PART IV.

RECONSTRUCTION OF AGRICULTURAL CREDIT.
CHAPTER 15.

RURAL SAVINGS.

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RURAL SAVINGS:

The position of rural savings in recent years has attracted a good deal of attention in view of the known fact that agricultural prices have risen greatly and the assumption that increased incomes in the agricultural sector in consequence have allowed of a substantial margin of savings to the rural population. The pace of economic development in India has been slow and is attributed to the low level of incomes in the rural sector which, it is suggested, never had any substantial savings. The quickening of the pace of economic development depends to a large extent on the increase of incomes and a greater margin of savings in the rural sector. Rural savings should play an active part in the investment programmes in the community designed as much to increase rural prosperity as to promote overall economic development. To what extent can rural savings be mobilised? What should be the institutional machinery necessary primarily to mobilise rural savings? To answer these questions, an examination of the position of rural savings is very necessary.

THE CONDITION OF THE AGRICULTURAL ECONOMY:

Agriculture in India is of the subsistence type, production is agriculture being carried on by a large number of small landholders who eke out a bare subsistence from land. As the Royal Commission on Agriculture stated, "To a very great extent, the cultivator in India labours not for profit nor for a net return but for subsistence?" Men who labour for subsistence cannot save. Their capacity to save is extremely limited. "From the savings point of view, the agricultural sector has never been an important factor in promoting savings in India's economic life although the Zamindari class's whose elimination is now proposed, have certainly
saved considerably. Their savings have, however, been in part offset by agricultural indebtedness. Nevertheless there appears to have been over many years considerable net advance in agricultural investment. It is difficult to explain why this investment has practically borne no fruit." (The Eastern Economist Annual Number, 1948. P.1114).

The low levels of productivity and incomes in agriculture leave but small surpluses to be saved even in normal years. The Central Banking Enquiry Committee said "the surplus left with the agriculturists is very little in normal years." It has therefore been assumed that surpluses and savings would not normally be available in the rural sector and also that there never was much of a saving in that sector; in fact, whatever investment might have taken place in the rural sector has been drawn from the urban areas.

The precise estimation of the value of agricultural output in money terms is in this country beset with difficulties. "In actual fact, a large part of the commodities and services in India does not enter into the market at all, (and is therefore not subject to monetary transactions)". Thus out of the total out-turn of rice, approximately 6 per cent is used for seed, 20 per cent for wage payments in kind, 46 per cent for household consumption by the producer himself or for barter, so that a total of 72 per cent is in the non-monetized sector leaving 28 per cent or only a little more than a quarter of the total production to be marketed. (First Report of the National Income Committee- April 1951 - P.36).

In a predominantly subsistence economy even when the quantity of production remains more or less steady the imputed value in terms of money may vary widely due to changes in prices (which
however have real reference to only that relatively small part of the total production which enters the monetized market). According to the Eastern Economist, the index of agricultural production for the year 1948-49 stands at a figure of 92 against a general index of 100 for the years 1936 to 1939. In other words, the total agricultural production has declined although the area under cultivation has slightly increased and the agricultural population has increased by many millions. The rise in prices inflated the value in money terms of the output from agriculture as could be observed from the movement of agricultural prices during the past few years.

**Agricultural Income:**

According to the National Income Committee, out of the total national income of 8710 crores in 1948-49, agriculture contributed Rs. 4150 crores or 47.6 per cent of the total income. Authoritative estimates of this kind are not available for previous years to enable us to institute a comparison with the past. The estimate of Dr. V. K. R. V. Rao for the year 1931-32 showed that the total national income was Rs. 1689 crores and agricultural income Rs. 882 crores. According to the calculations made by the Eastern Economist, the total income has advanced from Rs. 1934 crores in 1939-40 to Rs. 4486 crores in 1948-49. Agricultural income has advanced from Rs. 953 crores in 1939-40 to Rs. 2465 crores in 1948-49 and the share of agriculture in the total income has gone up from 49.2 per cent to 85 per cent of the total, revealing a relative shift in incomes. The Eastern Economist points out "The Shift towards the primary sector is unmistakable and at its peak in 1946-47 involved a movement of 8 per cent of the national income or about Rs. 360 crores at prices for that year. The primary sector being the poorest in the country,
this may appear a happy development. But it has less happy repercussions on our savings position as our agriculturists are notorious spenders." (The Eastern Economist - Annual Number 1948 P.1123).

As the Rural Banking Enquiry Committee points out "in the absence of reliable data concerning national income and capital formation it would not be possible to establish beyond doubt whether the rural economy, in normal times does or does not allow of substantial savings," but the assumption generally made that because agriculture is a "deficit" industry, the rural sector has no contribution to make to capital formation in this country is not correct. Thrift and savings are not wholly absent in the rural sector. The rural population consists of various classes such as big landholders, medium landholders, small landholders and tenants, traders and artisans. Of these, the big and medium landholders, and the thrifty sections of the rest have, except during periods when conditions are abnormal, a margin for saving.

**PATTERN OF SAVINGS IN THE RURAL SECTOR:**

The savings have generally been invested in the purchase of land, livestock or in land improvements. The Central Banking Enquiry Committee said, "To the few wealthy agriculturists who have a surplus during prosperous seasons, land or jewellery has a greater attraction as a form of investment than interest-bearing bank accounts, postal cash certificates, Government securities or industrial stock." * The well-to-do landlords advance loans to the smaller landholders and tenants and money-lending has become

* Report of the Central Banking Enquiry Committee P.432.
a particularly attractive form of investment to the agriculturist having surplus funds. Rural debt, which has been constantly growing, represents largely the reinvested savings of the landlords and the thrifty sections of the rural population.

Next to land, the precious metals like gold and silver have been the favourite medium of investment of the rural classes. India has been a net importer of precious metals in normal times. The net imports of gold during the 31 years, 1900-01 to 1930-31 amounted to Rs. 547.76 crores. A substantial portion of these imports must have found their way into the rural areas and been absorbed by the rural population. During the thirties of the present century, when the depression severely restricted agricultural incomes and created budgetary difficulties for the farmers because of the fixed money charges which they had to bear, they had to sell the gold in their possession to be able to live and retain ownership of the land. The exports of gold between September 1931 and January 1940 amounted to Rs. 351-40 crores. This was claimed to be distress gold because the agriculturists were living on their capital. The high price of gold during the past decade and the embargo on the imports of gold and silver on private account since March, 1947 have blocked this - favourite means of investment.

Banking and investments habits are still largely undeveloped amongst the different sections of the rural population. The agriculturist ordinarily prefers to hold his savings in cash which he will need later. "The agriculturist," says Prof. D.G. Karve, "when he has money tends to keep it with himself because he expects to need it later. While keeping it with himself with the most provident of intentions, he in many cases succumbs to the temptation of other than provident use. To encourage an agricultural depositor, it is necessary to assure him that he will get an advance when he needs it."
The offer of interest does not hold out sufficient attraction to the agriculturist to deposit his money in a bank. As the Madras Committee on Co-operation said "What has been shown by past experience is that the offer of interest is not a sufficient inducement to the ryot or artisan to save. His total savings are so small that the interest on them makes no sensible difference to his income. Being so small, their safe custody is not difficult and the poor man is not convinced they will be safer if deposited in a bank ......... The ryot is more attracted by investment in land; the artisan may put his savings into a house or into jewels (two forms of investment which appeal particularly strongly to the women of his family in the social conditions of the Province) or he may find them drained away by festivals and ceremonies and social obligations." The illiteracy of the rural population has also been an obstacle in the way of the rural people dealing with banks. The demand for the services that are rendered by banks has not been such as would favour the extension of banking services to rural areas.

MACHINERY FOR THE COLLECTION OF SAVINGS:

CO-OPERATIVE SOCIETIES:

At present the largest part of the structure providing banking facilities to rural areas consists of the rural co-operative societies. Agricultural societies numbered 142,390 forming 83.9 per cent of the total number of societies in 1949-50. Of the several types of societies those which can be said to be predominantly of the banking type being engaged in making advances to their members and receiving deposits from them are (a) agricultural credit societies (b) multi-purpose societies and (c) marketing (loan and sale or purchase and sale) societies. Agricultural credit and multi-purpose
societies have been regarded as miniature banks for villages and considered as the only appropriate organisations for the provision of banking facilities in rural areas.

Agricultural credit societies predominate, their number being 116,534 or 68.7 per cent of the total number of societies in 1949-50. These societies had a membership of 4.8 millions and their owned capital was Rs.15.29 crores forming 43.4 per cent of the total working capital at Rs.35.22 crores. The record of progress of these societies is an impressive one especially during the past few years. But the ability of these societies to attract deposits and stimulate thrift has however continued to be low. Of the total working capital of Rs.35.22 crores, deposits amounted to only Rs.3.93 crores, the percentage of the same to the working capital being only 11.15. The major portion of the funds of agricultural rural credit societies are provided by the co-operative central banks. A co-operative credit society by inculcating thrift and self-help among its members must be able to raise all the funds that it needs.

The development of the agricultural economy as contemplated under the Five Year Plan will increase incomes in the rural sector. It is of the utmost importance that the savings of the rural population are drawn into credit organisations. A co-operative society is calculated to do this much better than almost any other organisation.

**POST OFFICE SAVINGS BANKS:**

The Post Office Savings Bank is the agency of Government for the mobilisation of small savings. The object of government in establishing them is to provide a ready means for the deposit of savings and to encourage thrift. The Post Office as a government institution enjoys the confidence of the people in a greater measure than any other organised institution. In all important urban and
semi-urban areas facilities for putting savings in post office savings banks are easily available. They are not within easy reach of the agricultural population. It is evident then that, though the postal savings banks have served the needs of a large body of urban classes, they have not served the needs of the rural population and have not tapped rural savings. Most villages have no dealings with the post office which has therefore not served as an agency for stimulating thrift among the rural population.

In recent years however there have been welcome developments in this direction. At the end of March 1949, there were 26,760 post offices of which 22,044 were in rural areas although the large majority of them are probably being managed by extra-departmental agents. In general the policy of the postal department has been to open a post office for every close-knit village unit with a population of 2000 or above, but savings bank work is entrusted generally to departmentally managed offices and to extra-departmental agents only where the department is satisfied as to the financial status, standing and character of the agent. A savings bank is allowed to be opened provided it is anticipated that the number of accounts to be maintained at the bank will not be less than twenty.

Of the total number of post offices, 9465 offices were doing savings bank work. Of the 9465 savings banks, 6401 were in the rural areas covering about 40 per cent of the villages with a population of 2000 or more in the country. The progress of rural post office savings banks in recent years can be seen from the
The question whether, in view of the rise in agricultural prices during the period of World War II and after, there has been a rise in rural incomes and consequently a higher margin of savings available in the rural sector has given rise to a good deal of controversy. The Rural Banking Enquiry Committee found that in the replies to its questionnaire, widely divergent views were expressed. "Some people hold that since the outbreak of world War II there has been a substantial transfer of purchasing power to the rural people, leading to an improvement in their economic position, an increase in assets and savings and a reduction of debts, others take the view that the rural people have, on the whole, not benefited at all, that their condition has neither been
stationery or worsened and that no substantial savings are available with them." (Report of the Rural Banking Enquiry Committee - P.31.)

The statistical data which would enable us to come to correct quantitative conclusions are either lacking or inadequate. On the basis of the available data, we can only arrive at certain broad conclusions.

The movement of agricultural prices in relation to other prices is probably the most important factor determining the relative improvement or otherwise in the position of the agricultural sector as a whole. It has been contended that since 1942 there has been an upward trend in agricultural prices and that "the relation between agricultural and non-agricultural prices has generally been advantageous to agriculturists and that therefore, the money income as well as the purchasing power in real terms of that income has increased for the agricultural sector as a whole, thereby augmenting other things being equal, its saving capacity." (Report of the Rural Banking Enquiry Committee - P.33) A comparison of the agricultural price indices with the general wholesale index, in the absence of a separate index showing the movement of non-agricultural prices, is largely in support of this contention. But while agriculturists as a class benefited by the rise in the prices of products which they sold, they have had to incur greater costs including wages, prices of agricultural implements, bullocks etc. The rise in costs of production was slow and allowed a substantial margin of savings up to 1945; since that year the costs have caught up with the agricultural prices thereby reducing the margin available to the agriculturists. In the absence of statistical data relating to costs of production or costs of living, what has been stated above is largely in the nature of a broad conclusion which in the main
But in the opinion of the Rural Banking Enquiry Committee, the rise in agricultural costs or costs of living in the rural areas would not have wiped out the increased savings in the rural sector. The rise in agricultural costs, according to the Committee, would only mean a certain amount of redistribution of incomes within the rural community itself. And "although the prices of consumer's goods have risen, expenditure on essential goods produced outside the rural economy normally forms a very small part of the budgets of the rural people and such expenditure has for several years been limited by the sheer non-availability of several types of goods." The increased expenditure of the people in rural areas on non-essential items such as entertainment and cheap luxuries must be presumed to be largely a consequence of higher incomes. There is much truth in this view but the rural population, which even in normal times does not enjoy a standard of consumption which could be judged as fair, has had to curtail its expenditure and consumption in recent years. The savings in the rural sector have accrued only at the cost of much essential consumption and sacrifice to the rural community.

Not all classes of the rural population, however, have benefited by the rise in prices. The big land-holders and agriculturist-cum-traders got some real benefit but the small peasant and the landless labourer were really worse off on account of higher costs of production and control at various points. Mr. Mavin Kurve in a paper read at the Conference of the Indian Society of Agricultural Economics in 1949, depicts the general position with regard to the benefits of higher prices as among different sections: "At least till 1946, the war-time boom in prices has swelled the incomes of certain
sections of the urban classes while, in rural areas, only a small benefit accrued to the agricultural community. Since 1946, the trend of agricultural prices is in favour of the agriculturists, but considering the pattern of our agriculture, it would be evident that this benefit is largely appropriated by a minority comprising landholders in the upper strata and bigger cultivators. Those fortunate agriculturists comprise about 14 million landholders and 4 million tenants. To this number we may add 2 million labourers, who as explained above, managed to improve their economic conditions by availing of new avenues of employment. Thus, even on the most optimistic estimate, the number of those who have profited by the rise in agricultural prices in the national economy cannot be more than 20 per cent of our agriculturists. What is significant to us that 90 per cent of the agriculturists who have suffered on account of the rise in cost of living and far costs are the workers carrying on the actual burden of cultivation."

The Rural Banking Enquiry Committee agreed with this view. The Committee said that a fairly large proportion of the total agricultural income has gone into the hands of the small minority, i.e. 20 per cent of the agriculturists. "Taking the country as a whole, therefore, the major part of rural surpluses and consequent savings held in one form or other should be found with this class and with some non-agriculturists, such as village money-lenders, traders, owners of mills, etc., " (Report of the Rural Banking Enquiry Committee - P.40) From the replies received, the Committee found that 50 per cent of the total savings must have been made by big land-holders except where they are in receipt of fixed cash rent. Even in the case of smaller agriculturists and labourers, the Committee said that higher prices and wages and increased employment
opportunities must have led to higher incomes with some margins of saving but that such savings would be scattered in small driblets. Territorially, larger concentrations of savings may be in the more fertile and irrigated tracts or regions growing commercial crops.

RURAL FAMILY BUDGETS IN MADRAS:

The Report of the Economist for enquiry into the rural indebtedness of Madras contains information regarding deficits and surpluses for families of different classes in that province. The figures are as follows:

<table>
<thead>
<tr>
<th>Class</th>
<th>1939</th>
<th>1945</th>
<th>1939</th>
<th>1945</th>
<th>1939</th>
<th>1945</th>
</tr>
</thead>
<tbody>
<tr>
<td>Big Landholders</td>
<td>1925.1</td>
<td>4,066.0</td>
<td>1272.4</td>
<td>2947.9</td>
<td>652.7</td>
<td>1,118.9</td>
</tr>
<tr>
<td>Medium Landholders</td>
<td>635.6</td>
<td>1,250.9</td>
<td>514.2</td>
<td>1133.7</td>
<td>121.4</td>
<td>117.2</td>
</tr>
<tr>
<td>Petty Landholders</td>
<td>398.5</td>
<td>750.3</td>
<td>390.6</td>
<td>751.2</td>
<td>7.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Tenants</td>
<td>343.3</td>
<td>675.8</td>
<td>345.2</td>
<td>718.9</td>
<td>1.9</td>
<td>44.1</td>
</tr>
<tr>
<td>Landless labourers</td>
<td>182.4</td>
<td>359.2</td>
<td>173.5</td>
<td>369.8</td>
<td>8.9</td>
<td>10.6</td>
</tr>
</tbody>
</table>

RURAL ECONOMIC ENQUIRIES IN HYDERABAD.

The results of an enquiry into family budgets in Hyderabad State are available from "Rural Economic Enquiries in the Hyderabad State, 1949-51. Of the total resident families (36,013) in the 118 representative villages, only 3563 were selected for intensive family budget enquiries. The 3563 families were divided into four classes according to their standard of living. Families in class "A" were taken as those who were maintaining a high standard of life," in class 'B' as those who enjoyed "a moderate standard of life," in class 'C' as those who were able to maintain only" a poor standard of life," and in class 'D' as those who were condemned to a "very poor standard of life."
The number of families in each of these four classes A, B, C and D was 252, 731, 1330 and 1250 respectively. The average size of the family in these classes was 9.1, 7.6 5.9 and 4.6. The monthly average income and expenditure per family of the four classes were as follows:

Table 27 - FAMILY BUDGETS IN HYDERABAD.

<table>
<thead>
<tr>
<th>Class</th>
<th>Average monthly income</th>
<th>Average monthly expenditure</th>
<th>Monthly surplus (($)) or deficit ((-)) per family</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Rs. 318 0 0</td>
<td>Rs. 248 14 0</td>
<td>Rs. 69 2 0</td>
</tr>
<tr>
<td>B</td>
<td>Rs. 140 4 0</td>
<td>Rs. 131 3 0</td>
<td>Rs. 9 1 0</td>
</tr>
<tr>
<td>C</td>
<td>Rs. 72 12 0</td>
<td>Rs. 74 10 0</td>
<td>Rs. 1 14 0</td>
</tr>
<tr>
<td>D</td>
<td>Rs. 39 8 0</td>
<td>Rs. 43 9 0</td>
<td>Rs. 4 1 0</td>
</tr>
</tbody>
</table>

Of the 3,563 family budgets examined, 1816 were deficit, 1626 surplus and 121 balanced budgets. Whereas 90 per cent of the families in Class "A" had surplus budgets, 66 per cent of the families in class "D" could not make both ends meet.

Out of 36,013 resident families, 10,290 or 28.6 per cent recorded positive net savings. The amount saved was Rs.29,82,667 working at Rs.289-14- 0 per saving family and at Rs.32-13- 0 per resident family. With regard to utilisation of savings, important avenues of investment or outlay were as follows:

Payment of interest and repayment of debts. 24.9 per cent
Social and religious expenses (including marriages) 17.8 "
House Building. 12.6 "
Land improvement. 9.2 "
Purchase of land. 
Purchase of cattle. 
Purchase of gold, silver, etc.,

7.3 per cent.
7.3 "
7.2 "

Thus 39.6 per cent of the savings was utilised for productive purposes, 35.5 per cent for unproductive purposes and 24.9 per cent for payment of overdue interest and repayment of debts.

The indebtedness of the 118 surveyed villages amounted to Rs.54.33 lakhs in 1949-50 while the savings stood at Rs.29.83 lakhs in 1947-48. It is pointed out that the savings should have been much less in 1948-49 or in 1949-50 on account of transitional conditions in that state. "Even granting that all local savings were earmarked for local use as among the 118 villages as one unit, there would still be debit balance of Rs.24.70 lakhs to wipe out debts, leave alone funds required for additional capital outlay namely Rs.27.48 lakhs, making a total requirement of Rs.112.18 lakhs." (Rural Economic Enquiries in Hyderabad - P.456).

Savings per capita works at Rs.16-4-0; debt per capita works at Rs.29-10-0. Pro-rata, assuming that the saving rate is more or less the same in 1950-51 as in 1947-48, the rural savings in the State would amount during the year 1950-51 to Rs.25.22 crores. The relative position between debt and savings is far from unsatisfactory; Rs.46.21 crores of debt includes a considerable amount of funded debt while Rs.25.28 crores constitute annual savings. Thus there can be no question of the rural areas of the State being either insolvent or on the brink of insolvency; what is needed is an organised approach to the joint problem of rural credit and rural savings." (ibid - P.456.)
The information elicited by the Rural Banking Enquiry Committee revealed that larger incomes and savings are being used to repay debts, purchase of land, gold and silver, effect improvements to agricultural land and improve agricultural equipment and also make loans to smaller agriculturists, and only partially to accumulate cash savings, the holdings in cash being generally considered to be small. Among the well-to-do agriculturists, the tendency to make productive use of funds is more marked than at any previous time. Among the generality of rural people, however, it is observed that wasteful and extravagant expenditure on non-essential items, such as travel, entertainment and drink, cheap luxuries and ceremonies and festivities etc. have been on the increase and these probably account for a large part of the incomes obtained by the smaller landholders, tenants and agricultural labourers in the rural areas.

ESTIMATE OF SAVINGS:

An estimate of the total rural savings in the country based on the available data is not of any real value. The estimates submitted to the Rural Banking Enquiry Committee which were purely in the nature of guess work have revealed widely divergent figures the figures for savings in the country as a whole ranging from Rs.20 to Rs.1000 crores in the year. "Estimates for individual provinces varied from Rs.2 crores to Rs.50 crores. On the basis of the data regarding deficit and surpluses for families of different classes given in Dr. Naidu's report, an estimate of about Rs.45.6 crore for Madras Province in 1945 can be arrived at. According to a survey
conducted by the Indian Statistical Institute in West Bengal in 1946, an estimate of Rs.50 crores for that province has been arrived at. If Mr. Colin Clark's estimate that savings constitute about 10 per cent of the national income, were applied to agricultural income, although an overall average rate cannot be held to apply to a particular sector, we arrive at a figure of about Rs.250 crores for India as a whole, assuming agricultural income to be of the order of Rs.2500 crores. While thus it is extremely difficult to arrive at a precise quantitative estimate of the current annual savings, it is impossible to say in what form it is held or has been converted. As the Committee said while it would be wrong to proceed on the assumption that large amounts of cash savings are available for collection through the extension of banking facilities to rural areas if the available data have any validity, it could not be held that savings are small, scattered or dissipated in wasteful expenditure and therefore no possibilities for mobilising them and channeling them into productive fields of investment exist at all.

The following table sets out the progress of the small savings schemes since the end of the war:-
Postal Savings.

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Certificates</th>
<th>Defence Savings</th>
<th>National Savings Certificates (X)</th>
<th>Savings Bank Deposits</th>
<th>Defence Savings</th>
<th>3½% Ten Year Treasury Savings deposit Certificates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Receipts</td>
<td>Outstandings</td>
<td>Receipts</td>
<td>Outstandings</td>
<td>Receipts</td>
<td>Outstandings</td>
</tr>
<tr>
<td>1938-39</td>
<td>14.71</td>
<td>59.57</td>
<td>--</td>
<td>--</td>
<td>44.61</td>
<td>81.88</td>
</tr>
<tr>
<td>1944-45</td>
<td>5.48</td>
<td>35.22</td>
<td>6.42</td>
<td>19.55</td>
<td>28.19</td>
<td>43.76</td>
</tr>
<tr>
<td>1945-46</td>
<td>6.07</td>
<td>38.76</td>
<td>5.92</td>
<td>22.21</td>
<td>51.30</td>
<td>76.12</td>
</tr>
<tr>
<td>1946-47</td>
<td>4.97</td>
<td>39.22</td>
<td>5.18</td>
<td>21.76</td>
<td>70.62</td>
<td>91.68</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1947-48</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 14.8</td>
</tr>
</tbody>
</table>

| From 15.8** | --                  | 3.07            | 40                                | 13.22                 | 9.21           | 47.88                                           |
| 1948-49 | --                  | 7.50            | 76                                | 22.88                 | 25.01          | 85.02                                           |
| 1949-50 | 1                   | 11.36           | -1.02                             | 23.79                 | 40.60          | 88.96                                           |
| 1950-51 | --                  | 15.90           | -1.79                             | 23.71                 | 57.94          | 97.80                                           |
| 1951-52 | --                  | 20.20           | -2.55                             | 24.60                 | 75.83          | 103.79                                          |

* were replaced by National Savings Certificates from 1943.
** Outstandings from 15th August 1947, represent the balance of the Indian Union as from that date.
The figure for outstandings in the case of Cash Certificates, Defence Savings Certificates and Defence Savings Bank deposits show progressive net repayments from 15th August 1947.
X Including 5 Year and 7 Year National Savings Certificates issued from 1st June 1948.
@ Issued from 1st February 1951.
THE IMPORTANCE OF A MACHINERY FOR MOBILISING RURAL SAVINGS:-

CO-OPERATIVE BANKS AND SOCIETIES:

The co-operative movement has been called a "thrift-producing movement." It has great potentialities for stimulating thrift and savings among the agriculturists and persons of small means and for bringing into active productive use individual savings which, insignificant in themselves, severally, are important in their total," (Report of the Committee on Co-operation in Madras - P.302). The Central and Provincial Governments have recognised the vital role of co-operative institutions in rural development and have provided them with certain concessions and facilities such as exemption from income-tax, stamp duties and registration fees, free audit and supervision by departmental agency, priority in the recovery of dues and facilities for their recovery through arbitration or departmental procedure, permission to inspect village records and obtain encumbrance certificates free of charge etc.

In Bombay, the Government has rendered special assistance to co-operative banks and societies and even in the other states attempts at re-organisation of the movement on sound lines are made. Special schemes for the reorganisation and development of co-operative banks are in process of implementation in Assam, West Bengal, Bihar, Mysore, Orissa, Uttar Pradesh and in other states.

In addition to the concessions available to co-operative institutions, the Rural Banking Committee recommended that the following special types of assistance should be provided:-

(i) The rates for postal remittances between co-operative institution and the central financing agencies should be substantially lower
than the normal rates. (2) Rules regarding the maximum up to which co-operative societies may hold deposits in post office savings banks, and the number of times per week they may operate on their accounts should be liberalised. The maximum limit up to which they may withdraw from their accounts with post offices during any week should be raised. (3) Co-operative banks and societies should be approved for appointment as authorised agents for the sale of National Savings Certificates.

In the reconstituted pattern of agricultural economy, the co-operative banks and societies must devote greater attention than in the past to the promotion of thrift and collection of savings in order to finance agriculture and promote rural prosperity. The Village societies should carry on propaganda, encourage thrift, collect the savings and finance the members from the savings collected from them. From being credit societies they should gradually transform themselves into savings and banking agencies. Savings, however, small must be collected and savings deposits can with advantage be linked with particular purposes and thus an incentive can be provided for saving. Long-term savings deposits for the purchase of land and cattle and short-term deposits for the purchase of seed and implements or for the payment of land revenue may be instituted. The depositors must be allowed to borrow without delay even up to the full amount for the purpose for which the amount has been saved. This will provide them with the necessary encouragement to save and deposit the funds in the societies.

The Royal Commission on Agriculture had suggested that valuable stimulus to thrift would be given if the co-operative
sale or marketing society accepted deposits or a branch of the post office is opened, so that agriculturists may be induced to keep at least a part of the sale-proceeds as a deposit instead of spending it on non-productive purposes. In view of the suggestion made that co-operative credit must be linked with marketing and that the sale of agricultural produce must be through the village credit or multi-purpose society, it is possible to induce the farmers to leave the balances after deductions for loans with the Society as deposits and draw upon them only for necessary consumption and productive expenditure. Propaganda and education is necessary in rural areas in order to encourage the habit of savings and investment of surplus funds.

**A SCHEME FOR CO-OPERATIVE VILLAGE BANKS:**

In Madras, the Registrar put forward a scheme for the establishment of co-operative banks on a limited liability basis in the large villages, known as "major panchayat villages," having a mixed agricultural and urban population. These banks, according to the scheme, should receive deposits, grant loans and cash credit to members for agricultural and trade purposes, make advances on the security of bullion, collect bills and cheques, issue drafts and provide facilities for safe deposits. They would also make advances on the security of produce where co-operative sale or marketing society do not exist. The extension of such banking facilities would however depend on adequate provision for qualified secretariat staff for each of these banks. It was therefore proposed that for an initial period of five years, Government should grant subsidies to these banks to meet the cost of such staff estimated at Rs.300 per mensem, the other expenses being met by the banks themselves. The Rural Banking Enquiry Committee
approved of the scheme and recommended that the state government
should give the financial assistance necessary for its implementation.

POST OFFICE SAVINGS BANKS:

The Post Office Savings bank as an agency of government
enjoys confidence of the people and could therefore play a more
prominent part in the collection of savings in the rural areas.
The number of post offices doing savings bank work in the rural areas
should be increased. The Rural Banking Enquiry Committee recommended
that the following steps should be taken to improve their working
and to enhance their usefulness to the public and Government. (a) The
personal doing Savings bank work should be made to take more active
interest in the promotion of savings banks and deal with depositors
in a helpful manner,
(b) In the opening of new post offices, the desirability of tapping
rural savings should be given due emphasis,
(c) The regional languages should be used to a larger extent than
at present in the rules, forms, notices, etc., used by the savings
banks at the sub-office and branch office level.
(d) Systematic propaganda through various media popularising the use
of post office savings banks and other savings schemes among the rural
people should be carried out.
(e) The enforcement of certain rules regarding withdrawals,
payments to heirs and dependents on the death of depositors etc.
should be made more elastic." (Report of the Rural Banking Enquiry
Committee - P.69).

On an experimental basis, certain improvements in the
facilities provided by the Post Office Savings Bank are to be shortly
introduced in the Bombay State. These facilities are: (a) introducin
the cheque system both for withdrawals and deposits; (b) affording
greater facilities to the depositors by organising the working of
the bank on the lines of commercial banks; and (c) opening branches in
a larger number of rural centres." (The First Five Year Plan-1952)
If this experiment should prove successful, the extension of such
facilities to other states is likely to attract greater savings
than at present.

EXTENSION OF COMMERCIAL BANKING FACILITIES:

The extension of banking facilities to rural areas is
considered to be both feasible and desirable in view of the need
for the promotion of savings and the development of banking habits
among the rural population. The banking development in this
country is both inadequate and lopsided. Of the total number of
4353 commercial banking offices in (1950) 3661 were situated in
the larger cities and towns with a population of over 10,000, while
only 692 offices were in other centres. The number of townshaving
banking facilities was 1342. The majority of banking offices, par-
ticularly of the Imperial Bank and scheduled banks are concentrated
in the larger towns while many small towns (including 492 towns
which are either district or taluka headquarters) are either not
provided with banking facilities at all or served only by non-
scheduled banks.

As regards the question how far banking facilities have
extended to rural areas, the difficulty arises about the precise
definition of "rural areas." According to the census report (1941)
places of population above 5,000 have been regarded as towns. In
1950 - 143 places with a population below 5,000 had banking
facilities. The population criterion is not quite satisfactory
because many small towns with a population exceeding 5,000 have a considerable admixture of "rural population," and a belt of villages lying around them; and in fact sometimes, quite an extent of agricultural land within their limits. Thus the extension of banking facilities to medium sized towns accessible to the rural population in the surrounding villages would be of benefit to the rural areas. The fact, however, is that commercial banks have not found it possible to go beyond taluka headquarters towns and a few mandis or other trading centres further inland while the villages are served by the co-operative societies and in some cases by the post office savings banks. It would be reasonable to infer therefore that while some extension to rural areas has taken place during recent years, much still remains to be done to extend to the people of these areas the benefits of modern banking." (Report of the Rural Banking Enquiry Committee - P.26P).

The impediments to the extension of banking in the rural areas are said to be the deficit character of agriculture in this country, the illiteracy and conservation of the rural population, the lack of good communications etc. Apart from the demand for banking facilities from the well-to-do section of the agricultural community, there is no demand from the rural people for such services. The unwillingness of the rural people to entrust monies to banks and similar institutions is based on long-standing tradition and habits and suspicion of others and has been somewhat accentuated by bank failures in the past. The rural classes whose incomes are low and savings small prefer to hold those savings in cash in their possession rather than deposit them in the banks. A programme of rural development by generating higher incomes and consequently larger savings would create a demand for the services that banks render and
therefore schemes for the extension of banking facilities must form an integral part of the overall rural development programme.

RURAL BANKING ENQUIRY COMMITTEE'S SUGGESTIONS:

The Rural Banking Enquiry Committee suggested that the Imperial Bank and other commercial banks should be allowed and encouraged to expand up to taluka (or tahsil) towns, mandis or market towns, or other towns of some commercial or industrial importance. In view of the services that the Imperial Bank, as agent of the Reserve Bank, would be able to offer to other banks and co-operative institutions in respect of remittance of funds, keeping of accounts, exchange of notes and coin, an expansion in the number of its offices would be desirable in the interests of the rural areas as well as of the banking system as a whole. Co-operative banks can be established in the larger as well as smaller towns and can go deeper into rural areas than commercial banks. As regards the assistance, the Committee recommended that the types of assistance or encouragement to be offered must generally be in the nature of indirect stimuli and should be available to all banking institutions. Co-operative banks and societies would need special assistance and some subsidies in addition to the concession and privileges they are already enjoying. The Rural Banking Enquiry Committee said that the government should not assume an entirely passive attitude but should take such steps as would create the necessary atmosphere for and assist the promotion of orderly development of banking.

In the context of a planned economic development of the country, designed as much to raise agricultural prosperity as to promote all-round economic development, a programme towards which
all sections of the community have to contribute to the maximum extent possible, the rural sector has to make its contribution. India's first Five Year Plan (1951-56) envisages an expenditure of Rs.360.42 crores on agricultural and community projects and Rs.433.86 crores on multi-purpose projects (Rs.265.90 crores) and irrigation projects (Rs.167.96 crores). The financial resources available for the implementation of the plan must be found. Large amounts have also to be found for meeting the credit requirements of the agriculturists. The rural community must be induced to save and the rural savings will have to be fully mobilised to play their due part in such schemes of development. In the co-operative pattern of rural economy, co-operative rather than corporate savings will play an important part. The co-operative form of organisation will enlist greater support to an active programme of savings and investment in the agricultural sector.

It is therefore necessary to set up an adequate and efficient machinery for mobilising rural savings, as a permanent part of the mechanism of capital formation.

In conclusion, however, it must be stated that "to expect that the structure of rural credit can be raised in the agricultural districts from the savings of the agriculturists themselves which will render borrowing by them unnecessary is tantamount to turning down all other suggestions for improvement from outside without a proper examination."