Chapter- II

Historical Background Of Co-operative Movement

In the horizon of co-operative movement from ages we have seen several sections cropped up, namely the rich and the poor, the haves and have-nots, the exploiters and exploited, powerful and powerless, producer and consumers, etc. Under this condition, there has always been a struggle for fairness, justice, freedom and equality. The class-difference has been responsible for several kinds of socio-economic and political upheavals, which changed the patterns of society and turned the course of history of nations. The reactions often pervaded the boundaries of the country of origin, affecting several other countries and assuming global significance. The origin of the co-operative movement was one such event – arising out of a situation of crisis, exploitation and sufferings. The history of modern civilization is, in fact, the history of co-operation, for without it social and economic progress would have been unthinkable.¹

Origin of Co-operative Movement

Co-operative movement owes its origin to England, where a great philosopher, Robert Owen (1771 – 1858) gave the idea of “self help through mutual help” to mitigate the sufferings of the exploited class of the society. Co-operative movement in England, which has given direction to the whole world, was the brain ware of an exploited class of persons during the Industrial Revolution in Britain. The first ever effort towards the formation of a co-operative organisation was made by 28 flannel weavers, popularly called the Rochdale Pioneers, at the Rochdale near Manchester in England in the year 1844.² In consequence of the unprecedented depression of the textile trade, some of the workers were thrown out of employment and in order to rescue them from starvation, the society started production on an extensive scale in confidence and expectation of the support of their fellow co-operators. Hereafter, according to the suggestion of one of the members, Charles Howarth, the co-operators decided to start a store, wherein all sales would be made on
cash, at market rates and only such members would be admitted who were loyal to the store. These 28 persons saved one pound each in one year and in 1844, started “The Rochdale Equitable Pioneers’ Society” registered under the Friendly Societies Act. This was the first ever co-operative society established with an intention of carrying on business. So, the Rochdale Pioneers became the founders of a world-wide self-help movement, namely, the Co-operative Movement. Nothing succeeds like success. Later on, Rochdale crossed the boundaries of England and its concepts were introduced under other economic systems in diversified economic fields and activities to fight exploitation. Besides consumer co-operatives, which had its beginning in England, workers co-operatives were constituted in France, agricultural credit co-operatives in Germany and Denmark, service co-operatives in other industrialised European countries. In Germany, when Serfdom was abolished at the time of the French Revolution, the Serfs became owners of cultivable land. But they did not have the means to cultivate land for producing different crops. They were compelled to borrow from usurious moneylenders at high rates of interest for their cultivation. At that time Von Raiffeisen organised the agricultural credit co-operative for the farmers which was popularly known as the “Raiffeisen Union”. Also Herman Schulze organised co-operative in Germany with the objective of providing relief in sickness and purchase of raw materials to small artisans. During the same period Luigi Luzzatti organised “People’s Banks” in Italy. These co-operative organisations led by Raiffeisen, Schulze and Luzzatti formed the core of a credit movement in the sphere of rural and urban. These societies were able to compete effectively with economically more powerful moneylenders and traders. Furthermore, in the area of co-operative movement the establishment of Robo Bank in Netherlands and D.G.Bank in Germany contributed significantly in protecting the men with modest means from the clutches of the money lenders and as well as inculcating the habit of thrift and savings amongst them. Today there is hardly any country, which has been left uncovered by co-operative movement, and there is no area of economic activity where co-operative principles have not yet registered a mark.
Co-operative Movement in India

In India, the co-operative movement can be said to have begun with the passing of the co-operative credit societies Act in 1904 by the Imperial Legislative Council. Co-operative credit is not a foreign plant made to grow on Indian soil. The co-operative form of social and economic activities had been in existence since time immemorial. The oldest literature like Vedas, Upanishads, Bhagawat Purana, Kautilaya’s Arthashastra etc, referred about joint actions of the people. The ancient Indian scripture Rig Veda states in the following lines:

“May you all have common purpose
May your hearts be in unison
May you all be the same mind
So that you can do work efficiently well.”

The Arthashastra of Kautilaya provides “Whoever stays away from any kind of co-operative undertaking shall send his servants to carry on the work, shall have a share in the expenditure but none in the profit.” In the words of Plato – “In seeking the good of others, we find our own.” The laws of Manu too reveal that ancient Indian had craft guilds. Co-operation is the foundation of Hindu Joint Family System. The Hindu joint family set up is the best example of co-operative endeavors and philosophy.

“Co-operation” is not new to India since there found functioning some types of non-official indigenous co-operatives here and there even before the enactment of the Co-operative Credit Societies Act, 1904. In ancient India there were four forms of traditional co-operatives: “Kula”, “Gramam”, “Shreni” and “Jati”.

According to G.P. Srivastava the working of these societies consist of ..........

“Historically speaking, Kalu was the first form of co-operative activity that emerged in Indian society. It was both a political and socio-economic organisation in which kinsmen, friends and relatives worked co-operatively to promote their economic, social and political interests. With the expansion and stabilisation of society, the aspects of economic and
social co-operation gradually narrowed to the limits of joint family; which has survived to the present day. 

“Co-operation at the level of Grama emerged after kula became a stabilised unit. The Grama Sabha was a co-operative organisation, which undertook works for the economic and social progress of the village and looked after the improvement and maintenance of village lands, pastures, roads, highways, paths, common gardens and grasslands. Artisans and cultivators often combined for purpose of co-operative working in their respective fields. The members jointly undertook buying or selling or obtaining equipments, tools, and seeds other in terms of production.”

“The Shreni is a later development which emerged in the post Vedic era. It was a co-operative and economic organisation of artisans, industrial and handicraft workers, merchants, traders, bankers, agriculturists, house- builders, workers in construction job and building contractors. Shrenis worked not only as a banker and merchant guilds but also as charitable institutions.”

“Co-operation at the level of Jati was mostly for social purpose as education, charity and relief work but when a particular occupation, craft or trade become associated with a particular caste, the system evolved a pattern in which co-operation became an important aspect of the economic activities of the community.”

The old system of raising money in South India was known as ‘Chitfund’ and ‘Nidhis’. The ‘Bunda’ system in Vidarbha, the ‘Phad’ system in Kolhapur and ‘Gonchi’ system in Andra Pradesh are some other systems of organised effort at mutual help and co-operation. Nidhis and chit funds were organised by knowledgeable people, as early as 1850, in order to relieve from the clutches of moneylenders. The official first started the Nidhis in Madras town in the fifties of the last century. This practice was in existence throughout the Madras presidency, worked out in mobilising small amounts. Nidhi is a type of mutual loan associated where every member contributes monthly one rupee or its multiple usually for a period nearly four to seven years. The amount so collected is utilised for granting loans to members. The Nidhis grant loans in rural areas primarily against
personal security. The system failed due to their organisation and management by less knowledgable people.

In 1901, there were 200 Nidhis with a membership of 36000 and working capital of more than 2 crores and these were found mostly in Uttar Pradesh and Bengal. An excellent example of early co-operation may be found in a society which was started in village Panjawar of hoshiarpur district of Punjab. This Society was established in 1892 for controlling the common land of the villages in Punjab for the benefit of the co-sharers, which was under practice till 1922. Further another co-operative society was found working in 1895 in that province with 22 villages and hamlets under it.

In 1894, Agricultural Banks were introduced in Mysore, which were an association of landholders under strictly co-operative principles. The purpose of formation of this association was to extend loan to members for agricultural development and redemption of land. By 1898, the number of such associations rose to 64. Similar banks were started by Lord Macdonald in Uttar Pradesh. In 1902, the numbers of such banks were about 203. A few village banks were started in the united provinces under the ordinary company Law, and in 1903 there were some beginning of distributive co-operation in Calcutta.

With all this background, the Government of India, realising the urgency of introducing the co-operative movement, appointed a special committee under the chairmanship of Sir Edward Law to make suitable proposal for enacting a special law for the purpose. The result was the passing of the Co-operative Credit Societies Act of 1904, which began the era of co-operation in the Indian economy. Before the enactment of co-operative credit societies Act, 1904, Sir William Wedderburn and Mr. Justice M.G. Ranada submitted to the Government a proposal in 1882 for starting co-operative credit societies in rural areas. Though the scheme did not gain official favour as such, its essentials were embodied in the Land Improvement Loans Act of 1883 (XIX of 1883) and Agriculturist Loans Act, 1884 (Act XII of 1884) respectively, under which agriculturists could borrow money from Government for productive purposes at an interest rate of 6 per cent per annum. This system was known as Takavi (Taccavi) loans.
The first step towards the introduction of the co-operative movement in India was undertaken by the Government of Madras. The Madras Presidency presented a hopeful field for experiment because a number of indigenous societies called “Nidhis” were running successfully at that time. In 1892, the Government of Madras deputed Frederick Nicholson, a civil servant, to study the working of the village banks in Germany and to submit report on the same so that similar measures to cover the demand for rural credit in India could be introduced. Accordingly, he submitted the famous report in two volumes in 1895 and 1897, wherein he strongly advocated for the introduction of co-operative societies in India with unlimited liabilities. As per his recommendation “the future of rural credit lies with those, who being of the people, live among the people and yet by their intelligence, patience and energy are above the people.” After referring to the work done by reformers like Raiffeisen, who had introduced a popular system of rural credit in Germany, he summed up his report, “We must find Raiffeisen in India.” In addition, his plea was further strengthened by the findings of the Indian Famine Commission of 1901, which recommended that credit facilities should be made available to the farmers to improve agriculture and the formation of mutual credit association. Moreover, efforts to improve the lot of the peasants were also made in other parts of India, especially by some British civilians viz. Dupernex in U.P., Maclagan in Bengal.

Origin of Urban Credit Movement in India

The origin of the urban credit movement in India can be traced to the close of the nineteenth century. Urban co-operative movement on Global Horizon tasted the sweet of success following the success of urban credit institutions between 1855 to 1885, organised by Herman Schulze and Luigi Luzzatti of Germany and Italy respectively. Likewise, the origin of urban credit movement in India dates back to 5th February 1889 when under the guidance of Shri Vithal Laxman Kavthekar, a mutual aid society was formed by some middle class Maharastrian families in Baroda state. The name of the bank was “Anyonya Sahakari Mandali”. When the co-operative credit societies Act, 1904 conferred legal status on credit societies, the first urban co-operative credit society was registered in October 1904. This happened in Conjeevaram in Madras province (now known as Chennai). Subsequently, the Betegiri Co-operative Credit Society in the Gadag Taluka
of the Dharwar district (now in Karnataka) was the first urban credit society registered in the Bombay province on 18th October, 1905 followed by Bangalore City Co-operative Credit Society in Mysore State in December, 1905, and a few others by the close of year 1906. The Bombay Urban Co-operative Credit Society registered on 23rd January, 1906, which was the parent of the Bombay State Co-operative Bank. The first urban co-operative bank in Tamil Nadu, namely “Kancheepuram Urban Bank” was started in Chengalput district in October, 1904.

The rise of urban co-operative credit societies did not gain the required encouragement until 1915, when the Maclagan Committee pointed to the potentialities for the organisation of such societies as a means of training the urban upper and middle classes in ordinary banking practices. The version of the committee is very much pertinent to mention in this respect. It says: “Urban credit societies, might serve useful purpose in training the upper and middle classes to understand ordinary banking principles”. The failure of local joint stock banks in the country at that time gave an impetus to the growth of urban co-operative credit societies. Many urban credit co-operatives came into being in Bombay and Madras provinces during the period 1919 – 1938. The economic boom generated by the Second World War (1939 -1945) provided a stimulus to the growth of urban banks in India.

Growth of Urban Co-operative Movement in West Bengal

In India, Bengal (undivided) is one of the leading states in introducing co-operative movement. Co-operative movement in Bengal as in other parts of the country was started with the enactment of the Co-operative Credit Societies Act of 1904 by the Imperial Legislature. For the past hundred years, co-operation has been playing a remarkable role in West Bengal (named after partition), in the economic upliftment of the people, particularly those belonging to weaker sections and those residing in rural and urban areas. The urban co-operative movement in Undivided Bengal was started with the establishment of the Premier Co-operative Credit Society of Calcutta, Khulna Amla Society and Midnapur Amla Society. Premier Co-operative Credit Society of Calcutta was started by the employees of Macenon Macenjee and Co. on 12.05.1905.
The progress of urban co-operative credit movement in West Bengal can be explained from the viewpoint of following phases:

1st Stage (During 1905-06 to 1910-11):

The growth of urban co-operative credit movement in undivided Bengal between 1905 and 1911 was moderate. The scenario of the progress for this period can be elaborated like this:

Table 2.1

Progress of Urban Co-operative Credit Societies in Bengal during 1905-06 to 1910-11

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Credit Society</th>
</tr>
</thead>
<tbody>
<tr>
<td>1905-06</td>
<td>4</td>
</tr>
<tr>
<td>1906-07</td>
<td>4</td>
</tr>
<tr>
<td>1907-08</td>
<td>19</td>
</tr>
<tr>
<td>1908-09</td>
<td>29</td>
</tr>
<tr>
<td>1909-10</td>
<td>37</td>
</tr>
<tr>
<td>1910-11</td>
<td>47</td>
</tr>
</tbody>
</table>

Source: Radha Gopal Chakraorty - "British Amal – O-Bangalar Samabay"; p 172.

It is evident from the above table that by 1911 the number of co-operative societies in Bengal increased to 47. This stage was a period of initiation and expansion of credit societies in Bengal. Some important co-operative societies which were found functioning during the post co-operative credit societies Act, 1904 period are: Premier Co-operative Society Ltd. (12.5.1905), Customs Preventive Service Co-operative Credit Society Ltd (7.1.1909), Anderson Wright and Company Urban Co-operative Credit Society Ltd. (24.6.1909), Union Co-operative Credit Society of Calcutta Ltd (3.11.1909), The Co-operative Credit Society of the Port Trust of Calcutta (13.3.1910), Customs General Co-operative Credit Society Ltd. (18.8.1911), Calcutta Central Telegraph Office Co-operative Credit Society Ltd. (6.7.1912), East Indian Railway Credit Society Ltd. (23.11.1912), The Duncans Co-operative Society Ltd. (16.5.1913), Postal Co-operative Credit Society Ltd. (21.5.1915), Calcutta Corporation Co-operative Credit Society Ltd. (1916), Bengal Chemical Samabay Samity Ltd. (18.5.1917), Bengal Secretariat Co-operative Society.
Both the Ranaghat People’s Co-operative Bank and Joynagar-Mazilpur Co-operative Bank were established in 1913.

**2nd Stage (During 1919-20 to 1928-29):**

In the year 1919-20 the number of non-agricultural credit societies were 124. Out of these 27 were functioning in Kolkata. The statistical information concerning to progress of urban co-operative credit movement during 1919-20 to 1928-29 in Bengal (Undivided) given in Table 2.2 shows the clear picture of the movement.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Societies</th>
<th>No. of members</th>
<th>Share capital (Rs. in lakhs)</th>
<th>Working capital (Rs. in lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1919-20</td>
<td>124</td>
<td>37484</td>
<td>13.15</td>
<td>42.16</td>
</tr>
<tr>
<td>1920-21</td>
<td>148</td>
<td>44014</td>
<td>16.33</td>
<td>55.83</td>
</tr>
<tr>
<td>1921-22</td>
<td>162</td>
<td>52341</td>
<td>19.00</td>
<td>67.00</td>
</tr>
<tr>
<td>1922-23</td>
<td>186</td>
<td>62070</td>
<td>22.50</td>
<td>83.00</td>
</tr>
<tr>
<td>1923-24</td>
<td>223</td>
<td>72553</td>
<td>26.50</td>
<td>97.69</td>
</tr>
<tr>
<td>1924-25</td>
<td>257</td>
<td>82078</td>
<td>29.90</td>
<td>117.47</td>
</tr>
<tr>
<td>1925-26</td>
<td>289</td>
<td>99300</td>
<td>36.19</td>
<td>146.11</td>
</tr>
<tr>
<td>1926-27</td>
<td>333</td>
<td>105921</td>
<td>40.54</td>
<td>164.33</td>
</tr>
<tr>
<td>1927-28</td>
<td>358</td>
<td>119918</td>
<td>46.20</td>
<td>N.A.</td>
</tr>
<tr>
<td>1928-29</td>
<td>410</td>
<td>148028</td>
<td>52.47</td>
<td>N.A.</td>
</tr>
</tbody>
</table>


It is apparent from the above table that by 1928-29 the number of co-operative societies in Bengal increased to 410 with a total membership of 148028. The working capital rose to 164.33 lakhs in 1926-27. During 1919-29 the number of societies increased by 231 percent, while membership and working capital increased by 295 percent and 290 percent respectively. During this period the movement continued to make a rapid progress as may be seen from Table 2.2. The urban co-operative banks (initially they were registered as society) registered during this period were: The Kalna Town Co-operative Bank (1917), Baidyabati Sheoraphuli Co-operative Bank (1920), The Shibpur Co-operative Bank (1921), The Hooghly Co-operative Credit Bank (1921), Krishnanagar City Co-operative Bank.
(1921) Konnagar Samabaya Bank (1923), Bally Co-operative Bank (1925), Bantra Co-operative Bank (1927), Panihati Co-operative Bank (1927), Uttarpara Co-operative Bank (1927), Bansabati Co-operative Bank (1928), The Nabadwip Co-operative Bank (1929), Budge Budge Nanghi Co-operative Bank (1929), etc.

3rd Stage (During 1929-30 to 1938-39)

During this period the co-operative movement entered the next phase, which was marked by the great depression of the thirties. The economic crisis resulted in a catastrophic fall in price particularly of agricultural commodities, which adversely affected the economic conditions of the farmers. Their repaying capacity dwindled considerably. The demand for loans increased while over dues mounted up.

Table 2.3 clearly depicts that the progress of the urban co-operative movement in Bengal during the period 1929-30 to 1938-39 was quite unsatisfactory both in terms of number of members as well as working capital.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Societies</th>
<th>No. of members</th>
<th>Share Capital (Rs. in lakhs)</th>
<th>Working Capital (Rs. in lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1929-30</td>
<td>456</td>
<td>147575</td>
<td>58.90</td>
<td>N.A.</td>
</tr>
<tr>
<td>1937-38</td>
<td>562</td>
<td>246688</td>
<td>109.69</td>
<td>544.00</td>
</tr>
<tr>
<td>1938-39</td>
<td>593</td>
<td>256959</td>
<td>116.12</td>
<td>572.00</td>
</tr>
</tbody>
</table>

Source: RadhaGopal Chakraborty - "British Amal - O' Bangalar Samabay"; p184.

During the year 1938-39 the loan advanced by these societies to the members were Rs.341.83 lakhs while loan recovered were Rs.311.47 lakhs. These figures stood at Rs.329.98 lakhs and Rs.279.67 lakhs respectively in 1937-38. Profit, which was Rs.11.92 lakhs in 1937-38, reduced to 11.84 lakhs in 1938-39. With the pace of co-operative development in West Bengal further other urban co-operative credit societies were incorporated during this period, viz, The Boral Union Co-operative Bank (1930), Dhakuria Co-operative Bank (1930), The Bishnupur Town Co-operative Bank (1930), The
Santragachhi Co-operative Bank (1931), The Khatra People's Co-operative Bank (1932), Khardah Co-operative Bank (1933), The Union Co-operative Bank (1936), Kasundia Co-operative Bank (1939) etc.

4th Stage (During 1939-40 to 1945-46):

This phase of the growth of co-operative movement began after World War II. The following table depicts the progress of the movement:

Table 2.4

Progress of Urban Credit in Bengal during 1939-40 to 1945-46

<table>
<thead>
<tr>
<th>Year</th>
<th>1939-40</th>
<th>1944-45</th>
<th>1945-46</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Societies</td>
<td>608</td>
<td>615</td>
<td>628</td>
</tr>
<tr>
<td>No. of Members</td>
<td>265331</td>
<td>292089</td>
<td>302692</td>
</tr>
<tr>
<td>Share Capital</td>
<td>122.29</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Reserve Capital and other fund</td>
<td>77.11</td>
<td>97.55</td>
<td>106.91</td>
</tr>
<tr>
<td>Working capital</td>
<td>616.00</td>
<td>702.28</td>
<td>755.00</td>
</tr>
<tr>
<td>Loan (on mortgage)</td>
<td>361.78</td>
<td>297.38</td>
<td>405.08</td>
</tr>
<tr>
<td>Loan recovery</td>
<td>319.22</td>
<td>152.32</td>
<td>215.43</td>
</tr>
<tr>
<td>Bad debt</td>
<td>59.16</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Profit</td>
<td>(+)12.79</td>
<td>(+)9.69</td>
<td>(+)10.57</td>
</tr>
</tbody>
</table>

Source: Radhagopal Chaborty - "British Amaal-O- Bangalr Samabay; p186.

Table 2.4 shows that by 1945-46, the number of societies in Bengal increased to 628 with a total membership of 302692 and working capital of Rs. 755 lakhs. During the period 1939-40 to 1945-46 the member of societies increased by 3.30 percent, while membership and working capital increased by 14 percent and 22.50 percent respectively.

Now, it is becoming clear that the co-operative movement in Bengal, like other parts of the country, was started with the enactment of Co-operative Credit Societies Act,
1904. After the enactment of this Act, primary co-operative credit societies were set up in urban areas with the objective of promoting sustainable banking practices among the lower and middle-income strata of the urban population. The urban co-operative movement in Bengal was introduced with the establishment of the **Premier Co-operative Credit Society of Calcutta**, which started its operation on and from 12th May 1905.

The history of urban co-operative credit society depicts that the initially co-operative movement was started in India to ameliorate the conditions of rural masses. But with the passage of time it was soon realised that co-operation offers solution to the difficulties encountered not only by the village farmers but also the townsman in respect of credit as well as other aspects of their daily life.

During the pre-independence period, the Indian farmers had to depend for loans required for agricultural activities exclusively on village moneylenders at an exorbitant rate of interest. Many of them were not being able to repay such debts on time and they were left landless by transferring land to the moneylenders. So, the main objective of co-operative societies in those days was to protect the people with small means from the debt trap of the moneylenders by means of providing financial assistance at a reasonable rate of interest and on easy terms and conditions. However, the progress of this movement till 1954 exactly 50 years of its existence was not so impressive. The best critical assessment of co-operative movement has been given by the **All India Rural Credit Survey Committee** in 1954, which stated, "Co-operation has failed, but Co-operation must succeed."
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7. Hough, Dr. E.M, *The co-operative movement in India*, p.43 (Quoted from Mathur, Dr. B.S, *Co-operation in India*, Sahitya Bhawan, Agra, p.2).
13. Ibid., p.25.
15. Ibid., p.25.
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19. Ibid., p.15.

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