Microfinance and the Decline of Poverty: Evidence from the Nineteenth-Century Netherlands[1]

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Abstract

Building on recent work by Collins et al.. this paper aims to explain the failure of corporate and public initiatives to alleviate poverty before the twentieth century by unravelling the financial rationale behind the various combinations of private efforts, family and neighbourhood help, financial intermediation, and government intervention tried by poor households in the eighteenth and nineteenth century. There existed several financial institutions whose functioning was very similar to modern microfinance institutions, yet none of them were in a position to help the poor. We find that in the Netherlands the boundary of formal financial markets moved down not because of financial innovation, but because of economic growth pushing up wages. Until the last quarter of the 19th-century poor households simply lacked the money to use newly established mutual insurances, savings- and loan banks.

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INTRODUCTION

One of the criticisms levelled at the modern microfinance industry is that it does not go far enough (Morduch 1999; Dichter 2006; Roodman and Morduch 2009; Armendáriz and Morduch 2010: 347-375). The banks under consideration often do not reach the poorest households because they fail to supply the kind of facilities needed. Recent research into the financial behaviour of poor households by Collins et al. (2009) and Banerjee and Duflo (2011) has materially deepened our understanding of their needs. Three findings stand out. First, the prime concern of poor households is not saving, borrowing, or insuring, but cash flow, the constant mismatch between income and expenses. Second, poor households juggle their cash flow in highly sophisticated ways and with a keen sense of cost. Third, all financial transactions are predominantly a function of a household's social network and their price should be understood in reference to social relationships as well as to economic needs. Because such networks are mutually dependent on circulating cash, the social cost of outside financial options usually outweighs potential economic benefits. As a result the few outside options used often appear uneconomic to those observers not cognizant of the social considerations determining choice.

These insights from the present have an immediate appeal for historians. Until deep into the 19th century between 25 and 50 per cent of the European population lived in poverty (Lis and Soly 1979). The cash nexus between poor households, emphasized in modern studies, resonates with the 'economies of makeshift' highlighted by social historians (Hufton 1974; McCants 2007b), and seems to offer a better explanation of why the efforts of churches and governments to alleviate poverty in the past failed than the reasons so often offered at the time with no shortage of echos since, i.e. ignorance or undesirable and incorrigible behaviour. If so, then probing the extent to which market options replaced network solutions should tell us which factors made the boundary between them move: financial innovation or rising incomes as a result of economic growth? In other words, it should bring us a little closer to unravelling that great mystery, whether finance fosters growth or the other way around. Conversely, testing the applicability of the insights of Collins et al. and Banerjee and Duflo to the 19th century will highlight the conditions under which particular solutions did, or did not, work, evidence which may be useful in helping the modern microfinance industry decide how best to tailor its services.

In this paper we want to explore the contested boundary between finance and growth by using the Collins et al. framework to examine four market solutions that were available in the Netherlands before 1900 to relieve poverty. They were: 1) arrangements for using material possessions as collateral for loans; 2) savings banks; 3) mutual insurance schemes; and 4) loan banks.[2] We chose these four institutions because they represent distinct ways to widen the financial options available to poor households by providing better regulation of existing practices, by creating new institutions, and by grafting new financial instruments onto existing social relations. In each case we will ask what the solutions were meant to accomplish, whether they achieved their aim, and if not, why not.

THE ANALYTICAL FRAMEWORK

Collins et al. study the financial behaviour of poor households in India, Bangladesh, and South Africa through the examination of the financial diaries kept by those households, which contain detailed day-by-day notes about their financial transactions. The rationale of their behaviour resides in the 'triple whammy' affecting them: they suffer from having a low income; furthermore, that income is irregular and unpredictable; and finally they lack instruments to manage the sharp fluctuations in income and expenses that arise, for instance, from harvest failures, illness, or sudden death. The households they study combat these handicaps first of all by trying to draw income from a wide array of sources, ranging from regular salaried jobs to?? casual jobs in the service sector and, in rural areas, seasonal farm work, to profits and subsidies. Secondly, they manage most, if indeed not all, of their financial transactions through their social network of relatives,

[2] Several scholars have looked for historical precedents of modern microfinance institutions before us, e.g. Hollis and Sweetman (1998, 2001), Ghatak and Guinnane (1999), Guinnane (2005) analyzed the functioning of credit cooperatives in 19th century Europe.

neighbours, shopkeepers, and employers. Households rely entirely on the network's ability to maximize the use of scarce cash by circulating it between members, really a form of collective insurance against financial shocks in the form of a mutual savings-and-loans system.

This network dependency does have a number of drawbacks. The networks' financial options are limited and often do not enable its members to build sufficient savings for setting up a business, for enrolling in education, or for cushioning the impact of contingencies such as illness or death. Moreover, the dependence on mutuality means that the use of outside alternatives risks straining relationships, a risk households can ill afford. Outside borrowing options are limited in any event. The households own little or nothing worthwhile as collateral, rendering pawn credit virtually inaccessible. The social control mechanisms practised by many microfinance institutions do address that problem, but their inflexible lending and repayment schedules cannot accommodate the irregularity and unpredictability of cash flows, so microfinance is rarely used to cushion financial shocks. Poor households have more need for insurance schemes to combat contingencies. Such schemes can be grafted onto existing social structures, as they are amongst the South African households studied by Collins et al., thereby strengthening rather than weakening network ties.

Collins et al..'s findings appear to match what is known about the situation and behaviour of poor households in 19th century Europe – but we need to ask, just how plausible is the correspondence between the two experiences? The absence of financial portfolios for earlier times means we have to be careful in pasting the insights drawn from the present onto poor households into the past. However, the extensive historiography on poverty, poor relief, and the numerous attempts to alleviate the persistent poverty problem does suggest a very close match between the financial behaviour of poor households in the past and those studied by the Collins team (e.g. Van Leeuwen 1992: 253-271). The basic problem was the same then as now, i.e. low, irregular, and unpredictable incomes causing precariousness, a situation made worse by contingent personal factors such as illness and more general economic factors such as sharp food price fluctuations, low wages, and irregular or insufficient employment opportunities (Lis, 1986; Van Leeuwen 1992: 28; Van Leeuwen 1993: 330). Lists of assets and liabilities from 18th century Amsterdam suggest poor to middling households had a financial behaviour very similar to the Collins et al. households, given their overall level of indebtedness, the absence of savings, the limited access to pawn credit, and the dominance of shop credit and financial ties with relatives and neighbours (McCants 2007).

Until the late 18th century poverty relief mainly took the form of charity handouts and referrals of unemployed migrants and beggars to their places of origin (Lis and Soly 1979; Clark 1972; Geremek 1974; Winter 2008). With the Enlightenment new ideas about combating poverty surfaced, including education, unemployment relief work, and the establishment of savings banks, but local aid provided by churches and municipal governments remained the backbone of poor relief until the second half of the 19th century (Lis, Soly and Van Damme, 1985; Spaans, 1997, 2003; Van Leeuwen 1992; Gouda 1995). The annual reports on poor relief efforts which the Dutch government submitted to Parliament from 1814 show rising amounts of (public?) expenditure and an increasing number and variety of institutions devoted to it, including a widening array of financial institutions.[3] Until about 1850 these latter ones remained very small in relation to the problem they had been set up to combat. Collins et al..'s findings help us to understand why: by their nature financial solutions possessed a very limited target, i.e. that segment of the poor population whose income had risen just enough to leave elementary cash flow constraints behind and start using financial institutions outside their social circle. Let's now examine those solutions a little closer.

PAWN CREDIT

In the beginning of the 19th-century pawn banks moved from being a local concern to a matter for the central government. During the late Middle Ages and Early Modern Era local authorities in the Low Countries had started to regulate the lending on collateral of movables by setting up licensed pawn banks to replace the private entrepreneurs who had

[3] The *Verslagen omtrent het Armwezen* (1814-1902) were published in the proceedings of the Tweede Kamer. Cf. Kingma and Van Leeuwen.

previous offered such services (Maassen 1994; Soetaert 1974; ‘t Hart, Jonker and Van Zanden, 1997; Fontaine 2008;). Called *Monte di Pietà* or *Banken van Leening*, these institutions were meant to combat various malpractices such as overcharging on interest and cheating customers wanting to retrieve their assets. Consequently licensed pawn banks were tied to interest ceilings and clear conditions about releasing assets. Urban middle groups used these banks to finance their businesses, for instance by obtaining loans on surplus stock, but the banks also helped poor households to buy food, fuel, and other necessities with money raised by pawn credit. A law adopted in 1810 put all such banks under ministerial supervision and an 1826 decree urged local authorities to restrict the operations of private pawn banks by having public banks outcompete them. The decree’s motivation once again referred to the need to combat malpractices such as overcharging and a disregard for debtors’ interests when selling off pawns, but it also showed an appreciation of social needs in stating that the banks should be prepared to consider giving one-off interest-free advances to cases of hardship caused by illness, fire, or other calamities (Maassen 1994: 191).

At first sight this policy appears to have been successful. Parliamentary reports on poor relief showed a decline of private pawn banks from 80 in 1830 to less than 20 in 1890. Their annual lending dropped even more steeply, from nearly 1.6 million guilders a year to just over 220,000. At the same time the number of public pawn banks rose from 17 to 30 with the result that, around 1850, almost every major town possessed one. According to the parliamentary reports, total lending doubled from 4 million guilders a year to about 8 million during the 1870s (Figure 1), but this was almost entirely due to the population increase of 2.6 to 4.5 million inhabitants, so average lending per capita remained at about 2 guilders – the equivalent of one or two day wages for an unskilled labourer.

[Figure 1 about here]

The sector’s forced consolidation created new challenges for the public pawn banks. Their private rivals averaged between 5,000 and 10,000 loans per year for average sums in the region of 2 to 2.5 guilders, whereas the average number at the public banks almost doubled from 50,000 in 1830 to nearly 100,000 in 1890 (Figure 2). At the same time the average loan value remained stable at around 3 guilders, so bank staff ended up having to handle hundreds of small transactions daily, often of only five guilders or less.

[Figure 2 about here]

The Amsterdam public pawn bank, set up in 1614, already wrestled with a rapid rise in the number of small loans during the French Occupation (1795-1813). In 1805 the city council decided to ease the strain by licensing Amsterdam's private pawn shops for loans of up to 0.7 guilders. This sum shows these pawnshops catering to a market segment considerably below that of the private and public pawn banks. It was also a large segment, for when in 1826 the central government wanted to close them down the Amsterdam city council protested vigorously. The council estimated that a third of the city's population of 180,000 people depended on regular loans from the pawnshops since they only possessed pawns worth half a guilder to a guilder, which they pawned mostly to buy food.[4] With these often repeated very small loans the pawnshops handled 700,000 transactions of less than 0.7 guilders annually, a burden which the public pawn bank was in no way equipped to handle. Nor would the pawnshops' high frequency customers want to be subject to the formal registration which the public bank required. These practical considerations forced the government to abandon its idea and the pawnshops remained in business (Maassen 1994: 194-195).

Elsewhere the problem of handling very small loans also surfaced. In 1835 the Leiden bank obtained permission to allow the freelance agents employed to canvass business to deal with small short-term loans -- those of up to three guilders per week -- themselves (Maassen 1994: 193-194). The bank in The Hague chose to set up two branch offices during the 1850s. Data published in 1862, reported in Table 1, show that each of them processed between 70,000 and 90,000 loans of which 60 per cent amounted to less than two guilders (Van Heel 1862). Half of the loans was repaid within a week, creating a heavy administrative load. The banks thus served the cash flow smoothing function that poor households most needed. As one commentator wrote in 1868 "In the big cities

[4] Population estimate from Jonker 1996: 30.

hundreds or even thousands pawn the same goods every week, for *kermis* or Sunday's celebrations (…) and they do so especially when their income is highest, i.e. in the summer" (Van Heel 1868: 327). This very high turn-over conforms with the pattern found by Fontaine for Paris in the late eighteenth century (2008: 175-178).

[Table 1 about here]

Summing up, the Dutch 19th-century pawn credit sector was tightly regulated to limit malpractices, but the authorities also tried to ensure that regulations were not so tight as to push demand towards clandestine suppliers. The sector's two different institutions each catered to a specific market segment. The pawnshops specialized in high-frequency and very small loans, the public and private pawn banks supplied higher sums for somewhat longer durations. Though we have no figures for pawnshop development, the pawn bank sector remained more or less stable, growing in step with population growth, though the apparent rise in high-frequency and very small loans does suggest more and more poor households coming to rely on pawning for cash flow smoothing, perhaps on account of the Dutch economy's prolonged slump, or the general impoverishment of social networks forced them to. However, the sums borrowed were mostly small, and used for consumption purposes, not as a lever to escape poverty through business investment. We conclude then that the pawn credit sector remained not a solution, but a palliative, an adjunct to, or perhaps a substitute for, other expedients such as network borrowing, rent arrears, and shopkeepers' credit.

SAVINGS BANKS

At the turn of the 19th century new financial institutions designed to combat the threat of poverty appeared, most notably savings banks (Pix and Pohl 1992). In the Netherlands such banks first appeared in 1817. Propagated by the philantropic society *Maatschappij tot Nut van 't Algemeen*, the banks drew their inspiration from Scottish institutions and from the ideas of economists such as Thomas Malthus (Mijnhardt and Wichers 1984; Scherenberg 1817; Dankers et al.. 2001: 20-31).

The savings banks' propaganda emphasized their usefulness in offering a remedy to poverty in two ways: first they argued that building financial buffers would protect middling groups from downward social mobility; and second, that they would help the poor to escape from their degraded condition (Visser 1818; Van Alphen 1820; De Coninck 1821, Lemire 2005).[5] Saving was promoted as both a practical and a moral imperative. Through saving skilled workmen could amass the sum needed to become independent craftsmen. In addition, their character could be improved by regularly putting money away as the discipline required would teach them how to become responsible burghers. The contrast between these supposedly self-evident truths and the unpopularity of savings banks in the face of continuing poverty was interpreted by the banks' promoters in moral terms as one more example of the poor's *zedeloosheid*, that is to say, their incorrigible propensity for sensual pleasures which only education could root out (RS 1817; Van der Ploeg 1840; Donkersloot 1849: 53; De Regt 1984: 144, 146; Boschloo 1989: 79-80, 235; De Swaan 1990: 168; (Dolmans et al.. 2012)). Though reports sometimes recognized that low and irregular wages left no room for saving, the normative approach to poverty dominated the discourse and prevented the banks from widening their customer base. The banks often opened for business only on Mondays so as to attract the remnants of Saturday's wage payments, required minimum deposits that were too high in relation to wage levels, and discouraged withdrawals by allowing them only once a month (Dankers, Van der Linden and Vos 2001: 38-39).

As a result the banks remained fairly small. It took more than 25 years before the number of depositors in the Netherlands doubled from 15,000 to just over 30,000 in 1850, thereby serving a mere one per cent of the Dutch population at a time when poor households amounted to 25 per cent in normal years, and an even higher percentage in times of food crisis. (De Vries and Van der Woude 1997: 562; Van der Woud 2010: 58). Nor did the banks have much more success elsewhere, for instance in Scotland, where only three per cent of the population had deposits in 1843 (Lemire 2005, 147). From 1860 Dutch real wage levels rose so the growth pace of savings quickened, lifting the

[5] Soft echoes of this disciplining motive in a modern observer: De Swaan 1990: 169.

number of depositors to 300,000 by 1890, then nearly 13 per cent of the population (Soltow and Van Zanden 1998: 155). Total deposits were just over 58 million guilders in that year, up from 3.8 million in 1850 and 2.4 million in 1825. Average deposits per saver were respectively 194, 123, and 160 guilders, the equivalent of twenty to thirty weeks' wages for a skilled craftsman (Van der Woud 2010: 64). The level of average deposits suggests that, for all the moralizing propaganda about raising the poor up by teaching them how to save, the banks primarily served the other part of their dual aim, that is helping middling groups build buffers so as to avoid downward social mobility, a real enough threat from the late 18th century until about 1850. We therefore need to see the savings banks movement as essentially a defensive one, a safety net for people threatened with downward mobility rather than a stepladder for those needing a leg-up.

During the 1870s perceptions started to change, presumably influenced by insights drawn from regular home visits, which revealed that the finances of poor households revolved overwhelmingly around weekly wage payments (Lucassen 2007: 228-234). A report on savings banks published in 1874 accepted that most poor households simply lacked sufficient surplus to save. To widen the customer base as much as possible minimum deposits needed to be considerably lower and banks would have to consider collecting them in the way of mutual insurance schemes, by sending clerks door-to-door every week (Rapport 1874). These recommendations appear to have had some effect, but a bigger push came from the recognition that savings banks needed to transform from charities into utilities. In 1881 the government, again following a British example, set up the postal savings bank *Rijkspostspaarbank* (RPS). Tied to post offices throughout the country and using a low minimum deposit of five cents, the bank demonstrated the existence of a very large previously unmet demand, the number of depositors and deposits rising fast to overtake those of the private savings banks during the 1890s.

Thus for most of the 19th century the savings banks overshot one of their targets. Saving evolved into a business only once rising wage levels permitted more people to start using financial services outside their network. As Collins et al. show, cash flow juggling means that poor households use financial services all the time, but within their network. The financial portfolios show them continuously switching into and out of saving, in various forms and mostly within their network: by parking spare cash with neighbours or relatives, by lending money to the same without interest, or more rarely by lending money to them at interest. The network's dependency on the continuous circulation of scarce cash puts a premium on such mutual transactions: people lend knowing they will need to borrow next (Collins et al.. 2009: 48-52, 57).[6] As a result saving outside the network has a social cost, most importantly the erosion of the mutuality on which network members depend (Lis and Soly 1993; 2009; Van Leeuwen 1994). This cost is reflected in a peculiar but entirely rational inversion of the economics of outside saving. When households exceptionally deposit money with a cash keeper, they do not earn interest, but pay a fee for that service because it safeguards temporary surpluses from network claims (Collins et al.. 2009: 21-22). Consequently households start saving outside their network only if their income generates a sufficient surplus to end the cash flow juggling.

We may therefore conclude that savings banks did little to combat poverty in the Netherlands, for two reasons. First, for most of the 19th century the banks attracted a fairly narrow customer base, middling groups threatened with downward social mobility. Second, only with rising wages could households start to divert cash away from network circulation to the formal financial market. Once this started to happen during the 1870s the banks, and the government, responded with initiatives to widen the available facilities.

MUTUAL INSURANCE

For all its ingenuity network-based borrowing and lending often fails to provide cover against financial shocks exceeding temporary mismatches between income and expenses, i.e. those caused by serious external events such as food crises, illness, accidents and death. As often as not networks cannot generate sufficient money at short notice to absorb major shocks, especially when shocks hit more than one member at the same time (Collins et al. 2009: 52, 65-94).As an alternative networks can develop forms of

[6] For a negative appraisal of such social networks De Swaan 1990: 168.

insurance. During the Early Modern age urban middling groups, most famously the artisan guilds, ran mutual insurance schemes typically covering sick benefits and funeral costs, funded by the required small weekly contributions of their members (Bos 1998). Some craft guilds even developed support schemes for members' widows, but these mostly failed for a lack of actuarial skills (Riley 1982).

During the nineteenth century the mobilization of reciprocity and social ties into formal mutual insurance schemes increased markedly and the number of mutual insurance schemes rose from 248 to 688 in 1890, a third of which were run by trades unions (Van Leeuwen 2000: 80-81).[7] Some of these mutual insurances were transformations of the mutual support schemes that had been run by the guilds until their abolition in ?? during the French Occupation (De Swaan 1990: 150-157; Van Genabeek 1999: 85-94). In addition a large number of new funds were established among workers in the same companies or sectors as well as neighbourhoods and church communities (Van Gerwen 1993; Van der Valk 1996: 171, 194-196). Already in 1828, Eugenius Prévinaire, appointed by the central government to review existing arrangements for poor relief, counted 315 mutual societies (Van der Valk 1996: 173).

Virtually all of these funds covered funeral costs and about two thirds also paid sickness benefits. Up to one third covered medical costs, most often in the form of payments in kind.[8] The funds were spread unevenly over the country. The majority of funds for sickness benefits and medical costs were located in the coastal provinces, highly urbanized and market-oriented since the late Middle Ages (Van der Valk 1996: 192-193). In rural areas the *Maatschappij tot Nut van 't Algemeen* promoted mutual medical insurance, but with only limited success. The fifty such schemes for which we have any data at all rarely counted more than 100 members and the required contributions were too high to attract poor households (Van Genabeek 1999: 175-176). But even in urban areas the poor did not take up insurance against medical costs and remained dependent on the care dispensed by the poor doctors of charities and local governments (Van der Velden 1993: 85-86; Van Leeuwen 2000, 167). Indeed, as late as 1895, several

[7] The database on insurance funds compiled by Loes van der Valk comprises 505

[8] The coverage of these various kinds of costs by mutual funds can be deduced from the database of health insurance funds compiled by Loes van der Valk. This database (*Verzekeringsfondsen 1827-1880*) will be published online by the ING Huygens Institute in 2013. The figures here are presented by courtesy of Loes van der Valk. Cf. also Van der Valk 1996: 180-182; Van Leeuwen 2000; 173.

funds explicitly excluded recipients of poor relief from membership (Stoeder et al.. 1895: 40). By then membership of mutual sickness benefit funds stood at 500,000 people, or 10 per cent of the population (Van Leeuwen 2000: 169-174; Slokker 1993: 13, 22-23, 31).[9]

Funeral cost insurance spread more widely. In contrast to the incidental costs of sickness or unemployment, funeral costs were certain to occur, while being buried from the poor carried a serious social stigma (Van der Valk 1996: 177). When it concerned breadwinners a bereavement also cut family income, increasing the strain on resources. Taking funeral insurance reduced the burden on network capacity, leaving stretch to deal with the income blow, so outside solutions did not undermine the social solidarity in the same way as taking savings to a bank did. Within the constraints of cash flow management funeral insurance made economic sense, too. Putting away very small sums had a minimal impact on the overall cash position, while the eventual disbursement kept a household's normal credit facilities free of the extraordinary burden, so its members could continue much as before financially. As a result the number of funeral insurance policies rose steadily and much faster than the number of sickness benefit policies (Figure 3). By 1850 some 25 per cent of the population had funeral insurance, and by the end of the 19th century this was more than 50 per cent, versus 10 per cent for sickness benefit funds.

[Figure 3 about here]

During the first half of the nineteenth century mutual insurance funds targeted middling groups with the explicit purpose to prevent their reduction to poverty (Van der Valk 1996: 185). In Leiden around 1850, for instance, about 30 per cent of the population belonged to either a sick pay mutual insurance or a funeral cost mutual, but these were middle class people, not poor households (Pot 1994). After 1850, however, funeral insurance filtered down to lower social strata. The rise of real wages meant that more people could aspire to a proper funeral, which inspired mutual funds to develop ways of reaching poor households through ambulant clerks collecting contributions on regular

[9] Around 1850 there existed only one cooperative insurance for medical care, but this also targeted urban middle groups, its annual contribution of ten guilders for adults excluding poor households (Van den Abeelen 1959: 139).

weekly rounds (Van Genabeek 1999: 14). Sickness benefit funds combined weekly collection rounds with the weekly or even daily disbursement of aid, so as to match the cash flows of their beneficiaries (Stoeder et al. 1995: 15, 18-24, 28-29, 31)

[Figure 4 about here]

The daily operations of one of the biggest funeral insurance companies, the Utrecht company *Let op uw Eynde*, reflect the company's understanding of the financial constraints of poor households. *Let op Uw Eynde* operated five different classes ranging from 0.025 to 0.16 guilders a week depending on the age and wishes of the client. The majority paid 0.035 cents weekly (Figure 4). Premiums were agreed individually with each client. The clerks on the collection rounds were instructed to show consideration for clients in arrears and help them to safeguard their right to payouts. This credit arrangement was not entirely disinterested, after all, insurance companies had a clear interest in clients, notably young ones, continuing to pay. Some clerks handled as many as 600 clients and appear to have developed into specialized financial intermediaries for poor households (Stoeder et al. 1895: 38, 68-69). A report drafted by the *Maatschappij tot Nut van 't Algemeen* in 1891 observed that insurance clerks often became trusted advisors of their clients, taking their savings to the bank, dealing with any official forms and bills, and even accompanying parents to the registry office for entering newborn children.[10] However, to what extent these ambulant clerks really served the interests of poor households more than that of their company remains an open issue.

LOAN BANKS

With savings banks and insurance schemes reaching no further down than lower middling groups, and pawn credit mainly serving consumption purposes of the poorer households, one wonders whether more could have been done, whether credit facilities could have

[10] *Enquête, gehouden door de staatscommissie, benoemd krachtens de wet van 19 januari 1890 (Staatsblad no. 1)*, cited in Bollerman and Broenink 1983: 16.

been developed to help households lever themselves out of poverty the way modern microfinance intends to do, through lending for investment purposes. There is an interesting dichotomy here. New initiatives to widen the range of available credit options for lower middling groups and poorer households surfaced continuously, partly driven by a growing awareness that emergency credit could provide an important social safety net.[11] At the same time doubt as to the efficacy, indeed the desirability of credit persisted. It continued to be regarded as potentially dangerous. After all, the main priority in helping the poor was seen as teaching them how to save before allowing them to borrow.[12] Consequently new credit facilities always had tightly circumscribed purposes, which then limited their reach.

As we have seen the desirability of credit as a safety net was recognized as early as the 1826 Royal ordinance allowing pawn banks to extend interest-free loans in cases of imminent distress.[13] Notably after 1840 the number of new associations devoted to lending to poorer households rose. Private initiative provided the main impetus, though occasionally city councils and church congregations took the lead. Table 2 summarizes the number of private associations for poor relief set up between 1800 and 1900 from a recent dataset. They covered the entire range of poverty relief efforts, from handouts of food, fuel, and clothing, campaigns against excessive drinking, the provision of healthcare and education, to employment programs and financial services. A total of 192 mentioned financial services as their purpose. Of those, 71 of them did so as part of a program with wider aims, for example, to reintegrate ex-convicts with a small advance,

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[11] See, for instance, G. Luttenberg, *Proeve van onderzoek omtrent het Armwezen in ons vaderland* (Zwolle 1841) and a report by the Maatschappij tot Nut van 't Algemeen: *Rapport van de commissie tot het instellen van een onderzoek naar spaarbanken, spaarkassen, hulp- en beleenbanken.* (1874). In 1855 G.A.J. Geesink noted the superiority of "hulpbanken" over loanbanks. The first mentioned enabled entrepreneurs to use their own possessions in a profitable way, while the latter – although temporarily – impeded this: Geesink 1855: 250.

[12] More specifically it was feared that easy loans would increase poverty by stimulating early marriages (Van Poppel and Nelissen 1999). Borrowers who were recently wed and people who intended to marry shortly were excluded by the "hulpbank" of Utrecht: Jacobs 2005: 126-129 (article 4 of the by-laws). See also: Donkersloot 1849.

[13] A The Hague loan bank launched in 1818 which supplied, between 1827 and 1849 a total of 812 loans for an amount of f 134,778, that is to say an average of 35 loans per year ("Onze Hulpbanken" 1882: 333). In 1820 it was reported that the Rotterdam savings bank was about to start providing loans as well: *"Spaarbanken", Magazijn voor het armen wezen in Koningrijk der Nederlanden* 4 (1820), 85-96, 171. (In the Southern Netherlands, in 1641 the city of Ghent attempted to extend the reach of credit downward by setting up a *Gratiskas* within the Mounts of Piety, which aimed to alleviate cash constraints in the form of very small interest-free loans to poor households. Soetaert, 1974: 13).

or to combat alcohol abuse by stimulating saving. A total of 119 associations focused exclusively on financial services, of which 107 were geared to providing loans. There were two kinds of associations providing loans. Some 80 relief organizations aimed to offer interest-free advances to households in temporary distress and in addition there were *Hulpbanken* or loan banks set up by either local governments or the *Maatschappij tot Nut van 't Algemeen* from the 1850s. Some of these loan banks, notably those in The Hague, Amsterdam, Leeuwarden, Groningen, and Arnhem dedicated to helping Jews, were in fact charities supplying interest-free advances averaging less than 15 guilders.

[Table 2 about here]

However, the majority of these loan banks targeted the same customer base as the savings banks set up by the *Maatschappij*, that is to say artisans and other small entrepreneurs in cities and farmers in rural areas (Van der Heim 1854: 324; Jacobs 2005: 53-54; Fokker 1875: 512). The *hulpbanken* granted loans for up to one year to small entrepreneurs backed by personal guarantors, and the lending purpose was akin to that of modern microcredit, i.e. bridging cash flow shortfalls, start-up loans for shops and workshops, and loans to facilitate the purchase of larger stocks of raw materials or merchandise at lower prices. After the first such bank was launched in Middelburg in 1849 the number quickly rose to 33 by 1859 and 50 in 1880 (Figure 5). During that same period lending increased to just over 200,000 guilders annually by the mid-1850s and to over 800,000 guilders by 1880 and the number of loans rose from almost 5,000 to 9,200, pushing up average sums from 41 guilders to 95. The average amount lent drifted upwards because banks tended to concentrate on loans of 100 guilders or more (Table 3). Surviving data from seven banks shows that, in 1857, about a third of their portfolio consisted of loans of 100 guilders or more, but by 1865 that had increased to 70 per cent, and observers commented that many of the banks had increased their maximum loan size to 200 guilders or even 300 ("Onze hulpbanken" 1862: 333, 337-338; "Onze hulpbanken" 1867: 42-43; Verslagen armbestuur 1861-1865).

[Table 3 about here]

[Figure 5 about here]

The banks thus filled a definite demand amongst artisans and other small business operators who could afford the comparatively high interest rates of up to ten per cent. Moreover, their customers proved to be creditworthy. During the 1850s 99.8 per cent of the loans were repaid on time, and this figure even achieved a remarkable 99.96 per cent during the 1870s.[14] Three factors combined to bring this about. First, prospective borrowers were screened. The Utrecht bank only lent to men and women who could read and write and excluded people on poor relief (Jacobs 2005: 126-129).[15] Other banks carefully vetted customers to select businesspeople whom they expected to realize high marginal returns and thus repay with ease.[16] Second, the *hulpbanken* required borrowers to be backed by guarantors, sometimes wealthy members of the same association, who could be asked to repay the loan if the debtor failed to do so on time.[17] Finally, the borrowers were held to strict repayment schedules, typically with weekly installments and, as an extra incentive, a waiving of some of the interest due if borrowers repaid ahead of time (Jacobs 2005: 126-129). Clients who failed to keep repayment schedules were excluded from borrowing for a certain time.[18]

Thus the banks' policy came close to looking like today's micro credit institutions. As such they widened access to credit just a little, but they still excluded the very poor. Indeed, they did so quite explicitly. All they aimed to do was to extend the

[14] Between 1852 and 1858 the *hulpbank* of Zwolle was unable to retrieve 130 guilders out of a total of 59,750 (0.21 per cent). Between 1866 and 1879 the banks had to write off only 5,200 guilders as bad on total lending of 9.1 million guilders (0.06 per cent) (*Verslagen armbestuur* 1876, 1879). In 1863 and 1864 government reports put the share of bad loans on 1.43 and 1.38 per cent respectively, but this included loans which had been repaid by the guarantors (*Verslag Armbestuur* 1863, 1864).
[15] Traders in alcoholic beverages were excluded by nearly all banks: Cf. for instance *Verslag armbestuur* 1862.
[16] Several contemporary observers identified the efforts of *hulpbanken* to select borrowers who were expected to make a profit with the loans provided to them. See for instance: "Over hulpbanken" (1853), 65, 68; "Onze hulpbanken"(1862), 331. On the importance of high marginal returns for microcredit extended to petty entrepreneurs to pay off, see Banerjee and Duflo 2011: 214-219.
[17] In 1865 the loan banks of The Hague, Dordrecht, Delft, Leeuwarden, and Harlingen took recourse to the guarantors for 41 loans on a total of 1,248, i.e. 3.3 per cent; however, none of these five banks had to write off unpaid loans during this year ("Onze Hulpbanken 1867: 39-40).
[18] In 1857 hulpbanken in nine cities received 2,140 loan applications, of which 281 (13.1 per cent) were refused: Van Breugel 1859: 38. Cf. for refusals by the *hulpbank* in Utrecht in 1853: Jacobs 2005: 52-54. In 1865 the hulpbank of The Hague initially granted 316 loans out of a total of 509 requests but then approved another 41 loans upon a closer inspection of the applicants' credit history ("Onze hulpbanken (1867): 39-40.

safety net to include more members of the middling groups. As a result their niche remained small. Banks rarely dealt with more than 400 customers per year and during the 1870s government officials calculated that overall they served only between 1.7 and 2.4 people per 1,000 inhabitants.[19] The well-documented Utrecht *hulpbank*, founded in 1852, illustrates its limitations to good effect. There was a clear demand for this type of borrowing. The number of loans rose quickly to 400 within a few years, only to level off and then start dropping from the late 1860s, reaching 250 a year by the 1900s (Jacobs 2005). The bank thus served a specific clientèle who could not otherwise access regular financial services; yet as soon as the option was made available, they moved to cheaper alternatives. In 1867 a commentator observed that the gradual rise of average loan sums would close the gap between the *hulpbanken* and regular private banks ("Onze hulpbanken" 1867: 42-43).

Thus, microcredit as understood in the developing world today, i.e. small loans for productive purposes, had a very promising start in the 19th-century Netherlands, but it soon levelled off at a respectable, though not especially impressive, level. This was not the result of an inadequate design or a deficient insight into the financial situation of the households targeted; the high repayment rates show that both design and loan aims were perfectly tailored. The banks' target niche was simply much smaller than their initiators during the 1840s had thought, so within ten to fifteen years all of them had reached their maximum number of customers.

THE DISCOVERY OF POOR ECONOMICS

Though focusing on middling groups and stopping short of helping poorer households, the new loan banks emerging after 1840 were nonetheless a vital part of a wider change in attitudes. For a long time the link between between low incomes, poverty, and poor households' vulnerability to shocks was well understood, but without changing the focus of the debate on poverty, which remained set on the social origins of poverty and on the moral condition of the poor, highlighting large families, alcohol abuse, and profligacy as key causes of misery (Walter 1992: 47-48; Douwes 1977: 161). As a result the quest for

[19] Verslagen Armbestuur 1876, 1879

solutions concentrated on changing social behaviour and overlooked the rationale of financial behaviour, though some social reformers did notice the importance of poor households' cash flow constraints (Boschloo 1989: 63-80).[20] It became increasingly clear, however, that existing institutions offered no solution to the persisting poverty, and a search for new initiatives began. This took the direction of analysing the financial rather than the social behaviour of poor households (Van Velzen 2012: 17-41).

[Table 4 about here]

Attitudes started to change from the 1840s when poor relief workers began to visit poor households on a regular basis. Notably church affiliated charities had always relied on summoning their charges to their office, but a significant number of the newly established charities set up saw it as their duty to visit poor households in their homes. More than a quarter of them did so during the 1820s and 1830s and over 40 per cent during the 1840s and 1850s (Table 4). Such visits were designed to check whether prospective clients' material circumstances and moral behaviour
warranted charitable support (De Regt 1984: 147), but they also inspired a better appreciation of poor economics.

In his submission to an essay prize contest about how to combat poverty organized by the *Maatschappij tot Nut van 't Algemeen*, the Mennonite minister Feike van der Ploeg revealed the first signs of a growing understanding for poor households' financial behaviour. Though still couched in moral tones, his essay focused on what he considered the irresponsible cash flow management of many poor households and urged them to save more, spend less, and to do so at the right moments. Van der Ploeg believed preaching could encourage the poor to save and to live within their means, but that they should also be taught how to handle money. Moreover, savings banks should be made more effective by having them accept any amount, no matter how small. Van der Ploeg concluded that most poor families did not become poor because of external shocks but through financial mismanagement (Van der Ploeg 1840).

[20] The managing director of the *Maatschappij tot nut van 't Algemeen* noticed the 'Triple Whammy'in 1839, when he listed as causes of poverty bad education, bad decision-making, inadequate insurance against shocks such as sickness, funerals, etc. and for some: little opportunity to save money (Boeke 1839).

At the end of the day Van der Ploeg remained a moralist, but his insight about the need to tailor financial institutions more closely to the needs of their target customers found gradual acceptance; savings banks lowered their minimum deposit thresholds and we have seen above how funeral insurance companies developed ways to attract the custom of poorer households (Cf. Report Maatschappij 1874: 25; Bruinwold Riedel 1890). Moral overtones in the approach to poor households' financial behaviour continued to dominate, however, until a small number of private charities took their inspiration from initiatives in the German city of Elberfeld and started practising home visits with new, more practical, intentions.[21]

Set up in 1870, the mission of the Amsterdam charity *Liefdadigheid naar Vermogen* testified to a distinct change in the appreciation of the target households' situation, with economic insights coming first and moral considerations only second. When setting benefits, the association's officers were to review a household's entire economic position, taking into account "the composition of the family, the earnings of its various members, income from other sources, possible debts, the children's school attendance, and the physical and moral condition of all household members" (De Regt 1984: 154). The poor under its care were stimulated to seek regular wage labour; the weekly visits were used to review cash flows and for giving financial tips and other practical suggestions; and clients received money rather than benefits in kind (De Regt 1984: 158, 161-162). This last policy was inspired by the conviction that occasional handouts in fact made the recipients more dependent, less inclined to save, and unable to consider balancing income and expenses on a regular basis (Goedmakers 1955, 106-107; cf. also earlier criticism on English savings banks: De Frontin 1841). Though the Amsterdam charity became the best known practicioner of the Elberfeld approach, its example was followed by several other organizations elsewhere in the Netherlands (Douwes, 1977: 64-65).

By 1900 the growing insights into the narrow margin between income and expenses in poor households, and the continuous juggling with network solutions and outside financial options this required, inspired more and more social scientists to start

[21] In 1873 Gerrit Adriaan Fokker, a leading advocate of the *hulpbanken*, identified low wages as the key cause of poverty but at the same time criticized the majority of the labouring poor for their "incompetent work, lack of industry, squandering, and myriad vices" (Fokker 1873: 445, 447)

tracking their cash flows in greater detail (Van Velzen 2012: 42-69). Some of them, notably Rowntree in Britain, emphasized that the absolute level of expenditure determined poverty, others had a more dynamic view about the fluctuations in income and expenses (De Vries 1916: 237-238, 245; cf. his criticism of Rowntree's static definition of poverty: 15-16; Booth 1886). In turn this led to the view that the success of intervention depended on the level and stability of incomes (Van Genabeek 1999: 176; De Vries 1916: 188-192, 227). Financial support was therefore increasingly directed towards poor households with a sound budget management but handicapped by an irregular income. Paradoxically this raised new criticism on the moral condition of the poor, because charity workers encountered households with a sufficiently high and regular income but incapable of budgeting sensibly so as to profit from available facilities to borrow and save. Home visits now had to focus explicitly on finding this particular group of people (De Vries 1916: 15-16. See also S. Slooten, *Het weggedrevene*, p. 60, cited in De Vries 1916: 227)

Growing insights into the financial management of poor households also led charity workers to discover, just as Banerjee and Duflo were to do almost a century later, that these households often lacked access to crucial information. On a first visit officers were considered to need all their wits to assess the situation plus information about the availability of residential accommodation, trade unions, the civic registry, national service, and pensions (De Vries 1916: 163, with reference to Muller Lulofs). In addition officers dealing with interest-free loans ought to have broad social experience, a sound understanding of the economy of poor households, and the ability to check rudimentary accounts, plus a definite predilection for this kind of aid, words suggesting an approach similar to the individual credit ratings undertaken by MFIs today (De Vries 1916: 137).

Summing up, by the early 20th century the very specific character of poor households' economic situation was fully understood in terms similar to those used by economists today (Marshall 1920). Experts understood the double whammy of low and irregular incomes and thereby also the impossibility of reaching poor households with microfinance type institutions originally designed to protect middling groups against downward social mobility. Conversely, they also realized the importance of widening access to savings banks, credit, and insurance by tailoring these facilities to the needs of households with variable cash flows and improving access to information (Buning 1957: 15; Van Loo 1992: 35-36). Ironically, however, it had also become clear that no purely financial solution from outside could help lift households out of poverty. Financial services, whether or not based on the reciprocity of social networks, were no more than a palliative, a stopgap, for middling groups. Only higher and more regular wages could provide a solution for the poor.

CONCLUSION

We set out to do two things: we wanted to see whether the Collins et al. insights about the financial behaviour of poor households are applicable to the preindustrial era as well; and to explore what caused the boundary between formal financial markets in the Netherlands during the 19th century to move. We did this first of all with the idea that the answers would bring us closer to understanding the conditions under which particular solutions to relieve poverty might work. By extension we thought we would better grasp the link between finance and growth. Finally, we hoped the answers might provide an indication of which of the many programs to combat poverty tried in the past might work today as well; and if so, under what conditions.

With regard to the first question, we conclude that the fundamentals of poor household finance in the past closely resemble those of poor households today. The insight of the poor households' central concern for cash flow management transforms what historians have always described as an economy of makeshift (Hufton 1974; Fontaine and Schlumbohm 2000) into a fully rational and highly active switching between alternatives, centring on social networks. No doubt the available options differed from network to network and over time; but the households' day-to-day dependence on mutual help cemented them to their existing internal networks until rising wage levels lowered the social risk of outside options. This enables us to understand the part of early modern financial markets normally hidden from view on account of scarce source materials. We now know that poor households then must have been fully financially aware and astute, and thus able to enter the formal market if they happened to earn a sufficient income.

Since wages only began edging up during the last quarter of the 19th century, the market's boundary hardly moved until then. This was not for want of ingenuity and energy in the promotion of innovative financial institutions, as public and private concern with the plight of poor households inspired a continuous flow of initiatives. However, these mostly aimed to provide a safety net for precarious middling groups. Initiators presumably realized that savings banks, insurance schemes and loan banks could not actually reach the poorest households who were only served by pawn brokers. So they ensured some oversight for that sector and left it at that. Pawn broking was indeed widely used by households as soon as they possessed money to spend on possessions worth pawning, but the typical sums borrowed suggest that the pawnshops and pawn banks served cash flow smoothing more than anything else.

The customer segment which savings banks, insurance schemes, and pawn banks targeted, precarious middle groups, was a quite small one, as the slow growth of these institutions shows. The loan banks set up from the late 1840s came closest to modern MFIs in aim, target clientele, and operations, but their volume of business remained very modest. For a long time savings banks handicapped themselves with high minimal deposits and limited opening hours, raising a financial threshold that kept their target customers at a wide distance. For poor households they were largely irrelevant anyway until the general rise in wages during the last quarter of the 19th century. Mutual funeral insurance penetrated earlier and deeper than the two other institutions, with cultural factors combining with economic considerations and a business model adapted to the low, weekly wages of poor households to ease its way. Even then for most of the 19th century funeral insurance was predominantly a middle class concern, not a solution for poor households. All institutions shared the same basic problem of being largely supply-driven, by public concern, rather than responding to demand.

Consequently, in the Netherlands the boundary of formal financial markets moved down not because of financial innovation, but because of economic growth pushing up wages. Until the last quarter of the 19th century poor households simply lacked the money to use the available financial institutions, which deliberately targeted middling groups rather than poor households anyway. For this very large group in society, the causality between finance and growth definitely ran from growth to finance, and not the other way around: they could access finance only once wages rose.

The Collins et al.. insights therefore considerably widen our understanding of why solutions to combat poverty in the past failed: microfinance can only do so much. Conversely, the examples from the past underline once more the poor suitability of most financial instruments to the needs of poor households. Mutual help is simply the easiest, cheapest, and most flexible solution for cash flow management, and a higher and stable income the only sure solution to poverty. That said, the evidence points once again to the importance of insurance over borrowing, and to the need for tailoring the size of contributions and the way in which they are collected to a realistic assessment of the situation of poor households. In that respect the recent move towards mobile services might prove an important step forward.

TABLES

Table 1. Goods at Pawn at the Hulpkantoren *of the public loan bank of The Hague, 1859-1861.*

	1859	1860	1861
Number of loans per office			
hulpkantoor 1	78,003	85,520	87,184
hulpkantoor 2	73,249	80,922	84,252
Value of loans per office			
hulpkantoor 1	252,771	265,310	256,359
hulpkantoor 2	223,714	236,285	234,641
Loan size (% of number of loans)			
1.00 – 2.00	58%	59%	61%
2.50 – 5.00	33%	32%	31%
6.00 – 10.00	7%	6%	6%
> 10.00	3%	2%	2%
Redeemed within 8 days (number)	49.5%	49.2%	49.4%
Redeemed within 8 days (value)	38.9%	39.4%	40.3%

Source: Van Heel 1862

Table 2, Savings and loans offered by private associations for poor relief in the Netherlands, 1800-1900

Period	All	Savings	Loans
before 1800	46	1	6
1800-1819	148	1	6
1820-1839	103	1	3
1840-1859	397	4	35
1860-1879	424	2	22
1880-1900	1,400	3	35
Total	**2,518**	**12**	**107**

Source: ING Huygens Database “Verenigingen voor Armenzorg”.

Table 3. Loans of 100 guilders or more as a percentage of the total value of loans extended by seven hulpbanken in 1857 and 1865.

City	**Established**	**1857** *≥ ƒ 100,-*	**1857** *Loans (ƒ)*	**1865** *≥ ƒ 100,-*	**1865** *Loans (ƒ)*
Den Haag	<1849	20.8%	23,705	86.9%	44,220
Middelburg	1849	55.1%	17,780	59.0%	20,800
Zwolle	1850	35.7%	12,739	71.9%	22,485
Haarlem	1850	21.2%	16,305	76.3%	22,290
Delft	1852	31.1%	12,595	73.9%	18,980
Alkmaar	1852	45.0%	11,245	58.1%	19,655
Dordrecht	1852	41.0%	15,615	66.3%	40,535
Average		**34.7%**	**15,712**	**72.1%**	**26,995**

Sources: Van Breugel 1850:39; “Onze Hulpbanken” (1867): 37-38.

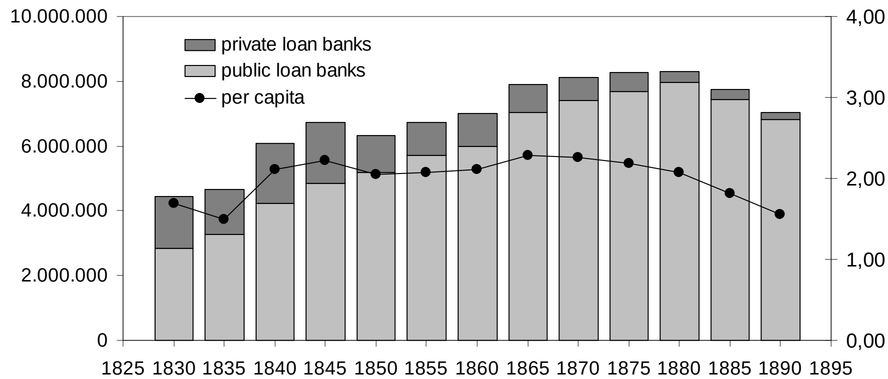
Table 4. The number of private poor relief associations in the Netherlands, conducting home visits 1800-1900

Period	**all**	**home visits**	**%visits**
before 1800	46	2	4.3%
1800-1819	148	2	1.4%
1820-1839	103	28	27.2%
1840-1859	397	172	43.3%
1860-1879	424	105	24.8%
1880-1899	1,400	200	14.3%
Total	**2,518**	**509**	**20.2%**

Source: ING Huygens Database “Verenigingen voor Armenzorg”.

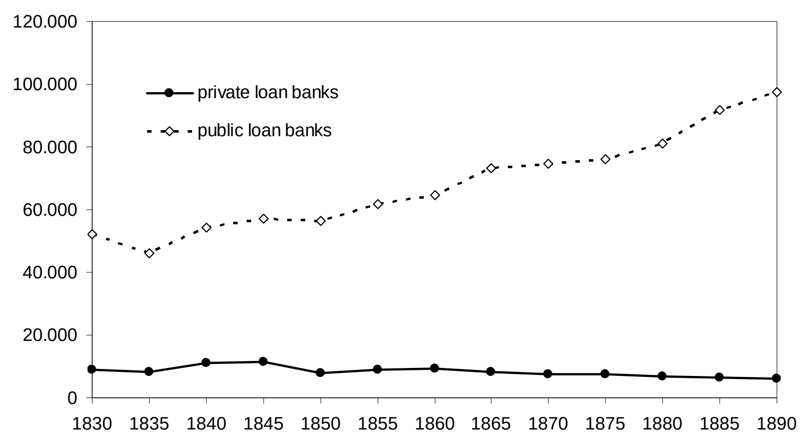
FIGURES

Figure 1. Total annual lending in guilders of public and private loan banks in the Netherlands (left scale) and value per capita (right scale), 1830-1895.



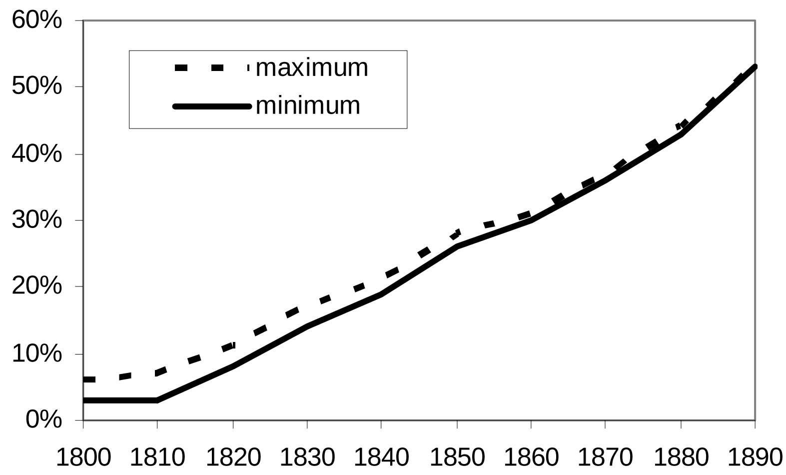
Source: Verslagen omtrent de staat van het Armwezen, 1830-1895.

Figure 2. The average annual number of loans of private and public loan banks in the Netherlands, 1830-1895



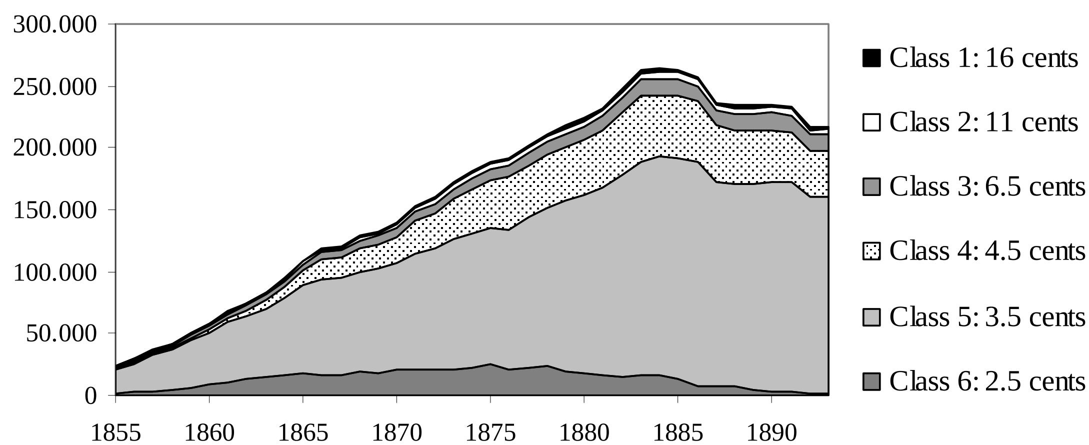
Source: Verslagen omtrent de staat van het Armwezen, 1830-1895.

Figure 3. Estimated share of the Dutch population with a funeral insurance (1800-1890)



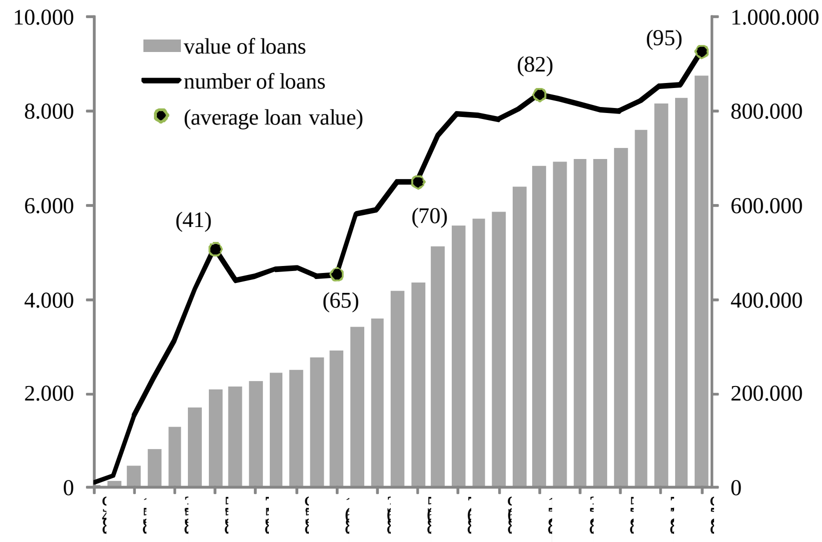
Source: Van Leeuwen 2000: 81

Figure 4. The total number of insured in six different classes of the Utrecht funeral insurance "Let op Uw Eynde" (with the weekly contribution of 18 to 40 year old subscribers), 1855-1893



Source: Bollerman and Broenink 1982: 54

Figure 5. The number of loans (left scale) and their value in guilders (right scale)at the hulpbanken in the Netherlands, 1849-1879



Sources: “Over Hulpbanken” (1853); "Nederlandsche Hulpbanken” (1854); Geesink 1855: 248; Van der Heim 1856: 369; Van Breugel 1859: 88; “Onze Hulpbanken” (1862), 334-336; “Hulpbanken” (1866): 239; *Verslagen over de verrigtingen aangaande het armbestuur* (1861-1865, 1876, 1879)

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