

DECENTRALIZATION AND COOPERATIVES IN TAMIL NADU: AN ASSESSMENT

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CERTIFICATE

This is to certify that the dissertation entitled, *Decentralization and Cooperatives in Tamil Nadu: An Assessment* Submitted by **Ramajayam. P** in partial fulfillment of the requirement for the award of the degree of **Master of Philosophy**, is his own work, and has not been previously submitted for the award of any other degree of this or any other university.

We, therefore, recommend that this dissertation may be placed before the examiners for evaluation.

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CHAPTER 1

INTRODUCTION

Cooperation is basically a socialist concept, which means collective ownership of production and distribution. It is based on the ideals of democratic socialism. The cooperative movement is an socio-economic movement, founded to help the underprivileged and the working class. This unique concept has evolved as the result of the exploitations and sufferings of the working class in the West. One could call this as a working class movement- initiated, organized and run by the working class people with their engrossed participation at every level of the power structure. A sense of *collectivization* can be realized among the people through this concept.

Another related stream of thinking on the cooperatives - is derived from the Nineteenth century European thinkers and activists who founded the *Rochdale cooperatives*¹. The *Reiffeissen movement*² in Europe projected the cooperatives as a democratic answer to the economic inequalities created by the market capitalism and the political excess of communism.

The cooperative movement throughout the world has profoundly been influenced by these ideas. However, despite some commonalties between the outlooks of the communitarian and the classical cooperative tradition, the two have by and large evolved independent of each other. Moreover, while the latter had dominated the mainstream

¹ Rochdale cooperatives: The Flannel weavers of Rochdale combined together in the Rochdale Society of equitable pioneers to secure their household requisites at the whole sale prices and escape exploitation by the retailers. Thus was imitated the Consumers cooperation in England.

² The Reiffesen, type of society was First evolved by Von Raiffaisen, the Burgomaster of Wayer busch, in 1862 to protect the Farmers from the rapacious money lenders. These societies are mainly agricultural. The objects kept in view were to give the Formers a bank at his own door, to combine the bank and the shop in one; to devise a form of security within his reach, to encourage his thrift by accepting his deposits, however small the amount may be, to dissuade him from borrowing for improvident purposes; to benefit him educationally as well as materially, in other words "*to emancipate rather than enslave him*".

cooperative movement, the former had restricted itself largely to question of collective-action.

The term '*cooperation*' and 'collective-action' are commonly used interchangeably. However, the cooperatives are generally advocated as a response to the *exploitative markets* while the '*collective-action*' is indicated in the context of *missing markets*. The cooperatives of producers, consumers or workers are often formed even where markets of some sorts were already functioning for products and factors including labour. But the "collective action" issue is typically set in a situation where the public goods or the common property externalities prevent the market from emerging at all

The dichotomy is addressed in some way by the emerging strands of institutional economics literature. One of the main outcomes of the neo-classical economics is that the efficient markets occurring throughout the world economy, assure Pareto-optimal social outcomes-in which no change can make some one better off without making someone else loose-out; and a nearly ideal society would be found if the initial distribution of income and wealth was egalitarian.

According to the National Policy on Cooperatives, cooperative is an autonomous association of persons united voluntarily to realise their common economic, social and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise. The cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity.

The basic concept of cooperation is "working together for the common good"³ with the principles of mutual help and self-help, among the working class. First the

³ See Daman Prakash. *Cooperative Democracy vis-à-vis- Members Education*, (NewDelhi:TheCoopTimes,1988), p7.

inception of the cooperative system in India was in the form of organizations in whose membership one enjoys special privileges and concessions conferred by law and constitute business organizations in which there is no place for exploitations.⁴ It attempted to bring out a social order in which man would be free from the class struggle and has an organized structural administrative system. Later these organizations widened up their base in diverse fields, more prominently in agriculture, industry, handicrafts and textiles, and wholly participated in the community development programmes. Finally, it became a socio-economic movement for the weaker section with influential political ideology, and an institution, with an enduring and stable set of arrangement that regulates individual or group behavior on the basis of established rules and procedures. Particularly, in India, the cooperative movement was and is considered as the lifeline of the agrarian society, which was under the weight of indebtedness challenging the rural economy, and still it continues to remain the same.

The main objective of the cooperatives was to make a break-through in the economic stagnation of the working class, especially for the vast majority of the agriculturists who mortgaged their lands and other properties. Different opinions emerged from the Western liberals and the socialist countries about the cooperative system as to, how it should function and deliver the benefits. They are as Follows:

- The cooperative institutions are voluntary association of independent economic units, organized, capitalized and run by and for its members providing and /or marketing goods and services.⁵

⁴ See Hafela T.N., *Principles, Problems & Practices in Cooperation: Meaning and Significance of Cooperation*. (Agra: Shiv lal Agarwala & Company, 1973). P.1.

⁵ See Daman Prakash., *Cooperative Democracy vis-à-viss Members Education* (New Delhi: The Coop Times publishers. 1988), p.7.

- It aims at eliminating the competitive capitalistic system, and replacing it by one, which is based on mutual cooperation.⁶
- The cooperative movement can be an important instrument in furthering the socialistic agenda. The cooperative is thus, a socio-economic organization working for the people, and serving not only the interests of its members but also the social progress which promotes, safeguards and realizes the interests and the aspirations of the working class people⁷.

The significance of the decentralization in the cooperatives is to revitalize the democratic participation in the socio-economic institutions such as the cooperatives. So that this study analyses in the perspective of democratic control, democratic management, incorporating various section of the people in the local self-governing body. Further the importance of the cooperatives is that, it carries the welfare schemes for the agrarian community, industrial labors (including large scale, small scale and cottage), So that it has to analyzed within the structural framework of development and decentralization with reference to planning, policies and programmes of rural development, agricultural and women's empowerment and so on.

⁶ Ibid.,p.7.

⁷ Ibid.p.7.

THE OBJECTIVES:

The objectives of the study are as follows:

- Understanding the concept and evolution of the cooperatives in decentralization perspective.
- Studying the operationalization of cooperatives in the developmental strategy with reference to the planning, policies, programmes of the government.
- Studying some significant issues in the field of cooperatives and exploring some different perspectives of the participation and development and the approaches.
- Assessing the cooperatives in Tamil Nadu in the decentralization perspective.

RESEARCH METHODOLOGY

This has been carried out with reference to cooperative laws and other Acts, various documents of National Planning and State Planning, reports of the reform committees as the primary sources. The secondary sources of this study are the articles of various academic journals and magazines.

CHAPTER 2

UNDERSTANDING DECENTRALIZATION AND COOPERATIVES

This chapter discusses on background of decentralization and cooperatives. It deals with decentralization process at the local level since the independence, and its various stage's aspects and challenges. This chapter covers the evolution, concept it's role in various fields and institutionalization of cooperatives. The state participation and intervention in the cooperatives and it's decentralization process are discussed within the parameter of democratic frame work. On the whole, it gives a general picture about the decentralization and the cooperatives.

After the Independence, various models of developmental strategies were discussed in the constituent assembly. The debate was as to 'which road to be taken?' and "what form of political institution" would foster or at least permit social revolution. Jawaharlal Nehru was very much in favour of the Soviet socialist model of planned economic development and a mixed economy. One of the followers of Mahatma Gandhi, Shriman Narayan Aggarwal proposed a Gandhian constitution for free India, based on the principle of non-violence. He argued that economic and political decentralization would result in self-sufficiency and self-governing village communities. He advocated for a model of non-violent organization¹. Consequently the very large measures of local self-government would give rise to no 'regular and rigid political parties'². For Gandhi, villages were the basic unit of social organization and civilization. But all his conceptions were initially repudiated in the constituent assembly. According to Austin, Indian constitutional structure is a good example of principle of accommodation on matter of substance. The panchayatiraj was accommodated precisely on this ground. The leaders of the assembly had successfully separated the demand for panchayats in the

¹ See. Granville Austin, *The Indian Constitution.. Cornerstone of a Nation*, (New Delhi:Oxford University Press, 1996,) p 30.

² Ibid, p. 31.

constitution from the support for a completely Gandhian system of indirect governance, thus avoiding a major conflict between panchayat supporters and the proponents of direct parliamentary governance. However, a strong demand for panchayat model continued in terms of administrative decentralization as against centralization. Nehru and many other assembly members recognized the need for a strong centralized government and at the same time, providing as much decentralization as possible³. The decentralization had to take place at below the level of provincial government, and legislation to this end would be left largely to the provincial legislatures. The inclusion of Article 40 was a conscious attempt to accommodate the apparent incompatibles. The development of panchayats since 1950 suggests that the device can be successful⁴. In 1950 the Planning Commission came into existence as a powerful ministry in the cabinet to look after the developmental programmes. In 1952, it began focussing on large-scale socio-economic development for rural sector in the name of community development programs. In 1957, Balwantrai Mehta was appointed to study the community development projects and National Extension Service. Later, he submitted a report with the recommendations for setting up panchayatiraj institutions at the village level in all the states. The structures suitable to each state, were to be worked out, the pace was to be accelerated for constituting, and public participation in community works were to be organized through statutory representative bodies⁵. He believed that it was the only way by which, the basic principles of democratic decentralization could be possibly achieved. In 1977, Ashoka Mehta Committee had emphasized the need for a constitutional amendment and the constitutional guarantee of election as a necessary condition. It had recommended a 3-4 tier government i.e Centre, State, District, and Village levels. The concept of people's participation must be considered as an ideological commitment and therefore, there is a

³ Ibid.p.319.

⁴ ibid.p.319.

⁵ George, Mathsew, *Panchayatiraj. From Legislation to Movement*, (New Delhi: Concept Publishing Company, 2002) p8.

need for legislative and structural measures to provide legitimacy to people's participation⁶. In 1988, P.K.Thunga's one of the important recommendations was that the panchayatiraj bodies should be constitutionally recognized. In 1989, L.M.Singhvi drafted the 64th Constitutional amendment bill and appended it to the Ashoka Mehta Committee report, but it was defeated in Rajya Sabha. The bill sought to establish panchayatiraj at the village, intermediate and district levels, composing mainly of representatives elected from territorial constituencies. A separate schedule to the constitution was proposed containing 29 subjects. Apart from a three tier system of panchayats, the bill also envisaged that elections were to be organized by the Election Commission; reservation of seats for SC/ STs and women; a maximum tenure of 5 years for panchayats; the setting up of finance commission in the states; and empowering the CAG for the audit of the panchayats. During the Narasimha Rao government, in September 1991 the 72&73rd amendment bill were separately introduced in the Lok Sabha. While the two bills broadly resembled the 1989 versions they differed in some important aspects. In case of panchayatiraj bill, the provision for the Grama Sabha was a conclave of all the voters, as introduced by V.P.Singh. As far as reservation, for the chairperson's positions for SC/ STs, were concerned it was an affirmative provision rather than merely an enabling clause.

And the other aspect of the concept was as to what kind of ideas or imperatives forced to accelerate its pace within the system with modifications. But there were no changes in the fundamental reasons like rendering the basic common minimum needs for the rural poor, in terms of improving living standard, education, and employment. Sundaram argues that, the orientation and structure of developmental planning changed from 'growth to distribution with growth', with accompanying objectives of increasing

⁶ Ibid, p 32.

productivity and incomes of all segments of society⁷. He espousing Lakdawala's concept, argued that it was currently a well-recognized doctrine that since local resources were to be harnessed, local needs were to be consulted, and local knowledge was to be needed, a large degrees of decentralization was essential for the success of development efforts⁸. It was also argued that decentralization was important to preserve the local natural resources and sustainable development of the society. Three sets of ideas emerged in three phases of decentralization in the Asian and African experiences.

Some Trends and Perspectives in Decentralization

- In mid 50's - early 60's, the emergence, establishing and strengthening of local self-governance.
- Early 70's- early 80's, the emphasis shifted to the role of decentralization as a means of development and achieving various objectives of development ranging from popular participation to better management of rural development; and maintenance of national development. In this stage UN came up with the question of development and the idea of 'growth-equity' or redistribution. This was the period of crisis that many complexities of planning development and administration gave rise to certain specific programmes for the rural development and specially targeted groups.⁹

The complexities paved the way to the idea of two-way process in planning, namely, Top-down and bottom –up, multilevel planning. This acquired its in depth meaning as a tool to bring about functional, financial, administrative decentralization at the various level demanding people's participation, Sharing and capacity-building for rural

⁷ See K.V.Sundaram, *Decentralized Multiple Planning: Principles and Practice. Asian and African Experiences*, (New Delhi: Concept Publishing Company, 1997) , p23.

⁸ Ibid, p.23.

⁹ ibid, p.23.

development. During this stage the evolution of the concept, and the imperatives for the decentralization has been interpreted as stemming three converging forces; disillusionments with the results of central planning and control of development activities; the implicit need for participatory management of development programmes to conform to the 'growth and equity' strategy of 1970's and the realization that; with expansion of government activities and resulting complexity, it was difficult to plan and administer all development activities from the Centre¹⁰

The third stage of this concept is in practice, particularly in India. The economic crisis and the political upheavals pushed decentralization further down to the 'grass-root democracy'. The democratization of decentralization initiated through panchayatiraj institutions has become the important component of rural development. The economic crisis led to reinstate the old model of development in 'self-reliant approach', which had the greater emphasis in the first five-year plan. According to Sundaram another significantly considerable reason is that "decentralization is an alternative policy option at meso- level. It calls for the operationalization of regional, economic development-cum-environmental planning". Another historical event, which had contributed to a favorable climate for decentralization was the collapse of the planned regimes of Eastern Europe¹¹. These points exert that the role of external forces like developed countries and other international organizations play a greater role in designing rural development strategy in underdeveloped countries. In a way bringing the indigenous institutions back to the development sphere and revitalizing its scope with popular support with the help of applying social policies in the local self-governance out of institutional administrative reforms could be applicable in the exercise of the democratization.

¹⁰ *ibid.*, p.25.

¹¹ *ibid.*, p. 26.

There are various spheres of decentralizations, like administrative, functional, and financial. Depending on the extent of the means by which power can be shared with the lower levels, Rondinelli's (et.al), have recognized the following types as deconcentration, delegation, devolution, and privatization¹².

But our study of decentralization is limited only to the devolution of power in the political institutions. Devolution in fact implies political decentralization i.e. decentralization of power to a local political body such as sub-national legislature. Devolution implies a situation in which lower ranking units acquire greater autonomy in respect of certain defined functions, including decision-making authority¹³.

Local Autonomy and Decentralization

The concept of local autonomy for local self-governance is the focus of the political decentralization. Local autonomy means, "the ability of local communities to govern and serve for themselves, to determine their own future, and -in practice as well as in law to initiate, integrate and take decisions and actions, with a minimum of outside direction, approval, help, or other forms of intervention"¹⁴. The idea of local autonomy is that which sensitizes local communities on their own socio-economic problems, taking the whole population into the participation function for decision-making. The local self-governance is concomitant with decision-making and implementation if not, at all policy designing.

¹² *ibid*, p.27.

¹³ *ibid*, p.29.

¹⁴ *ibid*, p.29.

Local Self-Governance and Decentralization

The concept of local self-governance is the core of the decentralization process. It had gone through many complexities to reach at least a stage of the decentralization in the post-independence era. This was the stepping-stone for the cooperative federalism. Panchayatiraj institutions are said to be the third stratum of the federal polity after the enactment of the 73rd constitutional amendment. This has given a wider scope for the masses at the grass-roots level to exercise their power and mobilize the resources for rural development.

Yet, another stipulating argument is that privatization itself is a form of decentralization in which the government transfers some responsibility or public-functions to voluntary bodies, private or NGO's. Voluntary organizations may include trade and industrial associations, professional groups, cooperatives, etc¹⁵. This might be acceptable as per the definition, but privatization in itself is a contested concept, and its process and motivation are debatable. In India, we have the system of welfare policy measures and other related issues like socio-economic disparities, affecting the basic living standard of the common citizen. Various service sectors have to be developed in terms of equal opportunity for all. The success of the privatization cannot be measured with the reference to the developed countries. This would mean that the state is retreating from its primary responsibilities of socio-economic up-liftment of the masses and particularly the marginalized sections of society.

Democratic decentralization aiming at political empowerment evolves with the greater concepts like local-autonomy, self-governance, public participation, and devolution of power to the grass-roots level. It can ensure enhanced participation from

¹⁵ *ibid*, p.30.

the weaker section; and facilitate Planning and implementation on the basis of locally felt needs within the provided Constitutional framework. All these concepts are to sensitize the society on socio-economic development through political institutions with certain ideological framework. It is the task to bringing the administrative and political communities on parallel track, in which the earlier is influenced for class character and the latter by the caste character at multilevel. So political decentralization in itself is an egalitarian ideology to break the class- caste barrier in development of rural community.

Origin of the Modern Cooperative Movement

One can distinguish between modern cooperatives, established since the mid 19th century, and the historical cooperatives of earlier centuries - kinship associations, guilds, corporations, and fraternities. The cooperative associations of the industrial era performed public official duties, as it were, and membership was prescribed, the modern cooperatives are with some exceptions-private associations based upon voluntary membership¹⁶.

In the case of modern cooperative associations, it is to some extent a question of opposing power groups by establishing counter- power. The idea of cooperation had been and is most effective in agriculture, small industry and trade. Cooperative associations of consumers have also played an important part. The establishment of cooperatives is influenced by a variety of factors- particularly by rural cooperative.

Marx sought a change in the socio-economic conditions by political means, the cooperative movement called up on the power of self-help in the attempt to establish an economic system in, which there is no more room for unrestrained pursuit of profit

¹⁶ Reference from *Marxism, Communism and Western Society. A Comparative Encyclopaedia*, p.218.

complete regimentation of the economy by the state¹⁷. Cooperative movements have transformed the condition prevailed in the age of early capitalism: freedom of association, social legislation, the sanctity of wage agreement, the five-day work, security of livelihood, etc are some of the outcome of an intensive political struggle¹⁸.

It is a system of social organization based on the principle of unity, democracy, equality and the means for social justice. On the other hand, the socialist countries sought the intervention of the state to regulate the institutions, which does not allow any other private agency or organization to provide the goods and services. But India took the middle path in this regard i.e., neither a capitalistic nor a communist but closer to 'socialism', here by expecting the socialist pattern of society and planned economic development. The cooperative process has two phases that as a movement with an ideology and as an institution. During the pre-independence it took both the forms and continued under the guidance of the Planning Commission in the post-independent era. While Nehru talked about the economic change by his socialist model as a democratically planned collectivism, that need not mean of abolition of private property, however, it meant the public ownership of the basic and major industries, it meant the cooperative or collective control of the land. In India it would be necessary to have, in addition to the big industries, cooperatively controlled small and village industries¹⁹.

V.L. Mehta describes, "cooperation is only one aspect of a vast movement which promotes voluntary associations having common needs who combine together for the achievement of common economic ends."

¹⁷ *ibid.* p.217.

¹⁸ *ibid.* P.217.

¹⁹ R.C.Dutt, *socialism of Jawaharlal Nehru* (New Delhi: Abhinav Publishers,1981) p172.

BASIC FEATURES OF COOPERATIVES

Principle of Democracy

The most important feature in the operation of a cooperative is the democratic control and supervision of its affairs. When the pioneers provided for the rule of one member-one vote, they recognised that democracy was not only a form of government but also a declaration of the rights of man. This method gave each member the power to govern as a human being, irrespective of the amount of capital each owned.²⁰

The individual members directly elect the representatives to the board of management. Another noticeable development particularly in the under-developed countries is the association of the government representatives with the boards of management on the plea to make sure that the aid provided by the government is utilised in the way in which it was originally intended.²¹ These developments are important in many ways and have brought about changes in the voting system, yet it has retained the respect for the principle of democracy.

Principle of Equity of Distributive Justice

It is still another fundamental principle of cooperation advocating justice and fairness and also the equality of rights. The principle as conceived by the Pioneers implied that only the purest provisions be procured and distributed at full weights and measures to the members of the society.

²⁰ See Zaigam Raza, 'Principle of Cooperation- A Genetic View'. *The Cooperator* 1985. March 15-p. 543.

²¹ Ibid p. 543.

Rochdale Pioneers also recognised that the surplus which arises in a cooperative business is due to the purchases made by members and therefore, in all fairness the members are entitled to a share in this surplus on the basis of their transactions conducted with the society and consequently, they devised the method of the "patronage dividend". It has been recognised that this policy of paying patronage refunds, wherever extensively applied, has nothing short of a revolutionary effect on the economic conditions in society as it accomplishes the following:

- It affects more equitable distribution of income and wealth.
- It takes the cooperative out of the class of profit business and puts them in the class of business for humanitarian service.

It has been classified as primary principle of open membership, democratic control, patronage dividend and limited interest on capital and the secondary principle as political and religious neutrality and cash trading.²²

Cooperation: Economic Democracy in Operation

The Government's support to cooperatives-policy, legislative, financial and administrative-is based on the concept that the active presence of cooperatives provide a powerful countervailing force to protect the interests of producers. In this role, the benefits conferred by cooperatives attend beyond their membership and embrace the entire community of producers. Secondly, and more importantly, cooperatives should emerged as dynamic instruments of development, promoting the economic interests of their members.

²² Ibid p. 545.

From the above definitions it is clear that a cooperative society is a voluntary and democratic association of persons with common economic need, working on the basis of equality, self-help and mutual-help.

Cooperation has been defined in various laws of different countries in the context of the circumstances in which the movement took birth in their respective countries. Some of these definitions are as follows;

voluntary and open membership, principles of democracy, democratic control, limited interest on capital, equitable distribution of surplus, self-help and mutual-help, cooperative education, cooperation among cooperatives.

Democratic Control

Conceptually, cooperative movement is characterized by democratic control. Democratic control the cardinal principles of cooperation, will have its healthy influence in the political and economic and economic styles in a democratic country like India. It has been rightly pointed out it will come about not by voting, not by taxiing, not through revolution but by putting into operation, the cooperative democracy first on a small scale and then ever increasing and expanding.

According to the International Cooperative Alliance, "cooperative societies are democratic organizations. Persons elected or appointed in a manner agreed by the members and accountable to them shall administer their affairs. Members of primary societies shall enjoy equal rights of voting (one man, one vote) and participation in decisions affecting their societies. In other societies the administration shall be conducted on a democratic basis in a suitable form". Therefore, the principle of democratic control implies that:

- the general body meeting of the members of a cooperative society is the supreme authority in conducting affairs of the society;
- each member have only one vote irrespective of the number of shares held by him;
- majority rule prevails and the affairs of the society are controlled by the board of management in accordance with the democratically expressed with of the members;
- the board of management (directors) is elected in a manner agreed by the members. The board of management is help accountable to the members²³.

Institutionalization of Cooperatives

The Cooperative Credit Society Act was passed in 1904, based on the recommendation of the 'Famine Committee of 1901 appointed by the Government of India under the Presidentship of Sir Edward Law to study the question of starting cooperative credit societies in India. This Act provided for the establishment of credit societies both in the rural and urban areas for providing cheaper rate credit facilities to the rural poor. Rural societies were to be established on the Raiffeinsen model and it projected cooperatives as a democratic answer to the economic inequalities of the market capitalism and political excess of communism²⁴. While the urban part were to be established on the pattern of Schulze Delizch pattern. Provision was made in the Act for the appointment of Registrars in every province.²⁵ A brief chronological development of cooperative system in India since 1904 is as follows.

²³ See B.Mathur, Rural Development and Cooperation, (Jaipur: RBSA Publications 1996). P.203.

²⁴ See Tushaar Shah, *Catalysing Cooperation: Design of Self-Governing Organizations*, (New Delhi: Sage Publications, :1996), p 23.

²⁵ Hajela T.N. *Principle, Problems and Practices of Cooperation: Origin and Development of Cooperative Movement*(Agra: Shivlal Agarwala and Company Educational Publishers 1973). Ch. 18 pp.205.

1904-11 – the growth was not satisfactory because lack of insights and resources.

1912 – 18 – a period of hurried expansion.

1919-29 – was the period of planned expansion because in 1919 cooperation became the state subject and was placed under a minister based on the Montague-Chelmsford reforms; and provinces were authorized to make their own cooperative laws.

1930-38 - Period of consolidation and Reorganizations.

1939 -46 - Period of recovery.

‘The rapid expansion of this movement was also the result of the popular demand for the cooperatives and the partnership of the government with them.²⁶ The cooperative opinion was in favor of self-regulation of the movement and the elimination of the government control. Simultaneously it was claimed that a welfare state wedded to socialism and democracy was a partner in the cooperative development.²⁷ At the same time built-in-safeguards and regulations were necessary to curb extensive influence of the pressure group or vested interest in the cooperative society.²⁸

Different Phases of Cooperatives

The earlier stage of this movement functioned with the above said characters but with lack of planning. During the post independence period cooperatives were utilized as an instrument for implementing the state policies as a part of planned economy and to set up the goal of establishing a socialistic pattern of society in the country through

²⁶ Hough. M. Eleanor, *The cooperative Movement in India: Cooperation and Human values.* (New Delhi:Oxford University Press,1988), p.7.

²⁷ *ibid.* p.19.

²⁸ *ibid.* p.19.

democratic methods. This policy of the government towards the cooperatives was guided by the recommendations of the Saraiya committee.

Accordingly an important role was assigned to the cooperative organizations in the first five-year plan. The planning commission emphasized the co-ordination of the activities of the village panchayats and the cooperatives, the organization of multi-purpose societies, the introduction of cooperative methods to community development programmes, the organization of cooperatives for consumers, housing, and thus establish a cooperative commonwealth through village management. According to the recommendation of All India Rural Credit Survey in 1954, an arrangement of 'State Partnership' by which the state government subscribes towards the share capital' or the larger primary and the marketing societies and have some representatives on the boards of the societies, and assistance from the government in the forms of loans and subsidies for the construction of ware houses and meeting the expenses of management in the initial stages.

Models of Cooperatives

Tushaar Shah's categorization of the cooperatives has given a picture that there is no change in the institutional structure from the pre-independence to the post-independence era. The tradition continued as how it evolved or emerged on its own given concepts. This institution carries the development program of the state in an effectively unchanged administrative structure. Ideally it was a voluntary organization with state patronage, which used to carry the state policies and programmes forward. Large cooperative organizations in India represent one or more of the following four-typologies.

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- Coercive cooperation: occurs when the state stipulates that individuals can undertake certain activities or access to certain benefits / resources only through cooperative. e.g., forestland lease to tribal community.
- Bribed cooperation occurs where state policy maintains cooperative monopoly and keeps a cooperative superstructure propped up on externally infused discretionary resources transfers in the form of subsidies. e.g. Licensing was used for a long time to keep products manufacturing forms other than farmers cooperative forms entering the field of dairying, in sugarcane processing, cooperative monopoly continues to be entrenched in India even today.
- Leader induced cooperatives: These are represented by exceptional examples of successful cooperation induced and sustained by charismatic local leadership. eg. the Ghambira and Maishal joint farming cooperatives in Gujarat and Maharashtra.
- Cooperative driven by communitarian culture is typified by farmer managed small-scale irrigation systems in Nepal and Himachal Pradesh and tank management in Tamilnadu²⁹.



Decentralization and Cooperatives

The decentralization process took place in the administration system, not in the powers of the board of representatives, like panchayatiraj institutions. Since it is a self-governing institution, the administrative powers of the executives and the representative powers of the executives and the representatives of the board have not been developed in a manner by which there is participation and democratic function in the society. It shows

²⁹ See Tushaar Shah, *Catalysing Cooperation: Design of Self-Governing Organizations*, (New Delhi: Sage Publications, 1996) P 19.

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that lack of information in the elected body was likely to make it more or less closely to a legislature. Procedures in the appointed body, on the other hand, were likely to be closer to those of a board of directors than a legislature. Since both the elected and appointed office holders would invariably be inhabitants of the area to be governed, the potential for local influence is far greater than in a system of decentralization through field administration, though political recruitment by election gives scope for greater local autonomy than appointment where selection and dismissal are in the hands of the centre/state³⁰ 'The emphasis in decentralized programmes and reform had generally been on democratic decentralization, that is development was seen as requiring a measure of political autonomy that was to be devolved to institutions by which the local people may participate in and control.³¹ Decentralization is especially needed to enable the rural poor to participate in politics. Their political as well as their material position would thus be strengthened.³² On the contrary, democratic decentralization should not place local power whether it was economic or political in the hands of majority which with the result of economic or political stagnation and which are now seen as the major reason for the widespread socio-economic disparity among the society. That is the reason as to why the development strategy or community development program always seems to be an unfinished task and it never percolated to the lower part of the society. Generally it was believed that the problem lies within the means of development and decentralization, which could not strengthen the grassroots of democracy, and in terms of socio-economic concerns.

³⁰ See Smith B.C. *Decentralization: The Territorial Dimensions of the State, Decentralized Institution.* (London:George Allen of Union,1985), p.122

³¹ *ibid.* p. 185.

³² *ibid.*, p.186

National development may produce social disorganization and political instability by encouraging industrialization, urbanization, mobility, education, mass communications etc. Local government can ease the process of change by providing local leadership to win support for change. By involving in the conflict it can be turned into constructive directions. Decentralization is seen as a means of 'penetrating the rural areas for development can be mobilized by decentralization.'³³ Hence, the close association between democratic decentralization and community development, for it tries to harness the capacity for self-help with the aim of improving the economic and social well being of communities. Government, hence, persuaded the people that they can achieve more by relying on their own contributions of Labour and money than by relying in state interventions. Community development has often entailed mobilization by the government for community resources and institutions³⁴.

Governmental Intervention and Other Issues

But avoiding state interventions is impossible in the context of Indian heterogeneous society, which has been under the socio-economic discriminations in terms of region, religion, caste and other social system since long period. However cooperatives witnessed a sharp reversal of the entire process of democratization with the plan of government participation in the share capital of the cooperatives and providing other financial aids. The removal of vested interest from cooperatives, and making the cooperative laws more stringent undemocratic and restrictive in nature and approach led to the loss of their genuine character. The change in policy shift in the planning commission on development after the fourth five-year plan and other successive plans

³³ *ibid.* p. 187.

³⁴ *ibid.*, p. 188.

are also quite responsible for the declining path of the cooperatives. In other way changing world development and International competition in other fields such as industries, communication, health, education and other infrastructure developments have been given much more importance than agriculture and other community development. And therefore there were many means for the developments have in other way, like nationalization of banks. Science and technology and mostly due to the political change in the Indian state also was one of the reason to push up the development machinery in other way without relying on the cooperatives and other community development projects.

In the national development or nation- building process cooperatives could have played a significant role and it was meant for the socio-economic development for the rural weaker –section which was at macro level in population and micro level in the capital. According to Rajini Kothari, in concrete terms, however, the effort to industrialize at a rapid pace consumed the bulk of India's scarce resource while agricultural development the crux of rural problem was dealt within a rather fragmentary manner. And yet without the development of this key sector of this country, 80% percent of whose population lived in the rural areas not much headway was possible. The results were fueling frustration. Plan shortcomings, refusal of state governments to fall in the line on land registration and cooperative forming, and the unresponsive people to the romantic exhortation of community development made it clear that implementing a program of development implied more than just the planning of targets.³⁵ But the share had not reached to the targeted groups in a manner, which the plans were made to work out. In many states impact of cooperatives were strong with political force.

³⁵ See Kothari Rajni. *Politics in India*, (New Delhi:Orient Longman Press, 1999). p. 140.

In another reason, Rajni kothari points out that the problems between organizational leadership and policy makers 'At the same time as economic policy became the focus of political controversy, and gradually an instrument of rival groups in the congress party, political confrontation tended to be couched in the language of economic and social issues. Thus while the agricultural crisis led to a host of policy changes in the direction of a more pragmatic approach to issues of growth, a political tug-of war between the organizational leadership of the congress party and Indira Gandhi led in 1969 to a frontal decision on her part to nationalize the major banks and assign to the government a predominant role in credit and investment policies³⁶.

Democracy in Cooperative Movement

Cooperative Movement has been recognised as a vital instrument of socio-economic change, planning and development. The aim is to establish a cooperative common wealth in the country. In view of this it is necessary that constitutionally such an instrument is placed in the hands of government of India itself so that decision and guidance could be provided centrally, policies and programmes may be implemented uniformly all over the country and the regional imbalance in the growth of the movement may be removed. There is need to have a uniform law to govern the movement, with provisions and characteristics to reflect people's aspirations to enlist people's involvement so that cooperation becomes a truly popular movement.

Law governing cooperatives should provide greater role and responsibilities to the federal organizations so that the concept of self-governance becomes functional.

³⁶ *ibid*, p. 188.

It should therefore, be assumed realistically that the proposal to make cooperation a subject in the concurrent list can not materialize so soon as, obviously, there is no reaction available to earlier demands of the cooperative movement made through recommendation of cooperative congress and other conference.

State Participation in Cooperatives

State aid is the important provision of the cooperative Act, the new acts of Maharashtra, Gujarat, Tamil Nadu, Jammu and Kashmir and Orissa contain detailed provision on the line indicated in the bill as it was the duty of the state government to encourage and promote the cooperative movement in the state, prepared by the commission in cooperative laws and other states have to adopt these provisions were included as easily as possible because of the important part of the state aid was to play in the promotions of the cooperative movement. The official co-operators view that without state assistance the cooperative movement in the country would not have achieved the position which it is now occupying, on the other hand, the non-officials believe that the movement has not succeeded in this country in account of the rigid control by the state.

FEATURES OF STATE INTERVENTION

Below are the basic features of state intervention in the arena of cooperative movement as follows:

- Regarding open membership in the primary societies. Most of the states Act have made the provision for appeal against refusal by society to admit a person as its member. But the Tamil Nadu Act provides the admission only to qualified members.

- Reservation of the seats in the board of management to small farmers and members of the weaker sections. The new Maharashtra and Tamil Nadu Act provides for the reservations of two seats, one for SC/STs and other for member of the weaker section of the societies in the managing committee.
- In Kerala, provision has been made for the representation of women and weaker section in the managing committee of the cooperative society.
- Restriction in holding office for more than two terms in some institutions and also holding office simultaneous more than two institutions, It was already in the new Acts of Tamil Nadu, Maharashtra, West Bengal and Kerala.
- Regular elections by an independent authority. Although in almost all the State Acts, procedures has been laid down for the regular elections by an independent authority, but it was enforced strictly.
- It should be made obligatory for the committee of management to hold elections within the stipulated time.
- Clear-cut recruitment rules for the selection of staffs and adequate education and training of the staff.

The one way the cooperatives have developed in many fields in many states that which had strong social / political movements voicing the rural problems.³⁷

³⁷See the suggestion and trends set up in the conference of chief Ministers and state cooperative ministers held in June 1968 in Madras in T.N. Hajela, *Principles, problems and practice in cooperatives, Cooperative Legislation and Administration*, (Agra: Shiv lal Agarwala & Company, 1973), pp 221-222.

Cooperative Administration

The Act of 1904 provided for the creation of the post of Registrar and the state cooperative department, cooperation was transferred to the state list under the political reforms of 1919. Since there are states that enacted their own registrations and have recognized their cooperative departments. The administering authority therefore for cooperative registration has been the Registrar of the cooperative societies. Arguments have been put forward from time to time at many stages and committees for equipping the Registrar with great power.' The Saraiya committee in 1942 recommended that cooperative should be fully equipped with a view to establishing close link between non-officials and various nation-building departments at the state level and also at the national level and also continuously preparing projects of economic development, devising cooperative method for their implementations. The committee recommended a provincial cooperative council. Similarly an All India Cooperative Council had to be set up for coordinating efforts and to watch, guide and foster cooperative department at the national level.³⁸ The V.L. Mehta committee in 1960 also made certain important suggestions regarding administration and organizational arrangement, which are significant. The state government should make necessary amendments in their cooperative laws to implement the recommendation made by the committee. The cooperative societies act should be amended wherever necessary. Panchaytiraj Institutions should entrust themselves in such items as promotions development and planning. The cooperative extensions staff should be utilized to attend to these items. Regarding the staff deputed by zilla parishad / and or panchayat samitis, the executive officer of the panchayati samiti may continue to have administrative control over the

³⁸See the suggestions made in 1968. Madras conference of state CMs and cooperative ministers. T.N. Hajela, *Principle, problems and Practice in cooperation: cooperative Legislation and Administration*(Agra:Shivlal Agarwala &Company,1973), p. 223.

extension staff, but the instructions of the officer of the cooperative development at the district level. The cooperative department should have full powers of transferring the staff allotted to panchayatiraj institutions.³⁹

³⁹ *ibid.* p. 224

CHAPTER 3

OPERATIONALIZING THE COOPERATIVES: SOME SIGNIFICANT ISSUES AND APPROACHES

Though there were instances of the existence of the cooperatives during the British period, the idea got strengthened during the independence struggle, after independence cooperatives emerged as an instrument of rural development and decentralized governance. The cooperative institutions emerged in various sectors of rural society such as agriculture, cottage industries, textiles, small scale industries, dairy development, rural credit system, consumer products, fisheries and so on. The early phases of planning in India, gave the thrust to the rise of cooperatives to carry forward the development programmes and resource mobilization in the rural areas. The intervention of the cooperatives in the above mentioned areas contributed in a big way to rural socio-economic changes, along with other community development programmes. The cooperatives not only activated the rural society in the development framework, this contributed in a major way in the democratic institutional building. However, it has not been a smooth sailing for the cooperatives in various areas and different phases. Notwithstanding, the many successes, various problems came up to undermine progress of cooperatives. They include the problems in planning, policies, implementation, internal organizational problems, and the state and market intervention (in particular, liberalization and globalization period). This chapter shall be discussing these issues and some new approaches for the cooperatives, such as combining trade union and cooperatives people centered, participatory development, and agriculture based development.

Planning as an Instrument

The developmental strategies in the post-independence emerged with in the ideological framework based on a socialist model of planned economic development. Planned economic development was seen as an immediate and an important necessity for the prevailing politico- economic condition of India at that period. Plan development in socialist countries, came about after basic changes in property relationship, which were brought about before the beginning of the planning, process itself. Besides they had achieved a high level of social development, in education, health and recreation facilities, over the plan period. In India, however, the pace of the structural changes and the social development had been slow¹. Various factors played a crucial role in planning, but politics was not in the mature stage to decide what kind of development model would be adopted under the existing ideological understanding within the ruling Congress party. Planning thus became a necessary condition for socialism, though socialism is not a pre-condition for planning². Planning was a necessary condition for the institutionalization and its formulation and regulation of bodies of decentralization and cooperatives. A rapid development was the institutional strategy and the experts promptly accepted the initiative of the decentralization process. Since this study is critically examining the role of the state as a unique institution with profound ideals of democracy in relation to a non-state and apolitical institution, though with the patronage of the state. The contradiction is in the planning process particularly in the state machinery which is a conglomerate of bureaucracy and other socio-political, and economic institutions, that was designed and developed to carry the policy packages to the underprivileged. The

¹ See Hanumanth Rao, *Agricultural Growth, Rural Poverty and Environmental degradation in India*, (New Delhi:Oxford University Press,1994), p195.

² See Amartya sen, 'Why Planning' *Seminar* (September 1994) p 23.

state institutions functioned with certain devolved administrative powers within its institutional framework as the delivering agents. So the devolution of powers took place within the administrative existing structure, and it has a colonial legacy.

The Planning Commission is an independent institution, which fixes the objectives for the future development of the country. These objectives were very general in terms of recognizing the socio-economic problems and addressing the targets within the framework of its non-political entity. When the targets were based on certain groups, it had to take the demographic factor into consideration, as carrying out the developmental strategies could be easier. The plan was more of an anthology of what individual enterprises wished to do³.

Sukhamoy Chakravarty, gives a picture the other way around, according to him, "Nehru viewed planning as a way of avoiding the unnecessary rigours of an industrial transition in so far as it affected the masses". There were three major reasons in this context, the nature of the 'structural break', contributory factors to the growth of 'developmental economies' as a field of enquiry, market vs. plan -an issue of great contemporary interest on which Indian experience throws some light⁴. But the planning was for the purpose of providing equal economic opportunities for the marginalised and in particular to the rural masses. When this is the fact, the knowing the rural social conditions on the grounds of social relations in between the social groups the planning did not try to penetrate the rural social structure for development. Since the planning is focused on the development for the rural poor, there should be a proper devolution of resources for their living. But the development ideology then was a constituent part of

³ *ibid.* p25.

⁴ Sukhamoy Chakravarty, *Development Planning: the Indian Experience*, (Clarendon Press.oxford.1987), p.2

the self-definition of the post-colonial state,⁵ which could not bring the entire mass to be part of that power structure at all the levels of the state enterprises. In this respect planning was not only a part of anticipation for power by the state leadership provided by the congress, but also an anticipation of the concrete form in which that power would be exercised within a national state⁶. This is the critical point of analysis about the earlier period of planning that had been powerful design of the national development missed the consistency of exercising the state power on the scheme of national reconstruction and social planning, such as land reform, decentralization of powers. The land reform was politicized and it had been practically inconvenient because of the weak state under a strong rural elite leadership. Had it succeeded in the first stage, it would have been the first pioneering path to the decentralization process, which could have in turn led to reconstructing of the rural social order, at both the class and caste level.

As far as the development part is concerned, there is a notion that the political leadership determines the welfare policies according to the political conditions emerging in the state. The government, which is in power, is the sole authority to decide on what ideological ground these welfare policies would be carried forward, within the existing or new institutions. Since policy framing is the political responsibility of the head of the government, the leadership and the party will have a major role in framing the developmental strategies. We had the Congress party government for almost five decades since the independence, except the two coalition regimes in between just for three more years. But we had a popular leadership on the political front with an obsessed mass appeal cutting across the social categories. The Congress introduced the planning

⁵ Partha Chatterjee, *the Nation and Its Fragments. Colonial and Postcolonial Histories*, (Delhi:Oxford University Press,1995), p 203.

⁶ See Partha Chatterjee,*Development Planning and the Indian State* in Zoya Hasan ed,*Politics and the State in India, Reading in Indian Government and Politics* (New Delhi:Sage Publications, 2000) p118.

model on the socio-political and economic development front. There were many shifts in the preference of the welfare policies from time to time and from government to government. But the rural development had always occupied a high position in the preferential order amongst other sectors. But the decentralization process and the cooperatives were used for the same purpose with different methods in different governments.

Cooperatives in Nehruvian Era

During the Nehruvian era mixed economic policy changed the context and environment of the relationship between the state and the cooperative movement. Due to the Planning Commission taking over the charge of redistribution and restricting its role of autonomy because of the state patronage, the cooperatives had to carry the policies forward. Therefore the democratization and the decentralization process faced strong political hurdles. The Nehruvian era was focussing on the industrialization because of the country's backward economy. At the same time there were few Gandhians in the Planning Commission opposing the move for intense industrialization, basically to protect the village character and its agrarian economy, particularly cottage industries, artisans and other profession. The argument was that if the rapid industrialization were allowed to take place, all the village industries would collapse.

On the other hand, there were some indirect clashes of interest within the Congress Party that is the left-of the centre and the right of the centre. The left-of the centre was more inclined towards pro-socialist ideals of land reforms, industrialization, and planned economic development. According to Ashutosh Varshney, Nehru and the left-of the centre groups were for the institutional argument. On the other hand, the right of the centre faction was lukewarm towards the reforms, and hostile to the cooperatives

and sympathetic to a technocratic strategy, thus calling for greater outlay on the agriculture and farm incentives. Their resistance was not entirely due to an alternative, or coherent worldwide view. Some were merely opposed to what they considered as a pernicious attempt to usher in communism through land reforms and cooperatives. According to the argument, that right of the centre within the Congress was the impediment to the progressive land reforms, and cooperatives, assuming that the pronounced 'road to social revolution might come true. Thereby the status quo of the elite position would be challenged who had deep-rooted connection in the party and might lose their prosperity and inheritance. But Nehru found that land reforms could be possible, by setting a ceiling on land holdings, by securing tenancy rights and by restoring land to the tillers. The land reform was to provide incentives to the actual tiller, to produce more. The cooperative would bring economies of scale; service cooperatives would bring economies for inputs such as credits, seeds, water, manure and mechanical implements; and by joining together small plots of land, distributed via land reforms. The farm cooperatives would facilitate rational land use⁷

The intricacies within the formulations of policies for the agricultural development, ranging from the land reforms to other developmental strategies had an impetus to pursue the technology and scientific methods for the higher production of food grains. A remodeling of the agricultural production pattern was not possible from the existing conflicts on ideological ground. The right of the centre had leverage on the social ground and was bound to adopt the scientific method of agricultural production to avoid the redistribution of land and other resources. By avoiding the ambiguous situation Nehru preferred Scientific Socialism, which latter took its form as "Green Revolution", and paved way to the avoidance of the land reforms.

⁷See Ashutosh Varshney, *Democracy, Development and Country Side*, (Cambridge University Press, 1995), P. 31.

The Nehru's agrarian model was a synthetic one. The agricultural productivity was not simply an economic matter; it depended on a political -economic and social transformation of India's rural life. The model had three consecutive elements, through which, India's agricultural sector could be transformed,

- Land reforms
- Farm and service cooperatives
- Local self- government at the village level⁸

So the relevance of the decentralization was very much significant to accelerate the social transformation on the grounds of political economy of agriculture. The decentralization was not basically assumed in terms of devolution of power for the poor. It was simply a unit of local governance by the centralized state administered. The Local self-governance was emphasized in terms of monitoring the development schemes, not in terms of planning, but it acted as an agency between the state and the people. Rudolph characterizes Nehru's regime as democratic and based on command politics, which might have had the inherent character of a centralized leadership and controlling power of allied organizations and institutions. This was the major reason as to why the command politics, undermined the social condition to pursue the welfare policies. As far as decentralization was concerned, the command politics fostered the state institutions to control the bodies of decentralization to change the social profile to some extent.

Activating these policies through planning reflected the legitimacy of these institutions. A developmental state operating within the framework of representative politics would necessarily require the state to assume the role of central allocator if it has to legitimize its authority in the political domain⁹. In relation to the policies and

⁸ *ibid.*, p.31.

⁹ See Partha Chatterjee, *The Nation and its Fragments, Colonial and Postcolonial Histories*, (Delhi:Oxford University Press,1995) p 216.

legitimacy of the state and institutions, Partha Chatterjee, profusely supports the state as the central allocator, but the question of legitimacy lies within the political domain, as to what it represents and who were the representatives; and their social profile, significance etc are the on going debate in sharing the powers of the decentralized bodies like the panchayatiraj institutions and the cooperatives. The Nehruvian era could not undermine the question of social categories, but it had not paid much attention on the power sharing. It took the village as a holistic unit for the development package. The Institutions of decentralization under took a moralistic approach towards development without raising the question of power. The policies were formulated to have a structural change within the framework of the existing representative system as a part of the five-year plans. These plans articulated these issues on economic terms, while it would be inaccurate as well as unfair to say that the second and the third five year plans were lacking an agricultural strategy. It would be unwarranted to maintain that planners were grossly over- optimistic as to what traditional Indian agriculture, with its conventional input and output basis and deep seated social stratification, could do within the constraints set by the political changes which the congress party was able to engineer¹⁰.

But it did not make much contribution towards the fulfillment of the broad objectives of the first five-year plan, due to the following factors.

- It took quite sometime for the cooperatives to appreciate the precise role assigned to them in the development of the economy and gear up their activities accordingly.
- The policy of the state towards the cooperatives was not sufficiently defined and the section to implement it was largely left to the state and the cooperative movement itself.

¹⁰ See Sukhamoy Chakravarty, *Development Planning :Indian Experience*,(Oxford: Clarendon Press,1987), p 21.

- The schemes of the development of the various states were not uniform in their objectives and methods, and differed widely from state to state.¹¹

Cooperatives and Planning

In the first five-year plan a cooperative was recognized as an "instrument of planned economic action in a democracy," combining initiative, mutual benefit and social purpose with a view "to avoid excessive centralization and bureaucratic control, to curb the acquisitive instincts of individual producer working for himself". The first plan said "As it is the purpose of the plan to change the economy of the country from an individualistic to a socially regulated and a cooperative based on its success should be judged, among other things, by the extent to which it is implemented through the cooperative organization¹². There was no agreed policy for the country as a whole, nor were there any definite targets set except in regard to the amount of advances, to the cultivators through the institutional agencies¹³.

The most important landmark in the history of the cooperative movement in India after independence was the publication of the report of the All India Rural Credit Survey Committee headed by Gorwala. It unfolded that a large part of the cooperative credit went to the bigger and rich agriculturists and only a minor fraction percolated to the small cultivators. It stated that the "Cooperation has failed" in the existing model. In order to revitalize the cooperative movement and to strengthen it internally and externally, the committee recommended an "Integrated Scheme of Rural Credit" based on the certain principles including State partnership and establishment of special funds;

¹¹ See Hajela T.N. *Principles, Problems and Practices of Cooperation: origin and Development of co-operative Movement*, (Agra: Shivalal Agarwala and Company Educational Publishers, 1973). Pp.209

¹² B.P. Sinha, *Cooperation . Instrument for Socio-Economic Justice*, (Delhi: Himalaya Publishing House, 1992), P 123 - 4

¹³ *ibid*, P 125

namely, the national agricultural credit (stabilizing) funds, the national agricultural credit (relief and guarantee) fund¹⁴.

Socialist Pattern of Society Through Cooperatives

One of the main objectives of the second five-year plan was the building up of the cooperative sector. Accordingly massive plans for this sector were drawn up within the framework of the second five-year plan. There included, the establishment of multi-purpose and multi-village-cooperatives, cooperatives training centers at regional, state and national levels and small scale industries.”¹⁵ The Cooperatives and the Panchayats were to be organized in all the villages and there were to be closest collaboration between them and the community development agencies.

The second five-year plan set before itself a broad objective of evolving a socialist pattern of society. Under this new concept, the basic criterion for the development was not private profit but social gain. The pattern of growth and development of the socio-economic structure was to be accordingly planned that they would result not only in an appreciable increase in national income and employment, but also in greater equality in income and wealth. The cooperation was chosen as an important agency for achieving these objectives, and the building up of the cooperative sector became one of the central aims of the national policy. The remarkable coverage of these cooperative societies was 24% of the total population at the end of 1960-61¹⁶. This was the remarkable period of development in the context of cooperatives in the post-independence era the State Bank of India was brought into existence, the RBI Act was

¹⁴ *ibid.*p.125

¹⁵ See, T.N Hajela, *Principle, Problems and Practices of Cooperation: Origin and Development of Cooperation Movement*, (Agra; Shivlal Agarwala and Company, Educational Publishers, 1973)p.210.

¹⁶ *ibid* P 128

amended with a view to improve the facilities for rural credit in the context of the Integrated Scheme of Rural Credit¹⁷. Thus it may be noticed that significant progress was made in all directions during the second five-year plan period." By and large it was widely acknowledged that the programmes of reforms and development implemented in the second plan in the field of cooperation bore the fruit, and had led to the strengthening of the cooperative structure and to the increasing non-bureaucratic participation."

The NDC Resolution of November 1959 emphasized the basic objectives of the cooperation policy as one rebuilding the rural economy and in particular, increasing the agricultural production. The council called for an organization of cooperatives on the basis of the village community, and appreciated their effective functioning as service cooperatives universal membership and provision of adequate credit in relation to production plans, expansion of the programmes for marketing, storage; processing and of training facilities; and simplification of laws of procedure¹⁸.

In the Policy letter of May 1959, the central government and the NDC considered the recommendations. The centre sent a letter indicating the broad outlines of the policy to be followed by them in respect to the cooperative development, during the remaining period of the second five-year plan and thereafter. Some of the salient features of the policy were; Organization of the cooperatives on the basis of village community as the primary unit; a village cooperative and panchayat to be demarcated as to their jurisdiction; membership should be made universal; the leadership of the movement was to be rested in the hands of non- officials¹⁹.

¹⁷ *ibid.*P 129.

¹⁸ *ibid.*P.130.

¹⁹ *ibid.*p. 130.

The working group on the panchayat and the cooperatives in 1961 also stated that the panchayats should play an important role in the cooperative movement and should disseminate information to help in increasing the membership, deposits and share capital. The functions of cooperatives were to carry out on business principles were to be handled by the cooperatives and by the panchayat samities in the context of Subsidies etc. Besides, the committee on the cooperative administration (under the chairmanship of shri V.L.Mehta) suggested certain measures that were necessary to strengthen the cooperative administration in the country.²⁰

The third five-year plan also recognized the cooperatives as a powerful instrument for an effective improvement in the economic life of the people. It was formulated with a view to strengthen the establishment of a socialistic and a democratic administration in the country. The emphasis was given to the expansion of the primary societies and to the membership for establishing more marketing societies. The overall progress made by the movement was satisfactory, but all the targets could not be reached.²¹

The third plan regarded cooperation as one of the principal means for bringing about changes in the fundamental nature of the economy. The third plan laid down many broad objectives including; the need for the government to participate at all levels; the small industries were to be developed on the cooperative lines; the third plan also included a large programme of non-credit cooperatives like, housing, farming, fisheries and dairying etc.²².

²⁰ *ibid.* p. 130

²¹ see T.N. Hajeela *Principle Problems and Practices of Cooperation* (Agra: Shivrul Agarwala and Company Educational Publishers, 1973) p. 210

²² See B.P Sinha, *Cooperation . Instrument for Socio-Economic Justice*, (Delhi: Himalaya Publishing House,1992), P 123 - 4

The Government of India constituted many working groups and committees to examine the various aspects of the cooperative movement and to suggest ways and means to strengthen the same. The working groups on industrial cooperatives, Housing cooperatives, Non- agricultural sector, Transport cooperatives, Fisheries cooperatives, Dairy and Animal husbandry cooperatives, Piggery cooperatives, Poultry cooperatives, and Sheep and Wool cooperatives etc suggested various programmes of development through cooperatives.²³

In 1964, the Government of India constituted another committee under the chairmanship of R.N.Mirdha. One of the important reason was to review the existing cooperative laws, rules and practices to locate the loopholes and to recommend measures - legislative as well as administrative; for the elimination and the prevention of vested interests. The main recommendations were; only the workers, the traders and the machinists should be allowed to be the members of a transport cooperative; a National Cooperative bank may be set up as the apex of the cooperative credit structure to promote self-reliance of the cooperative movement, etc.²⁴

Shifts and Focuses in Cooperatives

Indira regime was the beginning of adoption of new methods by the Planning Commission in the socio-economic development of rural India. This government used the Planning Commission's basic objectives as election slogans to address the overall social conditions of the rural poor. The emergence of a new group of regional leadership was actively involved in strengthening the fissured party organization at the grass root level pushing the development programmes towards the rural poor. According to

²³ *ibid*, p. 133.

²⁴ *ibid*, p. 133.

Ashutosh Varshney, the state governments in India were heavily influenced by the landed upper classes, and these classes by the mid 60s had more or less frustrated the efforts of the central government to transform rural India through land reforms and cooperatives²⁵. After Nehru's death, the basic economic policy, its ideological background and its functioning changed significantly in the brief period of Shastri's Prime ministership in 1964 -66. A technocratic view came to replace the earlier institutional view in the agricultural policy²⁶. The first term of Indira's government was full of resentment from agrarian communities, students and other trading groups due to various natural and internal factors like failures of monsoons, lesser agricultural productivity, declining industrial production and loss of working days. The 1967 state assembly elections proved that the opposition became stronger due to the failure of the economic policy. The fourth General Election in 1967 illustrates the mutually determinative relationship between types of regimes, their politics and the economic performance²⁷. An agrarian version of the demand politics began with an alarming intensity after the congress government in West Bengal was replaced in 1967 by a united front government that included the CPI(M)²⁸. But Atul Kohli argues that the democratic incorporation of such diverse new demands often would have meant a downward transfer of power²⁹. The demand politics always have the tendency of sharing power on the basis of regional, groups, etc such as marginalized. According to Atul Kohli, the downward transfer of power was an explicit character of democracy to accommodate the alternative voices or the oppressed in the institutions. The demand politics diluted the strong hold of

²⁵ See Ashutosh Varshney, *Democracy, Development and Countryside*, (Cambridge University Press, 1995) p. 50.

²⁶ *ibid.*, p.50

²⁷ L.Rudolph and S. Rudolph, *Regime Types and Economic Performance*, in Sudipta Kaviraj, ed, *Politics in India*, (Delhi:Oxford University Press,1999), p 181

²⁸ *ibid.*,p.182.

²⁹ See Atul Kohli, *Democracy and Discontent: Growing Crisis of Governability*, (New York:Cambridge University Press, 1990), p 386.

the Congress Party at the grass-root level using the socio- economic disparities and inefficiency in implementing the community development programmes. The regional parties demand of share in powers could be seen as the first step of the decentralization within the political institutions that changed the political process with the specific targets for the development of their social bases.

One important method of preserving power has been populism; to establish direct contact between the leader and the masses to undermine all impersonal rules and the institutions designed to facilitate systematic changes. By making direct promises influencing a large segment of the population as possible can be influenced and mobilized for electoral purpose. The shift was from the earlier strategy of community development to that of distributing 'poverty removal' packages, directly to the selected target groups among the under privileged section. This strategy developed during Indira Gandhi regime in the 70s allowed for the state to use political rhetorics in which intermediate rungs in both the social hierarchy and the state hierarchy (local officials and even the elected political representatives) were condemned as obstacles. In a way the state was offering the benefits of development to the poor directly³⁰. The populist measures used in implementing the development schemes for the poor had remarkable response for the reason that there were inadequate representations for the underprivileged in the created administrative institutions. The social hierarchy played a major role in the benefit packages to the poor from the state institutions. Keeping the risk factor in mind the leadership had to overtake the institutional mechanism to further the developmental activities.

³⁰ See Partha Chatterjee, *The Nation and its Fragments, Colonial and Postcolonial Histories*, (Delhi: Oxford University Press, 1995) .p 218.

Rajni Kothari finds the reason for adopting populist policies as the absence of well-organized left- of the centre party. This made it difficult for Indira Gandhi to translate her left- of centre political goals into reformist outcomes. In other words, without an instrument to systematically link the state and society, personalistic power enabled centralization, but did not generate the power to achieve the goals³¹. The second and third tier officials of the polity were appointed from the above. The space for independent power waned in the polity and got more centralized. Thus emerges the important paradox of contemporary India: democratization of the traditional authority, in the rural social structure, paving the way to centralization of the power at the top. The populist measures had the progressive tendency, which made the leadership realize the prevalent social structure and the prevailing socio- economic conditions. After finding the deep rooted caste hierarchy as being reluctant to allow the social change, for the empowerment of the marginalized, the leadership had no way out to serve its responsibility. These populist measures were meant as universal but it was always targeted towards the marginalized or in other words, the populist measures were seen as the object of development for the under privileged. By providing these benefits in a way, the decentralized bodies lost its moral responsibility. These institutions which wanted to be independent of the state control, could neither fulfill the aspirations of the poor and marginalized with state support nor influence in terms of policies and finance. Particularly, Indira Gandhi had an high stake on these populist measures at the national level to implement her 20 point programme, IRDP and so on, but with the help of concerned institutions as delivering agencies. IRDP and 20-point programme are the effective programmes under the populist shadow that generated the momentum of decentralized bodies like the panchayatiraj and cooperatives to resume its function with

³¹ See Rajni Kothari, *The Decline of the Moderate State*, in Zoya Hasan, ed, *Politics and the State in India- Readings in Indian Government and Politics*,(New Delhi:Sage Publications, 2000), p 221.

democratically elected representatives. Lower income groups among the IRDP- assisted families experienced a significant increase in their incomes to an extent of 40% - 60%, despite the lower level assistance per household. In terms of income generation, the performance of the secondary and the tertiary activities - particularly the latter has been much more successful than the primary sector activities especially among low-income households and infrastructurally developed regions³².

Growth and Stability: Change in Cooperative Perspective

"Growth with stability" was the thrust of the cooperative movement during the fourth five-year plan. The agricultural cooperatives and the consumer societies were accorded a central position in the strategy of the cooperative development, and the credit inputs were provided by the cooperatives. A substantial part of the fourth plan was designed to handle the agricultural crops and the processing units, fertilizers, improved seeds, and pesticides etc. B.Venkataih Committee was appointed to review the rural credit, and it suggested the creation of Rural Electrification Corporation. It was set up in 1969 to promote and finance the rural electric cooperatives organized to take up distribution and extension of electricity in the respective areas of operation.³³ The fourth plan emphasized "the growth and the stability" to be the guiding force for the movement. In the context of agricultural cooperatives, the policy aim was to ensure the institutionalization of all the services required by the farmers. The same objectives were emphasized in the successive plans.³⁴

The major objective of the fifth plan was to build up a strong and viable cooperative sector with special emphasis on the needs of the cultivators, the workers and

³² See Hanumantha Rao, *Agricultural Growth, Rural Poverty and Environmental Degradation in India*, (Delhi: Oxford University Press, 1994), p.248

³³ B.P.Sinha, *Cooperation-Instrument for Socio-Economic Justice*, (Delhi: Himalaya Publishing House, 1992), P 137.

³⁴ *ibid.* p.212.

the consumers. The cooperative development had four specific objectives viz. to strengthen the network of agricultural cooperative credit, supply, marketing and processing so as to serve as the principal institutions for the sustained development of agriculture. Special efforts were to be made towards restructuring and reorienting the cooperatives so as to shift the focus of their activities increasingly in favor of small and marginal farmers and other unprivileged sections of the society. For promoting these objectives, the targets that were set in respect of the important areas of cooperative development programmes.³⁵

Reorientation and Consolidation of the Cooperatives

The sixth five-year plan had certain important objectives such as to re-examination of the existing cooperative policies and the procedures for directing the efforts of cooperatives to further ameliorate the economic conditions of the rural poor. And reorientation and consolidation of the role of the cooperative federal organization so as to enable, through their constituent organization, to effectively support a rapidly diversifying and expanding agricultural sector. A major development in the field of during the sixth plan period was the establishment of the National Bank for Agriculture and Rural Development (NABARD) in 1982. It is an apex national institution empowered to act in all matters concerning the policy, the planning and the operations in the field of credit for agricultural and other economic activities in the rural areas.³⁶

³⁵ See Mohsan Sojakhani , *Cooperative Movement in India*, (Delhi: Renaissance Publishing House, 1994),p.71.

³⁶ B.P. Sinha, *Cooperation. Instrument for Socio-Economic Justice*, (Delhi: Himalaya Publishing House,1992) p 131.

Politics of Decentralization and Cooperatives

In the view of planning, his government focused more on the technological modernization, particularly in the information and communication sector and many electronic goods and services were introduced and encouraged in the market. This was the first step to open the Indian market to the global players. This emergence along with the automobile revolution took place as a result of the international- domestic partnership. This led to changes in economic pattern in the State as well as in the society. The developmental paradigm shifted from "populist policy" of Indira Gandhi to "expansionist policy" without any attempt being made to tackle the difficulty and problems of mobilizing revenues³⁷. Rajiv Gandhi seemed more to be favorably inclined to free market principles. He initiated a process of liberalization and the loosened import controls and the "licensing regulations", and the limitations for expansion of existing industrial enterprises³⁸. The central emphasis of the Government of India's economic development planning under Rajiv Gandhi slowly shifted toward technological modernization of the economy and the capital goods sector³⁹.

These shifts have to be analyzed in other aspects of politics as well such as, party organizations, issues raised by the opposition, social problems and all round development of the nation at that period. In India, conceptually the battle between the centralization and decentralization has been the politics of the party system. However, it was the break through in terms of devolution of powers to the panchayatiraj institutions

³⁷ Uma Kapila, (ed), *Indian Economy Since Independence*, (New Delhi: Academic Foundation, 2001), p 38.

³⁸ Atul Kohli, *Democracy and Discontent: India's Growing Crisis of Governability*, in Paul Brass, *Indian Politics Since Independence, The New Cambridge History of India*, 2nd Edn, (Cambridge University Press, 1999).p. 287.

³⁹ Ibid, p.355.

and further reservations in the chairmanship of PRIs for the OBC/ SC/ STs, weaker section and women was a great leap forward in the history of Indian politics.

The opposition could not work on the decentralization due to other flaming issues like the Mandal Commission Report were on session. Keeping this in mind Rajiv tried to liberalize the political powers according to the strength of social groups at the grass-root level. If Mandal politics would have been realized by the OBC masses about the reservations in the PRIs in terms of decentralization, the struggle would have moved towards different direction. But this was the complex the dichotomy of alliance in the National Front, that the Janata Dal party underestimated BJP's low profile in electoral politics, which turned out later as a major force for resisting the empowerment of OBC/ SC/ STs, minorities of social and religious, other weaker section and women vehemently. So by the 64th amendment of the Constitution it be understood that the decentralization also played a part in the Mandal politics indirectly in social engineering. In the current political situation Mandal question draws significance on the aspect of political empowerment for backward classes, minorities, other weaker section and women. But the priorities were given for other capital goods production and marketing.

Considering the situation of the cooperative movement and its performance in the past, the Planning Commission, Government of India in March '90 appointed an experts committee to make a broad rapid review of the status of the cooperative movement and suggest the future direction and finalize the bill. And some of the restricted provisions indicated by the commission in the report, were compulsory amendments by-law by the Registrar, the power of the Government to nominate the directors in the commission of the management, powers of the government to veto annual report, powers of Registrar / state government to give directions, supersession / suspension of commission of the

management, restriction on terms of office and office-bearers, restriction on holding office in a number of cooperatives simultaneously, compulsory amalgamation and division of cooperatives by the Registrar.⁴⁰ The draft law thus removes the colonial approach and character existing laws and truly meets the norms of governance of a democratic autonomous enterprise.

Cooperative Law and Democratic Management in Cooperatives

The basic principle underlying State participation in the management of cooperatives is that the Government nominees would guide advise and caution the management of cooperatives and also take care of Government's financial interests in these cooperatives. In other words, state participation in the management of cooperatives is envisaged as a tool for providing professional advice, guidance and counsel to the cooperative management. It has been observed that, in a number of cases, non-officials have been nominated as government's directors on the boards of management of cooperatives. Such nominations are not in consonance with the principle underlying State participation in the management. The members of cooperatives (non-officials) should be elected to the boards of management through the democratic process implicit in cooperatives. The Government nomination should be confined to experts in different fields and officers with requisite background and experience so that they could provide professional advice and guidelines to the cooperatives. The Union Ministry of Agriculture and Cooperation have advised all state governments that experts and government officers with requisite experience and background be nominated by the State governments on boards of management of cooperatives. Whenever they take action for:

- supersession of elected board;

⁴⁰ See the Planning Commission appointed experts committee report in G.K.Sharma, *Cooperative Laws in Asia and Pacific*, (New Delhi: Sharma Publication. 1997). pp. 68-70

- appointment of special officer or nominated board of management;
- appointment and removal of Chief Executive: they may do so in consultation with National Cooperative Development Council.

The State governments may agree to NCDC having its option to nominate its representative on the board of selected societies. NCDC would, however, exercise this option selectively with due regard to need and desirability for such representation.⁴¹

The Features of State Cooperative Laws

The provisions suggested for deletion relate to:

- compulsory amendment of bye-laws of the societies by the Registrar;
- compulsory division of societies;
- power of the govt. nominee on the committee of management to veto resolutions;
and
- power of the Registrar to rescind or annul resolutions.⁴²

The Government of India has issued a notification bringing into force the Multi-State Cooperative Societies Act, 1984 from the 16th of September 1985. Although "cooperative societies" is the state subject, cooperatives with members from more than one state come under the exclusive state come under the exclusive, legislative and executive jurisdiction of the Central government. The new act replaces the Multi-State Cooperative Societies Act, 1942 in terms of, which a MSCS was governed by the State

⁴¹ See the editorial on 'Cooperative laws and Democratic Management in cooperatives' which is given shortly with relevance of representation in *The Co-operator*, (November.1, 1985), p. 187.

⁴² Ibid.p. 188

Cooperative Societies Act of the State where its principal place of business was located. In other words, various Multi-State Cooperative Societies were governed by different Cooperative Societies' Act. The new MSCS, 1984 brings all such societies under the purview of a single Central Act.

The MSCS Act, 1984 does not contain any provision for compulsory amendment of bylaws or for compulsory amalgamation or division of multi-state cooperative societies. Nor does it contemplate any powers to government nominees to veto the resolution of the board of management of societies.

The MSCS Act is divided into several parts on the usual lines of cooperative legislation in the states providing, among other things, for the appointment of central Registrar, registration of multi-state cooperative societies, members rights and liabilities, management of cooperatives, privilege of multi-state cooperatives, their properties and funds, audit, enquiry, inspection, supersession, settlement of disputes, winding up and cancellation of registration of multi-state cooperatives, etc. Some of the salient features of the act which would be in the interest of the state governments etc, as follows:

- No multi-state cooperative society will be registered unless its main object is such as to render it necessary to serve the interest of members in more than one State.
- The act provides for conversion of a State based cooperative society into a multi-state cooperative society. The central Registrar shall consult concerned State Registrar of cooperative societies, before such conversion.
- The powers and responsibilities of the general body, the board of directors and the chief executive have been defined in the act itself.

- Provision is made for association of employees in the management decision-making process. The multi-state cooperative societies shall provide for such participation in the by-laws and the type of association may also be according to the administrative instructions issued in this behalf.
- No person shall hold office of the Chairman/President, Vice-Chairman/ Vice-President in more than one national cooperative society and for more than two consecutive terms.
- A cooperative society which is a member of a multi state cooperative society shall be represented in the latter only through its chairman or the chief executive, and where there is no chairman/ chief Executive, the Administrator. The idea behind this is to make participation in the general body and the board of the multi-state cooperative society effective.
- The rules framed under the act provide that where the central/state government have contributed to the share capital, they can nominate one-third of the strength of the board or three, whichever is less. The by-laws of a society may, however, provide for nomination of persons in excess of these limits.
- Where the central government has subscribed more than half the share capital of national cooperative society, such society shall seek the prior approval of the central government to the appointment of the chief executive and the functional director⁴³.

⁴³ *ibid.* p. 189.

SOME NEW APPROACHES

Combining Trade Unions and Cooperatives

A movement needs organizational forms, which will help it to reach its goals; and a means, which will work towards the vision. The organizations to carry this movement forward must be capable of being controlled by the self-employed workers. They should be democratic and member-based. The trade union and the cooperatives are two organizations, which can carry the movement forward. Both the trade union and the cooperative movement have a history of speaking for the weak and the labouring poor, of fostering a spirit of comradeship and of democracy. The goals of trade unions and cooperatives are the same but their methods are different. The trade union represents struggle, while the cooperative represents development. The trade union fights while the cooperatives build.⁴⁴

For example, the block printers' cooperative, Abodana, is separate from the tree growers cooperative, Vanraji. The cooperatives are divided not only by trade but also by their function.

These strategies can be strengthened by the simultaneous use of the law to contest infringement of rights. The cooperative attempts to build an economic unit on the basis of sharing. It creates a spirit of cooperative sharing through one-person one vote, equal ownership of assets, division of profits and cooperative education. It builds self-reliance

⁴⁴ SEWA (Self-Employed Women's Association) which is having, a Joint Venture with the Cooperatives and trade union to serve the purpose of the organization in helping the weaker section in particularly women. this is an example for the cooperative service or collective action. For further details see Shiela Rowbothern and swasti Mitter (ed.) *Dignity and Daily Bread. New forms of Economic Organising among Poor Women in the Third World and the First.* (London. Routledge. 1995), p. 127.

through an alternative economic system, where worker and owner are merged into one. It brings the control of the economic system into the hands of the workers⁴⁵.

The cooperative helps the organization of unions in several ways. One of the functions of a trade union is to struggle for higher wages or earnings. If the cooperative is in the same trade among the same set of workers as the trade union, the cooperative can set a standard and provides a model of higher wages or earnings. This allows the trade union to point out to the workers and the employers/ traders that a higher wage/earning is indeed possible. It also gives the workers a leverage when bargaining with the employers/ traders, local or national authorities.

Cooperatives can provide an alternative structure, which can solve deadlocks in negotiations. One of the main functions of the trade union is to bargain for a better deal for its members. Often while bargaining the two sides get into positions which neither can let go. The cooperatives can then provide a via media or an alternative solution, which is acceptable to both sides.

The process is reciprocal: the trade union also helps the cooperative. The trade union has the capacity for mass mobilization, pressuring tactics, fighting strategies, legal know-how and effective bargaining. And often the cooperatives need all these things. Trade union power can be exerted to change policies. Poor women's cooperatives work under many disadvantages. There are internal dis-advantages, such as attack by vested interests. A major disadvantages of those poor people and especially poor women's

⁴⁵ Ibid p. 131.

cooperatives is that they work under the weight of the economic system, which is against them.⁴⁶

Agriculture-Based Development

Cooperative institutions are a third sector that, represses the way forward⁴⁷. They provide means whereby the poor can act together obtain for themselves the benefits of modern science and technology and fair share of the country's economic growth. In the process, they obtain the means to build for themselves, in every village, a society that is confident and at peace with itself, secure in the vision of a better future for as children. This also represents real growth in the nation's social and political capital, as a plurality of local institutions is created and strengthened that can underpin democracy at the grassroots⁴⁸.

Not only has the cooperative spirit been so often subverted to serve the narrow need of political parties, our potential for cooperative led growth has been stifled by excessive and totally unnecessary bureaucratic controls. However, that when cooperatives are placed firmly when they should belong-in the hands of their membership-they can serve at a powerful instrument of economic and social change.

Dairy cooperatives have catalyzed road building, and occasionally they have themselves taken up the construction of village-approach roads. Some of the dairy cooperatives have set up rural health services for their members, and some are using their incomes to provide other social and economic services. None of these activities are part

⁴⁶ Ibid p. 134.

⁴⁷ See. V. Kurien, 'The Amul Dairy Cooperatives: Putting the Means of Development in to the Hands of Small Producers in India', in Anirudh Krishna, Norman Uphoff, Milton J. Esman (ed.), *Reasons for Hope. Instructive Experiences in Rural Development* (New Delhi : Vistaar Publications, 1997).

⁴⁸ Ibid. p. 106.

of the original charter; they have been taken up incrementally as farmer-members gain confidence to act for themselves through the institutions that work for them.

In some instances, the management of state federations and district unions has passed over to cooperative structures that are regularly elected from the bottom up. But in other places, politicians and bureaucrats continue to cling to power, no matter how irrelevant or unproductive they might have become. Even these latter states have made substantial contribution to increased milk production and rural incomes, although their responsiveness to farmer needs and problems has been limited.

Since true development is the development of people, not of cows or milk routes or dairy plants, the process of management transfer to genuine cooperatives is a necessary further step. Thus, the achievements of dairy cooperatives, although considerable and well remarked upon, are still in the making, rendered incomplete in some respects because of obstructions posed by bureaucrats and their political masters.

People Centred Development

The production-centered development has favored command form of organization. People-centered development favors self-organizing system geared to community goal setting and problem solving processes and to innovative and adaptive action. People-centered development focuses on people and their capacity to address their needs.⁴⁹

Programmes of cooperative and community development were implemented through conventional and bureaucratic structures with reliance on centralized bureaucratic organizations and inadequate investment for building the community with

⁴⁹ See. P.R. Dubhashi, *Essays on Rural Development*, (New Delhi: Kaveri Books, 1996) p. 21

problems-solving capacity. But what is required is the appropriate community oriented management system as in the case of cooperative dairy development in India and Grameen bank activities as in Bangladesh, which are examples of community, based family services. A blueprint approach is inadequate response to the rural development problems. Rural development has to be in the learning process.

Participatory Development

Effective development planning must be participatory. The proper role of the professional planner is to provide others with information, instruction, motivation and resources that can increase the effectiveness with which they plan for themselves.

In conventional production centred development model the needs of production system assume precedence over the needs of the people. People are interested enough to participate in the development enterprises find their lives dominated by large impersonal bureaucracy who exert inordinate control over their lives, including the access to sources of livelihood and limit their opportunities for creative individual initiative. The conventional development has been dehumanising and environmentally unsustainable. This has led to serious search for alternatives.

The new people-centered approach focusses on people, on improving directly the lives of the poor in the Third World countries. The poor rural households have considerable resourcefulness. They can fashion the economy co-posed of household production units. While the modern sector is a primary source of conventional economic growth, the traditional sector is the primary source of livelihood for most poor households. The new creative individuals sustaining themselves under difficult circumstances and measures must be taken to relieve them of their constraints. Production-centered development concentrates on industry over agriculture, concentrated

investment rather than dispersed investment, exploitation of natural resources rather than their conservation.⁵⁰ It encourages large production units which are energy in efficient, lack adaptability and are prone to serious disruption. It externalises social and environmental causes. In people centered analysis, the people and the environment are the primary variables. Education, health care, nutrition of the poor are the social indicators of progress.

DECENTRALIZING DECISION MAKING BY EMPOWERING PEOPLE

Public policy should strengthen the role of the family, the voluntary association, the neighborhood, and the small working group.

The paralysis of the parliaments, the ineptitudiness of giant governmental bureaucracies, the wild swings of political attention, and the general crisis of industrialism have made the system incapable of taking quick competent decisions. Demands fall into decision-makers from a wide range. The political decision-making machinery was never designed to cope up with such a high level of diversity. There is mismatch between decisional technology and decisional environment leading to countless self-cancelling decisions.⁵¹ Executive policy-makers are over-loaded. The government is doing too much. Government bureaucracies are not adaptive. The government are pumping uniform services for an increasingly non-uniform population leading to a gap between what people need and what they would get from government. Programmes designed in the Nation's capital are not tailored for local needs. At some points the decision load is greater than the system can handle. The decisions load should be reduced

⁵⁰ *ibid* p. 29.

⁵¹ *ibid* p. 31.

by sharing it with more people, allowing more decisions to be made down below or at the periphery instead of concentrating them at the already stressed and mal-functioning centre.⁵² We must have democratic alternatives to obsolete structures before they fall by their own weight.

Public policy should utilize radiating structures for realization of social purposes and for expanding government services without direct government mindset of the megastructure is biased towards the unitary solution. The goal of public policy should be a pluralistic policy. The main purpose of involving poor in their own development process. The solidification of the centralized power leads to corruption as a way of life and legitimizes bureaucracy's claim to be its own watchdog. Development must be complimented by the evolution of representative political institutions conducive to stability. Only broad-based local effort, hard work and initiative can essential underpinnings of social trust on the basis which alone majority of rather than flashy national monuments. Political maturity should take root throughout the nation. There should be society based on wide trust and there has to be a stable political order based on strong participatory structures.

There has to be a local activism and network of participative community. Network composes of self-reliant autonomous participants. In a network, person is more highly valued than the paper. Networks are bound up with relationships, links, actions and communications, and shared values

ROLE OF COOPRATIVES IN RURAL DEVELOPMENT

Prior to nationalization of major commercial banks in 1969, they were assisting the cooperatives like subscribing to the debentures of Land Mortgage Banks, Industrial

⁵² Ibid. p.31

Cooperatives, Housing Cooperatives, etc., purely as commercially viable propositions, that too in a limited way.

Cooperative leaders are often saying that the cooperative system is both economic and social, and a people's democratic movement. Underlying this philosophy the cooperatives can be classified broadly into (a) welfare cooperatives and (b) business cooperatives which in turn can be dichotomized into: non-credit cooperatives and credit cooperatives. The non-credit cooperatives includes Marketing societies etc., the credit cooperatives or cooperative banks, on the other hand, constitute the organized sector of the Indian banking system, where the other constituents are commercial banks and other financial institutions.

The "policies and programmes for rural development" a new concept of integrated development has assumed a new significance in the field of rural reconstruction programme, in view of the growing interest in the behavioral study of developmental administration. One of the major changes that has occurred in the post-Independence period is a remarkable change in the field of rural development, which in turn reflected the socio-economic development and the dynamics of public policy in a contemporary political system.⁵³

Rural development has been one of the most formidable and fundamental aspects of India's developmental efforts. The concept of rural development since the 70 s has undergone a change and has become more comprehensive. The World Bank defines rural development "as a strategy designed to improve the economic and social life specific group of people".⁵⁴

⁵³ See H.D. Dwarkanath, 'Policies and Program for Rural Development' *Kurukshetra*. July 1997, vol. XLV. No. 10.p.26.

⁵⁴ Ibid .p.26.

Rural development as a broader concept is concerned with the total development of the rural economy as a whole. It is a holistic concept rather than a sequential one. It is equally concerned with rural poverty, unemployment, and the development of infrastructure like roads, transport, power, insurance and banking, development of cottage industries, encouraging traditional crafts and industries. Providing decent cheap houses for the rural poor and the depressed classes.

These programmes were designed to attack rural poverty, but they could not benefit the weaker sections of the society because they were inadequately financed and implemented by different departments without any coordination. None of these programmes covered all the rural areas of the country. In addition, most of the programmes were ad hoc in nature. They were time bound and were viewed as tiresome extra work by the officials who had to operate at the block and village level. This reduced the effectiveness of the schemes, and the need for the introduction of a new comprehensive scheme, which could remedy the defects and gaps in the removal of the rural poverty, was felt.⁵⁵ As such there was an urgent need for an integrated approach to rural development. The Government of India being fully aware of the situation, introduced a new approach called "Integrated Rural Development Programme" (IRDP) in a few selected blocks (2300 blocks) in 1978-79. On 2nd October 1980, IRDP was extended to all the 5011 blocks in the country, and is a part of the nation-wide "Twenty-Point Programme".

Politicization of the cooperatives is quite understandable. It has led to a growing volume of opinion in the country against any state financial and administrative participation in the cooperatives. The first law to this effect was passed in 1994 in Andhra Pradesh, under the name Mutually Aided Societies Act, to distinguish it from the

⁵⁵ see. C. Krishnan, 'Role of IRDP in Rural Development' *Kurukshetra* (Oct-1998). Vol.47. No.1. p.48.

cooperatives societies act where government is an important partner. Slowly other states are veering round to passing similar law to enable any cooperative that does not wish government assistance to get registered and function. Most of the cooperatives registered under the older act have not changed their registration to the new act. It will take time and not be easy for many of them to be free from the financial relations with the govt.

However this is necessary in the interest of the growth of a healthy cooperative institutional structure in the country. This is not to deny the necessity and relevance of some financial help to the cooperatives of the weak. But the consequences of the last three decades have been so undesirable and the habits formed are so endemic that some clearing of the Augean stables is necessity. Alternative methods of assistance, to start with, to cooperatives not in a financially strong resource position will have to be developed. The more successful existing cooperatives may have to come forward to help in such endeavors.⁵⁶

It would be helpful to prevent any person who is an elected representative in many constitutional body-beginning from panchayat to parliament- to be a director (or elected office bearer) in any cooperative institutions. Any office bearer in cooperative institution must resign his position before he contests election to any constitutional body. Cooperatives should not make any donations or other help to any political party. This will of course not close all avenues for politicization of cooperatives. But it might build a body of local leadership that will be working for the success of cooperative per se.

⁵⁶ See. Nilakantha Rath, "D.R.Gadgil on cooperative commonwealth" *Politicisation of Cooperatives, Economic and Political Weekly*, APRIL, 6.2002. P.1329.

In the present climate of globalization, liberalization and free-competitive economy, all this might appear a lost cause. But sooner than later the big corporations, domestic and multinational, will dominate the field. Lack of information and equally important, wrong information is and threatens to be endemic. Economic analysis shows the severe limitation of the competitive market in this context. Institutional devices are needed to take care of these. A structured cooperative system is likely to help here. In the any event, Indian rural economy, there does not appear to be a better alternative available.

CHAPTER 4

ASSESSING THE COOPERATIVES IN TAMIL NADU: A DECENTRALIZATION PERSPECTIVE

This chapter deals specifically on Tamil Nadu as whole in the context of problems and prospects of the decentralization and the cooperatives. This analyses the structure of the cooperative institution and the responsibilities of the representatives in the local bodies. It gives a clear picture on the decentralization of powers that carries out the local affairs and development within the village constituency with many sub committees and other nominated members. It gives a framework on the contemporary model of village local administrative system. In this chapter we could find the operation of caste hierarchy in the society as well as in the administrative system and its influence in the socio-economic bodies like the depressed classes cooperatives. The chapter also analyses as to how the same system was regulated through legislation and resolutions in different period of time during the colonial rule.

The concept of cooperatives entered the political sphere with the emergence of different political organizations such as Justice Party and Dravida Kazhagam; and continued during the post-independent rule of Congress and the various Dravidian parties. To begin with, the Justice Party brought out some changes in the administrative and representative system in the local bodies to empower the rural poor. And Congress followed the same with the national objectives of planning and regional cultural model of development administration. Further, the democratic process has been analyzed in the background of the political changes that happened in 60s, 70s and later in Tamil Nadu, and the economic policies and the objectives of political parties are analyzed in the view of local self government and cooperatives.

EMERGENCE OF COOPERATIVES IN TAMIL NADU

The Nicholson Committee Reports of 1895 and 1857 addressed the serious problem of the rural people who were under debts and were exploited by landlords and the usurious moneylenders.

The recommendations of the Nicholson report was carried out in the province till the cooperative societies got transferred to State list under dyarchical form of government, introduced by the Government of India Act 1919. There was a steady growth in the structure of the cooperative movement.

After passing the Cooperative Credit Society Act of 1904, Sir P. Rajagopalachary was appointed as the first registrar of the cooperative societies in Madras¹. From 1905 onwards number of rural cooperative credit societies and urban credit societies sprung up all over the province. In addition to the support of the government, the Christian missionaries provided moral and material support. Particularly, service extended by philanthropist and humanist like D. M Hamilton, a British official, Zamindars of Nambipuram and Kilachery Arulaiya Naidu, helped considerably in the growth of the movement in the province². Simultaneously there were Nidhi organizations in the province, which used to provide funds for the small traders. The merchants and other businesspersons also participated in helping the agrarian community. The first purely cooperative credit society was formed to provide credit for the weavers in Kancheepuram and a non-credit society was formed in Triplicane as an urban cooperative society registered in 1905.

¹ See K.Kuppuswamy, *Cooperative Movement for the Dalits in Madras (1904 - 1947)*, (Madras: Emerald Publishers, 1995), p 40.

² *ibid.*, p.40.

GROWTH OF COOPERATIVES IN TAMIL NADU

The Madras State was the first in India to realize the fact that the cooperative movement was the means to regenerate the countryside. It placed Sir Fredrick Nicholson on special duty in 1892 to study the theory and practice of agricultural banking and other kind of banks in Europe and to suggest means by which a similar movement might be popularized in British India. The first feeder bank in the Presidency was registered in 30th August 1904, to assist in financing the cooperative societies, consequently the Madras Central Urban Bank was registered in 1905. As a federal bank, its sole function was to finance the cooperative societies through out the Presidency. In 1909, the formation of district central banks was found necessary and two such banks were formed³. Basically the cooperatives were voluntary organization which would finance the weaker section in the society particularly the agrarian poor. There were no conceptual changes in the Indian cooperative as compared the West. But the structures and the compositions of the organization were different from the Western models. It was the working class movement, which pioneered the cooperatives in the West. But in India, it was started by the state to assist the weaker sections of the society. The development of the movement came within the ambit of the legislature and with certain objectives to provide economic betterment to the weaker section. Further, the movement itself was recognized through the parliamentary legislation.

Between 1912 and 1915 eight societies were formed with the object of purchasing seeds, manure and agricultural implements and selling them to other

³ See Justice Party, *Golden Jubilee Souvenir*, (1968), p.273.

members⁴. The provincial cooperative union was registered in 1913-14 with the general objective of assisting the cooperative work by every possible means⁵.

In 1914, Government of India appointed Sir Edward Maclagan to evaluate the working of cooperative societies and the report was submitted with a few important recommendations. Firstly, the supreme authority was to be in the hands of members and not in those of office bearers. Secondly, it provided that "one vote for one member formula" was to be followed. Maximum publicity within the society was to be given during elections⁶. In other words the cooperatives societies were to be democratic in their functioning. Here the question arises whether the office bearers might use the economic power for their vested interest. The Madras Government appointed a committee in 1927 headed by Mr. Townsend to examine and suggest ways and means for the development of the cooperative movement. This committee recommended among several other things, (a) the enactment of a new Madras Cooperative Societies Act, for remedying the defects found in the working of the 1912 Act, (b) the establishment of a central organization for financing primary land mortgage banks and (c) the enactment of separate legislative measures relating to the Land Mortgage Banks⁷.

COOPERATIVES IN THE WELFARE OF CASTE AND CLASS

The socio-economic disparity can be an inherent reason for the economic dominance of certain groups in the caste system. Consequently, the depressed classes were left out of the upward economic mobility. This led to the demand from the depressed classes to have a separate cooperative society. It became therefore necessary

⁴ See Justice Party, *Golden Jubilee Souvenir* (1968), p 278.

⁵ *Ibid.*, p.278.

⁶ See K.Kuppusamy, *Cooperative Movement for the Dalits in Madras (1904 - 1945)* (Madras: Emerald Publishers, 1999), p.44.

⁷ See Justice party, *Golden Jubilee Souvenir*, (1968), p274.

to start separate societies for these classes. It was due to the pioneering effort of the cooperative department of the Madras State Government, the Young Men Christian Association (YMCA), the social workers and the philanthropists that it resulted in the establishment of the separate cooperative credit societies for the depressed classes. It gained momentum from the early Twentieth Century in the province. However at the first provincial cooperative conference held at Madras in 1912, the proposed and passed resolutions were discouraging the formation of separate cooperative societies for the depressed classes. It was proposed by V.Venkata Achariar of Kancheepuram and seconded by M. Chinnaiah Naidu of Molasure and was passed. Nevertheless at the conference V.K. Ramanuja Achariar of Kumbakonam made a reference to the need for the organization of separate cooperative societies on caste and religious lines until communal harmony and secularism were achieved⁸. The second Madras provincial cooperative conference held its meeting at Triplicane, Madras in 1914. Enough ground was covered for the establishment of separate cooperative societies for the depressed classes⁹. At the second Madras Provincial cooperative conference, an annual report was brought out. It led to the establishment of the first depressed classes cooperative credit society for more than 300 scavengers, sweepers, lamplighters and the drain flushers in the Salem Municipality in 1912¹⁰.

In 1916, Rao Bahadur Varadharajula Naidugaru, started the Nariangadu cooperative society in Madras with the help of Rao Bahadur T. Vijaya Ragavachariar. It got involved in remodeling the *chery* (Slums), and improving their sanitary conditions with the help of the Corporation of Madras and the Social Service League¹¹. The

⁸ See Kuppaswamy, *Cooperative Movement for Dalits in Madras (1904-47)*, (Chennai: Emerald Publishers, 1995), p.45

⁹ *Ibid*, p.45.

¹⁰ *ibid*, p.45.

¹¹ *ibid*, p.49.

Philanthropic associations like the YMCA and the Servants of Indian Society, the Madras Social Service League and the Depressed Class Missions were responsible for the organization of non-agricultural cooperatives societies¹². The cooperative department of the Government of Madras had established the Coimbatore Scavengers Cooperative Credit Society in 1914. It enabled the scavengers to extricate themselves from the clutches of moneylenders who had lent them money at high interest rates¹³.

The Madras Social Service League, founded in 1912 organized the following societies; the Madras Salt Loaders Society, Nallerichari Domestic Cooperative Society, the Royapettah Cooperative Society and Perambur Cobblers Cooperative Society. The good track record maintained by the cooperative credit societies, which were associated in the service of depressed classes very much impressed the Government of Madras. When philanthropists and sympathizers of the cause of the depressed classes came forward with proposal to organize cooperative societies, the state willingly responded to them¹⁴. The Poona Pact of 1932 brought hopes to the community. The colonial government as well as the Indian National Congress (INC) felt the urgent need to give the untouchables community their political rights and undertook programmes for their well being¹⁵.

Role of the Justice Party and the Dravidian Movement in the Cooperative Movement

In 1931 the Justice Party was in power in the Madras presidency. It adopted a policy of expansion towards the cooperatives during this period, which was coupled with

¹² *ibid*, p.49.

¹³ *ibid*, p.49.

¹⁴ *ibid*, p.49.

¹⁵ *ibid*, p.49.

a policy of introspection¹⁶. The leader of the Dravidian movement Periyar E.V.Ramaswami, took up this issue vehemently. He wanted the JP government to take necessary steps to promote cooperatives so as to relieve the agrarian poor from debt-trap. According to him the opportunities to get revenue in the case of local bodies and cooperatives should be enlarged and the management should be vested with the government servants¹⁷.

Further, the farmers should be brought under cooperative bodies and the harvested crops should be under the control of the farmer's cooperatives. The farmers themselves should equally share the entire benefits of the produce¹⁸.

The original action plan submitted by Periyar to the JP government in 1934 proposed (i) that there should be no middlemen creditors between the agricultural producers and the consumers; (ii) that the cooperative societies be set up to distribute the produce; (iii) that additional powers be provided for the local and municipal boards; and (iv) that responsible and honest officers be in the local bodies and the cooperatives departments.¹⁹

The Justice Party made amendments in 1935 in its economic policy. The number of cooperatives and land mortgage banks were increased, so that the poor would not fall into the clutches of creditors who charged very high rates of interests. The Government officials were to run the banks themselves²⁰. In the context of its political policy, more

¹⁶ See Justice party, *Golden Jubilee Souvenir (1968)*, p.275.

¹⁷ Periyar E.V. Ramasami a Pen Portrait, Appendix. xvii (Madras: The Periyar Self-Respect Propaganda Institution., 1992).pp 133-34.

¹⁸ Collected Works of Periyar E.V.R Rural Development. Village Reform. The speech delivered on the anniversary celebration of the village officers training school, at Erode on 31-10-1944. (Madras: the Periyar Self-Respect Propaganda Institution., 1992). Vol..1. p.206.

¹⁹ *ibid.*, p.275.

²⁰ *ibid.*, p 526.

tasks were ought to be assigned to municipalities and local boards as well as cooperatives and their administration was to be left to the officials of the State²¹. During the JP rule the Cooperatives Societies Act 1912 which was an all India Act, was replaced by a provincial act namely, the Madras Cooperative Societies Act 1932 with many important legislation. During this JP government the land mortgage bank movement was put on a firm and solid foundation²².

At the end of the year 1937-38, there were 2705 societies formed especially for the *Adi-Dravidas*, *Adi-Andhras*, the fishermen and other depressed classes of which 49 were organized under the Fishers department. These societies were organized for the benefit of the depressed classes to enable them to obtain loans for the acquisition of house sites, for agriculture and general purpose and to secure government land on lease etc. In 1939, J.Vijayaragavachariar Committee was appointed to suggest some recommendations to improve the functioning of cooperatives and the report was submitted in 1940. Due to the Second World War no recommendation could be implemented.

After the independence the cooperative dimensions were incorporated in the national planning. The cooperatives form part of state list of the constitution. For this very reason, there is no universal approach towards the cooperatives at the national level. The States have the discretion to make any change as they want. In 1955, the government appointed T.M. Naryanswamy Pillai to review the progress and to make suggestions for the consolidation, development and reform of the movement. The outcome of the committee's report was the passing of the comprehensive Madras Co-operation Act 1961. This enabled the movement to change its focus from credit to non-

²¹ *ibid.*, p.527.

²² *ibid.*, p.275.

credit societies for fishermen, workers in factories, consumers, weavers, small manufactures, etc.

Administrative Decentralization in Cooperatives

(a) Role of the Registrar

The Cooperative Societies Act of 1932 provided for more powers to the Registrar. The rules framed there under the Act was to make the Registrar as the decisive authority on societies, for approval of by-laws, audit, inquiry, inspection, surcharge, supersession, settlement of disputes, enforcement of awards, issue of directions to societies, nomination of directors and their disqualification or removal in certain circumstances and winding up of societies, etc.

(b) Delegation of Powers

The delegations of powers at various levels of the department in respect of statutory administrative and financial matters are as follows: (a) All the powers of a registrar under the Cooperative Societies Act have been conferred on the Joint Registrars. (b) All the powers of the Registrar have been conferred on the Deputy Registrars except those under certain sections of the act. The expected sections relate to the powers to direct, to amend the bye-laws of a society, sanction investment of funds in a society with unlimited liability, direct the suspension of an officer or servant of a society, supersede the committee of a society and order the winding up of a society after an enquiry of inspection²³. These powers which have not been delegated are important enough to be reserved for the Registrar and the Joint Registrars.

²³ Refer the Administrative Reform Committee headed by J.A. Varghese, A Report on Cooperation, (Madras, Government Of Tamil Nadu, 1974) P. 52.

(c) Statutory Functions of the Department under the Madras Cooperative Societies Act.

The important statutory functions of the Registrar under the Cooperative Societies Act are registration of societies, registration of amendments to by-laws, audit inquiries, inspection, surcharge, supersession of committees, arbitration, liquidation of societies, and execution of awards, decrees, etc.²⁴

(d) Membership of Cooperative societies and Composition of the Committees of Management.

Till the year 1959, the admissions of members to societies were regulated by the by-laws. It was open to the managing committee of a society, either to admit a person to membership or to refuse admission without assigning reasons. In 1959, a provision was made in the rules framed under the Madras Cooperative Societies Act of 1932 for appeals to the Registrar in case of refusal of admission.²⁵ The rule laid down that every by-laws should on application be admitted to membership, provided that it shall be open to the committee to refuse admission for good and sufficient reasons to be recorded by it in the minutes of the meeting. The reasons should be communicated to the applicant who was given the right to appeal to the Registrar from the decision of the committee.

(e) Broad-Based Committees of Management

One of the cardinal principles of co-operation is that the general body of the members should elect members of the committee of management. There was no reference to the method of constitution of the committee in the old act (Act VI of 1932) but a reference

²⁴ Ibid. p.54.

²⁵ Ibid p. 64.

was made to it in the rules framed under the act. Even in the rules, the matter was left to the by-laws framed by the society and approved by the Registrar and one of the matters to be dealt with by the by-laws of the society was the mode of appointment and removal of the committee. Later, in 1957, a provision was added in the rules empowering the state government or a financing bank to nominate members of the committee, not exceeding 1/3 of its strength in case the government or the financing bank that had taken shares or given any financial assistance to the society.²⁶

In the new Act, it was laid down that the general body of a society should constitute a committee in accordance with the by-laws. It was also laid down that where the by-laws so provided, the government or the Registrar might nominate all or any of the members of the committee for such period as may be specified in the by-laws. The old provision enabling the government or the financing bank to nominate 1/3 of the members of the committee was retained.

POLITICAL CHANGES AND ITS IMPACT ON THE COOPERATIVES

Later due to the political changes that took place in Tamil Nadu, when DMK came to power in 1967 under the leadership of C.N. Annadurai, cooperative sector also underwent many changes. The new government wanted the cooperatives to develop as a popular movement based on the universal membership and service. K. Santhanman committee was appointed to examine (a) the existing provisions relating to the cooperative sector, (b) composition of committees, (c) term of office of the members and the election to such committees, and (d) to recommend to increase the efficiency of the institutions (e) eliminating the possible excessive power and influence by the individuals and group, (f) to prevent the monopolization by individuals and group of the officers in

²⁶ Ibid. p.65.

the cooperative institution have seen effective in achieving that objective²⁷. The committee submitted its report in 1968 with some recommendation. It suggested that in the interest of better administration of the central and apex societies, experience should be prescribed as a qualification for the election or nomination of a director of such societies. No one would be eligible to be a director of such societies unless he had been member for not less than three years of any cooperative society. And no member would be eligible to be a director of an apex society unless he had been the director for not less than three years of any central society. The number of nominated directors was to be restricted to one in the case of primary and central society and to two in the case of an apex society. Such nominated directors were to be officials. Non-official were to get into the committee through the election. It is not desirable for legislators to participate in the management of the society. The elections were to be conducted at regular intervals of three years²⁸.

The Tamil Nadu Committee on Cooperation (1969) also made suggestion to eliminate elections for chairmanship of District and State Cooperative Unions recommending that the president of the Central Bank should be the ex-officio president of the District Cooperative Union. The President of the State Cooperative Bank should be the ex-officio president of Tamil Nadu Cooperative Union. The method of finding consensus may be another way. However, it is for the leadership to decide how to preserve democracy and avoid elections in case of unions²⁹. An ordinance was issued in 1970, which was replaced by amendments to the Tamil Nadu Cooperative Societies Act 1961 in the same year. This enactment conferred powers on the state government to

²⁷ See the T.A.Varghese Report on TamilNadu Administrative Reform Commission , *A Report on Cooperation*, (Ministry of Publicity, Government of TamilNadu: Madras , 1974January) p.67.

²⁸ *ibid.*,p.69.

²⁹ See S.S.Puri,*Ends and Means of Cooperative Movement*, (New Delhi:National Cooperative Union of India Publication,1979),p.216.

make rules among other things, regarding the total number of members to be elected to the committee of a central bank, the number to be elected from each society or class of societies, the number to be nominated and the mode of election or nomination, etc. Under the rules, representations were given to spinning mills and sugar mills also. The number fixed for them ranged from 1 to 3. As the Committees of these institutions have all along been having nominated directors, here also the election of representatives to the committee of the central bank was a kind of indirect nomination³⁰.

Later, in 1973, the Tamil Nadu Government appointed T.A.Varghese to examine the growth of cooperative movement and the report was submitted in 1974 endorsing the recommendations of the Santhanam Committee. But in view of the democratic functioning of the society, representations for the weaker section were to be given in the nominated director post. No individual was to be a member of the committee of manufactures of any society for more than two successive terms of 3 years. No individual was to be an office bearer in more than one society. There after the elections for the board of directors was conducted till 1976 for both the credit and the non-credit cooperative societies.

Approach to the Perspective Plan

The Perspective Plan 1974-78, had the following main objectives:-

- (a) Reducing economic and social inequalities;
- (b) accelerating the process of social change by transforming the social structure and social attitudes;
- (c) humanizing economic development by promoting cultural activities and community participation,
- (d) decentralizing planning, development and resource mobilization.

³⁰ *ibid.*, p. 71.

Co-operation and Community Development

Through the Cooperative sector strengthening and expansion of the Agricultural Credit Societies, development of the activities of marketing societies and processing units and also revitalizing the financially weak cooperative wholesale and primary stores are envisaged in the decentralizing economic planning and implementation and thereby securing greater people's participation in the democratic process.

It is observed that the Backward Classes (including Scheduled Castes and Scheduled Tribes) have neither the resources nor the opportunities to make big ventures in the industrial and other fields. This obviously was a big handicap in their economic and social advancement. The existing measures to help the Backward Classes to catch up with other classes in the areas of education and employment cannot be said to have yielded the desirable results. Therefore, these measures should be intensified and pursued vigorously. Encouragement had to be given to backward classes through preferential treatment in the matter of granting licenses, etc. for starting new industries. Entrepreneurs were encouraged to co-opt members of the backward classes also on their ventures; employers in the private sector were made to use the Employment Exchanges increasingly for their recruitment's and suitable reservations were made for backward classes in respect of such vacancies³¹.

Suppression of Elected Boards of Management

The credit institutions in the cooperative sector are conceived to be basically democratic organizations, which can meet the aspirations of the people for whom they were established. This can be achieved only when democratic management runs them. This implies peoples' effective participation in the management of credit institutions

³¹ See the Perspective Plan for Tamil Nadu (1974-1978), State Planning Commission, (Madras :Government of Tamil Nadu,1974), p.61s

through the elected boards. Over the years, due mainly to political expediency, the elected management in many of the cooperative credit institutions have been superseded by the State Governments through the Registrar of cooperative societies and several such institutions that were being run by the boards/administrators nominated/appointed by the State Governments concerned. In as many as 80 of the 359 DCCBs in 17 major states, the elected boards of management have been superseded and they have been replaced by nominated boards or by an administrator/custodian. The worst hit states are Tamil Nadu and Jammu & Kashmir where the elected boards of all the DCCBs have been superseded³². The states that have elected boards of management in all the DCCBs are Andhra Pradesh, Kerala, Orissa and Uttar Pradesh. This clearly indicates that cooperatives in many of the states have lost their democratic character and State partnership in cooperatives has turned into state controlled cooperatives. It cannot be denied that there may be cases of mismanagement, financial irregularities, etc., requiring supersession of the boards of such institutions. However, supersession is not the only remedy for correcting the situation and if at all a board is to be superseded, fresh elections was to be held as early as possible so that democratic management is restored.

During the first decade of independence, the cooperatives have been in the part of rapid industrialization in which financing to set up industries was important. Then the state assistance came in terms of provision of industrial finance to the private sector. The Madras State Industrial Investment Corporation, which was set up in 1949, followed by the Madras Industrial Cooperative Bank for financing Industrial Cooperatives and Small Scale Industrial Units³³. The industrial estates programme started during the second five-

³² See S.K.Kalia, *Cooperative Rural Credit Institutions...* in Baidhyanath Misra (ed)., *Cooperative Movement in India*, (New Delhi: A.P.H. Publishing Corporation, 1997), p.31

³³ See C.T.Kurien and Josef James, *Economic Change in Tamil Nadu 1960-70. A Regionally and Functionally Disaggregated Analysis*. (New Delhi: Allied Publishers, 1974), p.194

year plan period was actively carried on during the 60's. In 1970's it expanded with 47 industrial estates, there are some cooperative industrial estates and two private industrial estates set up with the state assistance. In terms of location they are in Urban, Semi-Urban and rural areas³⁴. The Small Industries Development Corporation (SIDCO) was specially set up for the promotion of small-scale units. Cooperative growth and participation in industrial growth was along with sectoral development.

The development programme, land reform legislation, irrigation projects, rural electrification schemes, rural industrialisation, the high-yield varieties programme, cooperative and a host of other credit and support institutions have been among the many varied efforts of this part to get the rural areas to progress. The nationalized banks has becomes the host of credit and support institutions. But there were organized efforts through cooperative to provide financial support for the rural poor. The nationalized banking system had from the beginning of the 1970's opened up an increasingly important alternative to the cooperative credit structure³⁵. Over the years the shift has been from a quasi-structural approach linked to land reforms. Panchayats and cooperative, however tenuously in practice to an increasingly technocratic approach that sought direct state intervention in the delivery of basic minimum needs, provision of employment of vulnerable areas and the development of vulnerable groups³⁶.

Decentralization and cooperation is evaluated under the tasks of DPAP and IRDP. The most of the tasks sought to be promoted under the DPAP and IRDP could not be accomplished, except with basis of village level decisions and village level cooperation. The food for work programme could be much more efficient and economic

³⁴ *ibid.*, p.195.

³⁵ See S. Guhan, 'Rural Poverty: Policy and Play Acting', *Economic and Political weekly*, (November, 22, 1980), p.1976.

³⁶ *ibid.*, p.1976.

if the works could be chosen and the implementation watched by the representative of village. The cooperative primary credit societies could not function, except in the basis of collective credit discipline³⁷. The sixth plan document, however, contains no recognition of the central importance of cooperation and decentralization in any serious approach to rural development. There are some scattered references to the need for cooperative projects in dairying, sheep, goat and poultry. Nevertheless, the operational reliance was on ongoing programmes as the administrative and financial bureaucracy was implementing them.

The functioning by the bureaucracy was target based, but these targets were defined in terms of operational outputs – i. e. the number of loans to be sanctioned, the subsidies to be given, to utilize the allocated IRDP fund in full. These targets need not be, and in actual fact were not, aligned with the targets for poverty eradication, instead it was not possible to meet the programme targets and many times missed the policy targets³⁸. This may be because the implementing officials have not taken many efforts or were with lack of information about the target groups to provide the benefits. Therefore the implementing officials were now to achieve the financial expenditures and physical output targets assigned to them.

³⁷ *ibid.*,p.1981.

³⁸ *ibid.*,p.1981.

OPERATIONALIZATION OF DECENTRALIZATION AND COOPERATIVES

The process of the decentralization and cooperation had visible impacts in the area of rural development. The political mobilization was the important component of the decentralization and cooperation. From 1967-76, the DMK government initiated the rural development in different ways, which was a mixture of populist and institutionalized model. For instance, rural electrification, transport, roads, highways, education, health and other programmes were implemented in state-oriented development or state-initiated change rather than by the earlier sectoral development model. The cooperatives and PRI's roles were restricted to some extent. The cooperatives had become a mere management enterprises and the PRI's had become a rural care agency with basic minimum needs of providing water, sanitation and few tax provisions. The democratic participation was checked through the restrained electoral mechanism. The local bodies election were conducted quite regularly and the elections also for credit and non-credit cooperatives were held till 1976, however it bureaucratized the cooperative institutions by appointing the government officials as the special officers in the place of chairman and the board of directors. There by leading to a fast declination in decision-making on the cooperative policies and the implementations

POLICY SHIFTS AND ITS FALL OUT ON THE COOPERATIVES

The AIADMK came to power in 1977 and initiated populist policies toward development. There were some attractive programmes like the noon meal scheme for school children, the aged and widows pension and health programmes, etc. While the political bosses and the bureaucracy highlighted all these programmes, the PRI's and the cooperatives did not get due consideration.

There were many reasons for the postponement of local body elections. The Tamil Nadu government did not conduct these elections for 15 years since 1976. The reasons given were: drought, flood, cyclone, villagers being busy with agricultural operations, revision of electoral rolls, delay in printing electoral rolls, lowering the age limit, reservations, courts stay on reservations, appeals against those reservations in the supreme court, school examinations, students unrest during the by-election, mid term elections, general elections, de-limitations of wards, issue of identity cards to voters and census operations³⁹. With this, there were four postponements in 1984. This was because everytime it was decided to have the elections of a panchayat council president and municipal council presidents on party basis - the rest being non-party category⁴⁰. Thus, the cooperative societies' elections were not held from 1976 till 1990. Such messy political process diluted the purpose of democratic decentralization at the grass-roots level.

Observing the performance of these decades of development, Guhan commented that the populist political considerations require that benefits should get widely spread to cover the largest numbers within the given financial allocations. In such a process, optimal impact, especially on the poorest was not achieved⁴¹.

The IRDP relies overwhelmingly on the government and commercial bank bureaucracies for its delivery system. For a large part, they were ill motivated, inadequately trained, corruption-prone, and vulnerable to pressures from a variety of

³⁹ See Malcolm S. Adisheshiahs' Inaugural Address in the Seminar on *the Need for Constitutional Safeguards* in George Mathew (ed), *Panchayati Raj in Karnataka. It's National Dimension.* (New Delhi: ISS and Concept Publishing Company, 1986), p.24.

⁴⁰ *ibid.*, p.25.

⁴¹ See S. Subramanian (ed), *India's Development Experience. Selected Writings of S. Guhan.* (New Delhi: Oxford University Press, 2001), p.32.

local elites⁴². Tamil Nadu's experience typified the economic tensions in the development strategy, as economic growth benefited only small sections of intermediate and lower strata through out the early post colonial decades⁴³.

After 1976, the elections were held in 1990 for the non-credit cooperative societies and not for all the cooperative societies. Then the successive government dissolved it on the ground of manipulations in the electoral process. So in this way the cooperative institutions were facing the statutory problem of the fixed tenure and other administrative reform measures without having the constitutional guarantee. Though there were certain reforms implemented regarding the board of directors including the SCs/ STs and other weaker section and women's representation. As a result of the inconsistency in its democratic function, it was not so popularized and the powers have not been devolved as such in panchayatiraj institutions.

The administrative structures were under stress and the tensions that affects them were partly of early origin. Lineage loyalties, which represent another locus of power, have traditionally subverted the village unity. And although panchayat circles addressed the problems, which transcend the village, their competence was limited. However, there were later developments, which threaten to undermine the village administration too⁴⁴.

The characteristic economic homogeneity has been receding in many fishing villages due to the appearance of new occupational opportunities and of labor migration. This diversity erodes the very foundation of the administration. The fishing is the one of the pillars of village membership in coastal Tamil Nadu. Thus, village members have

⁴² *ibid.*,p.32.

⁴³ See Narendra Subramaniam,*Ethnicity and Populist Mobilization*,(Oxford University Press,1999),p.134.

⁴⁴See Maarten Bavinck., "Caste Panchayats and the Regulation of Fisheriesd along Tamil Nadu Coromandel Coast. threats to village administration- *Economic and Political Weekly*, march 31, 2001.

traditionally been equivalent to adult fishermen. More and more villagers no longer fish for a living. This change has undermined the institutional design of village administration, causing confusion and conflicts⁴⁵.

The Tamil Nadu government had introduced alternative power centres at the local level. These alternatives challenge the sphere of influence of the traditional leaders and create social divisions along new lines. Although they have been defunct for long period of time, cooperative societies and grama panchayats have become new platforms of political power. This affects the pattern of the village leadership too. The lower echelons of bureaucracy and political parties, which are making inroads at the level of the village, are affecting decision-making processes as well⁴⁶.

DEVELOPMENT IN LIBERALIZATION PERIOD

It is now required to recognize, in accordance with the NEP, the ill effects of state control and to provide jurisprudentially significance to the term Co-operation, by first amending the Constitution and next by specifically including in every Cooperative Act, the six principles of Co-operation on the analogy of the Multi-State Cooperative Societies Act as recommended by Brahma Prakash Committee. The Andhra Pradesh study group has accordingly recommended that "past experience and prudence call for a constitutional amendment, viz., by adding cooperatives at the end of Article 19 (1) (c)". At present this clause mentions only associations and union. This suggestion is analogous to the protection given to panchayatiraj institutions by the 73rd Amendment. This step expected the morale of the cooperators to get motivated and was expected to follow it up vigorously⁴⁷.

⁴⁵ Ibid.,p.

⁴⁶ Ibid.,p.

⁴⁷ See M.Ramakrishnaya., *New Economic Policy and Cooperative Movement* in Baidhyanath Misra.(ed)., *Cooperative Movement in India*,(New Delhi:A.P.H.Publishing Corporation,1997),p.5.

The Ninth Five Year Plan: An Analysis

The National level economic liberalization needs to have its cascading impact in the State. At the State level, necessary policy modifications were being taken to attract private sector investments. Further, in democratic decentralization, whereby the powers would be devolve to the rural and urban local bodies, would call for changes in the developmental plan. These two specific developments viz., economic liberalization and democratic decentralization will call for changes in the present role of the State Government for plan formulation, implementation and evaluation⁴⁸.

Cooperative Strategies and Thrust Areas in the Ninth Plan:

The Approach Paper to the Ninth Five Year Plan (1997-2002) as approved by the Nation Development Council on 16th January 1997, envisaged the National Objectives as:

Promoting and developing peoples' participatory institutions like panchayat raj institutions, cooperatives and self help groups; besides the Registrar of cooperatives in Tamil Nadu had been functional, exercising the powers of the Registrar under the Cooperative Societies Act. The cooperative department under the control of the Registrar of Cooperative Societies deals with the activities, which covers a wide range as (a) credit, (b) consumers, (c) marketing.

The State Government provides assistance to Cooperative though participation in the share capital of cooperative societies, financial assistance as loan and subsidy for various purposes, guaranteeing for repayment of deposits made in the cooperative societies by the public, rendering managerial assistance to Cooperative institutions and

⁴⁸ See Ninth Five-Year Plan (1997-2002) Document of Tamil Nadu State Planning Commission, 1998, July, p.17.

other concessions and participation in cooperatives. The cooperatives have to be developed as economically effective organization capable of meeting the challenges of new liberalised economic environment.

Change in the Ninth Five-Year Plan:

The Tamil Nadu Cooperative Societies Act 1983 was in fore, covering the various activities the cooperative institutions in the State. It was considered that the existing act contained provisions, which are against the spirit of democratic character and autonomy in the management of the cooperatives without any control of either government or any external body. There was a need for the introduction of new act on the pattern of Andhra Pradesh Mutually Aided Cooperative Societies Act.

It was therefore assumed that the proposal to make cooperation a subject in the concurrent list cannot materialize at the earliest, obviously because there was no reaction available to earlier demands of the cooperative movement made through recommendation of Cooperative congresses and other conferences. A more feasible and acceptable alternative would be to get uniformity in state laws through the influence of the Central Government⁴⁹. The centre can get the desired amendments made in the existing state laws. It was at the instance and advice of the Centre that the initiative for restrictions had come. There was no reason for not being able to get a more acceptable legislation enacted. The centre has several instruments, if it wants to get something done. What is needed is a decision by the political authorities at the Centre.

⁴⁹ See S.S.Puri, *Ends and Means of Cooperative Movement*, (New Delhi: National Cooperative Union of India, 1979), p.216.

CONCLUSION

Principally cooperatives have two different schools of thought in India. One argues that had the state not intervened, by this time the cooperative movement would have perished. The other argues that the state intervention restricted the independence of the movement and is the reason for the declination. During the pre-independence era, some zamindars and philanthropists nurtured the movement with the assistance of the state and recognition. In India, there were no working class movements against socio-economic under development or to form a cooperative society. Only few cooperative organizations succeeded in some fields like diarying, consumer goods and cottage industries. But a few other important fields like handlooms, small-scale industries and more importantly agriculture were weakened due to institutional problems like malfunctioning and mismanaging combined with political interference.

Constitutionally cooperatives has been recognized, but has not been guaranteed. Since it has been in the status of voluntary organization it can not be an accountable institution as what PRI's could be. Though the cooperatives enjoyed certain state sponsored financial aids and popular support from the society, it could not become a powerful socio-economic source for the weaker section. The expansion of the nationalized banks in the fields of cooperatives and its institutional strength it led to the marginalization of the objectives of the cooperatives. It plays dual role as a movement and a sector. As this movement is depending highly upon the state, it does not have its own way of functioning or policy-making. It is now merely a delivering agency for the government programmes.

This is a membership-based organization in which powerful social groups play the major roles. This with various other reasons prevented the movement from realizing its full potentials in area of socio-economic development. Since this is a socio-economic institution particularly in rural areas, the dominant groups have their stake and higher share of power and benefits leading to rifts and clashes. Since the post-independence period, cooperatives have seen many ups and downs. The Nehruvian socialist policy makers utilized the cooperatives as a powerful socio-economic input particularly in the agricultural production, the cottage industries, the small-scale industries and other industrial investments. The Planning Commission had a major role in its development and organizing the cooperatives in every village, which is recognized as part of every panchayat. So that PRI's are for rural infrastructural development and the cooperatives are for the socio-economic development. These two decentralized bodies were kept under the same portfolio till the third 5-year plan and were separated for diversifying their applications.

Later Indira Gandhi's government used the cooperatives as delivering agencies for some of its IRDP programmes and 20 point programmes. As a result of these populist measures, these institutions were sidelined. The radical changes brought out through the nationalization of banks were the major challenges towards the cooperatives, though positively. The political scenarios of 70s changed the notion of the rural development. Losing confidence on the basic institutions, the state instead of reviving its functional mechanism and democratization, went for sectoral development with the help of bureaucracy. This underestimated its significance and value. Moreover one more complexity in cooperatives is that it comprises all the qualities of banking, management, production and marketing, in the way incorporating the democratically elected board of directors. It concentrated on too many things, with multiple responsibilities. This could

be seen as a reason for its incompetence. Still it is not focussed under the light of reforms like in the PRI's.

In Tamil Nadu the decentralization process had a positive impact on the rural development, which had many powers in the implementation of the centrally sponsored schemes. During the early decades after independence, the sectoral based development had not emerged. Therefore the PRI's had many responsibilities in the rural development. The rural development and regional political changes are closely related to each other. The changes in political process changed the nature of rural development in 70s and 80s. Due to some important responsibilities and functions, these institutions were seen as the elites instrument of to wielding powers in the local level. The Justice Party, the Dravidian Movement and its other outfits challenged this. However, the Congress too had the impact of Dravidian Movement at the regional level and as a result, there were some proposals to empower the rural underprivileged in its development strategies. Moreover, the PRIs and the Cooperatives in Tamil Nadu chose a progressive path, by providing the reservations for the SC/STs and the co-option of women in various councils. Further, the Madras Panchayat Act of 1958 stipulated the local self-governing institutions in service of the community development.

The Tamil Nadu State referred the national planning for its cooperative objectives. The state also did not specifically define the socio-economically-deprived groups, while planning the developmental strategies. The state machinery was motivated interms of fulfilling its duties, but not on the basis of socio-economic context. The pronounced fulfilling its duties, but not on the basis of socio-economic context. The pronounced "social reforms" of Dravidian Movement had not reached the expected level because, it had not taken the economic question in its social reform agenda. So the

Dravidian party governments followed by the Congress were not able to reform the society even with their enormous strength. The state machinery that was motivated by the political leaders failed to avoid the rigours of the socio-economic constraints. And to suppress these constraints, it had to follow the populist policies, which could appease and appeal the masses. These kind of political tendencies made these local bodies as mere agents in between the state and the people under the strong hold of the state leadership.

There were some progressive changes through the state leadership, at the same time it resulted in the monopoly of the power in the local bodies. However, the early period of the Dravidian parties' rule gave the reservations in the political and the socio-economic institutions as a part of its commitment to their political agenda.

The reservation policy in the cooperative institutions brought out changes and resulted in hostile situation at the local level, which further led to the consolidation of the dominant groups with political patronage. This led to the nepotism, heir politics and rampant corruption that spoiled the very spirit of the existence of these institutions. And in particular, the cooperatives are seen as the economic body of the dominant groups and the source of the binamy holdings. The political changes in early 80s and its continuance made the state as a "populist state" through some attractive programmes. Simultaneously, the state had become powerful over all other institutions that tended to the sectoral-based development. The state had withdrawn the powers of the local bodies such as the primary health, primary education and other rural development schemes. By the 80s the national level IRDP and 20 point programmes, and the regional level populist policies resulted as gains for the political parties and democratic decentralization process in these institutions were abandoned. The central government as well did not revive the functions of these institutions. The populist policies are seen as an alternative to the

institutionalized development and result of unwillingness to adopt the socialist policies, democratic decentralization and giving up the socio-economic power by the elites. There were strong barriers continuing internally in the operationalizing the socio-economic policies and bring out the social order. The political leadership being aware of all these factors as an impediment to the social justice decided to put state institutions have been put in the back seat and the populism is in the driving seat.

Though the state of Tamil Nadu claim the credits for social reforms, non-brahminism (OBCs as the ruling political elite), as pioneer of reservations, being educationally forward, and being one of the fast developing state in India it has the same level of escalation in social tensions. The setback to the process of institutionalization of cooperatives could be traced through this study, there were no regular elections conducted to the PRIs (1971-86) and the Cooperatives (1976- 90). These bodies were kept under the political leaderships and were postponing the elections for various reasons. This led to the state intervention at the later stage for the rural socio-economic development. This encouraged the caste lobbies in all the state apparatus and therefore the strong became stronger and weak became the weaker at the grass-root level. The democracy has been reduced to mere voting politics, and in between a generation has lost the opportunity to experience the values of these local self-governing institutions.

Thereby the institutionalizing the development through democratic decentralization have been crossing many hurdles. Recently, in 1992 the 73rd and 74th constitutional amendments provided the safeguards to the PRIs with the transfer of power from the centre. After that certain changes took place through the decentralization process, which empowered the weaker section in holding chairmanship of the panchayat. There are many socio-political tensions arising as a result of sharing powers with the

dominant groups and elites. However, even now the cooperatives enjoy only the voluntary organization status under the state list of the constitution with no safeguards. The state is yet to come out with clear national policy on the cooperatives to make it as a vibrant socio-economic force for the underprivileged by adopting constitutional safeguards. With the transfer of powers from the Registrar of the State cooperatives to the local heads of the cooperatives and by making the cooperative movement popular, the state can attend to the long calls for social justice.

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