrived under it, and as late as in 1895 no fewer than 67,633 organizations of the kind were to be met with in the country, occupying among them something like 1,500,000 acres of land. Modern ideas, however, favouring individualism, proved antagonistic to *zadrugas*. A law was passed which forbade the formation of new ones and decreed the dissolution of those existing, provided that, not a majority, but one half of its members could be found to declare in favour of such course. Not a few of the old *zadrugas*, nevertheless, weathered the storm and managed to live down to present days. Many, however, were swept away, and the effect was seen in a loosening of communal ties and decline of rural prosperity. The large properties of the old *zadruga* were cut up into minute holdings, which do not thrive as well. The authorities soon discovered their mistake. It was too late, however, to create old-type *zadrugas* afresh. Therefore as a substitute they promoted the formation of co-operative societies among the peasantry. The population, accustomed to acting in common, took to such readily, and no doubt sooner or later Co-operation will prove a source of new wealth to us and revivify our Agriculture."

The Poles, among other branches of the Slav family, make excellent co-operators. And not in respect of Credit only. I have been privileged to see the interesting working of their land settlement societies, to which Germans are, on nationalist grounds, refused access. And I can testify to the excellent quality of their work. It was rather touching to see this oppressed race, in non-combatant opposition to a cruel attempt to crowd them, Ahab like, out of their homes, with all the tyrannical power of an absolute Government commanding a bottomless national purse arrayed against them, raising up bastion after bastion for its own protection, with only its own slender means to depend upon. Co-operative Credit—of the personal type—enables them to allow their settlers—whom a German Land settlement President, Herr Beutner, has admitted to me to be better fitted for the purpose than Germans—to enter upon their freehold holdings with not a penny paid down. Nevertheless the whole business passes off smoothly and leaves a clean balance sheet.

The co-operative banks of the Poles in Prussia are as like the German of the Schulze-Delitzsch type as can be. The Poles have accepted Schulze's teaching in full, and made it answer capitally. Only they would not, on nationalist grounds, join the German Union. And there is one feature to distinguish the two, which the Poles have added, in the shape of a Central Bank, which answers exceedingly well. 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 the application of such money to their proper purpose. 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.

Membership is of a decidedly mixed composition, which shows, once more, how fully Schulze-Delitzsch or Luzzatti banking—that is, a system of banking based upon the subscription of even only comparatively moderate shares, though coupled with only limited liability—will meet agricultural requirements. Of the 105,793 members of their Union in 1908, as many as 73,575 were directly connected with agricultural land, either as owners or else as tenants, 56,042 being “ agriculturists ” by calling. Of such number 1,683 were more or less substantial land-owners, 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. †

The Union, as observed, has its own very useful Central Bank, which was formed originally by subscription for shares by individuals in addition to co-operative banks. Gradually the bank has been converted into more of what it is intended ultimately to be, that is, a bank of banks, by co-operative banks taking up the shares subscribed by individual holders. Of its £100,000 paid-up capital held in 1908 as much as £70,000 was held by co-operative banks of the Union. And more shares are progressively being transferred from individual holders' accounts to accounts of banks.

It is exceedingly satisfactory to know that, under a Resolution formally passed at the first All-Polish Co-operative Congress, held at Warsaw last year, the Prussian-Polish form of Co-operation for Credit is to become the accepted and recognized form in the re-united country of the sons of Lech. This resolution was passed by general acclamation after the system and its excellent results had been explained by the President of the Prussian-Polish Union, the Rev. Adamski, who more particularly recommended adherence

to the two points of having a Central Bank, and of holding strictly aloof from State aid. With respect to avoidance of State aid it seems worth pointing out that its acceptance clearly shows that it is not merely nationalism which has thus far quite naturally kept the Prussian Poles from accepting aid from their hated Government, but co-operative principle, which demands reliance upon self-help. In truth the Prussian-Polish societies have done very much better, even financially, with their pure self-help Co-operation, than their German rivals with all the State aid so generously lavished upon them. The Congress mentioned showed most promising heartiness in the adoption of Co-operation in the restored country of the White Eagle as an economic, social and educational help to the nation.

In Galicia, among a Polish and Ruthenian population, this system of credit is very widely practised, but not throughout in an altogether orthodox shape. The system, as has been already remarked, under slack supervision lends itself rather readily to abuse for the pursuit of self. In Germany itself there have been complaints that usurers have been admitted as members, who have used the co-operative bank for the purpose of raising cheap money to lend out again at high rates to others. The same abuse appears to be rather rife in Galicia, in which province every seventh person is said to be a Jew, and every Jew lives by "business," with a notoriously unthrifty race of neighbours to prey upon, above all people among wearers of the gabardine. In all these eastern countries the "Jew" pretty well dominates all business, most particularly business with agriculturists, whose regard for thrift or knowledge of business is not generally excessive. The rather high average interest charged for loans by Galician societies—higher than elsewhere, namely from $5\frac{3}{4}$ to $7\frac{1}{2}$ per cent., appears to support the charge of proneness to "money-making." Of the 701 credit societies existing in 1905—statistics are, as already observed, very behindhand in all Austria—as many as 434 were reported to be, either altogether, or else for the most part, composed of Jews, at any rate under Jewish management.

So it comes about that in Co-operative Credit Societies Jews represent about 50 per cent. of the members sitting on managing committees. There are also distinctively Jewish societies—societies covering in Galicia a wide area comprising from 80 to 120 parishes each. And there are two wholly Jewish "Unions." There is a manifest desire in the province to cultivate "business" rather than to study restriction to qualifying cases. Under such circumstances it is easy enough to account for abuses creeping in. Indeed it would be difficult to keep them out.

The same charge of slackness in guarding against similar abuse is levelled against the Schulze-Delitzsch societies in Hungary—a country which includes a large Slav population. The Societies there, forming under Schulze-Delitzsch rules, style themselves "Independent Societies"—emphasizing by that title the fact that they are not supported either by the State or by magnates, upon which the societies claiming to be formed upon Raiffeisen lines are dependent. They form a declared standing opposition to the other class of societies which are magnate ruled and mainly rurally Magyar. Co-operative Hungary is in fact divided into two camps, not differing very largely in the number of members which they can boast, but very decidedly in the power and influence which they wield.

"Independent Societies" are disliked by the other, the Magyar, co-operative societies, on the professed ground of their including "so many Jews," a race not generally in particularly good odour with territorial magnates—except in the hour of need. There may in Hungary be partisan hostility in this, for Jews there stand for the most part on the Liberal side and are averse to State aid. The fact that Schulze-Delitzsch societies, on co-operative grounds, likewise condemn State aid, which magnate-led Co-operation lives upon, makes them fellow-victims of magnate societies. Nevertheless it is admitted that the "independent" societies have rendered, proportionately to the number of their members, genuinely co-operative services which may claim to compare well with those for which thanks are due to the magnate-led "legions." I

am not of course in a position to give recent figures showing either their strength or their activity.

Among all European nations one of the first to take up Co-operative Credit of the Schulze-Delitzsch type—the first of all among Slav races—was the Russian. M. de Louguinine, a Russian landlord, had sat at the feet of the great “master” himself and there learnt what he very rightly judged must, if found applicable, prove a veritable godsend to his then certainly backward country, which, with a treasure store of natural resources waiting to be turned to account, was thirsting for fructifying cash. Animated by humane aspirations, he would do for his race in things material what Saint Cyril and Saint Methodius had done for it in things spiritual, that is, bring it the gospel of salvation from poverty and debt. That was in the sixties. His first bank at Dorovátov, in the “Government” of Kostroma was formed in 1865. If M. de Louguinine has not succeeded to anything like the same extent in the same time as his “master,” that is attributable in part to a marked difference in economic conditions in the two countries, but in part also to the restrictive policy which governed Russia actually up to 1905. Under the ruling of those old days whatever was to be done must be done by the Government.

And the Imperial Government, holding the reins tightly, had meddled and muddled to its heart's content. There had been dabbling in the promotion of “popular” credit for small folk before. However, that was not on co-operative, but on spoon-feeding lines, under the patronage of the State and the provincial Councils. The Government had for decades past bestowed much paternal thought and inquiry upon the problem of a suitable form of popular Credit to meet the generally recognized want. There is no occasion here to describe all the forms of assistance adopted. When Louguinine's “co-operative” programme came on the scene, there were actually, as a Government Committee has explained, no fewer than fifteen distinct categories of popular credit institutions in existence, none of which however was at all found equal to its task. What came nearest to self-help organization was the mutual credit societies

authorized in 1840—the very same year, oddly, in which our Parliament sanctioned the formation of our well intended but greatly disappointing “Friend of Labour Loan Societies.” The result proved unsatisfactory. And the societies, the number of which in 1913 had dwindled to 215, with little business doing, cannot come seriously into account. Louguinine at length, in 1865, introduced real co-operative credit. A society, more or less resembling a Schulze-Delitzsch society, was then formed at Dorovatov, and in 1876 a Committee was formed by the Government, endowed with considerable funds and powers, to further the formation of co-operative societies, roughly speaking, of the Schulze-Delitzsch type. That Committee at once separated into two sections, one having its quarters at Moscow, the other at Petrograd. Louguinine, Prince Vassiltchikoff, Jakovlev and some other well-known furtherers of co-operative practices in Russia, attached themselves to the Moscow branch, which took Schulze-Delitzsch Co-operation for its model. It was by no means inactive, and the societies formed by it were much spoken of and acquired a certain sort of celebrity among economists. However the Schulze-Delitzsch societies, such as they were under legislation which scarcely favoured genuine co-operative practice, were after some time found to be insufficient for the purpose to be served. Accordingly, in 1895, on the proposal of the Petrograd Branch of the Committee (among which M. de Borodaewsky and Colonel Gerebatieff were leaders), Raiffeisen Co-operation came to be put into shape for Russian application. And it has made its way rather brilliantly. In the shape actually adopted it is not indeed anything like genuine Raiffeisen. However for the time it is found to answer its purpose under more or less elementary conditions. In any case what with one type and the other, Russia has brought up its force of co-operative societies to about 55,000 in all, 16,894 of which are credit societies. That was the figure for 1918. Since then there has been further growth. In addition to the law passed in 1895, there has been further legislation in 1904 and 1910, which now governs Co-operation. ✕

Evidently it is the Russian natural predisposition to

Co-operation, the ready grip obtained by its people of co-operative principles, which has, in spite of faulty rules, terribly irritating interference by authorities, and generally backward conditions, favoured the satisfactory result achieved. For after all, in Co-operation, as in Religion, it is "the spirit which quickeneth." Good co-operative spirit will raise success out of indifferent rules; the lack of it will bring the best rules in the world to naught. But there is—and this is much less satisfactory—another potent influence at work to favour the spread of Co-operation. That is the help—unfortunately more than balanced by hindering interference—of the State. The State has poured forth its millions. It began with 14,000 roubles allowed to the Moscow Committee. In 1913 co-operative societies stood indebted to the State to the extent of 192,606,300 roubles. By November, 1916, the account had grown to 355,649,000 roubles and by November, 1917, to 473,600,000 roubles. That indebtedness is known to have further increased since, for the Lenin-Trotsky Government has shown itself remarkably kind to Co-operation. Its kindness is, according to the phrase of Bastiat, *ce qu'on voit*. *Ce qu'on ne voit pas* is the constant interference, the hampering oppressive meddling and muddling by the State. It is not a "Registrar of Friendly Societies" who sanctions the Rules of a newly forming society and so gives to it authority for registration. Promoters have to go for that to the State Bank and the Minister of Finance. There are shackles and manacles at every point. And there is the army of over 500 Government inspectors—formalists and officialists—to inspect. It is this which has kept back Co-operation for so long a time, really until the dawn of constitutional government. The Government wanted co-operative societies, but was at the same time afraid of them. So, between benefits bestowed and restrictions imposed, the movement would not progress. The sharp curb bit applied kept neutralizing the stimulating action of the golden spur. Emancipation came, let us say, in 1905. And Co-operation blossomed up at once, as if conjured out of the earth. On the top of it came the Revolution. And under that visitation, while

every other interest suffered severely, Co-operation alone made strides ahead which may well astonish observers. As a parallel to the supposed fame of Lord Byron's "Conrad," the Bolsheviks' name promises to be remembered as "linked with one virtue and a thousand crimes." That one virtue is the regard paid to Co-operation, in which at the present time one eminent Russian patriot has declared that he sees the one hope of Russian reunion and the restoration of good government. The cruel anarchists deliberately spared Co-operation. They went beyond that and actually encouraged it. They left it all its money, while robbing every other hen roost. Only late in the day did they enforce, as related elsewhere, the absorption of the Moscow Narodny Bank as a separate branch into the national State Bank—even then still leaving its treasure intact and securing to it autonomy, which probably means that it is not to be robbed but made to serve as a first step in Socialization. The quite remarkable upgrowth of Co-operation in Siberia—Co-operation by which we are likely to benefit, while at the same time benefiting Siberians, by receiving their agricultural produce for our nourishment—seems little short of a miracle. In comparison with 5,709 co-operative societies registered in 1905, there were in 1917 46,057 societies and ninety-two Unions with about 13,000,000 members. Even India with its wonderful growth of Co-operation cannot rival such results. However it is but fair to mention that about 20,000 of the said societies are societies of consumers, distributive stores, and about 4,000 are *Kustar* societies, that is societies of producers engaged in "small industries."

But that is not the whole story. In a much earlier stage of their development than Co-operators of other countries have the Russians detected the value of gathering their co-operative forces together and forming strong financial centres to support the movement. They did not themselves want State aid with its restrictions and its 500 clogging inspectors. They would shift for themselves. It was probably the Banking Department of our English Co-operative Wholesale Society which suggested the move, as it has suggested similar moves elsewhere. Government had

threatened them with a Central Bank of the Prussian type, which in 1907 and 1908 nearly materialized, although co-operators themselves strongly resisted the proposal. Their first All-Russian Co-operative Congress, held at Moscow in 1908, afforded them an opportunity for knocking the scheme on the head by a strong resolution. With that resolution was coupled another to form forthwith a Central Bank of their own. It took about four years to prepare things for the execution of that resolve. But by 1912, when the first specifically Russian Co-operative Credit Congress met, once more at Moscow, the scheme was produced in definite shape. The "Narodny" (that is, "People's") Bank was thereupon opened at Moscow, in that year. To the surprise of every one the entire share capital required to be shown for the obtainment of official sanction, that is, 1,000,000 roubles, was subscribed within a few months—85 per cent. of it by bona fide co-operative societies—and half was paid into the State Bank, as required by the law. By 1917 the share capital had grown to 10,000,000 roubles and a fresh issue of 25,000,000 roubles was out for subscription. The Bank needed such addition, because the claims upon it were so many and kept growing still further. Tenuity of its means stood greatly in its way at first. However, the State Bank soon came to recognize its solidity and opened to it a drawing credit up to a million roubles, which the Bank was not slow to use. Business increased further. The turnover in 1915 was £24,300,000. In the first eight months of 1916 it was £49,000,000. Deposits, which are taken down to the amount of 1 kopek, that is about a farthing, came in well. In 1917 they amounted to 80,000,000 roubles. During the third quarter of 1917 the Narodny Bank dealt out 64,000,000 roubles in credits. With such business for it to transact it is no wonder that during 1917 its indebtedness to the State Bank increased from 17,000,000 to 64,000,000 roubles, in addition to 12,000,000 roubles owing to private lenders.

The further growth of the Narodny Bank is really surprising. On January 1, 1917, of the 8,000 shares issued by the Narodny Bank, no more than 8 per cent. were held by

co-operative societies. It was private capital, coming in as demands grew, which had swelled the fund. On January 1, 1918, when there were 40,000 shares out, the proportion held by co-operative societies had risen to 27,415, that is 68·4 per cent. The Bank had grown into the recognized financial centre for all Russian Co-operation. The balance sheet of the Bank on January 1, 1918, showed a total of 321,000,000 roubles. A twelvemonth after the figure stood at 700,000,000 roubles. The Bank's advances to co-operative societies had grown from 145,000,000 roubles in 1917, to 500,000,000 roubles in 1918. The Bank's dependence upon the State Bank had greatly diminished. But it was recognized that its own capital still needed strengthening, to enable it to cope with the business coming to its counters. It was accordingly decided to bring up the share capital then standing at 65,000,000 roubles to a full 100,000,000 roubles. And there seems no reason to doubt that the money will have been forthcoming.

All this story of co-operative development in Russia since the Government leading strings were thrown off, I submit, constitutes an unique occurrence in the history of Co-operation.

The Schulze-Delitzsch system had likewise found an entrance upon Russian territory, independently of Louguine, through the Baltic Provinces, where German influence was powerful. But there, likewise, its action was sorely hindered by adverse legislation and regulations imposed which took away with one hand what they gave with the other.

So it comes about that it is not easy in the Russian "Loan and Thrift (or else Advance and Thrift) Societies" to recognize an offspring of Schulze's Credit Unions. To begin with, with admirable intentions the societies have been terribly coddled by the State with the provision, not only of money but also of printed forms, rules and books, *viva voce* lectures and the like. Everything, in fact, is done to "kill" Co-operation by very cruel "kindness." The Government "Committee," under M. de Sokolieff's guidance, issued obligatory rules for societies to accept and, to save newly forming societies expense, it provided them gratui-

tously with account books and the like. Societies forming under Rules sanctioned by Government were exempted from stamp duty and some taxes, and, to make things quite safe for them, Government authorities undertook even to collect overdue payments to their credit. The regulations then laid down continue in force for societies of this type. The form of organization prescribed is very similar to the German—indeed, actually copied from it. There must be three Directors as Managing Committee, a Council for control, and a General Meeting. In some respects full liberty is permitted. Societies may fix their own district, which as a rule extends over one volost. They are furthermore allowed the *gage sans desaisissement*, that is, they may leave the chattels pledged to them for loans in the pledger's employment. They may form at their own pleasure under either limited or unlimited liability—the liability so pledged remaining in force up to two years after cessation of membership. But they are forbidden to advance money on mortgage, or to make advances generally for longer than twelve months. The Rules also insist upon a fixed payment annually to reserve. Rightly the law forbids the formation of societies for distinct classes or interests, keeping the right to be elected open equally to all. But there are unmistakably political reasons to account for this apparent liberality. One-class organizations were held to involve political danger. One very striking difference between genuine Schulze-Delitzsch societies and Russian is this, that the latter engage in other business besides Credit. Schulze would have no blending of business. In his excellent little book on "The Co-operative Movement in Russia" M. Bubnoff says that "almost every association engages in so-called "intermediary transactions"—which means that they engage in distribution and sale. Notwithstanding the certainly not ideal position thus given to the "Loan and Thrift Societies"—which condition might elsewhere have stood in the way of success—these associations have grown numerous and proved decidedly useful. There were in 1916 4,678 of them and they admittedly do a larger business than the more numerous Russian *soi disant* "Raiffeisen societies" (known

their own country as "Russian Societies"). Thus, in 1906 847 of these societies sending in returns reported a business of 38,558,000 roubles, whereas 1,871 "Russian" societies had only 24,734,000 roubles business to show in 1908. (I have no figures for later years for these societies.) The figures are said to be generally typical of the transactions of the two classes of society organizations.

The Czech societies of Bohemia, Moravia and Silesia also have a good record. Even without the war to interfere, it would be difficult to quote trustworthy recent statistics. Amid such a confused chaos of races and languages, when it is presented at all, the record gives very little information indeed of the kind here required. Thanks to a highly developed industry, the three provinces named bulk largest in the co-operative statistics of the late empire, more particularly Bohemia, which in 1910 accounted for no fewer than 2,284 co-operative credit societies with 200,023 members, out of the 7,631, with 944,526 members recorded for all Austria. The figures for the three more or less Czech and Slovak countries—Bohemia, Moravia and Silesia—were for the same year 2,378 societies with 331,146 members. There were in 1906 in those same three provinces—or "countries," as the Austrians call them—668 Czech co-operative credit societies of the Schulze-Delitzsch type, with probably about 400,000 members, for the number of members given for the year 1905 was 359,658, and there seems to have been an increase. The collective share capital of those societies was reported as 20,851,166 crowns, the average share being of the value of 30 crowns (about 24s.). The reserve funds stood at 43,000,000 crowns. The advances made in the year are given as 374,661,800 crowns. The difficulty experienced in some cases in obtaining adequate personal security is indicated by the information given that not a few of these societies have pawnbroking departments attached to them. There is really nothing objectionable in this, if the need really exists. *Monti di Pietà* and *Monts de Piété* are in more countries than one under official management, to avoid abuse and fraud. And a co-operative society is as fully qualified to guard against such things as a State.