Whose self-interest? Social elites, religious competition, and the rise of Raiffeisen banks in the Netherlands

Christopher L. Colvin, Queen’s University Belfast

Abstract
The reasons proposed in the extant literature for the emergence of boerenleenbanken (Dutch Raiffeisen cooperative banks) at the turn of the twentieth century fall into three categories: (1) to meet untapped market demand; (2) as an organizational response to economic and technical change; and (3) as an extension of socio-religious confessional politics. I use business history case studies of boerenleenbanken established in the neighbouring villages of Loosduinen and Rijswijk to weigh the relative importance of these accounts. While all three play a part in explaining the market entry of this new type of banking business, I conclude that the third reason was probably critical; boerenleenbanken should be viewed as a component of the wider movement towards the economic confessionalization of the Netherlands.

Keywords
Co-operative banking; rural credit, historical microfinance; religious business; the Netherlands.

Bio
Chris Colvin works at Queen’s University Belfast, where he is a Senior Lecturer in Economics at Queen’s Management School and a Research Associate at the university’s Centre for Economic History. He co-edited (with Matthias Blum) An Economist’s Guide to Economic History (Palgrave Macmillan, 2018), an economic history textbook. He conducts research in the fields of economic, financial and business history. He is an expert on topics including banking and health crises, patents and innovation, as well as government policymaking and pedagogical reform.
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The first bank established in the Kingdom of the Netherlands along co-operative lines was probably the Coöperative Voorschot-Vereeniging en Spaarbank in the town of Goes in the coastal province of Zeeland. Described by Goeman Borgesius (1872), its membership consisted of self-employed craftsmen who elected the bank’s management and shared in its profits. Only members could apply for loans and all members stood liable for business losses. Goes was, however, very much an outlier; no further co-operative banks were established in the Netherlands until the very end of the nineteenth century.

Among the first credit co-operatives established especially for agriculturalists was that of the village of Lonneker, near Enschede and the German border in the eastern province of Overijssel, in 1896. Its opening marked the start of a new wave of rural co-operative financial institutions that sprang up all over the country in the first decades of the twentieth century. This bank, and others like it, represent the direct antecedents of Rabobank, today one of the Netherlands’ three systemically important banks.

As was the case in Belgium, Denmark, Italy and Ireland, the type of co-operative institution introduced to the Dutch countryside was inspired by rural German co-operative banks. This ‘Raiffeisen model’ was first initiated some thirty years earlier in Rhenish Prussia by the municipal politician and social reformer Friedrich Wilhelm Raiffeisen. Co-operative banks were part of a wider agricultural co-
operative movement in the Netherlands, which included dairying, vegetable auctioning, sugar beet refining, fruit processing and flower auctioning.¹

*Boerenleenbanken* (farmers’ lending banks), the name given to this genus of co-operative bank, were one of the last – and arguably in terms of longevity the most successful – addition to the Dutch co-operative pack.

There are three explanations put forward in the literature for the emergence of *boerenleenbanken* and the rapid expansion of rural financial markets in the early twentieth century: (1) to meet untapped market demand for financial services from the unbanked and underbanked (e.g., Sluyterman et al, 1998); (2) as an organizational response to agricultural depression and technological change (e.g., Bieleman, 2008); and (3) as a means of extending and consolidating the influence of confessional sociopolitical organizations across Dutch society (e.g., Jonker, 1988a,b). Most extant works tend to emphasize just one category and thus a comparison between these three explanations is difficult.² Moreover, these works tend to shy away from exploring the theoretical implications of these arguments for the overall functioning of the Netherlands’ rural financial institutions.

This essay is my attempt to test these three hypotheses in a single analysis. It should be read alongside a quantitative economic history companion article I co-

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¹ The location and date of the first rural co-operatives in the Netherlands were: Aardenburg, Friesland, 1886 (dairying); Broek op Langedijk, Noord-Holland, 1887 (vegetable auctioning); Sas van Gent, Zeeland, 1899 (sugar beet refining); Tiel, Gelderland, 1904 (fruit processing); and Aalsmeer, Noord-Holland, 1912 (flower auctioning). See: Bieleman (2008).

² Aside from my own work, the exceptions to consider at least some set of alternative explanations are: Brusse (2009), and Rommes (2014).
authored with Stuart Henderson and John D. Turner (Colvin et al., 2020), and an earlier comparative economic history article I co-authored with Eoin McLaughlin (Colvin and McLaughlin, 2014). This present essay adopts a social science history framework by which the three hypotheses on the origins of co-operatives can be explored empirically with qualitative evidence gleaned from the archives of case study banks. My essay, then, is an attempt to test hypotheses with case studies, an approach to case study writing set out in Abe de Jong and Hugo van Driel’s recent contribution to An Economist’s Guide to Economic History (De Jong and van Driel, 2018). Their idea is that a small set of carefully selected cases can be used to test hypotheses explicitly. These cases must be chosen precisely because they can provide sufficient evidence with which to refute a hypothesis; to achieve this the researcher must select cases where the necessary conditions for rejection are present.

My empirical testing involves a comparison of co-operative banks established in the near-neighbouring villages of Loosduinen and Rijswijk. These banks were selected precisely because they enable the direct comparison of all three explanations: (1) they were located in close proximity to the city of The Hague, whose banks may have provided inadequate substitute sources of financial services for agriculture; (2) their geographic market was dominated by new capital-intensive horticultural farming, which might have called for this new type of business organization; and (3) the inhabitants of these villages had varying religious affiliations, which may have given rise to economic and social divisions.

3 This article explores the same three hypotheses for the origins of boerenleenbanken, but instead using quantitative financial accounting data and econometric methods.
I find the third explanation to be the most salient; the critical factor in the emergence of rural credit co-operatives in the Netherlands was the simultaneous emergence of confessionalism across Dutch society. But I find that confessionalism was not a sufficient condition; it is highly probable that the other two explanations combine to some degree to explain the origins and early success of these institutions. The implication of my finding is that banking historians should abandon their traditional mono-causal ‘creation myths’ and think instead about using multifaceted explanations. Methodologically, the contribution here is to use qualitative information from banking archives in a social scientific framework.

One of the popular slogans of the Dutch co-operative movement was *welbegrepen eigenbelang* (enlightened self-interest). Indeed, what was probably the country’s first co-operative organization – established in 1877 as an agricultural purchasing society in Aardenburg, near the Belgian border in Zeeland – used that slogan as part of its statutory name (Smits, 2005). The philosophy behind the slogan is that co-operative members could better achieve their own interests by pooling resources and conducting economic activities collectively. The idea is set against *geïsoleerd eigenbelang* (individualism or egoism), where the economic needs of others are not considered. My analysis suggests that while cooperatives were framed and sold to society as being *welbegrepen*, they were really established to further the *geïsoleerde* agendas of the country’s social and religious elites.

My essay continues as follows. Section I briefly introduces the macro-structure of the Dutch co-operative banking sector in the early twentieth century. Section II is a narrative history of the origins and early history of the case study banks gleaned from original archival research. Sections III, IV and V review the three arguments listed
above for the sector’s origins – including their theoretical underpinning – in the light of the case study descriptions. Finally, section VI offers a conclusion.

In principle, the type of co-operative financial institution introduced to the Dutch countryside from the late 1890s was inspired by the German Raiffeisen model first established in Rhenish Prussia. In practice, however, there were some differences between these co-operative cousins. Most importantly, the Dutch implementation was influenced by: (1) the choice of organizational form available to co-operators; and (2) the socio-religious fragmentation of Dutch society. Each is introduced below.

(1) Two different Acts of Parliament could be used by Dutch farmers to set up their co-operatives. The main differences between these two acts were: (a) the cost of establishing a co-operative; and (b) the implications for corporate governance. The first of these acts was the wet van 1855 (law of 1855); the second was the wet van 1876 (law of 1876). The former was a general law governing associations of any type and was widely adopted by early co-operatives in agriculture and other sectors, especially in the south of the country. The latter, which was specifically designed to govern organizations under co-operative ownership, was costlier to implement and more stringent in terms of corporate reporting and transparency. It was a more popular choice among rural co-operators in the north of the country but was also used

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5 ‘Wet van den 22sten April 1855, tot regeling en beperking der uitoefening van het regt van vereeniging en vergadering’ (Staatsblad 1855, No. 32).
6 ‘Wet van den 17den November 1876, tot regeling der coöperatieve vereenigingen’ (Staatsblad 1876, No. 227).
elsewhere. The liability of the members was arranged independently of the organizational form for these institutions and was chosen to be unlimited in all cases.

(2) The Netherlands had a very mixed religious make-up. The south of the country was largely homogeneously Catholic while the north was split, but predominantly Protestant.\(^7\) The effect of this religious heterogeneity on Dutch society was profound: followers of each religion strongly identified themselves as part of a group, and most social and economic interactions were carried out within this group. Political parties, trade unions and newspapers to both the left and right of the spectrum were split along religious lines. In parts of the countryside that were religiously split, members of each group would have their own separate social and economic institutions. This confessionalization\(^8\) process – dividing enterprise and society along religious lines and known in Dutch as the verzuiling (pillarization) – also affected Raiffeisen co-operatives: villages where both Catholics and Protestants lived side-by-side would host two banks, one for each denomination.

Dutch Raiffeisen co-operatives soon found themselves organized into three different networks, the central banks of which functioned as combined clearing-houses and audit authorities. The differences between the central banks reflected the country’s legal and religious ‘split’: (1) the Coöperatieve Centrale Boerenleenbank (CCB-Eindhoven), with its headquarters in Eindhoven and operating nationally, was Catholic in its membership and enabled its members to adopt either wet; (2) the

\(^7\) The distribution of income and socio-economic status among these religious groups was roughly comparable; it was not true, for instance, that Protestants belonged mainly to the middle classes and Catholics to the working classes. See Lijphart (1975, pp. 89-90).

\(^8\) Adherence to a formulated theological system
Coöperatieve Christelijke Centrale Boerenleenbank (CCCB-Alkmaar), with its headquarters in Alkmaar and operating in the west of the country, was also Catholic and prescribed the wet van 1876 for its members; and (3) the Coöperatieve Centrale Raiffeissen-Bank (CCRB-Utrecht), with its headquarters in Utrecht and operating nationally, was officially neutral, but de facto Protestant and prescribed the wet van 1876. While CCB-Eindhoven and CCRB-Utrecht were long-lived institutions that eventually merged in the 1972 to form Rabobank, CCCB-Alkmaar disappeared during a financial crisis in the 1920s (Colvin, 2017).

In 1900, the boerenleenbanken held just 0.1 percent of all bank-held assets in the Netherlands; by 1923, they held 5.6 percent (van Zanden, 1997), some 3,600 million guilders, or 24,260 million euros in today’s money. The 1,200-odd banks operating throughout the country by 1923 were unit-independent, in that they operated as autonomous banks with limited day-to-day involvement from their central banks, and had no cross-liability for other banks in their networks. However, the central banks had some influence over their members: they set the rules of the game with respect to the type of business which local banks could and could not engage in, they were the sole source of outside funding, and they could force through changes in the process of conducting an audit. Table 1 outlines the method of doing business at local co-operatives compared to commercial banks in nine categories, according to an internal report compiled by the CCB-Eindhoven central bank. In summary, co-operatives were meant to be more circumspect than commercial banks, offering most of their services to members only, all of whom signed up for unlimited liability, regardless of their organizational form.
This section describes the early history of boerenleenbanken as they operated in the two selected case study villages, Loosduinen and Rijswijk, focusing in particular on their foundation, early institutional development, day-to-day management and the shape and size of loan contracts. Before proceeding with this narrative account, I first briefly introduce the economic geography of the case study markets, in order to establish that these villages were sufficiently similar in agricultural specialization and socio-religious composition to make a comparison valid; good case studies selection necessitates a comparison being made between ‘differing systems that are similar in many aspects but that differ with respect to the factors whose influence one wishes to study’ (Diamond and Robinson, 2010, p. 2).

The area around the metropolitan centre of The Hague (Den Haag), the Netherlands’ seat of government and residence of its Royal Family (but not the country’s capital), remained predominantly rural until after the Second World War. The villages of Loosduinen, Wateringen, Rijswijk, Voorburg, Voorschoten and Wassenaar are today merely suburbs of the city, but in the period under investigation were separated by large tracts of agricultural land. The two villages of special interest, for which significant records concerning rural co-operative banks have been preserved, are Loosduinen and Rijswijk. Both were religiously mixed: Loosduinen (population 8,500 in 1920) was 35 percent ‘liberal’ Protestant (Hervormd), 15 percent orthodox Calvinist (Gereformeerderd) and 35 percent Roman Catholic, while Rijswijk (population
9,000 in 1920) was 37 percent liberal Protestant, 9 percent orthodox Calvinist and 36 percent Catholic.⁹

A contemporary agricultural survey classified these two villages, located to the south-west and south of The Hague respectively, as being part of two separate but similar agricultural regions: (1) Westland for Loosduinen; and (2) Delf- en Schieland (named for two waterways) for Rijswijk (Directie van den Landbouw, 1923). A short description of each region follows.

(1) By far the most important type of agriculture carried out in the Westland region was horticultural farming (fruit and vegetable production), which took up about one-third of all available land. Individual landholdings for horticulture were small; approximately 25 percent of all land in this region was worked by agricultural businesses of one to five hectares. According to the survey, between 20 and 40 thousand guilders was required to work just one hectare of horticultural land.¹⁰ Greenhouses covered much of the area, and cucumbers and grapes were the main crops. Other important produce included cabbages, carrots, new potatoes and strawberries. Dairy herds were the major users of non-horticultural land; their milk was either sold fresh to customers in nearby The Hague or used in butter production, the waste products were used by horticulturists as fertiliser. Cereal production was unimportant. Less than 30 percent of land was owner-occupied.

(2) At the time of the survey, horticulture was gaining increasing importance in the Delf- and Schieland area, which was a mixture of reclaimed polders and clay river

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⁹ Data from the Volksstelling (census) conducted in the Netherlands in December 1920, published by the Centraal Bureau voor de Statistiek in The Hague in 1924, available at http://www.volkstellingen.nl/.

¹⁰ This is approximately 100 to 200 thousand euros in today’s money.
soil. Cucumber production was especially important. Milk production was the main business in non-horticultural areas, and cereal production was relatively unimportant. The region was characterised by landholdings of small- and medium-sized businesses. Approximately 35 percent of land was owner-occupied.

A boerenleenbank was founded in Loosduinen at a meeting held on 22 February 1909 in a café in the centre of the village. Most of those involved were members of the Loosduinen warmoezenierspatroonsvereeniging (association of horticultural business owners). They opted for the CCCB-Alkmaar network, despite the reservations of the meeting’s chairman that this network was smaller than the other two and that its overt Christianity – or, more specifically, Catholicism – might make members of other socio-religious groups feel isolated. Participants also decided that their bank should take the wet van 1876 corporate form and that its use should be restricted to members of the warmoezenierspatroonsvereeniging. From records of a meeting held the following April, it is apparent that a significant number of farmers who initially expressed an interest in joining the project did not do so, either because they did not qualify for membership of the association, or because they refused to join it because of the restrictions.

Only members of Raiffeisen co-operatives were liable for their bank’s losses. Customers did not have to join and become members unless they sought to borrow

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11 For archival material on this bank’s origins, see Notulen Algemene Vergaderingen Loosduinen I (Archief Rabobank Haaglanden ARH). Anna Cantaluppi: Is it the same institution quoted in the footnotes n. 21 and 26 and in the source of Table 1, as “Archief Rabobank Den Haag”, “Historische Archief Rabobank Nederland”, “RaboNed”? If so, it would be better to harmonise, with the name of the Archives and the town in English. Please notice that in English the term is “Archives”, plural.

12 See Bestuursnotulen Loosduinen I (ARH). All inferences on this boerenleenbank in this section originate from a close reading of this archival source.
money. Records concerning the first two decades of the Loosduinen bank’s existence suggest that customers became members only in order to become eligible to borrow money, and not before. Consequently, the bank had many depositors on its books who were not liable in the case of failure.

In addition to being liable for the entire co-operative organization through membership, most loan agreements also enjoyed the security offered by either one or two named personal guarantors. Named guarantors were much preferred to mortgage contracts, because the value of property was argued to be too difficult for the bank to estimate accurately. Most loans were small and did not require the directors’ approval – they were instead arranged directly by the cashier. Larger loan applications were considered by the directors after applicants had provided sufficient sureties. A typical requirement of a loan was that borrowing members could not deposit anything in their savings account until it was paid off. For many applicants, the proof of past business activities was all that was needed to secure a loan; loans to the tune of one quarter of a horticulturist’s recorded takings from the sale of his goods at the previous year’s groente veilingen (vegetable auctions) appear to have been granted frequently, without needing any additional sureties.

Soon after the bank was established, the chairman of the local chapter of the Catholic volksbond (workmen’s league) – who was co-opted to attend management meetings – mentioned that a group of Loosduinen Catholics was privately planning to set up a separate co-operative, exclusively for Catholics. One of the bank’s directors worried that Catholics would misuse their religion to justify a lax credit (risk) policy for

\[\text{\textsuperscript{13}} \text{Instances were not infrequent where mortgages were refused and instead rearranged as loans with personal guarantees from family members residing in the properties that would have been mortgaged.}\]
their bank. In June 1909, a local Catholic priest – who sat in on management meetings in his capacity as the bank’s *geestelijke adviseur* (spiritual advisor) – informed directors that he had persuaded this ‘splinter group’ that the creation of another bank was unnecessary, since the current construction was ‘sufficiently Christian’ in its values. To further appease its Catholic constituency, the bank apparently followed an advertising policy of only using the region’s Catholic press to attract new customers.

The ‘religion question’ simmered in the background throughout the bank’s early years, eventually coming to a head during the First World War; in October 1916, a letter from the CCCB-Alkmaar central bank informed directors that the Loosduinen chapter of the newly-established Catholic *land- en tuinbouwbond* (horticultural farmers’ association) had applied to set up its own bank, with CCCB-Alkmaar also acting as its clearinghouse. The new bank had been established by December and was named Loosduinen II for the purposes of CCCB-Alkmaar’s bookkeeping. The creation of this new bank coincided with the mass defection of members of the *warmoezenierspatroonsvereeniging* to the *land- en tuinbouwbond* and the creation of separate Catholic-only *groente veiling* in the town (Vijverberg, 2009).

The position of the CCCB-Alkmaar central bank became more fragile as it became over-leveraged. Then, following a 1919 circular which urged local banks to wind down their loans business because the central bank could no longer afford to extend credit to banks in need, the original Loosduinen (I) co-operative shed the function of *geestelijke adviseur* and left the CCCB-Alkmaar group in the financial year 1921–1922, under much protest from this organization. After switching to this different central bank network, the *boerenleenbank* became much less leveraged, moving from levels above 100 percent to levels under 50 percent by the mid-1920s – where
leverage is defined as the percentage of all deposits taken that is loaned out to members.\textsuperscript{14} The opening of an explicitly Catholic rival probably reduced the need for the bank’s leaders to appease its Catholic customers, permitting them to join the financially more secure neutral (\textit{de facto} Protestant) CCRB-Utrecht group instead. Loosduinen II, meanwhile, remained a member of the CCCB-Alkmaar network until its central bank failed in 1924 due to a combination of lack of scale and serious mismanagement (Borst, 2004). Loosduinen II then joined the Catholic-leaning CCB-Eindhoven, but it had to shoulder part of the costs of winding up CCCB-Alkmaar, costs which Loosduinen’s original bank was largely able to avoid.

Finally, to the Rijswijk case; the history of the \textit{boerenleenbanken} in this nearby village shows how a co-operative for Protestants emerged as a direct reaction to the setting up of one for Catholics.\textsuperscript{15} Two banks were established in Rijswijk in 1910. The first was set up in September and served the Catholic community and belonged to the Catholic-leaning CCB-Eindhoven group. The second was set up only two months later in November, served the Protestant community and belonged to the CCRB-Utrecht group.

The Catholic agricultural bank – the Boerenleenbank te Rijswijk – derived its legal personality from the \textit{wet van 1855} at the primary instigation of members of the council of Rijswijk’s Catholic Sunday school, the St Bonifatius Patronaat, and members of the local Catholic farming union, the \textit{land- en tuinbouwbond}. These farmers also made up the bank’s management and oversight boards. The bank’s director was a

\textsuperscript{14} Financial data taken from analysis of Colvin (2017).

\textsuperscript{15} The main sources of this brief discussion of the Rijswijk banks are the work of a local historian (Janse, 1990), in addition to various annual inspection reports of the two banks conducted by their central banks (\textit{Inspectierapporten, Boerenleenbanken te Rijswijk ZH, Historische Archief Rabobank Nederland, EI472 and UI559}).
church chaplain. The bank opened on Thursday evenings between 6 and 8 in the afternoon in a rented room in the school, which initially cost the bank 30 guilders per year. It charged new members 10 cents to open a savings account. By 1913 the bank had 100 fully-liable members. Loan agreements mostly enjoyed personal guarantors, who according to the inspection reports were usually successfully pursued by curators when loans went sour. Loans sometimes involved financial securities (usually corporate bonds) as loan sureties. This bank functioned as a credit house; it was leveraged at a level above 100 percent throughout the period under analysis, relying on its central bank for outside finance.

It is likely that the Protestant agricultural bank – the Coöperatieve Boerenleenbank Rijswijk – was established in response to the Catholic one. It was instigated by the Rijswijk branch of the Hollandsche Maatschappij van Landbouw, a landbouwmaatschappij (farming association) that was officially neutral, but which predominantly catered for Protestant farmers since the Catholics had by the 1910s left it to form their own institutions. Again, the management of the bank overlapped with that of this maatschappij, although members of the bank were not required to join the maatschappij.

This bank derived its legal personality from the wet van 1876. The Protestant co-operative was smaller than its Catholic neighbour in terms of membership. It did not extend large quantities of credit to its members, functioning predominantly as a savings house – apart from 1923, a year halfway through a severe financial crisis, it was usually leveraged at a level of only approximately 20 percent. Inspection reports reveal that the bank did not grant any mortgages, nor did it grant credit to members purely
on reputation without guarantors. All loans were explicitly to be used for (agricultural) business finance and were monitored annually to ensure that this was indeed the case.

There was an interesting early confrontation between the Protestant co-operatives in Rijswijk and neighbouring Voorburg, which was established slightly earlier. The former requested the CCRB-Utrecht central bank to prohibit individuals from joining both co-operative banks. The central bank conceded; the cost of enacting such a ban (the sudden transfer of funds from Voorburg to Rijswijk) was deemed lower than the cost associated with doing nothing (the possibility that the bank would leave the CCRB-Utrecht network altogether). The Catholic co-operative appears to have had similar confrontations with the bank in Wateringen, to the west of Rijswijk. In the late 1920s, at the end of the period under consideration, Rijswijk’s Protestant bank was forced to merge for scale reasons with its Voorburg neighbour.

III

The traditional argument advanced in the literature is that boerenleenbanken were created in response to an unfulfilled demand for credit from the unbanked and underbanked. This view was put forward in 2008 by agricultural historian Jan Bieleman and chimes with the argument made in anniversary business histories of the rural co-operative movement published by the banks themselves.16

This view probably stems from the government agricultural inquiries conducted in the late nineteenth century, but, most importantly, with the propaganda emanating from co-operative banks themselves. Van der Marck’s (1924) laudatory pamphlet is a good example of the latter. This pamphlet was written by the geestelijke adviseur to

16 See, for example, Campen et al. (1948); Weststrate (1948); and Sluyterman et al. (1998).
CCB-Eindhoven, the central bank of the main Catholic boerenleenbank network, and appears to form part of a ‘media strategy’ for the external justification of this network’s existence. It attributes any growth in the rural economy to the co-operative movement itself and states that boerenleenbanken ‘have set farmers free’ from their previous financiers – caricatured as Shylocks who charged usurious interest rates – thus, permitting farmers to ‘help themselves by helping each other’.

The pamphlet’s main argument is that farmers no longer had problems finding external financing after the market entry of co-operative banks. This could be interpreted as either ‘credit rationing’ or ‘red-lining’ behaviour on the part of incumbent financial intermediaries.\textsuperscript{17} Credit rationing occurs when borrowers’ demands for credit are turned down, even if these borrowers are willing and able to pay both the interest rate and meet the collateral requirements of prevailing loan contracts. Red-lining occurs when complete categories of borrowers are totally excluded from the credit market because they are unwilling and/or unable to pay the interest rate and/or meet the collateral requirement of prevailing loan contracts.\textsuperscript{18}

The institutional innovation that most of the modern literature on microfinance institutions argues is necessary for co-operatives to reduce the price of loan contracts, is joint liability or group lending.\textsuperscript{19} This literature posits that co-operative finance enables small-scale business to borrow with little or no collateral by making co-

\textsuperscript{17} For a discussion of this point in the context of the Dutch financial crisis of the 1920s, the first great test of the organizational architecture of boerenleenbanken, see: Colvin (2017).

\textsuperscript{18} The term red-lining stems from the historical practice in the US for mortgage providers to systematic exclude whole categories of borrower residing in areas, also on grounds of race.

\textsuperscript{19} See Guinnane (2001) for a discussion of this point in the context of nineteenth-century German Raiffeisen banks, and: Armendáriz de Aghion and Morduch (2005), for a wider review of contemporary microfinance institutions.
operators liable for one another’s financial losses. The argument is summarized as follows. Adverse selection, a problem where risky customers are most likely to select themselves into the bank, because the bank cannot discriminate between them, is reduced as group members are screened. They often have to fulfil certain requirements before they can join, such as a minimum deposit, or, as in the present context, the belief in a particular version of Christianity. Providing the group is small and geographically concentrated, members will be able to monitor one another’s effort and can therefore reduce free-riding and moral hazard, a problem where customers take undue risks because the extra costs are not borne by them alone. As co-operators are all in similar lines of business, they should easily be able to verify one another’s business outcomes. As members engage in long-term repeated interaction, and as it is difficult and costly to renounce membership, a co-operative outcome which benefits all members at least a little is likely to be sustainable, and from which it is not in the interest of any one member to deviate.

Micro-business histories of boerenleenbanken in the majority-Catholic south of the Netherlands by Jonker (1988a,b) and Brusse (2008) provide evidence that the market for agricultural credit was already satiated by the time the co-operatives entered it, and that additional credit-granting institutions were not in demand. This argument implies that no new market for banking services was created with the arrival of co-operatives, but that additional competitors were added to an already crowded market; the sector’s origins could not have been demand-led. Although the language of modern banking economics is not used in either work, the Jonker (1988a, b) and Brusse (2008) studies imply that incumbents were engaging in credit rationing. Ample
credit was available and the only way to attract more custom would have been to offer services to risk-loving individuals willing to take on higher interest rates.

Rommes (2014) comes to similar conclusions in his book on the origins of rural co-operatives in the Netherlands. He argues that the reason why Raiffeisen banks reached the Netherlands significantly later than in some neighbouring countries was that the credit situation in much of the Dutch countryside was not as dire; good substitute sources of funds were available. He tracks various failed initiatives to establish co-operatives in the nineteenth century, and analyses survey data from the 1880s which reveal mixed feelings about the demand for new rural banks. He finds *kassiers* – small private cashier firms – to have been the principal incumbent in the market for rural credit. These were especially active in the north of the country, where *boerenleenbanken* arrived on the scene much later.

What does the case study evidence presented in this essay say about the strength of the market demand argument? As discussed, these banks operated in two markets, savings and loans. The history of the case study banks suggests that they tended to specialize in one or the other. The original bank in Loosduinen was on the whole highly leveraged in the early years of its existence, meaning that all deposits were lent out to members and that the bank had to borrow money from external sources (its central bank) to satisfy the demand for loans. This situation changed when the second Loosduinen bank was established; Loosduinen I disaffiliated from CCCB-Alkmaar to join CCRB-Utrecht, deleveraged, and became a savings house, while the new Loosduinen II leveraged up.

The CCB-Eindhoven-affiliated Rijswijk bank functioned as a credit house and relied on loans from the clearing house for its source of outside finance. Meanwhile,
the CCRB-Utrecht-affiliated Rijswijk bank acted as a savings house. Although local interest rates on loans are not available, the rates paid by local banks to their central bank on external borrowing suggest that the market focus of these banks was a function of the interest rates set by their central bank; borrowing money from CCB-Eindhoven was cheaper (see Figure 1), and so this bank could charge its customers less. Moreover, in the 1920s, saving at CCRB-Utrecht-affiliated banks yielded slightly higher returns, explains Loosduinen I’s switch in focus. The evidence therefore suggests that banks were located in areas with multiple boerenleenbanken could specialize in the market in which they had a competitive advantage.

The cases highlight differences in the ways in which the Loosduinen and Rijswijk boerenleenbanken dealt with loan requests; the banks studied used different ‘lending technologies’ (types of loan contract) to otherwise very similar customers. The CCRB-Utrecht-affiliated Rijswijk bank had much stricter requirements on collateral than the CCCB-Alkmaar-affiliated Loosduinen one, requiring named sureties and not permitting loans based on past business performance. All banks appear to have granted loans with named guarantors, on top of the unlimited liability these banks already enjoyed from their entire membership base. Perhaps these guarantors acted as insider (or peer) monitors, providing the necessary incentives for the loan-holder to use his loan conservatively and repay it on time. It is here that these banks may have held an advantage over competitors who did not specialize in agricultural finance: lower overheads, free management and informal loan monitoring meant fewer fixed and variable costs. It is interesting to note that customers did not become liable until they absolutely had to, in order to secure a loan, suggesting that these farmers actively
sought finance from co-operatives rather than going to, or after having depleted, alternative sources.

And so, it must be concluded here that incumbents in some parts of the Netherlands were engaging in red-lining rather than credit rationing behaviour. Co-operative Raiffeisen banks helped to end this practice by deepening parts of the country’s rural financial markets, extending them to customers who could not afford existing loan contracts, or at least could not borrow as much as they wanted at prevailing prices. They did so by becoming very active and successful in the market for rural savings. Although the financial rewards in this new, extended market were lower than in existing ones, so were the costs of doing business here for co-operatively-owned banks as compared to other financial institutions. The way that they were able to achieve the lower cost base required to deepen this market is addressed in the next section.

IV

In this section, I assess whether it was the organizational form of co-operative banks that permitted farmers to compete away a share of the existing financial market from incumbents, and/or deepen the market to capture customers previously excluded from it. The argument explored is that co-operation in rural finance was an organizational innovation which placed the incentives of the owners and users of capital in better alignment, permitting an improved functioning of the savings and loans market and resulting in the relative demise of substitute incumbent institutions. I investigate whether the timing of the banks’ proliferation across the Netherlands could have been a response to the (perceived) late industrialization of Dutch agriculture and to the deflationary *grote landbouwcrisis* (great agricultural crisis) of the late
nineteenth century. Finally, I apply these arguments to the case study evidence introduced in Section II.

A co-operative is an organization which is owned and run by the same set of economic actors with whom it conducts its business. While the gains from Smithian specialization (increasing productivity, technological advance) and trade between conventionally owned businesses are shared between buyers and sellers, at co-operatives, the buyers and sellers are the same actors, and so all welfare gains remain with the co-operators. As a result of this different structure, they have very different business objectives; co-operatives are not profit maximizing firms in the traditional sense. Indeed, they are arguably not even independent business ventures, but instead simply extensions of each individual co-operator’s private interests. Where a ‘conventional company’ seeks to maximize returns for its owners and managers, a co-operative’s owners and managers may instead maximise their own returns by minimizing those of the co-operative organization that they co-use, co-own and co-manage.20

*Boerenleenbanken* may have been able to attract savers in rural parts of the Netherlands and displace incumbents precisely because of their co-operative ownership; capturing all the gains from trade meant that the interest rates offered on savings could be consistently above those offered by the *Rijkspostspaarbank*, an institution which, unlike the Raiffeisen co-operatives, enjoyed a full state guarantee. Co-operation in Dutch rural finance occurred simultaneously with co-operation in

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20 This is in line with the model of co-operative behaviour proposed for the Italian case in Galassi (2001). More generally it falls in the ‘cooperatives as an extension of the farm’ approach to co-operative theory discussed in Cook et al. (2004). It is also the model I used in Colvin (2017).
other types of rural business. Co-operative banks could be viewed as an extension of these other co-operatives, an attempt to further internalize any gains from trade. By self-financing agricultural improvement, farmers were creating vertically integrated business organizations which take in all stages in the production process, from the farm all the way to the dinner table. Not only does this result in the elimination of margins through the supply chain and costs associated with information asymmetries, but it arguably also reduces incentive problems as the owners and users of capital were now the same economic actors.21

The business economist Sytse Douma uses transaction cost economics to explain why co-operative businesses have proved more successful in some markets than others (Douma, 2001). He posits that different forms of business organization are appropriate in specific circumstances. Using the case of Dutch dairy farming in the late nineteenth century, argues that co-operative dairies were more successful in markets where milk was coagulated into cheese than where milk was sold to customers directly. The idea behind Douma’s evolutionary argument is that organizational forms compete with one another, and that, in the long run, one form of organization is triumphant. Perhaps the rapid rise of boerenleenbanken can be seen in this context; their organizational form allowed them to displace incumbents, to varying degrees of success in different parts of the country, in both the markets for loans (versus the kassiers) and savings (versus the Rijkspostspaarbank). Their organizational form was perhaps most appropriate where the costs of doing business were too high for other types of bank to turn a profit.

21 Rommes (2014) finds many cases of overlapping membership and management of different types of rural cooperatives, further evidence of this integration.
The question then remains, what brought about this sudden organizational change; what was so different at the turn of the twentieth century to make co-operatives suddenly so widespread? One possibility is the *grote landbouwcrisis*, an external shock to Dutch agriculture which Bieleman (2008) dates as running from 1878 to 1895. This crisis manifested itself as a sustained fall in the prices of, and demand for, agricultural output across most sectors. The tillage of cereals was particularly affected, with prices falling by up to 50 percent. Although this crisis was global in nature (O’Rourke, 1997), two factors caused Dutch agriculture to suffer particularly badly: (1) increased competition from abroad in markets where it had formerly been the market leader, especially with the United States for cereals and with Denmark for dairying; and (2) technological changes which made many agricultural products obsolete, such as madder, used for dyeing clothes, and rapeseed, used as fuel (Knibbe, 1993).

Traditional accounts of Dutch agriculture argue that it lagged behind its competitors and only industrialized after, and because of, the agricultural crisis (Brugmans, 1961). Van Zanden (1985), Smits et al. (1999), and Bieleman (2008) in particular, however, argue that the mechanization of Dutch agriculture started long before the crisis, and that the crisis actually slowed this process down. Bieleman lists a long series of innovations which came on stream before and during the crisis period, such as the US-designed Eagle plough, which by 1880 had replaced the entire stock of ploughs across the country. But the significant time lag between agricultural industrialization and the advent of agricultural co-operative organizations in general, and the formation of co-operative banks for agriculture in particular, suggests that the sector’s origins lie elsewhere. While the advantages of co-operative ownership discussed above stand, whether or not they are at the root of the origins of co-
operative banks, it may be more difficult to argue that the nineteenth-century agricultural crisis was a sufficient condition for co-operation.

Knibbe (1993) advances a different argument for the advent of agricultural co-operation: a response to the weakening of farmers’ market power that started from the 1880s. Farmers experienced problems with respect to their prices and the quality of their yield, even when agricultural markets had fully recovered. Knibbe argues that they were suffering from the increase in concentration and cartelization of the suppliers of their inputs and the purchasers of their output – in the sugar, potato starch and straw markets in particular, and possibly also in the dairy market. Aside from this, they suffered pressure from the increased cost of labour as a consequence of rural-urban migration. Co-operation provided a solution, a form of cartelization that improved the market power of agriculturalists versus the upstream (suppliers) and downstream (consumers) parts of the market.

Knibbe argues that co-operation significantly improved the position of farmers, contrasting the situation in 1890, when purchasers had the upper hand, and 1910, when farmers themselves could dictate prices. What helped was increasing demand for agricultural output, providing room for expansion. Knibbe’s argument can be easily extended to include co-operative finance, which, as discussed, was tightly interwoven with the rest of the agricultural co-operative movement through interlocking membership and management. The creation of new co-operatively owned financial institutions may not have been as ‘needed’ as much as new co-operatively-owned dairies, for example. But the market entry of financial institutions could be seen as a path-dependent extension of these other agricultural co-operatives, where the origins
of the dairies rather than the banks was the result of the Douma-style evolutionary process of organizational competition discussed above.

What does the case study evidence presented in this essay say about the strength of the organizational response argument? There is little to suggest that the timing of these banks’ foundation was the consequence of some external economic or technological shock; the new capital-intensive farming of the Westland region was already established by the time of these banks’ inception. All the co-operatives studied shared significant managerial and membership overlap with the various farming associations present there, suggesting that the founders of these banks set them up explicitly to capture any profits for themselves. It is difficult to judge whether the co-operative business form was more appropriate than any other in the financing of horticulture, but all boerenleenbanken survived the period under analysis, while other types of bank suffered severely in a deflationary crisis which hit the banking sector in the early 1920s (van Zanden, 1997; Colvin, 2017). In sum, although their unique organizational form may not provide a sufficient condition for their initial emergence, it may be considered a necessary condition for their early success.

V

The third argument for the origins of boerenleenbanken concerns well-documented growing role of confessionalism around the time of the movement’s inception.\(^\text{22}\) By the late nineteenth century, most Dutch citizens identified themselves strongly with a particular religious denomination, primarily Roman Catholicism, and the liberal

\(^{22}\) This is also the main focus of Colvin (2017), but then in the context of the Dutch financial crisis of the early 1920s.
hervormde (Dutch Reformed) and orthodox gereformeerde (literally ‘re-reformed’) forms of Calvinism. Dutch enterprise and society became highly segregated along religious lines, with the different Christian denominations developing sophisticated parallel social, economic and political institutions. This phenomenon, known as the verzulining (pillarization), reached its zenith in the inter-war period. Its origins have been analyzed, among others, by Kruijt (1974), Lijphart (1975), Stuurman (1983), De Rooy (1995) and Luykx (1996).

The argument put forward or implied in the work of Jonker (1988a,b), van Zanden and van Riel (2000) and in the work of Rommes (2014), is that sociopolitical interest groups – the Roman Catholic clergy above all – were crucial in the creation of the first co-operative banks and that these groups viewed co-operatives as a way of consolidating or extending their political influence. This is much in line with the ideas of Stuurman and Luykx in their wider analysis of the verzulining, both of whom argue that the phenomenon was Catholic-led. But while the former sees it as part of a wider political struggle for minority rights, the latter argues that the verzulining was a form of social control by Catholic elites over the working classes, rather than a reaction to discrimination.

The verzulining affected boerenleenbanken through institutionalized confessional politics, described below. All eleven provinces of the Netherlands gained provincial landbouwmaatschappijen, or agricultural companies, between 1837 and 1855. These organizations aimed to stimulate the improvement of agricultural technology by organizing trade fairs and subsidising agricultural consultants. Partly on the initiative of the Hollandish landbouwmaatschappijen, a national Nederlandsch

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23 My narrative relies on Smits (1996).
Landbouw-Comité (NLC) was established in 1884 to deal with such agricultural issues as disease, which affected all regions of the country. This new institution was not universally loved, however. Catholic groups argued that: (1) agricultural fairs and other efforts by the local landbouwmaatschappijen were not easing the plight of all farmers; and (2) it was wrong that social questions were of less importance to the new organization than economic ones. Against this backdrop there were calls for the creation of business co-operatives from the Catholic priesthood in response to Rerum Novarum, a Papal Encyclical in support of anti-socialist confessional trade unionism (Pecci, 1891).

A new organization for Dutch agriculturalists was established in 1895, the Nederlandsche Boerenbond (NBB), or Dutch Farmers’ Union (Smits, 1996). The creation of new regional unions soon followed and most, in turn, joined the national NBB on a quasi-federal basis. The Noordbrabantse Christelijke Boerenbond (NCB) was one of the largest and most influential regional unions, operating in the large southern province of Noord-Brabant. It was instigated and initially led by a Catholic priest. In theory, the difference between the farmers’ unions and the landbouwmaatschappijen was that the first were created from the ground up by farmers while the second were centrally imposed on farmers by an elite. However, the actual difference appears to have been that, unlike the landbouwmaatschappijen, the unions’ stated aims were religiously motivated, such as the NCB’s aim of ‘furthering the interests of God, the family and property’. The unions were predominantly Catholic affairs; farmers in the Catholic provinces (Noord-Brabant and Limburg) made up 73 percent of the NBB’s membership in 1904, and even unions north of the Rhine river delta, the half of the country that was predominantly populated by Protestants, were almost completely
dominated by Catholics. Meanwhile, the *landbouwmaatschappijen* became *de facto* Protestant when Catholic farmers left them to join their new unions.

Jonker (1988a,b) argues that it was the regional farmers’ unions that were the primary instigators of the *boerenleenbanken* in Noord-Brabant. Catholic priests and others working on behalf of the unions would visit villages to spread the idea of co-operation. These propagandists would help villagers write their new organizations’ statutes and provide them with a small amount of initial financing. Local priests would be recruited to provide these co-operatives with day-to-day ‘spiritual guidance’. In Protestant parts of the country it was the *landbouwmaatschappijen* that performed this same function, but without offering spiritual guidance, and sometimes only as a ‘response’ to nearby exclusionary Catholic-only co-operative efforts.

There were soon serious conflicts between regional and national unions. This led, in 1898, to the creation of not one but two central banks (combined clearing-houses and audit authorities) for the *boerenleenbanken*, one sponsored by the NBB and based in Utrecht, CCRB-Utrecht, and the other by the NCB and established in Eindhoven, CCB-Eindhoven.24 Further division in the *boerenleenbank* family came in 1901 when the members of the Utrecht network decided to drop the religious language from their founding statutes and disaffiliate themselves from the NBB. The NBB responded by calling on its members to leave this network and form their own provincial central banks, which would continue to espouse religious values. However, this attempt at ‘blackmailing’ Utrecht was not successful; only one new provincial

24 Officially, this split was due to a legal question about the appropriate act of parliament to use in the founding of co-operative organizations, but legal-historical analysis in Colvin (2017, 2018), suggests that these legal differences could have had little impact in practice on the day-to-day functioning of co-operative banks.
central bank was created, in 1904, for the provinces of Holland: CCCB-Alkmaar. This lack of response is perhaps unsurprising, given that the NBB’s god was decidedly Catholic and therefore not popular in much of the predominantly Protestant north.

The net result of such co-operative in-fighting was that confessionalism became rigidly institutionalized in the rural banking sector; the south and the north-west had their Catholic networks, supported by regional farmers’ unions, while everyone else had the officially neutral but *de facto* Protestant network of the Utrecht central bank. Interestingly unexplained differences between the co-operatives of the ‘two Christianities’ persisted throughout their early existence. For example, Catholic interest rates paid by local banks on loans from their central bank were consistently lower than Protestant ones (see Figure 1). This is perhaps evidence of segregation trumping economic concerns; the *verzuiling* meant that the two denominations had to worry less about competing with one another for the same customers, whose default position was to bank within their own socioreligious pillar.

What does the case study evidence presented in this essay say about the strength of the sociopolitical control argument? Priests and other religious leaders appear to have established all these banks, and also (unsuccessfully) attempted to mediate in disagreements between members in the Loosduinen case. Comparing the Loosduinen with the Rijswijk co-operatives suggests that religious groups, both Catholic and Protestant, were particularly militant in securing a separate and separated religious identity for their own bank. The Loosduinen II cooperative was established by Catholic customers who thought that Loosduinen I was too irreligious. The second Rijswijk bank was established within months of the Catholic-affiliated one, as if in reaction to the first. Perhaps the costs relating to lack of scale and scope, which
resulted from this segregation, were compensated for by the information and enforcement benefits of a religiously homogeneous banking institution. Strict membership requirements at the banks for Catholic minorities suggest that they intended to use these as an exclusion device, a method of ensuring homogeneity between their customers. In summary, it is clear that religion had a great effect on these banks; the reason why there were (eventually) two banks in many villages instead of one was entirely religiously motivated.

However, while religion played a large part in these banks’ foundation, it may have had less impact on the subsequent choice of bank for many of the parishioners of each of the churches. Banks appear to have specialized in the business lines in which they could grant members higher returns. Given the differences in the way that the Catholic and Protestant banks were used, and the size of the Catholic bank’s balance sheet relative to that of its Protestant neighbour, and comparing these differences with the proportion of Catholics living in the Rijswijk area, it remains a possibility that Protestants banked with the Catholic co-operative, with the Protestant co-operative in a neighbouring village, or alternatively with non-co-operative financial institutions.

VI

The existing literature on the origins of rural credit co-operatives in the Netherlands posits three reasons for their emergence and rapid proliferation at the start of the twentieth century: (1) to meet untapped market demand; (2) as an organizational response to economic and technical change; and (3) as an extension of socio-religious confessional politics. My essay has attempted to systematically analyze how these possible explanations work in theory and practice, and then judged their likely relative importance. I did so by analysing the results of qualitative archival research on local
boerenleenbanken in two rural villages bordering with the city of The Hague. I chose these case studies precisely because their economic and social geography means that the relative importance of the three hypotheses can be compared.

Regarding the first hypothesis, that boerenleenbanken were founded to meet untapped market demand for financial services from the unbanked or underbanked, I find that incumbent providers of financial services to agricultural customers were likely extending financial markets to new customers. There were some sources of finance before the advent of co-operatives, and farmers who could afford these were adequately supplied. Instead, I argue that the co-operative model probably lowered the price of loan contracts and therefore deepened the market for credit, permitting customers previously priced out of this market to enjoy financial services. By implication, non-co-operative incumbents must have been excluding whole categories of borrowers because the returns were not sufficient.

Regarding the second hypothesis, that these banks were founded as an organizational response to agricultural depression and technical change, I find that the timing of the emergence of boerenleenbanken does not necessarily provide much support. This does not detract from the competitive advantage which profit-minimizing co-operatives had over profit-maximizing incumbents; co-operatives’ members were able to capture more of the gains from specialization and trade, at the expense of these banks’ profits, because they were simultaneously their owners and customers. The co-operative business model gave these banks an edge over conventionally-owned competitors, permitting the former to eat into the latter’s market. The overlap between the management and membership of these banks with
other agricultural organizations is evidence that these banks formed one component of larger vertically integrated agricultural business ‘conglomerates’.

Finally, regarding the third hypothesis, that the banks were founded as a means of extending and consolidating the influence of confessional sociopolitical organization across Dutch society, I find that economic confessionalism was probably the most critical ingredient that led to their foundation, at least in areas with a strong religious divide. Some banks in the case study villages were established for the sole reason that other new boerenleenbanken had the wrong socio-religious bent. Priests and religiously motivated organizations were actively involved in their foundation and day-to-day management. Their choice of central bank network was made for political rather than economic reasons. While perhaps not a sufficient condition for their foundation, the economic segregation of Dutch society in the early twentieth century was probably a necessary one for their rapid and successful proliferation.

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Table 1: Self-identified differences between the Netherlands’ commercial and Raiffeisen banks.

<table>
<thead>
<tr>
<th>Commercial banks</th>
<th>Raiffeisen banks</th>
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<tbody>
<tr>
<td>A Accepts deposits from anyone against general conditions, which can be</td>
<td>Takes deposits from everyone against general conditions, which are uniform for</td>
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<tr>
<td>negotiable in certain circumstances</td>
<td>all members. If there are certain conditions for non-members, then these are</td>
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<td></td>
<td>uniform for all non-members</td>
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<tr>
<td>B Grants loans to anyone against general conditions, which can be negotiable in</td>
<td>Grants loans to members only, against conditions that are uniform for all</td>
</tr>
<tr>
<td>certain circumstances</td>
<td>members</td>
</tr>
<tr>
<td>C Opens current (overdraft) accounts for anyone against general conditions,</td>
<td>Opens current (overdraft) accounts for members only, against conditions that</td>
</tr>
<tr>
<td>which can be negotiable in certain circumstances</td>
<td>are uniform for all members</td>
</tr>
<tr>
<td>D Collects, buys and discounts domestic and foreign bills of exchange and</td>
<td>Can engage in limited collection business, and is not permitted to discount</td>
</tr>
<tr>
<td>promissory notes</td>
<td>bills of exchange or promissory notes, even to members</td>
</tr>
<tr>
<td>E Sells cheques and bills of exchange from well-known institutions, both</td>
<td>Can sell cheques to members only, but only through the central bank</td>
</tr>
<tr>
<td>domestic and foreign</td>
<td></td>
</tr>
<tr>
<td>F Buys and sells foreign currency in coin and paper money</td>
<td>Can buy and sell foreign currency to members only, but only through the central</td>
</tr>
<tr>
<td></td>
<td>bank</td>
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<tr>
<td>G Engages in the security business, including underwriting new securities</td>
<td>Can also engage in the security business, but only through the central bank</td>
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<td></td>
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<tr>
<td>H Buys and collects coupons and other bonds</td>
<td>Cannot trust such business to local banks. And doing such business through</td>
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<td></td>
<td>the central bank is too costly</td>
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</tbody>
</table>

Source: CCB-Eindhoven, ‘Rapport over “Bankconcentratie”’, written for the directie (management) meeting of 12 November 1917 (RaboNed: E105)
Figure 1: Rural interest rates on borrowing and lending, nominal terms.

(a) Average interest rate percentage paid to depositors by central bank and local banks compared to the Rijkspostspaarpbank (RPS), 1915-1929.

(b) Interest rate percentage paid by local banks on loans from their central clearinghouse, 1904-1929.

Source: Campen et al. (1948).