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Editorial Notes.

The Second Urban Banks' Conference, Tiruvannamalai.

I

The Second Madras Urban Banks' Conference held at Tiruvannamalai on the 15th and 16th October, 1932 was an important session from various points of view. Perhaps it is not quite accurate to call it the Second Madras Urban Banks' Conference in as much as the first Conference held at Erode in 1928 was in the first place confined to Urban Banks in the Tamil districts and in the second place included not only urban banks in the strict sense of the term, but all limited liability societies. This conference, on the other hand, had members from all over the province and was confined exclusively to urban banks and hence this should be more appropriately called the first Madras Urban Banks' Conference. There were representatives from all over the province from Tinnevely to Berhampore and from Madras to Mangalore.

II

Mr. B. S. Srinivasagopala Iyengar, the President of the Tiruvannamalai Urban Bank, was the Chairman of the Reception Committee and in his address after dwelling upon the importance of

the place of meeting as a pilgrim centre, he laid emphasis upon the fact that in earlier stages of the movement Urban Banks were looked upon as pioneers and did spread the gospel of co-operation in the country around. His plea for urban banks to serve as balancing centres to all other smaller co-operative institutions in their locality was not endorsed by the President of the Conference, who wanted that the financing of these primaries should be left to Central Banks. The Chairman of the Reception Committee also pleaded for the right of granting loans on the pledge of jewels, which was the subject matter of a resolution of the conference. Like the good lawyer that Mr. Aiyangar is, he pointed out two legal difficulties in the running of co-operative societies under the act as it is and pleaded for changes to be effected with a view to make the working smoother. The first point was that in disputes arising between societies and their members, there is no provision for impleading as parties to the suits subsequent alienees of mortgaged properties, who may be non-members. He also pleaded that the power vested in the Registrar under section 42(a) to supersede the committee of a society should be allowed to be exercised only after an enquiry under section 36 or inspection under section 39. He dwelt at some length upon the difficulties experienced by a society in executing awards and complained about courts allowing only 6 per cent interest instead of the contract rate till realisation. He also dwelt upon the audit scheme which bulked so large in the other two addresses.

III

Mr. Strathie, the Registrar of Co-operative Societies was given an opportunity to give expression to his views upon some of the burning questions of the day. He was requested to open the conference. He spoke with so much of sincerity and dealt with some important questions in such a straightforward manner that his speech created a great impression upon the audience. He dwelt first upon the conference making up its mind on matters coming up for discussion before it and appealed to the members present not to go back upon the resolutions passed, instancing the unfortunate action taken by some members who attended the Bankers' Conference and the General Body Meeting of the Provincial Co-operative Union where some resolutions upon audit were passed. He said that the action of these members in going back upon the resolution "reduced these institutions to the level of a theoretical debating society and

lowered their prestige in the eyes of the public and the Government." He discussed at length the various schemes for audit of co-operative societies and pointed out the advantages and disadvantages of each scheme in a very frank and impartial way. Audit by Government, or by Local Audit Unions, or by Central Organisations, or by Certified firms of Accountants, these are the four schemes now before the public and he said that the Government are anxiously awaiting the opinion of this Conference on this question. "Given honesty, unselfishness and care, any of the four systems will work." But if a central scheme be thought of, he recommended that it should be under the Provincial Co-operative Union. In discussing the matters concerning exclusively the urban banks, he said it is a matter of gratification that there are some good banks working satisfactorily and he instanced Kasargod, Mangalore and Bodinayakanur. He deprecated the practice of certain banks laying excessive stress on security and advised the banks to lend far more on character and repaying capacity. He also sounded a note of warning against long term loans and against lending to people, who are spendthrifts and about whom the Directors should have no compunction of conscience in enforcing the law. Finally, he pleaded for interpreting the good impulses that we have in action and for our having a permanent extension of the true principles of Co-operation.

IV

Mr. Ramadas Pantulu, who presided over the conference commenced his address by stating that he had no direct knowledge about the urban banks, that he was a rural co-operator to the core and that he was not in favour of separatism that was the animating spirit in most of the notes and papers submitted for the conference. "He believes," he said, "in the essential identity of interests, principles and practices of all co-operative credit organisations in the province." He discussed the plan of some urban co-operators to have their own financing and propaganda institutions, both of the district and provincial grade and condemned such an attempt very strongly, quoting the high authorities of the Townsend and the Banking Enquiry Committees. He indirectly deprecated the views of holding separate urban banks' conferences and said that the ideal state of affairs would be when there is only one Provincial Co-operative Conference, holding its sessions perhaps once in three years and having as many sub-sections as may be necessary

dealing with one type of societies, such as, Consumers Societies, Urban Banks, Loan and Sale Societies etc., on the analogy of the All-India Science Congress, which has one plenary session and a number of sectional meetings acting with its own President.

He went on to analyse the implications of the term "Urban Bank" which falls into three varieties, viz., (1) bigger urban banks aspiring to do the work of ordinary Joint Stock and Commercial Banks, (2) Employees' Societies, (3) tiny little primary credit societies operating over compact little places on a very small scale and said that though all these three varieties are called by one common name, each has got its own limitations and peculiar fields of operations and it would be dangerous to generalise about them as a whole. He was for allowing bigger urban banks having plenty of working capital to go ahead and do all kinds of banking business. He emphatically discouraged the idea of forming societies for special castes or occupations in a large urban area except those intended for salaried earners belonging to particular institutions.

Coming to the question of Audit about which his views had already been expressed, he said that as the volume of opinion expressed in the notes and papers was against any combined centralised scheme, he was prepared so far as urban banks are concerned to give up the idea of a central agency and allow them to federate themselves into regional groups.

Next he dwelt upon the fundamental points of resemblance between urban banking and banking done by rural credit societies. "The steady inculcation of co-operative virtues of thrift and promptness in repayment, the size and duration of the loans, the purpose and repaying capacity of the borrower, absence of tenderness in effecting recoveries and arrangement for effective audit, concurrent and final, will help every credit organisation to function in a continued state of sound health." In conclusion, he pleaded eloquently for not allowing the poison of communalism to get into co-operative movement. In the west, Co-operation is kept above religion and politics. He wanted that in this country also, it should be kept above all distinctions of caste, creed and community.

V

The Conference passed about 14 resolutions, All discussion upon them was confined to the Subject Committee on the first day

and in the morning of the second day, so that in the open conference most of these resolutions were passed without much debate. We are glad to note that first resolution emphasises the important fact that audit should be entrusted to the non-official agency. This was keenly debated upon in the earlier stages, but when it came to a matter of voting there was practical unanimity of opinion. Mr. Sundaram Pillai who led the opposition declared at the close of the conference his readiness to accept the conclusion of the conference. Resolutions relating to the working of urban banks speak for themselves. We would like to draw the attention of our readers to the resolution No. 8 which calls upon every urban bank to recommend the insurance scheme of the South India Co-operative Insurance Society to its clientele. We hope that every flourishing Urban Bank will form a Local Board and push ahead the scheme of co-operative insurance, which makes it possible even for the poorest to insure his life.

VI

The Conference was next invited to Vizianagaram by the Secretary of the Urban Bank. Whether there will be another conference of urban banks exclusively, or whether in the light of the resolution No. 13 passed, the organisers will take all limited liability societies, or whether in the light of the presidential address, the idea of a separate conference will be abandoned and workers in connection with the Urban Banks would be satisfied with a sectional meeting at a provincial conference is more than we can say at present. After all the workers are so few and the same individuals re-appear in various groups. The time has long passed by when the spectacular importance of conferences needed emphasis; even educative importance of conferences has ceased to loom large. We are coming to the third phase of conferences being strictly business organisations, where a small number of businesslike resolutions are passed after full discussion by the chosen representatives, and everybody comes home to put into execution as far as possible those businesslike resolutions.

The Task before the Central Land Mortgage Bank.

The Agricultural Commission, the Townsend Committee and the Central and Provincial Banking Enquiry Committees and all such Commissions and Committees that enquired into the conditions of

agriculturists' indebtedness have unanimously recommended that co-operative societies as they are at present constituted are fit only to cater essentially to the short-term and intermediate credit needs of the villager and that a special type separate organisation should be brought into existence to supply the long term money which the agriculturists require equally urgently and it is with a view to meet the latter demand that land mortgage banks have been recommended to be formed. In our province we have a Central Land Mortgage Bank with its 40 and odd affiliated primary banks and the Central Land Mortgage Bank has been doing some useful work during the brief period of its existence. But even the most enthusiastic admirer of the Central Land Mortgage Bank has to admit that after all the work done is very little compared with what yet remains to be done and that barely the fringe of the problem of agricultural indebtedness has been touched.

As our readers would have noticed, Mr. Ramadas Pantulu has put forward a scheme according to which the not inappreciable amount of Rs. 50 lakhs is sought to be supplied from co-operative funds to the Central Land Mortgage Bank at the rate of Rs. 5 lakhs a year for ten years to come. The Provincial Bank will, if suitable term are agreed upon, practically undertake to supply this amount from the reserve funds of central banks taking Rs. 1½ lakhs from the annual additions to the reserve fund, Rs. 2½ lakhs from the accumulated reserves and supplementing this with Rupees one lakh from its own working capital. Even if reserve funds cannot be diverted to this extent and only a third or a half of the entire fund can be put in the debenture the Provincial and Central Banks can make up the deficit from other sources; this is matter of non-essential detail. Mr. Ramadas wants that the Central Land Mortgage Bank must guarantee a net interest yield at 5½ per cent on the money thus made available to it. He also says that this amount should not be repaid within 10 years, that is, the first repayment of amounts advanced in the year 1932-33 should be made only after 1942-43, so as to give the central banks and the Provincial Bank a guarantee of long term investment. Mr. Ramadas makes out a very strong case against the present policy of the Central Land Mortgage Bank giving 10 year loans which is not the ultimate purpose of the starting of the Central Land Mortgage Bank, that the Central Land Mortgage Bank must make strenuous attempts to make long term money available to the agriculturists at least for 20 years and that the

present compromise to float a third series of debentures should be stopped.

M R. Ry. Dewan Bahadur M. Ramachandra Rao Garu, the President of the Central Land Mortgage Bank, in his reply agrees mostly with all that Mr. Ramadas has said, but adds that the Central Land Mortgage Bank cannot give guarantee as to any fixed rate of interest for 10 years, nor to absorb 5 lakhs of rupees per year for the 10 years to come, but can come to an understanding that it will take such money as is required for 20 year loans and that the rate of interest is to be fixed at the beginning of every year. He is also of opinion that no undertaking could be given not to redeem the debentures earlier than 10 years. Mr. Ramachandra Rao seems to think, if we are not doing him an injustice, that this offer on the part of the authorities of the Provincial Bank is not clearly disinterested, that we are at the beginning of a cycle of cheap money and perhaps this is a shrewd attempt to get comparatively high rate of interest for large amounts of money now available with the Provincial Bank. In fact Mr. Ramadas Pantulu has not put forward the scheme on behalf of the Provincial Bank but as an individual co-operator.

We are concerned neither with the Provincial Bank's getting high rate of interest for its money, nor with the domestic troubles of the Central Land Mortgage Bank. Taking our stand as champions of the agriculturists, who do require long term money, we feel that it is the primary duty of the Central Land Mortgage Bank to get them the amount they require at as easy a rate as possible for period of 20 to 30 years. It looks as if that the Central Land Mortgage Bank has hitherto been caring more to adjust its requirements to the conditions of the capitalist than to make a study of the needs of the agriculturists and to make strenuous attempts to supply that need. If this point is conceded, namely, that it exists primarily for the agriculturists rather than for the capitalist, who is seeking investment for his surpluses, then there will be no difference of opinion. It must try to secure loans repayable in as long a period as possible, 20 years being the minimum; for it is well-known that if the period of repayment be less than 20 years, the amount to be repaid every year according to any scheme will be much more than what the borrower can conveniently repay and hence it is that in the West repayment is spread over as long a period as possible, from 30 years even to 80 years. If this is granted, namely, that the agriculturist requires long term money and it is the duty of the Central Land Mortgage Bank to help him with it, we are absolutely sure that the small differences between the Central Land Mortgage Bank and the other co-operative banks about the net interest yield, when the debentures should be redeemed and so forth can all be easily settled with the co-operation of the Registrar, who

is equally interested in both the institutions. We therefore, make an appeal to the Central Land Mortgage Bank to have a definite change in their angle of vision, to realise that they exist for the agriculturists and poorer land-holders, and that the offer of credit institutions within the co-operative movement itself for supplying that money ought to be availed of and preferred to the support of the capitalist, who will dictate his own terms and would like to have 10 and 15 year debentures only. The Central Land Mortgage Bank must look upon itself as an integral part of the co-operative credit organisation of the Province and must not consider itself to be a wholly separate institution, which can pursue its own loan policies without consulting the other co-operative opinion in the Province. We hope therefore that the Registrar will exert his good influence and see that the Central Land Mortgage Bank accepts the offer from the co-operative movement and so settle the terms as to be acceptable to both, so that at the end of a decade, we may say boldly to the world "we have been able to relieve the distress of the peasants to the extent of half-a-crore." If we succeed in doing that, as Mr. Ramadas has pointed out, we would have not only justified our existence, but would inspire greater confidence in the investing public, who will come forward with their accumulated savings to be invested in the Central Land Mortgage Bank, not dictating their own terms, but accepting the terms that we offer. We hope that every effort will be taken to bring about this desirable state of affairs.

The International Co-operators' Day.

The Provincial Co-operative Union has received a circular from the Secretary of the All-India Co-operative Institutes' Association, Bombay, about the Celebration of the International Co-operators' Day in India on the first Saturday in November. It was as a result of a reference made to all the constituent associations in India that the day was changed from the first Saturday of July to the first Saturday of November to suit the Indian requirements and conditions. We hope that on this important day, dedicated to the cause of Co-operation, our co-operative brethren all over India would assemble in large numbers and pass resolutions affirming their faith in co-operation as the only efficient means for overcoming the present economic crisis and preventing the recurrence of disaster and for contributing to the restoration of Universal Peace and Prosperity. We request co-operators to send a brief account of the celebration to the Provincial Co-operative Union for publication in the Journal.

Utilisation of the Reserve Fund of the Co-operative Societies.

BY

DEWAN BAHADUR M. RAMACHANDRA RAO.

In a paper contributed to the Madras Journal of Co-operation, Mr. Ramadas Pantulu has put forward an interesting scheme for the purpose of finding 20 year money for the Land Mortgage Banks within the movement and has asked me for an expression of my views thereon. With much of what he says I am in entire agreement. There has been for sometime an urgent need for a consideration of ways and means for the utilisation of these large funds for the benefit of the agriculturists, and Mr. Ramadas Pantulu's present proposals may, therefore, be taken as evidence of a new policy for keeping at least a part of these funds within the co-operative movement. Apart from this, the trade and financial depression has brought about a great change in the money market and we are probably at the beginning of a cycle when money will be cheap and the rates of interest easy. Much of the surplus money in the hands of the Madras Provincial Co-operative Bank and also its reserve funds and the reserve funds of the Central Banks are invested in Government securities from which it is fairly certain that the yield of interest cannot be anything like that earned during the last decade. This is a weighty consideration which cannot be overlooked. The proposal to utilise the reserves of the Provincial Co-operative Bank and of the Central Banks in the purchase of debentures of the Central Land Mortgage Bank earning a higher rate of interest than that on Government Securities, is therefore entirely sound.

2. The Central Land Mortgage Bank and the Provincial Co-operative Bank are each supplying two different needs of the agriculturist: the former is trying to minister to his wants in regard to long term money and the latter to his short term requirements. Immediately on the establishment of the Central Land Mortgage Bank, I felt that without waiting for public subscriptions, it was possible to find the requisite money for starting the operations of the bank from the reserves of the Provincial Co-operative Bank and the Central Banks, and also partly from their surpluses. The first step

taken by me in this direction was to secure the permission of the Registrar for the investment of their surplus funds in the debentures of this bank. This permission was accorded. Thereafterwards, I requested him to include the debentures of the bank in the list of fluid resources of the Co-operative Societies. The Registrar took the view that the debentures of the bank were not then sufficiently fluid for the purpose and that some more time should elapse before such a step was taken. I then drew his attention to the reserve funds of the Central Banks and the Provincial Bank and suggested that at least a portion of the reserves may be invested in the bank's debentures. He did not at first think that such a step was desirable; but a year later he again reconsidered the matter and has recently accorded permission for the investment of the reserve funds of the Central Banks in the current year in the bank's debentures. It will be seen, therefore, that all along, the Central Land Mortgage Bank has been anxious to secure such funds as may be made available from the co-operative movement for the purposes of long term needs. Mr. Ramadas' present proposals are intended to take the matter a step further. He desires to divert the accumulated reserves of the Provincial Bank and the Central Banks now invested in Government securities to the Central Land Mortgage Bank. His proposal is that, instead of accumulating these funds in stock exchange securities, they may as well be utilised for long term purposes and incidentally enable the banks to earn a higher rate of interest. I am wholly in agreement with the general policy underlying these proposals. Almost immediately on the establishment of the Central Land Mortgage Bank, Mr. A. Vedachala Aiyar, Retired Registrar of Co-operative Societies, also drew attention to these reserves and urged that they may be made available for long term purposes. But the proposal was not then considered seriously. I am glad that it has now come within the region of practical politics.

3. I now come to a consideration of the actual proposals put forward by Mr. Ramadas Pantulu. He says that a sum of Rs. 4 lakhs per annum would be found from the accumulated reserves of the Central Banks in the hands of the Provincial Co-operative Bank for a period of 10 years and that similarly a sum of Rs. 1 lakh per annum would be found from the general funds of the Provincial Co-operative Bank for the same period for investment in the 20 year debentures of the Central Land Mortgage Bank. In other words, the

Central Banks and the Provincial Co-operative Bank between themselves would subscribe to the 20-year debentures of the Central Land Mortgage Bank for a period of 10 years at the rate of 5 lakhs of rupees per annum. In order to enable them to do so, Mr. Ramadas further proposes that the Central Land Mortgage Bank should agree to the following conditions:—

(a) that the interest on these 20-year debentures should now be fixed at 6 per cent per annum for the whole period irrespective of the conditions of the money market;

(b) that the Central Banks and the Provincial Bank should be paid interest on the debentures free of income-tax. Mr. Ramadas contends that the transaction evidenced by the debentures between the Central Land Mortgage Bank and the Provincial Co-operative Bank and the Central Banks, is in its essence a loan by one co-operative institution to another and that the interest yield on these debentures, should, according to him, be free of income-tax. If it is held that the interest on these debentures is not tax-free, he suggests that a special exemption may be asked for from the Government of India in regard to the debentures held by the Co-operative Banks. If the exemption is not forthcoming, the Central Land Mortgage Bank must, under his proposals, in addition to paying interest on these debentures, bear the incometax on the same;

(c) that the Central Land Mortgage Bank should guarantee that the debentures will not be redeemed for at least a period of ten years.

4. Before dealing with these three matters, I should like to deal with a preliminary point. In regard to these three matters, it is not quite clear from his note as to whether Mr. Ramadas desires to place the transaction on a legal footing by the execution of a definite contract between the Central Land Mortgage Bank and the Provincial Co-operative Bank and the Central Banks, embodying the conditions above mentioned. He speaks of a definite contract at least about one of the three points above mentioned and the whole trend of his article suggests that a definite legal arrangement should be entered into so as to be binding on both parties to the contract. I had hoped that this was not his view, but his subsequent communication makes it clear that he wants a tripartite agreement. If he desires to place his proposals on a legal footing there are numerous

difficulties in the way of entering into a contract such as that suggested by his article.

5. In regard to the first of these proposals, the Central Land Mortgage Bank has been doing work only for two years and judging from the short experience that we have had, we cannot say for certain that there would be an even flow of applications for 20 year loans during each of the next 10 years. Indeed, it is impossible to forecast what our actual demand for funds would be in any year. The work of organisation and propaganda is going on in the districts and the advantages of borrowing from the Bank are slowly filtering down the villages. Without loan applications and the consequent mortgages, no debentures can be issued. All that we can say at present is without guaranteeing to take a certain definite sum of money every year from the Provincial Co-operative Bank and the Central Banks, we shall take from them whatever money is actually required to meet the demands for 20 year loans. Beyond that it is not possible to go. If Mr. Ramadas, without insisting on any definite legal agreement in this matter, desires that the Central Land Mortgage Bank should give preference to the funds in the hands of the Provincial Bank and the Central Banks for meeting the actual requirements of the Central Land Mortgage Bank for 20 year loans for the next ten years, an assurance to this effect can be given. But it will be a hazardous proceeding to enter into a contract to take a definite sum every year for the next 10 years. It naturally follows from the above that no agreement as regards the rate of interest on debentures can be entered into here and now so as to be binding for the next 10 years. I have already referred to the great change that has come over the money market and that we are at the beginning of a possible cycle of cheap money. The best course, under the circumstances, is, instead of entering into a contract for the next 10 years about the rate of interest, to review the situation at the beginning of each co-operative year and to come to an agreement that the Central Land Mortgage Bank should pay a definite rate of interest during that year for the borrowings of that year from the Provincial Co-operative Bank and the Central Banks. The Bank's policy has been to fix a rate of interest on the bank's debentures higher than the rate offered by Government on its borrowings, the bank's rate always being between $\frac{1}{2}$ and $\frac{3}{4}$ per cent over the Government rate. When Government borrowed at $5\frac{1}{2}$ per cent, we paid 6 per cent and when Government borrowed at

6 per cent, we paid $6\frac{1}{2}$ per cent and when Government borrowed at $6\frac{1}{2}$ per cent we could not go further. When Government borrowed at $5\frac{1}{2}$ per cent recently, we decided to offer $6\frac{1}{4}$ per cent on our debentures. I have no doubt that this higher rate would be kept up in future years and that the Central Banks and the Provincial Co-operative Bank would receive this higher rate during the period referred to by Mr. Ramadas, but I suggest the actual rate may be decided at the beginning of each co-operative year. Any other course may lead to difficulties.

6. The next point relates to the payment of income-tax on the interest accruing on the debentures. In the first place, I should like to say that I have, from the very beginning, taken the view that the debentures of the Land Mortgage Banks should be altogether exempted from income-tax. A recommendation to this effect was made by the Townsend Committee on Co-operation and its subsequent history may be shortly stated. Mr. H. M. Hood, as the Registrar of Co-operative Societies, addressed the Government of Madras on this subject in 1928 and the Madras Government addressed the Government of India sometime at the beginning of 1929 recommending the exemption of the debentures issued by any co-operative societies in Madras from payment of income-tax. The Government of India replied on 25-7-28 that the question of exemption from income-tax on securities held by co-operative societies was already under their consideration and that they promised that the proposal would be examined on its merits in connection with the report of the Banking Enquiry Committee which was then about to commence its work. They further stated that till the outcome of that enquiry was known, the Government of India were not prepared to accept the proposal of the Madras Government. The report of that Committee is now under the consideration of the Government of India and the Madras Government and I have quite recently again addressed the Government of Madras to take up the question with the Government of India, and I have no doubt that this will be done. Our demand in this respect is in conformity with the practice elsewhere. In most of the European countries, the debentures of Land Mortgage Banks are not taxable as a rule either at issue or transfer. The point for consideration, however, is that the rate of income-tax may vary from year to year and the intending investors

regard this an uncertain feature in the debenture scheme. In order to attract permanent non-speculative investors, a definite rate of interest during the whole period of debentures should be secured to them and this can be done by making the debentures tax-free. This has been the policy in regard to all Land Mortgage Banks in the west and the State assistance in establishing these securities has been of immense value in the building up of debenture-holdings of Land Mortgage institutions. It is to be hoped that the Government of India will be able to look at this question from this stand point and to concede the exemption which had been asked for.

7. As already pointed out, Mr. Ramadas' suggestion that we should press upon the Government of India for exemption from income-tax has been already carried out. He proposed that apart from the general question of exemption of all debentures of the Land Mortgage Banks from income-tax, we should press on the attention of the Government of India that the recommendations made by the Indian Central Banking Enquiry Committee that the earnings from investments in public securities or land mortgage debentures should be exempt from income-tax to the extent such investments are necessary for the purpose of their fluid resources and for the investment of reserve funds as prescribed in the rules. I understand that this recommendation is limited to such securities as are recognised for the purpose of maintaining fluid resources and for the investment of Reserve funds. The object with which the exemption from income-tax has been conceded in the western countries is to discourage the tendency to invest all the available funds in industrial concerns in preference to undertakings for the promotion of agriculture. Moreover, as pointed out by the Commissioners appointed by the United States Government, a tax on a mortgage ultimately comes out of the borrower either directly or in the shape of increased interest on the loan. It is impossible to secure money for the farmer on easy terms, unless and until such an exemption goes into effect. The conditions in regard to agricultural finance are much worse in this country than in the west and the general exemption that I have been pressing should be conceded. If there is, however, any delay in the settlement of that question, I shall be thankful for small mercies and shall, without giving up larger question, be content if the smaller problem relating to fluid resources indicated in Mr. Ramadas' subsequent communication is solved. It is hoped that this modified proposal may be accepted by the Government of India

in the near future; but nobody can say how long it will take to obtain their orders.

8. His further proposal that, if the exemption is not forthcoming, the Central Land Mortgage Bank must bear the income-tax, now remains to be examined. Mr. Ramadas wants that the Provincial Co-operative Bank and the Central Banks should be assured that their investments in the debentures of the Central Land Mortgage Bank should yield a definite rate of interest irrespective of the fluctuations due to the levy of income-tax. While I heartily sympathise with this desire, the Central Land Mortgage Bank has exactly the same desire not to be saddled with a fluctuating rate of interest, but to pay an uniform rate of interest on the debentures irrespective of the vagaries of the income-tax. The Central Land Mortgage Bank borrows money at a definite rate of interest and lends the same at a definite rate of interest. The shifting of the fluctuating rate of income-tax from banks which have already built up large reserve funds to a bank which has just been established and has practically no reserve fund as yet, must be regarded as a one-sided proposal. The bank has just been able to pay its first dividend with considerable difficulty and with the help of the Government for working charges. The proposal to saddle the bank with income-tax on debentures practically imposes an additional burden on the bank, while it is still struggling to earn its yearly administrative charges. The Central Banks now earn 5 per cent net on their reserves, and if they get 6 per cent on 20 year debentures from the Central Land Mortgage Bank, they would be in a position to meet the income-tax on the interest on debentures from the extra one per cent which they would be earning by investment in the debentures of this bank. They would not, therefore, be in a worse position by investing their funds in the debentures of this bank. In these circumstances, the proposal that, in addition to paying 6 per cent interest, income-tax should be paid thereon by the Central Land Mortgage Bank, cannot be accepted. The only course open for the Provincial Co-operative Bank and the Central Banks is to continue to accept the present position and to pay the income-tax on the debentures themselves till the time when Government of India arrive at a decision on the question of exemption. Mr. Ramadas has since stated that he will be satisfied with a return of 5 per cent net on the debentures. I have ascertained that the remaining one per cent will be enough to cover the income-tax.

9. The third point relates to giving a guarantee that the debentures would be irredeemable for a period of 10 years. Mr. Ramadas says that "the right reserved under the by-laws of the bank to redeem its debentures is a wholly one sided contract which is not the case in regard to the Government securities or the debentures and the time deposits of banks in general. While the Central Land Mortgage Bank's debenture holder cannot ask for his money till the full period expires, the bank can at any time compel him to receive it back on three months' notice even in the first year of issue". There is nothing unusual about the by-laws. The same "one-sidedness" prevails in the transactions between the Central Land Mortgage Bank and the borrowers. It is open to the borrower to pay back the whole loan irrespective of the instalments while the bank has no right to call in a loan except when default is made by the borrowers. Mr. Ramadas has taken part in all the discussions that took place in connection with the framing of the by-laws and is fully aware of the reasons why this right is conceded to Land Mortgage Banks all over the world and has referred to the reasons at some length in his note. In his own words, "it is necessary to provide against the bank sustaining financial loss by not finding scope for the utilisation of its collections in its business. The primary borrowers have invariably the right to make advance payments in reduction of their loans. If collections come in abundance and cannot be reloaned or used up by a land mortgage bank purchasing in the open market its own issues, not above par, otherwise invested on remunerative terms, then the bank resorts to compulsory redemption of the debentures before maturity. A debenture redemption fund is, therefore, created for this purpose (*vide* Townsend Committee's report, page 66 and bye-law No. 16 of the bank.). Secondly, the obligation of the bank to see that the value of the debentures actually in circulation at any time does not exceed the value of the mortgage bonds and other assets transferred to it by the Primary Banks may necessitate compulsory periodical redemption of the debentures before their due date on a definite scheme, which is however, so worked as to cause the minimum inconvenience to the debenture-holders. The power, when used for these purposes and as a last resort, will indeed help to strengthen the debentures and operates on the whole to the benefit of the debenture-holders themselves". From these observations, it is clear that Mr. Ramadas does not object to the periodical redemption of debentures, but on the other hand, he thinks that the redemption of debentures under the circumstances

referred to by him will be a source of strength to the debenture-holders. Since writing the above, I have received a further communication from him from which it is clear that he does not object to the bank's right to use its normal and other uninvestable surplus collections for being used for the redemption of debentures. He also admits that the "Central Land Mortgage Bank will not use its power of compulsory redemption nor enforce conversion of high rated into low rated bonds capriciously or lightly and that the Registrar may be depended upon to prevent such action". In the face of this admission, it is not clear what provision should be made to dispel any fear of a possible capricious use of the right of conversion. The Central Land Mortgage Bank is a semi-public institution and may be trusted to act fairly by its debenture-holders under the general instructions of the Trustee.

10. I now summarise my proposals:—

(1) There is no need for any legal agreement between the Central Land Mortgage Bank, and the Provincial Co-operative Bank and the Central Banks about the investment of funds in the debentures. An assurance may, however, be given that the Central Land Mortgage Bank would be prepared to issue debentures every year to the extent of the applications for 20 year loans for the next 10 years. It is not now possible to form an estimate of the requirements of the Central Land Mortgage Bank in this respect for any year. The funds would be actually drawn when the Central Land Mortgage Bank is in possession of the mortgages and interest will run only from the date on which the funds are actually drawn.

(2) It is not necessary to fix the rate of interest on debentures here and now once for all for the next 10 years. The actual rate of interest may be agreed upon at the beginning of each co-operative year. The Central Land Mortgage Bank is prepared to pay a rate of interest for the present which will give a net return of 5 per cent on the amount invested as proposed by Mr. Ramadas.

(3) The question of exemption from incometax cannot be immediately settled. In the meanwhile, the Provincial Co-operative Bank and the Central Banks may themselves pay the income-tax and the Central Land Mortgage Bank will be prepared to issue 20 year debentures immediately at 6 per cent per annum and this rate of interest will leave sufficient margin to enable the Provincial Co-operative Bank and the Central Banks to earn a net interest of 5 per cent.

(4) It is admitted that the Central Land Mortgage Bank must be in a position to redeem debentures every year, if so advised, to the extent of the actual collections of the principal and to the extent to which mortgages may be redeemed by the borrowers in any year. Subject to this right, the bank will be prepared to consider any proposals for a period of irredeemability of the debentures not exceeding 10 years as provided in the by-laws. The period of irredeemability or otherwise should be decided each year along with the rate of interest and a separate series would be issued each year.

Reply to the above

BY

MR. V. RAMADAS PANTULU.

It must be clear from a reading of Mr. Ramachandra Rao's memorandum, that notwithstanding the fact that he is in general agreement with me about the desirability of diverting the long lying money available in the movement into 20 year land mortgage debentures, his actual proposals are not calculated to achieve that object. He has evidently no intention of closing the 10 and 15 year debentures to the local bodies and the public respectively. He merely invites co-operative banks to offer *their* money for 20 years to be drawn at his convenience, as and when the 20 year loan applications come in and on such terms as he may offer at the time of each issue of the 20 year debentures. How far the Central Banks will accept these proposals, I cannot say. It will be for each central bank to negotiate with the Central Land Mortgage Bank at the time of each issue. So long as 10, 15 and 20 year debentures are put on the market simultaneously, I do not think that the central banks will go in for 20 year ones specially when the 15 year ones bear $6\frac{1}{4}$ per cent interest, while the 20 year ones carry only 6 per cent. At the other end it will be equally difficult to give any definite instructions to the primary mortgage banks as to whether they should stimulate and get ready 10, 15 or 20 year loan applications and to what extent of each variety. A steady pursuit of 20 year loan policy will be practically impossible under the arrange-

REPLY BY MR. V. RAMADAS PANTULU.

ment of simultaneous issue of 10, 15 and 20 year debentures. The sudden drop in the duration of the loan from 20 to 10 years has already destroyed the faith of the rural co-operators in the land mortgage banks and cannot be restored by this vacillating policy of experimenting with 10, 15 and 20 year loans,

I find two cross currents of thought running through the memorandum. On the one hand it is doubted whether the land mortgage banks can absorb 5 lakhs of 20 year money a year and take the whole of it annually even if it is forthcoming, as there may be no even flow of 20 year loan applications to that extent. On the other hand, I notice an apprehension that if the outside public are not offered 10 and 15 year debentures, as well at the same time, the 20 year money, which the central banks and the Provincial Bank may be able to contribute will be comparatively small and is likely to be exhausted in a couple of years or so and then the 20 year loans and with them the 20 year debentures may have to be withdrawn. My answers to these two conflicting set of considerations are as follows: As regards the ability of the Central Land Mortgage Bank to absorb 5 lakhs of 20 year money a year, I do not entertain the least doubt unless the primary banks become moribund. It is an under estimate if at all. In any case, if it cannot utilise the full amount, it may use up as much as is wanted by the primary banks. No guarantee need be given to central banks that all the sums they are prepared to find will be absorbed. As regards the second point, it is unnecessary to speculate at this stage. The source is not after all so slender. Even if the reserve funds are limited and not more than a third or one half of them can be diverted into debentures, there are other co-operative moneys which can be found for the purpose. The Provincial Bank, if desired, can find ample funds from special long term deposits or uncovered debentures of its own. Some strong central banks which have large surpluses and command public confidence can do likewise. If the Central Land Mortgage Bank has been enthusiastic over 20 year loans and anxious to find 20 year money, it could have found it in the past and it can find it even now. My own feeling is that if the Central Land Mortgage Bank builds

up a sound business of Rs. 50 lakhs and steadily places on the market half a crore of rupees worth of 20 year debentures, with co-operative and other funds in the next few years, it will establish its own traditions and status in the money market and create so much confidence in the public that institutional and individual funds will very likely be forthcoming for 20 years, perhaps for less than 6 per cent. This optimism on my part is not in the least unjustifiable. The Government when they guaranteed interest on the Rs. 50 lakhs of debentures floated in the first five years evidently contemplated such a consummation. Though 3 of the 5 years have expired, the Central Land Mortgage Bank has hardly touched a fourth of the figure even after experimenting first with 20, then with 10 and now with 15 year debentures. In any case, concentration on 20 year loans is worth trying, specially when a substantial amount of 20 year money is at once forthcoming to begin with. The fear that the co-operative source may dry up in two or three years cannot justify the continuance of 10 and 15 year debentures and keeping the 20 year loan policy in abeyance or nominally alive.

It will be a matter for the sincere regret of co-operators in the province if the directors of the Central Land Mortgage Bank fail to avail themselves of the present favourable money market conditions and of the offer of the co-operative banks to find the nucleus of 20 year money. With the money raised on those debentures and from collections of outstanding loans even 10 and 15 year loans may be given to the fortunate few whose repaying capacity is larger. If the old 10 year idea and new experiment of 15 year debentures are not immediately dropped, it practically means an end, for the time being, of the 20 year loan policy and programme. It is gratifying to note that Registrar takes a helpful attitude and favours the 20 year loan policy. But if he unfortunately acquiesces in the experiment of the continuance of the 15 year debentures for sometime more it will virtually mean a negation of the revival of the 20 year loan policy, although the conditions for such revival are now most propitious. The longer the 10 and 15 year money is received, the tighter will it sit as an incubus on the Central Land Mortgage Bank, which must be

necessarily engrossed in the task of finding an outlet for it in 10 and 15 year loans, to the detriment of its real mission in the Movement. Assuming that 15 year money will flow in more easily than 20 year money, the very ease with which it comes will itself prove a source of financial embarrassment to the Bank, unless the 15 year loan applications are correspondingly popular and come in such volume as to absorb the plentiful 15 year money.

It is therefore my earnest hope, as an individual co-operator, that my fellow co-operators of the province will not allow the ideal of 20 year mortgage loans through land mortgage banks to be abandoned. In theory, it is true, it is not yet abandoned and lip homage is still paid to it. But in effect and practice, it was buried 5 fathoms deep in the ground, shortly after the Central Land Mortgage Bank was started on its work. The insistence on the continuance of the issue of 10 and 15 year debentures to the local bodies and the public respectively, alongside the 20 year debentures and the refusal to commit the Central Land Mortgage Bank to a definite policy and programme of 20 year loans is conclusive evidence to my mind of the fact that 20 year loans are really in disfavour in some quarter in the Central Mortgage Bank. If it is felt that the 20 year loans are unsafe or unworkable, or if it is feared that little money can eventually be found for 20 years and that it will be wise to abandon 20 year loans from now or at any rate unwise to encourage them, let them say so plainly and frankly and then go ahead with a programme of 10 and 15 year loans. We shall all then know where we are.

I, however, consider that such a change of policy will be most deplorable. No impression can be made on the agricultural indebtedness of this province even in those select areas, where land mortgage banks are started, unless at least 20 year loans are given. I feel that the sudden drop from 20 to 10 years and the present attempt to ascend half way to 15 years is a most unsatisfactory way of dealing with a serious problem. Speaking for myself, I am of opinion that the abandonment of 20 year loans and issuing 10 year debentures was most indefensible. Simply because the public did not put in an adequate amount of 20 year money and the stock brokers of Madras

said that 10 year money would come in more easily, should the Central Land Mortgage Bank have abandoned for the time being the 20 year loan policy, which was the bed rock on which the Land Mortgage Banks—primary and central—were built? Was the co-operative credit organisation of the province consulted about the advisability or otherwise of making so violent a departure in the loan policy of the land mortgage banks and was the co-operation of the Provincial and Central Banks sought for in order to ascertain whether 20 year money could be had within the movement at least till the difficult conditions of the money market were tided over? Is the Central Land Mortgage Bank to treat itself as an institution absolutely unrelated to the co-operative credit organisation of the province as a whole and cast to the winds the agreed policy of long term co-operative credit in the manner it did and still does, at its sweet will and pleasure?

Were the land mortgage banks started to give 10 or atmost 15 year loans? The rural societies in some districts were in the habit of lending up to 10 and even 12 years on mortgages of agricultural lands. One of the main reasons that induced the Provincial and Central Banks to discourage such loans was that they were neither here nor there. A ten year accommodation is too long for a normal productive agricultural purpose; it is too short to permit repayment of a substantial sum advanced to discharge prior indebtedness or to effect real land improvements without outside borrowing for the purpose once more. It was therefore felt necessary to organise a new set of banks on an altogether different plan, so that loans for 20 to 30 years may be advanced through them. If it was known that no more than 10 and 15 year loans could be advanced even through those new type of banks, I do not think that the people of the province would have gone in for the trouble and expense they did in organising the land mortgage banks. That limited object might have been accomplished much more easily in other ways with less pomp, ceremony and circumstance. Even if no more than 5 per cent of the working capital of the existing ordinary co-operative credit institutions is diverted to 10 and 15 year loans, a sum of at least 25 lakhs of rupees can thus be advanced annually for long term loans of the type which the Central Land Mortgage Bank now contemplates, three years after its formation. This can be done by the ordinary co-operative credit institutions without the least financial dislocation or treading the margin of safety or offending any banking principle.

Even 10 year deposits or uncovered debentures could have been cultivated by them if need be for that limited amount. Nor are Government guarantees, subsidies and costly officials necessary for that simple programme being put through. The central banks and the societies could very well have managed it with occasional aid from the Provincial Bank. In fact, many such simple alternative schemes to regularise 10 or 15 year loans were put forward and examined and if they were ultimately abandoned, one at least of the contributory causes that led to that result was that 10 and 15 year loans were considered inadequate and that special organisations, which could be definitely relied upon to advance adequate sums by means of loans from 20 to 30 years were required to deal with rural indebtedness and land improvement schemes. So there is not the least possible doubt that if the Central Land Mortgage Bank can do no more than advance by way of loans for 10 and 15 years, a sum of Rs. 5 or 6 lakhs a year for the whole province, it belies the expectations raised of it, will largely fail of its purpose and is sure to cause bitter disappointment to the agriculturists of this province.

I therefore hope that the primary land mortgage banks will organise themselves and press for the revival of the original policy and programme of 20 year loans on an adequate scale and thus justify their formation.

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The Co-operative Movement and the Housing Problem.*

BY MR. V. SRINIVASAN, M.A.

France.—Gide refers to the paucity of co-operative building societies in France. In all France there were but 272 societies in 1917. Some societies however like the Famille de St. Denis while erecting premises for shops have flats built on the upper stories which are let to members.*†§

Germany.—In Germany however the co-operative building societies are in the ascendant whether in the districts or in the urban areas. Most of these have been started with the idea of socialising industry on a national scale. The movement has spread through the length and breadth of Germany and principally in Bavaria where more than a hundred places have building societies. That certainly is a striking record for a land where the population have mostly been agriculturist.

In Munich was established the oldest co-operative building society which was the result, the direct outcome, of the Franco-German War. The society was founded in 1871 with the active support of the King of Bavaria.

The state meets half the expenditure and shares the other half with the Municipalities. 8000 tenements are said to have been erected in 4 years by the co-operative societies.

Government assistance is not always direct. Sometime it is given through a Central Bank. In 1918 was established the House Building Bank of Munich and soon a sum of £ 25,000 was placed at its disposal. The Bank issues 2nd mortgage loans charging only 6 per cent.¶

Occasionally, state aid filters through the Development Commission whose main object is land improvement and erection of small buildings. This body makes 2nd mortgage loans up to 90 per cent of value and charges 4½ per cent. The loans are repaid by annual instalments.

* Cp. Ernest Aves : Co-operative Industry. P. 232.

† Ch. Gide : Consumers Co-operative Societies, P. 115, n.

‡ Industrial Co-operation, P. 181.

§ Consumers Co-operative Societies, P. 109 sqq.

¶ M. L. Darling : Co-operation in Germany and Italy, Pp. 119-20.

* Continued from page 644 of June 1932 issue of this Journal.

A large number of the German Co-operative Societies have been carrying on house building to some extent. But the impression appears to be gaining ground among the members of the Executive Board of the Central Union that the combination of co-operative building with distribution by societies should be undertaken only with the greatest circumspection.*

Belgium.—In Belgium a prosperous and contented people have been reared up owing to the ungrudging assistance rendered by the General Savings Bank. The Co-operative Building Societies of Belgium have much useful work to their credit and one noteworthy feature about them is that they register themselves as joint stock companies instead of under the co-operative law of the land as the practice is in other countries. This is said to be due to the 'superior powers allowed by the Belgian Government to societies with fixed capital,' †

Denmark :—Of the Baltic States Denmark forces itself on our attention. The agricultural labourer there, we have been told‡ is better clothed, better fed and more comfortably housed than most members of his class in France, Germany or England". We have also been told that "the Co-operative unions of Denmark have practically made Danish farmers independent of money lenders so far as their working requirements are concerned." § Indeed, rural Denmark has many a lesson for the outside world.

As for the housing question, progress has largely been assisted by a peculiar system of credit associations which have helped in providing improved habitations. Persons requiring loans combine and form a credit society to furnish a joint security on the properties of all the borrowers for the total loan taken. "Individual borrowers are debtors to the society which in turn is a debtor to actual lenders. The members are mutually responsible for one another—each for all and all for each." Well, that is the true co-operative spirit with which the problem is tackled in Denmark.

* Theodor Cassau : Consumers' Co-operative Movement in Germany, p. 76.

† C. R. Fay : Co-operation at Home and Abroad, p. 355.

‡ L. Smith Gordon : Co-operation in Denmark P. 58.

§ Rai Sahib Chandrika Prasad : Agricultural Co-operation in Denmark P. 175.

Finland :—Co-operative Housing is now the fashion in Finland; the Commercial* Register for 1914 enumerated 43 societies, mostly in urban areas. The members as a rule bind themselves to pay gradually and in large shares; in several cases the building of the house is done gradually under the societies' directions as the instalments are received by the latter.

The houses when completed are disposed of by lot among the members. Members have to wait for their turn.

The difficulty is, a member may withdraw from the society, of course getting back the sum already paid by him. This is why co-operation is being felt to be unsuited for this kind of housing activities.

Sweden :—The Swedish movement for better and healthy dwellings has its chief interest in the effective use it has made of state assistance. The movement is about half a century old and during this period, co-operation and co-operative principles have been successfully enlisted in the solution of the housing problem. The Swedish authorities too were not slow in appreciating the significance of the movement and helped to frame the legislation necessary for financing the operations of the co-operators.

The Framtiden (Future) Housing Society was founded in 1912 and the universal shortage that came in the wake of the war brought into existence a large number of building societies.

The most important of the Swedish societies is the Stockholm Co-operative Housing Society known as the K. F. S. (Konsumtions foreningen Stockholm) the object of which was declared to be 'To procure for the members cheap and modern housing and to this end to build, buy, sell and let houses and other necessary premises.'

The Society was formed in 1916. Its membership is open to every good citizen who will work for the realisation of its object, to build homes for members. This universality has remained a distinguishing feature of the Society.

The Young Tenants Savings and Housing Society is another successful housing society and it has continued to have cordial relations with the K. F. S.

* Dr. H. Gebhard : Co-operation in Finland P. 136.

† Axel Gjores : Co-operation in Sweden P. 108.

Italy :—Then we come to Italy, the Italy of Luzzatti, the country of which it has been said that there are too many co-operative societies and too many people who call themselves co-operators.

It appears that in Italy societies of Farming and Building are being daily created in astonishing multitudes. *

The National Institute of Credit for Co-operation created in 1913 has included the encouragement of building societies in its operations.

It was mainly due to the exertions of Sgr. Felice Quagliano that the Federazione Italiana Consorzi Co-operative Edili (the Federation of Building Co-operative Societies) was founded with its headquarters in Turin. It is the principal body in Italy from the point of view of co-operative building and its turnover in 1921, the very year of its foundation, was no less than eight and a quarter million lire according to a I. L. O. Report.

The famous Milanese Federation of Productive and Labour Co-operative Societies was formed among other objects with the idea of 'undertaking on behalf of affiliated societies and in certain cases in its own behalf public and private contracts for the construction and maintenance of roads and railways, drainage and embankments, the work of building and other allied trades and further to undertake not only the construction but also the management of such works'.

The small garden city of Milanino was founded in 1909 by Luigi Buffoli of the Milan Co-operative Society and is a remarkable example of a Society of Tenants Co-partnership.

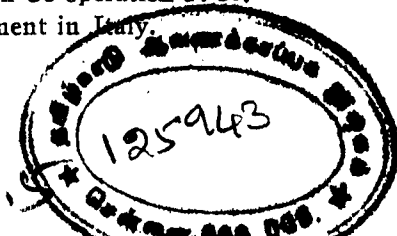
Some of the Societies in Genoa though mainly connected with ship building have house-building as one of the principal channels of their activities. The organisation of the societies are said to be so efficient and complete that the whole process of their work is effectively carried out without external assistance. Mr. Lloyd says that the Builders Co-operative Society functions quite perfectly both from the technical and from the administrative point of view and it has been responsible for many vast and substantial erections in the new Genoa.†

The Federation of Productive and Labour Co-operative Societies of Florence was constituted in 1917 and has turned out enormous works of public utility in the short period of its existence. The

* C. F. Strickland : Studies in European Co-operation P. 50.

† E. A. Lloyd : The Co-operative Movement in Italy.

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Federation was responsible for the erection of the new General Post Office as well as a fine Library at Florence, both of which will for ever remain sumptuous monuments of co-operative labour and enterprise. It has also built large blocks of workers' houses and has executed contracts for land reclamation and road-making. The value of its work for the first five years of its existence amounted to 40 million lire.

Slovenia.—Catholic priests control and direct Slovene co-operation.† Of the three principal unions at Ljubljana, one is a non-agricultural union rather socialistic in tendency; its affiliated societies are manned by members of Jugo-Slav socialist party. The more important of the other two is the Zadruga Zveza (founded in 1900). In two decades this union has founded, among other varieties, 40 societies of the Schulze-Delitzsche type and 25 of the Raiffeisen and above all, what is relevant to this study, 4 building societies. The other union at Ljubljana is the Zveza Slovenskih Zadruga, an anti-clerical body which is credited with having had under its control by 1918 among other societies two building societies. Co-operative Housing has come to stay in Slovenia and its progress though slow is sure and assured.

Japan :—Japan too has been affected by the postwar housing shortage. Co-operative efforts of a fruitful nature have been taken and the Government too have been pursuing a generous policy of providing loans to each prefecture.

In 1921 provision was made in the co-operative law of the land, and societies took to housing activities and endeavours were made to lay out garden cities. The same year was also passed Japan's first Building Societies' Act.*

An idea of the popularity of the movement in Japan may be had from the fact that even by the end of 1921 according to a Government Report, 40 co-operative societies aimed at providing houses for members. Most of these were part of the credit societies granting loans to members to build houses. Some others were part of business purchasing societies; they built houses themselves for the members, the cost being refunded in instalments. Only three of the forty carried on building by societies for the purpose of letting houses to members.

(To be Continued.)

† D. Coffey : The Co-operative Movement in Jugo-Slavia, Rumania and North Italy, p. 29.

Payment of Bonus and Dividend in a Co-operative Society.

K. G. RAMAN PILLAI, B.A., B.L.,

(Executive Committee Member, Trivandrum Central Bank and High Court Vakil).

One of the drawbacks in the Company's Regulation which leads to the early winding up of many a company is the non-existence of a provision in it, which prohibits the payment of dividend, except upon the basis of realised profits. The present practice of calculating dividend is upon the basis of profits earned or accrued and not on the profits realised. This method of paying dividend is in the long run detrimental to the interests of the company, as it practically leads to the diminution of the working capital to a considerable extent. This can be clearly seen from the following illustration.

Suppose I get a loan of Rs. 100, from a Joint Stock Bank on the agreement that I shall pay an interest of 18 per cent per annum. After an year I owe the company Rs. 18 as interest and even if I don't pay it they calculate it as their profit for the year. On the basis of such profit the dividend is paid. But in practice I don't pay it. Therefore they have to take the necessary amount from the working capital. It is quite possible that the amount might become unrealisable from me at least for the present, for some reason or other. The result is that the dividend was divided from the capital. Again the interest might exceed half the principal, in which case also, the result becomes a payment of dividend from the capital, thereby leading to a diminution of the capital. There is yet another and one of the most probable of the ways, in which this method of paying dividend materially affects the capital. The money for the payment of annual dividends from the unrealised profits is taken from the working capital. The profits might be realised in course of time and the capital might be re-couped. But all the same, for this period during which the profits remain unrealised, the sum taken from the capital remains profitless. Yet another way in which the company might lose is by it going a civil court which will not decree the contract rate of interest. In these and other ways there is every possibility that by the method of paying dividend and bonus from the unrealised profits the company in effect eats away the capital and thereby leads

to the collapse of the institution. A Joint Stock Bank being a private concern of certain shareholders, intended for the main purpose of their personal gain, they take particular care to pay as high dividends as possible. It is no wonder that such institutions have a short lived existence.

In the case of co-operative institutions, it seems the Government have taken particular care to ward off any dangers to the institutions from such short sighted and ruinous policy. To me, it seems the co-operative Act itself prohibits such a course. Section 33 of the Act is very clear on the point. It reads as follows. "No part of the funds of a registered society shall be divided by way of bonus or dividend or otherwise among its members". This is quite clear. What is the necessity for this clause. Is it probable that anybody would be so foolish as to divide away the capital by way of bonus or dividends? From the succeeding clause of the section we can see that what is prohibited by this clause is not only a payment of bonus or dividend directly from the fund—for it can never take place—but even indirectly. The next clause says "provided that, after at least one-fourth of the net profits in any year have been carried to a reserve fund, payments from the remainder of such profits and from any profits of past years available for distribution may be made among the members to such extent and under such conditions as may be prescribed by the rules or by-laws." This clause says that first of all at least one-fourth of the net profits must be carried to a reserve fund; next from the remainder of such profits and from the profits of past years available for distribution, bonus and dividends may be paid, i.e., for the purpose of reserve fund profits of past years available now, are not to be considered, but for bonus and dividends it may be also considered. How is it that profits of past years become available now? Were not the profits of those years taken into consideration when the bonus and dividend of those years were paid? The word *available* gives the clue to the answer for this question. It is only the profits of the past years that are available now, that is to be taken into consideration this year, thereby meaning that it is only the available profits of those years that were and that ought to be taken into consideration for paying the dividend and bonus of those years. Thus the division of profits of any one of the years must be made in this manner; first from the accrued net profits set apart at least one-fourth to the reserve fund; then deduct this amount carried to the reserve fund from the realised net profits, to the balance thus got, add the profits

of the previous years which were realised only this year, from the sum thus obtained, bonus and dividend may be paid. The desirableness and the propriety of such a calculation is clear to every one. The reserve fund is an amount which adds to the credit of an institution and is generally not divided until an emergency or liquidation takes place. The amount thus set apart is deposited in such a safe manner that it is available at any time and carries interest. It is one of the items which go to constitute the fund and therefore there cannot be any objection if the amount is taken from the accrued profit. Even if part of the capital is utilised for this purpose it is still there, in the fund itself.

But that is not the case if the unrealised profits is taken into consideration for declaring bonus and dividend. It will lead to the eating away of the capital and consequent collapse of the institution as I said before. Since the amount when realised is taken into consideration for declaring the bonus and dividend, nobody stands to lose. There is another reason also why the unrealised profits should not be considered in declaring bonus and dividend, for if it is so done it would not be an incentive to realise all the profits in time. The accumulation of arrears and consequent loss to the society is not improbable. I don't think that anybody would dispute that this interpretation is either unreasonable or out of place. On the other hand, I think it is not only in keeping with the practical side of things, but also in harmony with the principles of the movement.

Unfortunately for us the section does not seem to have been so understood by the co-operative public in India. In many of the provinces in India, because the section was not so understood, the Registrars have been compelled to issue circulars prohibiting the consideration of unrealised profits in the matter of declaring bonus and dividend; but I understand that in some others, this salutary rule yet remains to be enforced. In my own state of Travancore where co-operative movement, according to many so called co-operators, has attained a brilliant success, this principle is never followed.

May we hope that the co-operative public in India will realise the importance of this healthy rule without any delay and bring it into practice?

Co-operative Cattle-breeding.

(BY DR. J. T. AUSTIN, G. B. V. C. KUMTA).

In India, the cattle form the back bone of agriculture. Next to their own labour, it is upon their cattle that the cultivators depend for all the success in their agriculture. But, in many cases, the attention they actually pay to these animals is hopelessly poor. At present many of the cattle-owners are satisfied if their cattle live simply for turning all kinds of leaves, papers, cloths, etc., secured by some means or other, into manure fit for their fields. When the ploughing season comes in, they force them to work at any cost; and whether they are really fit for the same or not is never taken into any consideration. During the time they are not required for any work, the only sympathy the owner shows them is in turning them out early in the morning, to go wherever they like and hunt for their feed. If they easily obtain it, they are lucky; and if not it does not matter to him much. Regarding the reverence and love he professes towards his cattle no one dare to question him; but as a matter of fact, the more he professes these, the more is his negligence in the practise of them. And while there are several cattle-owners who would never hand over even their worst animal to the butcher—even for human consumption—their energy taken in making these lives less miserable is much limited.

THE GOVERNMENT AND CATTLE-BREEDING.

While the above is the nature of the treatment given to the cattle in India by the cattle-owners themselves, the Government, who are aware that the improvement of the cattle is greatly required for the improvement of the agriculture, on the other hand, have not greatly neglected this. They have opened several cattle and agricultural farms, supplied bulls for breeding purposes, and tried several other experiments to improve their condition. But, instances where people are neglecting to take advantage of these breeding bulls, kept almost next to their doors are not uncommon. For no reasons whatever, they refuse castrating their useless bulls and at the same time never keep them under control. Thus, on the whole, one can see that the cultivators themselves, in many cases, are not very anxious to get their cattle improved.

THE DUTY OF THE RURAL WORKERS.

Under these circumstances, the duty of enlightening the villagers and making them take more interest in the improvement of their cattle falls on the shoulders of the rural workers. At the present stage, it is even necessary to point out to them that it is only due to their own negligence that the cattle of the village have become so poor in quality, and that they can be easily improved into a better one in future by their own sensible labour. They must not think that to have an animal of superior breed is more expensive to the owner than otherwise. In fact, while the superior ones require the same care in bringing up, and the same expense in maintenance, they are able to pay back more than the others; those bullocks do more and better work, those cows yield more milk and their calves, when sold, fetch more money. Therefore, they need never hesitate to work for their own good. But, under the present existing grazing system of India, it is impossible to bring about a successful breeding system, unless all the people of the village are well educated in this principle and are brought to co-operate unanimously in their attempt to improve their cattle. They must know well on these two points; firstly, the control required in checking new births of useless breed and secondly, the introduction of superior bulls and maintaining the same.

BIRTH CONTROL.

To this day, all the energy spent by both the government and by several other bodies in improving the breed of cattle in several places all over India, has not turned to be a total success, simply for the reason that no good co-operation of all the cattle-owners in the village could be secured. India, where almost all the cattle-owners seem to claim every hill, market, road and other unenclosed field as the common grazing area, where their cattle, male and female are let loose without any control over their behaviour, this question of birth control becomes an immensely difficult problem. And it is on this problem that the bigger problem of improving the cattle in India rests.

In this country generally the bulls attain their maturity and begin to cover cows successfully from their second and third year. Therefore leaving aside those that are below two or two-and-a-half years, all the remaining bulls in the whole village must be castrated. And whenever any owner of a bull refuses to get it castrated, for

some reason or other, it must be seen that the same is never allowed to move with the other cattle of the village and be always kept under control. Similarly, whenever fresh bulls are brought in from some other villages either they must be immediately castrated or kept in a secluded place, tied up without being let out.

The present *Burdizo* method of castration is so painless and so easy that even a cultivator can perform the same on a first sight. And it is possible by this method for a veterinary surgeon to castrate at least fifty bulls in a single day. The government and the local boards must make this castration available to all the villagers free of charges, and thus eliminating all possibility of multiplication of poor breed the introducing of the superior ones must be taken with all sincerity

THE INTRODUCTION OF BETTER BREED.

The selection of the bull for the purposes of breeding is very important, and unless a suitable one is picked out there comes practically no lasting benefit to the villagers in having any bull at all. In the western countries slaughtering, milking, and working are the three objects for which cattle are required to be maintained and the breeders accordingly select such bulls as would serve their purpose. But, in India, where the bringing up of their cattle, purely for slaughtering purpose is almost unknown, and the milk supply of the village is often met by the she-buffaloes, the bull meant for breeding purpose is required to be, without exception, of a working type. A bull not with a heavy body but a well shaped one, limbs not short and stout but strong and well formed, and the neck, firm and well developed, will serve the purpose well. Secondly, the bull selected must be one from the country, the climate of which is not extremely different. To bring one from a very cold country and make it live and breed in a hot place or the vice versa, will result in a disappointment. Thirdly, it must be seen that the bull selected for the purpose is not abnormally huge, compared to the cows in general of the village. Now and then instances are noticed where bulls of very huge size are imported for breeding purposes, so much so, that when they are attempting to cover, the cows are almost crushed at their feet, receive several injuries and at the same time the semen, the male generative fluid is much wasted. Thus even after an hour's struggle, it would be doubtful whether the cow has been crossed at all. Lastly, they must be sufficiently controlable and

good-tempered ones. Some of them are found so ferocious and unapproachable that they are always required to be kept under control and seclusion; and when thus kept in seclusion for some time longer they lose all their brightness and finally fall a prey to some disease or other. Therefore in having a bull, it is the selection of a good one that is very important.

THE MAINTENANCE OF THE BULL.

In the first place the question comes; who is to pay for the bull? In many cases half the cost has been met by the Government, but the real difficulty comes with the finding of the other half. This must be necessarily met by the people of the village. And in all the cases where a fresh collection could not be raised, it is necessary that this amount should be set aside by the local co-operative society from its annual profit. The society being the union of the villagers themselves, and its income therefore their own, to set aside an amount for this useful purpose, in which all the villagers as a whole are equally benefited, they must not hesitate. Hence, all those villages which possess their own co-operative societies can easily take up this introduction of the breeding bull with all sincerity.

How is it to be maintained? This is the question that creates so much of discussion on the subject, and in many cases leads to the dropping of the very idea of securing a bull once for all, since no final decision could be arrived at. However, the various methods undertaken here and there in maintaining bulls kept for such public purposes have taught us a good lesson on the subject. In some cases the bull had continued to remain under the direct management and maintenance of the government, and to meet some of their minor expenses at least, a few annas were charged for every cow that has been covered by it. Here the experience has taught us that this method is a failure on the whole. Many of the cultivators were found not taking sufficient advantage of the bull either owing to their grudging to pay even these few annas, or unnecessarily delaying the matter and finally finding their cows already carrying, being crossed by some bull or other, perhaps while they have been let out for grazing. Besides, there are some ignorant cultivators who even consider this a sole business concern on the part of the government to make money by allowing their bull to cover the cows of the village for some payment in return. Thus, day after day, the bull remains

not only a stranger to the cattle of the village, but the villagers also take the least interest in the same, and it is found the earlier it is removed from the village the better it is. This teaches us that to make the bull available to all the cows of the village without any distinction or payment is the only means to lead all the villagers to take full advantage of this bull and at the same time lead them to castrate all their other bulls unanimously. Hence, the only successful method will be in transferring this responsibility to the villagers by handing it over to themselves. It can be safely handed over to some cattle owner of the village who possesses a large number of cows with him, and be seen that it is let out every day to go and graze along with the other animals of the village. While this method serves the full purpose of the cows of the owner himself, the other cows of the village also are equally benefited. Of course if there be any additional expenditure in maintaining this bull other than what is required in maintaining his other ones, it must be met by the society. The general supervision of the above bull must be in the hands of the managing committee of the local society, while its general health must be now and then attended by the Government or local board veterinary surgeon, free of any charges.

Much of the usefulness of the bull depends, next to its proper selection and maintenance, on the way it is brought up in the village. The great mistake of keeping it a seclusion and without much freedom, as already pointed out, does not only expose it to sickness but also leads to its sterility. Therefore, the only way it can be successfully maintained is to give it equal freedom with the other ones of the village, making it one with the cattle of the place, and the common property of all the villagers themselves. The belief that, when the bull is left to itself, it rushes up to each and every cow, cover the same ruthlessly and injures itself and the others is not right. It must be remembered that the bull never tries to cover the cows that are not fully matured and never in the least approaches near those which are already carrying. But, when hundreds of cattle are let out to go for grazing, the bull is able to find out, by the power of its smell, the cow that is actually in heat and tries to cover the same. Thus, there is no fear on this account. But there might arise some trouble in the beginning by the bulls of the village fighting against this. This can be easily got rid of by sending an attendant for a time with the animal to prevent this and later they will get on well.

Thus, the great work of improving the cattle in our country and helping the agriculturists by the same falls on the shoulders of the co-operators and rural workers of our country.

Recent Utterances.

THE SECOND MADRAS URBAN BANKS' CONFERENCE TIRUVANNAMALAI.

(Held on 15th and 16th October, 1932.)

OPENING ADDRESS

BY

D. N. STRATHIE ESQ., I.C.S.,

Registrar of Co-operative Societies, Madras

Friends, I am very glad indeed to have this opportunity of being present at this Conference. Some of you know that it was to have been held earlier and that it was postponed to enable me to attend and I thank the organizers for having done so. It may have occurred to some of the co-operators of the Presidency that I am not very fond of conferences. I have been invited to many but have attended comparatively few, partly because I know that I myself and the Officers of the Department cannot do justice to our work if we spend so much time travelling to attend the many conferences to which we are invited and partly because I feel that a good proportion of the conferences are unnecessary and sometimes distract the workers from their essential tasks of collection and rectification—not to mention the burden they impose on the slender surplus funds of the small societies. But this Conference of Urban Banks is different. I have never attended such a conference before (I understand such a conference has been held only once before) and there is at present the important question of audit before us on which an expression of the considered opinion of the representatives of Urban Banks is going to be of the greatest help. In fact it was almost essential that such a conference as this should have been held and we owe a debt of gratitude to the organizers for bringing it about.

Now before I enter on this our main subject for discussion I want to make an appeal to you—let this be a genuine, frank and full discussion of the subject. If any representative of Urban Banks has anything to say on this subject, let him speak now or for ever be

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silent. I cannot fully express the disappointment I felt after the last sessions of the Bankers Conference and of the Provincial Co-operative Union when representatives of banks and societies who had been present at the meetings and had accepted the decisions reached there went back on them and contributed to the agitation against the Central Scheme. This meant not only that these important gatherings (which I had hoped would arrive at final decisions on the subjects discussed), were reduced to the level of theoretical debating societies but it also meant that the prestige of the Provincial Co-operative Union and the Bankers' Conference was lowered in the eyes of the public and of government. They felt—and I have heard some give expression to the feeling—that these representative gatherings are of no use and that they are held merely for our amusement or for the gratification of some seekers after notoriety. I appeal to all here not to let this occur again. Let there be a full discussion. If any of you feel that a central audit scheme is going to put too much power and patronage in the hands of one man, please say so now. And whatever the decision may be, let nobody present now go back on it. It is open to other co-operators not present or to outsiders to criticise our decisions but let there be no further criticism from representatives of Urban Banks.

And now to get down to business—there are four schemes of audit before you,

- (1) Government audit,
- (2) Audit by local audit unions,
- (3) Audit by a central organisation, and
- (4) Audit by certified firms of accountants.

It is not for me to say very much about the first—Government audit. On a question like this we all have our settled convictions, part of our nature and character of which we cannot rid ourselves. Some fifty years ago Gilbert made his philosophic sentry sing that "Every boy and every girl that is born into this world alive, is either a little Liberal or else a little Conservative." Now we are either socialists or individualists, we either believe in state regulation or in private enterprise and we cannot help ourselves or argue about it. I believe in private enterprise. I believe that throughout the world Governments have been attempting too much and that the world would improve if Governments

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confined themselves more to their essential functions and gave greater scope to private enterprise and non-official organizations, for there are defects inherent in the constitution of any form of Government which make it the least efficient agent for getting business done. As Sir Arthur Salter says in his great book on the world crisis "Everywhere at present Government is proving inadequate for its task. It must delegate but not abdicate its functions".

This private opinion of mine of course may have no great bearing on the matter. There are many honest men who hold diametrically opposite views. In particular it may be held that at the present time and in the present stage of development of institutions in India, an extension of Government activity is necessary. It may be held that Government must retain audit of Co-operative Societies, just as they must retain the collection of revenue or the administration of civil justice. I only want to bring out that in this question of audit, our views must be influenced by our natural predilections. I am painfully conscious of the existing defects in Government audit. I can assure you that we have been making strenuous efforts to remove them and that to some extent we are succeeding. In the course of the last five years audit has improved and whatever your decision may be, every endeavour will be made to make audit by the Department as thorough as possible.

Turning now to the second proposal, audit by Local Unions. We know the objections that are raised against it, that the auditors will owe their appointment to the very directors whose work they have to check, that the very men who control the banks will control the auditors and that therefore fearless criticism cannot be secured. No doubt there is much to be said for this point of view. The chief objection could, however, be met by providing that no director of an Urban Bank affiliated to the Audit Union should be eligible for a post on the management of the Audit Union. This proposal has been put forward by Mr. Srinivasaraghavachariar of Madura and it would undoubtedly go a long way to meet the theoretical objections to Local Audit Unions. You know that we have already quite a number of them working to-day, some of them very successfully. And I wish in particular to pay a public tribute to the excellent work done by the Coimbatore Audit Union under Mr. Ganapathy Aiyar. I have inspected the accounts and audit notes of several of the banks in

that Union and found everything done most efficiently. I remember one case in particular where by tact and personality Mr. Ganapathy Ayyar achieved results in rectifying mistakes which I honestly feel could not have been achieved by the Department. (You must remember that with some co-operators a departmental officer starts with an initial disadvantage—he is suspect from the outset.) I do not know whether it was because he was a non-official but it is a fact that Mr. Ganapathy Ayyar put that society right in a way which excited my complete admiration and gratitude. With the example of that case in my mind I cannot suggest to you that Local Audit Unions should be scrapped. The only criticism I have to make against them at the moment is that they are too dependent on the employment of Government inspectors. So long as they depend on Government Inspectors for their staff they are not fulfilling their functions completely and I may add that they are creating difficulties by taking away much needed good men from the audit of rural societies.

Now for the Central Scheme, the main argument in its favour as against a Local Union is that we get rid of the possibility of local influence and favouritism, we give the employee a more assured position, we place him under the control of a distant and therefore probably disinterested superior, we build up a staff of expert auditors working under expert control and we pave the way for the eventual development of a complete system of non-official audit. The system has of course the disadvantages that there will be no direct local control and that the head-quarter officer will have to depend on diaries and paper reports, which we all know are unsatisfactory. These defects will, however, be remedied by the fact that departmental responsibility for audit will still continue and that there will be test audit and inspections by departmental officers. I may say that if a system of central audit is approved I would suggest that it be put in the hands of the Provincial Co-operative Union rather than create a new and separate organisation.

The last course is audit by certified accountants. Its disadvantages are somewhat akin to those urged against local audit, namely, that the auditor owes his position to the directors whose work he has to criticise, that there will be canvassing and intrigue and that the firm that charges least and makes least fuss will get the job. You know your own people better than I and if that is going to be the position, then let us drop the proposal. But I have a higher

opinion of the bulk of our co-operators and I believe that if India is going to develop and take her rightful place in the nations of the world she must build up a body of honest and reliable professional men who can be trusted to set public interest and pride in their profession above immediate private gain. And again we are not going to dispense with departmental control altogether. We cannot do so for I am still responsible under the Act. We shall check the work of private auditors. We have acquired more experience of their work recently, we shall weed out firms that do not do their work thoroughly and I do believe that we should soon arrive at a list of men who can be trusted to present true statements of accounts.

You may feel that I have left the subject somewhat in the air and that my conclusion would seem to be that any system would work. That I think is about the truth of the matter. Given honesty, unselfishness and care, any of the four systems will work. It is for you now as directors of Urban Banks responsible for your depositors and shareholders to express an opinion in the light of your knowledge of the character of your countrymen. As a partial expert and as the officer ultimately responsible I would on the whole prefer local audit unions with Mr. Srinivasaraghavachariar's modification—provided always that a gentleman is forthcoming willing and able to give his time to the control of the staff. It is not a very attractive job but at certain places men have been found willing to undertake it. At such places I would have Local Unions. If there is a sufficient number of banks who wish the central scheme I would have it under the Provincial Co-operative Union for such banks. On the whole though the system of having private auditors is the simplest solution, I would have them only in isolated cases where adequate Government staff cannot be secured at short notice. I say this because co-operative audit does require special knowledge and experience which the ordinary firm of accountants does not possess.

And now let me talk for a few moments on the general questions affecting Urban Banks. Apart from the few cases where there has been rank dishonesty, most of them are in a sound condition and their problems are less acute than those of the rural societies. Some of them indeed are in a state of great prosperity run almost perfectly. I recall to mind at the moment the banks at Kasargod, Mangalore and Bodinaikanur. (Directors of other good

banks must forgive me for not mentioning them. These are ones I have visited within the last few months and the pleasure I experienced at seeing the books, e.g., at Kasargod is still fresh in my memory. I wish Mr. Narsing Naik of Kasaragod were here to let me congratulate him publicly.) The distinguishing feature between really successful urban banks and others less successful is I think that the good ones finance traders more and have frequent repayments. Of course no bank can succeed if the Directors do not exercise proper care in granting loans and if they do not keep the repaying capacity of the borrower before them. I have seen banks where the purpose of the loan, the repaying capacity—everything was ignored except for some slight attention to security. In such banks the procedure in sanctioning a loan was, I gather, as follows:—‘How much do you want, Rs. 300; how much would you like to pay per month? Rs. 5; You own a house? All right Kudumba chelavu 5 varu-sham! Now if loans are distributed in that manner, if they are given, “mun kadan tirkka” without any enquiry as to the extent of the ‘mun kadan’ and without seeing that they are “thirkad” it is no wonder that overdues accumulate. They must follow as night follows day. And if old loans are discharged by the grant of fresh ones the bank must soon be in difficulties. So in what I am going to say I shall assume that directors are going to exercise some real care.—Assuming that, I have two bits of advice to offer—first get rid of this idea that security matters much. It has often been said that security is the foundation of all credit. It has to be taken into consideration of course but it now assumes far too great importance in co-operative credit, you ought to be lending far more on character and repaying capacity. That is the purpose of a co-operative bank, anybody can lend on a sound mortgage in a town, we don’t want an army of Government inspectors to look after such lending. And besides we know that security is not always what it seems. How many banks have property on their hands which they valued in all good faith at Rs. 1,000 and for which they cannot secure Rs. 300. I would rather see security thrown overboard altogether than keep it the sole criterion as it is now in many banks. Secondly I would say—keep clear of long term loans. They ought to be the rare exception in an Urban Bank. They can be given for house repairs, even in some special cases for house building, they can be given for prior debts but then only after careful enquiry into the cause of the debt and its extent. If they were incurred through carelessness or

extravagance on the part of the borrower I would not touch them. The carelessness or extravagance will be repeated. And they should be disbursed only to the creditors or on proof that the debts are discharged. And if a man has once been given a loan for prior debts I would never give him another for the same purpose. The fact that fresh debts have accumulated is in general a sufficient proof that the borrower is a spendthrift. For other purpose, for family expenses, for trade, for marriages, even for medical expenses I would never give a loan for more than a year; and in a town bank in all cases I would insist on monthly payments at the very least. In Kasaragod and other good banks I have seen payments are often received daily. Some of you may reply that if these standards are adopted your members will be dissatisfied and your transactions will decrease. Let them. You are not there as Directors of a co-operative bank just to satisfy the members’ demands for money. One of your main duties is to inculcate thrift and better living. If a member wants to spend on a marriage more than he can repay within a year, let him go elsewhere. A co-operative society should not be used, as some of them have been used, to make credit easy and plunge its members more deeply into debt.

Now let me make one other appeal as I close. We are met here as co-operators and under the aegis of our symbol—two right hands grasped in fellowship. And looking round me I feel nothing but friendliness and good fellowship. Please do not let these feelings of brotherhood fade when you return to your homes. If they do, then I believe this Conference will have done more harm than good. I believe that if our better impulses do not bear fruit, if they flit through our hearts like the sparrow through the hall of the Northumbrian nobleman in the old Saxon poem without leaving any permanent impression, they only weaken us. It is better for us never to have any good impulses than to have them and not interpret them in action. I trust then that this Conference will have good results not only in helping to settle the audit question but in a cessation of factious spirit and a permanent extension of the spirit of true co-operation.

WELCOME ADDRESS*

BY

MR. B. S. SRINIVASAGOPALA AIYANGAR B.A.,

Chairman of the Reception Committee.

BROTHER DELEGATES, CO-OPERATORS AND GENTLEMEN,

Gentlemen, this town is well known to you all as a place of pilgrimage. You have all heard of the famous Karthigai Deepam of this place visited by hundreds of thousands of pilgrims from all parts of India. This is the place where the Sage Arunagirinathar of Tiruppugal fame was born and where he attained salvation. The sacred Hill at the foot of which we have all met to-day is believed to be the abode of sages doing penance for the salvation of humanity of whom Ramana Maharishi is the visible example. It is therefore in the fitness of things that we co-operators meet to-day at the foot of this Hill; for co-operation is by itself a religion, the essence of all religions, the religion of unselfish service for our fellowmen.

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The new Act was in the anvil for the last 3 or 4 years and various suggestions had been made for being included in the enactment. It is a pity that none of them found favour with the Legislature. For instance we were agitating year after year in all our gatherings for a specific provision in the Act exempting Co-operative Societies from local taxation. There are certain new provisions in the Act and as the rules under the Act have not yet been framed, we shall be right in placing our considered opinion on these matters before Government. Under section 50 of the act disputes arising between the society and its members shall be referred to the Registrar and dispute includes debts due by members. There are loans due to societies on mortgages and there may be subsequent alienations of the mortgaged properties to non-members. Such subsequent alienees have to be impleaded as parties to the suit if the decree is to bind them. The award of the Arbitrator is not binding on them unless specific rules are made investing the Registrar with jurisdiction over such non-members also. There is the provision in

* Extracts from the welcome address of the Chairman of the Reception Committee at the 2nd Urban Banks' Conference, Tiruvannamalai.

Section 42 A, empowering the Registrar to supersede the committee of a society if in his opinion it does not function properly. It is of course a salient provision to be used as a corrective in case of need, but it is an unsafe provision unless it is definitely prescribed in the rules as a remedy to be resorted to only after an enquiry under section 36 or an inspection under section 39. All these and many other provisions of the Act must be carefully considered in framing the rules.

* * * *

Urban Banks are said to be unwieldy and various proposals are being made either to split them into separate societies or to start branches. The principle that the greater the number of members and its transactions, the higher is the credit that it commands in the open market to attract deposits, should not be lost sight of in making proposals to meet the growth in the bulk of Urban banks. I hope the conference will consider this aspect of the question and come to a definite conclusion. I want to point out one important factor in this connection that an Urban Bank should serve as a balancing centre to all the other smaller co-operative institutions in the locality and it is advisable that class societies such as those for Public Servants, Teachers, Employees, Industrial Workers etc., should be organised and the Urban bank should be able to finance them. I hope this subject will have the due consideration of the conference. The Urban Banks are intended to finance all classes of needy people in the urban area and yet with all its boasted increase in membership and transactions, the pawn shops of Marvaries are rapidly multiplying in spite of their interest of 36 per cent. The only inference that can be drawn from it is that our co-operative urban banks have not succeeded in taking the poor labouring classes into their fold and their transactions are mainly confined to the middle class people. Loans on pledge of jewels is the only form of credit available to certain class of industrial workers and if co-operation does not come forward to help them, the usurious rate of interest charged by the marvaries eats away the jewel pledged. With a little care in management loans on jewels and on the pledge of produce may very well be resorted to by the urban banks in places where there are facilities and in the new act of 1932 provision is made for them. A resolution on the subject is coming before the conference and I hope you will give a definite lead in the matter. We have to meet a number of difficulties when we are driven to realise our mortgage debts by coercive steps. I have already referred

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to our difficulties when there are subsequent alienees or other non-members interested in the mortgage property. We are then forced to go to Civil Courts and then another set of difficulties are in store for us. In the first place the costs allowed by the courts are always less than the amount we have to spend. Then it takes a long time to realise a mortgage debt by the sale of the mortgage properties through process of court. The subsequent interest allowed by the courts is only 6% and the society has to lose a part of its normal interest between the time of decree and the time when the assets are finally realised after sale. Execution proceedings are sometimes protracted to an inordinate length of time. You all know that immovable properties have fallen in value, but the courts go on fixing the upset price in the old level of prices with the result that after so much delay and expense we bring the properties to sale, the sale is stopped for want of bidders and the lengthy process of bringing the properties to sale is again begun. The courts are often unwilling to reduce the upset price and the execution proceedings drag on. Another difficulty in these mortgage loans is that if they are landed properties the defaulting borrowers do not usually pay their revenue kist and those properties are brought for sale under Revenue demand and sold away even without the knowledge of the society. If these sales are not got cancelled within a month by payment of revenue dues, the society is doomed to lose the entire mortgage loan. I hope the experiences of all the Urban Banks are the same in this matter and the Conference may well discuss the subject in all its bearings.

* * * *

There is another aspect of urban banks which deserves your earnest consideration. They are established in towns and the membership is often very large. The administration of such societies has a tendency to fall into the hands of a few—the large body of members taking only a luke-warm interest in it. The efficiency of a society is in the long run exactly proportionate to the amount of vigilance that the ordinary members in general exercise over it. That the management is good should never be the ground for the relaxation of vigilance by the general body; for the management by a few however efficient and disinterested, contains within itself the germs of deterioration and decay. The great maxim that good Government is no substitute for self-government is at least as true of the government of Urban banks as of the Government of countries. Therefore

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it behoves us all to strive our utmost to infuse active interest in the administration of banks in the minds of the general body of members.

One more matter that is now agitating the minds of urban banks as a result of the audit notification is that as they have been asked to pay the entire cost of audit they are not willing to pay the supervision fund of Rs. 150 the maximum to the supervising union. But it is a well known fact that the representatives of the Urban Banks are the only non-borrowing disinterested and efficient human materials available for conducting the supervising unions in many places and hence affiliation of urban banks to unions contribute much to their efficiency. It is justifiable that the urban banks are allowed to affiliate themselves to the supervising unions with a nominal payment towards supervising fund instead of insisting on a contribution of Rs. 150.

* * * *

I have touched only on some aspects of our work; but I do not want to keep you long from the President's address which you are all doubtless anxious to hear. So once again I thank you all for your kindness and I close with my fervent prayer that this momentous conference may lead us all into a better co-operative world.

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PRESIDENTIAL ADDRESS

OF

MR. V. RAMADAS PANTULU.

*Mr. Strathie, Mr. Srinivasagopala Iyengar, Mr. Seshachala Iyer
and Fellow Co-operators.*

I am deeply indebted to you for the honour you have done me by your generous invitation to preside over this very important session of the Second Urban Banks' Conference. I must confess that I have no first hand knowledge of the working of the Urban Banks. I come before you essentially as a rural co-operator by associations as well as training. Notwithstanding the oft repeated accusation of the champions of ultra ruralism that the Central Banks and the Provincial Bank suffer from an urban mentality, I feel that I have not become urban in my outlook by my connection with them. I now suspect that I am suffering from yet another disability. I have discovered a strong under current of "separatism" in the notes and papers printed for the conference. I am on the other hand, a habitual believer in the essential identity of interests, principles and practice of all co-operative credit organisations in the province and in the necessity for sustained endeavour at co-ordination of efforts in the right application of these principles and practice to all of them alike. This ideal of mine will, I hope, not clash with the ideals of the organisers of this conference. If they are seeking unity in diversity, we are on a common ground and do not differ.

SEPARATE CENTRAL URBAN CREDIT ORGANISATIONS.

The main problem which seems to have been agitating the mind of the leaders of the urban banks' movement for some time past is whether separate secondary organisations like urban central credit banks and an Urban Provincial Credit Bank are necessary in order to give impetus to the growth of the urban credit in this province. I do not think that this topic need detain us long. The Townsend Committee on Co-operation which dealt with the question purely from the stand point of this province and the Indian Central Banking Enquiry Committee which approached it from the stand point of the position and requirements of India as a whole, have

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made definite recommendations which seem to me to be sound and satisfactory. The recommendation of the Townsend Committee runs as follows :—

"We notice that urban banks are discouraged from borrowing from central banks to induce them to take deposits which would not be available for central banks. While we agree that this policy is generally sound, we see no reason why central banks should not finance, when necessary, urban banks on the security of their promissory notes, backed by the security of the individual promissory notes of their members."

In this view the question of a separate Provincial Bank does not, of course, arise.

The recommendation of the Indian Central Banking Enquiry Committee runs as follows :—

"As far as possible the co-operative central banks should act as financing agencies and balancing centres for non-agricultural urban banks. Where urban banks are stronger than central co-operative banks or where the latter do not meet the special requirements of urban banks, urban banks should be allowed to deal directly with the provincial co-operative bank. Sufficient cash balances should be kept by urban banks with the Central or Provincial Bank, from which they receive discount or rediscount facilities. It might be necessary, if there is a considerable development of urban banks, that the latter should have their own central banks, different from the central banks of agricultural credit societies. But it will be undesirable to have a separate apex bank. There should be only one Provincial Bank apart from the Provincial Land Mortgage Corporation." (Page 257. Part 1)

If there is proper co-ordination of activities and a suitable adjustment of business relations between the urban banks on the one side and the central banks and the provincial bank on the other, I think the latter can function adequately as the financing agencies and the balancing centres of urban banks so far as this province is concerned, for a long time to come. I am definitely opposed to any proposal to start a new set of central banks by federating the urban banks, or to start a provincial bank to finance the urban banks either directly or through the central banks of urban banks.

SEPARATE ANNUAL CONFERENCES.

Then there is the question of necessity or otherwise to start separate organisations and institutions for propaganda and edu-

cational purposes, like an Urban Banks' Provincial Co-operative Union and an Urban Banks' Provincial Co-operative Conference. I do not think there is any necessity for either. I do admit that the existing Provincial Co-operative Union and the existing Provincial Co-operative Conference are not sufficiently well constituted to properly represent the urban banks, that they do not help to bring forward their special view points and that they have not been helpful in the past to formulate suitable schemes for their development. The remedy however in my opinion lies in another direction, namely, in so improving or modifying the constitution of the Provincial Co-operative Union and Provincial Conference as to make them subserve the genuine interests of the urban banks adequately. So far as the Provincial Co-operative Conference is concerned, I think, the co-operators of this province may well follow the model of the Indian Science Congress. The several groups of co-operative institutions which have distinctly common business topics to tackle may form themselves into sectional conferences each having its own expert president, deliberating over its peculiar problems and formulating its own conclusions. If this procedure is adopted, the scanty attention that is now paid to urban banks' problems at a sub-committee's meeting of a Provincial Co-operative Conference and the perfunctory disposal of that sub-committee's draft resolutions in the open session of the conference, where the voice of the urban co-operators is faintly heard, would be effectively prevented. Similarly, the Building Societies, the Consumers' Stores and the Loan and Sale Societies, may hold their own sectional sessions and each group may evolve their own plans. This method will bring all the co-operators of the province together periodically. I think it will be enough if we meet in this manner once in three years. The interval of a triennium between the conferences will leave us sufficient time to take stock of the effects of the working of the policies and programmes evolved at the previous conference and to find out in what other direction reform is called for. After all, it must be remembered that the persons interested in the several co-operative organisations are more or less same in each local area and it is they that participate in all co-operative conferences generally. Even if they meet separately in different conferences, which are apparently unrelated to each other, the solutions which they bring to bear on the several problems must have a relation to the general progress of the movement and the

broad outlines of its development. It will therefore be a distinct advantage to meet in a general session, which will be opened by some eminent co-operator and then to group themselves into sectional conferences dealing with their own peculiar problems and at the same time keeping themselves in close touch with each other and enjoying unique facilities for exchange of views and experiences, which each of them may possess. I make this humble suggestion for the earnest consideration of the leaders of the Urban Banks' movement. I do not think that there is anything so peculiar to urban banks as to justify any reluctance on their part to associate with any other types of co-operative societies in a common conference conceived and worked on proper lines.

WHAT ARE URBAN BANKS AND THEIR FUNCTIONS?

I have so far been using the expression "Urban Bank" without trying to clear up what it precisely denotes. I find that it is now being applied to all non-agricultural *credit* societies. These non-agricultural credit societies in this province are about 1100 in number with a membership of about 2,30,000 and a working capital of about Rs. 3 crores. But when you analyse them further, they fall into at least three varieties. One of them purports to approximate to the commercial banks aiming at doing general banking business for traders, entrepreneurs and artisans. Another variety of them is sectional credit organisations, exclusively composed of salary earners. These are known as employees' societies. They are of various denominations according to the character of the employees that compose them. The third variety of them consist of tiny little primary credit societies, operating over compact little places on a very small scale, trying to meet however the modest needs of all classes of urban population, who may choose to avail themselves of their humble services. Problems in each of them, in one sense, are not the same. When it is claimed that urban banks can do this, that and the other, and that no restrictions be placed on their freedom to operate as ordinary banks, it is evident that such claims do not apply to these several classes of urban credit societies equally. Doing modern business of advanced banking, or granting cash credits, dealing in cheques, discounting of inland bills, clearing and remittance business are agreed to legitimately pertain to "People Banks." But such business if at all, can be attempted in this province only by the first variety of the urban banks to which I have referred, namely the larger cosmopolitan urban banks which approximate to the commercial

banks. There will be very little scope of such activities in the case of the second and third classes. Of the 1,100 and odd *non-agricultural credit* societies, about 350 are Employees' Credit Societies. These are generally looked upon as thrift societies for collecting and investing the savings of their members. Coming to the remaining 750 and odd societies, composed of all classes of population, only about 225 of them have anything like a working capital of Rs. 20,000 and over. More than starting on plans for forming separate organisations for the urban banks, what we require to lay the foundations for their sound development, is a scheme to enhance the utility of these varieties of urban credit societies to their respective classes members and to improve their working and management.

In regard to the bigger urban banks, say with a working capital of over Rs. 50,000 (of which we have about 125 in our province), I have always been, and I am still, of opinion that they should, if the management is sound, have the freedom to do all kinds of banking business in order to meet the requirements of their members. In this connection, I wish to draw attention to the Indian Central Banking Enquiry Committee's recommendations that even these big urban banks should, however be debarred from entering into forward delivery contracts in any market, either on their own account or on account of their members, and from financing Joint Stock concerns.

From an examination of the character of the loans advanced by the urban banks my general conclusion is that just as rural credit societies finance rural population and not the main rural industry of agriculture, so the urban credit societies finance the urban population but not the urban trades and crafts. I have also noticed a growing tendency to replace surety loans by mortgage loans, evidently house mortgages mostly. It may be land mortgages in some cases. Some of the big societies in the city of Madras subsist mostly on house mortgage business. Roughly speaking, out of the outstanding loans of Rs. 2½ crores in Urban Banks Rs. 1½ crores are mortgage loans and 1½ crores are surety loans. The following figures show the tendency :—

		Mortgage Loans.	Surety Loans.
1929-30	...	38 per cent.	57 per cent.
1930-31	...	43 "	51 "

The problem of overdues has begun to afflict the urban banks as well. On 30-6-'31, the percentage of overdues in urban banks was

21·9 under principal and 24·9 under interest. It is a serious matter in urban banks where quick rotation of capital is an essential factor for success. As for the purposes of the loans, out of Rs. 2 crores lent out, Rs. 1 crore is said to be for productive purposes, 70 lakhs for discharge of prior debts and 30 lakhs for other non-productive purposes.

Among the resolutions of the First Urban Banks' Conference held at Erode, I find one favouring urban banks lending on pledge of silver and gold ornaments and on non-perishable commodities of trade. In regard to the conditions under which this kind of business may be safely done, I would like to quote the following recommendation of the Indian Central Banking Enquiry Committee :—

"We recommend that urban banks may be permitted to advance money on the security of gold and silver ornaments, on the former upto 75 per cent and the latter upto 50 per cent of the value. Such loans need not necessarily be limited to the individual borrowing power of the members. Great care is, however, required in valuing and holding in custody gold and silver pledged with the bank. Advances to traders may also be given on sound and authorised warehouse receipts." (page 257, Vol. I).

Mr. Unnikrishnan Menon, Deputy Director of Agriculture, has contributed an informing article to the September issue of the Madras Journal of Co-operation, from which I gather that he desires certain urban banks in select areas to assist the agriculturists as well by lending against their produce which is securely stocked and effectively pledged to the urban banks operating in the area. Provided that the urban bank does not involve itself in any further operations, which a loan and sale society is to transact, such as the sale of produce and so forth, and where the co-operation of the Agricultural Department will be forthcoming, I personally do not see any objection to the experiment being tried in a few select centres, specially in regard to loans on a crop like groundnut.

As regards the desirability of the larger urban banks financing smaller urban banks, some definite recommendations were made by the Erode Conference. I feel that Urban Banks may finance other urban primary *non-credit* societies in the area according to special local conditions. I am however, doubtful about the desirability or the necessity of their financing other small urban *credit* societies in their area. The latter may well go to the central banks for the

purpose; they do go now to the central banks in several areas I know of.

I have not adverted to the competition, that is sometimes spoken of, between the urban banks and central banks for deposits. In practice the former now offer on their borrowings half per cent less than the lending rate of the latter. In many places, urban banks are able to get deposits at the same rates and some times at lower rates than central banks. So, the problem does not now exist.

SIZE AND MEMBERSHIP OF URBAN BANKS.

So much for the business side. There are a few other matters like the size and composition of these banks, which require a few words. In some cases, it is felt that a few of the existing urban banks have become very unwieldy in their membership and in connection with them, a general question is raised as to how the size of the urban banks shall be regulated. On this point, I do not think there is any need to lay down cut and dry tests. On the whole large-sized urban banks are desirable. In each case, its size should, however, be so maintained as not to cause inconvenience in practice. Here is what the Indian Central Banking Enquiry Committee have to say on the point:—

“Development of *large* urban banks should be encouraged though restriction on the area of operations may be considered with reference to the extent of population of the towns served by these banks, so that the operation of the banks may not become unwieldy.”

This, I think, gives a safe working rule.

As regards the composition of these banks, I find that, at the Erode Conference, it was considered desirable to start urban credit societies “on the basis of occupation or homogeneity of population.” What exactly the import of these words is, it is not clear to me. If it is meant to encourage credit societies for special castes or callings, I, for one, am definitely opposed to the idea. Sectional societies for salary-earners of various denominations stand on a different footing. As I said already, they are of an exceptional nature. Barring that exception, I do not think communal or occupational urban banks should be encouraged. Urban Banks must try to do “for the small trader, the small merchant and the middle class population, what

the commercial banks are doing for the big trader and big merchant.” The central aim shall be that no middle class man in the area of the operations of any urban bank shall suffer for want of small credit on reasonable terms.

AUDIT OF URBAN BANKS.

Then I come to the vexed question of audit. I shall be as brief on this point as I possibly can. Resolution No. 11 of the Erode Conference definitely favoured non-official audit and recommended that there should be for each district a union for the audit of urban banks and the societies that may be financed by them. From a perusal of the proceedings of that Conference, I find that there was not much difference of opinion or controversy over it. It is therefore evident that, at their very first Conference in 1928, the urban banks voted in favour of non-official district audit unions. So, those who try to make out that the urban banks are being misled by propaganda in favour of non-official audit are entirely in the wrong. As for the particular form of non-official audit organisation, which will serve best the interests of the concerned co-operative institutions, I have all along conceded that it is a matter of self-determination. So, the decision rests with you rightly and properly. Speaking for myself, after reading through everything that was said against the central provincial audit scheme, I remain absolutely unshaken in my conviction that it is the best. I have not been able to appreciate or to understand, even after making a special effort, why, for purposes of audit, the urban banks should not be associated with the central banks. Whatever may be my personal conviction in the matter, reading through the Notes and Papers printed for this Conference, I am left in no doubt as to what the leaders of urban banks desire. They consider that urban banks should have a distinct audit organisation for themselves. When there is such consensus of opinion on this matter, on the part of the accredited leaders of the urban banks' movement, whose credentials to speak with authority are unquestionable, I must give way. Let us therefore agree unanimously in this Conference on the desirability of urban banks making this own arrangements for the proper and efficient concurrent and final audit of their accounts by a suitable non-official agency.

The question, then, is shall each bank appoint its own auditor, or shall we have district audit unions or regional ones or a Provin-

cial one? For the reasons I have already stated in connection with the Provincial Audit Scheme, I am sceptical about the success of the experiment of either private auditors appointed by individuals banks or of district unions for the audit of urban banks. Moreover, the urban banks with a working capital of Rs. 20,000, and other which alone come under the scheme, are just over 200 in number and are so unevenly distributed over the 25 districts, that it is not practicable to have audit unions for each district which can be maintained on the same level of efficiency. As regards the Provincial Scheme, unfortunately there is, in some quarters, an evident suspicion of some potential danger by the non-official co-operators organising and strengthening themselves through a provincial organisation of their own. In other quarters, there is a tendency to distrust their own central organisations. Between the two, they effectively destroy the chances of a really useful provincial organisation. Every objection that was urged against the Provincial Bank's combined central audit scheme, would be urged even if it is confined to the urban banks. If we have no faith in our fitness to establish central responsibility in our co-operative self-government, broad based as it is on democratic foundations, any further argument in favour of a provincial scheme is, to my mind, a fruitless task. So, I abandon it for the present so far as the urban banks are concerned which, in this matter, I regret to say, have shown a very narrow outlook. If they do not favour a central provincial organisation of their own for purposes of audit, then I shall suggest to them another alternative. I think it will be possible to divide the 200 and odd urban banks, which are liable to pay audit fees under the Government Notification, into three or four convenient regional groups and special regional audit unions may be constructed with headquarters at a central place in each region. I do not think that I need elaborate the scheme and make out its details at this stage. It may easily be done, if the principle is agreed to. Such regional unions can command more efficient and impartial service than tiny local unions.

GENERAL REMEDIES TO IMPROVE URBAN BANKS.

I know, you will expect me to make, before I conclude, some definite suggestions for the improvement of the urban banks. But, I have only the common remedies known to all co-operators. I have no new specifics to reveal which will effect miracles in urban credit.

To me, the remedies are identically the same as those applicable to rural credit societies. The steady inculcation of co-operative virtues of thrift and punctuality in repayment, the adjustment of size and duration of the loans to the purposes and repaying capacity of the borrowers, absence of tenderness in effecting recoveries, and arrangement for efficient audit—concurrent and final—will help every credit organisation to function in a continued state of sound health. With the relaxation of any of these co-operative principles, symptoms of sickness will set in. The principles mentioned by the Chairman of the Reception Committee, namely, the development of the co-operative sense of oneness of the lender and the borrower, the need to accumulate loanable capital out of the members' savings and the elimination of middlemen are, again, common alike to urban and rural credit. The curse which afflicts rural and urban co-operators alike is usury, and both types of credit are in essence devices to fight that demon. My appeal to you, therefore, is to do all you can to promote these cardinal principles and virtues of Co-operation in the daily working of the urban banks.

BANISH COMMUNALISM FROM CO-OPERATION.

Before I conclude, I wish to draw your particular attention to a very valuable sentiment expressed by Mr. D. N. Strathie, in his latest administration report. He has done a service in pointing out that the success of the Movement entirely depends upon the existence of some disinterested and leisured men in each area, who seek office in the co-operative organisations "not for the sake of patronage and power it confers, but of the opportunity it gives them of using their personal influence to the good of the Movement." It must be admitted that the Movement is in need of great many such men. But we must create conditions for attracting them into the movement.

The most important factor in the creation of those conditions is the arrest of communalism and sectarianism and the effective prevention of their entry into the Movement. Co-operation knows no distinction of caste, creed or community. In the language of the European co-operators, this great ideal is described as the "principle of religious and political neutrality." It is based on the desire for the satisfaction of common economic needs of all those who associate together on a voluntary basis. The Russian attempt to infringe this principle by the assertion that the Co-operative Movement can play a positive role only by becoming

exclusively proletarian and by adopting the principle of class war is emphatically discountenanced by international co-operative opinion. In India, the roots of the tender plant of Co-operation will be destroyed if the *poison of communalism* or *class antagonism* is allowed to enter the movement. As a thoughtful writer on Co-operation says, "difficulty about compacts does not lie in *making* them, though it is often difficult enough, but in *keeping* them alive and fruitful after they are made." Communal or sectarian quarrel is violently opposed to the religion of co-operative compact. I therefore appeal to you to take prompt and effective steps to arrest this tendency and to instal Co-operation in the Temple of abkar's dream :

"A temple, neither Pagod, Mosque nor Church,
But loftier, simpler, always open door'd
To every breath from Heaven, and Truth and Peace
And Love and Justice came and dwelt therein."

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II. SPEECH OF

RAO BAHADUR A. RAJAHBADAR MUDALIAR

at the Tinnanur Co-operative Union Conference held on the
2nd October 1932.

1. Let us consider with what object the co-operative credit societies were started in this country and how far our societies have fulfilled it. The object was to help the poor people—chiefly the agriculturists—to improve their economic condition. The idea was that what loans such people were unable to obtain individually they could be enabled to get easily by their co-operating together for the purpose and acting as a corporate body with the joint strength of all the members, and that the loans so obtained should be utilised by them for productive purposes which would yield an income from which the loan could easily be repaid and the economic condition of the borrower also improved. This basic idea implied that loans should be taken only to the extent of the repaying capacity of each member and that they should be utilised to produce an income from which to repay them. These essential requisites however were most unfortunately ignored generally in the working of our societies as so well pointed out by our Joint Registrar to-day with the results we are now witnessing. Loans were disbursed far beyond the repaying capacity of members and the duty of watching their utilization for productive purposes and of their recovery at the due time was generally neglected. How do we stand now? Heavy and growing overdues in societies, large and continuous fall in the loans disbursed and a general decline in the economic condition of our agriculturists. The Madras Provincial Bank is surplusing largely in its funds owing to their non-absorption by Central Banks and they have had recently to put a check on the flow of deposits to them by lowering the rate of the maximum interest on fixed deposits to as small a figure as $3\frac{1}{2}$ per cent. If we turn to the villages, the people are found to suffer from want of pecuniary resources and to be getting weaker and weaker economically. What is our solution? Our co-operative societies are like the Kamadhenu of the Hindu Mythology which can supply whatever is needed but like the Kamadhenu of old they can flourish only in pure surroundings like those of the great Rishi Vashistar who is said to have possessed it. I mean that members of a Co-operative Society should possess purity of thought and action and truly observe their co-operative motto 'Each for all and all for each'. If they are all sincerely imbued with this desire to help their brethren and elevate them, all our present difficulties should not exist. I do not deny that altruism is a rare commodity in this world and people who are genuinely interested to work for the welfare of others are rarely to be

found. But all the same the co-operative ideal demands the presence of true lovers of their countrymen to achieve success. No panchayatdar who has sincerely the welfare of a member at heart would think it fit to grant more loan to him than he can repay or be indifferent about watching the proper utilization of the loan and its due recovery at the time best suited for it in each individual case. Our leader Mr. V. Ramadas Pantulu expressed not long ago at the Bandar Co-operative Conference his impressions of the kind of men who work our movement. He said,

"All the worst influences of local faction and favouritism have had their unbridled play in the choice of the men on whose honesty and efficiency the destiny of the movement largely depended. The net result is that in most areas (there are, of course, honourable exceptions) supervision is in the hands of men who are utterly incompetent and often unreliable and it is no wonder that societies entrusted to the care of such men have deteriorated in some instances beyond the possibility of reclamation. Indeed the opinion in favour of the total abolition of unions is gaining in volume every day."

Mr. Ramadas Pantulu as you all know is a very strong and earnest advocate of the rapid non-officialisation of the movement and his impressions should carry special weight. So far as your union is concerned, I am happy to say that his remarks will not apply to you. But they indicate correctly the general condition of unions. Unless, therefore, we first improve the character of the workers in the societies, and particularly the panchayatdars, our movement is bound to continue in the present unsatisfactory state and to collapse someday. My first suggestion to you therefore is that as far as possible select for the panchayat men who are not borrowers in the society and if you are compelled to take in only borrowing members, see that they are above the reproach of being defaulters in the repayment of their own loans. Do not allow a defaulting panchayatdar to remain for one moment in the panchayat as he will not only do personal harm to himself but also exercise a highly demoralising influence on other members who will not be slow to imitate him in delaying their payments and easily excusing themselves for the default.

2. I would next ask you to carry out strictly another already existing rule that no defaulting panchayatdar should be on your union governing body. I would even go a step further and suggest that you should not allow a society that has defaulted in keeping up its obligations to the Central Bank to send a representative to your union governing body though of course it would be entitled to send to the union General Body. It needs no argument that a society which cannot govern itself

properly should not be treated as eligible to provide a representative fit to govern other societies. I know that if that rule is enforced there will be some difficulty to get men for the union governing body. The strength of your governing body is only about seven. Your union has as many as 27 societies affiliated to it. It ought to be easy for any supervising union worth the name to keep at least seven of its societies free from default. If a union is not able to achieve even this degree of success, it is not worth existing. I urge therefore for your consideration the adoption of the rule that a representative of a defaulting society should not sit in the union governing body. Your union which has the distinction of having won the shield for best collection work in the District would render a service of incalculable value to the movement by giving a lead to other unions in this respect. It ought to be distressing to any genuine co-operator in the District to hear that according to the figures tabulated for August '32, the percentage of defaulting societies in the District is 81. Can this be considered a proof of good supervision of societies? As an important condition of its subvention for the Rectification work, the Provincial Bank have very rightly emphasised the need for the systematic examination of the Rectification work of Supervisors by Administrative Officers. If we mean well for the large body of agriculturists who can be helped with small short term or intermediate loans upto 3 or 5 years which they can easily repay from their agricultural or other income, we ought to arrange for a detailed study of the conditions of each member in every society and of possible members who have not yet joined it, with a view to ascertain correctly the loan requirements which may be reasonably expected to be punctually repaid. With our knowledge of how panchayats have carried on the work of societies hitherto often making the society a close preserve for their own kith and kin and how unions have done the work of supervision, we shall only continue the present struggle with the same unsatisfactory results if we still depend entirely on them for this piece of work. They should be helped with competent experts who can devote the required time and energy to the work and evolve orderly business in the place of the present chaos. Banking is no light business and the fact that it is done on a co-operative basis cannot dispense with the need for suitable working materials and the provision of proper safe-guards. It is of course the Federation that should appoint suitable experts for the work from the funds now pooled and the money spent on them is sure to improve our business in general and gradually achieve the goal nearest to all our hearts of ameliorating the economic condition of the poor agricultural classes.

**THE SECOND MADRAS
URBAN BANKS' CONFERENCE, TIRUVANNAMALAI.**

held on the 16th October 1932.

RESOLUTIONS.

Resolution No I.—(a) This Conference is definitely of opinion that it is high time that the conduct of Audit should be assumed by non-official agency properly organised.

(b) Resolved to convey to Government that in transferring the conduct of audit to non-official agency (concerning the urban banks and allied Urban Societies) subject to the statutory control of the Registrar, the same could be effected best, by the organisation of regional audit unions, with jurisdiction over one revenue district or more as may be found necessary or desirable, to be fixed with due regard to the financial strength and requirements of the Union and the opinion of the societies concerned in the formation of that Union.

(c) This Conference resolves that the policy of encouraging audit societies by private auditors should be discouraged in areas where audit unions are working or formed in accordance with the above resolution.

*Resolution No II.—*Resolved that in the interests of the Co-operative Movement in general, this Conference request the Government to introduce a proviso in section 49 (2) (f) and section 50 (1) (e) of the Madras District Municipalities Act and section 55 (2) (cc) and section 56 (1) (f) of the Madras Local Boards Act to the effect that this disqualification (official superiority and subordination) shall not attach to holders of honorary offices under the Co-operative Societies Act, and also request the Government to include this amendment in the list of amendments that are to be made shortly to the Madras District Municipalities Act and the Madras Local Boards Act in the Madras Legislative Council.

*Resolution No. III.—*This Conference is of opinion that in pursuance of the commendations of the Central Banking Enquiry Committee the Urban Banks may be permitted to finance such non-credit societies in their area as may be in need of their help and as are willing to get themselves affiliated to these urban banks.

*Resolution No. IV.—*Resolved to invite the attention of the urban banks to the imperative need of fixing and revising periodically, the individual maximum borrowing power of their members through the appointment of discount Committee either in regard to their borrowing under a cash credit account or as a loan.

*Resolution No. V.—*This conference is of opinion that any co-operative credit society organised on a limited liability basis exercising

RESOLUTIONS

jurisdiction over an urban area and with a working capital of Rs. 20,000 will be entitled to be called an Urban Bank and claim to exercise the privileges of an Urban Bank.

*Resolution No. VI.—*This Conference resolves to draw the attention of the Government that in promulgation of the new rules framed under the new Madras Act VI of 1932 regard must be had to the law in regard to obtaining awards on mortgage loans and provision should be made for impleading subsequent alienees though they are not members of the societies seeking the award.

*Resolution No. VII.—*This Conference invites the opinions of the urban banks about the desirability or otherwise of the Common Good Funds of the Urban Banks in the presidency that are now being devoted to extraneous purposes being pooled into a provincial fund to be made use of for organisation and supervision of small scale co-operative industrial concerns, through the help and aid of paid industrial experts to be recruited and maintained by an institution that can be entrusted with the fund.

*Resolution No. VIII.—*This Conference resolves that urban banks do recommend to their clientele that the facilities offered by the South India Co-operative Insurance Society for the insuring of the poorer classes of people in urban areas be availed of and that the banks themselves take up the agency of the Society with the permission of its local board.

*Resolution No. IX.—*This conference recommends that the urban banks may be permitted to issue loans on the pledge of gold and silver in accordance with the subsidiary rules to be framed therefor not exceeding 75 per cent. on the value of gold and 50 per cent. on the value of silver.

*Resolution No. X.—*Resolved to move the High Court through the Registrar to circularise subordinate courts to allow contract rate of interest on co-operative societies' claims till realisation and to expedite execution proceedings.

*Resolution No. XI.—*Resolved that the provident fund deposits invested as such in the central banks or deposited there from out of such funds should to that extent be excluded from the working capital of the urban banks for calculation of audit fees.

*Resolution No. XII.—*Resolved that a working committee consisting of the President of the Conference, the President of the Reception Committee and the Secretary of the Reception Committee Mr. E. S. Ganapathi Iyer and Mr. Subba Rao be constituted to act until the next conference is held.

*Resolution No. XIII.—*Resolved that urban banks be allowed to affiliate themselves to Unions on their paying an annual contribution of not more than Rs. 10.

*Resolution No. XIV.—*Resolved that it be a recommendation to all urban banks to adopt a uniform practice of electing their Board of Directors for a period of two years.

District News.

GENERAL BODY MEETING OF THE ALAMURU CO-OPERATIVE LAND MORTGAGE BANK Ltd.,

The 4th Annual General Body Meeting of the Alamuru Co-operative Land Mortgage Bank Ltd., was held in the Bank premises at Alamuru on 23-9-32, under the presidentship of M. R. Ry. N. Satyanarayana garu. The secretary read the annual report on the progress of the Bank.

There are 373 members in the Bank with a paid up share capital of 26,920 by the end of June 32. The Government have given special concession to float its own debentures and the bank secured an amount of Rs. 1,74,550 by the end of the year. The bank borrowed Rs. 58,250 from the Central Co-operative Land Mortgage Bank Ltd., for disbursing loans to members this year. The total amount of outstanding loans by the end of this year is Rs. 2,78,668-2-0. The bank earned a profit of Rs. 2,818-9-0 and declared a 7 per cent dividend to share holders.

The general body amended the by-laws for increasing the share capital from Rs. 30,000 to Rs. 50,000 and the Individual maximum borrowing power from Rs. 3,000 to Rs. 5,000. The general body passed a resolution requesting the Central Land Mortgage Bank Ltd, Madras to float 20 years debentures and issue loans to primaries on 20 years' period.

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To

THE EDITOR,

MADRAS JOURNAL OF CO-OPERATION,

MADRAS.

Dear Sir,

My attention has just been drawn to the remarks made in your review on the report of the working of Co-operative Societies in Mysore for the year 1930-31, appearing on page 662 of the June issue of the Madras Journal of Co-operation in the matter of the loans granted by this Bank direct to individual members instead of through the medium of local Land Mortgage Societies. With reference to these remarks, I wish to bring to your notice that unlike Madras where the Primary Land Mortgage Banks were first formed and the Central Co-operative Land Mortgage Bank was subsequently brought into existence to finance the Primary Banks, in Mysore, the Mysore Land Mortgage Bank was first formed with a view to grant loans to individuals as well as primary Land Mortgage Societies as and when they come into existence. The loans granted to individuals direct by the Bank to which reference has been made in your review were all sanctioned before the local Land Mortgage Societies were formed in the areas covered by the loans. With a view to prevent conflict of interests and functions in the areas wherein Primary Land Mortgage Societies are formed, it is provided in the Bank's by-laws that all loans in areas for which primary societies have been formed should be granted only through such societies and this rule is being strictly observed by the Bank. It is only in areas wherein the formation of local primary societies is delayed or hampered owing to the lack of suitable persons to manage the societies or other sufficient cause that loans are granted by the Bank to its members, pending the formation of local societies, as it is considered that the relief required by the members should not be denied or withheld merely by reason of the difficulty in the formation of local societies.

Yours faithfully,

K. R. SRINIVASIENGAR,

President.

Reviews.

INDIAN CURRENCY AND EXCHANGE.

310 pages : By. S. B. Sen Gupta M.A., B.L., Principal, Khalsa College, Lyallpur Published by R. S. Jaura, B.A., L.T., The Students' Popular Depot, Kacheri Road, Lahore. Price 3 rupees.

It must be admitted that in spite of the numerous publications on Indian currency and exchange the subject still remains for many to be difficult. Indian currency cannot be well understood without adequate knowledge of its history and development and a thorough study of the reports of the currency committees appointed from time to time. The reports of the various committees, as Mr. SenGupta points out are to be read and read for a proper understanding of the subject.

In the first chapter of the book under review the author deals with principal kinds of Money, Value of Money etc., wherein he explains in simple and clear terms the principles underlying Quantity Theory of Money and Gresham's Law. Chapter 2. deals with Foreign Exchange and chapter 3 with some outstanding facts connected with balance of trade and an account of the Indian rupee especially from the year 1835, the year in which Indian currency was consolidated, to September 1931, when after the abolition of the Gold Standard in England the government of India on the recommendation of the Secretary of State linked the gold rupee (which is only a fiction) by an ordinance of 1931 to sterling at 1s. 6d.

Between chapters 4 and 15 Mr. Sen Gupta traces chronologically at length the chaotic history of Indian currency and exchange from 1893, the year of the stoppage of the free coinage of silver, to the year 1932. In the course of his survey of our currency system the author lays special stress on the changes introduced into it from time to time and discusses the effects of such changes in full. A noteworthy feature of the book is that it gives a detailed and critical analysis of the reports of the currency commissions appointed to enquire into the currency system of India in the years 1893, 1898, 1914, 1919, and 1925. It also gives in a summarised form the views of the dissenting members, which may be highly valuable in knowing the other side of the picture. The implications of Gold Exchange and Gold bullion standards, gold standard and paper currency reserves, and a gold currency for India are, however,

REVIEWS

made explicit and interesting. With regard to the objections laid down by the Hilton Young commission to a scheme of gold currency for India, the author rightly observes:—

"All that we need say is that too much attention was paid by the Commission to the well-being of other nations and too little to that of India. We shall not be understood, however, to suggest that a gold currency is the best currency, or a gold standard is the best standard; gold may have nothing but the smell of its prestige."

The functions of and the need for a Central Bank for India are discussed in chapters 14 and 15. The book closes with a short paragraph on rupee-sterling exchange and advantages and disadvantages that are likely to accrue from linking the rupee to inconvertible sterling. "It will not serve any useful purpose" in the words of the author, "by condemning the astounding step taken by the executive authorities. It has proved, if any proof is required, that India must still depend on the arbitrary order of her irresponsible executive, even in matters relating to the currency policy of the country."

The treatise on the whole is a masterly one. Statistical tables are given wherever necessary and a useful index is appended at the end. This volume would, no doubt, prove beneficial to all students of Indian currency and exchange and to those interested in the subject.

P. V. PUNNAIAH SASTRY.

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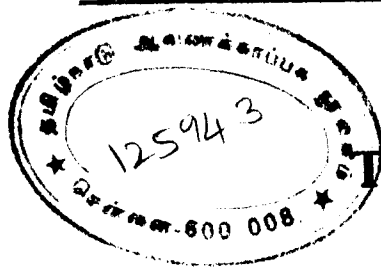
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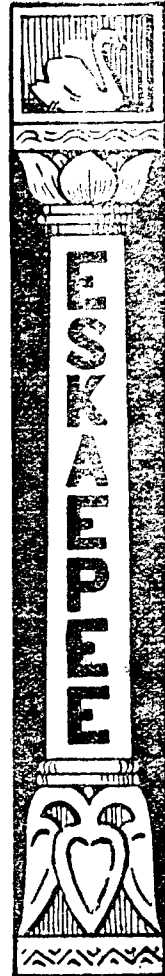
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