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Sinclair, John F.

Madison, Wisconsin: Democrat Printing Company, State Printer,  
1912

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ADVANCE SHEETS  
WISCONSIN STATE BOARD OF PUBLIC  
AFFAIRS

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REPORT UPON CO-OPERATION  
AND MARKETING

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Part II  
Co-Operative Credit

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JOHN F. SINCLAIR.



MADISON  
DEMOCRAT PRINTING COMPANY, STATE PRINTER  
1912

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STATE BOARD OF PUBLIC AFFAIRS

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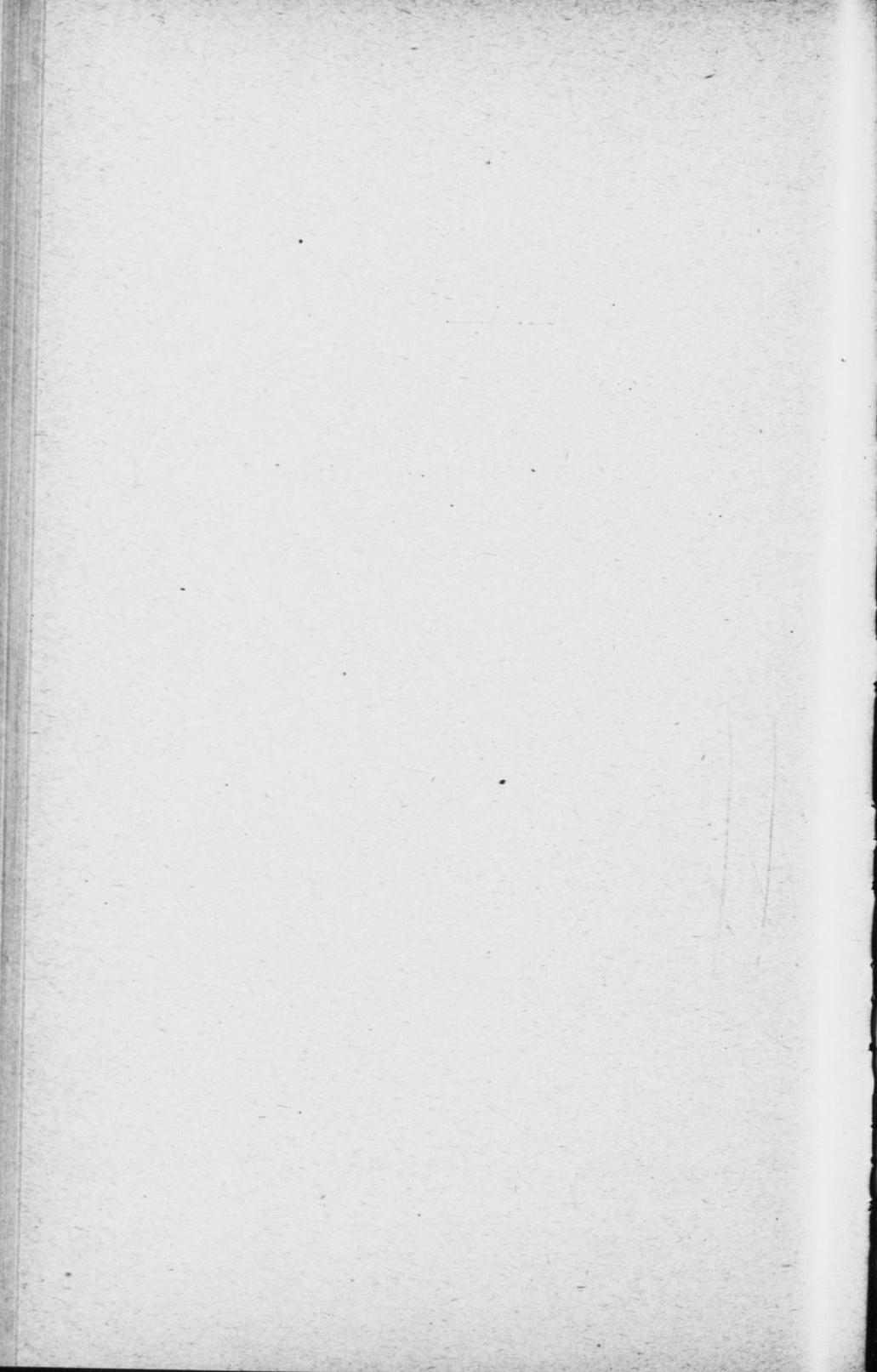
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# CO-OPERATIVE CREDIT

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## INTRODUCTION

The problem of supplying adequate credit facilities to farmers is now receiving a great deal of attention from business men, economists, bankers, politicians and social workers. Commercial and bankers' associations are beginning to study the question at home and in other countries, where various systems of credit associations are now in successful operation.

So little has hitherto been seriously attempted in the United States in this matter that the American public is generally unfamiliar with the great benefits cooperative credit associations bring to the farmers and laboring men in many European countries.

If this pamphlet succeeds in showing the farmers of this state that they deserve as much consideration in the matter of obtaining working capital at reasonable rates as do other business men, it will have served its purpose; for no sooner will the farmers awaken to their true situation than they will make an effective demand for improvement.

That there is a real need and considerable demand for better credit facilities for the farmer, may be seen by the fact that each of the three prominent political parties has a plank in its platform urging the immediate study of the question in European countries and elsewhere with a view to devise a scheme or schemes adaptable to the various sections of this country.

The recent meeting of the Rural Credit Conference at Nashville, Tennessee, and the course of action there decided upon is especially encouraging.

If the farmer ever hopes to secure a system of credit whereby he can obtain as much capital as his property and his good name warrants, he must first familiarize himself with what it will mean to him, so that he will have the necessary enthusiasm to push his demands to a successful culmination.

Madison, Wisconsin,  
September 4, 1912.

## CHAPTER I

## CO-OPERATIVE CREDIT IN GERMANY.

Germany leads the world in the development of coöperative credit associations. Two of her leading systems, the *Landschaften* and the *Raiffeissen*, will be discussed in this pamphlet.

1. THE *LANDSCHAFTEN* SYSTEM.

When the temporary use of capital is transferred from one person to another, the nature of the assurance that it will be restored is of the utmost concern to the lender. It may be backed up by the legally enforceable promise to relinquish the ownership of land, it may be based on the pledge of other forms of property, or it may rest simply in the known integrity and financial ability of the borrower or those who vouch for him. It is, in fact, this very test of security which distinguishes the various systems of coöperative credit. The principle common to them all, however, and the one which entitles them to be considered coöperative, is that all those who participate as borrowers unite in a collective guarantee of the repayment of each other's individual obligations, thereby obtaining their collective loans at a lower interest rate.

The earliest form of collective borrowing on a large scale in Germany was secured by land held in large estates, so that the number of borrowers was relatively small and the task of holding them to account comparatively easy. No less than 140 years ago the *Landschaften* (or "*Ritterschaften*" as they are now frequently called) were organized in Prussia.

The circumstances were these: A series of ruinous wars, culminating in the Seven Years War (1756-63) had reduced the greater part of Prussia to a pitiful state of devastation. Since much of the land in Prussia had long been held in large tracts, by the nobility, the cost of this war-glory had fallen

chiefly on their shoulders and Frederick II was not adverse to making what amends he could without sacrifice to himself. Hence in 1769 at the suggestions of a Berlin merchant named Buring, he executed a royal decree enabling these noble proprietors to secure capital to revive their agriculture by jointly guaranteeing the loans which they seem unable to raise on their own behalf. The following year he went even further, when he forced the noble landowners of a large part of his domain to join compulsory mutual-guarantee societies, which were in turn united in the "Generallandschaft" of Silesia. The interesting feature is that this high-handed scheme worked, owing to the pressure of "moral suasion" which the king brought to bear on the money holders.

Such was the success of this new departure that between 1778 and 1788 it was applied successfully to the nobility of four other provinces—Brandenburg, Pomerania, West Prussia and East Prussia. In addition to these five early societies some ten more have since been organized in Prussian territory.<sup>1</sup> Nine of them were authorized by the various provincial governments, one started on its own initiative. The later ones did not enjoy some of the privileges conferred on the original five, until 1897, when the Prussian law authorized the extension of such privileges to all Landschaften to be founded before Jan. 1, 1900. In brief, these have the right, in case of nonpayment, to administer the mortgaged property or sell it at compulsory auction without recourse to the courts, and even in case of its deterioration, to seize the movable property of the debtor.

Such powers are not excessive considering the semi-official character of these societies, inasmuch as they are subject to rigid inspection by the state,<sup>1</sup> through the Prussian minister of agriculture. The employes also stand before the law as indirect employes of the state with authority to sign certain public documents. That these employes fill a place of great trust and responsibility may be seen from the fact that it is they who make the appraisals on which the whole system of loans rests.

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<sup>1</sup> Counting the three societies in Hanover, which has since been added to Prussia, there are thus eighteen in that monarchy now, of which ten are in the five eastern provinces.

<sup>2</sup> The field of operations of each society generally coincides with some administrative unit, such as the province.



Although the state exercises a strict supervision, somewhat similar to our national bank inspection, though more thorough, the societies have ample powers of self-government provided for by their liberal constitutions and charters. In formal organization all agree in having a general assembly of landowners and a committee of management,<sup>2</sup> but in actual practice, many of the societies are little more than federations of almost wholly independent administrative groups. For instance, of the five "old-established" societies, only the one in East Prussia is not thus decentralized. The Silesian bonds, instead of bearing the primary guarantee of the principal Landshaft, are guaranteed both by the local groups which issue them and the general society.

This brings us to the most interesting and most vital feature of the system—the nature of the joint guarantee. Originally the first claim of the owner of a delinquent Landshaft mortgage was against the individual giving it, with a subsequent claim against the society, twofold in the case of Silesia, as we have just seen. Later, however, the societies took over the direct responsibility for payment of principal and interest, and the tangible security behind the evidences of indebtedness given each investor became an undivided interest in the mortgage-assets in the society's vault. In other words, investors received general lien bonds<sup>1</sup> instead of particular lien mortgages.

An important element in the security behind these bonds was the element not tangible—that is, the collective promise of the landlords to advance funds enough to pay them promptly on maturity, whether the loans providing such funds were promptly repaid so as to meet them at maturity. Their liability to make good deficiencies, recouping their advances gradually from the mortgaged properties, was unlimited, in the sense that they might be called on for the full amount necessary to keep the society square with the world, whatever

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<sup>1</sup> Of these officials only the sundics, or lawyers on the committee of management, receive any pay except an annual stipend to cover traveling and incidental expense.

<sup>2</sup> A peculiar feature of the negotiation of the individual loans is that the borrowers—except from the three societies in Hanover—do not receive money but bonds after their application is accepted. In other words, only the Hanoverians are exempt from all labor in finding the actual cash which in most cases is needed. However, the other societies do run loan-offices (called "banks") to help their members secure money.

fraction this might be of its total bond-indebtedness. However, the charters of the more recently organized societies have been more lenient in authorizing the limitation of liability to a certain proportion (generally 5% to 10%) of the total bonded debt of the society.

In any well managed society such a proportion should be well in excess of the total delinquencies of individual borrowers at any one time. But as an additional safeguard, whether their liability is limited or unlimited, the societies uniformly invest interest earnings, over and above expenses of management, in "quick assets", easily made available in time of need. These surplus funds are the first to be used in such emergencies.

Naturally the more limited the personal liability, the more important is the method of valuing the tangible part of the security. As already mentioned, the appraisal of the net worth of the bond is made by *Landschaft* employes. Usually, however, they simply adopt the figures of the government tax officers, who make an estimate of the average net revenue obtainable by one proprietor from any given area after deducting his legitimate expenses of operation and his cost of living for self and family. The net revenue thus ascertained is reduced by the amount of the annual tax and the remainder is multiplied by fifteen (capitalized at  $6\frac{2}{3}\%$ ) to arrive at the value of the land. At first the societies loaned only half this value, but now they generally advance two-thirds of it when desired. The *Landschaften* accept nothing but first mortgages, although they assist whenever possible in paying off other liens in order to make way for their own.

The above would certainly seem to be a conservative method of valuation, and, in point of fact, so honestly have the appraisals been made, that the bonds have always commanded a wide market<sup>1</sup> at comparatively low rates of interest. During the troublous times of 1868—78, they all had to be sold to net 5%, but the interest rates show a constant tendency downward. The year 1901 saw the last of the  $4\frac{1}{2}\%$  bonds, although it also witnessed an increase in the amount of the four per cents. A large proportion now pay only 3 to  $3\frac{1}{2}\%$ . The rate charged individual borrowers is generally  $\frac{1}{2}$  to 1% higher than the rates

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<sup>1</sup> They were recognized as legal trustee investments in 1897.



paid investors. The difference serves to pay expenses and augment the safety reserve funds, which are really "undivided profits."

While the *Landschaften* were founded originally for the benefit of the nobility and reached their greatest development in Prussia, it must not be understood that their operations were limited to this class alone. As to the classes served, it is notable that two at least of the "old established" unions (Silesia and East Prussia) have long served peasants as well, and most of the newer societies were organized to serve all comers from the start.

In addition to the Prussian unions, seven others are operating in other German states, among them the Rostock Association for the two Mecklenburgs, the Stuttgart Union for Wurttemberg (the only semi-public institution of its kind in South Germany) and others in Brunswick and Saxony.

Two important institutions which, although not semi-public in the eyes of the law like the 25 *Landschaften* already described, offer practically the same benefits. These are (1) The National Society of Mortgage Credit at Berlin (formerly of Stettin); and (2) the Bavarian Agricultural Bank of Munich. These differ in many respects. For instance, the former loans money on city property, while the latter deals largely with the owners of small country tracts. Again the Berlin society had, in 1907, only 651 borrowers, averaging \$7,453 each, while at the same time, the other had 14,675 borrowers, averaging \$1,483 each. The following shows how this Bavarian bank has adapted itself to the needs of all kinds of farmers; it is a matter of record that of the 14,583 strictly mortgage loans it granted during its first decade (1897-1907) 287 were on holdings of less than 1 hectar,<sup>1</sup> 8,653 were on holdings between 1 and 10 hectares, 5,605 were on holdings between 10 and 100 hectares, 38 were on holdings of over 100 hectares.

Owing doubtless to the petty character of much of its business and its high expenses, the Bavarian bank has received very substantial state aid, though nominally a private concern. It has benefited by two state loans at very low rates, one of \$200,000 at its foundation, and an outright subsidy toward the expense of management.

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<sup>1</sup> A hectar is approximately 2½ acres.

Such is the history and organization of the Landschaft system to date. An idea of the present scope of the system can be gained if we note that the total amount of bonds issued by the Prussian societies alone increased over fivefold between 1866 and 1906. Although a small part of this increase is undoubtedly due to the acceptance of one-third instead of one-half value as a margin of security, the greater part of it is due to the increase in the extent of territory mortgaged and in the number of those served. Meanwhile the management was such that the Prussian reserves of "undivided earnings" increased eightfold. To do the system more complete justice we must add that the Prussian bonds had increased from \$111,718,992 in 1866 to \$652,677,963 in 1909, while the other similar institutions had \$185,000,000 outstanding at the same time.

The Landschaften make no attempt to supply credit for short periods of time nor on other security than land. The function of this form of credit is discussed later in this chapter; our present effort is to learn how the need for it is met in Germany. We find it handled on a monumental scale by two general systems of coöperative societies, named after their founders Raiffeisen and Schultze of the town of Delitsch. Although neither is exclusive, on the whole the membership of the former is composed of farmers and that of the latter of city dwellers.

We shall treat these two systems separately; it should be noted however, that in organization and conduct of affairs, they differ very little. The most notable distinction is that the liability of members of Raiffeisen societies is usually unlimited, while in Schultze-Delitsch societies it is commonly limited. They agree, however, in observance of the following principles:

- (1) Membership is limited to trustworthy, responsible people.
- (2) Security for the repayment of loans, other than the borrower's promissory note, is obtained where possible. This may be in the form of a deposit of collateral (often stock certificates) under pledge, or a written endorsement by others, or occasionally a mortgage on land.
- (3) The application of the borrowed funds is limited by agreement to remunerative purposes likely to return both principal and interest with a surplus besides.

(4) The amount which may be loaned to any one member, whatever his security, is generally fixed at the start by each society.<sup>1</sup>

The rigor with which these principles are enforced varies considerably with local and personal circumstances. Where coöperation is well established and the grade of honesty and intelligence high, the requirements both as to collateral security and an advance agreement as to the disposition of the loan, are relaxed. On the whole the above will hold true of both systems which, unlike the *Landschaften*, have been important factors for little more than a generation.

## 2. THE RAIFFEISEN SYSTEM.

The founder of the societies of typically rural scope was Frederick W. Raiffeisen of Weyerbusch. He showed an unusual combination of shrewd common sense and grasp of practical affairs, with a weakness for speculative theorizing. This led him to dogmas which caused a division among his followers when the attempt was made to apply such doctrines to the practical program. These independents finally united in 1883, into a separate federation centering at Darmstadt (originally at Offenbach), "the faithful" having already combined in 1877, in another federation with headquarters at Berlin (originally at Neuwied.) Finally, in 1905, however, after many years of more or less open hostility, the two became reconciled and the Berlin group (Federation of Agricultural Coöperative Societies) went in with the Darmstadt group, the new organization keeping the latter's name—The National Federation of German Agricultural Coöperative Societies. As this society includes a large proportion of all local organizations in Germany the credit unions predominating and as it publishes the most instructive reports, the statistics given will refer to its condition in 1909,<sup>2</sup> except where otherwise stated.

Disregarding particulars of organization for the present, let us return to the practical features of Raiffeisen's system which have really united his followers from the start, however much doctrinal interlopers may, at times have alienated them. These principles, in addition to those already noted as characteristic of the urban societies, are:

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<sup>1</sup> This has been fundamental, since it was required by law.

<sup>2</sup> These are the latest statistics available for use.

(1) Restriction of membership to people living within such a limited area that they are well acquainted with each other and may keep a mutual watch on the uses made of borrowed funds.

(2) Gratuitous management.

(3) Joint and several unlimited liability.

Of these principles the first is of such obvious value that further comment is unnecessary except to say that at last accounts the average membership of societies in the National Federation was but 92. The legal minimum is seven and not a few groups have exactly that number.

In the second place, the management is as inexpensive as it is democratic and simple, its simplicity being due in a large measure to the small size of the societies. The ultimate authority is the general meeting, although some of the immediate details of administration are in charge of the council of supervision and more particularly the committee of management. The indispensable employe, and frequently the only one, is the treasurer, who is usually the only man paid a salary. The committeemen are sometimes paid when the business is very extensive.<sup>1</sup> But on the whole so economically are affairs administered that the expense of management (\$151.84 per bank) represents only about 18/100 of 1% on the total transactions, i. e., the sum of incomings and outgoings.

So faithfully have the Raiffeisen societies kept to the principle of unlimited liability that 92% of them are thus organized. The few remaining have favored limited liability, except a very few who have adopted unlimited liability to make supplementary payments.

In addition to the foregoing, there are several other practices of the rural societies which deserve attention, although not emphasized by them as first principles. Among these is the indifference generally shown in the past to the ratio of invested capital to the aggregate of other liabilities.

Raiffeisen commenced by excluding shares altogether, in order to avoid any danger of capitalistic speculation and, in fact, up to 1876 none of his banks had shares.

“Being obliged in that year to comply with the Imperial law which compelled coöperative societies to have foundation capital,

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<sup>1</sup> They and the council of supervision are elected by the general meeting and often include the best educated persons of the district, whether farmers or not.



he sought to evade the law as far as possible and fixed the shares at a maximum value of 10 marks. The Darmstadt federation on the other hand recommended comparatively large shares, but in no case higher than 500 marks. In very few cases, however, does the value of the share exceed 100 marks."<sup>2</sup>

There is to-day, then, less than 4% of the total liabilities of the rural banks on stock account. For greater safety and stability, however, there is much settlement in favor of increasing this proportion, again indicating the wisdom of the early Darmstadt men.

Possibly the greatest single hindrance to such increase of stock investments is the fact that many societies, in order to show a large "net profit," not only cut their management expenses to a minimum, but actually do not pay for the use of their share-capital. It seems a strange discrimination to pay interest on deposits which may be demanded back in a few months, or a year, or even to-morrow, if the lender so desires, while refusing interest on capital to which the owner relinquishes his right of recovery forever; but such is frequently the practice. Thus, in the year 1908-9, of the \$2,000,000 surplus realized by all the banks, after paying expenses, 5% was returned as interest on more than \$5,000,000 of invested capital. In all cases, the rule is not to pay a larger percentage on the societies' liabilities than it receives from loans to others.

Let us examine the financial condition and operations of these credit societies in the National federation as to their liabilities. Of these there are some six classes, as follows:

- (1) Invested share-capital,
- (2) Reserve funds—the accumulation of past "undivided profits,"
- (3) Deposits subject to withdrawal on demand,
- (4) Time deposits,
- (5) Sums due the central coöperative banks, whether as loans or deposits,
- (6) Sums due other institutions or individuals not members, whether as loans or deposits.

In the statistics available the above are not all shown separately, nor are all duplicate items on both sides of the balance

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<sup>2</sup> Outline of the European coöperative credit systems, 1912, p. 10, issued by the International Institute of Agriculture, Rome, Italy.

sheet eliminated so as to show the net amount of working liabilities. However as the total of these is a very small fraction of the whole, we may consider the total liabilities shown as practically equivalent to working capital.

The sources of this working capital, then, were for the National Federation in 1909 as follows:

	Total	Average per member	Approximate percentage of total
(1) Share capital .....	\$5,321,309.05	\$4.61	1.25
(2) Reserve .....	12,133,494.42	10.55	2.5
(3) Demand deposits .....	45,000,416.39	39.13	10.
(4) Time deposits .....	346,437,192.53	214.28	75.
(5) (6) Other liabilities .....	51,762,015.95	45.01	11.25
Grand total.....	\$460,654,428.34	.....	100.

This brings out at a glance some interesting facts. The permanent capital, not subject to withdrawal, is less than 4% of the total liabilities, although the tendency is to increase this proportion, as already remarked. Moreover, that portion which is subject to immediate withdrawal by members is only 10%, while presumably not half of item 5-6 is subject to call by others. In other words, it is safe to say that not over 15% of the banks' working capital can be demanded of them suddenly. They are therefore, little likely to suffer from any serious runs. Especially is this the case when the great bulk of their demand deposits belong to their own members, and when nearly 90% of the working capital comes from these same members. In fact, if we regard these banks as a unit instead of individually, it becomes evident that their members furnish more than 90% of this capital, inasmuch as a considerable and growing portion of the 11.25% of other liabilities represents temporary transfers of surplus funds between the banks themselves through the agency of their central banks.

It is equally important, to observe how the banks dispose of the capital which they collect in such a tremendous aggregate. We note that, whereas the combined share-capital, reserves and time deposits, totaled not quite \$365,000,000, the banks had loaned out at the same time some \$5,000,000 less or not quite \$360,000,000. In other words, they not only did not reloan (as a whole) their demand deposits nor capital from outside sources

at all, but two-sevenths of what they did loan was returnable any time they might need it, as the following statement shows:

Loans repayable on demand.....	\$85,000,000	28%
Time loans .....	275,000,000	72%
	<hr/>	<hr/>
	\$360,000,000	100%

The period for which these time loans run, it should be explained, varies from six months to two or three years and averages about one year. But as the borrowers become more familiar with the legitimate uses of credit, there is a constant tendency to increase the proportion of loans for indefinite periods but repayable on demand. Personal endorsements seem to be the preferred form of security given.

Reference has already been made to central banks acting as agents for the local societies in the readjustment of their temporary surpluses. The general organization which binds these societies together is twofold. Each element is independent of the other, and yet both work in harmony, by reason of the fact that the same persons are frequently officers in the corresponding departments of each. On the one hand, there are the federations, or central societies, for purposes of education, extension, and mutual defense; on the other, the central institutions which serve as clearing houses and have already been mentioned as "central banks."

The federations, as a rule, embrace the rural societies within a certain political boundary, generally the province, as do the *Landschaften*. Some 41 of these provincial federations, grouped in turn into four larger central institutions are affiliated with the National (Darmstadt) federation. The latter on June 1st, 1910, comprised no fewer than 78 central coöperative societies, 1885 societies for miscellaneous purposes, 2028 dairies, 2077 distributive societies, and 12,894 credit unions, or a total of 18,962. And of the other 4,883 societies, making up the total of 23,845 in Germany on that date, 2,868 were related to some federation other than the National. Thus a total of 21,830 societies (or 92%) were organized within federations. Of the smaller independent federations the most important is that of Wurtemberg, mustering 1,383 societies.

The 12,614 credit unions reported by the National federation for the previous year (1909) had 1,163,186 members, or an



average of 92 each. And their total volume of business (incomings and outgoings) was reported as \$1,000,000,000 approximately.

Although these provincial and central federations themselves enjoy large powers of self-government, they have authority to investigate the affairs of the local societies through traveling inspectors who make frequent visits. This added function was conferred on them by the law of 1889.

## CHAPTER II

## AGRICULTURAL CREDIT ASSOCIATIONS IN IRELAND

The workings of rural credit associations of Germany have been discussed in considerable detail. Ireland has practically nothing new to offer upon the subject, as most of her ideas were borrowed from the continent.

## NUMBER AND NATURE OF IRISH CREDIT ASSOCIATIONS.

There are three hundred credit associations in Ireland. They handle no permanently contributed capital and hence have no stock-liabilities. They borrow at very low rates from outside lenders, who are not so familiar as themselves with each man's reliability, and reloan to members in small amounts at slightly higher rates according to the local standing of each. These outside agencies from whom the money is first obtained are:

- (1) The Department of Agriculture or the Congested District Board—a governmental body having in charge nine of the poorest counties in Ireland
- (2) Individual lenders
- (3) Joint-stock banks

As to the educating and uplifting influence of these associations, Mr. R. A. ANDERSON testifies:

“As a practical means of teaching the value of thrift to the poor communities their value can scarcely be overestimated. Farmers and cotters are taught the difference between borrowing to make and borrowing to spend. In investing the small loans which are granted, the borrower has the advantage of the advice of a committee of his own neighbors, who, being responsible for the repayment of the loan, are extremely careful to see that the object is a proper one, and that the money is applied to the purpose for which it is granted.”

Although of only very recent origin in Ireland, the societies now have out an aggregate of about \$1,500,000, mostly in small loans.

## CHAPTER III.

## CO-OPERATIVE CREDIT IN THE UNITED STATES

In striking contrast to the highly perfected systems of coöperative credit associations existing in Germany, is the almost total absence of such organizations in this country. The movement, however, is gaining headway here and we may look for its rapid extension in the near future. Only one state, Massachusetts, has so far made any legal provision for coöperative banks.

## MASSACHUSETTS CO-OPERATIVE BANKS.

Massachusetts passed an act, chapter 419 of the laws of 1909, providing for the establishment of coöperative banks. The character and powers of the associations organized under this act are as follows:

(1) Seven or more citizens associated by written agreement may, with the consent of the board of bank incorporation, organize a credit union.

(a) The words "credit union" cannot be used by any other group or association.

(2) This union may receive the savings of its members in payment for a stock-interest or on deposit; may lend to members at reasonable rates of interest the funds so accumulated; and may undertake other authorized activities within its province.

(3) Credit unions shall be subject to supervision by the board of bank commissioners.

(a) No deposits can be received unless the credit unions' by-laws have been approved by this board.

(4) The by-laws shall specify, among other things, the conditions of deposit, the duties of officers, the number requisite for a quorum, etc.

(5) Each of the stockholders has one vote. Their ultimate authority in the management of the association's affairs is

practically complete. They may decide directly any question of policy; on appeal of two members they may, by majority vote, reverse decisions of the credit committee or board of directors.

(6) At the annual meeting the members elect a board of five or more directors; a credit committee of three or more; and a supervisory committee of three. No director may be on either of these committees.

(7) The credit committee must approve every loan of the association's money. Any applicant may appeal from them to the board of directors.

(8) The directors exercise general management subject to review. They elect the officers from among their number, a president, vice president, clerk and treasurer. They may also expel any member for due cause after a hearing, in which case the money contributed must be returned.

(9) The supervising committee has oversight of financial affairs and, in addition, may review acts of the officers, directors and credit committee. By majority vote they may call a stockholders' meeting to review any official act or revise any by-law. They may also, by unanimous vote, suspend any officer or member of the credit committee, being required in the latter case to call a meeting of the society within seven days of such suspension.

(10) None of the committee members or directors may receive compensation, except the officers.

(11) The funds of the association must be either loaned to members or deposited in savings banks or trust companies incorporated under the Massachusetts law, or in national banks located within the state.

(12) Dividends may be declared by the directors just before the annual meeting. But before taking such action, they must set apart 20% of the net income fund against contingencies or losses during succeeding years. The members at any annual meeting may increase the proportion of earnings to be held back for this fund, and whenever it equals or exceeds the contributed capital in amount, they may reduce this proportion.

(13) The union may be dissolved at any meeting especially called for the purpose and attended by two-thirds of the members, providing the directors have unanimously recommended

it and providing also that not more than ten members object thereto, either in person or in writing. In the event of dissolution, a committee of three shall be elected to liquidate the assets.

(14) Within twenty days after the last business day of October in each year, every union must file with the bank commissioner a report signed by the president, the treasurer and a majority of the supervisory committee, with a penalty of \$5.00 for each delinquent day.

In commenting on this minutely detailed law the bank commissioner, in his report for 1910, enumerates as the salient purposes and essential features of credit banks the following:

(1) Reciprocity among the members and a mutual concern for the common welfare of all, whether borrowers or lenders.

(2) Equality of personal influence exerted in voting.

(3) Membership easily gained and democratic. The par value of shares should be small (it averages about \$5.00), in order to induce membership. Installment payments to be allowed where they constitute any great encouragement.

(4) Protection against individual disloyalty by restricting the amount any one member may deposit, thus insuring against temporary embarrassment through the sudden withdrawal of large sums.

(5) The restriction of loans to strictly remunerative purposes, each applicant to state the intended use of his proposed loan and measures provided whereby it may be determined whether the loan is actually used for that purpose.

(6) The limiting of membership in any one society to those who are intimately acquainted with each other, so that the responsibility of each may be well understood.

(7) The insistence upon sound character as the first qualification for membership. The recognition of integrity and personal industry as the only safe and lasting basis of credit. For this reason, personal earning-power rather than property in sight may be considered in passing on occasional loans where the tangible security seems insufficient, especially if other members will consent to guarantee repayment.

(8) Punctual meeting of all obligations on maturity to be systematically required of all members.

However accurate the foregoing may be as a statement of the



true fundamentals of short-time credit societies, it seems manifest that the Massachusetts law as it now reads is needlessly prescriptive and the machinery it requires excessively cumbersome. Undoubtedly it embodies the fundamental ideas of the Raiffeisen system,<sup>1</sup> which is championed by the Hon. Alphonse Desjardins of Levis, Quebec, the man who led the agitation resulting in the passage of this act. But that his original criticism of the particular form of the act did not prevail seems evident from his later statement to the present author: "I am free to tell you that it does not realize my ideal, in that it is too complicated and therefore discouraging for the poor people seeking incorporation."

Quite probably this is one important reason why in the two years between the passage of the act in 1909 and October 31, 1911, only seventeen credit unions were organized; reporting on the latter date 1,623 members and total assets of \$27,038.35. Every one of these is a city union, no beginning having been made so far in the country districts.

Mention must be made of one credit union in Manchester, N. H., as showing the possibility of operating these societies without special legislation. This union also is the fruit of Mr. Desjardins' work, being organized primarily for the benefit of French workingmen.

In connection with the absolute lack of credit unions in this country it is interesting to note that although the United States Department of Agriculture issued a report of such rural associations in 1892, it has since that time done nothing to encourage their establishment.

Recently, however, certain private individuals and associations have given this subject of rural credit considerable attention. The American Bankers' Association, for instance, has recently appointed a committee to study the subject. Possibly the inspiration for this move came most directly from Hon. Myron T. Herrick, a prominent banker and ex-governor of Ohio, who is an influential member of this committee.

But more promising of concrete results was the Rural Credit Conference, called together recently by the Southern Commercial Congress. This was held at Nashville, Tenn., during the

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<sup>1</sup> Cf. section on "Coöperative Credit in Germany."

first week in April, 1912, and was attended by men from twenty-seven states. Some came as chosen delegates, others on their own initiative; but all classes were represented, bankers, economists, business and professional men and farmers from far and near.

The main purpose of this gathering was to learn of the European experience with rural credit. The central figure of the meeting was the Hon. David Lubin, formerly of Sacramento, California, but now American representative on the International Institute of Agriculture, in Rome, Italy. In his opening address he explained the principle underlying all forms of coöperative credit, namely, that a group of men combining to furnish a collective guarantee can obtain money on that security at lower interest cost than as individuals.

The practical result of the meeting was the decision to send a committee, including two delegates from each state in the Union, to Europe to study credit methods at first hand. The time of this expedition has since been changed from the summer of 1912 to 1913, at the request of the International Institute, so as to allow more time for preparations to make the visit a profitable and instructive one. There is no question but that this first-hand study of European devices will furnish the quickest impetus to the inauguration of practical measures in America and will speed the day when credit will be dispensed coöperatively in the United States.



## CO-OPERATIVE AGRICULTURAL CREDIT IN THE UNITED STATES.

The best book relating to this kind of bank is

WOLFF, H. W., *People's Banks*. Published by P. S. King & Son, London, 1910.

The following bibliography on this form of credit in the United States is inserted because the conditions in this country are so different from those abroad.

### 4. CO-OPERATIVE AGRICULTURAL CREDIT IN THE UNITED STATES.

Compiled by W. E. JILLSON

Madison, Wis., March, 1912

BAILEY, L. H. *Coöperative Banks*. (In his *State and the Farmer*, 1911, p. 128-130.)

The author says: "Banking institutions now exist in this country for the stockholders, who are usually not producers. In other countries there are coöperative associations that find money to use in the making of the crops."

COBURN, F. V. *Credit—Union Banking; The Loan Sharks' Natural Enemy*. *World To-Day*, August, 1909, v. 17, p. 882-83.

Speaks of the Massachusetts law of 1909 and describes credit-unions or "people's banks."

Credit-unions aid to thrift. Clipping from the *Boston Herald*, July 25, 1910.

*The explanation of bank commissioner A. B. Chapin of the Massachusetts law with regard to credit-unions.*

DOS PASSOS, J. R. *Synopsis of Proposed American Credit Foncier*. A pamphlet that describes a plan to establish a gigantic loan and mortgage company of the United States to loan money on real estate.

*How a Credit-Union May be Started*. Clipping from the *Boston Common*, July 8, 1911.

Shows how an organization may be created to take advantage of the credit-union law of Massachusetts.

International Institute of Agriculture. *Adoption and Adaptation of the Raiffeisen System of Rural Coöperative Credit in the United States*.

Correspondence of David Lubin, delegate of the United States with the Southern Commercial Congress and the Farmers' National Congress.

International Institute of Agriculture. *Agricultural Coöperation and Organization in the United States*. (In Bulletin of the Bureau of Economic and Social Intelligence, September 30, 1910, v. 1, p. 211-38.)

Gives reasons for the small development of coöperative credit in the United States.

JAY, PIERRE. *Coöperative Credit*. (In National Conference of Charities and Corrections. Proceedings 1910, v. 37, p. 494-501.)

The author treats of the underlying principles, refers to the Massachusetts law and considers the field for coöperative credit in the United States.

KEYS, C. M. *Banks for All the People*. World's Work, October, 1909, v. 18, p. 12134-38.

Describes the German system and speaks of the Massachusetts law of 1909. The article says: "In a thousand communities, not only in New England but more especially in the South and Southwest, Raiffeisen banks are badly needed."

LYNCH, E. M. *Coöperative Credit*. Catholic World, August, 1902, v. 75, p. 668-73.

Recommends the Raiffeisen banks for the South.

Massachusetts—Bank Commissioner. Abstract of annual report, 1911.

States that at the close of business, October 31, 1911, there were 17 credit-unions in operation in Massachusetts.

Massachusetts—Bank Commissioner. *Credit-unions*: Statement and suggestions in regard to organizing and managing a credit-union in Massachusetts 1910.

Gives the history and principles of the foreign associations, shows the field for such associations in Massachusetts and sets forth the Massachusetts law of 1909 on the subject.

MYRICK, HERBERT. *Coöperative Banking*. (In his *How to Coöperate*, 1898, p. 178-206.)

The author describes the workings of the Grangers Bank of California, which, he says, is a conspicuous instance of what farmers can accomplish.

NEWTON, R. H. *Story of Coöperative Production and Coöperative Credit in the United States*. (In his *Social Studies*, 1887, p. 85-110.)

Speaks of the Granger banks in the United States, of the Farmers' Coöperative Trust Company of Cochranton, Pennsylvania.

PLUNKETT, HORACE. *Weak Spot in American Rural Economy*. (In his *Rural Life Problem of the United States*, 1910, p. 83-116.)

The author treats of the deplorable backwardness of American farmers in the matter of business combination.

RAIFFEISEN, *Agricultural Banks*. Outlook, July 30, 1910, v. 95, p. 703.

The editorial says: "The Raiffeisen plan, it is evident, contains an idea worthy of transplanting to this country and to its territorial possessions."

*Rural Banking and Coöperation*. Clipping from Northwest Farmstead, n. d.

Claims that in any monetary plan considered by Congress provision should be made for coöperative banks, credit-unions, and agricultural banks.

SCHACKLEFORD. *Proposed Land Mortgage Bank Scheme* presented to the Wisconsin legislature in 1911.

SEVENICH, J. M. *Loan Associations*. Clipping from Wisconsin Equity News, September 25, 1911, v. 4, no. 10.

Explains the methods of the Northwestern Mutual Building and Loan Association of Milwaukee, and argues for a similar organization among farmers.

TAYLOR, L. C. *Farmer's Means of Acquiring Land*. (In his Introduction to the Study of Agricultural Economics, 1909, p. 198-223.)

The author states that the farmers of the United States are in need of a good credit system.

United States—Country Life Commission. *Report 1909*. Senate document No. 705, 60th congress 2d session.

The report says: "A method of coöperative credit would undoubtedly prove of great service. In other countries credit associations loan money to their members on easy terms and for long enough time to cover the making of a crop, demanding security not on the property of the borrower, but on the moral warranty of his character and industry."

