

Co-operative People's Banks

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worth mentioning, in spite of an intense propaganda during the last fifteen years, because the law provides that in co-operative banking, the shares are non-withdrawable, while in co-operative distribution they are withdrawable, a distinction that nobody can reasonably explain. This withdrawable feature is a necessity and it has been recognised so in Germany where this form of co-operation was initiated in 1848, and in every other country but England. Therefore, the shares as well as the mere deposits are all withdrawable upon the safeguard of a short notice. But the greatest protection to such a bank comes from its Reserve or Rest Fund, which, as a matter of fact, takes the place of the non-withdrawable capital to be found elsewhere. Great importance must be attached to a rapid accumulation of such a fund, because it will increase the security of the bank, magnify its advantages, insure its existence, contribute to diminish the costs of the loans to the borrowers and augment the dividend of the shareholders. Provision should also be made that in case of dissolution the balance of the Reserve Fund should go, not to the shareholders, but to a benevolent institution in the same locality as the dissolved bank. This should be so provided in order to prevent a hasty dissolution with a view to benefit of the distribution of an amount that may have reached quite a large figure.

The difference between a withdrawable share and a deposit being so slight, why make such a distinction, one might ask? The share represents the saving made for a distant object, or with the desire to accumulate a small capital for old age, or any other similar purpose. Being withdrawable only in case of great necessity, it can be considered as a proper basis for credit, and be used as a security, while it would not be safe to so utilize the deposits because they are made for quite a different object and liable, by force, to be withdrawn at any moment.

Method of Operation

Let us now turn our attention to the mechanism which insures the good working of a co-operative people's bank. It must always be remembered that the members are vested with the supreme power of control and supervision. Being located within the very restricted area of a parish, ward, or a very small district, they can be called at any moment to decide whatever question of great importance that may arise. But for mere daily routine businesses, boards are chosen by the general meeting and entrusted with different duties and powers. Being above all an association of persons, not an aggregation of dollars and cents, each member has only one vote and nobody, except corporations can vote by proxy. No one therefore, can exercise an undue influence either through the multiplicity of votes or through proxies obtained under false pretences.

A Council of Administration is vested with the general management of the affairs of the bank, and with the power to admit or refuse those who apply to be members, and to expel those whose conduct no longer justifies keeping them. The moral qualification being considered as of prime importance, a rigid control has to be constantly exercised with a view to keep the highest possible standard.

A Commission of Credit is entrusted with the sole management of all that concerns the loans and the security to be exacted, the faithful repayment of the loans, the fixing of the rate of interest according to the character and amount

of the sums borrowed. The members of that commission are not allowed to borrow either directly or indirectly, as it is considered very dangerous to vest one with the power of borrowing the money that others have entrusted to his care and wisdom. Rules of a general character of course are laid down for the guidance of that commission in the granting of loans.

Short Loans at First

Loans of short duration should be the only ones agreed to, above all during the first years, because there can hardly be a Reserve Fund of some consequence at such a period, and because the funds being still rather scarce, and perhaps, wants numerous, it is but common sense that loans should be arranged as to afford proper advantage to the largest possible number of borrowing members. But this rule can safely be departed from and loans for a much longer time, say one, two or even five or more years, can very properly be made after the bank has been working for some years, and a thoroughly fair knowledge has been acquired by actual experience of the ways in which the movement of the funds will regulate itself, and when a pretty good Reserve Fund has been accumulated.

The last one called Board of Supervision is vested with very wide powers and like the two previous ones, is directly chosen by the Annual General Meeting to which it is responsible. These supervisors audit the books, control the funds, their utilization, see to the rigid enforcement of all the by-laws, decisions and directions of the General Meeting. It is empowered even with the right to suspend the manager, he being the executive officer, and the members of the Commission on Credit if such an extreme measure is considered necessary to safeguard the interests of the members. The General Meetings should be called at once to take cognizance of the facts of the case and pass final judgment, insuring thereby a direct supervision by the most interested parties.

Results of Experience

A word or two about the regime adopted in connection with the formation of the capital of such banks. France has been the first country in the world to adopt by a distinct law the principle of financial societies with a variable capital, that is to say, a capital that can be diminished by withdrawing shares,

or increased by the subscription of new shares, or the admission of new members. The same system has been adopted in these banks because the very nature of the case made it an imperative necessity, the working classes, be they farmers or artisans, being unable to immobilize their savings in non-withdrawable shares. As the experience of the last half century or more in savings banks has shown that the new deposits have, as a general rule amply compensated the withdrawals, it was considered that to carry out such a system further on by adopting it as a basis for these co-operative banks would not involve any danger, above all when worked out in a small area and among a well known clientele. And so experience has proved that view to be correct and the principle a perfectly safe one. As a matter of fact, it is practically the principle upon which are worked for over sixty years the uncaptialized savings banks of New England, and their success is so well known as to dispense with any comment. But in order to strengthen this regime if need be, it is supplemented by the enforcement of a proviso, whereby a reserve or rest fund is accumulated until it reaches an amount as large as the maximum or, at least, half of the maximum amount of shares paid in at any time. Such reserve fund being the sole property of the bank as an entity, it cannot be divided or diminished and except in cases of losses, makes the position of the society just as strong and as safe as if the shares were not withdrawable.

One Man One Vote

Let us single out very summarily a few of the features that differentiate the organization of a really co-operative people's bank with an ordinary and a mutual savings bank. In a bank, the capital is all powerful, hence the voting powers are based upon shares. In a co-operative bank, it is the individuals who predominate, hence the application of the principle of one shareholder or member, one vote, no matter what number of shares they control. There is no proxy vote, because the bank being formed by residents of one locality only, every one can easily attend the meetings.

In a bank what is considered first is the material security. In a co-operative bank honesty, industrious habits and good character are the prime assets of a would-be borrower, and special care is

taken to ascertain whether or not the postulant is on this account a desirable client. Moreover he must be a member of and interested in the welfare of the bank before being allowed to even ask for a loan, while the ordinary bank does business with the general public.

A bank is in business for profits, no matter if the client should go to the wall. A co-operative bank is an organization having for its main object to protect its members against the extortions of the moneylenders or other financial institutions and even against their own extravagance or ignorance, for it refuses to lend when convinced that the loan would be detrimental to the best interests of the borrower who is compelled to state loyally the purpose for which he borrows.

A co-operative bank eliminates the middleman, the profit hunter and all the advantages are kept for the benefit of the members themselves. Having not the wish or the vanity to attract the public by lavish expenditures on buildings or otherwise, its expenses are kept within rigid bounds and are very small indeed, comparatively speaking.

Successes on Record

A last word on a most important point, of whether or not such banks have been successful and what conclusion their history leads to.

Initiated in Germany about 1848 by two economists of genius, Schultz and Raiffeisen, they have been improved upon ever since and have spread all over the civilized world in a wonderful way. Their total number to-day must be over 50,000, although it is hard to get at exact statistics, precisely on account of this very diffusion in almost every country. The general turnover of such banks in four countries only, Germany, Italy, France and Austria, has reached, in 1908, the huge sum of \$4,562,995,315 and their membership is reckoned by millions. The beneficial influence of such banks among all classes is such that to tell it even in a very brief way would require a much more considerable space than is put at our disposal.

People's Banks in Quebec

The same movement was first started on this continent in the Province of Quebec, Canada, eleven years ago, when with the co-operation of intelligent workingmen and of public spirited citizens, the writer had the honor of organizing the pioneer bank of this kind.

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