God and Risk: A Comparison of Early Twentieth Century Rural Banking in Two Regions of the Netherlands

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Abstract

What is the relationship between religiosity and risk? Was religion important, or was the success and failure of rural Dutch banks determined solely by the economic fundamentals of the regions in which they operated? This paper examines the origins and early development of rural Dutch cooperative microfinance banks by comparing those that operated in agricultural regions around two urban centres: The Hague and Waalwijk. Although these regions differed by agricultural specialisation, farm density and level of mechanisation, they were similar in religiosity; both contained a mixture of orthodox Calvinists, liberal Protestants and Roman Catholics. The Dutch cooperative movement of the early twentieth century was religiously motivated and so these regions enjoyed competing cooperative banks, each affiliated to another Christian denomination. Using original archival material gleaned from the modern decedents of these rural banks, this paper investigates in what ways religion mattered for their structure, conduct and relative performance.

Summary

Contemporary banking theory posits that banks have four functions that together describe their economic scope (Freixas & Rochet 2008): (1) they offer liquidity and payment services; (2) they transform assets; (3) they manage risks; and (4) they process information and monitor borrowers. The Dutch banking system of the *fin de sciècle* can also be analysed along these scope lines. There existed a continuum of financial institutions that carried out these four functions, but with differing foci, in different ways and to different types of customers. Formal incumbent organisations that served (some) rural customers included private and state-owned savings houses, credit societies and mortgage banks. Informal incumbents included notaries, suppliers of agricultural input and retailers of agricultural products. These incumbents were specialised, carrying out a single function.

The last decade of the nineteenth century saw innovative new entrants to the market for banking services that offered all four functions: *boerenleenbanken*, credit cooperatives modelled on Germany's Raiffeisen banks. Unlike other latecomers to cooperative finance, such as Ireland (Guinnane, 1994) and Belgium (Van Molle, 2002), the institutional transplant of German cooperative banks to the Dutch countryside was highly successful and took a large portion of the market away from incumbent service providers. Cooperatives permitted farmers to pool resources, spread risks and increase their bargaining power with other economic actors. Joint-ownership helped reduce principal-agent problems. The geographic concentration of cooperatives' members aided customer screening and peer monitoring. And central cooperative clearinghouses gave local cooperative banks further risk-sharing possibilities and made steps towards improving their corporate governance.

One pronounced feature of *boerenleenbanken* totally absent from attempts to establish Raiffeisen banks in other economies was the role of competing religious organisations. By the late nineteenth century, Dutch society was highly segregated along religious lines. Economic activity was not immune from this segregation, a phenomenon known in Dutch as the *verzuiling* (pillarisation). This was especially true in those areas in which stricter Christian denominations predominated, such as along the deltas of the Rhine and Meuse rivers. By the end of the first decade of the twentieth century, the Dutch countryside contained a myriad of cooperative banks, all of which were (*de facto*) affiliated to different Christian denominations. Almost all sought membership of one of three cooperative banking networks, each of which had a central cooperative clearinghouse that too was (*de facto*) affiliated to a Christian denomination. This religious split was long lasting; it persisted until the formation of the Rabobank from a merger of the central clearinghouses in 1972.

The effect of the Netherlands' religious segregation on politics, society and business has been documented in a series of PhD theses published in the early 1990s (De Rooy, 1995). The *verzuiling*'s effect on rural finance, however, has not been studied systematically beyond Sluyterman et al (1998), an anniversary business history of the cooperative banking sector, and various investigations of cooperatives operating in single regions, a good recent example of which is Brusse (2008). Comparing the origins and early development of cooperative banks beyond the level of their central cooperative clearinghouses was outside the scope of the former publication, and comparing local cooperative banks in different regions of the country was outside the scope of the latter. The *verzuiling* was not the principal focus of either study. This current paper complements these works by adding a comparative regional perspective. It constructs business histories of cooperativisation in two geographically different regions of the Netherlands in order to compare the role of religiosity in their cooperative banks' origins and early development for the period up until the agricultural crisis of the Great Depression.

The regions used for this paper's comparisons border two urban centres: The Hague and Waalwijk. The Hague is both located in the western province of Zuid-Holland, near the North Sea coast, whilst Waalwijk, the largest town in an area known as the Langstraat, is located in the south, along the Meuse river delta in the province of Noord-Brabant. Farmers in the region around The Hague specialised in horticulture and animal husbandry, whilst those in the area around Waalwijk specialised in cereal and sugar beet production (Directie van den Landbouw, 1912). A high proportion of agricultural landholdings were owner-occupied around The Hague, whilst landholdings were predominantly larger but rented around Waalwijk. Both regions were religiously mixed, the largest religious group being Roman Catholic (Centraal Bureau voor de Statistiek, 1922).

Cooperative banks were first established in these regions in the first decade of the twentieth century. This paper constructs business histories of these banks using business records found at the modern decedents of these cooperatives, in addition to material held at the archive of the descendent of their central cooperative clearinghouses, at the Dutch ministry of trade and industry held at the

Dutch national archive and material on failed banks held at the Nederlandsche Bank, the Dutch central bank. Surviving internal material includes minutes of general members meeting, management and supervision meetings, and some correspondence between the banks and their central clearinghouse, the Dutch state, the Nederlandsche Bank and their customers. Other useful materials include published circulars, annual financial reports and trade newspapers. These are combined with census data and agricultural survey data to analyse the role of religiosity in the following: (1) banks' organisation and policy; (2) their management's decision-making process; (3) the relationship between different stakeholders, including customers, members, managers, central clearinghouses and the Dutch state/central bank; (4) the nature of the relationship between cooperative banks located in close proximity; and (5) their public perception, by (potential) rural customers and others.

Religiosity affected the banks under investigation in different ways, the most direct of which was probably through the membership overlap they had with other rural organisations with explicit socioreligious aims, including denominational farmers' unions and church groups. It was often these organisations that helped to establish *boerenleenbanken* in the first place. Catholic cooperatives also enjoyed the presence of a priest or deacon in the role of spiritual advisor to the management. In addition to these religious stakeholders, banks often contained religious mores in their founding documents; some state that members must observe a 'belief in God, the family and property rights'. Meetings at some cooperatives would often start with a Christian prayer. The exact consequences of these institutional features on banks' exposure to risk are unknown, as are the nature and effect of potential differences between banks of different denominations. Certainly the Dutch central bank may have thought the effect was negative; it refused a Catholic central cooperative clearinghouse access to its *disconto* lender-of-last-resort facility, likely partly on the grounds that its explicit religiosity was clouding its judgement (Sluyterman et al, 1998).

Economic enquiry into the workings and consequences of religion has a long history and has seen a recent revival. Academic work on the subject goes back at least to Smith (1976 [1784]), who discusses the consequences of religious competition on religious fervour in the British colonies of North America. It is Max Weber, however, who is most linked to the economics of religion. In Weber (2003 [1930]) he argues that it was the peculiar norms, or "work ethic", associated with individuals following the Protestant interpretation of the Christian faith that led to industrialisation, growth and development. He argues that Puritan Calvinists' religious devotion to hard work combined with their aversion to conspicuous consumption and charitable donation led to mass investment and the genesis of Capitalism. The Weber thesis, attacked from many sides by his contemporaries, has recently been rediscovered in Ekelund et al. (2006), Becker & Woessmann (2009) and Cantoni (2009). Ekelund et al. argue that the Reformation reduced the costs of religious worship, thereby freeing up resources for investment. Becker & Woessmann provide empirical evidence for a link between Protestantism and Capitalism in Germany through favourable Protestant attitudes towards investing in human capital. But Cantoni finds no long-run empirical link between Protestantism and industrialisation in the *Länder* that belonged to the Holy Roman Empire.

This current paper adds to the "Weber revival literature" by looking at the problem from microeconomic and business organisational perspectives, something that this new literature has thus far failed to do. By comparing the same phenomenon (religiosity) in organisations in different geographies but over the same time period, this paper is able to differentiate between the effects of religiosity from other factors, including regional economic fundamentals. Did banks put religion before business sense? How different were cooperatives of different Christian denominations? Was religiosity the secret to cooperatives' long-term success? Were Protestant banks more successful at managing risk than their Catholic cousins?

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