CHAPTER - 3
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Rural indebtedness has always been an important feature of agrarian economy of the Punjab. This chronic problem plaguing cultivators because the justification for several policies changes in British India. It was in the 1860s that the problem of rural indebtedness started becoming conspicuously serious in the Punjab. In the Punjab prosperity and debt have been inter-related and this has had its provenance in the changed agrarian environment. Increased indebtedness was largely due to an increased volume credit. The credit was contingent on the enhanced value of land and agricultural produce. The attention of perceptive administrators was first drawn to the alarming increase in the indebtedness of cultivators and in the alienation of land from peasants to moneylenders, both through mortgage and outright sale. Higher officials were a little slow to respond to this crisis, but gradually woke up to a consciousness of the dangerous political, and social repercussions of such a major social phenomenon. At policy level peasant discontent was anywhere to be avoided, but for a province whose small cultivators supplied the British Indian army with a majority of its men, it could have consequences that were much more serious than elsewhere. The policy makers and

legislators had a realisation that disgruntled peasants made disloyal soldiers.\textsuperscript{102} Consequently, by the turn of the century, this concern was reflected in policy and a legislative measure restricting alienation of land was brought on to the statute book.\textsuperscript{103} Several polices were either adopted or envisaged for checking alienation of land and for safeguarding the interests of the cultivators. A few years later a move was also made to set up co-operative societies. However, inspite of policy level intervention, enquiries made in the 1920s revealed that debt was continuing to mount and money-lending continued to flourish.\textsuperscript{104} At that time, the economy of the province depended almost entirely on agriculture. By virtue of the fertile soil, facilities of irrigation afforded by newly built canals, abundance of labour and hereditary agricultural skills, the Punjab seemed to have been privileged by nature as a prosperous agricultural region.\textsuperscript{105} Yet the prevailing condition of agriculture was backward even at the end of 19\textsuperscript{th} century. The principal cause of backwardness remained the indebtedness of the peasantry. According to M.L. Darling, the first and most obvious conclusion was that “the bulk of cultivators of Punjab are born in debt, live in debt and die in debt.”\textsuperscript{106} The chronic nature of the problem of indebtedness is evident from the fact that probably in no district were more than one-third free from debt and in some the percentage was less than ten. M.L. Darling calls the money-lender the evil genius who ensnared the

\textsuperscript{103} Van den Dungen, \textit{The Punjab Tradition}, for the process of debate and discussion through which this policy was eventually evolved, p.193.
\textsuperscript{104} M. L. Darling, \textit{The Punjab Peasant in Prosperity and Debt}, Delhi, 1925, p.228.
\textsuperscript{106} M. L. Darling, \textit{The Punjab Peasant in Prosperity and Debt}, pp.XX (introduction).
cultivators in perpetuity, exploiting them when they were well-off and enslaving them when they were poor. As the peasants had to purchase cloth, salt, kerosene oil and many other commodities of common and necessary use from the market against cash money, he was compelled to go to the money-lender who lent him money on high rates of interest and often on compound interest.\textsuperscript{107}

Petty landowners, once their potential for taking credit on personal guarantee was exhausted, were often forced to mortgage their small pieces of land and resort to tenancy or wage labour. The landless were often unable to secure loans at all, especially if they were just wage-earners and did not even have the crop to offer as security. Food was in these cases a major item on the list of the causes of indebtedness. The money-lender also doubled up as a trader who purchased peasant produce at low prices and sold him manufactured articles at high prices. For the peasant, there was nothing to choose between the two. Both exploited him through usurious rates of interest, compound interest and myriad mal-practices.\textsuperscript{108}


\textsuperscript{108}The acuteness of the problem of small-holding is shown by the fact that in 19 out of 29 districts of the province the percentage of cultivators who cultivated less than 5 acres was over 50. In 6 districts, the percentage of those cultivating less than 2.5 acres was over 50, e.g., Simla (90.8); Kangra (80.4); Hoshiarpur (74.5); Rawalpindi (64.4); Jullundur (56.2); and Sialkot (55.6). The Board of Economic Inquiry, H. Calvert, \textit{The Size and Distribution of Cultivators’ Holdings in the Punjab}, Lahore 1928, p.8. “Land is minutely sub-divided, and many of the smallest proprietors must find it hard at all times to keep their heads above water. If the season is bad, or prices fall much, or any sudden calamity occurs, such men are overwhelmed and have no chance of recovering themselves”. District Gazetteer Jullundur, 1904, p.192; District Gazetteer Rawalpindi, Lahore, 1907, p.140; District Gazetteer Muzaffargarh, 1908, pp.210-11; Report of the Punjab Land Revenue Committee, Government Printing, Calcutta, 1902, p.99; The Board of Economic Enquiry, Punjab, \textit{An Economic Survey of Bhambu
According to Darling, the chief causes of the indebtedness of peasant proprietors were – small holdings and fragmentation, uncertainty of crops, improvidence, loss of cattle, and extravagant expenditure on marriage and other ceremonials. Small holdings were the result of the law of inheritance, which prescribed that each son would get an equal share of his father’s land. In this process, the land was ‘wasted into innumerable boundaries’. Moreover, the few acres which each son received were scattered at as many places as the types of the land available in the village, namely, good, bad and indifferent. This custom was universal throughout the province. However, the total profits from the cultivation of small holdings were hardly sufficient to support one’s family. Thus due to the small size of holdings, the margin of economic safety was so narrow that any misfortune plunged the peasants into debt from which they could never extricate themselves.

Among these classes, tenants and petty landowners, who cultivated on their own account, also needed loans for sustaining the process of production. They often needed loans for agricultural inputs. The most important item in this list was cattle, for no cultivation was possible without plough animals. Cattle was integral to every aspect of agrarian life. In the words of M.L. Darling, “From the ploughing of field to the smoking of hookah, all was done with the help of cattle.” Droughts and diseases were the principal causes of causality among cattle. In the great famine of 1869, four districts of the South-East Sandila in Muzaffargarh District, p.6; District Gazetteer Sialkot, Lahore, 1920, p.95, P.S.A.

Punjab lost 40\% of their live-stock or a total of over 600,000 cattle heads. Consequently, the peasant was rendered helpless and could neither plough nor irrigate their lands. Having been deprived of their only means of livelihood, they were forced to sell whatever else they had to keep their bodies and souls together.\textsuperscript{110}

In the preliminary activities of governance and policy making the British took a comprehensive view of these problems confronting cultivators. Government’s Report on Famines noted that ‘loss of cattle during the year was most disastrous and ‘made a serious impression on the wealth and comfort of people.’\textsuperscript{111} Large scale losses of cattle from drought and diseases crippled the farming community for years and the peasant was constrained to borrow money from the money-lender.\textsuperscript{112}

S.S. Thorburn was, therefore, right in attributing indebtedness in Punjab mainly to the large scale loss of live stock in the Punjab.\textsuperscript{113}

Consecutive bad years further added to cultivator's woes. The failure of monsoon or the occurrence of rains at unsuitable times caused serious problem to the small holders. Under the circumstances, they had to borrow even for basic requirements like seeds, cattle and clothes. If there was a bad harvest, it became imperative for the cultivator to go to the money-lender the following year.\textsuperscript{114} Though the sale of land was generally not preferred, yet the cultivator was inveigled by the money-lender into selling his mortgaged property to him and clear off his debt.\textsuperscript{115}

It is apparent that the administrators of the Punjab were continuously trying to analyse the situation. In 1899, the financial commissioner of Punjab observed that out of 6500 cases of land alienations in the province, one-sixth were due to the extravagant expenditure of the agriculturists.\textsuperscript{116}

Sometimes the agriculturists got struck in a vicious cycle. Fresh loans were often incurred in order to repay old debts, either because the earlier moneylender became insistent on recovering money or because, in the case of mortgage, a new mortgage could be made for a higher value. Loans from co-operative societies which lent at lower

\textsuperscript{113} S.S. Thorburn, \textit{Report on Peasant Indebtedness and Land Alienations to Money-Lenders in the parts of Rauxalpindi Division}, Lahore, 1896, p.27, P.S.A.

\textsuperscript{114} \textit{District Gazetteer Muzaffargarh}, 1883-84, p.84, P.S.A.

\textsuperscript{115} F.L. Bryne and Shiv Dayal, \textit{An Economic Survey of Bhadas, A Village in the Gurgan District of the Punjab}, The Board of Economic Enquiry, Punjab, Publication No. 43, Lahore, 1932, p.18.

\textsuperscript{116} M.L. Darling, \textit{The Punjab Peasant in Prosperity and Debt}, p.66.
rates of interest were very often used to repay old debts incurred at comparatively high rates of interest.\textsuperscript{117} Expenditure on life cycle ceremonies like birth, death and marriage, which was a necessary part of social existence, necessitated loans from money-lenders.\textsuperscript{118}

An enquiry conducted in 1921 estimated the size of the agricultural debt of Punjab as Rs. 900 million. Eight years later, the Banking Enquiry Committee found that the amount had increased to Rs. 1,350 million. This acceleration of the rate of increase of agricultural debt was quite steep and alarming. In eight years between 1921 and 1929, Rs. 450 million were added to the quantum of debt, whereas it had taken 30 years (before 1921) for, Rs. 450 million to pile up. The wake of the plight of cultivators worse, agricultural prices had gone down in the meantime, and therefore debt was now a much greater proportion of gross agricultural income. In 1921, debt was estimated at 900 million, and the average annual gross agricultural income of the three years 1920-1923 at Rs. 1400 million.

The cultivator’s profligacy connected with expenditure on marriages and other domestic ceremonies made it obligatory for him to borrow. In the Punjab, the Famine Commission of 1880 regarded expenditure on marriages and other ceremonies as one of the most important causes of debt. K.L. Dutta after an extensive enquiry


\textsuperscript{118} See, for example, The Board of Economic Inquiry, Punjab, An Inquiry into Mortgage of Agricultural Land in the Pohtwar Assessment Circle of the Rawalpindi District in the Punjab, p.18; M.L. Darling, The Punjab Peasant in Prosperity and Debt, pp.216-17; Punjab Banking Enquiry Report. Vol. 1, p.222.
concluded that in a good year cultivators’ ignorance and improvidence made them spend the whole of their surplus on marriages and festivities. Their prodigality on such occasions often led them, even in good years, to the doors of the money-lenders.\textsuperscript{119} J.B. Fuller, after examining the assessment paper of over 9,000 villages in the central provinces came to the conclusion that indebtedness resulted from ‘Sheer Wastefulness and extravagance’.

The process of litigation also contributed to the indebtedness of the Punjab peasantry. According to the Civil Justice Committee Report of 1925 the people of the Punjab were greatly addicted to litigations. S.S. Thorburn observed in 1889 that around two percent of debt was the result of civil suits.\textsuperscript{120} Calvert opined that over 40% of the adult male population attended the court every year, either as parties or as witnesses, and three or four crore of rupees were wasted in that process.\textsuperscript{121} Thus the Punjabi peasants proved to be more quarrelsome and litigious than any other people of India.

Land revenue policy of the British Government was also one of the important ascertained causes of the peasant indebtedness.\textsuperscript{122} British Government made it mandatory that all taxes on land should be paid in cash.\textsuperscript{123} As the landholders had no surplus money, it became inevitable for them to borrow from the money-lender. In fact debtor became more and more dependent on the Sahukar who had on

\textsuperscript{120} S.S. Thorburn, \textit{Musalmans and MoneyLenders in Punjab}, p.31.
opportunistic disposition. He often paid the land revenue of his client and recouped himself, in whole or part, at the harvest time. Hence Zamindar’s necessity was used as an advantage by the Sahukar. Thorburn opined that the cash demand immersed the peasant deeper into debt. Crop might succeed or fail, the revenue had to be paid, Zamindar must borrow or steal. Thus the rigidity of the terms of revenue system further aggravated the difficulties of the debtors.

As an upshot of the above causes the debt of the agriculturist mounted to insuperable limits and he was unable to redeem his land. Thus, this emerges as one of the reactions to the policy related to the revenue that consequently, the process of gradual transfer of the ownership of the soil from its natural lord to cultivator to the money-lender got initiated. In fact, the cultivator was reduced to the position of a serf to the money-lender. Darling commenting on the agrarian crisis in the Punjab wrote that over 80% of the peasant proprietors were under debt. The Punjab Famine Report of 1878-79 also mentioned that in Gujranwala, Gurdaspur, Hoshiarpur and Dera Ghazi Khan only 20%, 25%, 30% of the peasant proprietors were free from debt.

The other important causes of the ever increasing indebtedness in the Punjab during the later half of the 19th century were: (i) the increase in the value of land due to rapid construction and extension of irrigation works which increased the value of land and (ii) the security

which the money-lender enjoyed for the recovery of his loans against the mortgaged lands and other assets of the debtors under the British law. Such conditions were clearly favourable to the money lenders and inimical to the interests of the cultivators. The cultivators often found themselves with limited choices. Consequently, the mortgages and the sales of land, mostly done in distress, continued to be on the rise. Financial Commissioner of Punjab, also wrote that by 1889, 5% of the total land or 8% of the cultivated area was under mortgage in the Punjab.¹²⁹

As a corollary of the above conditions, by the end of the 19th century, a vast area came to be owned by the non-agriculturist money-lending class. The transfer of land of this class impeded the improvement of land because the money-lender had little incentive to invest any money for the improvement of the land. He contented himself with obtaining the best rent that he could.¹³⁰

Writing to the same effect in 1888-89, Charles Rivaz, the Commissioner of Lahore, emphasized the fact and apprehended that the transfer of the proprietorship of lands on such a vast scale would lead to political instability. Commenting on the lack of a well defined policy to check the transfer of lands he further asserted that the refusal of Government to intervene and check such alienations was regarded by agricultural classes with profound dissatisfaction. Such drastic agrarian reorganisation according to him might lead to a serious

¹²⁹ S.S. Thorburn, Report on Peasant Indebtedness and Land Alienations to Money-Lenders in the parts of Rawalpindi Division, p.44.
trouble in time of disturbance or war. Both, Ibbetson and Rivaz, pleaded with the Government to find a remedy for this perpetually intensifying crisis. Finally, the government felt the need of formulating a policy. Large scale replacement of the agriculturists by money-lenders who were alien to the agricultural profession eventually brought into being a separate official policy towards agriculturists and non-agriculturist in the Punjab. The government took a serious notice of it towards the close of the 19th century. To check this development the Punjab Alienation of Land Act XIII of 1900 was passed. The advert of agriculturist money-lenders in conjunction with the spread of co-operative village banks considerably reduced the importance of the professional money-lenders in the twentieth century. The number of professional money-lenders in 1921 was 38,132 and in 1931 it decreased to 36,863. The creditors especially in the Jat majority tracts were themselves the agriculturists and the professional money-lenders were now left with a limited role.

As a policy matter the new act was received with a mixed set of reactions and responses. The Punjab Alienation of Land Act of 1900 which divided the Punjabi society into two parts – the agriculturists and the non-agriculturists – caused resentment among those who failed to get themselves enlisted as agriculturists. Due to the advantages accruing to the agriculturists under this Act, the Act created a struggle

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among the non-agriculturists to get themselves enlisted as agriculturists.

Basically, the Government passed the Land Alienation Act 1900, to protect and agriculturists from the clutches of the money-lenders.\textsuperscript{132} Although, the Act succeeded in safeguarding the interests of cultivators, yet it also sowed the seeds of social and class based separatism as it adversely affected a large number of people. This policy met with limited response as although the Act saved agricultural land from passing to the money-lenders, yet it did not solve the problem of rural indebtedness. It only created a new class i.e. 'Agriculturist Money-Lender'.

One of the important concomitants of this policy was that the agriculturist money lenders grew in numbers, invested more capital and strengthened their hold on land, whereas, the \textit{Sahukar} tended to curtail their business, and leave the villages to seek their fortunes in the towns.

The restrictions put in place against the \textit{Sahukar} by the Land Alienation act in the context of the rapidly increasing mortgage business thus helped to attenuate the power and influence of the \textit{Sahukar} and strengthen the agriculturist. The effect of the Land Alienation Act thus appears to have been to bring about a change in the fortunes of the people involved in money-lending and in facilitating the transfer of land to agriculturist money-lenders by discouraging the

\textsuperscript{132} \textit{Annual Report on the Working of the Punjab Alienation of Land Act X11 of 1900 for the year ending 30\textsuperscript{th} September 1901}, Civil and Military Gazette Press, Lahore, 1902, p.2. P.S.A.
Sahukars.\textsuperscript{133} The failure of this policy lies in the fact that it did not reduce indebtedness, it led to an increase in mortgage debt and thus to an increase in alienation of land. The real problem with the legislation, though, was not that it was bad in itself but that it could only be effective if there were alternative sources of credit available to the peasants. Therefore, it can be stated that the reaction to this policy was not an unconditionally positive one.

The government’s policy towards agriculturists gets reflected in a series of acts in the nineteenth century. During the nineteenth century various renewed efforts were made to improve the system, for instance in 1871, 1876, 1883 and 1884.\textsuperscript{134} The Land Improvement Loans Act of 1883 extended facilities for loans to be used for capital expenditure upon land improvement, and the Agriculturists Loans Act of 1884 for loans for purchase of seed and cattle and miscellaneous agricultural purposes. Both of these Acts were successful on the whole, but their provisions were not sufficiently well known. The benefits of the act did not get passed on to those most in need of them, as naturally they had no security to offer, whilst the state obviously could not enter into

\textsuperscript{133} Interestingly, this had been predicted by Harnam Singh, a member of the Viceroy’s Legislative Council, when the Punjab Land Alienation Act was passed in 1900. Harnam Singh has opposed the legislation on the grounds that restrictions would not curtail debt but instead turn the agriculturists over to the money-lenders of their community who would extract harsh terms and gradually gain control of land. Harnam Singh was the heir-apparent of Kapurthala State till he became a Christian and he was a highly educated man. His objections were dismissed, one of the grounds being that he was an aristocrat out of touch with the people and another that he was merely the spokesman of the Hindu trading and money-lending classes and of the Congress, N.G. Barrier, \textit{The Formulation and Enactment of the Punjab Alienation of Land Bill}, pp.210-12.

\textsuperscript{134} \textit{Abridged Report of the Royal Commission on Agriculture}, Government Central Press, Bombay, 1928, p.47; Vera Anstey, \textit{The Economic Development of India}, London, 1939, p.188.
sufficiently intimate contact with individual cultivators to be able to assess their credit worthiness. The Deccan Agriculturists’ Relief Act of 1879, passed as a result of the recommendations of the commission appointed in 1870 to inquire into the causes of the Deccan Riots, attempted to deal with the situation in that area, by creating special machinery to inquire into and settle disputes which arose between the cultivators and the money-lenders. This also was not very successful, as it tended to promote litigation, and to aggravate, rather than to allay, ill- feeling between the classes.

Another important Act was passed in 1904 providing for the establishment of co-operative societies in the Punjab and the government was entrusted with the task of promoting the growth of co-operative societies, especially of co-operative credit societies, in order to encourage the peasants to save and to provide an alternative to the money-lender. Proliferation of co-operative credit societies as per the provisions of the Act of 1904 also decreased the importance of the money-lenders and forced them to migrate to those parts of the Punjab where their interests were comparatively safe. In the early twentieth century, the money-lenders preferred to migrate from the central Punjab, where a large number of the co-operative credit societies had come into existence, to the south-western districts of the Punjab.

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135 Report on the land revenue administration of the Punjab for the agricultural year 1st October 1902 to 30th September 1903, Civil and Military Gazette Press, Lahore, 1904, p.14, P.S.A.
136 Vera Anstey, The Economic Development of India, pp.188-89; S.S. Thorburn, Musalmans and Moneylenders in the Punjab, p.70.
However, this transformation response was effected at an extremely slow pace. The policy though, ideally an effective one failed practically, if we look at the response of the cultivators. However, governmental legislation did not get the response that was expected of them. The failure of the co-operative and government credit institutions to meet the peasant’s credit requirements in a comprehensive and complete manner diluted and neutralized the impact of protective debt legislation. Dependence on the money-lender, both agriculturist and non-agriculturist, continued and so did the invidious effects of this dependence.

Thus, the early nineteenth century witnessed a failure of the policy of protective debt legislation and traditional money lenders continued to thrive as earlier. Indebtedness has invariably produced

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137 Ten years after the passing of the Act, by 1912, the whole of Amritsar district had only 26 societies with a membership of 1,124 and working capital of Rs. 78,974. District Gazetteer Amritsar, 1914, p.85. In Lahore, by 1915, there were 121 societies with a membership of 6,635 and working capital of Rs. 10,79,789. District Gazetteer, Lahore, 1916, p.115. In Ferozepore, by 1914 there were 170 societies lending to 5,886 members and they had working capital amounting to Rs. 5,33,676, District Gazetteer Ferozepore, 1915, p.161. In Sialkot, the number of societies by 1919 were 248, and membership 8,950. The working capital was Rs. 9,28,016. District Gazetteer Sialkot, 1920, pp.95-96. In Jullundur, the number of societies by 1916 was 461 with membership of 27,744 and working capital of Rs. 29,84,777. Settlement Report Jullundur, 1913-17, p.8. In Hoshiarpur district there were by 1913 a total of 421 societies with a working capital of Rs. 16,43,297. Settlement Report Hoshiarpur, 1910-14, p.9. In Rohtak by 1910, agricultural banks were practically un-known, District Gazetteer Rohtak, 1910, p.109. In Muzaffargarh district, one of the most backward in the province, no agricultural banks had been started till 1908, District Gazetteer Muzaffargarh, 1910, p.112.

138 This failure was recognised by the Punjab Land Revenue Committee in its report in 1938. It noted that the development of agriculture was impossible without credit but government loans had failed to provide enough and interest rates were otherwise too high. Report of Punjab Land Revenue Committee, p.98, P.S.A.

139 The limitations of protective legislation in the absence of alternative sources of credit were clearly seen by Darling, whose study of indebtedness in the Punjab is still a classic. This study led him to the conclusion that the only answer lay in the development of co-operative credit societies. M.L. Darling, The Punjab Peasant in Prosperity and Debt, pp.228-30.
the most demoralising effect on the people and lost the initiative to put forth their best efforts in cultivation since the surplus produce must go to the bania in any case. It is a vicious circle: indebtedness leading to listlessness and disenchantment and the latter leading to still greater indebtedness and so on. As a result of chronic indebtedness and perpetual privation the people are ill-fed and fall an easy prey to disease and death. They subsist from hand to mouth, sometimes are reckless in their expenditure too.

Improvement in irrigation and opening of the canal colonies ushered in the Punjab an era of unprecedented prosperity leading to an unprecedented rise in the price of land.\textsuperscript{140} This rise in price tempted the small farmers to sell their lands or borrow against them, since the money-lenders, who once considered land as useless, were now eager to acquire land because land was now a coveted acquisition and secondly mortgaged land could be easily alienated. Several factors facilitating easy alienation were as under:\textsuperscript{141} (i) the complicated legal system of the British forcing the cultivators to engage lawyers on heavy fees.\textsuperscript{142} (ii) Munsiffs serving in Munsiff courts created in 1874-75, mostly urbanites and ignorant of rural affairs, were unfair to the agriculturalist debtors.\textsuperscript{143} (iii) family feuds, complicated revenue and

\textsuperscript{140} Price of land rose (in rupees per acre) from Rs. 30 in 1880-81 to Rs. 61 in 1890-91, The Board of Economic Enquiry, Lahore, 1940, p.6; H. Calvert, The Wealth and Welfare of the Punjab, p.219; Sohan Lal, Development of Irrigation in the Punjab, Lahore, 1926, p.11.

\textsuperscript{141} N.G. Barrier, The Formation and Enactment of the Punjab Alienation of Land Bill, p.160.

\textsuperscript{142} S.S. Thronburn, Report on Peasant Indebtedness and Land Alienations to Moneylenders, p.47.

\textsuperscript{143} It is noteworthy here that the sale of land even in execution of decrease was almost unknown until 1873-74, B.B. Misra, Administrative History of India, p.450.
tenancy laws, and altercation over canal waters resulted into excessive litigation.\textsuperscript{144} (iv) excessive rate of land revenue at least till 1900.\textsuperscript{145}

A sudden increase in Punjab population that rose by 24.31 percent during 1855 and 1881 further divided the holdings making them still smaller and uneconomical. These trends continued afterwards also.\textsuperscript{146} The cultivators became victims of the unscrupulous methods of the money lenders such as the falsification of accounts, the high rate of interest that doubled money grain debts in two and three years respectively.\textsuperscript{147} The rates of interest were no less exorbitant in twenties and early thirties of the present century. It was as high as 20, 30 or 40% and sometimes even 75%. Calculated in this way one single rupee could swell to Rs. 6,71,000 in 78 years.

Disputes were common and often led to litigations. On litigation alone, 3 to 4 crore rupees were being spent every year,\textsuperscript{148} and about 40% of the adult population attended courts as parties and witnesses. By 1895, the debt had already swollen to Rs. 45 crores in the Punjab.\textsuperscript{149} While in 1886 the ratio of the moneylenders to its total population was as much as four times in the Punjab vis-à-vis the ratio

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\item \textsuperscript{145} By the close of 19\textsuperscript{th} century land revenue realised was much less than the maximum fixed, but it varied greatly from district to district, still the money borrowed to pay off the land revenue until then, along with the high rate of interest had accumulated into an embarrassing sum. \textit{Report of the Punjab Land Revenue Committee}, 1938; \textit{Report of the Indian Famine Commission}, 1901, p.110.
\item \textsuperscript{146} This conclusion has been derived from the figures given in the \textit{Census Reports of the Punjab} for 1881, 1891, 1901, 1911, 1921.
\item \textsuperscript{149} M.L. Darling, \textit{The Punjab Peasant in Prosperity and Debt}, pp.19-20.
\end{itemize}
for India.\textsuperscript{150} by 1901-02, 32,87,387 acres in the province stood mortgaged with the moneylenders.\textsuperscript{151} The reaction was so severe that some of the peasant debtors ultimately resorted to the murders of the Hindu and Sikh moneylenders.\textsuperscript{152} This state of disgruntled peasantry was obviously detrimental to the internal insecurity. As the Government was drawing the largest number of army recruits from among the Punjab peasantry the disillusionment among the cultivators could have adverse consequences.\textsuperscript{153} It reached alarming proportions as is revealed by a note of Fitzpatrick, the Lieutenant Governor of the Punjab to the Secretary of the State in 1895, "If landowners were reduced to the condition to tenants or labourers they would constitute a political danger of formidable dimensions."\textsuperscript{154} The government was thus constrained to acknowledged the intractable problem of agricultural debts as important for policy formulation, veteran officers in the Indian administration also expressed their fears about the political dangers involved in money-lending primarily with the intention

\textsuperscript{150} H. Calvert observes that 1:100 and 1:367 were the ratios of the moneylenders to total population respectively in the Punjab and India. H. Calvert, The Wealth and Welfare of the Punjab, p.357.

\textsuperscript{151} Increase in the mortgaged acres was alarming. From about one million acres in 1874, it rose to about 4 million acres in 1891. Bakhtaver Singh, Social and Economic History of the Punjab, 1901-39, 1961, p.224.

\textsuperscript{152} In the West Punjab Muhammaden debtors often used the frequent cow riots as occasions for killing the banias (being mostly Hindus) or destroying their records. Khuswant Singh, The History of Sikhs, p.153; Punjab Administration Report, 1891-92, Lahore, 1892, p.75.

\textsuperscript{153} Even afterwards the same position held true. During the First World War Punjab sent 4 million soldiers to the different theatres of war; in 1939, almost as much as 60\% of soldiers of Indian army were being drawn from among the Punjab peasant. H.K. Trevaskis, Land of Five Rivers, Oxford University Press, 1928, p.25; Michael O'Dwyer, India as I Knew it 1885-1925, London, 1925; The Tribune, Lahore, 12-1-1939, p.3.

\textsuperscript{154} Note on Land transfers and Agriculture Indebtedness in India, Government of India, 1895, p.2; Inderjit Sharma, Land Revenue Administration in the Punjab, p.186.
of preserving the loyalty to the peasant tied to the British Empire, the Punjab Alienation of Land Act was passed in 1900.

While the earlier Acts had failed to help the agriculturists in solving their problem of indebtedness, the Alienation of Land Act (1900) only prevented the transfer of their lands to non-agriculturists. The latter Act (Punjab Alienation of Land Act) suffered from a serious limitation as it did not provide for any alternate source of credit to the agriculturists, while the bania (non-agriculturists money lender) refused to lend them any more after the passage of this Act. It was in these circumstances that it was contemplated that the co-operative credit societies were the only way of providing loans to the needy agriculturists and getting them out of the clutches of the money lenders and of placing them on the road to prosperity.155 In 1899-1900 there was a disastrous famine. The usurious rates of interest during the famines placed additional burden of indebtedness on the impoverished peasants which they could not bear.156

However, inspite of initial problems and failures the government had a keen sense of the importance of dealing with the problem of indebtedness of agriculturists. In the late nineteenth century, various schemes were proposed with the object of protecting land holders from the loss of their land.157 Before passing of the Co-operative Societies Act many acts were passed to improve the condition of peasantry. The Deccan riots had established the fact that some concrete and creditable

156 Sunil Sen, Agrarian Relations in India, 1793-1947, Delhi, 1979, pp.127-29.
policy decisions were needed to avoid recurrences of such acts of violence.\textsuperscript{158} In 1880 a famine commission was constituted to analyse the whole problem of rural finance and to suggest remedies to counter the economic stagnation. The commission recommended the establishment of agricultural banks to advance loans for the development of agriculture to the poor and needy peasants. The suggestion of agricultural banks was not accepted by the government.\textsuperscript{159}

The policy makers were still optimistic about the usefulness and relevance of co-operative credit societies. The prospects of improving the credit of the rural population in India by the establishment of a system of co-operative credit societies at the beginning of the period under review, continued to engage the attention of the Government of India. A Co-operative Credit Societies Bill was accordingly introduced in the Governor General’s Legislative Council in October 1903, and Passed into law as Act 1904.

The object of the Act, as stated in its permeable, was “to encourage thrift, self help, and co-operation among agriculturists, artisans, and persons of limited means.” Local Governments were empowered to appoint Provincial Registrars of Co-operative Credit Societies, whose duty it would be to scrutinize applications for registration under the Act. Subject to the provision that any association of not less than 10 persons might be registered by the special order of a

\textsuperscript{158} R.B. Tyagi, \textit{Recent Trends in the Co-operative Movement India}, Delhi, 1968, p.2.  
local Government, the Act laid down that such an association should consist of persons residing in the same town or village or the same group of villages, or, subject to the sanction of the Registrar, of members of the same tribe, class or caste. Societies were classed as “rural” or “urban”, and it was laid down that four-fifths of the members must be, in the first case, agriculturists, and in the second, non-agriculturists.\(^{160}\) In the case of rural societies the liability of members was to be unlimited, unless a departure from this rule were specially sanctioned by the local Government. In the case of Urban Societies, liability might be either limited or unlimited, as might be provided by bye-laws or rules made under the Act. Profits, in the case of a rural society, were, in the first instance, to be carried to a reserve fund, or applied to the reduction of the rate of interest, and a bonus might be distributed only when requirements in the directions had been fully met; urban societies were also to carry at least a quarter of the annual profits to a reserve fund. Loans were to be made only to members, or, subject to the consent of the Registrar, to the rural society. Rural societies still constituted 98\% of co-operative societies in the Punjab.\(^{161}\) Limitations were placed on the interest in a society that might be held by a single member, and on the transfer of shares.

The Land Improvement Loans Act 1883 and Agriculturist Loans Act 1884 had also been similarly passed to check the persistent escalation in the rural indebtedness.\(^{162}\) These two loans were generally

\(^{160}\) S.C. Ray (ed.), *Agricultural Indebtedness in India and its Remedies*, p.446.


known as *taccavi* loans, the former aiming at providing long term loans and the latter short term loans.\textsuperscript{163} Advances were made for sinking of wells, purchase of manure, seeds, cattle, etc. The rate of interests charged was from 3 to 6 $\frac{1}{4}$ percent per annum depending on the nature of the loan. Loans to be so advanced were to be secured by taking sureties.\textsuperscript{164} The concern of the government for devising effective policies and assessing the effectiveness of earlier ones is evident from the fact that in 1901 Lord Curzon appointed a committee to report on the measures to be adopted to protect the peasantry. The importance of checking agrarian indebtedness continued to have a strong bearing on policy decisions, the commission recommended the strengthening of the moral backbone of the agriculturists.

It expressed its views that the introduction of co-operative societies in rural areas was one of the means of strengthening the agriculturists. The truth, however, was that *Taccavi* loans covered the needs of a small proportion of the peasants, and the government knew that they could hardly finance the peasants. The government favoured the growth of co-operative credit societies based upon Raiffeisen model.\textsuperscript{165} It is quite clear that almost all the policy decision of the

\begin{itemize}
\item The society is absolutely local, the limits of village being the limits of membership and operation. Members must know each other personally and admit no one who they do not trust.
\item The administration is also local, member only being eligible for appointment and servie on the committee is gratuitous.
\item Capital is raised by small entrance fees and by loans and deposits at interest recurred on the unlimited liability of all the members and on the reserve fund.
\item All profits are carried to a reserve fund which is indivisible: *Annual Report on the Working of Co-operative Credit Societies in the Punjab for the year ending 31st March 1905*, Lahore, 1905, p.7, P.S.A.
\end{itemize}

\textsuperscript{163} R.B. Tyagi, *Recent Trends in the Co-operative Movement in India*, p.2.
\textsuperscript{165} Raiffeisen was a burqomaster in Germany who invented the Indian Rural Societies in 1850. The main recommendations consisted of the following:
government to check indebtedness met only with limited success. There seemed to be some gap between policy and reality. The main direction of government policy was to appease the rich peasants, without alienating the agriculturist money-lenders. Indian nationalists, who had political affiliations with the money-lenders and rich peasants, also did not favour decisive action against the money-lenders. Gokhale, for instance, too circumvented the real issue and argued in favour of reduction of land tax and establishment of rural banks to provide for alternative sources of credit.

The Punjab organisers of the movement for empowerment of agriculturists had little experience and scarce knowledge of the imported ideas of co-operation. Their task was made even more onerous by the fact that they were required for the success of their movement, to spread a new ideology among the uneducated people. The Act of 1904 provided for the organization of primary Credit Societies and stress was laid on the promotion of agricultural credit. This Act marked a significant departure as one of its special features of the societies created under this Act was that government was the prime mover of the movement. The movement was not only initiated by the government but was also supported by government loans. In 1909 government loans formed 22 percent of the working capital of societies. Nevertheless, the condition of societies could not be said to have been
strong. Loans were generally marked by insufficiency and delay. Recoveries were far from satisfactory and loans system was defective.\textsuperscript{166}

Privileges included the exemption of a member’s shares or other interests in the capital of a society from attachment for private debts, the grant to societies of a measure of priority over ordinary \textit{creditors} in enforcing claims on crops, cattle or agricultural implements etc. and provisions for exemption, at the discretion of the Act, from income tax, stamp duties, and registration fees wide powers given to the Registrar for the control and supervision of the societies. At policy level, the government attached more importance to the co-operative credit societies than to rural banks.\textsuperscript{167} Some earnest British Civilians of the Punjab, U.P. and Bengal gave serious thought to this subject and included the promotion of the co-operative movement within their sphere of activities. Maclogan did pioneering work and paved the way for the co-operative movement in the country in its modern form.\textsuperscript{168} The government of India appointed a committee under Edward Law after ascertaining the views of the local government to make concrete recommendations. The recommendations of the committee led to the introduction of a bill in the Imperial Legislative Council by Denzil Ibbetson in 1903. The Bill was passed under the title of Co-operative Credit Societies Act of 1904.\textsuperscript{169} After the passing of the Act of 1904 Wilberforce was made the Registrar of co-operative societies on 26 October 1904 by the government. He visited various districts of

\textsuperscript{167} Sunil Sen, \textit{Agrarian Relations in India, 1793-1947}, pp.127-29.
\textsuperscript{168} R.B. Tyagi, \textit{Recent Trends in the Co-operative Movement in India}, p.2.
the Punjab to educate and inform the agriculturists above the co-operative societies to be founded. He found that the people of the Punjab especially, the rural strata of the society, were ignorant about the idea of co-operation. It had been decided that the societies should be founded in selected districts which were selected as specimen districts one each from the various divisions of the Punjab. The districts thus selected were: Karnal, Montgomery Hoshiarpur, Rawalpindi, Mianwali.¹⁷⁰

Encouraging reports were received about the working of the five young societies discussed above. Enthused by the initial experiment carried between the year 1905-1908, 258 societies were established in the province with a membership of 21,881 and a working capital of primary societies at Rs. 4,51,216.¹⁷¹

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Societies</th>
<th>No. of Members</th>
<th>Member per Society</th>
<th>Working Capital in Rs.</th>
<th>Working Capital</th>
<th>Per Member</th>
</tr>
</thead>
<tbody>
<tr>
<td>1905-06</td>
<td>23</td>
<td>1203</td>
<td>52</td>
<td>42,595</td>
<td>1852</td>
<td>35.407</td>
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<td>1906-07</td>
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<td>17533</td>
<td>99</td>
<td>3,01,908</td>
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<td>17.219</td>
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<tr>
<td>1907-08</td>
<td>258</td>
<td>21811</td>
<td>85</td>
<td>4,51,216</td>
<td>1749</td>
<td>20.621</td>
</tr>
</tbody>
</table>

Source: This table has been prepared from the data given in the Annual Reports on the Working of Co-operative Societies in the Punjab for the year 1905-07.

But co-operative credit societies in the Punjab were still fledgling institutions and it remained to be seen whether the people would become aware of the benefits derivable from such Associations.\textsuperscript{172} In Karnal four societies were established and registered in January 1905 due to the efforts of Mr. J.P. Thompson, the Deputy Commissioner. The members had little understanding of the co-operative principals. There prevailed several misconceptions about them. The societies were generally perceived as government banks. This developed apprehensions in their minds as the experience of persons taking advances from government had not always been pleasant specially in districts like Karnal where the people had been accustomed for centuries to submit to being exploited by avaricious government officers.

In two of the four societies deposits of Rs. 725 and Rs. 500 were collected.\textsuperscript{173} In Karnal there was a certain amount of opposition on the part of money lenders. They spread rumours that these societies were of dubious credentials. The Tehsildar of Kaithal called the Zamindars and Lambardars.\textsuperscript{174} In Hoshiarpur district three societies were established and registered. The Una tehsil of the Hoshiarpur district furnished an outstanding example of constructive co-operative effort. This was the Rajput society of Panjawar formed in 1892, a society of average size situated on the inner slopes of the Siwaliks. It was unique

\textsuperscript{172} Reports on the Administration of the Punjab and its Dependencies for the year 1904-1905, Lahore, 1905, p. 7, P.S.A.
\textsuperscript{173} Annual Report on Working of Co-operative Credit Societies in the Punjab for the year ending 31st March 1905, p.2, P.S.A.
\textsuperscript{174} Brij Narain, \textit{Indian Economic Life: Past and Present}, Lahore, 1929, p.104.
in the sense that it had never been fostered by the government and its
existence was unknown for nearly ten years.\footnote{175}{Annual Report on the Working of Co-operative Credit Societies in the Punjab for the year ending 31st March 1905, pp.4-5, P.S.A.}

This society was an exemplary prototype and formed in 1892 and all the land-owners of the village became a part of this society. 55 members joined the Panjawar society and handed over the whole of the undivided land to an elected committee which was to utilize the income from the land in taking over the Mortgage held by outsiders. The Registrar reported in 1905 that by taking appropriate measures (planting of grass and trees) the society had saved the considerable fund. In addition the society had taken all the land mortgaged to outsiders at a cost of over Rs. 10,000 and had lent about Rs. 3,000 on short loans on low interest of 6 per cent per annum.\footnote{176}{Annual Report on the Working of Co-operative Credit Societies in the Punjab for the year ending 31st March 1905, p.6, P.S.A.}

The Registrar sought to promote two types of societies-money deposits type and Mianwali type.

The money deposit type had no share capital, but operated with a fixed deposit obtained so far as possible from members and made advances to members at a higher rate of interest than allowed to depositors. This type of societies were meant for the prosperous villages of the Central Punjab. The Mianwali society was considered more suitable for poor areas. The capital of these societies was raised by voluntary grain subscription credited to the member’s account. It was not returnable for 10 years. The grain subscribed was partly kept for seed advance at the next sowing and partly sold in order to provide
funds for money advance. In the beginning advances were made only for seed and purchase of cattle. Interest was charged at rates varying from 5 to 16 percent and was generally payable in grain.\footnote{177 Annual Report on the Working of Co-operative Credit Societies in the Punjab for the year ending 31\textsuperscript{st} March 1905, p.7, P.S.A: Report on the Administration of the Punjab and its Dependencies for the Year, 1904-05, p.28, P.S.A.} The registrar, however, soon realized the practical shortcomings of both the money deposit and the Mianwali society. Both these societies were not a viable solution to the problems of the Punjab. The Mianwali society offered no inducement for the volunteers. In the money deposit type the element of true co-operative was lacking. It was more a philanthropic institution than a co-operative credit society.

The type of society that came into favour in 1906-07 in the Punjab was the one inspired by the system popular in Italy. It was adopted with certain improvisations in the Punjab.\footnote{178 Annual Report on the Working of Co-operative Credit Societies in the Punjab for the year ending 31\textsuperscript{st} March 1905, p.7, P.S.A.} The members became share-holders by payment of 10 percent compulsory annual instalments. No dividends were to be declared for 10 years. In these societies the working was not necessarily supervised by government officials, but by the \textit{Zamindars} of Gurdaspur.\footnote{179 Pandit Harikishan Kaul, \textit{Report on the Census of India 1911}, Vol. XIV, Part 1, Civil and Military Gazette Press, Lahore 1912, p.46.} The registrar regarded the share capital societies as possessing special advantages from the point of view of the Punjab agriculturist. The share capital societies encourage thrift among members who began to regard their shares as investments.\footnote{180 Brij Narain, \textit{Indian Economic Life: Past and Present}, p.407.} The dividend which members of this type of societies would receive after 10 years was like a pension for the sake of which
they were ready to forego their petty extravagances. At the same time an institution was created which financed them on reasonable terms.¹⁸¹

Soon thereafter, the districts of Ludhiana, Shahpur, Gurdaspur Multan and parts of the Ambala district were added to the list of districts where share capital societies existed. After a good deal of spade work the ball was set rolling. By the close of 1905 about a dozen societies were registered in the new areas. In 1906 the number of societies rose to 24. The vigorous propaganda initiated by the registrar and his staff bore fruit. On 31st July 1906 as many as 171 societies with a membership of 17,533 and a working capital of Rs. 3,01,808 were registered.¹⁸² It was soon evident that the new idea was gaining slow but sure acceptance in the rural areas. During the next five years there was an exponential increase in the number of societies and their membership. Consequently by 1911 the number of co-operative societies increased to 1088. This period was a period of consolidation and growth and of setting up the frame work for its future development.¹⁸³ In 1911-12, number of societies was 1769 where as in 1918-1919 it rose to 3997 and number of members from 93,169 to 1,49,040.

¹⁸² V. Dass Vij, Co-operation in Punjab, p.44.
¹⁸³ V. Dass Vij, Co-operation in Punjab, p.45.
### Table

#### Agricultural Co-operative Societies

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Societies</th>
<th>No. of Members</th>
<th>Working Capital in Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1906-07</td>
<td>117</td>
<td>17533</td>
<td>301808</td>
</tr>
<tr>
<td>1907-08</td>
<td>258</td>
<td>21881</td>
<td>451216</td>
</tr>
<tr>
<td>1908-09</td>
<td>316</td>
<td>23429</td>
<td>891544</td>
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<tr>
<td>1909-10</td>
<td>706</td>
<td>38604</td>
<td>1862996</td>
</tr>
<tr>
<td>1910-11</td>
<td>1088</td>
<td>61423</td>
<td>3685097</td>
</tr>
<tr>
<td>1911-12</td>
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<td>93169</td>
<td>7321926</td>
</tr>
<tr>
<td>1912-13</td>
<td>2845</td>
<td>133780</td>
<td>10809404</td>
</tr>
<tr>
<td>1913-14</td>
<td>3333</td>
<td>160892</td>
<td>18429906</td>
</tr>
<tr>
<td>1914-15</td>
<td>3216</td>
<td>155250</td>
<td>13237233</td>
</tr>
<tr>
<td>1915-16</td>
<td>3267</td>
<td>154065</td>
<td>13663843</td>
</tr>
<tr>
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<td>141666</td>
<td>14824635</td>
</tr>
<tr>
<td>1917-18</td>
<td>3413</td>
<td>129544</td>
<td>14070943</td>
</tr>
<tr>
<td>1918-19</td>
<td>3997</td>
<td>125040</td>
<td>13752460</td>
</tr>
</tbody>
</table>

**Source:** Data for preparing this table has been taken from the Annual Reports on the Working of Co-operative Societies 1905-06 to 1911-1919.

However some glaring drawbacks were experienced during this period of four years of experimental time. The chief among them was the myopic vision of the policy makers. The officials were concentrating on the rural problem and aimed primarily at mitigating angularities of agricultural credit. But the movement could not remain confined to these narrow limits without realising its full potential. The large and growing industrial population was equally debt ridden and also needed help not only in the matter of redemption of old debt but also in the accessibility to credit for necessary trade or domestic purposes at reasonable rates of interest. Since the word ‘credit’ appearing in the preamble to the Act had served to make the movement predominantly a
credit movement, non-credit types of co-operative.\textsuperscript{184} Activity could not be organized, nor could co-operative finance be made available for their purpose. In actual practices the example of credit societies had led to diversified activities connected with distribution and for purposes other than credit. Thus its short sightedness and limited scope were the first weak points in the act. There were of course a few societies for meeting the needs of artisans and industrial workers in towns and cities. Similarly, urban credit societies were making some progress but they were mostly started by the middle classes. A second glaring defect in the Act of 1904 was that there was no provision for the formation of Federations or Central Societies for supervision or Control of Finance and for purposes other than credit.\textsuperscript{185}

Furthermore, this Act provided only for the institution of primary societies. The policy makers did not envisage establishment of central agencies like Central Banks necessary for the financing of primary credit societies. Distribution of profits in rural societies with unlimited liability was totally prohibited.\textsuperscript{186} The act of 1904 was certainly very limited in its scope. It restricted the function and objective of these societies and confined it to supplying funds to their members. Many of its provisions as interpreted by the courts turned out to be hindrances to the further expansion of the movement. Lastly, the division of societies into rural and urban was entirely rational. To remedy these

\textsuperscript{186} P.C. Bansal, \textit{Agricultural Problem of India}, Delhi, 1977, p.277.
and other defects of a minor nature which experience had brought to light, the government of India re-examined the whole position in 1911-12 and decided to have fresh legislation with a view to widening the scope of the old Act.\textsuperscript{187}

The development of co-operative societies during the period under review took place under the Act of 1904, but after deliberations by framers of policy, the Act was repealed and replaced by the co-operative societies Act of 1912, which introduced important changes in law. Experience had shown that, in spite of the basic usefulness of the earlier Act for the agriculturists, there were certain respects in which it was desirable to extend its scope beyond the immediate context. There were some points in regard to which amendment of the detailed provisions was required. The first change effected is indicated by the difference between the rubrics of the two Acts. With the spread of co-operative credit societies, there had arisen in many parts of India a desire to treat these societies as a prototype and to initiate other societies of a co-operative type. The new Act accordingly provides for the registration under the Act of any society “which has as its object the promotion of the economic interests of its members in accordance with co-operative principles, or any society established with the object of facilitating the operations of such a society.”\textsuperscript{188} The importance in the Act of 1912 lies in introducing the much need breadth to cooperative societies. It provided for the formation of societies the members of which could be other co-operative societies as well. The

\textsuperscript{188} S.C. Ray, \textit{Agricultural Indebtedness in India and its Remedies}, p.416.
grouping of societies in this way into unions, and their financing by means of central banks, used to be an essential feature in European systems, and action on these lines had already been found feasible in most provinces of India. The other changes introduced by the new Act were inconsequential and do not call for special notice.189

The Act of 1912 marks an important development in the evolution of policy in the Punjab. The Act of 1912 gave a great impetus to the co-operative movement. This act recognized non-credit forms of co-operation affecting purchase, sale, production, insurance, housing etc. It also recognized three kinds of central societies as distinguished from primary societies namely, (i) unions, consisting of primary societies for mutual control and credit, (ii) central banks, consisting partly of primary societies and unions and partly of individual, and (iii) a provincial bank, consisting of primary societies, unions and central banks for supply of credit. The liability of a society, which aimed at provision of credit and the majority of members of which were cultivators, was to be unlimited. The new Act considerably boosted the progress of the co-operative movement. From hereon the number of societies and their members went on increasing steadily.190

Four new central banks were set up during the year 1919, one in Gujranwala, one at Jhang and two in Sialkot of the older central banks. The Jullundur bank had a most successful year, and lent out large sums to other districts besides Jullundur. The Gurdaspur central bank

had made steady progress and lent out Rs. 1,85,000 during the year and recovered Rs. 1,31,000. A dividend of 10½ percent was paid. This bank required loans to be repaid in yearly or half-yearly instalments, whereas most of other central banks, including Jullundur, advanced longer period loans, more in the nature of a cash credit. The Gurdaspur practice, though a little inconvenient to the borrowing societies, had the advantage of ensuring prompt and punctual repayments. The Gujrat bank had made a very satisfactory advance and acquired Rs. 27,500 deposits as against only Rs. 5,800 at the close of the preceding year. It had paid a dividend of a percent. The Shahpur Bank at Sargodha was still a source of disappointment for it had indeed borrowed more money and made it possible to help more societies towards the end of the year but it had not yet won the confidence of the local investor. The Hoshiarpur bank which was composed solely of deposits lent for a fixed term, had increased its funds. The Jhang bank had funds amounting to Rs. 27,000 which were sufficient at that time for the needs of the district. The two tehsil banks in Sialkot were new and promised to be most useful organizations. The one at Daska already had funds amounting to Rs. 37,000.\textsuperscript{191} Central Bank at Jhelum had augmented the funds but the money had not been carefully lent out.

Ninety-seven new rural societies were started during the year 1912. Jullundur had been able to lend 3 ½ Lakhs to 10 other districts,
of which Rs. 1,84,000 came from village societies. Under the impact of the new system the village societies were moving steadily towards financial independence. Hoshiarpur made greater strides than any other district. One-hundred and sixty-eight new societies were started in one single year, but the organization of the district was able to supply all these new societies with funds without asking for outside help. These funds amounted to nearly 8 lakhs and an increase of 5 lakhs during the year comprised almost entirely of the share capital and deposits of the village societies, and the repayments of loans were so good that the societies were obliged to refuse a large number of proffered deposits. One hundred and twenty-five of the new societies were in Dosuya tehsil, and as the rate of interest charged by money-lenders varied from 25 to 37 percent it can be imagined how this tehsil had benefited by the introduction of co-operative societies.

Progress in Gurdaspur had also been steady. The number of village societies had grown by 65, the central bank had increased its funds, and an important development in the organization of the societies had been made by the registration of four unions embracing 128 societies.

A great impetus was given to the spread of co-operative societies by the opening of a central bank at Gujranwala. New societies in this district had hitherto been helped by the Jullundur banks, but Gujranwala became self-supporting especially as a union had been

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193 Annual Report on the Working of the Co-operative Credit Societies in the Punjab for the Year ending 31st July 1912, p.9, P.S.A.
started among a number of societies at Longowal in the colony part of
the district. The number of societies in Ambala district had increased
during the year 1912 from 21 to 60. Money had mostly been obtained
from outside from the Jullundur district but the societies soon formed
a capital of their own. In Jhang there had been practically no increase
in numbers, but the existing societies were for the most part in a
stronger position than they were before, and the central bank was
obtaining more funds.\textsuperscript{194} The Co-operative Societies Act of 1912 was an
incremental step in the direction of improved policy for co-operative
societies. The important recommendations of the recommending
committee were that loans should be advanced for productive purposes
only and the authorities should monitor that they were properly utilized
in fulfilling the purposes for which they were advanced. Moreover, loans
should be issued to members only and in no case to non-members. The
office bearers of the societies must render honorary service to the
institutions and they should not be paid any remuneration in any form.
Honesty was declared to be the main plank of co-operative credit. The
area of operation of a society should be well defined so that mutual
knowledge, social cohesion and co-ordination amongst the members
could be maintained. These were considered to be the guiding
principles of a co-operation association.

The committee held that in a large and amorphous area these
factors will gradually be lost sight of compromising the founding

\textsuperscript{194} \textit{Annual Report on the Working of the Co-operative Credit Societies in the Punjab for the Year ending 31st July 1912}, pp.10-11, P.S.A.
principles of the society. Much depended on the knowledge of co-operative principles and right selection of members. An important directive principle enshrined in the recommendations was that membership should be taken to exclude undesirable elements for people who have no integrity of purpose and character would prove detrimental to the society. In addition to this it was recommended that outright trading based on speculative spirit should not be permitted in society to avoid eventual losses. Much emphasis should be laid on the habit of thrift and saving amongst the members with a view to collecting more capital from within the co-operative and credit should not be too cheap and facile so as to lose its very essence and basic character.

The pace of founding co-operative societies should not be too fast or hastened from outside. The urge for a co-operative way of life should come from below rather than foisted from above. Regular and timely collections of the society’s dues was equally important as was timely distribution of loans to the needy. The organization of non-credit societies such as sale and purchase, cattle insurance societies etc. should be encouraged. All societies should focus their attention on the creation of reserve funds in them.\footnote{Annual Report on the Working of the Co-operative Credit Societies in the Punjab for the Year ending 31st July 1912, p.10, P.S.A.} Bad and dishonest management should be avoided and eliminated through regular and exhaustive audit and repeated inspections so that it might create the required
confidence among the public in the movement and also a climate in favour of co-operative societies.\textsuperscript{196}

There was a spontaneous positive response to the proposed recommendations. Thus the recommendations of the MacLagan Committee report were of far-reaching importance. The government saw merit in the recommendations as they were refined guidelines derived from years of experience. The Punjab Government also tried to implement these recommendations in a vigorous way. It was on account of this that co-operative movement between 1914-1919 made unprecedented progress. The agriculture societies multiplied during these years. Non-agricultural societies also showed remarkable progress. In 1919 there were 172 societies with 13,264 members and a working capital of 5,39,560. The Registrar of co-operative societies in the Punjab in his report submitted for the year ending 31\textsuperscript{st} July 1920 listed 240 non-agricultural credit societies with a membership of 14,891, and working capital of Rs. 5,55,809.\textsuperscript{197}

The number of non-agricultural societies increased to 401 with the working capital of Rs. 12,02,840 in 1922.\textsuperscript{198} In 1923 the number of non-agricultural societies increased to 444 and working capital of about Rs. 17 lakh and had a membership of 19,426.\textsuperscript{199}

\textsuperscript{197} \textit{Annual Report on the Working of the Co-operative Credit Societies in the Punjab for the Year ending 31\textsuperscript{st} July 1920}, Lahore, 1920, p.27, P.S.A.
\textsuperscript{198} \textit{Annual Report on the Working of the Co-operative Credit Societies in the Punjab for the Year ending 31\textsuperscript{st} July 1922}, Punjab Government Press, Lahore, 1922, p.4, P.S.A.
\textsuperscript{199} \textit{Annual Report on the Working of the Co-operative Credit Societies in the Punjab for the Year ending 31\textsuperscript{st} July 1923}, Punjab Government Press, Lahore, 1923, p.6, P.S.A.
Table
Non-Agricultural Co-operative Societies (1919-1923)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Societies</th>
<th>No. of Members</th>
<th>Working Capital in Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1919</td>
<td>172</td>
<td>13264</td>
<td>539560</td>
</tr>
<tr>
<td>1920</td>
<td>240</td>
<td>14891</td>
<td>555809</td>
</tr>
<tr>
<td>1921</td>
<td>303</td>
<td>15371</td>
<td>874273</td>
</tr>
<tr>
<td>1922</td>
<td>401</td>
<td>15594</td>
<td>1202840</td>
</tr>
<tr>
<td>1923</td>
<td>444</td>
<td>19426</td>
<td>1712532</td>
</tr>
</tbody>
</table>

Source: This table has been taken from the Annual Reports on the Working of Co-operative Societies 1919-1923.

Thus co-operative movement during the period 1919 to 1923 not only proved to be successful but got an overwhelming response. There was not only considerable development and multiplication of Agricultural co-operative societies but equally so was development marked in the formation of non-agricultural societies. Of course, the latter societies comparatively had a late start but their progress was rapid. The non-agricultural societies not only helped the poor working class labourers in earning their livelihood but also led to the general uplift of the life of the masses. These societies not only saved them from failing into the clutches of the money-lender but also brought immense all round relief. These societies proved helpful in uplifting the social life of the people too. Although it took years for agricultural policy pertaining to credit and indebtedness of agriculturists to evolve, in the end the societies based on co-operative principle helped to alleviate and mitigate the chronic problems confronting the agricultural sector. In analyzing the response and reaction to the policy related to institutionalization of agricultural financing it can be said that the
system of the western institutional financing provided viable and long
term alternatives to the traditional systems and their success can be
measured on a long term basis. The same can be said of modern
technique of farming which were introduced to replace and less
productive ones.