# The co-operative Movement in India, 1904-12: Legislative Development

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## Abstract

*"The co-operation is natural phenomena existed in every action of man from early stone age to the present cultural discourse. The idea of co-operation in form of, Sabha, samiti of Vedic age, trading guilds, Indian shreni system, the Nigam, Sangha of Buddhist era, Nidhi and the Puttu-chitti of early 19$^{th}$ century South India were some of the examples of the co-operative system existed in India. The modern Idea of the co-operation first developed in European state of the England and Germany in systematic form. Due to the industrial revolution, capitalism become the main character of the industrialized countries of 18$^{th}$ and 19$^{th}$ century C.E. The legislative provision was given to the co-operative system of England by passing the English Friendly Societies Act which gives the legal status to the co-operative structure of England. Based on the model of the England and on the basis of the recommendation of the famine commission, 1901, in India the Credit co-operative society act was passed in 1904 and this enactment gives the legal status to the co-operative system of India, which first started in the Punjab state of India due the initiation of the Mr. Henry Wolff. After the enactment of the 1904 act, some shortcomings were noticed in the act, and amendment of act of 1904 was done in 1912, which is popularly called the Co-operative Societies Act, 1912, which extended the scope of the co-operative from credit provisions to the non-credit provisions of co-operative movement."*

***Key words:*** *Co-operation, industrial revolution, famine commission, Credit, non-credit.*

## 1. Introduction

The co-operation means, the mutual help is actually the self-help. The legislative meaning of the co-operatives was better mentioned in the definition of Holyoake, the co-operation as per "it is a voluntary concert, with equitable participation and control among all concerned in any enterprise". That means, the co-operative is the system where every one will get equal role and importance in all aspects of the co-operative management and business. As per the Mr. Fay, Co-operative society as an association for the purpose of joint trading, originating among the weak and conducted always in an unselfish spirit, of membership may share in its rewards in proportion to the degree in which they make use of their association". It shows, how the weaker section of the society organized into the group based on the principles of co-operation like equity, democratic control, active participation of the all members of the association of the members.

## 2. Objectives

1. To understand the co-operative movement in India before the enactment of the 1904, Act.

2. To describe the provisions of the co-operative credit society act, 1904 and 1912.

3. To evaluate the effects of the co-operative act on the development and progress of co-operative movement in India.

## 3. Review of the Literature

The work of Calvert, titled, 'Law and principles of co-operation' provides detail information of the co-operative concept and legal frame of the co-operative movement in India from 1904 and its new dimensions. It gives information about the provisions of 1904 and 1912 acts.

The work of the RB Ewbank titled the co-operative movement in India, provides information and understanding about the evolutions and progress of the co-operative ideas in India from ancient past to the 19th century C.E.

In his work, Lallu Bhai Kaji titled, Co-operation in India provides details information about the different commissions, and the conditions of the different types of co-operative sector in this edited book. This works provides a idea about the concept of legislature up to 1912, and its effect on the development of co-operative sector in the India. Besides this, the other literary works gives me the understanding that, no work with the co-operative Movement in India, 1904-12: Legislative Development, is published.

## 4. **Perception of the co-operation**

The co-operative movement had transferred from the idealist concept to the practical system from different stages to address the economic challenges of the lower strata of the economic structure. It was an order in which the moral ground was prepared to face the economic challenges created due to the strong hold of the capitalist over the economic components like production, distribution and consumption. The theories which make an effort to make a permanent solution to the contest between labour community and capitalist become failed effort.

The other things need to give importance was the shortcomings notice in the private capitalist system in adopting to the principles of the democratic control and ownership of the system of the production and the adventurous spirit created the natural justification for the oppressive economic policies of the capitalism. Another thing which needs to remind here is, the co-operative system will bring fresh strength and hope to the small producers without creating obstacle in the methods of the existing mode of production. It is just the organization of the scattered and meager resources into one place on the principles of the mutual help is actually self help and the democratic control of its management. The modern history of Co-operation has been one of continuous and ever-widening progress in these two directions, one for the welfare and upliftment of the economically marginalized communities and creation of the organization for the betterment of life of the common people. (Lallu Bhai Kaji, 1932) Th co-operative movement is an effort to identify the needs of the members, and the organizing spirit among the co-members and setting the goal to find the solutions to the issues of the weaker section of the society, like industrial labour, agriculture labour, farming community and artisans class.

## 5. Historical Background of the co-operative Movement

The origin of the Co-operative Movement in India is to be found in the attempts made as early as in the 80's of the 19$^{th}$ centuries, C.E, for the starting of an Agricultural Bank in the Purandhar Taluka of the Poona District and in the "Report on Land and Agricultural Banks" by Sir Fredrick Nicholson in the following decade. The greater severity and frequency of the famines towards the close of the last century not only emphasized the inadequacy of the legislation dealing with loans to agriculturists in times of stress and strain but the increasing indebtedness of the farmer, showed the need for the provision of easy credit. In two provinces, credit movements were already gathering force in the shape of the Nidhis in the Madras Presidency and the co-operative credit societies in the United Provinces. It was in pursuance of the recommendations of the Famine Committee of 1901, in the regime of Lord Curzon, however, that the State effectively took the matter in hand. A Committee of the Legislature in consultation with Mr. Henry Wolff, the economist and propounded the people's Bank, drafted a legislation which was embodied in the Co-operative Credit Societies' Act of 1904. The societies were intended to be small good simple credit societies for small sud simple folks with simple needs and requiring small sums only. Its object was to assist agricultural credit which was a far more important and difficult problem than the problem of Industrial Credit. But the latter aspect of credit was not altogether lost sight of and the Act therefore provided for two classes of Societies: (1) Rural and (2) Urban. In both the classes the members were to be 'small men' and residing in the same neighborhood in order that they might command the knowledge of one another and the pew members were to be admitted by election so that there might grow up the mutual confidence essential for the success of the movement. (Lallu Bhai Kaji., 1932)

It is well known that after a great deal of preliminary investigation the co-operative movement was introduced into India by Act X of 1904 which was modelled largely on the English Friendly Societies' Act and restricted to primary credit societies. Statutory provision for organisation of other types of co-operative institutions was made by the later Act II of 1912 which replaced Act X of 1904. After the introduction of the duel form of Government in the provinces under the Government of India Act, 1919, the provinces were given the option either to be governed by the Act II of 1912 or to pass their own Acts. This became the reason for the enactment of co-operative acts in states of the Mysore, Bombay province etc later on.

In the history of the co-operative movement in India, the act of 1904 and 1912 played the main role in creating the new co-operative system and diversification of the co-operative activities in India. In the co-operative year Book, Mr. V Ramadas Pantulu says like this regarding the effectiveness of the two early stage act of co-operative legislations, "The advocacy for more and more spoon feeding and larger and larger doses of official control is based on the plea that the members of our societies are lacking in character and capacity to manage their own affairs. I repudiate this charge as utterly baseless without at the same time, attempting to minimize the failings or hesitating to own up the faults of non-official co-operators. No Registrar can play the role of a philosopher, friend and guide of the movement without having faith in human nature and a belief in the character of the average co-operator and his capacity to manage the affairs of his society. So, much depends upon the proper choice of the Registrars also to administer the Acts. (V Ramadas Pantulu., 1942) The legal frame work of the co-operative system should work just like the co-operative societies with the sense of solving the issues of the co-operation in the system.

**6. The Legislative provisions of the co-operative Movement**

As per the above discussion, it was the famine commission report of 1901 and efforts of Edward Law, Nicholson and Wolf provides a thinking of the provision of the legislative frame work to the co-operative movement in India. The new law passed in 1904 was modelled largely on the English Friendly Societies Act, (Calvert) but was quite simple and elastic, leaving a wide discretion to the Provincial Registrars to be appointed under it in building up their own co-operative structure. (Ewbank., 1916) It followed Nicholson's recommendation for the initiating of village banks: solvitur ambulando." (Madras, 1916) The announced aim of the Government of India was "to lay down the general outlines and to leave the details to be filled in gradually, on lines which the experience of failure or success and the natural development of the institutions may indicate as best suited to each part of the country." (H. Calvert., 1917) The legislative provisions main aim was to provide the legal frame work to the co-operative with open space for the reforms in the legal aspect of the co-operative. The legislation should be open to the changes as per the dynamics of economic policy and protection of the interest of the members and co-operative societies. Based on the above recommendations, the first legal enactment was approved in the India by the British colonial government.

**7. The Co-operative Credit Societies Act, 1904**

The chief provisions of the Co-operative Credit Societies Act, which became law March 25, 1904, were as follows:

1. That any ten persons living in the same village or town, or belonging to the same class or caste, might be registered as a Co-operative Society for the encouragement of thrift and self-help among the members.

2. The main objects of a Society were to raise funds by deposits from members and loans from non-members, Government and other Co-operative Societies, and to distribute the money thus obtained in loans to members or, with the special permission of the Registrar, to other Co-operative Credit Societies.

3. The organization and control of Co-operative Credit Societies in each province were put under the charge of a special Government officer called the Registrar of Co-operative Credit Societies.

4. The accounts of every Society were to be audited by the Registrar or by a member of his staff free of charge. (Sir Stanley Reed., 1929)

5. Rural societies were to have four-fifths of their members agriculturists; urban, four-fifths non-agriculturists. (H. R. Crosthwaite., 1915)

6. The liability of members of a rural is unlimited, except with special sanction by the Local Government. Liability of urban society members might Be either limited or unlimited.

7. No dividends were to be paid from the profits of a rural society, but the profits were to be carried at the end of the year to the reserve fund, although when this fund had grown beyond certain limits fixed under the by-laws, a bonus might be distributed to the members.

8. In urban societies no dividend was payable until one-quarter of the profits in a given year were carried to the reserve fund. (Sir Stanley Reed., 1929, pp. 430-31)

9. Loans could be made only to members, and usually only on personal or real but not ordinarily on chattel security, (Ewbank., 1916, pp. 430-31) although ornaments, the common form of savings of many peasants, might legally be accepted as security. (J. C. Coyajee., 1920, p. 370)

10. The interest of any one member in the society's share capital was strictly limited. (Ewbank., 1916)

11. Societies formed under the Act were exempt from fees payable under the Stamp, Registration, and Income Tax Acts.

The local Governments for all the Presidencies and major provinces soon appointed Registrars with full powers to organize, register, and supervise societies. (Indian Year Book, 1929, p. 431.) Annual conferences of Registrars were held for some years which brought certain defects in the Act of 1904 to the attention of the Government. (Sir Stanley Reed., 1929) That Act did away with the need to secure registration under the Indian Companies Act, which, with its complicated procedure and detailed provisions, was unsuited to the co-operative societies, (V. L. Mehta., 1963) but it gave no legislative protection to societies for purposes other than credit, or to the central agencies, banks and unions, which were gradually coming into existence to finance and super-vise the primary credit societies. (Sir Stanley Reed., 1929)

**8. Co-operative Societies Act II of 1912**

To overcome the short comings of the co-operative act of 1904, the government of India enacted a amendment in the original act in 1912, with this enactment, the co-operative societies act included not only credit co-operative but also the non-credit co-operative in the legal frame work. These deficiencies were remedied in the Co-operative Societies Act (II of 1912). The full text of this Act is given in the Appendix, but its distinctive provisions may be summarized as follows:

1. Instead of registration being limited to credit societies, any society may be registered "which has as its object the promotion of the economic interests of its members in accordance with co-operative principles, or a society established with the object of facilitating the operations of such a society." (India., 1915)

2. Unless otherwise directed by the Local Government.

(a) The liability of central societies shall be limited.

(6) The liability of rural credit societies shall be un-Limited.

3. The requirement of an annual audit is retained, as are numerous other provisions of the Act of 1904.

4. Any registered society may, with the Registrar's sanction, after carrying one-fourth of the annual net profits to a reserve fund, contribute up to 10 per cent. of the remaining net profits to a wide range of charitable purposes.

5. Local Governments are given considerable discretion in connection with the making of rules for the working of societies under the Act, incl the Act, including conditions of member-ship, methods of operation, procedure at general meetings, and provisions for arbitration between members and between members and the committee or officers of the society, such rules to have the same force in the respective provinces as the Act itself. (V. L. Mehta., 1963)

6. "Co-operation" may not be used as part of the title of any business concern not registered under the Act, unless it was already doing business under that name before the Act came into effect.

7. Shares or interest in co-operative societies are exempt from attachment.

8. Societies have a prior claim to enforce the recovery of certain dues.

The effect of the acts of 1904 and 1912 on the growth and expansion of the co-operative Movement.

**9. Impact of the Co-operative Credit Societies Act, 1904 and Co-operative Societies Act, 1912**

To understand the effect of the above-mentioned acts on the development of co-operative in India, the following data in the table gives us the empirical picture.

| Sl, No | Year | Number of Societies | Numbers of Members | Working capital | Remarks |
|---|---|---|---|---|---|
| 1 | 1906-07 | 843 | 90,844 | 23,71,683 | |
| 2 | 1908-09 | 1,963 | 1,80,388 | 82,32,225 | |
| 3 | 1910-11 | 5,321 | 3,05,038 | 2,03,05,500 | |
| 4 | 1911-12 | 8,117 | 4,03,318 | 3,36,00,000 | |
| 5 | 1914-15 | 17,327 | 8,24,469 | 12,23,00,000 | |
| 6 | 1921-22 | 52182 | 19,74,290 | 31,12,00,000 | |

Source: Co-operation in India, 1932, Edited book, Lallu Bhai Kaji, All India Co-operative Institutes Association, Bombay and Annual report of co-operative 1921-22

The data presented in the table clearly illustrate the significant role played by the Co-operative Credit Societies Act, 1904 and the Co-operative Societies Act, 1912 in shaping the early growth of the co-operative movement in India. These legislations provided the legal and institutional framework necessary for the organization, regulation, and expansion of co-operative societies. The steady increase in the number of societies, membership, and working capital between 1906–07 and 1921–22 demonstrates that the movement evolved from a modest rural credit initiative into a nationwide socio-economic institution.

The Co-operative Credit Societies Act, 1904 marked the beginning of the organized co-operative movement in India. Enacted to address the chronic problem of rural indebtedness and the exploitation of farmers by moneylenders, the Act legalized the formation of co-operative credit societies based on the principles of self-help, mutual aid, and democratic management. The positive impact of this legislation is evident from the statistics. In 1906–07, there were only 843 registered societies with 90,844 members and a working capital of ₹23.71 lakh. Within two years, the number of societies increased to 1,963 in 1908–09, while membership nearly doubled to 180,388, and working capital rose sharply to ₹82.32 lakh. This remarkable growth reflects the growing confidence of rural communities in the co-operative credit system and the increasing effectiveness of government support and supervision.

The expansion continued during the implementation of the 1904 Act. By 1910–11, the number of co-operative societies had risen to 5,321, with 305,038 members and a working capital exceeding ₹2.03 crore. A year later, in 1911–12, the movement expanded further to 8,117 societies, 403,318 members, and ₹3.36 crore in working capital. These figures indicate that the 1904 Act successfully established a strong institutional foundation for rural credit. The rapid increase in working capital demonstrates that co-operative societies were not only attracting new members but were also mobilizing substantial financial resources through share capital, deposits, borrowings, and government assistance.

Despite its achievements, the 1904 Act was confined mainly to credit societies and did not adequately address the growing need for other forms of co-operation. Recognizing these limitations, the Government enacted the Co-operative Societies Act, 1912, which significantly broadened the scope of the movement. The new Act permitted the registration of non-credit co-operative societies, including consumer, marketing, industrial, and processing societies. It also provided legal recognition for central co-operative banks, unions, and federations, while strengthening administrative control through improved registration, audit, and inspection procedures. These reforms transformed the co-operative movement from a purely rural credit programme into a comprehensive institutional framework capable of supporting multiple economic activities.

The impact of the 1912 Act is clearly reflected in the data. Between 1911–12 and 1914–15, the number of co-operative societies more than doubled from 8,117 to 17,327, while membership increased from 403,318 to 824,469. Even more striking was the increase in working capital, which grew from ₹3.36 crore to ₹12.23 crore, representing more than a threefold increase within three years. This substantial rise indicates that the expanded legal framework encouraged larger financial investments, improved public confidence, and facilitated the formation of stronger and more diversified co-operative institutions. The movement was no longer confined to agricultural credit but increasingly embraced marketing, production, consumer services, and other economic activities.

The long-term effects of both Acts become even more evident by 1921–22. During this period, the number of co-operative societies increased dramatically to 52,182, while membership reached 1,974,290. Working capital expanded to ₹31.12 crore, reflecting the remarkable financial growth of the movement. Compared with 1906–07, the number of societies had increased more than sixtyfold, membership had grown by over twenty-one times, and working capital had expanded by more than one hundred and thirty times. Such extraordinary growth demonstrates that the legislative framework created by the 1904 and 1912 Acts successfully established co-operation as an effective instrument of rural credit, capital formation, community participation, and economic development.

**10. Conclusion**

The legislative policy of the colonial Indian government created a legal frame work for the future co-operative movement of India. The act of 1904, provides the space for the appointment of registrar of the co-operative in district and state level with power to register the co-operative, supervision of the department and auditing powers, which help to maintain the discipline in the co-operative societies. The first act was restricted the activities of the co-operative in the credit field only, but the act of 1912, included non-credit associations as the co-operative in India. So, because of this, the non-credit societies like consumers, marketing, housing and other communal base societies can also register in the co-operative department.

Overall, the statistical evidence highlights two distinct but complementary phases in the evolution of the co-operative movement. The Co-operative Credit Societies Act, 1904 laid the foundation by introducing legally recognized rural credit institutions to address agricultural indebtedness and promote thrift and mutual aid. Building upon this foundation, the Co-operative Societies Act, 1912 expanded the movement by diversifying its functions, strengthening organizational structures, and encouraging federated institutions. Together, these Acts transformed co-operation into one of the most significant institutional innovations of colonial India. Their success not only accelerated the growth of co-operative societies across British India but also influenced the enactment of similar legislation in princely states such as Mysore, thereby laying the foundation for the subsequent development of the co-operative movement in Karnataka.

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