

THE DIFFICULT AND TORTUOUS PATH OF AGRICULTURAL COOPERATIVE NETWORKS IN SPAIN, 1890-1935

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0.- INTRODUCTION

The rural associationism developed from the last decades of the XIX century could be considered as an answer of the agriculturists to the increasing integration of agriculture in the market, and to the effects of the Great Depression. In the case of Spain, the initiatives in this sense arose with certain delay in relation to the countries of Western Europe. This phenomenon originated in the Nineties, when in some European states the cooperative organisations were widely spread and the associative movement was consolidated enough in Germany, Belgium, Denmark, France and Italy. In Germany, in 1898, the total number of cooperatives was 14,200, of which 3,667 were small farm loan banks, reaching in 1905 the number of 23,700 and 10,909 of them were small farm loan banks¹. In France², in the same year, the number of small farm loan banks of all types was 1645, and the number of agricultural unions in 1900 was of 2069. In Italy³, in 1898, there were 904 small farm loan banks (594 of them were popular banks), being in 1907 a total of 2428 saving banks (with the 829 popular banks). In Denmark⁴, in 1898, the organisations had federated at national level in the *Central Cooperative Committee* that included (among others) such sectors as butter-shops, slaughter houses, dairies, feeding stuffs, etc... in 1900 there were 1029 cooperatives specialised in the butter production. In Austria⁵ in 1904 there existed 16 regional institutes and 4021 cooperatives and the set of Empire 7082 (without Hungary). Finally, in Belgium⁶ the Government had founded the *Comptoirs agricoles* in 1884. They were offices of agricultural credit connected with the savings banks and the cooperative small farm loan banks. And they reached a total of 335 entities in 1898 with 572 professional or agricultural unions.

¹ For Germany, see M. Prinz (2002) and Narciso Noguer (1912), p. 270-287.

² Pierre Lehman (1979), p. 47 and M.C. Cleary (1989), p. 35.

³ Giuseppe Micheli (1898), p. 56; Institut International Agricole (1914), pp. 535-552 and N. Noguer (1913), p. 369.

⁴ A. Gascón y Miramón (1926), p. 63 and p.212; I. Henriksen (1998)

⁵ N. Noguer (1913), p.323

⁶ M. Turmann (1908), p. 151.

The beginning of the Spanish cooperativism is closely bound to the *Law of 1906*. It granted the agrarian cooperatives with fiscal exemptions and other types of supports to the associates, although the process did not really accelerate until the promulgation of the law regulation in 1908. The official database is very problematic and with little reliability⁷ and, therefore, the statistics are due to handle with extreme precaution.

The performance of the Public Administration⁸, related to the application of the mentioned law, had negative repercussions on the Spanish cooperative movement. It caused the dissolution of numerous organisations that could not obtain the fiscal exemptions or the official recognition that allowed them to accede on the official credit (Central Bank of Spain). This failure produced among the agriculturists a great distrust against the organisations that left indebted their members⁹. It was the first lost opportunity to lay the foundation of an ample and solid network of cooperatives.

Since 1915, the foundation of cooperatives received a renewed impulse due to the impact of the military conflict on the Spanish agriculture. The landlords impelled to organise small farmers into credit cooperatives (f.e. in Castilla-León) with the purpose of searching for supports and pressing to the State to make it increase the protectionism in the cereal sector. Also in the years 1918-1920 this interesting collaboration will be reinforced before the increasing social conflict in the rural world. And it therefore gave rise to the confluence of interests between the great land proprietor, the Catholic Church, and the State in the promotion and reinforcing of the Catholic Trade Unions and the agrarian cooperativism. The last topic seems to be considered as a useful tool to restrain the penetration of the denominated "dangerous ideologies" - socialism, anarchism and republicanism - between the modest farmers.

The economic direction of this movement went fundamentally towards the common purchase of the agrarian inputs - especially chemical fertiliser and the financing through different entity types. As well as other activities like the export of certain productions developed in the Mediterranean area, the industrial transformation of some productions - warehouses, dairies and butter-shops, vegetal conserves, flour factories, textiles companies, etc. -, the agrarian insurance, the specific technical instruction for the agriculturists, etc.

The credit cooperativism under different formulas was implanted from the end of the 1890, reaching a greater development from the 1920 through organisations that depended on (1) federations of unions and their own unions, (2) independent small farm loan banks and (3)

⁷ A critic very guessed right is in S. Garrido (1996), pp.

⁸ For a detailed study on this subject, see S. Garrido (1996), pp. 69-80 and N. Noguer (1915; 1916).

⁹ For the commentaries contained in the *Memorias de la Dirección general de Agricultura*: (1926), p. 5-6 and (1917), p. 154, where it is recognized that the uncertainties introduced to the application of the law of 1906 "had caused very serious disturbance in the Trade Unions and the created Small Farm Loan Banks operating and they prevent the formation of new organisms" ("*causado gravísima perturbación en el funcionamiento de Sindicatos y Cajas rurales creados e impiden la formación de nuevos organismos*").

specialised savings banks. Nevertheless, the set of organisations did not generate their own organisms of co-ordination or independent central banks that provided and canalised the cooperative resources, as it had happened in Germany, Belgium or Austria. Neither had it got to count on the State support, as it happened in France. For all these reasons, the growth of the credit cooperativism was limited and its weight was minimal in the Spanish financial system. In fact, the capability to lend money was limited, because the financial entities did not manage to catch all the saving generated in the countryside / farmland, being less effective than the savings banks. The technical structures were very basic and the training skills of the cooperative staff were also imperfect. Yet, in spite of these deficits, the simplicity of the operations and its specialisation throughout those years as “microcredit organisations” reached relatively considerable levels of effectiveness.

Nevertheless, it is precise to indicate the presence of a certain number of bank entities that obtained an important development composed fundamentally by proprietors. This was the case of some establishments in the province of Badajoz, or in the Mediterranean Area where the partners were landlords that rented parcels in the orchard.

This work aims to analyse the development of the agrarian cooperativism of credit in Spain during the first third of the 20th Century. The study focuses on establishing the organisational models that influenced the constitution of the first credit cooperatives; the specific adaptations done to adjust them; the phases of implantation and types of organisms; as well as the territorial distribution of this associative experience. Also we will study the financial functionality of the small farm loan banks and its technical-organisational problems. Finally we will analyse the performance of the State with respect to the promotion of the same ones.

Section 1 focuses on the introduction of the agrarian cooperativism of credit in Spain between 1890-1910, analysing the models used and the way the agriculturists and their organisations spread. Also it details the main obstacles the first cooperatives had to confront to obtain their sustainability, and what factors prevented a greater development of this entity. We will draw up a quantitative approach: the number of financial organisations and financial results. Finally we will approach the confessional cooperativism.

Section 2 focuses on the process of developing the small farm loan banks between the years 1915-1934. We have elaborated a panoramic view of the implantation of the organisations, aiming to explain the territorial distribution, and comparing the Spanish case with the European context. To describe the factors that conditioned the growth of this financial entity we have used the microanalysis of the successful saving banks from different points of view (taxonomy of partners, resources, financial technologies, etc.). The funding of this type of cooperatives constitutes another topic: we will concrete the models of funds supplying and explain the role of several public banks and the private specialised ones. To

conclude, we will comment some considerations on the role played by the State in the promotion of the rural financial services.

This paper will constitute a first approach to a very unknown field in the Spanish economic historiography of the last decades. The rural credit cooperatives will constitute one of the agents of the innovation and the technical change in the Spanish agriculture of the first third of the XX century.

2. SOME INITIAL REFLECTIONS

It could be important making a question before to start the study: why was it so difficult to expand a supply of rural financial services in Spain? All the official information of that period showed the preoccupation by the lack of access of the agriculturists to the formal financial services and by the hard conditions of the informal finances (f.e., the high interest rates). The answer of this situation incorporated two central elements:

- The bankers were too conservative. They were not interested in the agricultural credit (by its risks) and did not consider it as a good business to lend money to the poor farmers.

- The private moneylenders received so exorbitant interest rates that actually the small rural debtors were driven into the hands of exploitative usurers and other unscrupulous lenders (B.G. Carruthers; T.W. Guinnane; Y. Lee, 2005).

These two explanations, apparently different, had a common element: the will. The problems of the rural finances were attributed to the indifference of the private commercial bankers and to the bad will of the informal moneylenders. The bankers did not want to take care of this type of customer; the moneylenders looked for exploding him.

Having observed this diagnosis, the State was forced to assume the responsibility to correct the failures of the money market. The answer of the Administration consisted in looking for benevolent agents that offered these services without exploding to the clients. In our country these agents were the *Banco Hipotecario de España* (Real State Official Mortgage Bank of Spain), the *Banco de España* (Central Bank of Spain), the *Pósitos*, the *Servicio Nacional del Crédito Agrícola* (National Service of the Agricultural Credit) and, in another way, the agricultural cooperativism (Law of 1906). The agents who directly depended on the official action were an absolute failure, because their funds were manifestly insufficient, and even turned aside their target.

But the official diagnosis ignored the real difficulties of offering financial services to rural customers. The situation was not that the private banks did not want to lend in the countryside, although it was a good business. The banks and the bankers knew that with the traditional banking technologies this activity was not profitable for them, because the costs and the risks were more elevated than the profits, taking into account the substantial difficulties to produce rural financial services. The wrong assumption of the Government was

to consider it as a “will problem” and not as a “difficulty one”, so the only thing that needed was a right legislative intervention and the takeoff of public financing guidelines.

The State intervention during this period could not make disappear some of the king-sized obstacles. *Per se*, the simple good will of the State neither removed the stumbling blocks that limited the development of the financial transactions in the rural areas, no eliminated the costs that stopped surpassing those difficulties. The border of the rural finances could not be expanded only with decrees and laws.

It was not only a political problem, but also a technical question. There had to be found a way to produce specialised financial services for a reasonable cost. The solution was not, therefore, in obtaining political supports, but developing technology (a production function) to get positive results. In summary, the failure of the options devised by the State came to try exclusively political solutions for a problem that also was technological. The limited development of the credit cooperatives (small farm loan banks) and the savings banks that did not have a determined official support led to stop innovating actions and technologies in this field.

The obstacles to surpass were of such magnitude that the efforts made by the cooperativism were insufficient to reach an important development of the rural financial markets. Some of them were:

- The monopolistic power exerted by the local moneylenders in some areas of the country
- The impossibility to diminish the transaction costs (by the difficulties to obtain information about the customers, the problems of the “adverse selection” and moral risk, etc...) and other reasons to surpass the market imperfections
- The bureaucratic failures, due to a confused and biased legislation
- The insufficient number of agencies
- The failures of the collective action
- The consequences of a deficient institutional infrastructure, the effects of the covariance in the risks and the consequences of the high fixed costs due to an elevated fiscal pressure

3. ORIGENES OF THE AGRARIAN COOPERATIVISMO OF CREDIT 1890-1910: THE IMPLANTATION OF MODELS.

Agricultural cooperation got underway in Spain at relatively late date. The first Spanish cooperatives appeared in the 1890s, and they mushroomed after the enactment of the 1906 Agrarian Syndicates Act, which granted them tax advantages, although not all cooperatives were governed by this law. Official statistics provide information¹⁰ about the types of agrarian

¹⁰ Between 1912 and 1934 the Administration Publisher several sets of statistics on agrarian cooperation. *Ministerio de Fomento, Memoria*, 1912; *Dirección General de Agricultura*,

societies that appear in Table 1; it was not uncommon for all of them to perform cooperative functions, specially the “cajas rurales” and the agrarian syndicates.

TABLE 1. AGRARIAN ASSOCIATIONS IN SPAIN (1910-1926)

	1910	1916	1919	1923	1926	1933
Agrarian syndicates	1.559	1.754	3.471	5.180	5.821	4.266
Cajas rurales (rural cooperatives of credit)	384	496	514	499	501	646
Farmers communities	85	100	124	123	133	166
Agrarian chambers	100	101	126	126	128	-
Agrarian associations	-	605	857	987	1.009	-
Agrarian federations	-	24	54	78	86	-

Source: Ministerio de Fomento, Memoria para 1910; Dirección General de Agricultura y Anuario Estadístico de España para 1916, 1919, 1923 y 1926 y Ministerio de Agricultura para 1933.

The “cajas rurales” (small rural savings banks or small farm savings banks) were rural credit cooperatives and usually had fertiliser and machinery sections. Certain Farmers’¹¹ communities and some Agrarian chambers did the same. The latter were semi-official institutions -created thanks to a legal provision of 1890 - which acted as a pressure group. Many of the institutions the statistics referred to as Agrarian associations were cooperatives motivated by socialists, anarchists or republicans who, believing that the 1906 Agrarian Syndicates Act provided a conservative-oriented interclassist model of cooperation, refused to follow this legal course on ideological grounds. The Agrarian Federations that consisted mainly of agrarian syndicates acted as second degree cooperatives, but even those that basically consisted in Chambers, Farmers’communities or Agrarian associations made numerous attempts to channel the purchase of fertilisers, insecticides or machinery produced by federated bodies, as they understood that this was the only way to avoid becoming merely nominal organisations.

3.1. THE SPANISH RAIFFEISEN MOVEMENT: THE FIRST OF THE SMALL FARM LOAN BANKS.

The initial diffusion of the agrarian credit systems and, more specifically, the small farm loan banks inspired by the F. W. Raiffeissen model was disseminated by Joaquin Diaz de Rábago¹². Between 1883-1891 the Spanish economist published several works on the subject

¹¹ Created under the provisions of the 1898 Rural Police Act, they had bodies of rural guards and their duties included the conservation and improvement of the country lanes.

¹² Diaz de Rábago was the first Spaniard who studied in detail how in some European countries the cooperativism movement was the suitable way to provide farmers’ loan to modernise the agriculture sector, and the possible adaptations to the Spanish condition. His first approach to the topic was developed in *El Crédito Agrícola* (1883), an official report done for the Ministry of Agriculture request. In 1886 he wrote a proposal of a law project on the cooperative societies. His proposition was supported by the Minister of Public Works E. Montero Ríos, a liberal politician, but finally it was not approved. The lack of an intellectual argument about the possibilities of the cooperatives in Spain among the hortodox

that had been welcomed for the abroad intellectuals. Nicholas Fontes Alvarez de Toledo put the first application of the Raiffeissen cooperatives into practice in 1891. He devised an adaptation of the *Darlehnskassen* system in Murcia that became the *Caja Rural de Ahorros, Préstamos y Auxilios de Javalí Viejo* (*Small Farm Loan Saving Bank, Loans and Help of Javalí Viejo*). His model was inspired by the pattern of organising the *German Catholic Centre of Westfalia* (*Association of Westfalia Farmers*). This type of saving banks had an ample diffusion in the localities of the Murcia's orchard. They regarded themselves as an institution aimed to avoid the conflict between the land-tenants and landowners and, moreover, to restrain the propaganda of the socialists and anarchists ideas among the peasants. In 1898 the Fontes model was implanted in 8 localities, with a total of 2,350 partners. In 1900 Fontes credit cooperatives was settled in the provinces of Albacete (Chinchilla, Pétrola, Fuenteálamo, Corral-Rubio, Bonete and Tobarra), Granada, Alicante, Badajoz and Malaga. Besides, the Fontes thesis had even been introduced to the Diocesan Seminaries of Murcia and Badajoz through the bishops. Fontes Financial Institutions offered loans at low interest rates and in clear conditions to the poor farmers (small renters, very small proprietors and day labourers) to acquire land properties. The plot of land was acquired directly by the organisation that established a contract with the cooperative member up to ten years. The partner interested in buying the land had to amortise every year the tenth part of the value and a five percent interest rate of the remaining capital. The credit institution also acted to avoid the compulsory commercialisation of the silk cocoon, an important source there. All the partners sold the production to the cooperative, and the last one sold it again at the best prices in the most advisable markets.

Luis Chaves constituted the following model of saving bank organisation. In 1902 he found a group of small farm loan banks (Zamora, San Marcial, Moral of Vino and Arenillas) following the pure model of Raiffeissen. The same ideas were also disseminated by a group of priests (Anacleto Orejón, Gregorio Amor and Valentin Gómez) who founded a year before (in 1901) a small farm loan bank in Amusco (Valencia). Chaves leadership had a considerable impact, because his model would later be adopted by the *Confederación Nacional Católica Agraria (CNCA)*¹³ for its agrarian unions and small farm loan banks as independent or as credit sections of each union.

(liberal) economists caused that Diaz de Rábago started to look for foreign intellectuals who shared positions and ideas with¹². He was invited to the *IVe Congrès des Sociétés Françaises de Crédit Populaire* (Lyon, 4 to 7 of May of 1892) by L. Durand (main diffuser of the Raiffeissen credit cooperatives in France and president of *Union des Caisses rurales et ouvrières à responsabilité illimitée*). There he presented the study *Bases essentielles d'une loi sur les sociétés coopératives*. Díaz de Rábago was the first Spanish member of the *International Cooperative Alliance*¹². The president of the association, H.W. Wolff, asked Rábago to write a paper on the origin, development and present situation of the cooperation movement in Spain (*History and present situation of the Cooperation in Spain*, 1895).

¹³ Agrarian Catholic National Confederation.

Between 1903-1904 the *Raiffeisianism* became established in Navarra by the *Agricultural Saving Bank of Tafalla*, founded by Atanasio Mutuberría¹⁴. The following initiative was in Olite, a Savings and Loans Bank founded by Victorio Flamarique in 1904. Between 1904-1907 priests V. Flamarique and A. Yoldi started out an active propagandist campaign in the Navarra towns and settled small loan banks in several localities¹⁵. The fast spreading process turned to Navarra into a Spanish region with a great presence of the Raiffeissen organisations, as it could be seen in the following table (Table 2.-).

TABLE 2. IMPLANTATION OF DENOMINATIONAL AGRARIAN COOPERATIVISM AND RAIFFEISSIANISM IN NAVARRA, 1907-1910.

Parish	1907		1908		1909		1910	
	Cajas Rurales	Towns	Cajas Rurales	Towns	Cajas Rurales	Towns	Cajas Rurales	Towns
Aoiz	12		37	144	31	129	40	157
Estella	22		42	96	44	93	49	96
Pamplona	12		26	77	25	129	29	135
Tafalla	13		19	23	19	23	19	23
Tudela	4		6	6	6	6	6	6
Total	63		130	346	125	380	143	417
	Agrarian Syndicates	Towns	Agrarian Syndicates	Towns	Agrarian Syndicates	Towns	Agrarian Syndicates	Towns
Aoiz	9	44			17	103		
Estella	15	42			18	98		
Pamplona	13	45			18	91		
Tafalla					2	2		
Tudela								
Total	37	130	57	250	55	294	57	250

Source: Antonino Yoldi, *Sexta Semana Social*, 1916 (quoted by E. Majuelo and A. Pascual (1991), p. 48)

The success of this initiative resided in the received support of the local clergy, the bishopric and, in some cases, the landlords. The creation of a *Diocesan Board* and the development of a structure with a co-ordination in three levels (local, district, and province), elaborated by A. Yoldi, favoured the consolidation of these financial foundations. Thus, in 1908 there were already 130 agrarian credit cooperatives (with presence in 346 towns) with more than 14,000 families associated. The previous entities were connected to 57 agricultural unions (that grouped 5,600 partners). The Navarra cooperatives became pioneers in the distribution (as well as in propaganda) of the chemical fertilisers through purchases in common of all the cooperative members. This fact reinforced the good acceptance of the cooperatives among the farmers of the province. In 1910 more than half of the Navarra councils (143 from 269) had their own small loan bank. The process of creating a co-ordinating organisation among the cooperatives was

¹⁴ On this entity, see Antonio Salvador (1988), "La Caja Agrícola de Tafalla, primera cajas rural de Navarra, 1902", *Primer Congreso General de Historia de Navarra "Príncipe de Viana"*, p. 425-433

finished by the foundation in the same year of the *Social Catholic Federation of Navarre*, the most solid raiffeissianist core in Spain then.

Another important nucleus arose in Badajoz (Extremadura)¹⁶, impelled by Tomás Marín (a director of the branch office of the *Banco de España* - Central Bank of Spain - in Badajoz). He established several small farm loan banks with the characteristics of the unlimited liability and the dividends exclusion. However it could not be considered a pure application of the Raiffeisen system, because the partners had to pay the monthly quotas. This kind of partnership did not limit itself to acting as savings and loans banks, but that also conducted secondarily operations of the agricultural unions (a purchase of farm implements, reproductive animals, seeds, chemical fertiliser, deposit and sale in common of harvests, rural day-care centre, insurance and conciliation). Their specificity came from the fact that this system was formed by a group of great landowners that contributed to the social capital with important sums of money. The set of the Badajoz rural financial institutions would be the most capitalised small farm loan banks of the country throughout the period. The first initiative of the group was called the *Rural Saving Bank of Cantos y de Cabeza de Buey* in 1905. From the very beginning it used the most innovative techniques, procedures and financial products, f.e., the current accounts with a guarantee mortgage (that it became in the main modality of loan).

The great solvency and banker's references reunited by the Badajoz organisations gained them the support of the *Banco de España*. The group entered the financial entities that obtained greater credits from the Spanish Central Bank, lending the capitals to an interest that ranged between 5.50 and 7 %, when they obtained the money at 4.50 % with the guarantee of their partners (see table II).

TABLE 3. INITIAL DEVELOPMENT OF THE SMALL FARM LOAN BANKS OF SAVINGS AND LOANS (RAIFFEISEN SYSTEM) OF THE BADAJOZ PROVINCE, 1906-1911.

		1906	1907	1908	1909	1910	1911
NUMBER OF "CAJAS RURALES"		9	14	20	24	24	24
TOWNS INCLUDED		24	40	49	63	63	63
NUMBER OF PARTNERS		1.519	3.012	4.582	5.739	5.941	5.974
SHARED IN COMMON CAPITAL (SHARE CAPITAL) ptas.		40.245.106	84.478.784	134.483.480	157.064.788	161.349.675	161.933.220
LOANS (ptas)	PERSONAL	332.037	834.594	1.199.438	1.343.681	1.354.887	1.415.621
	PIGNORATIOUS		24.945	143.364	203.063	180.829	219.591
	HYPOTHECATING/ MORTGAGE	717.167	2.530.441	4.591.627	6.395.530	7.173.575	6.943.098
	TOTAL LOANS	1.049.244	3.389.980	5.934.429	7.942.274	8.709.291	8.578.310
BUILDINGS AND PUBLIC FUNDS (ptas).				141.370	434.060	716.056	829.350
BALANCE IN THE SAVINGS BANKS (ptas)		59.200	760.477	1.720.026	2.817.165	4.089.173	4.417.732

¹⁵ The development of cooperativism in Navarra was studied by E. Majuelo Gil and A. Pascual Bonis (1991).

¹⁶ On this group, see: Asociación de Agricultores de España (1911): *Memoria del Segundo Concurso de Asociaciones Agrícolas*, Madrid. Also Narciso Noguera (1913), p. 511-512.

DEBITS IN THE BANK OF SPAIN (ptas)	1.323.510	3.090.429	4.326.019	5.556.346	5.183.813	4.815.992
RESERVE FUND (ptas)	11.033	72.941	158.254	222.909	308.540	389.105

Source: Asociación de Agricultores de España (1911), Memoria del Segundo Concurso de Asociaciones Agrícolas, Madrid.

In 1909 the confessional small farm loan banks under the Raiffeissen System ascended to 373¹⁷. Most of them introduced new work functions as proper savings banks. The previous modification demanded small contributions for the share capital (generally it was 10 pesetas, made effective by the partners in shares). This type of cooperatives slowly developed between 1901 and 1906 because of non-legislative measures that favoured them. The *Law of 1906* and its regulations of 1908 activated their growth, but the fiscal exemptions promoted by these norms were systematically obstructed from the *Ministerio de Hacienda* (Ministry of the Finance) and especially from the *Dirección General de Timbre*¹⁸. The consequence was the increased prices in the operations of the saving banks. This fact provoked the organisations to make up the lower class members (small cultivators, day labourers, etc.) who had difficulties to establish their own credit cooperatives. In 1909 the Magazine *La Paz Social* published a statistic on the catholic credit entities elaborated by Innocent Jiménez (Table 4).

TABLE 4. EVOLUTION OF THE CATHOLIC COOPERATIVISM 1904-1909

Fecha	NUMBER AGRARIAN SYNDICATES	OF NUMBER OF CAJAS RURALES
01.01.1904		38
01.01.1905		50
01.01.1906	6	80
01.01.1907	50	112
01.01.1908	187	250
01.07.1908	300	-
01.07.1909	450	373

Source: Inocencio Jiménez (1909): “Los sindicatos agrícolas” y “Las cajas rurales católicas”, in *La Paz Social*, pp. 169 and 241

Many of these first cooperatives, especially those that worked like agricultural unions, had an ephemeral life due to (1) the legal difficulties to constitute themselves legally and (2) their limited capitalisation. The credit cooperatives life that managed them to constitute a federation and a central saving bank, aiming to obtain a certain technical development in their

¹⁷ Inocencio Jiménez (1909), p. 241. Also, Vizconde de Eza (social catholic leadership) and the president of *Asociación de Agricultores de España* said: “Pudiéramos decir que todas las asociaciones de crédito se van fundando en España sobre la base de la responsabilidad ilimitada, principio que no asusta tanto como pudiera creerse, y que en cambio, evita a los agricultores que carecen de metálico la necesidad de suscribir acciones de capital social, que constituiría para ellos una dificultad casi invencible”, *Asociación de Agricultores de España* (1911), p. 24

¹⁸ This question will became damaged on the “Cajas Rurales”. See Luis Chaves (1906), p. 74 y ss.

internal organisation, as it happened in the case of Navarra, or in the grouped land proprietors of the organisations from Badajoz, Tarragona or Baleares.

The general situation of the development of the Spanish cooperativism towards 1910 - according to a report of the *Ministry of Public Works and Economy*¹⁹(see Table 4) - , displayed a predominant geographic implantation in the centre of the country, mainly in Aragón (23,9 % of the total of existing credit cooperatives), Navarra (23.4 %), Castilla-Leon (15,3%) and Extremadura (14,9 %). Among these regions concentrated 82.9 % of the huge variety of saving banks of that time. The territorial distribution was related to the work made by the organisms of the *Social Catholicism*.

TABLE 5. IMPLANTATION OF CATHOLIC AGRARIAN RAIFFEISSIANIST COOPERATIVISM IN 1910

REGIONS	AGRARIAN SYNDICATES	Cajas Rurales
Andalucía	67	12
Aragón	11	151
Asturias	3	-
Baleares	16	11
Canarias	-	-
Cantabria	5	-
Castilla La Mancha	44	5
Castilla León	138	79
Cataluña	84	30
Extremadura	-	77
Galicia	23	-
Madrid	7	-
Murcia	6	-
Navarra	55	121
País Vasco	28	3
Rioja	7	3
Valencia	70	24
Total España	564	516

Fuente: Elaborado a partir de Ministerio de Fomento (1910)

3.2. THE PROBLEMS OF THE FIRST CREDIT COOPERATIVISM.

During this period most of the small farm loan banks had two types of difficulties. On one hand, the problems referred to its internal life related to the constitution, the financial regime and the form and type of the management adopted. On the other hand, to the adverse relations with the State and other agrarian institutions.

Regarding the first hardship, we have already described the main theoretical models known by the sponsor groups. The important point to select one or another model was the kind of liability chosen. The unlimited liability of the Raiffeissen system used to be accepted in the

denominational circles (Catholic magazines of agriculture, agrarian organisations, etc.), as it is shown in a survey of the *Ministry of Public Work and the Economy* of 1910²⁰. Thirty small farm loan banks participated in the mentioned inquiry, and all of them were favoured by “friendly societies”, and 28 said “yes” to the unlimited liability. This acceptance diminished among the agricultural unions: there were 37 participants, and only 14 defended the unlimited liability formula. The answers of the technicians and directors of agrarian magazines showed their strong rejection. For instance, Francisco Rivas Moreno²¹, the pioneer in the foundation of “popular banks” in Spain, was one of them.

Unlimited liability became the fundamental axis of the Catholic organisations (unions and credit cooperatives), although in the practice was accepted under a huge variety of forms. The founders of a credit cooperative used to accept a strict economic criterion to such situations: when the cooperative was formed by very poor farmers and therefore was undercapitalised (f. e. the farm loan banks of Cáceres); or in case it was constituted exclusively by rich landowner and, therefore, they did not appear to support poor farmers (f. e. the little farm loan entities of Badajoz). The same principle worked in the financial entities of Navarre and Badajoz, both of them with majority of medium and rich land proprietors. The organisations that managed to subsist among their customer and associated small cultivators were almost always those societies that chose the limited liability, and introduced diverse types of participation in the share capital formation.

Another controversial point was related to the type of operations that could be based on the available capital. Only a few entities could apply to external financing by a commercial bank, public bank or other loan corporations. The limited possibilities made nonviable the maintenance (and performance) of the small individual credit cooperatives. By consequence, it was necessary to establish federating among them and add enough guarantees to obtain funds with reasonable types of interest rate at the formal credit markets. At those moments this kind of intermediate organisations was still in an initial phase, which implied the shortage of financial resources. The credit cooperatives used to practice a similar set of operation done by the urban

¹⁹ The work was *Apuntes para el estudio del proyecto de ley de Crédito Agrario presentado a las Cortes por el Excmo. Sr. Ministro de Fomento D. Fermín Calbetón*, Madrid, 1910.

²⁰ See: Ministerio de Fomento, *Apuntes para el estudio del Proyecto de Ley de Crédito Agrario...*op. cit., there were 346 answers: 9 Commerce Chamber, 11 Reviews, 30 Small Rural Saving Bank, 96 Councils, 18 Council Court, 37 Agrarian Unions, 14 Agriculture Chamber, 10 Province Council of Agriculture, 14 Province Council of Industry and Commerce, 5 Saving and Loans Banks, 70 Farmers and technical agriculture workers. It was a representative example of the most important agents related with the primary sector in the country. The survey is studied by A.P. Martínez Soto (1994), pp.344-350.

²¹ Rivas Moreno explained about the unlimited liability: “ *En un país como España donde se hacen ahora las primeras experiencias con las Cajas Rurales, es poco práctico complicar la vida de estas instituciones con empeños muy laudables, pero expuestos a riesgos y complicaciones que podrían llevar a las nuevas instituciones a una situación de lamentable desprestigio...la responsabilidad ilimitada cuando se lleva a la piedra de toque de la experiencia, resulta de una eficacia dañosa, porque resta el concurso de cooperadores entusiastas y convencidos que no quieren ligarse a compromisos cuyo alcance desconocen...*”

savings banks, or the popular banks created by Rivas Moreno. Any of these systems aimed to catch deposits that made the loan activity viable. The most solid organisations, those that managed to survive, among their promoters had as well several groups of landlords who contributed directly with initial capitals and significant money deposits.

The main number of credit operations was personal loan guarantee with a multiplicity of variables based on the guarantees and endorsements. Moreover most of the cases were short-term microcredit operations. Another higher quantity credit and long-term duration (hypothecating loans, pignoratious loans, etc.) could only be possible for the agrarian credit cooperatives constituted by proprietors. For instance, it happened with the credit entity of Badajoz that obtained an important external financing from the *Banco de España* (Central Bank of Spain).

The technical skills and training for the staff cooperative members was another obstruction for the cooperative evolution. The small farm credit societies, formed by poor and illiterate farmers, depended on extern agents for directing them. Thus, in the Catholic organisations local priests would become managers, administrators, bookkeepers, directors, etc., inasmuch as the churchmen used to be the most skilled people in the village. In some Diocesan Seminaries the cooperativism got to be a subject to study for the future clergymen²². The Church instructional branch organised courses and seminaries, even debates (for instance, the *Semanas Sociales* - Social Weeks-) to form propagandists, management personal and cooperatives inspectors. Also the Church published and sponsored numerous books and pamphlets²³ related to the credit cooperatives and their statutes, forms of operations and associations, etc., everything that could make easier their promotion in the countryside.

In the lay credit cooperatives the management depended on the founding group. Thus, in the case of institutions sponsored by the *Cámaras Agrícolas* (Agriculture Chambers) the Executive Board used to be the Direction Group at the same time, and included the treasurer and the director posts. The tendency towards the profesionalization opposed the situation of the confessional cooperatives. When the society obtained a considerable volume of operations it started to contract technicians (bookkeepers and other skilled personal from the private bank or the commerce) that were usually supervised by the Executive Board.

The management difficulties of the cooperatives were an important cause of the bankruptcy, and therefore, the lack of a bureaucratically skilled personal stopped the organisations growth.

Related with the exogenous problems, we must mention the relations with the State. We have already spoken of the difficulties to obtain a specific regulation for the cooperatives, once even

²² In the case of Murcia it happened to the above mentioned Fontes system or in Navarre to the Raiffeissen system

the *Law of 1906* was promulgated. Such a problematic access to the predicted fiscal exemptions constituted a brake to their expansion. In 1908 a *Regulation* was promulgated that tried to fix these aspects, although, once more the opposition of the *Ministry of Treasure* and the *Dirección General del Timbre* generated a stumbling block (S. Garrido, 1996). Other external problem was the relations that the credit institutions could establish with the financial markets in order to obtain funds and develop their activity. We have already commented on the limited supply in this sense, even though this constraint was even greater when it allude to the private banks specialised in the agrarian sector. The risks linked to the credit cooperatives institutions provoked the institutional/ official moneylenders to demand important endorsements. One little rural saving bank could fulfil this condition, only if big land proprietors constituted it; or in case it was co-ordinated and grouping with similar societies. Both cases refer to a minority number of organisations; most of them were led self-financing, which implied the reduction of companies capital and to their disappearance in the short time.

4. THE DEVELOPMENT PHASE: THE SMALL FARM LOAN BANKS (1915-1934).

4.1. THE EVOLUTION OF THE CREDIT COOPERATIVES AND THEIR IMPLANTATION

Since 1915 the number of credit cooperatives stopped to grow, as much as in number of organisations as partners. The following table verified this fact (Table 6).

TABLE 6. CREDIT COOPERATIVES: THE SPANIARDS "CAJAS RURALES" 1915-1933

	NUMBER OF "CAJAS"	NUMBER OF PARTNER	SHARE CAPITAL (pesetas)	Buildings and public funds (pesetas)	DEPOSITS (pesetas)	LOANS (pesetas)				FUNDS (pesetas)	
						PERSONAL	PIGNORATI OUS	HYPOTH ECATING	LOANS TOTAL	Banco de España	OTHER ORGANIZATI ONS
1915	525	53.063	164.798.300	1.234.761	10.324.218	6.555.296	418.667	8.089.072	15.063.035	6.718.576	
1916	496	42.279	139.786.212	2.132.282	10.763.496	6.587.048	697.124	6.831.867	14.116.039	3.143.578	1.835.431
1918	503	51.502	146.314.437	2.038.156	11.631.266	8.317.052	713.316	6.882.146	15.912.514	3.427.278	2.163.997
1920	514	55.804	150.307.740	2.372.723	12.393.723	8.943.424	799.081	6.926.146	16.686.651	3.494.278	2.735.365
1924	501	57.965	192.889.062	9.913.189	18.265.136	9.808.174	2.428.712	8.144.507	20.381.393	5.527.679	2.639.161
1933	646	163.963			132.861.937				84.646.427		

Source: Elaborado a partir del *Anuario Estadístico de España* (1915, 1916, 1924) and *Dirección General de Agricultura* (1918, 1934).

The number of organisations kept stable around 500 with 50,000 agriculturists associated. The growth registered in 1933 could be explained by a change of methodology in the official database: the number of partners in 1933 corresponds to all people that had access to the financing of the cooperatives, showing that there was enough information comparing to the previous years. In general, the capital associated under different credit modalities was also stable until 1920. Between this year and 1924 a qualitative jump took place; there was no data

²³ For example the writings of Luis Chaves Arias (1906) and Luis Chalbaud (1909) could be considered a really textbooks.

information for later since 1933. And in 1933 the available current cash capital of these organisations was of 68.5 million pesetas. The official statistics of the basic operations (deposits and loans) is also very unreliable. In our opinion, the funds of the credit cooperatives were higher than the ones reflected in the Table. We will verify more ahead this hypothesis through private accounting sources of a group of institutions.

It should be also considered the territorial distribution of the small farm loan banks taking into account only the years in which the statistics are relatively trustworthy (see Table 7).

TABLE 7. RURAL CREDIT COOPERATIVES: TERRITORIAL DISTRIBUTION OF THE “CAJAS RURALES” AND HIS ASSOCIATES 1915-1933

	1915				1918				1924				1933			
	Cajas Rurales		ASSOCIATES		Cajas Rurales		ASSOCIATES		Cajas Rurales		ASSOCIATES		Cajas Rurales		ASSOCIATES	
	Núm.	% de total	Núm.	% de total	Núm.	% de total	Núm.	% de total	Núm.	% de total	Núm.	% de total	Núm.	% de total	Núm.	% de total
Andalucía	24	4,6	1.666	3,1	11	2,2	611	1,2	11	2,2	611	1,0	29	4,5	9.111	5,5
Aragón	53	10,0	3.436	6,5	48	8,5	5.390	10,4	46	9,2	5.394	9,3	42	6,5	16.213	9,8
Asturias	55	10,5	2.419	4,5	31	6,1	1.951	3,8	29	5,8	1.951	3,3				
Baleares	20	3,8	2.775	5,2	19	3,7	2.897	5,6	15	2,9	3.295	5,7	19	2,9	7.736	4,7
Canarias																
Cantabria	2	0,4	171	0,3	5	0,9	463	0,8	5	0,9	463	0,8	52	8,0	4.325	2,6
Castilla-Mancha	36	6,8	1.115	2,1	30	5,9	1.696	3,3	22	4,4	1.817	3,1	48	7,4	12.648	7,7
Castilla-León	103	19,6	5.802	10,9	80	15,9	5.430	10,5	81	16,1	5.430	9,3	161	24,9	32.180	19,6
Cataluña	47	8,9	3.639	6,8	53	10,5	7.308	14,2	65	12,9	9.130	15,7	105	16,2	16.178	9,8
Extremadura	34	6,5	6.639	12,5	30	5,9	6.506	12,6	28	5,6	8.100	13,9	50	7,7	16.148	9,8
Galicia	9	1,7	148	0,3	6	1,2	164	0,3	6	1,2	164	0,3	12	1,8	1.330	0,8
Madrid	4	0,7	97	0,2	12	2,4	473	0,9	12	2,4	473	0,8	11	1,7	1.265	0,7
Murcia	10	1,9	6.956	13,1	10	1,9	1.766	3,4	10	2,0	1.776	3,0	8	1,2	4.377	2,7
Navarra	113	21,5	12.010	22,6	153	30,4	12.156	23,6	156	31,1	14.636	25,2	63	9,7	6.233	3,8
País Vasco	4	0,7	406	0,7	6	1,1	880	1,7	5	0,9	934	1,6	14	2,1	5.059	3,1
Rioja	1	0,1			2	0,3	759	1,5	2	0,3	759	1,3	5	0,7	1.027	0,6
Valencia	10	1,9	5.784	10,9	7	1,3	3.052	5,9	6	1,1	3.052	5,3	81	12,5	30.128	12,5
Total	525	100,0	53.063	100,0	503	100,0	51.502	100,0	501	100,0	57.965	100,0	646	100,0	163.963	100,0

Fuente: *Ibidem* Table 6

This distribution allows us to characterise a main importance nucleus by the number of credit institutions in the regions of Navarra, Castilla-Leon and Cataluña. Extremadura, Aragón, Asturias and Castilla-La Mancha formed a second group. Taking into consideration the number of partners, the most important centres are Navarra, Cataluña, Extremadura and Castilla-Leon.

From the point of view of the distribution by provinces the map was more qualified/exact. It was obvious the cooperatives' weigh in Tarragona (in the case of Cataluña) or Badajoz (for Extremadura); and also the significance in Asturias, Murcia, and even Navarra (all of them were regions with one-province). Considering the financial variables, the cooperative framework shows other aspects that could help us to understand the importance of the cooperative establishments. First, according to the variable “associated capital”, the most important organisations were in Extremadura. And throughout the period they concentrated more than 90 % of the associated capital by the small farm loan banks in Spain. In 1915 they had 162.8 million pesetas that makes 24,535 pesetas per partner. The second position in the ranking was of the societies of Castilla-Leon with 227 pesetas per partner or those of Catalonia with 169 pesetas per member. In 1924 the credit cooperatives from Extramadura grouped 179.4 millions

pesetas on a total of 192 millions (for all the country). The ratio implied that each partner contributed 22,157 pesetas, followed from the cooperatives members of Cataluña with 15,558 pesetas per member.

Further information could be obtained considering the “deposit capital attracting” variable. The first percentage of capital again corresponded to the organisations of Extremadura, as well as the deposits per partner. In the second place it was Castilla-León, Navarra, Murcia and Valencia. The average of the impositions per partner shows – except from Badajoz – that the type of a dominant customer was the small farmers. The cooperatives of the last province (Badajoz) was an exception: (1) as much by the capacity to generate endorsements, due to the characteristics of unlimited liability, (2) as to catch saving- deposits in their localities, (3) and to develop specific loan modalities for their customers.

TABLE 8. SITUATION OF SOME “CAJAS RURALES” (CREDIT COOPERATIVES) OF THE BADAJOZ PROVINCE, 1918-1933

Caja Rural	YEAR OF FOUNDATION	1918			1924			1933	
		CAPITAL ASSOCIATE Ptas	DEPOSIT ptas	LOANS ptas	CAPITAL ASSOCIATE Ptas	DEPOSIT ptas	LOANS ptas	DEPOSIT ptas	LOANS ptas
Almendralejo	1906	18.581.460	1.747.402	1.457.975	20.226.313	4.164.437	2.375.250	4.992.019	4.426.600
Badajoz	1919				12.929.000	903.516	781.462	17.447.425	4.290.550
Fregenal	1907	20.922.003	593.442	915.361	20.214.675	1.463.497	823.355	2.473.012	1.519.978
Fuentes de León	1908	5.275.765	452.229		6.808.015	1.495.528	890.335	1.595.791	1.063.476
Los Santos	1909	12.256.002	671.275	669.726	11.331.260	720.440	584.189	753.121	1.109.098
Fuente Cantos	1905	6.000.000	407.576	637.481	7.681.655	864.704	625.852	20.637	253.034
Oliveza	1908	14.482.124	936.957	1.045.843	17.128.062	991.731	976.955	3.869.785	2.986.383

Source: Ibiem Table 7

According to the granted loans the situation was the same as described above: only Badajoz’s institutions granted a credit superior than 1000 pesetas. In the other regions the average amounts were extremely modest, being very close to microcredit operations. In order to compare this hypothesis we have used original database from *Dirección General de Agricultura* related to deposits attracting and loans raising. We have tested the evolution of a set of 57 organisations²⁴ that approximately represent 10 % of the total in the period (Table 9).

TABLE 9. VALUE OF THE DEPOSITS AND THE LOANS IN THE GROUP OF 57 GREATER “CAJAS RURALES”, 1921-1934

	DEPOSITS (ptas)	LOANS (ptas)
1921	12.188.300	9.732.700
1922	27.600.200	10.259.800
1923	25.427.200	13.789.800
1924	31.303.500	22.231.500
1925	41.476.900	27.673.000
1926	39.031.500	28.964.200
1927	42.801.900	33.568.000
1928	54.874.600	33.568.000
1929	62.665.000	39.341.000
1930	67.954.800	39.276.700
1931	60.609.100	35.596.000
1932	61.856.500	34.151.100
1933	62.306.900	35.411.500

²⁴ The database came from alternative sources of the *Dirección General de Agricultura: Memorias y Cuentas Generales del Monte de Piedad y Caja de Ahorros de Madrid*, that published information about financial entities. Its truth has been pointed by several scholars. Also we have consulted Ceballos Teresí (1929).

1934	49.606.000	29.162.600
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Source: *Memorias Anuales del Monte de Piedad y Caja de Ahorros de Madrid y Ceballos Teresí (1929)*

The values show clearly that the official statistics referred to the operations of these credit organisations is hardly trustworthy. During 1921 and 1934, the group of 57 loan entities showed values in deposits and loans higher than the total institutions that worked in Spain (approximately 500). Therefore it is possible that the real economic activity of the cooperatives needed other statistic sources. Only since 1933 the official database of the 90% of the credit cooperatives surpassed the mentioned group. The gap among 1921-1934 suggests statistic deficiency.

TABLE 10. ANALYSIS OF SOME VARIABLES OF THE OPERATION OF THE AGRARIAN COOPERATIVES OF CREDIT: THE "CAJAS RURALES" 1915-1933. (Amounts expressed in pesetas)

REGION	1915							1924							1933			
	CAPITAL ASSOCIATE			DEPOSITS		LOANS TO FARMERS		CAPITAL ASSOCIATE			DEPOSITS		LOANS TO FARMERS		DEPOSITS		LOANS TO FARMERS	
	% del total	Capital by "Caja"	Capital by partner	% of the total Deposits	Deposit by partner	% del total	Loan by partner	% del total	Capital by "Caja"	Capital by partner	% de los Depósitos totales	Deposit by partner	% del total	Loan by partner	% de total	Deposit by partner	% del total	Loan by partner
Andalucía		335	5	0,46	28	0,43	39	0,02	8.025	79	0,53	159	0,83	279	1,16	170	1,94	181
Aragón				0,75	22	1,63	72	1,63	83.027	585	1,22	41	2,48	94	4,14	339	4,96	259
Asturias				1,38	58	1,32	83	0,10	9.699	104	1,17	110	0,98	103				
Baleares				11,50	424	5,07	276	0,68	88.129	401	4,66	259	5,63	349	3,89	668	3,33	365
Canarias																		
Cantabria				0,09	55	0,06	54				0,39	157	0,35	154	1,58	487	1,99	390
Castilla Mancha				0,61	56	1,31	178	0,82	88.770	879	1,10	111	2,06	232	6,06	637	8,23	551
Castilla-León	0,80	12.813	227	2,48	48	4,33	113	0,68	23.213	244	2,74	92	5,15	193	13,17	544	15,87	418
Cataluña	0,03	1.110	14	2,73	76	4,10	170	7,27	255.559	1.558	3,93	79	7,00	156	5,79	476	6,72	352
Extremadura	98,46	4790841	24.535	42,85	658	59,05	1.343	93,04	64097777	22.157	63,58	1.434	54,89	1.381	27,33	2.375	26,14	1.449
Galicia	0,01	2.777	169					0,01	13.448	164			10		0,06	60	0,07	48
Madrid		137	6		5	0,10	165		203	5			0,31	136	0,64	682	1,80	1.207
Murcia	0,08	14.587	21	10,67	156	7,07	154	0,06	15.703	71	4,62	475	3,90	448	6,53	1.983	9,72	1.880
Navarra	0,11	1.606	15	11,64	99	7,07	89	0,50	7.896	67	13,54	169	12,00	167	3,34	712	2,93	398
País Vasco		988	10	0,13	34	0,10	41	0,04	17.866	96	0,52	103	0,13	36	2,18	573	0,72	122
Rioja								0,05	54.003	142	0,07	17	0,47	127	0,07	94	0,19	164
Valencia	0,48	80.794	140	14,59	257	8,29	216	0,16	63.153	103	1,87	112	3,24	217	24,78	1.093	15,31	430
Total	100	315.111	3.118	100	192	100	285	100	479.823	3.326	100	315	100	217	100	810	100	516

Source: *Ibidem* Table 8

To know the reach of the agrarian credit cooperativism in a general framework, we will compare it with the situation in other European countries. Table 11 allows understand the weakness of the Spanish movement in relation with the countries of Atlantic and Central Europe (Belgium, Germany, France, etc.) and even with some of the countries of Eastern Europe (Hungary).

TABLE 11. SITUATION OF THE AGRARIAN COOPERATIVES OF CREDIT IN SOME EUROPEAN COUNTRIES circa 1925 (in dollars USA)

	YEAR	NUMBER OF COOPERATIVES	A. TOTAL CAPITAL		B. SHARE CAPITAL			C. DEPOSITS		
			BY SOCIETY	BY PARTNER	BY SOCIETY	BY PARTNER	% respecto A	BY SOCIETY	BY PARTNER	% respecto A
GERMANY	1924	22.202	87.500	94,9	8.800	9,6	10,2	69.500	75,6	79,5
AUSTRIA	1924	1.657	42.500	103,0	1.000	2,5	2,6	40.700	93,0	93,4
BELGIUM	1925	1.925	18.500	231,0	13	0,15	0,07	18.400	230	99,5
CZECHOSLOVAKIA	1924	4.807	7.750	69,5	20	0,18	0,26	7.600	68,4	98,5
ESTONIA	1925	148	16.700	50,3	1.300	3,8	7,6	15.500	46,5	92,4
FINLAND	1924	1.041	5.700	76,3	82,5	1,1	1,5	550	74,0	97,4
FRANCE	1925	7.887			315	5,5				
HUNGARY	1925	1.145	7.280	20,4	1.020	2,8	16,5	25.990	16,8	80,0
LATVIA	1925	312	14.000	61,1	1.200	5,3	8,7	12.500	54,5	89,1
POLAND	1924	3.646	1.300	5,9	94,5	0,4	6,8	870	4,0	68,0
RUMANIA	1923	3.747	1.980	8,6	628	2,7	31,5	1.260	5,4	63,0
SPAIN	1924	501	60.468	522,6	55.238	477,4	91,3	5.230	45,2	9,4

Source: Karl Ihrig (1925), p. 76. Para España: Lorenzo Muñiz, op. cit.

4.2. DETERMINANTS ON THE EVOLUTION OF SMALL FARM LOAN BANKS.

Some specific characteristics of the credit cooperatives caused their failure: a small size; members low rent level; unskilled staff, or without banking experience; a credit concession based on social linked relations. All of these deficiencies ended facing two basic problems: (1) how to find help of local institutions and (2) how to transmit their services to potential clients²⁵.

The small farm loan banks tried to act like financial intermediaries, tackling problems related to the information and the incentives²⁶. In several occasions the problems arose when their directive staff committed serious managing or accounting mistakes. Another barrier was the lack of confidence. For the cooperatives the confidence was a question of trust in the ethical behaviour of the technical and directive board. In some organisations the base of the success lied in the capacity of establishing bonds among the members with the purpose of putting down the credit price.

Recent studies on the agricultural credit cooperatives in Germany, Italy, Ireland or Denmark²⁷ have shown a set of common dysfunction derived from their operations. The predominant activity was simple banking operations, generally loans; the reserves used to be higher than 90%; the passive one was oriented towards deposits, unlike the urban savings banks; and most of the transactions took place in cash and were distributed through credits. According to Guinnane (2001: 43) the previous practice entailed three kinds of problems:

²⁵ See T. Guinnane (2001), p. 40.

²⁶ See Diamond (1984) theories.

²⁷ For Germany: T. Guinnane (1993a), (1993b), (1994a), (1997), (2001) and A. H. Kluge (1991). For Italy: F. Galassi (1997) and G. Muzzioli (2001). For Ireland: Irlanda (1994b). For Denmark: T. Guinnane and I. Henriksen (1998).

- a) Fraud, commonly some of the managers (especially the treasurers) used to steal the resources of the organisation: by robbing cash; making false accounting activities; giving credits based on personal criteria.
- b) Difficulties of reflecting all the input and exits (income and expenses) of capital resources in the accounting entries.
- c) Management mistakes derived from wrong strategic decisions generally owe to the low skilled financial directors.

Putting to the reach of rural population efficient in financial services implied several elements. Firstly the diminution of the transaction costs. It was very difficult and expensive to accumulate “information”²⁸ about potential customers. The consolidation of the associationism facilitated this task by grouping people where all knew one another.

The overcome of some of the obstacles came from the microfinances practised by the credit cooperatives, small farm loan banks and savings banks. These institutions obtained reasonably good results in terms of cover and sustainability, in some regional spaces (Navarra, Valencia, Murcia, etc.). The “exit” allowed them to supply financial services (credit) to low-income customers. The main barrier that the credit cooperatives had to surpass referred to the risk estimation of anyone who had done the credit. To acquire additional information to improve the risk evaluation was neither easy nor cheap. The cooperatives that had decided on/chose the Raiffeissen system (or the Spanish version made by Fontes) resorted to control mechanisms among the society members. If this was considered excessive, the organisation did not grant the loan.

The second factor that contributed to the (relative) success of the microfinances organisations was the price policy. The interest rates for the customers were reasonable and enough to cover costs and sustain the society. Also the financial products that started up were effective. For instance, they introduced a kind of a credit characterised by free availability of the funds (unlike the supervised and directed loan). They tried to recognise the loan fundability and measure the customers’ capacity of payment basing on the flow of funds of their farms. The results were highly useful financial products for the partners (who increased the well-being of the indebted members) and a price (interest rate) that allowed the permanence and the sustainability of the microfinances organisations.

5. THE GOVERNMENT BEHAVIOUR IN THE PROMOTION OF RURAL FINANCIAL SERVICES.

According to D. North²⁹, the Official help was indispensable for the financial markets development and lending money to low income people in the rural areas. Without its support, the rural financial

²⁸ About this topic it has been published several writing related to microcredit institutions that stressed the importance of the information for their development: G. Saravalli and S. Caselli (2000); S. Larivière and F. Martin (1999); C. Gozález-Vega (1998); S. Navajas (1999).

²⁹ D. North (1992), p. 12

markets had been uncompleted, fragmented, or inefficient. The theoretical function of the State was to make the countryside markets³⁰ stronger and minimise:

- The distance between debtors and money offerers.
- The time of some operations, that implied serious risks for the survival of societies.
- The customers' mistrust to deposit their money in the institutions, etc.

The Spanish Government did not develop (among 1890 and 1935) an appropriate institutional framework for the small farm loan banks in general and for the agrarian credit in particular. As a consequence it caused the prevalence of the informal markets, based on immediate transactions and customised directly among agents³¹. In many agrarian zones of the country the situation did not change until the Thirties (1930).

It could be useful to summarise briefly the Public Action/Function in several points: (1) providing financial services to little and medium farmers, increasing the products (loan) possibilities; (2) decreasing the cost of the credit (interest rate), and increasing the territorial cover/range of financial institutions. However the successive Government of the *Restauración* (historic period between 1874-1923) acted with doubts and hesitations in building a suitable institutional context³². The advantages of a new legislation were so limited³³ that prevented the previous goals. Moreover, many interventions seriously harmed the cooperative organisms efficiency³⁴.

The role played by the Public Administration was then characterised by obtaining certain immediate political benefits, although they had not a significant economic effect. A right performance would have required, first of all, an understanding of the nature and magnitude of the Spanish agrarian problem. And second, a search of legal instruments (administrative and political procedures) to confront it. The huge quantity of unfinished Agrarian Credit Projects (innumerable from 1850 to 1925); the adoption of erroneous financial instruments (f.e., the foundation of the *Banco Hipotecario* [Real Estate Mortgage Bank], credits granted by the *Banco de España* [Central Bank of Spain], etc.); or legislative acts that stopped the fiscal exemptions promised in the *Law of 1906* were not fulfilled (f.e., the creation of the *Caja Central de Crédito Agrícola* 1918) or caused negative effects.

Likewise, between 1890 and 1910 there were several political fights to obtain the control of the cooperative movement among representatives of the catholic cooperativism - supported by the Church - and leaders of the liberal party. The cooperativism began to be outlined like a new element of control

³⁰ Timothy Besley (1992)

³¹ An example is in A.P. Martínez Soto (2002)

³² On the huge number of projects and proposals see Redonet López-Doriga (1924) and P. Carasa (2002).

³³ Law of Associations of 1887, Law of Agricultural Unions of 1906 and its Regulation of 1908, and several dispositions regarding to fiscal exemptions for the cooperatives - Law 1910 and the Regulation in 1911- and creation in 1925 of the Servicio Nacional de crédito [National Service of the Agricultural Credit]

³⁴ See Samuel Garrido (1998). Narciso Noguera (1912), p. 547 said: "...Vistos los tropiezos en que va dando cada día tumbos la ley de Sindicatos Agrícolas, ¿no sería cosa de pensar si las Cajas Rurales deberían relegarla al desván de las leyes inútiles, valiéndose de la ley de Asociaciones [1887]? Gozarían así, desde luego, de personalidad jurídica y podrían realizar sus operaciones sin miedo a que en la ocasión más inoportuna les sobrevenga la muerte envuelta en una real Orden... que hacen letra muerta algunos favores como el timbre y los derechos de aduanas..."

in the rural world³⁵. In other countries, for instance in France³⁶, the Government sponsored the mutualism – it was the State who supported and equipped them economically well – instead of the Catholic credit cooperativism, and so avoid the denominational movement growth. On the other side, in Spain the landlords' opposition of any official financial initiative truncated all Government attempts, which remained as a multitude of drafts died in the parliamentary proceedings. The opposition of the great proprietors showed the limits of the State action to create an official cooperativism option³⁷.

A big problem that the Public Administration had to solve was to eliminate obstacles and reduce high costs of loans transaction in the rural financial markets. A general increase in the farmer families' well-being constituted a good reason to justify the Liberal Government intervention in this scope, as it was demanded by the intellectual leadership of the agricultural credit (Besley, 1992).

On demand point of view, the financial services in the rural areas were restricted due to the high transaction costs and high risks that assumed debtors and depositors; the lack of capacity of the farmers' indebtedness; and the lack of true available information on the credit and deposit services.

Several scholars pointed out that the provision of public goods by the State (education, infrastructures, communications, etc.) facilitates the financial services and diminishes the transaction cost for the indebted ones³⁸. In this field the insufficiency of the governments investments in the *Restauración* period was well known.

Referring to the diminution of the debtors and depositors' risks, the Public performance must have turned around the creation of an appropriate regulatory legislation for the requirements of the rural financial markets. To settle safe markets was one of the most difficult tasks that the Public State had to confront and required the creation of a complex institutional infrastructure. However, as we mentioned before, the Spanish State did not do it.

The third point related to the demand was the diminution of the capacity of indebtedness of the rural population. The weak growth of the agrarian productivity was reflected in the small capacity of payment of the modest farmers. In fact, several policies adopted and the urban slant in the public goods provision actually reduced the transaction costs and the risks of indebted and depositors, but not in the countryside. The State tried to start up measures to limit the risks and to favour the productive opportunities of the clients in the new rural financial intermediaries (credit cooperatives and savings banks). One of the most outstanding actions was the creation of a line of "soft credits" granted by the

³⁵ Narciso Noguera, a relevant Catholic scholar said: "... *En España hay otro peligro más grande. El empuje de la acción social católica ha conseguido turbar a ciertos políticos que más blasonan de liberales, óyense gritos de odio y voces de amenaza, mal disimulados so pretexto de combatir el clericalismo, ¿quién sabe lo que le espera a nuestros sindicatos, cajas rurales, asociaciones profesionales y cooperativas? ¿Quién nos certifica de que no harán la vida imposible a las cooperativas más detestadas cuales son las rurales? Aun ahora, con una ley tan favorable a los Sindicatos, ¿no vemos las mil trabas y triquiñuelas con las que se los embaraza o deshace y que motivaron la sentida reclamación de los concurrentes a la Semana Social de Sevilla? ¿Cuánto mayor será el peligro si el Gobierno hostil tiene algún cable para traer a las asociaciones a su dominio absoluto?...*", Narciso Noguera (1912), p.239.

³⁶ On French experience see Madeleine Degon (1936).

³⁷ See S. Garrido (1998).

Banco de España, or the foundation of *Servicio nacional del Crédito Agrícola*, although these measures had little reach by the size of the current available capitals.

The institutional channels were reduced, with restrictive rules of giving credits (*Banco de España*, *Pósitos* and *Servicio nacional del Crédito Agrícola*). In practice, those who had access to their loans were groups of landlords with political power, as it happened with the small farm loan banks of Badajoz (see Table 12)

TABLE 12. OPERATIONS OF CREDIT OF THE BANK OF SPAIN WITH THE AGRARIAN COOPERATIVES 1903-1911

	A Number of borrowing organisatio ns (syndicates and "cajas")	% que supone A del total de 1903-1911	B Granted loans Ptas	C Granted loans to the "Cajas Rurales" of province of Badajoz Pesetas	% de C sobre B	% que supone B del total de 1903-1911	Average value of the loan granted by organizatio n ⁽¹⁾ Pesetas	Average value of the loan granted to "Cajas Rurales" of Badajoz pesetas
1903	9	0,9	87.561			0,2	9.729	
1904	12	1,3	205.708			0,4	17.142	
1905	38	4,1	1.067.979			2,4	28.104	
1906	96	10,4	3.592.350	1.323.510	36,8	8,1	26.078	147.056
1907	127	13,8	5.839.271	3.090.429	52,9	13,2	24.326	220.744
1908	147	16,0	7.228.602	4.326.019	59,8	16,4	22.854	216.300
1909	167	18,2	8.957.457	5.556.346	62,1	20,3	23.783	231.514
1910	162	17,7	8.933.484	5.183.813	63,9	20,2	27.171	215.992
1911	166	18,1	8.110.196	4.815.992	59,3	18,4	23.198	200.666
1903-11	915	100,0	44.022.612	24.296.109	55,1	100,0	20.238	205.378

Source: Own elaboration. Information in: Informe Estadístico del Subgobernador del Banco de España D. Francisco Belda y Pérez de Nuevos, Madrid, 1912.

(1): (B-C)/a-n° small saving banks of Badajoz (1906: 9; 1907: 14; 1908: 20; 1909, 1910 y 1911: 24)

A half of all the credits granted by the *Bank of Spain* (1906-1911) went to stop *Cajas Rurales de Badajoz* (55.1 % of the lent capital). The entity was formed by proprietors who preferred to associate their land and by this way to obtain a solid endorsement (valued in 123,2 million pesetas on the average). Also, the members had important political connections that reinforced their position as credit plaintiffs.

One interesting project to establish financing organisms was to settle up the *Caja Central de Crédito Agrícola* (created by Real Order of 2-X-1918), although it was not approved in the Parliament. The *Servicio Nacional de Crédito Agrícola* (SNCA, National Service of Agriculture Credit) was the first public institution destined exclusively for finance agriculturists. It was founded by *Junta Consultiva de Crédito Agrícola* (Real Decree 24-III-1925 law) during the Dictatorship of Primo de Rivera. The new organisation ought to lend funds to the cooperatives (unions, small farm loan banks and federations), as well as to the *pósitos* and particular farmers (see Table 13).

TABLE 13. DISTRIBUTION OF THE CAPITAL LENT BY THE NATIONAL SERVICE OF AGRARIAN CREDIT, 1926-1933 (millions of pesetas)

TYPES OF LOANS	1926	1927	1928	1929	1930	1931	1932	1933
With pignoratious guarantee	5,2	15,8	30,2	32,2	23,9	18,5	13,9	17,1
Destined to cooperative agricultural organizations	1,9	2,9	2,8	1,3	0,6	1,2	0,9	0,9
Destined to "Pósitos"	-	0,7	0,06	1,0	0,4	0,8	-	0,2
Loans with personal guarantee	0,03	2,3	3,1	3,7	4,6	7,1	10,8	16,4
Personal hypothecating loans	-	-	0,3	1,5	1,1	-	-	-

³⁸ It is interesting to see: D. North (1992); Fleisig and de la Peña (1996); Adams, Dale, González-Vega and Von Pischke (1987); T. Besley (1992)

A. LENT TOTAL	7,1	21,8	36,6	39,9	30,7	27,7	25,7	34,7
% de A que representa el capital prestado a cooperativas	26,9	13,7	7,8	3,3	2,0	4,5	3,8	2,7

Source: Elaborado a partir de las Memorias Anuales del SNCA y del AEE del año 1934

The capital of the SNCA did not help to make the agrarian financing more effective. In addition, the money for the cooperatives support had been diminished throughout the period 1926-1933. Once more only big landowners benefited from the money designated to agrarian associations. For instance, such catholic associations, as the *Asociación de Agricultores de Zaragoza* (Association of Farmers of Zaragoza), received a credit of 1.5 million pesetas in 1925. Also the catholic cooperatives, for example, the *Católico-Agraria Federation of Murcia* received 500,000 pesetas in 1926, or the *Catholic Agrarian Federations of Galicia* that got 1 million pesetas in 1926.

On supply point of view the main problems were the following. First of all, the rural financial transactions faced serious difficulties due to the insufficient information that complicated the lending capital risk evaluation. Second, the incentives mismatch between the indebted and deserving parts made it difficult to estimate contracts or accentuate the possibilities of the money loaning losses. And finally another obstacle that discouraged the potential institutional moneylenders and restricted the supply was the difficulties of diluting the fixed costs of the financial infrastructure.

5.1. THE INSTITUTIONAL ACTION DEFICIENCY: WHAT DID IT NOT DO?

One better physical and institutional infrastructure would have stimulated the demand as the supply of financial services very much and, more concretely, the development of the small farm loan banks. The difficulties could be surpassed using new financial technologies that allowed, with reasonable costs, (1) to reduce the risk of the "moratoriums" at acceptable levels and (2) to create better economic societies.

In both cases, the State's role was important, because through the institutions development it could generate infrastructures that improved the information needed by the market agents. Second, it could lower the price of the information accumulation costs (f.e. collaborating for the development of accounting norms). And finally it could help to solve the problems of incentives (f.e. improving systems for the guarantees granting) and contribute to fulfil and reduce the monetary of contracts (f.e. improving the Courts efficiency). All the features attributed to the State provoked interference to the market, although they were necessary and add to the institutional scaffolding.

Another proposal was related to the property rights: the legislative power must work on a better definition and protection of the property rights. A central point was to acquire the documentation to acreditate the property rights for reasonable cost so after it could be offered in guarantee³⁹. As far as "real estate good", this was obtained by reviewing the agrarian legislation that cut off the property right and the possibility of selling under a mortgage clause, with specific programs and with the creation of registries that supported the documentation of those rights (the mortgage and property

³⁹ Ramos Bascuñana (1903, 1902,1910) and Pazos y García (1914, 1920) stressed the bad consequences for the credit related with the legislative.

indebted of the creditor). As far as “personal good”, the legal situation required – again - a revision of the legislation, and also the *pignoratious* guarantees and the creation of support mechanisms denominated “good registries”⁴⁰. These registries were fundamental because of the debtors farmers could accede the goods easier than the lands. To be able to offer these guarantees was also necessary to redefine the debtors and creditors rights. All the mortgage and civil legislation was developed to protect the indebted against the abuses of the creditors. The asymmetric treatment, nevertheless, discouraged the institutional moneylenders and, in spite of the good intentions of the legislator, the agriculturists remained without access to the formal credit that was in the hands of informal moneylenders (usurers). The restrictions of usury through interest rates control (Law of 1909) could be considered as several examples of asymmetric rights. A peculiar manifestation of the asymmetric rights was the defencelessness (and even repression) of the depositors, who usually were poorer than the borrowers.

As far as the financial innovation it also displayed market failures. The “novelty” usually came from investments in experimentation, development, transference, adaptation and learning of the new technologies. But the private activity did not find enough incentives to make these investments due to high expenses implied and the difficulty to recover them in the short time. Resulted in opening a scene for the State intervention, based on the support of innovation in financial technologies. The right question was, ‘How to do it?’ or ‘Which was the most suitable instrument for doing it?’ The experience of the urban microcredit institutions showed the way to follow, based on continuous innovation and adaptations to the characteristics of their customers.

The funds available to most of the credit cooperatives were very limited in comparison with their aspirations to improve the social welfare of the small cultivators. This budgetary restriction had to review their interest rates policy, and look for how to increase their associated capital and the number of members, and manage their deposits better. As we have previously commented, the public supply funds had a token character and until 1925 there was not specialised organism, the SNCA, which later performance did not go more far away, because of its limited availability of monetary sources.

The Government behaviour could be defined as regulating, for its great control on this financial sector. The importance of public goods, legal and judicial infrastructures were highly recognised, even though the major effort was about police actions with immediate effects. For instance, it was politically more attractive to announce the availability of some million pesetas to lend that to invest them in a good law of *pignoratious* guarantees. Instead of concentrating its efforts to improve the regulatory frame and supervise the financial intermediaries (banking and no banking) that offered deposit services, it looked for regulating until the smallest aspect.

Actually, in the State performance we have not found the actions that impelled the development and transference of technologies, as well as a decisive support to the processes of “institutional fortification”. Both aspects would have managed to consolidate strong organisations, able to generate

⁴⁰ About this topic see Fleisig and de la Peña (1996).

efficient and sustainable technologies. Neither it did provide funds that animated the cooperatives with less capacity to significant deposits that resulted that the process of cooperatives destruction did not stop, as it was observed during these years. Finally, a decentralised action did not take place.

CONCLUSIONS

The roots of the agrarian credit cooperativism in Spain were bound to the search of solutions to the agrarian problems in the end of the 19th century, following the guidelines of other European countries. The ideas and models were spread among a reduced group of experts (the work of Diaz de Rábago must especially be emphasised) who displayed the main currents of the German cooperativism (Raiffeisen, Schulze-Delitzsch and Haas systems) as well as the adaptations made in France, Belgium or Italy. The first agrarian associationism, hardly defined and bad organised, “copied” these proposals in different tendencies between 1890-1906, although the concrete accomplishments of credit organisations were little. These first Spanish experiences had, generally, an ephemeral life due to monetary restrictions. Some of these first cooperatives were constituted like small farm loan banks thanks to support of groups of proprietors, the Church or the local authorities. That happened in the case of the pioneer experiments made by Nicholas Fontes in Murcia (1891), or L. Chaves in Zamora (1902), or by the clergymen in Navarre (1903-1904). All of them promoted societies based on the Raiffeisen system. Also other models obtained a high degree of sustainability due to their promotional groups; thus: Agricultural Chambers, Agricultural Unions, Associations of Farmers, etc.

The cooperatives started up during 1890-1906 had a directive staff with little experience in business and no one - in accounting or bookkeeping. In order to resolve these problems, they tended to remunerate their more essential staff personal (directors, treasurers), and tried to keep the same board members in the successive elections, which caused the accumulation of technical skills.

In spite of the disadvantages that the credit cooperatives had to resolve, some of the referred organisations (small farm loan banks and savings banks) managed to start up micro-finances practices that obtained an important progress in terms of cover and sustainability. This allowed them to expand the supply of financial services (credit) to low-income customers. These organisations faced difficulties derived from the heterogeneity of the customer, which complicated the collection of information. The relative success of micro-finance organisations was due to their price policy, with a reasonable interest rates that covered the main part of the loan costs.

The financial product designs allowed them to introduce new modalities and procedures that responded to their associates and clients’ demands. These products were distinguished, in many cases, by the free availability of the funds (unlike the supervised credits that were granted by the official organisations). On the other hand, the transaction costs were very low for their clients, in comparison with those of the official or deprived entities. Comparatively, the most successful organisations were those that adopted institutional designs that valued the sustainability (Raiffeisen model; popular banks inspired in Schulze-Delitzsch thesis, several savings and loans banks or *Montes de Piedad*, etc.)

All the cooperatives that survived throughout the studied period, agreed in the use of microcredit technologies based on the following premises: (1) the direct bond among employees and customers; (2) the development of a relationship (a friendship) that became an incentive to pay; (3) the use of intensive procedures to obtain information about the partners and clients, which allowed to various guarantees to be accepted basing on parameters different from the purely economic ones; (4) an agile and fast resolution of the operations, thanks to a reduced infrastructure, a next location, or simple proceedings. Also the groups of cooperatives that managed to remain made a strict pursuit of the calendar of loans payments, being rigorous with the delays. This situation generated in the customer the belief that the “payment” was a central element for granting new loans.

Actually, the Spanish agrarian credit cooperativism had a limited development in these years, as much in extension (number of cooperatives) as in capacity of financial performance. In spite of this general tonic, it is necessary to introduce some lights, because in certain regions their role was important to put within reach the agrarian technological innovations to the medium and small cultivators. The organisation in federations was also an important key to explain the successful, like the commercialised agrarian context where they acted.

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ANEXO 4

COOPERATIVISMO AGRARIO DE CRÉDITO: LAS CAJAS RURALES ESPAÑOLAS EN 1933

	Número de cajas	Número de socios			Capital asociado (ptas)				Imposiciones (ptas)	Préstamos a labradores (ptas)
		Total	% del total	Socios/caja	Total	% de total	Capital/caja	Capital/socio		
Andalucía	29	9.111	5,5	337	1.082.513	1,6	40.093	119	1.546.037	1.649.214
Aragón	42	16.213	9,8	386	1.491.665	2,2	35.516	92	5.505.793	4.202.144
Asturias										
Baleares	19	7.736	4,7	407	5.171.823	7,5	272.201	668	5.171.823	2.824.497
Canarias										
Cantabria	52	4.325	2,6	83	600.449	0,8	11.547	139	2.106.087	1.687.877
Castilla La Mancha	48	12.648	7,7	263	2.306.096	3,3	48.043	182	8.062.090	6.968.984
Castilla León	161	32.180	19,6	200	6.198.235	9,0	38.498	193	17.505.287	13.441.741
Cataluña	105	16.178	9,8	154	14.014.277	20,4	133.469	866	7.701.333	5.695.695
Extremadura	50	16.148	9,8	323	4.957.407	7,2	99.148	307	36.314.715	22.127.138
Galicia	12	1.330	0,8	111	56.489	0,08	4.707	42	80.520	64.425
Madrid	11	1.265	0,7	115	119.259	0,1	10.841	94	863.373	1.527.205
Murcia	8	4.377	2,7	547	4.327.305	6,3	540.913	989	8.681.762	8.230.573
Navarra	63	6.233	3,8	99	1.912.685	2,8	30.360	307	4.437.927	2.480.260
País Vasco	14	5059	3,1	205	418.407	0,2	29.886	83	2.900.490	617.802
Rioja	5	1.027	0,6	361	159.528	0,6	31.905	155	97.046	169.014
Valencia	81	30.128	12,5	372	25.728.745	37,5	317.639	854	32.926.187	12.959.858
Total España	646	163.963	100	254	68.544.883	100	106.107	418	132.861.937	84.646.427

Fuente: Elaborado a partir de Ministerio de Agricultura, Dirección General de Agricultura, Censo

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