

**MICROFINANCE AND THE DECLINE OF POVERTY:
EVIDENCE FROM THE NINETEENTH-CENTURY NETHERLANDS**

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Applying insights from recent literature on the financial behaviour of poor households in developing countries to the nineteenth-century Netherlands, we show that micro finance type institutions failed to alleviate the country's persistent poverty for the same reasons found today. The numerous institutions launched failed to reach the customers targeted because, like the poor households analyzed in the modern literature, the Dutch poor lacked the money to use them and relied on a combination of makeshift and network solutions instead until rising wages from about 1870 widened their options. Consequently growth preceded finance, not the other way around.

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JEL classification: N23, N33, N93, O15, O16

1. INTRODUCTION

The modern microfinance industry has had to confront serious criticism. Initially this targeted mainly the high cost base of microfinance institutions or MFIs, which required a combination of subsidies, high interest rates, and credit rationing for their survival (Morduch, 1999, p. 1587-1592; Cull *et al.*, 2009; Armendáriz and Morduch, 2010, p.

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317-341). During recent years the very purpose of the MFI industry has come under scrutiny with critics arguing that MFIs do not go far enough. The institutions concerned do not necessarily reach the households that would benefit most from their support, because the financial services they provide, small loans in particular, do not match the most pressing needs of these poor households (Morduch, 1999; Dichter, 2006; Roodman and Morduch, 2009; Karlan and Morduch, 2009; Armendáriz and Morduch, 2010, p. 347-375). Research into the financial behaviour of low-income households by Collins *et al.* (2009) and Banerjee and Duflo (2011) locates the root cause of this mismatch in a failure to understand the needs of such households. Three findings stand out. First, the prime concern of poor households is not saving, borrowing, or insuring, but cash flow, the constant shortfall 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, so their price should be understood as a function of social relationships as well as economic needs. Because these networks thrive on the circulation of cash between members, the social cost of outside financial options usually outweighs potential economic benefits.

Such insights from the present have an immediate appeal for historians. Until deep into the nineteenth 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). It also seems to offer a better explanation of the failure of church and government efforts to alleviate poverty than the reasons so often offered at the time and echoing since, i.e., ignorance or undesirable and incorrigible behaviour. Moreover, if cash flow was indeed the key concern of poor households, then probing the shift from network solutions to market options 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.* (2009) and Banerjee and Duflo (2011) to the nineteenth 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 apply the Collins *et al.* (2009) framework to the microfinance solutions available in cities in the Netherlands before 1900.¹ Our analysis focuses on urban microfinance initiatives, which, in the Netherlands, predated rural ones by more than half a century.² The nineteenth-century Dutch economy had two distinct faces. The

¹ 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 nineteenth-century Europe.

² On the emergence of rural credit cooperatives after 1890, see Jonker (1988) and Colvin (2011).

country was highly urbanized with a very wealthy upper and middle class, and a highly sophisticated financial market centred on Amsterdam (Jonker, 1996; De Vries and Van der Woude, 1997). Yet industrialization progressed only slowly and unemployment kept a large part of the population in poverty until the end of the century (Van Leeuwen, 1992; Vermaas, 1995; Van Zanden en Van Riel, 2004). Local elites in cities throughout the country created numerous financial institutions to support poor households in the beginning of the nineteenth century, but for a long time these savings banks, insurance schemes, and loan banks failed to reach their intended customers, who preferred the mutual help provided within its social networks. We show that it was not until real wages began to increase after 1870 that poor urban households adopted microfinance institutions to manage their cash flow problems.

2. THE ANALYTICAL FRAMEWORK

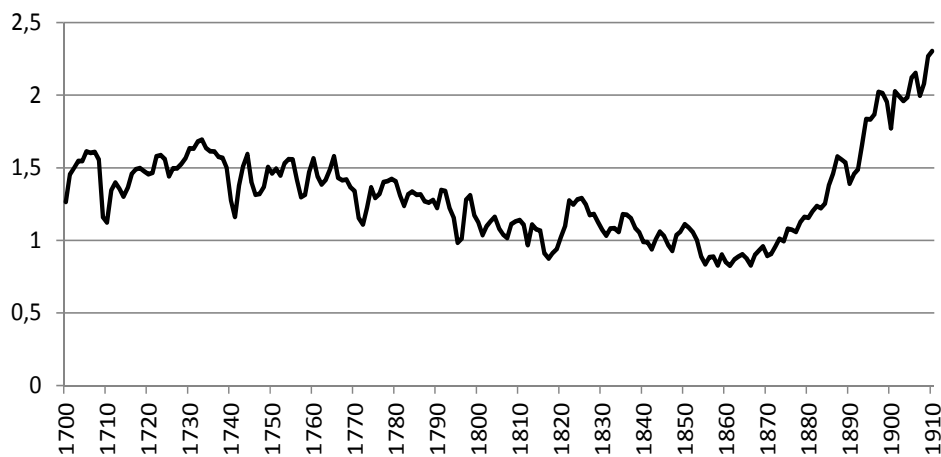
Collins *et al.* (2009) study the financial behaviour of poor households in India, Bangladesh, and South Africa through the examination of the financial diaries kept by those households, which contain detailed day-by-day notes about their financial transactions. The rationale of their behaviour resides in the ‘triple whammy’ affecting them: they suffer from having a low income; their income is irregular and unpredictable; and 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 studied 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 and, in rural areas, seasonal farm work, to profits and subsidies. Secondly, they manage most, if indeed not all, of their financial transactions within their social network of relatives, 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 dependency does have a number of drawbacks. A network’s financial options usually limited and often do not enable its members to build sufficient savings for setting up a business, paying for their children’s education, or for cushioning the impact of contingencies such as illness or death. Moreover, the dependence on reciprocity 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 investment credit virtually inaccessible.³ The social control mechanisms practised by many microfinance

³ However, cf. De Soto (2001), who argues that poor urban households in developing countries often cannot use the property they possess as loan collateral for lack of a clear ownership title.

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, but for many taking out formal insurance is too big a step. This puts a premium on solutions grafted onto existing social structures, as they are amongst the South African households studied by Collins *et al.* (2009), because this strengthens rather than weakens network ties.

Collins *et al.* (2009)'s findings appear to match what we know about the position and behaviour of poor households in nineteenth-century Europe - but we need to ask, just how close is the match? 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 past and present (e.g., Van Leeuwen, 1992, p. 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 and irregular or insufficient employment opportunities (Lis, 1986; Van Leeuwen, 1992, p. 28; Van Leeuwen, 1993, p. 330). Figure 1 shows the precarious position of Dutch wage workers. The welfare ratio for a labourer, that is his annual wage divided by the cost of a poverty line consumption bundle for his family (Allen, 2001, p. 225), declined to unity in the second half of the eighteenth century, only to improve again after 1870.



Source: Allen (2001, available at <http://www.nuffield.ox.ac.uk/People/sites/Allen/SitePages/Biography.aspx>).

Figure 1. The Welfare Ratio of Labourers in the Netherlands, 1700-1910

As long as income remained low and irregular in the Netherlands, Collins *et al.* (2009) would predict poor households preferred to rely on makeshift solutions of shop credit, rent arrears, financial ties with family members and neighbours, remittances from emigrated relatives abroad and, for those with some material possessions, the recurrent pawning of household goods. This is indeed what happened in the Netherlands in the eighteenth and nineteenth centuries (McCants, 2007a; Lis and Soly, 1979; Clark, 1972; Geremek, 1974; Lindert, 2004; Winter, 2008; Lambrecht, 2013). With the Enlightenment new ideas about combating poverty had surfaced, including education, unemployment relief work, and the establishment of savings banks. The annual reports on poor relief efforts which the Dutch government submitted to Parliament from 1814 also show rising public spending on alleviating poverty plus a widening array of financial institutions whose functioning was very similar to modern microfinance institutions. Yet until the third quarter of the nineteenth century the latter remained very small in relation to the problem they had been set up to combat (Lis, Soly and Van Damme, 1985; Spaans, 1997, 2003; Van Leeuwen, 1992; Gouda, 1995).

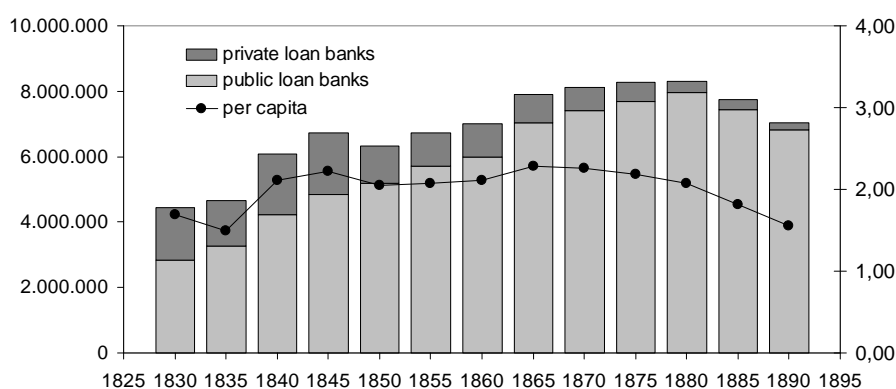
Collins *et al.* (2009)'s findings help us to understand why these microfinance initiatives failed. By their nature these financial institutions possessed a very limited target, i.e., that segment of the poor population whose income had risen just enough to leave elementary cash flow constraints behind and start using financial institutions outside their social circle. As long as their income remained at a level of bare subsistence, nineteenth-century poor households simply lacked the money to use newly established mutual insurances, savings - and loan banks, unless these institutions were able to tailor services to the specific needs of their clientele, that is high frequency, low amounts, flexible, and if possible complementary to the social solutions. Let us now examine the most important types of institution one-by-one.

3. PAWN CREDIT

In the beginning of the nineteenth 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 urban 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 previously offered such services (Maassen, 1994; Soetaert, 1974; M.C. 't Hart, Jonker and Van Zanden, 1997; Fontaine, 2008). Called *Monte di Pietà* or *Banken van Leening*, these urban 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 pledged assets. Urban middling 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, p. 191).

At first sight the attempt to force the private pawn banks out of business appears to have been successful. Parliamentary reports on poor relief show their number dropping 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 2), 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's wages for a labourer.

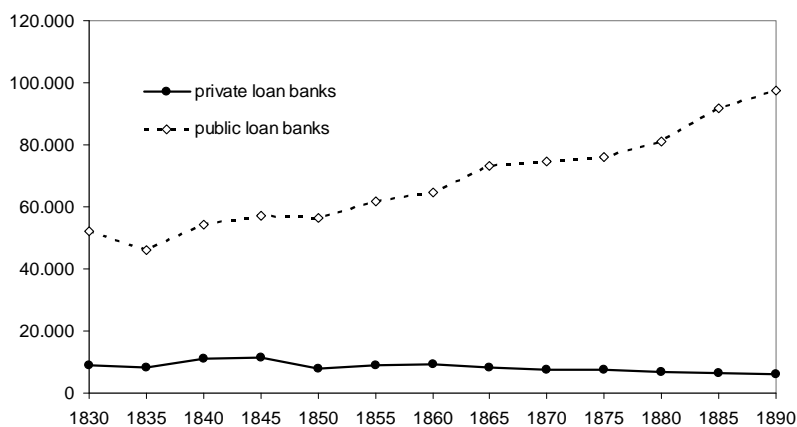


Source: Verslagen omtrent de staat van het Armwezen, 1830-1895.

Figure 2. Total Annual Lending in Guilders of Public and Private Loan Banks in the Netherlands (left scale) and Value Per Capita (right scale), 1830-1890

However, the sector's forced consolidation posed new challenges for the public 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 3). 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. Big pawn banks such as the Amsterdam municipal one shifted the administrative burden and cost of such transactions to freelance agents on a commission basis who dealt with clients below a certain sum in their particular area. Even so default risk and running costs remained high, keeping interest rates way above the statutory maximum of six per cent. The Amsterdam bank charged 16 per cent on loans below 100 guilders, 12 per cent on loans up to 1,000 guilders, and 10 per cent above that amount (Maassen, 1994, p. 189-201).



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

Figure 3. The Average Annual Number of Loans of Private and Public Loan Banks in the Netherlands, 1830-1890

During the economic instability associated with the French Occupation (1795-1813) the bank was overwhelmed by a strong demand for small loans. As a result in 1805 the Amsterdam city council sought to shift some of that burden by licensing more private pawn shops for loans of up to 0.7 guilders, a market segment considerably below that of the private and public pawn banks. This was a large segment, for when in 1826 the central government wanted to close down the pawnshops the Amsterdam city council protested vigorously. The council argued that a third of the city's population of 202,175 people depended on them for pawning meagre possessions worth half a guilder to a guilder, mostly to buy food.⁴ The pawnshops were said to handle 700,000 transactions

⁴ "Staat van bevolking der Noordelijke provincien van Nederland op den 1 januarij 1830, ingevolge de jongste algemeene volkstelling," (<http://www.volkstelling.nl/nl/volkstelling/jaartellingdeelview/VT1830JB1831/index.html>), consulted 1 November 2013.

of less than 0.7 guilders annually, a burden which the public pawn bank was in no way equipped to manage. 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, p. 194-195).

Elsewhere the problem of handling very small loans surfaced as well. In 1835 the Leiden bank obtained permission to allow its own freelance business canvassers to deal with small short-term loans - those of up to three guilders per week - themselves (Maassen, 1994, p. 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 needed most. As one commentator wrote in 1868 "In the big cities 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, p. 327). This very high turn-over conforms with the pattern found by Fontaine for Paris in the late eighteenth century (2008, p. 175-178).

Table 1. Goods at Pawn at the Hulpkantoren of the Public Loan Bank of The Hague, 1859-1861

	1859	1860	1861
<i>Number of Loans per Office</i>			
hulpkantoor 1	78,003	85,520	87,184
hulpkantoor 2	73,249	80,922	84,252
<i>Value of Loans per Office</i>			
hulpkantoor 1	252,771	265,310	256,359
hulpkantoor 2	223,714	236,285	234,641
<i>Loan Size (% of Number of Loans)</i>			
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%
<i>Redeemed within 8 Days (Number)</i>	49.5%	49.2%	49.4%
<i>Redeemed within 8 Days (Value)</i>	38.9%	39.4%	40.3%

Source: Van Heel (1862).

Summing up, the Dutch nineteenth-century pawn credit sector was tightly regulated 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 because 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. Moreover, the comparison between Figures 1 and 2 confirms that the average amount of loans started to decline as soon as real wages increased. 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.

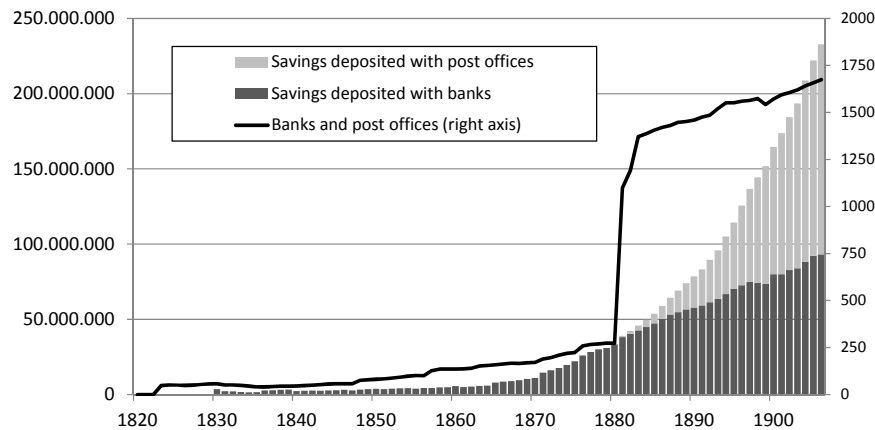
4. SAVINGS BANKS

At the turn of the nineteenth 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 philanthropic society *Maatschappij tot Nut van 't Algemeen*, the banks drew their inspiration from Scottish institutions and from the ideas of philosophers such as Thomas Malthus (Mijnhardt and Wichers, 1984; Scherenberg, 1817; Dankers *et al.*, 2001, p. 20-31). During the 1820s some fifty savings banks were founded by the society's members, but they failed to attract much in the way of deposits (Figure 4). A second wave of initiatives during the 1850s and 1860s pushed the total number of banks up to 225, but the real breakthrough came only in 1881 when the government, again following a British example, set up the postal savings bank *Rijkspostspaarbank* (RPS), thus opening up some 1,000 post offices to savers all over the country.

The savings banks' propaganda emphasized their usefulness in offering a remedy to poverty in two ways. Building financial buffers would protect middling groups from downward social mobility, and would help the poor to escape from their pitiful condition (Visser, 1818; Van Alphen, 1820; De Coninck, 1821; Lemire *et al.*, 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 would benefit from putting money away on a regular basis, since that discipline would enable them to become responsible burghers. The contrast between these supposedly self-evident truths and the unpopularity of savings banks in the face of

⁵ For soft echoes of this disciplining motive in a modern observer, see De Swaan (1990, p. 169).

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, p. 53; De Regt, 1984, p. 144, 146; Boschloo, 1989, p. 79-80, 235; De Swaan, 1990, p. 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. 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 *et al.*, 2001, p. 38-39). This normative approach prevented the banks to widen their customer base by adapting their services to the real needs of their potential clients.



Sources: Number of banks and post offices: *Verslagen Armwezen*; Bruinwold Riedel (1909, Appendix VI); Deposits 1855-1870: *Verslagen Armwezen* en Fokker (1858, 1863, 1869, 1873, 1875abcd); Deposits 1880-1906: Bruinwold Riedel (1909, 1830, 1940, 1850); Dankers *et al.*, (2001, p. 69).

Figure 4. The Annual Number of Savings Banks and Post Offices, and the Value of Savings Deposited with Them, 1820-1909

As a result the banks attracted few customers. 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 dearth (De Vries and Van der Woude, 1997, p. 562; Van der Woud, 2010, p. 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 *et al.*, 2005, p. 147). From 1870 Dutch real wage levels rose so the growth pace of savings quickened, lifting the number of depositors to 300,000 by 1890, then nearly 13 per cent of the population (Soltow and Van Zanden, 1998, p. 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 labourer (Van der Woud, 2010, p. 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. We therefore need to see the savings banks movement as essentially a defensive one, a safety net, rather than a stepladder for those needing a leg-up.

During the 1870s philanthropists' and bankers' perceptions on poor households' financial management 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, p. 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 (Commissie, 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. The RPS did exactly that and uncovered the existence of a large, previously unmet demand. The number of depositors and the value of deposits rose fast to overtake those of the private savings banks during the 1890s (Figure 4), while both the average number of savers and average deposits per post office were half that of savings banks (Bruinwold Riedel, 1890, Appendix 6). That new market segment enabled the RPS to outcompete the savings banks. Within a decade of its launch some thirty savings banks had closed. The RPS's success depended on its ability to operate at low cost. By grafting its services on the network of post offices, the RPS could couple easy access and long opening hours to a low minimum deposit of five cents. From this we may conclude that cost prevented savings banks from reaching the customer base which they had been supposed to target.

Moreover, saving evolved into a business only once rising wage levels permitted people to start using financial services outside their network. As Collins *et al.* (2009) 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, p. 48-52, 57).⁶ As a result saving outside the network has a social cost, most importantly the erosion of the reciprocity 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, p. 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 nineteenth 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.

5. 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, p. 52, 65-94). As an alternative, networks can develop forms of 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 trade unions (Van Leeuwen, 2000, p. 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 1798 during the French Occupation (De Swaan, 1990, p. 150-157; Van

⁶ For a negative appraisal of such social networks, see De Swaan (1990, p. 168).

⁷ The database on insurance funds compiled by Loes van der Valk comprises 505 such schemes.

Genabeek, 1999, p. 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, p. 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, p. 173).

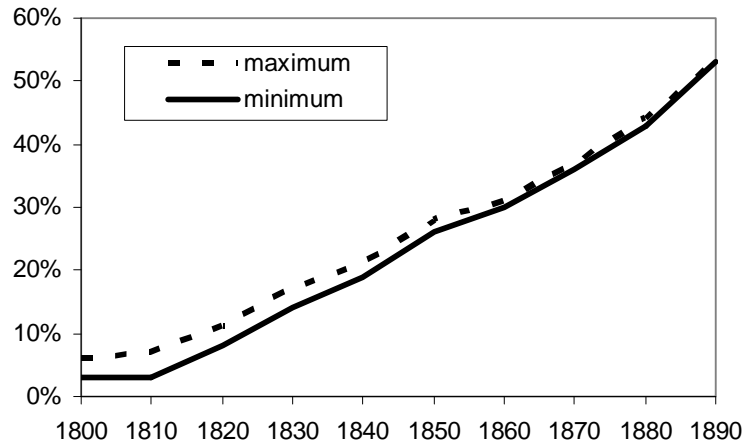
Virtually all of these funds covered funeral costs and about two thirds also paid sickness benefits. Up to one third covered medical costs, most often in the form of payments in kind.⁸ The funds were spread unevenly over the country. The majority of funds for sickness benefits and medical costs were located in the coastal provinces, highly urbanized and market-oriented since the late Middle Ages (Van der Valk, 1996, p. 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, p. 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, p. 85-86; Van Leeuwen, 2000, p. 167). Indeed, as late as 1895, several funds explicitly excluded recipients of poor relief from membership (Stoeder *et al.*, 1895, p. 40). By then membership of mutual sickness benefit funds stood at 500,000 people, or 10 per cent of the population (Van Leeuwen, 2000, p. 169-174; Slokker, 1993, p. 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, p. 177). When it concerned breadwinners 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

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*) is scheduled to be published online by the ING Huygens Institute in 2014. The figures here are presented by courtesy of Loes van der Valk. Cf. also Van der Valk (1996, p. 180-182), Van Leeuwen (2000, p. 173).

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

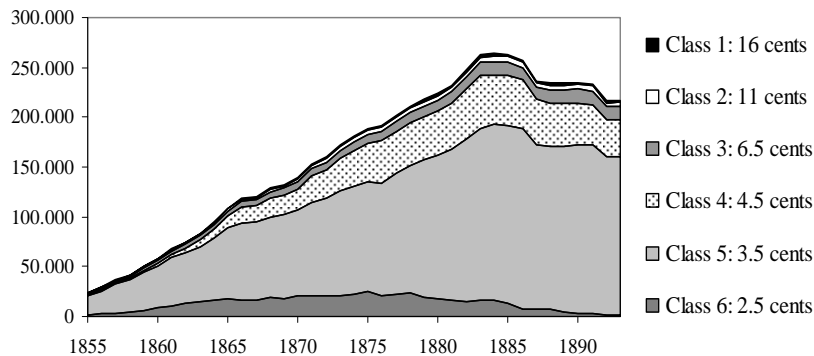
(Figure 5). By 1850 some 25 per cent of the population had funeral insurance, and by the end of the nineteenth century this was more than 50 per cent, versus 10 per cent for sickness benefit funds.



Source: Van Leeuwen (2000, p. 81).

Figure 5. The Estimated Share of the Dutch Population with a Funeral Insurance (1800-1890)

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, p. 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 weekly rounds (Van Genabeek, 1999, p. 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, p. 15, 18-24, 28-29, 31)



Source: Bollerman and Broenink (1982, p. 54).

Figure 6. 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

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 6). 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, p. 38, 68-69). A report drafted by the *Maatschappij tot Nut van ’t Algemeen* in 1891 observed that insurance clerks often became trusted advisors to their clients, taking their savings to the bank, dealing with any official forms and bills, and even accompanying parents to register newborn babies at city hall.¹⁰ Vesting the selection of customers and the collection of payments in such very personal relations also enabled insurance companies to keep down cost.¹¹

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

¹¹ The clerks’ incentive to maximize revenues could of course lead to malpractice. One extreme example concerns the well-known Leiden serial murderess Maria van Swanenburg, nicknamed *Goeie Mie*. Between 1879 and 1883 she poisoned between 27 and 90 people after having sold them insurance policies of which she was the main beneficiary (Moerman, 2012).

6. 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 not have been done, whether credit facilities could have 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.¹² 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.¹³ 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. Over time the number of new associations devoted to lending to poorer households rose, notably after 1840.¹⁴ 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. The associations covered the entire range of poverty relief efforts, from handouts of food, fuel, and clothing, campaigns against alcohol abuse, the provision of

¹² 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, p. 250).

¹³ 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, p. 126-129, article 4 of the by-laws). See also Donkersloot (1849).

¹⁴ 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, p. 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 Koninkrijk der Nederlanden* 4 (1820), p. 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, p. 13).

healthcare and education, to employment programs and financial services. A total of 192 mentioned financial services as their purpose. Of those, 71 did so as part of a program with wider aims, for example, to reintegrate ex-convicts with a small advance, or to combat alcohol abuse by stimulating saving. A total of 119 almost exclusively urban associations focused on financial services proper, of which 107 aimed to provide loans.¹⁵ There were two kinds of lending associations. Some 80 relief organizations aimed to offer interest-free advances to households in temporary distress. In addition from the 1850s *Hulpbanken* or loan banks were set up by either local governments or the *Maatschappij tot Nut van't Algemeen*. Some of these loan banks, notably the associations dedicated to helping Jews in The Hague, Amsterdam, Leeuwarden, Groningen, and Arnhem, were in fact charities supplying interest-free advances averaging less than 15 guilders.

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 Armeazorg".

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, p. 324; Jacobs, 2005, p. 53-54; Fokker, 1875, p. 512). The *hulpbanken* granted loans for up to one year to small entrepreneurs backed by personal guarantors. Their 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

¹⁵ Only 13 of the 119 private associations operated in rural communities (database Huygens ING). Of the 38 loan banks active in 1865 no more than four were established in rural villages. Of those only the Holwerd bank had operations of significance, providing over one hundred loans to 65 clients in 1865 (Verslagen Armwezen).

and to over 800,000 guilders by 1880, while the number of loans rose from almost 5,000 to 9,200, pushing up average loans 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. Many of the banks formally increased their maximum loan size to 200 guilders or even 300 (“Onze Hulpbanken,” 1862, p. 333, 337-338; “Onze Hulpbanken,” 1867, p. 42-43; *Verslagen Armbestuur*, 1861-1865).

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	1857	1865	1865
		$\geq f 100,-$	<i>Loans (f)</i>	$\geq f 100,-$	<i>Loans (f)</i>
Den Haag	Before 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

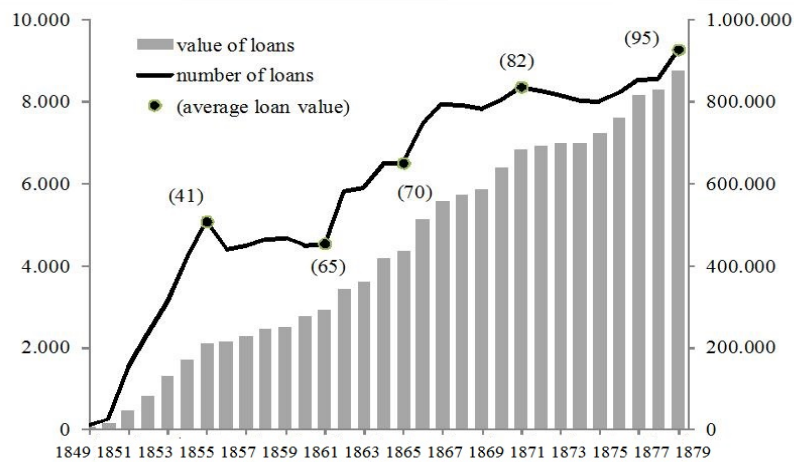
Sources: Van Breugel (1850, p.39), “Onze Hulpbanken” (1867, p. 37-38).

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 per annum. 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.¹⁶ 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, p. 126-129).¹⁷ Other banks carefully vetted customers to select businesspeople whom they

¹⁶ 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).

¹⁷ Traders in alcoholic beverages were excluded by nearly all banks: Cf. for instance *Verslag armbestuur* (1862).

expected to realize high marginal returns and thus repay with ease.¹⁸ 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 defaulted.¹⁹ Finally, the borrowers were held to strict repayment schedules, typically with weekly instalments and, as an extra incentive, a waiving of some of the interest due if borrowers repaid ahead of time (Geesink, 1855, p. 251-252; Van der Heim, 1856, p. 364; Jacobs, 2005, p. 126-129). Clients who failed to keep repayment schedules were excluded from borrowing for a certain time.²⁰



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

Figure 7. The Number of Loans (left scale) and Their Value in Guilders (right scale) at the Hulpbanken in the Netherlands, 1849-1879

¹⁸ 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, p. 65, 68); “Onze Hulpbanken” (1862, p. 331). On the importance of high marginal returns for microcredit extended to petty entrepreneurs to pay off, see Banerjee and Duflo (2011, p. 214-219).

¹⁹ 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, p. 39-40).

²⁰ In 1857 *hulpbanken* in nine cities received 2,140 loan applications, of which 281 (13.1 per cent) were refused: Van Breugel (1859, p. 38). For the *hulpbank* in Utrecht in 1853: Jacobs (2005, p. 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, p. 39-40).

However, the selection of prospective clients, tailoring loans to specific needs, and monitoring repayments were time-consuming and therefore expensive. Since this cost was fixed, it weighed heavier on short loans than on long ones, so the banks tied interest charges to loan duration. Typical loan schedules were for 10, 20, 30, 40 or 50 weeks, rates declining as duration rose. This failed to cover cost, however, so the viability of the *hulpbanken* entirely depended on their being, like the savings banks, private charities, as often as not tied to the *Maatschappij tot Nut van 't Algemeen*. Since their boards provided administrative services such as the admission of clients free of charge, the banks could keep interest rates low (Van der Heim, 1854, p. 322, 325; Fokker, 1873). Petty entrepreneurs in Amsterdam could borrow a few hundred guilders a year for less than 5 per cent, that is to say, only a little higher than the going rate on the local market (Fokker, 1873, p. 454-455; Fokker, 1875, p. 514; Jonker, 1996, p. 96-98).

Thus the banks' policy came close to looking like today's micro credit institutions. 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 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.²¹ 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, p. 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 nineteenth-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 fully saturated their potential market.

²¹ Verslagen Armbestuur (1876, 1879).

7. THE DISCOVERY OF POOR ECONOMICS

The new loan banks emerging after 1840 signalled a change in attitudes. For a long time the link between low incomes, poverty, and poor households' vulnerability to shocks had been well understood. But it had failed to change 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, p. 47-48; Douwes, 1977, p. 161). As a result the quest for 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, p. 63-80).²² 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, p. 17-41).

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%

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 face its officers, 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, p. 147), but they also inspired a better appreciation of poor economics.

²² 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).

In his submission to an essay 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).

At the end of the day Van der Ploeg remained a moralist and overlooked the real issues (underemployment and low wages), 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, p. 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.²³

Set up in 1870, the mission of the Amsterdam charity *Liefdadigheid naar Vermogen* testified to a distinct change in the appreciation of the targeted households' situation, economic insights now 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, p. 154). The poor under its care were stimulated to seek regular wage work. The weekly visits were used to review cash flows and to give financial tips and other practical suggestions, while clients received money rather than benefits in kind (De Regt, 1984, p. 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, p. 106-107; cf. also earlier criticism on English savings banks: De Frontin, 1841). Though the Amsterdam charity became the best known practitioner of the Elberfeld approach, its example was followed by several other organizations elsewhere in the Netherlands

²³ In 1873 G.A. 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, p. 445, 447)

(Douwes, 1977, p. 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 tracking these households' cash flows in greater detail (Van Velzen, 2012, p. 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, p. 237-238, 245; cf. his criticism of Rowntree's static definition of poverty: p. 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, p. 176; De Vries, 1916, p. 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, p. 15-16; see also Slooten, 1912, p. 60; cited in De Vries, 1916, p. 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 and inform households about the availability of residential accommodation, trade unions, the civic registry, national service, and pensions (De Vries, 1916, p. 163, with reference to Muller Lulofs). In addition officers dealing with interest-free loans needed 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, p. 137).

Summing up, by the early twentieth 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, p. 15; Van Loo, 1992, p. 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.

8. CONCLUSION

We set out to do two things. We wanted to see whether the Collins *et al.* (2009) insights about the financial behaviour of poor households are applicable to the preindustrial era as well; and we wanted to explore what caused the boundary between formal and informal financial markets in the Netherlands during the nineteenth century to move. For those purposes we, like Collins *et al.* (2009), tried to unravel the financial rationale behind the various combinations of private efforts, family and neighbourhood help, financial intermediation, and government intervention so as to come 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, centering 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 real wages only began edging up during the last quarter of the nineteenth 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, that is to say, precarious middling groups, was quite a 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 modest volume

of business depended, like the savings banks, entirely on administrative services provided free, as charity. Savings banks handicapped themselves with their high minimum deposits and limited opening hours, but the postal savings bank RPS demonstrated that it was essentially a cost problem that had kept their target customers out: only by grafting the administration onto the existing one of post offices could services be opened up to small savers. Mutual funeral insurance penetrated earlier and deeper than the two other institutions, 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 nineteenth 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 nineteenth 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. We think this would also have held true for ideas of which we found no traces in the nineteenth century, such as the group lending so important to modern MFIs. Cutting the administrative cost of financial services was as important then as it is now in widening access, but, as Collins *et al.* (2009) emphasize time and again, it is no solution to the triple whammy, only higher and more regular wages are.

The Collins *et al.* (2009) 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. As long as the information and administrative costs for MFIs remains too high to provide very small loans through flexible payment schemes, mutual help is simply the easiest, cheapest, and most flexible solution for poor households' cash flow management. Only a higher and stable income is 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.

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