THE CONCEPT

COOPERATIVE BANKING is an institutional set-up organised and operated in accordance with the philosophy of cooperation.

The term cooperation is subject to varying notions, and there appears to be no unanimity as to its conception. Horace Plunkett has put it as "self-help made effective by organisation."¹ Calvert contents that "Cooperation is a form of organisation wherein persons voluntarily associate together as human beings on a basis of equality for the promotion of economic interests of themselves."² Fay calls a cooperative society as "an association for the purpose of joint trading."³ Strickland describes it as "an association of individuals to secure economic ends by honest means."⁴ There are some others who define it as "an association of the weak... to lift themselves... out of weakness into strength through business organisation;"⁵ "a way of life whereby

¹ H. Plunkett, Cooperation as a factor in the economic, social and political development of rural India, Supplement to Bombay Cooperative Quarterly, September, 1929, p. 7.
⁴ C.F. Strickland, Introduction to Cooperation in India (Bombay: Oxford University Press) 1922, p. 15.
⁵ S.S. Talmaki, Cooperation in India and Abroad (Manglore: 1931), p. 17.
people unite democratically; "an undertaking for common material and moral benefit;" and "cooperation in the widest sense means the union and coordination of the resources and endeavours of each individual in a joint effort to achieve the results sought after by all." We may conclude that cooperation essentially is a form of economic organisation and a technique of doing things on a wider social plane.

Viewed in this context, cooperative banking may be defined as an economic organisation with social content concerned with the art and science of mobilising and managing the small credit on mutual (non-competitive) lines. A cooperative bank is a people's institution, controlled and used by them for supplying credit of personal kind on easy terms of interest and repayment, for

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5 As defined by Bauer and Yamey it is "essentially a form of business organisation in which the people who supply its capital and organise its activities are also its suppliers and/or its customers. The cooperative member is both a part-owner and a customer of his society. It is this duality of role which is typical of a cooperative." P.T. Bauer and B.S. Yamey, The Economics of Underdeveloped Countries (London: James Nisbet, 1957), p. 223.
the common well-being made possible by effecting thrift, mobilising savings and directing men and money to productive enterprises. It is an organisation (or association) of individuals in an undertaking with an intention of grouped action to reap the benefits accruing as such, for common economic good, emphasising simultaneously both the material and humanitarian aspects, exercising educative influence in inculcating and developing the spirit of sacrifice and mutual help and operating according to common consent and majority decisions.

A comparison of the concept of cooperative banking with that of commercial banking brings out some basic distinctions between the two. Cooperative banks are different from commercial banks in their objects and management. Commercial banks are associations of individuals for the purpose of profit, whereas profit-motive remains subordinate to mutual-help and service-motive in cooperative banks. Capital dominates the management of commercial banks as voting power is in proportion to share capital owned, while cooperative banks are controlled by individuals as such on democratic basis, each member having one vote irrespective of the amount of capital owned by him. Whereas in a commercial bank a

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According to Devine "a cooperative bank is a mutual society formed, composed and governed by working people themselves, for encouraging regular savings and granting small loans on easy terms of interest and repayment." Quoted by N. Barou in Cooperative Banking (London: King, 1932), p. 74.
person automatically becomes a member after purchasing a share, in a cooperative bank, membership gives a right to hold a share and requires it afterwards.

**THE ROLE**

A developing economy\(^1\) is confronted with the crucial task of economic and social transformation.

\(^1\) A developing economy may be characterised by "very high proportion of population in agriculture... disguised unemployment and lack of employment opportunities, very little capital per head and as a consequence, existing on the subsistence level, practically zero savings for the large mass of people, low volume of trade per capita, poor credit facilities and poor marketing facilities." Harvey Leibenstein, *Economic Backwardness and Economic Growth* (New York: John Wiley, 1963), p. 40.

An economy "characterised by (1) mass poverty and (2) by obsolete methods of production and social organisation, which means that the poverty is not entirely due to poor natural resources and hence could presumably be lessened by methods already proved in other countries." Eugene Staley, *The Future of Under-developed Countries* (New York: Harper, 1954), p. 13.

An economy "which has good potential prospects for using more capital or more labour or more available resources, or all of these, to support its present population on a higher level of living." Jacob Viner, *The Economics of Development in The Economics of Under-development* (New York: Oxford University Press, 1953), p. 72, edited by A.N. Agarwala and S.P. Singh.

We may sum up that a developing economy is primary-producing with low per capita income of its people and higher population pressure suffering from unemployment or under-employment and which is deficient in capital having low level of technology, poor economic organisation and poor quality of human resources.
The process of economic growth involves a struggle to break through the vicious circle of low-income, low-savings and low-capital, a fight against poverty, and an attempt to bring about a general increase in the national income and per capita income. Social transformation implies changing the outlook and attitudes of the people, remodelling the institutional framework of the society and conditioning the entire environment as to serve the needs of development.

**The Economic Transformation**

Capital formation is the core of economic transformation and occupies a pivotal position in the development process of an economy. The process of capital formation is a deliberate activity rather than automaticity. Among other things, it is a function of the volume of domestic savings and financial mechanism.

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1 "It is a commonplace that economic progress is a function, among other things, of the rate of new capital formation." UN, Department of Economic Affairs, Measures for the Economic Development of Under-Developed Countries (New York: 1951), p.35.

2 "It is true that where physical and other resources are lacking no improvement in financial organisation can, by itself, enable development to take place, but this is also true that while good financial organisation cannot, by itself, produce development, bad financial organisation can hamper it." UN, Department of Economic Affairs, Domestic Financing of Economic Development (New York: 1950), p.1.
The role of financial mechanism in capital formation is mainly two-fold—an effective mobilisation of savings and a judicious and gainful allocation of resources to different uses and different users. But in an under-developed economy, due to imperfections of the financial mechanism, the problem of supply of finance finds a possible solution either in 'self financing' or 'in borrowed financing' from non-institutional agencies like the moneylender. Finance from such agencies is neither cheap nor easily available, firstly, because of their limited resources; secondly, owing to imperfections in their borrowing and lending market; and thirdly, due to their primitive outlook. Such a situation provides a suitable scope for the introduction of financial intermediaries to bring down the rates of interest charged by non-institutional agencies, to take out the hoarded savings and to meet adequately the credit requirements for development. In a developing economy, besides a 'sectoral dualism' between the slowly

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1 Savings are "the pre-requisite for enabling countries to implement the social, political and economic policies which they consider most suitable for the improvement of their standard of living." UN, Department of Economic Affairs, Methods of Financing Economic Development (New York: 1949)p.3.

2 "A country's rate of economic growth depends not only on how much it can save, but how productively it can invest the savings." H. Myint, Economics of the Developing Countries (London: Hutchinson, 1964), pp.15-16.
developing primary sector and rapidly growing commercial sector on the one hand, there appears a 'financial dualism' between the organised and the unorganised money markets, on the other. In the unorganised money market, the rates of interest are high and the credit facilities poor, while in the organised money market cheap and better credit facilities are available from the commercial banks which have a tendency to concentrate their operations on the 'organised industry and trade sector' and to adopt habitually rigid and conservative attitudes as to the credit-worthiness of the borrowers. Moreover, instead of channelling the funds from the organised sector to the unorganised one they tend to take away the


2 The All-India Rural Credit Survey found that the proportion of loans at rates of 25% or more varied from 27% in Bihar to 70% in Orissa, while rates exceeding 50% were not infrequent. RBI, All-India Rural Credit Survey, The General Report (Bombay: 1954), Vol. II, p. 173.

3 Commercial banks offer little competition to the non-institutional agencies because "these banks are wholesalers dealing with larger amounts of loans, whereas the peasants require an efficient retail distribution of credit." H. Myint, Economics of the Developing Countries (London: Hutchinson, 1964), p. 71.
surplus funds, if available, from the under-developed areas to the developed ones. Again, in under-developed areas, people do not have developed banking habits and deposits remain poorly associated with the total money-supply. In an under-developed country not only the existing financial mechanism but also the entire productive mechanism needs to be reconstructed with a view to correcting the prevailing structural defects in the economy in the form of "the dualism in economic organisation, technology and financing between the indigenous sector made up of peasants and other small-scale producers, and the modern sector made up of large foreign enterprises and the Government." In this reconstruction, the instrument of cooperative banking appears to be an effective alternative which is particularly helpful in bridging (or narrowing down) the gap in the money market (created by financial dualism) because "neither the commercial banks, nor the government development banks can solve the problems of financial dualism."

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"It is estimated that 70 per cent of the borrowing of rural families is from the moneylenders at very high rates of interest. As in other countries this is a field which commercial banks do not find it feasible to enter on an adequate scale." C.R. Wittlesey, in his Foreword to the Monetary and Fiscal Policy of India by K.C. Chacko (Bombay: Vora, 1957), p.viii.

1 "So the peasant producers and other smaller borrowers in domestic trade and industry have not derived (and do not derive) much benefit from the 'elasticity' which the commercial banks can impart to the local money-supply. H. Myint, The Economics of the Developing Countries (London: Hutchinson, 1964) p.78.
2 Ibid., p.84.
3 Ibid., p.84.
Further, the gross rate of capital formation in under-developed countries is almost half of the rate of developed countries. The high marginal propensity to consume, coupled with low income, leaves a country with a small surplus and, therefore, small savings. However, capital formation can be accelerated even with small savings provided there are efficient agencies to pool them together and to give further impetus. Savings, though small in magnitude, when pooled together represent colossal sums of money. A healthy growth of financial mechanism may create an impulse for savings in those sectors where previously there were no savings. Cooperative banking can serve as an effective instrument in collecting the scattered and hoarded amounts of savings, in inculcating and stimulating the habit of thrift and in providing with an opportunity for pooling the small savings in the form of share capital, deposits and loans. Mobilisation of savings is the first step towards capital formation where these banks can contribute their humble mite.

1 The gross rate of capital formation in developed countries is higher than in the under-developed countries. In Japan it was 28.5, Australia 28.4, Canada 24.5, W. Germany 23.9, Sweden 21.1, U.S.A. 18.0, and U.K. 15.6. whereas in Iraq it was 15.0, Turkey 14.0, Ghana 11.0, Ceylon 11.0 and India 8.0. (UN, **World Economic Survey**, 1960).

2 Cooperative banks are the "miniature banks which deal with the smallest unit of savings and equally small questions of credit, and act as successful tappers of savings and attractors of deposits of lying character." S.D. Tripathi, The Kanpur Money Market (Delhi, University Publishers, 1966), p. 36.
The allocation of resources to productive purposes is as vital as their mobilisation. Cooperative banking provides productive channels for the savings of the community by distributing them over a wide variety of economic activity. It can play a more effective role in an under-developed economy where agriculture is the mainstay of life and composition of rural population is greater, the resources are small and scattered and the non-monetised sector is preponderant.

The development of agriculture and small-scale industry demands increased allocation of financial resources for inputs like raw materials and agricultural extension in the form of fertilizers, new seeds, pesticides, water-supplies, technical know-how etc. The fundamental requirement of agricultural credit is an intimate understanding of the borrowers' business, the size of the holding, quality of the soil and crops raised, seasonal operations and linking credit with supplies of agricultural requisites and marketing of crops to ensure proper use of credit and its timely repayment. In such circumstances,

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1 The percentage of population engaged in agriculture is higher in under-developed countries than in developed countries. The percentage of population engaged in agriculture was in Ceylon 55, Brazil 58, Malaya 64, Egypt 65, India 71, Columbia 72, whereas in U.S.A. it was 12, Australia 16, New Zealand 18, Canada 19, France 27. (FAO, Statistical Year Book, 1957).
commercial banks hesitate to come forward¹ and co-operative banks have to fill in the vacuum.² Besides supplying credit, co-operative banks help agriculture in keeping pace with technological progress which is necessary to increase its productivity. Moreover, since cooperatives are associations of the borrowers themselves, they are

¹ For example, in India, only 2.7% of advances (of commercial banks) are for agricultural production. It shows the small interest they take in agriculture in under-developed countries. (Horace Belshaw, Agricultural Credit in Economically Under-developed Countries, New York: Columbia University Press, 1960, p. 128).

"The data of the Rural Credit Survey indicate that the credit obtained from commercial banks was less than 1 per cent of his total borrowings and even so was confined to a few districts. In 44 out of the 75 districts ..., not a single pie was reported as having been borrowed by cultivators from a commercial bank." (All-India Rural Credit Survey, General Report, Abridged edition, RBI, Bombay, p. 70).

Even in developed countries the situation remains the same. It was estimated that in Britain, out of total indebtedness of £ 879 m. in 1954, £ 650 m. was to private agencies (A.K. Cairncross, Factors in Economic Development, London: Allen & Unwin, 1962, p. 68.).

² The All-India Rural Credit Survey Committee observed "whatever may be the transitional stages by which the reform is effected there is eventually no effective alternative to a cooperative form of institution, at any rate, at the village level and, for dealing direct with the cultivator, there is no form of organisation which seeks, albeit eventually, to deal with every single one of the millions of Indian cultivators in an attempt to reconstruct the farm business on a more satisfactory basis." ......for rural India as a whole and in particular for the development of the prosperity of the agricultural population there is no real alternative to the adoption of cooperative basis for the organisation of credit and economic activities (The General Report, Vol. II, p. 329). "The impracticability of dealing institutionally with a very large number of relatively small cultivators points to the need for the cooperative type of finance......" (All-India Rural Credit Survey, The General Report, Abridged Edition, RBI, Bombay, p. 59).
instrumental in bringing economic betterment to their members. The simplicity and cheapness of their organisation make them available in every part of a country. Moreover, lending on the basis of character and integrity of the borrower, his earning power and repaying capacity rather than mere security are some of the features which give added advantage to cooperatives in their operations.

In a developing economy, the march from agriculture to industry is also essential in order to give relief to agriculture by increasing employment opportunities, to increase industrial production and to contribute to the national dividend. Cooperative banking can help industrialisation effectively where the scale of industrial enterprises is small and they are widely dispersed. Cooperative banks can act as the agencies to bring cohesion between the small and scattered productive sectors of an economy and may help in linking the local and regional small productive programmes to the large

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1 The contribution of industries to Gross National Product in developed countries was—U.K. 37 per cent (1960), U.S.A. 30 per cent (1960), Canada 26 per cent (1960), New Zealand 22 per cent (1954), whereas it was 17 per cent in India (1959). (UN, Statistical Year Book, 1961).
development schemes of the country.¹

Economic growth brings corresponding increase in per capita income and increase in the saving capacity of the ordinary man. Unless savings are properly tapped up for productive utilisation, it may create inflationary conditions in the economy. The proper role of the banking system is to maintain balance between the demand for and supply of funds so that there is neither inflation nor credit stringency. Cooperative banking shares this responsibility. Also, it tries to provide non-inflationary finance, as its resources come from savings which restrict expenditure on immediate consumption. Thus, the role of cooperative banking in the quest for sustainable economic growth is beyond question howsoever small and humble it may be.

¹ "Credit mechanism is the most important in the whole of our economic structure, because credit finance is all embracing as it is required for every type of activity, and unless we break through on the credit front, no progress in establishing a cooperative development plan is possible." (D.R. Gadgil, "Cooperation in India—Retrospect and Prospect, Indian Cooperative Review (New Delhi: Vol.II, No. 4 July 1965, p.485).

"Real cooperative development helps developing a viable rural economy." (Ibid., p.485) "Cooperative organisation enables relatively small units to come together so as to take advantage of large scales, better techniques and so forth." (Ibid., p. 487) "Rural industrialisation is the basis of all development in our economy." (Ibid., p. 485).
The Social Transformation

In a developing country, the transformation from a stagnant to dynamic economy requires a change in social attitudes. Cooperative banking may bring about, through its educative process\(^1\), a social change of fundamental nature by putting into practice the philosophy of non-exploitation, equalitarianism, toleration, harmonisation, and at the same time, maintaining the dignity of the individual for the well-being of the community. Cooperative banking teaches the community the principles and practice of behaviour which are in harmony with human values. Cooperative banking organisations are themselves an attempt in training\(^2\) people in the ways and methods conducive and conductive to development. Training imparted by such organisations may help the country to attain


\(^2\) "Urban cooperative banks may serve a useful purpose in training the upper and middle classes to understand ordinary banking principles." (Government of India, Report of the Committee on Cooperation in India, Simla: Government Press, 1915, p. 13.)
"a social and economic order based on the values of freedom and democracy."

Cooperative banking breaks through the tradition-bound rural sector. With the growing tempo of cooperative spirit, the institutional set up of a country is rearranged and remodelled with decentralisation and diffusion of initiative and enterprise. As an enterprise, it trains a new entrepreneurial class in a workable philosophy of life. The service-motive (instead of profit-motive) is a privilege of cooperative banking organisations. They may provide agriculture and industry with a continuous flow of knowledge and research. Nor is it all. In view of the vast horizon of choices and investment possibilities, cooperatives, besides promoting entrepreneurial qualities, may try to fill up the institutional vacuum in a transforming economy. In this way, it may bring social cohesion, evoke rural leadership and give economic knowledge and understanding of business principles. The body of knowledge acquired through experience is a part of the capital of a country.


2 "The key to the success of the cooperative method of doing...business is to develop the cooperative spirit, that is willingness and desire to sink individual opinions and interest to such an extent that a group of men can work together for common interest." (U.S. Government, Printing Office, American Commission to Investigate and Study Agricultural Credit and Cooperation in Europe, 1914, Part I, p.9).
For an expanding economy, in the last resort, the raising of standards of living depends not only on capital, nor on technology, nor on institutional arrangement but also on human resources. Economic arrangements exist to permit the optimum expression of human potentialities, if they fail to do this, no other justification for their existence remains. Cooperative banking institutions, by recognising the social value of human resources, develop individuals and add to the development and enrichment of human resources, so vital for a developing economy.

Viewed in a wider context, cooperation is a tool of socio-economic revolution. It is an effort

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"without this spirit, a cooperative society is but a white sepulchre, containing nothing of lasting value for its members. But with it, values old and new can be woven into a well-balanced and not ignoble pattern of living." (M. Darling, Foreword to Cooperative Organisation in Tropical Countries, 1959, p.v.)


2 "The goal of cooperation is to make men—men with a sense both of individual and joint responsibility, so that they may rise individually to a full personal life and collectively to a full social life." (G. Fauquet, The Cooperative Sector, Manchester: Cooperative Union, 1951, p. 27). "Their main aim is not to make money but to make men." (Father Huss, quoted in Cooperatives and Fundamental Education by Maurice, Colombain, UNESCO, 1956, p. 13).

3 "Cooperation is a socio-economic organisation. Cooperative business is the material expression of a social faith. If, however, that faith dies, cooperative business loses its significance." (Jack Bailey, The British Cooperative Movement, London: Hutchinson, 1960, p. 172). "To the socio-economic problem which
towards establishing a cooperative commonwealth and a socialist society. Cooperation aims at winning over and transforming the world economic and social system. It tries to reduce social and economic inequalities. Cooperation is a compromise between capitalism and socialism. It is a combination of conflicting notions of individualism, democracy and collectivism merging into 'cooperativism'--a synthesis of ideologies.²

It maintains individualism, in a democratic way, with collective efforts.

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today confronts the country, the approach has necessarily to be constructive and constitutional; and if only for this reason......the approach of violence and class conflict of 'revolution' in terms of these two, is of course a priori excluded from consideration, but the gigantic constructive effort which this imposes on the state as well as the people and their institutions is the reverse of inaction.....All the more is it necessary, in such a context, to devise positive institutional modes of approach which,...lead to the resolution of conflict...promotion of new factors of unity." (All-India Rural Credit Survey. The General Report. Abridged edition, RBI, Bombay: p. 267).


2 "Cooperation is an arch enemy of feudal, capitalist and communal interests". (S.K. Dey, Minister of Community Development and Cooperation, in his speech on December 1, 1963, at the Fourth Indian Cooperative Congress, Indian Cooperative Review, Vol.1, No.2, Jan.1, 1964).

2 "India is seeking a way to synthesis between the conflicting economic ideologies. The emphasis is not on production alone, but also on justice of distribution. .......an earnest and sincere desire to see that the workers and peasants receive a greater share of the national income, and to create a society where everyone is given an opportunity to develop fully his personal qualities."("Quoted by C.R. Whittlesey, in his forward to the Monetary and Fiscal Policy of India by K.C.Chacko, Bombay: Vora, 1957, p.vi).
Thus, cooperative banking, as an instrument of development, has to play a significant role because of its mutualistic aim, the spontaneous sacrifice of the individual's interest for the collective well-being, the free expression of social will, self-help and 'each for all' and 'all for each'. A rapidly growing cooperative banking sector with special emphasis on the needs of the peasants, the worker and the consumer, becomes a vital factor for social stability, for expansion of employment opportunities and for rapid economic development.

THE PUNJAB ECONOMY

Cooperative banking, like any other socio-economic institution, does not originate from a void but grows as a result of the interactions of complex and varied phenomena such as the environmental factors, socio-economic and political framework, magnitude of material and human resources, availability of expertise, dynamism of the people and prospects of future growth. In the context of the economy of Punjab, the role of cooperative banking is still more significant.

1 "In planning the development of backward tracts, the first problem to consider would thus be the establishment of an appropriate superstructure of credit. In the absence of a suitable credit structure, development would be rendered impossible.....by the paucity of resources and high rates of interest." (All-India Rural Credit Survey, The General Report, Abridged Edition, RBI, Bombay p. 76). ".....there is eventually no alternative more suitable than a cooperative form of credit organisation." (Ibid., p. 106).
Punjab is essentially a rural state. About 80 per cent of its population lives in villages. The concentration of rural population is in small villages. The dominance of rural population varies from district to district but most of the districts have rural population in 75-90 per cent bracket. A townwise break-up of population shows that out of 187 towns, only 13 have a population between 50,000 and 99,999, and 5 a population above 1 lakh.

The economy of Punjab is dominated by the Primary Sector. The dominance of the Primary sector is visible

1 Out of the total population of 2,03,06,812 rural population accounted for 79.9 per cent (1,62,18,217) while urban population for 20.1 per cent (40,88,595) according to the Census of India 1961.

2 Out of 21,269 villages, 4,951 had population below 200; 5,916 between 200-499; 5,338 between 500 and 999; 3,470 between 1000-4999 and the remaining had 2,000 and above. Villages below the population-range of 1999 numbered 19,675 and had a population of 1,12,16,295 (out of total rural population of 1,62,18,217).

3 The district-wise distribution of rural population according to the Census of India, 1961 (Paper No. 1 of 1962) in terms of percentages was like this—Spittu 100, Kangra 95.9, Mahendragarh 90.3, Hoshiarpur 88.1, Rohtak 86.3, Hisar 84.4, Gurgaon 83.4, Sangur 83.1, Karmal 82.9, Ferozepur 79.9, Gurdaspur 79.8, Bhatinda 78.8, Kapurthala 77.0, Patiala 75.3, Amritsar 69.8, Jullundur 69.2, Ambala 68.0, Simla 51.9.

4 The number of towns with population in brackets is given here—5 (1,00,000 and over); 13 (50,000 to 99,999); 35 (20,000 to 49,999); 37 (10,000 to 19,999); 54 (5,000 to 9,999) and 43 (upto 4,999).

5 Primary sector includes agriculture and its associate activities, Secondary sector represents industries and Tertiary sector consists of trade and commerce.
from its contribution to the state income which was 55.1 per cent in 1963-64 as against all-India average of 52 per cent. The contribution of different sectors is shown in the table below:

Table 1-1

NET OUTPUT OF DIFFERENT SECTORS (1963-64)
(At factor cost: Rs in crores)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Output</th>
<th>Percentage share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>574.8</td>
<td>55.1</td>
</tr>
<tr>
<td>Secondary</td>
<td>168.9</td>
<td>16.2</td>
</tr>
<tr>
<td>Tertiary</td>
<td>299.6</td>
<td>28.7</td>
</tr>
</tbody>
</table>

(Source: Government of Punjab, Statistical Abstract of Punjab, 1965)

In the Primary sector, agriculture engages about 66 per cent of its total population. The Secondary sector is dominated by the small-sized industrial units. About 63.8 per cent of the industrial units are small-sized.¹

¹ The size and distribution of registered working factories (1964) are given in the table below:

<table>
<thead>
<tr>
<th>Range of workers</th>
<th>Less than 10</th>
<th>10-20</th>
<th>20-50</th>
<th>50-100</th>
<th>100-500</th>
<th>500-1,000</th>
<th>1,000-5,000</th>
<th>More than 5,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of factories</td>
<td>964</td>
<td>1490</td>
<td>746</td>
<td>263</td>
<td>182</td>
<td>27</td>
<td>15</td>
<td>-</td>
</tr>
<tr>
<td>No. of workers</td>
<td>5415</td>
<td>20736</td>
<td>24617</td>
<td>17596</td>
<td>35598</td>
<td>17565</td>
<td>28490</td>
<td>-</td>
</tr>
</tbody>
</table>

employing less than 20 workers of which 23.4 per cent employ less than 10 workers and 40.4 per cent are in the employment range of 10-20 workers. The industrial sector is dominated by rural locations. About 86 per cent of the total industrial units are in rural areas and are dependent on the Primary sector. They provide an opportunity for decentralisation of enterprise and diversification of employment.

In view of its comparatively high per capita income, Punjab has a higher savings potential. In 1963-64, Punjab had a per capita income of Rs 483 as against Rs 361 for all-India, Rs 354 for Andhra, Rs 355 for Assam, Rs 411 for Madras, Rs 476 for Maharashtra and Rs 379 for Gujarat.

The rate of growth in Punjab came to an average of 7.4 per cent per annum (for the period 1951-58). The economic structure of the state presents a peculiar pattern of intersectoral relationships. In fact, agriculture is the root of the economy and the industrial and tertiary sectors are only its off-shoots. The development potentialities are widely diffused instead of being concentrated. The growth of agriculture can make larger contributions to the over-all economic development.

2 About 26.84 per cent industrial units were Agro-based, 18.20 per cent Forest-based and 45.75 per cent others.
The agro-industrial development-potential presupposes enhanced financial resources and effective financial mechanism for its exploitation and implementation of the development programmes. Fortunately, the financial mechanism of the state is inadequately developed and has a tendency of concentration. The number of offices of commercial banks in Punjab (during 1950-64) showed an increase of 69, giving an average increase only of 5 offices per year. A comparison of the percentage increase of commercial banking offices in Punjab vis-a-vis India during the period 1950-64 shows that there was slow growth of commercial banking in the State. The percentage increase in commercial banks came to 22.8 in Punjab as against 30.3 in India. In 1965, the number of banking offices per lakh of population was 3 only in Punjab, whereas it was 8 in Delhi, 4 each in Maharashtra, Mysore and Gujarat. The number of banking offices per thousand sq. km. of area in Punjab was 4 as against 119 in Delhi, 14 in Kerala, 8 in Madras and 5 each in Maharashtra, Mysore and West Bengal.

1 The additional investment needed for additional output has been estimated by the NCAER at Rs 334 crores for the primary sector (for additional output of Rs 152 crores), for Secondary sector at Rs 394 crores (for output of 124 crores), and for Tertiary sector at Rs 396 crores (for an output of Rs 198 crores). (NCAER, Techno-Economic Survey of Punjab 1962).

2 The number of offices of commercial banks in India in 1950 was 4,353, whereas they were 302 in Punjab. In 1964, India had 5676 offices, while Punjab had only 371. The increase during the period for India was 30.3%, while that for Punjab was 22.8%.

3 Govt. of Punjab, Statistical Abstract of Punjab, 1965
The tendency of concentration of commercial banks is visible from the fact that all the offices were located only at 161 places when the number of towns was 187. Even some of the towns did not have banking offices, not to speak of the villages. It also proves the urban bias of commercial banking. The following table gives comparative position in this regard.

**Table 1-2**

**DISTRIBUTION OF BANKING OFFICES IN VARIOUS PLACES**

**BY POPULATION-RANGE**

(1964)

<table>
<thead>
<tr>
<th>Population Range</th>
<th>Places</th>
<th>No. of offices</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,000 - 25,000</td>
<td>42</td>
<td>117</td>
</tr>
<tr>
<td>5,000 - 10,000</td>
<td>35</td>
<td>70</td>
</tr>
<tr>
<td>below 5,000</td>
<td>37</td>
<td>57</td>
</tr>
<tr>
<td>unclassified</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>161</strong></td>
<td><strong>517</strong></td>
</tr>
</tbody>
</table>

(Source: Government of Punjab; Statistical Abstract of Punjab 1965).

The districtwise breakup of commercial banks shows that the districts of Bhatinda, Ferozepur, Gurgaon, Hissar, Kangra, Karnal, Mahendragarh, Rohtak and Sangrur were below the average.¹

¹ The banking offices per lakh of population in different districts in 1965 were: Simla 9.9, Ludhiana 4.4, Jullundur 4.1, Ambala 3.7, Patiala 3.2, Gurdaspur 3.1, Amritsar 3.0, Kapurthala 3.8, Hoshiarpur 2.6, Bhatinda 2.5, Sangrur 2.3, Ferozepur 2.1, Hissar 2.0, Gurgaon 2.0, Karnal 1.7, Rohtak 1.4, Mahendragarh 1.4. (Government of Punjab, Statistical Abstract of Punjab, 1965).
The inadequate development of banking and the concentration of commercial banks in urban areas left an institutional void in the rural sector which resulted in the indebtedness of the peasantry to the money-lender. This dujional phenomenon necessitated the institutionalisation of rural credit. Cooperative banking emerged to meet the felt needs of the people of modest means, and was assisted and encouraged by the favourable social climate.

The economy of Punjab has a higher growth-potential as well as higher savings-potential. In view of the rural background and social environment of Punjab, cooperative banking can play a more effective role in the mobilisation and allocation of resources in particular and in the agro-industrial development of the state in general.

1 Refer to the All-India Rural Credit Survey, General Report, Vol. II and the subsequent follow-up surveys.

2 Punjab has been the home of Sikhism and the Arya Samaj movement. These two religious movements have influenced the social life of the region. The influence of Sikhism has contributed to the cooperative way of life. The institutions of 'Sangat' (mixed congregation) 'Pangat' (common dining) and 'Tandoor' (common hearth), have helped the development of cooperative behaviour. The philosophy and practice of Arya Samaj has brought awakening to the people and encouraged free mixing of different castes at different levels. This is not all. Punjabis have some particular social traits, which are the resultants of historical accidents, political upheavels and geographical conditions. They are self-reliant, resourceful, vigorous and optimist and possess a hard working nature, enterprising spirit and technical bent of mind.