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Rural Banks in Germany—The Raiffeisen System.

In the first half of the past century the small farmers and small artisans of Germany, who could not have recourse directly to capitalists or to banks, suffered severally at the hands of the usurers from whom they procured the credit which was indispensable to the exercise of their business. The seriousness of the situation, rendered more acute by the economic transition which was taking place and was bringing with it a great and urgent need of credit, was clearly recognized by two men, who have deserved well not only of Germany but of the whole civilized world, by devising and putting into practice the best methods of remedying the evil. These were Frederick Raiffeisen, burgo-master of Weyerbush, and Francis Frederick Schulze, better known by the name of Schulze-Delitzsch. The former was the organizer of the rural co-operative banks, which have spread into all civilized countries; the latter of the urban popular banks.

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These two forms of co-operative banks, although somewhat different in their organization, are based on the common fundamental principle of organizing the would-be borrowers themselves in order that they may obtain by combination the credit facilities which they would have sought individually in vain.

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Such co-operation has made possible, on the one hand, the collection amongst the members themselves, in the form of shares or of small deposits, of a considerable amount of capital which serves to supply the credit requirements of their fellow-members. On the other hand, the co-operative credit societies, being regularly managed and subject to rigorous supervision, have been able to procure credit on favorable terms from outside sources of capital.

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The credit given by the Raiffeisen Banks, which are rural in character, and by the Schultze-Delitzsch, which are mainly urban, is usually personal credit. Although they occasionally grant loans on mortgage for long periods, they generally confine themselves to the making of loans for comparatively short periods (in the Raiffeisen banks usually for one year, with a maximum of three or five years; in the Schulze-Delitzsch banks, three or six months) on personal security or on the security of personal property.

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Loans on mortgage for long periods are, however, granted by another type of co-operative credit society, of which we shall have occasion to speak later, viz.: the Landschaften and Ritterschaften. These are associations formed by land-owners with the object of obtaining credit for land improvements by the issue of mortgage bonds.

We shall describe in this chapter the organization and working of the Raiffeisen banks.

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Section 1.—Organization of the Rural Banks.

The fundamental principles of the Raiffeisen system are:

- (1) Unlimited liability of the members.
- (2) A restricted area of operations.
- (3) Gratuitous management.

To these principles, which he wished to be always applied with the utmost rigor and without allowing any exception, Herr Raiffeisen added a body of moral and educational doctrines.

In addition to the rural banks which follow strictly the Raiffeisen principles, and are combined in a national federation with headquarters at Neuwied (now removed to Berlin), there have also arisen other organizations which, although adopting the fundamental ideas of Raiffeisen, have not accepted the excessive strictness of his rules and have treated as superfluous the mystical doctrines which he had introduced into co-operation. The societies of this type, after having long hesitated between a separate organization and the Schulze-Delitzsch Federation, were finally collected under the guidance of William Haas, into a separate national federation which had its headquarters first at Offenbach and then at Darmstadt.

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The former of these federations became affiliated to the National Federation in 1904, and to indicate the rapid development of the rural banks, we may here state that the number of societies embraced with the National Federation increased from 10,786 in 1904, with a membership of 954,000 and a total business (incoming and outgoing) of 2,490,000,000 marks to 12,614 in 1909 with a membership of 1,163,000 and a total business of 4,456,000,000 marks.

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Certain differences (not, however, very serious) continue to exist between the pure Raiffeisen banks and the societies established on less strict lines. We shall have occasion to speak of these differences in outlining, as we now proceed to do, the leading features of the organization of the Raiffeisen banks. The statements are based upon the reports of the National Federation and the figures relate (except where the context otherwise indicates) to the year 1909 and to the 12,614 rural banks embraced within the National Federation in that year.

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Membership.—The members are farmers, usually peasant-proprietors. The 12,614 rural banks existing in 1909 numbered in all 1,163,186 members, that is, an average of ninety-two members per bank. The number of members per bank varies considerably, however, in different regions, the highest average being in Westphalia, where it reaches 160 members per bank. The minimum

number required by the legal constitution of the banks is seven, and some of the recently-formed banks have exactly this number of members. The highest number of members contained in any one bank is 1,400, but this is a very exceptional case.

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Liability.—The principle maintained by Raiffeisen was that of the unlimited joint and several liability of the members. Whilst for other forms of rural co-operation the system of limited liability is increasingly adopted, the system of unlimited liability is still regarded in Germany as the system best adapted to rural co-operative credit. Of the banks existing in Germany, 92 per cent are based upon unlimited liability and about 8 per cent upon limited liability. A fractional percentage of the banks were based upon an intermediate system, known as the system of unlimited liability to make supplementary payments.

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Shares.—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 co-operative societies to have foundation capital, 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.

In 1909 the average paid-up capital per member amounted to 19 marks. But in this regard also there are great differences as between regions. The necessity of forming a foundation capital is, in fact, not so great in the case of the exclusively agricultural banks, the operations of which are guaranteed by the lands of the members, as in the case of banks which can only offer a personal guarantee.

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Thus in Rhenish Prussia and Hesse, which are mainly industrial, the average paid-up share-capital is respectively 103 and 86 marks, while, on the other hand, the average is lowest in other regions, such as Westphalia and Oldenburg, where it hardly reaches 4 or 6 marks.

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In the societies where the liability is unlimited a member cannot take more than one share; in societies with limited liability, however, he may take many. The value of the shares and, in the latter case, also their number, are fixed by the rules. The shares are re-payable to the members upon withdrawal from the society, and interest is paid upon them at a rate which must not in any

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