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RAIFFEISENISM ABROAD: WHY DID GERMAN MICROFINANCE  
FAIL IN IRELAND BUT PROSPER IN THE NETHERLANDS?

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## **Abstract**

What was the recipe for the success of Raiffeisen's banking model? What made it possible for imitations of this German rural cooperative microfinance institution to work well in some European countries, but fail in others? This paper answers these questions with a comparison of Raiffeisenism in Ireland and the Netherlands. Raiffeisen banks arrived in both places at the same time, but had drastically different fates. In Ireland they were almost wiped out by the early 1920s, whilst in the Netherlands they proved to be a long-lasting institutional transplant. Raiffeisen banks were successful in the Netherlands because they operated in a niche market with few viable competitors. Meanwhile, rural financial markets in Ireland were unsegmented and populated by long-established incumbents, leaving little room for new players, whatever their perceived advantages. Whereas Dutch Raiffeisen banks were largely self-financing, closely integrated into the wider rural economy and took advantage of socioreligious division, their Irish counterparts did not.

## **Keywords**

Raiffeisenism, cooperative banking, microfinance, Germany, Ireland, the Netherlands.

## **JEL Classification**

G21, N20, N50, N80, P13, Z12

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Raiffeisen banks were a type of financial intermediary designed in Germany in the mid-nineteenth century for the purpose of providing small-scale financial services to customers in rural areas. Their organisational form was novel at the time of their foundation; they were owned and operated cooperatively by groups of their debtors. European rural reformers of the late-nineteenth and early-twentieth centuries espoused the adoption of the Raiffeisen cooperative banking model as a means of empowering and improving the lives of farmers. However, despite the efforts of the idealistic and enthusiastic propagators of these early microfinance institutions, their rate of success outside of Germany varied greatly; Raiffeisenism prospered in Italy and the Netherlands, but failed in, among others, Belgium, Denmark, Ireland and Spain. This paper explores the reasons for this variation using a comparative study of the Dutch and Irish cases. Striking differences, the focus of the comparison, are: (1) their different reliance on savings as a source of funding; (2) the different levels of integration within and between cooperative enterprises; and (3) their different ways of dealing with socioreligious and socioeconomic division.

The literature on cooperative banking in Europe is dominated by the work of Guinnane and his co-authors,<sup>1</sup> who aim to explain the performance of Raiffeisen cooperatives in Germany in the last decades of the nineteenth century and the first decade of the twentieth. Guinnane's major contribution has been to argue that they were successful because mutuality permitted them to overcome the information asymmetries and enforcement problems that prevented conventional banks from lending to the rural unbanked and underbanked. However, the chain of logic used in his article on Irish Raiffeisenism,<sup>2</sup> explaining German success using Irish failure, is arguably fallacious; it discounts the possibility that factors unrelated to their institutional design may be responsible for their contrasting histories. The addition of the successful imitation of German cooperative microfinance in the Netherlands allows the current paper to address the question Guinnane himself attempts to answer, with a higher degree of confidence.

Three findings emerge from this study. First, customer saving rates were a key factor in the success of the Raiffeisen banking model. Ironically, neither the Irish nor the Dutch adopted the German name for Raiffeisen societies, *Spar- und Darlehenskassen* (thrift and credit banks), dropping savings from their name. Nevertheless, this emphasis was retained in the Netherlands; Dutch

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<sup>1</sup> Banerjee, Besley, and Guinnane, 'Thy neighbor's keeper'; Guinnane and Henriksen, 'Why Danish credit co-operatives'; Ghatak and Guinnane, 'The economics'; Guinnane, 'Cooperatives as information machine'; Guinnane, 'Delegated monitors'; Guinnane, 'A "friend and advisor"'.  
<sup>2</sup> Guinnane, 'A failed institutional transplant'.

Raiffeisen institutions were rarely very leveraged and relied on members' savings rather than external borrowing to finance their loan books. By contrast, the easy availability of concessional state loans was an incentive for the adoption of Raiffeisenism in Ireland; yet a key finding is that successful Irish Raiffeisen societies were those which mobilized members' savings in the same way as the Dutch. A reliance on internal over external sources of finance may have encouraged cooperators to more closely monitor one another's efforts, and thus may have discouraged borrowers from shirking.

Second, the close integration of different cooperative enterprises was also an important determinant of success. In the case of the Netherlands, Raiffeisen banks enjoyed strong federated apex institutions, financed other cooperative enterprises in their local communities and enjoyed overlapping membership and management with these businesses. In Ireland, there was a distinct lack of integration amongst cooperatives; however, those Raiffeisen banks that were linked with other forms of (business) cooperation were more likely to succeed. The integration of cooperative enterprises is argued to have led to strong economies of scale and scope in service provision, and facilitated information sharing for the purpose of loan monitoring.

Third, this study finds that socioreligious and socioeconomic division was an important characteristic in the story of Raiffeisenism in both polities. It led to the establishment of a dichotomous cooperative banking structure with strong independent cooperative networks for Catholics and Protestants in the Netherlands. Although this resulted in some unnecessary institutional duplication, socioreligious group formation improved loan screening, monitoring and enforcement. In the Irish case the Raiffeisen banking model was promoted as compatible with the religion of the majority population: Roman Catholicism. However, adoption appears to have been undermined there by the political economy of Irish rural society.

This paper proceeds as follows. The next section compares the institutional attributes and early history of Raiffeisen cooperatives in Ireland and the Netherlands with their genus in Germany. Section II discusses the existing explanations of Raiffeisenism abroad, all ostensibly country studies, which together provide some hypotheses for the divergent performance of Raiffeisen imitations in Ireland and the Netherlands. Sections III, IV and V take a comparative history approach to advance three reasons why Dutch and Irish Raiffeisen banks had such different fates. Finally, section VI concludes that these three reasons together enabled Dutch Raiffeisen societies to successfully exploit and dominate a niche market for rural financial services with few competitors, whilst their Irish counterparts faced stiff competition from incumbents and gained no advantage from their cooperative ownership structure.



## I

The historical context of this paper is the integration of global agricultural markets in the late nineteenth century and its effect on prices: the Grain Invasion.<sup>3</sup> This affected mainly cereal prices, which fell by more than half between the early 1870s and 1896.<sup>4</sup> A number of European countries – including Germany, Italy and France, but notably excluding the UK (Ireland included), the Netherlands and Denmark – attempted to stem the tide by imposing protectionist barriers.<sup>5</sup> Given this backdrop, there was a significant increase in agricultural productivity in a number of western European countries that adopted land-saving technologies such as chemical fertilizers, concentrated animal feeds and superior breeds of seed and livestock. In the Netherlands, there was also an increase in the amount of available land through reclamation works.<sup>6</sup>

Cooperative enterprise – the formal combination of individual economic agents in the pursuance of mutual economic goals – emerged as a form of business organisation in the nineteenth century. Demand-side cooperation was most prevalent in the UK, whereas continental European countries adopted supply-side cooperatives in agricultural production. Hobsbawm argues that the ‘two most common non-governmental responses [to the Grain Invasion] were mass emigration and co-operation’.<sup>7</sup> He traces the origins of the agricultural cooperative movement to the effects of the depression of ‘prices, interest and profits’ in the latter part of the nineteenth century and believes that decreasing agricultural prices created incentives for the introduction of innovative methods in agricultural production. Whilst the Netherlands embraced cooperation in all parts of the agricultural sector,<sup>8</sup> Ireland developed a tradition of mass emigration: from 7.1 emigrants per 1,000 population in 1876 to 21.6 emigrants per 1,000 in 1883.<sup>9</sup>

Cooperative banking is an important aspect of the wider history of agricultural cooperation in nineteenth- and twentieth-century Europe; the diffusion of German-designed cooperatives abroad appears to have been a particularly important part of this story. There were three distinct varieties of credit cooperatives formed in German states in the nineteenth century: Schulze-Delitzsch, Raiffeisen and Haas. Each strand had a distinct take on clientele and liability structure. By far the most prevalent type to be copied elsewhere was the second, the subject of this paper. Friedrich Wilhelm Raiffeisen (1818-1888), the man for whom these cooperatives were named, was the mayor of a group of villages in Rhenish Prussia. According to hagiographic accounts of Raiffeisen, he created his first cooperative

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<sup>3</sup> O’Rourke, ‘The European Grain Invasion’. This has traditionally been termed the Great Depression in British historiography (Capie and Wood, ‘Great Depression’), and the Grote Landbouwcrisis (the Great Agricultural Crisis) in the Dutch (Bieleman, *Boeren in Nederland*).

<sup>4</sup> Van Zanden, ‘The first Green Revolution’, p. 227.

<sup>5</sup> Webb, ‘Agricultural protection’; Van Zanden, ‘The first Green Revolution’; Henriksen, Lampe and Sharp, ‘The strange birth’.

<sup>6</sup> Knibbe, *Agriculture in the Netherlands*, p. 48.

<sup>7</sup> Hobsbawm, *The age of empire*, p. 36.

<sup>8</sup> Van Zanden, *De economische ontwikkeling*.

<sup>9</sup> Vaughan and Fitzpatrick, *Irish historical statistics*.

bank in the 1840s to assist local peasants during a severe crisis and to liberate them from usurious rates of interest.<sup>10</sup> Wolff, an advocate of cooperatives, dates the first Raiffeisen credit society to 1847.<sup>11</sup> The second was established only in 1854, and the third in 1862; it was not until the 1880s that they began to ‘perceptibly multiply’.<sup>12</sup> As alternatives, Birchall dates the first such mutual society to 1862,<sup>13</sup> whilst Guinnane dates this to 1864.<sup>14</sup> Data from Prinz show that the number of Raiffeisen societies grew from 63 in 1875 to 121 in 1881, and 713 in 1892.<sup>15</sup> In 1894, the year in which the first Raiffeisen society was established in Ireland, in the southwest of the island, there were 980 German Raiffeisen banks; and in 1897, a year after the first Dutch Raiffeisen bank was established, close to the German border, the number in neighbouring Germany was 2,014.

The Irish Agricultural Organisation Society (IAOS), a cooperative advocacy institution founded in Dublin, organized cooperative banks across the Irish countryside in locations it felt were in need of credit. Evidence to a parliamentary inquiry into moneylending in the UK in 1898 suggests that IAOS members’ main gripe was with shopkeepers and moneylenders, sources of credit that came under the heading “gombeenism”, a pejorative term.<sup>16</sup> Similarly, the traditional argument put forward in Dutch historiography is that Dutch cooperative banks were created in response to an unfulfilled demand for credit from the unbanked and underbanked; this view has been argued as recently as 2008 by agricultural historian Bieleman.<sup>17</sup> The roots of this view probably lie with the government agricultural inquiries of the late nineteenth century,<sup>18</sup> but, most importantly, with the propaganda emanating from Dutch cooperative banks themselves, of which Van der Marck’s 1924 pamphlet is a good example.<sup>19</sup> Van der Marck was the *geestelijke adviseur* (spiritual advisor) to the central clearinghouse and auditing authority of the leading Catholic Raiffeisen network, and his various publications appear to form a “media strategy” for the external justification of this network’s existence. It attributes any growth in the rural economy to the cooperative movement itself and argues that Raiffeisen banks “have set farmers free” from their previous financiers, caricatured as usurious shopkeepers, permitting farmers to “help themselves by helping each other”.<sup>20</sup>

By the end of the 1910s, a dense network of Raiffeisen banks, named *boerenleenbanken* (farmers’ lending banks), served the entirety of the Dutch countryside; some 18 per cent of the total

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<sup>10</sup> Digby, *The world co-operative movement*, p. 76.

<sup>11</sup> Wolff, *Peoples’ banks*.

<sup>12</sup> Wolff, *ibid.*, p. 71.

<sup>13</sup> Birchall, *The international co-operative movement*.

<sup>14</sup> Guinnane, ‘A “friend and advisor”’.

<sup>15</sup> Prinz, ‘German rural cooperatives’.

<sup>16</sup> Report from the S. C. on money lending (P.P. 1898).

<sup>17</sup> Bieleman, *Boeren in Nederland*. It is an argument repeated in all the business histories of the Dutch rural cooperative banking movement: Campen et al., *Landbouw en landbouwcrediet*; Weststrate, *Gedenkboek*; Sluyterman et al., *Het coöperatieve alternatief*.

<sup>18</sup> Nationaal Archief, The Hague, Landbouwcommissie, 1886-1891, access no. 2.11.25, inv. no. 6.

<sup>19</sup> Van der Marck, *Boerenleenbanken*.

<sup>20</sup> Van der Marck, *ibid.*, pp. 124-126.

Dutch population had an account,<sup>21</sup> holding approximately 32 per cent of the nation's savings deposits.<sup>22</sup> Growth was not sustained in Ireland, but during the same period dairy cooperatives were introduced there to relatively greater success. Contemporaries saw Ireland as a model for the rest of the UK and its colonies, but subsequent efforts there at agricultural cooperation were largely unsuccessful.<sup>23</sup> Figure 1 plots the evolution in the number of Raiffeisen banks in both polities relative to their population and shows that Ireland's experiment with cooperative banking failed long before the Irish War of Independence.

The following outline of the Raiffeisen system was given by Darling, the joint-registrar of cooperative societies in the Punjab:<sup>24</sup>

Everyone who knows anything at all of agricultural co-operation is familiar with the main features of the system, namely, unlimited liability, an area restricted to a village or two, small shares, limited dividends or no dividends at all, indivisible reserve, loans to members only, low rates of interest and honorary management controlled by the general assembly of members, each of whom has one vote and no more. In detail one country or province may vary from another, but the ground principles are everywhere the same, and wherever they are found and however they appear to be derived, their ultimate origin is Germany and their sponsor Raiffeisen.

A comparison of Ireland and the Netherlands with Germany in table 1 reveals how far the three cases mirrored the succinct description provided by Darling. Each polity varied in its regulatory regime: one act specifically designed for cooperatives served the needs of German banks, but Dutch and Irish cooperators could gain legal personality in two ways, which varied in terms of liability options, corporate governance and business restrictions. In all polities, cooperatives' banking activities were conducted at a local level, the area restriction as outlined by Darling; but in the Netherlands, multiple Raiffeisen banks often competed for business within the same locality. None of the polities had banks with shareholdings; membership usually required a signature on a registry and some nominal deposit. Loans were granted exclusively to members in all three cases; membership was not a pre-requisite for savings, so many depositors joined only when they needed to borrow money.

The liability structure was unlimited in all cases, whether or not their choice of legal status permitted otherwise. Additionally, at least two cosignatories were normally required to secure loans in all three.<sup>25</sup> Loan terms in Germany and the Netherlands varied in length and no fixed ceilings were imposed, however there was a series of checks and balances to prevent abuse; for example, in the Dutch case, large loans required authorisation from a central clearinghouse. Dutch cooperatives appear to have adjusted loan terms to clients' risk by varying the size and period of the loan rather than the

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<sup>21</sup> Own calculation using the 1920 census (<http://www.volkstellingen.nl/>) and the number of accounts from the annual reports of the cooperative clearinghouses (CCB, *Jaarverslag 1919*; CCCB, *Jaarverslag 1919*; CCRB, *Jaarverslag 1919*).

<sup>22</sup> Sluyterman et al., *Het coöperatieve alternatief*, p. 40.

<sup>23</sup> Cameron, 'Communication or separation?'

<sup>24</sup> Darling, *Some aspects*, p. 18.

<sup>25</sup> Sowers, 'The role of social networks', finds that loan cosignatories were frequently also borrowers themselves and that this resulted in dense interconnected networks of financial ties between Raiffeisen cooperators.

interest rate.<sup>26</sup> Ireland, by contrast, operated under a legislatively imposed loan ceiling of £50 and the IAOS, which functioned as an unfederated apex institution, encouraged cooperatives to engage solely in short-term lending.<sup>27</sup> Government support and subsidization existed in all three examples: German Raiffeisen cooperatives received subsidized loans; in the Netherlands subsidization came in the form of small grants to cover start-up costs; and in Ireland, state bodies offered loans at concessional rates of interest.

In all three polities, cooperative banks were unit independent and affiliated to various apex institutions. In Germany these institutions were regional, whilst in the Netherlands they were theoretically national and apolitical, but in practice took a confessional characteristic to reflect the strong socioreligious division of Dutch society – a phenomenon known as the *verzuiling* (pillarisation).<sup>28</sup> Apex institutions were cooperatively owned by member cooperatives (federated “cooperatives’ cooperatives”) and provided clearinghouse and auditing functions: distinct institutions in Germany, but united in the Netherlands in institutions called *centrale banken* (central banks). Ireland, by contrast, did not develop such institutions. Its apex, the IAOS, helped establish individual cooperatives (banks, creameries, stores) and provided auditing services, but was unfederated and was not a clearinghouse. Cooperative integration, both between cooperative banks and among other cooperative enterprises, was a feature of Raiffeisenism in Germany and the Netherlands, but there was no comparable level of integration in Ireland.

Comparing the agricultural sectors of the polities under study reveals some similarities and noticeable differences (see tables 2 and 3). Looking at the output of agricultural produce per hectare of land devoted to tillage, Ireland and the Netherlands appear to be similar in wheat, barley, oats and potatoes and both polities appear to have a higher output relative to Germany. In livestock, Ireland had a higher ratio of cattle and sheep per 1,000 population relative to the others. A noticeable difference in the polities over time was the focus on dairy versus livestock production, and the rapid expansion of horticulture in some regions of the Netherlands.<sup>29</sup> Data showing the distribution of landholdings for all three polities over time suggest that they had similar farm sizes – predominantly small-scale – but varied in farm ownership.<sup>30</sup> Overall, the data suggest that Raiffeisenism was introduced to largely similar agricultural structures; subsequent differences in the longevity of the cooperative experiments likely have less to do with agricultural specialisation than with other factors.

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<sup>26</sup> E.g., the *boerenleenbank* in Capelle, Noord-Brabant, always adopted an interest rate very close to that at which it could borrow money, and instead managed risks by reducing the physical size of loans from applicants it judged to be too risky (Archief Rabobank Langstraat (henceforth ARL), Capelle NB, Bestuursnotulen Boerenleenbank Capelle).

<sup>27</sup> Anderson, *With Plunkett in Ireland*, p. 252.

<sup>28</sup> Recent studies on the *verzuiling* include: De Rooy, ‘Zes studies’; Luykx, ‘The Netherlands’; Van Eijnatten and Van Lieburg, *Nederlandse religiegeschiedenis*.

<sup>29</sup> Knibbe, *Agriculture in the Netherlands*.

<sup>30</sup> Mitchell, *International historical statistics*; Henning, *Deutsche wirtschafts- und sozialgeschichte*.

## II

Understanding the existing accounts of Raiffeisenism abroad motivates the comparisons in this paper and reveals where its contribution lies. These accounts rely on country-specific studies of, among others, Belgium, Denmark, Ireland, Italy, the Netherlands and Spain. Together, they reveal a methodological shortcoming: they are insufficiently comparative and therefore unable to distinguish between factors that are idiosyncratic to a particular institutional permutation, and universal explanations of cooperative performance. Prior to this paper, no work has systematically compared multiple cases of Raiffeisenism abroad. Parallels are drawn only with Raiffeisenism in Germany, inadequate on their own because they make the implicit assumption that the institutional evolution of the successful German case is the superior one, by definition. Such an approach has blinded scholars to alternative institutions which may have been functional equivalents to Raiffeisen's banks.<sup>31</sup>

Guinnane finds three reasons for the failure of Raiffeisenism in Ireland: (1) competition in savings markets; (2) lack of strong union federations; and (3) norms of Irish rural behaviour.<sup>32</sup> Guinnane's article forms the core of this paper's historiography; his arguments are discussed separately, and the questions they raise highlighted. (1) Guinnane argues that Raiffeisenism's success in Germany cannot be due to the failure of the German state to establish a post office bank along the lines of the UK's Post Office Savings Bank (POSB); he notes that Germany also had savings bank incumbents, municipal rather than national, which served a similar function to the POSB. But Ireland too had such municipal banks, and these dramatically declined in number and scale over the late nineteenth century as the new POSB expanded. Why, then, was the POSB able to enter the Irish market in 1863 and overturn these incumbents, and why were Raiffeisen banks able to outcompete their equivalents in Germany? (2) Guinnane argues that the Irish example lacked institutional equivalents to German cooperative apex institutions – audit unions and central clearinghouses. Of these two he deemed the lack of audit unions the more detrimental as they provided external management and support.<sup>33</sup> Why were such institutional structures not developed in Ireland? (3) Guinnane asserts that one of the reasons why Raiffeisen cooperatives failed in Ireland was that the 'norms of Irish society' made it difficult to work a cooperative system.<sup>34</sup> Using a statement from the 1926 banking commission, he suggests that 'rural Irish people did not give "full recognition of the justice of the debt so incurred," and thus resisted efforts to force repayment of loans'.<sup>35</sup> Guinnane's interpretation has implications for the wider history of Irish banking: if Irish people resisted efforts to repay loans, then how could any banking system work in rural Ireland?

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<sup>31</sup> This follows from a functional as opposed to an institutional approach to financial analysis, described in Merton and Bodie, 'A conceptual framework'.

<sup>32</sup> Guinnane, 'A failed institutional transplant'.

<sup>33</sup> This point is further elaborated in Guinnane, 'A "friend and advisor"'.

<sup>34</sup> Guinnane, 'A failed institutional transplant', p. 39.

<sup>35</sup> Guinnane, *ibid.*, p. 57.

The literature on *boerenleenbanken* is currently dominated by corporate business histories that arguably take an idealistic approach to explaining their origins.<sup>36</sup> A new book on the wider origins of cooperation in the Netherlands breaks this trend; Rommes, its author, argues that the country's market for rural financial services was already satiated by the time cooperatives entered it in the late 1890s.<sup>37</sup> He tracks various failed early initiatives to establish cooperatives, and analyses survey data from the 1880s, revealing mixed feelings about the potential demand for new rural banks. He argues that good alternative sources of funds were available from *kassiers*, small private cashiers, who were especially active in the north of the country, precisely the region where Raiffeisen banks arrived last. However, his conclusion that there was little demand for the progenitors of the Rabobank Group, one of the most successful financial institutions in modern day Europe, appears too strong and does not explain their exceptional performance during the severe domestic and international financial crises of the 1920s and 1930s.<sup>38</sup> In common with other works on Dutch rural cooperation, Rommes focuses more on the market for credit than the market for savings deposits. What happens to his explanation for Raiffeisenism if this focus is reversed?

Unlike the Irish case, and much like the Dutch one, Italy's attempt to introduce Raiffeisen cooperatives was highly successful. Galassi puts this down to three factors: (1) effective *ex ante* screening of candidates for membership; (2) internal monitoring of customers in order to reduce moral hazard; and (3) the ability to operate with lower overheads than their competitors.<sup>39</sup> He speculates that the most important of these was the first, which he posits was achieved through cultural and social factors. *Casse rurali* (rural banks) had stringent membership selection criteria, resulting in a customer base with many common features, possibly including attitudes towards risk.<sup>40</sup> Galassi subsequently argues that a difference in farmers' outside options rather than some innate cultural attribute explains the differences in the propensity to cooperate in northern versus southern Italy.<sup>41</sup>

In an examination of the failed introduction of Raiffeisen banks to the Danish countryside, Henriksen and Guinnane demonstrate that incumbent institutions, known as *sognesparekasser* (parish savings banks), left little room for new cooperatively-owned rural banks.<sup>42</sup> They show that *sognesparekasser* provided financial services to local markets on much the same terms as Raiffeisen banks did in Germany: loans with personal guarantors acting as insider monitors. But Henriksen and Guinnane make the point that the success of *sognesparekasser* did not mean that there was no demand for cooperatives in Denmark; the success of cooperatively-owned creameries there is proof of this.

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<sup>36</sup> A recent such contribution is Mooij, *De Rabobank*.

<sup>37</sup> Rommes, *Rise of rural co-operatives*.

<sup>38</sup> Mooij, 'De brandkast'.

<sup>39</sup> Galassi, 'Screening, monitoring and incentives'.

<sup>40</sup> The Cassa Rurale di Treviglio (near Milan) demanded that members 'shall be good Christians, [...]; shall neither drink to excess, nor abuse their family members; shall not swear or curse; [...]' (Galassi, 'Screening, monitoring and incentives', p. 22).

<sup>41</sup> Galassi, 'Measuring social capital'.

<sup>42</sup> Guinnane and Henriksen, 'Why Danish credit co-operatives'.

However, it could be argued that *sognesparekasser* were the functional equivalents to Raiffeisen banks, and that the rural financial services sector in Denmark was more sophisticated earlier on than that of countries, like the Netherlands, which eventually succeeded with their Raiffeisen experiments.

Established at the turn of the twentieth century, at around the same time as those in the Netherlands, Belgium's Raiffeisen imitations, known as *spaar- en leengilden* (savings and loans guilds), were forced out of business by the mid-1930s. Van Molle explains that these banks had strong regional clearinghouses that wielded significant influence over independent local units, investing any of the excess savings entrusted to them in large-scale ventures within the Catholic community, instrumental to their foundation.<sup>43</sup> She recounts how Belgium's Raiffeisen banks took far more deposits in the 1920s than they could usefully lend out, and that their central apex institution instead participated in risky non-agricultural business ventures, ultimately with disastrous consequences. Belgium's cooperatives failed because they could not find a safe outlet for their members' excess savings.

Garrido considers rural cooperation, of any kind, in Spain to have been a disaster.<sup>44</sup> Spanish Raiffeisen societies in particular performed very badly; they failed to mobilize depositors, failed to attract asset-rich members, failed to secure government support and failed to escape the trappings of Church involvement. Ironically, *cajas rurales* (rural savings banks) did not attract many savers. A "market for lemons"<sup>45</sup> existed, where asset-rich farmers refused to fully cooperate, leaving only the asset-poor to participate. Meanwhile, successive governments were weary of subsidising cooperatives that were seen as a potential political threat. Finally, involvement by the Catholic Church, while playing a crucial role in most cooperatives' foundation, restricted power to a small Catholic elite, or at least discouraged suffrage among the wider rural community, and thus failed to keep fraudulent behaviour in check.

Using the insights reviewed above as a point of departure, this paper advances three interrelated explanations for the varying success of Raiffeisenism abroad: (1) the way in which cooperatives were funded; (2) their level of integration into the rest of the rural economy; and (3) their ability to take advantage of social division. These explanations are described and applied in the next three sections. They are not mutually exclusive; all three may be necessary to some degree.

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<sup>43</sup> Van Molle, 'Savings and loan guilds'.

<sup>44</sup> Garrido, 'Why did most cooperatives fail?'

<sup>45</sup> Akerlof, 'The market for lemons'.

### III

Both Ireland and the Netherlands perceived a need for Raiffeisenism; yet, its subsequent function in the financial sectors of both polities diverged. How does this help explain Dutch success and Irish failure? Contemporaries in both places, at the IAOS and among members of the Dutch farmers' unions, had the same argument: farmers have difficulty accessing financial services and such problems would be resolved with the market entry of cooperative banks. Their perceptions about prevailing market conditions could be interpreted as a view that there was "credit rationing" or "red-lining" behaviour on the part of incumbent financial intermediaries.<sup>46</sup>

Credit rationing occurs when borrowers' demand for credit is turned down, even if these borrowers are willing and able to pay both the price component (interest rate) and nonprice component (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 price and/or nonprice components. Credit rationing implies that banks could increase their market share still further and attract additional creditors by increasing the price and/or nonprice components of their loan contracts, but that they are unwilling to do so due to the potential high risk of such creditors' projects, or due to the presence of some information asymmetry which, for instance, makes *ex post* state verification too costly. Red-lining, by contrast, implies that banks could increase their market share only by reducing the price and/or nonprice components of their loan contracts, but are unwilling to do so because the expected returns are judged insufficient.

Whilst both phenomena force farmers to self-finance (part of) their projects, or indeed not carry them out, they imply very different conduct by the incumbent suppliers of financial services. The first implies that cooperatives were acting as high-risk niche players, offering services to individuals who perhaps should not have been in the market for financial services in the first place. In contrast, the second implies that they were able to operate with lower overheads and were uniquely placed to extend financial markets to include the previously unbanked. The question is: were incumbents in rural financial markets in Ireland and the Netherlands continually engaging in credit rationing, or red-lining?

The level of knowledge of the IAOS delegates to the 1898 parliamentary inquiry in relation to Joint Stock Banks (JSBs) – the major incumbents in Ireland's rural economy – and their confusion as to what constituted gombeenism reveal a serious lack of understanding of rural financial markets in Ireland among cooperatives' instigators.<sup>47</sup> It was highlighted that areas absent of JSBs were sparsely populated. Moreover, it transpired in the inquiry that a JSB branch had long closed due to a lack of

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<sup>46</sup> The intuition that follows is based on the models described in ch. 5 of Freixas and Rochet, *Microeconomics of banking* (pp. 170–191).

<sup>47</sup> Report from the S. C. (P.P. 1875). In relation to JSBs, their information was based on anecdotal accounts of banking practice. IAOS President Horace Plunkett is recorded as saying that he paid no attention to the subject of banking in Ireland.



business in the location chosen for a new Raiffeisen society. It was put to the IAOS that Raiffeisen banks would have to locate to areas not served by JSBs because these incumbents were adequately serving areas where they were already present. The IAOS rejected this criticism at the time, responding that cooperatives had advantages over JSBs and would benefit farmers wherever they were set up. At this stage, the IAOS clearly felt incumbents were red-lining.

The later actions of the IAOS suggest that they came to a realisation they were potential competitors to JSBs and would struggle to operate successfully in areas where JSBs were active. In 1902 the IAOS signed an agreement to get concessional rates from the various JSBs for all cooperative enterprises in return for an agreement that cooperative banks would not themselves mobilize deposits.<sup>48</sup> The IAOS then made it their business to declare that their Raiffeisen societies were not in competition with JSBs. Indeed, in a government inquiry into agricultural credit in Ireland, George Russell, a charismatic IAOS official, described Raiffeisen societies as auxiliaries to JSBs, *de facto* JSB branches in isolated areas.<sup>49</sup> The IAOS appears to have gone full circle and decided that Ireland's major incumbent financial services provider was not red-lining, that it was simply credit rationing, refusing to service certain areas of the country where information costs and risks were too high. In their view, it was up to them to service these markets, and they felt they were excellently placed to do so because of their unique ownership structure and business model. Their subsequent performance implies that this was not enough.

Jonker and Brusse's micro-business histories of *boerenleenbanken* in the majority-Catholic south of the Netherlands provide evidence that the market for agricultural credit was already satiated by the time cooperatives entered it, and that additional credit-granting institutions were not in demand.<sup>50</sup> More generally, Rommes argues that the reason Raiffeisen banks reached the Netherlands later than some neighbouring countries was that good substitute sources of funds were available.<sup>51</sup> This argument implies that the sector's origins could not have been demand led. Furthermore, Jonker shows that the new cooperative banks were largely used as savings institutions, a type of service already catered for by the Rijkspostspaarbank, the state-owned post office savings bank. The argument goes that no new market for banking services was created with the arrival of cooperatives, only additional competitors in an already crowded one. These studies imply that incumbents were engaging in credit rationing. Ample credit was available, and the only way to attract more custom was to offer services to risk-loving individuals willing to take on higher interest rates.

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<sup>48</sup> IAOS, *Annual report 1904*, p. 27; Third report of the R. C. (P.P. 1907), p. 55.

<sup>49</sup> Departmental committee (P.P. 1914), p. 63.

<sup>50</sup> Jonker, 'Welbegrepen eigenbelang'; Brusse, *De dynamische regio*.

<sup>51</sup> Rommes, *Rise of rural co-operatives*.

Irish cooperative propagandists reserved a special hatred for gombeenism,<sup>52</sup> a broad category of financial services providers which variously comprised private money lenders, loan sharks, and consumer credit in shops.<sup>53</sup> As usurious money lending was acknowledged to be a rarity, the main gripe of the IAOS was with shopkeeper credit: the difference between the prices of goods bought on credit and cash. Shopkeepers appear to have been an international target: Van der Marck complains of them too, using their presence as fuel for his arguments on the evil *woekeraar* (usurer).<sup>54</sup> However, it is difficult to discern with accuracy the level of gombeenism, if in fact it did exist, in either country. The baseline reports of the Congested District Board, a development body in Ireland's poorest regions, suggest that the effective interest rates were not extortionate.<sup>55</sup>

Why then were cooperative banks only successful in the Netherlands, if the misguided propaganda of both polities' cooperative movements reveals a common, imaginary, foe? The crucial difference was the presence of an incumbent service provider in Ireland which Dutch farmers did not enjoy: the deposit mobilising JSB. Although their services did not reach the entire island, they operated an accessible branch network and were heavily used by agriculturalists. Cooperatives themselves also relied on their clearing services. O'Gráda states that 'on balance, Irish farmers were creditors rather than debtors to the banks'.<sup>56</sup> In the Netherlands this was true for Raiffeisen banks, where the majority were unleveraged.<sup>57</sup> It appears that while Dutch farmers increasingly deposited their savings in the nation's new cooperatives, Irish farmers did not; O'Gráda's statement applied only to JSBs. Evidence to the 1875 UK banking committee supports this view and suggests that JSBs had long before successfully mobilized rural depositors.<sup>58</sup> Ironically, it was probably JSBs that were responsible for the disappearance of the Irish Gombeen man, before Raiffeisen's ideas of cooperation had even hit Ireland. As previously stated, Guinnane believed that the POSB was a major factor in explaining the Irish failure. However, his account of the POSB is somewhat mistaken as he states that 'deposits and withdrawals could be made in any amount'.<sup>59</sup> It was not until 1915, as a means to obtain cheaper war finance, that strict limits to savings deposits were eliminated. JSBs, major incumbents in Irish rural markets not fully acknowledged by Guinnane, had no such limitations. More importantly, the POSB did not provide lending services whereas JSBs did.

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<sup>52</sup> See, e.g., the views of Plunkett, 'Agricultural organisation'; Finlay, 'The usurer in Ireland'; Departmental committee (P.P. 1914); Russell, *Co-operation and nationality*.

<sup>53</sup> The difficulty of defining what constitutes a "Gombeen man" is not confined to contemporaries (Gibbon and Higgins, 'Patronage'; Kennedy, 'A sceptical view'; Gibbon and Higgins, 'The Irish "gombeenman"').

<sup>54</sup> Van der Marck, *Boerenleenbanken*, pp. 7-8.

<sup>55</sup> Kennedy, 'Traders', argues that the explosion in the number of shopkeepers he finds serving rural Ireland in the late-nineteenth century probably caused a decrease in the cost of credit there. By the acknowledgement of the IAOS delegates to the 1898 money-lending committee, gombeenism was declining (Report from the S. C. (P.P. 1898)).

<sup>56</sup> Ó Gráda, Ireland, p. 262.

<sup>57</sup> Financial ratio analysis of banks' balance sheets for the relatively stable year 1919 suggests that the majority of *boerenleenbanken* attracted more savings deposits than they lent out (calculated using data from CCB, *Jaarverslag 1919*; CCCB, *Jaarverslag 1919*; CCRB, *Jaarverslag 1919*).

<sup>58</sup> Report from the S. C. (P.P. 1875). E.g., James H. Bealton, a general manager of the Munster Bank, stated that 'the great bulk of the deposits are in small sums' and that deposits came from small farmers (Q.2391, pp. 137-8).

<sup>59</sup> Guinnane, 'A failed institutional transplant', p. 52.

Why could Dutch cooperatives so easily outcompete incumbents when their Irish counterparts could not? Interest rates paid out to customers of *boerenleenbanken* were sometimes one percentage point higher than those paid out by the Rijkspostspaarbank.<sup>60</sup> This enabled *boerenleenbanken* to poach customers away from this institution, or at least attract a greater proportion of any new customers, despite their lack of state deposit guarantee. Whilst Raiffeisen banks in Ireland relied on concessional loans to fund their loan books and channelled all their excess savings through JSBs,<sup>61</sup> Dutch Raiffeisen banks could independently attract deposits and did not have to rely on expensive outside financing. Van Zanden estimates that the Rijkspostspaarbank held 7.8 per cent of all bank assets in 1900 but 5 per cent in 1918, whilst *boerenleenbanken* went from 0.1 to 4.2 per cent in the same period.<sup>62</sup> In short, it was their activities in the market for deposits which enabled them to operate so successfully in the market for loans. In Ireland, Raiffeisen societies that were able to mobilize savings were in the minority, but those that did proved more durable. For example, Columbkille in Co. Longford, seen as a model exponent of Raiffeisenism, had £21,960 in deposits in 1920.<sup>63</sup>

*Boerenleenbanken* had one great advantage over incumbents in the market for savings and loans: fewer fixed and variable costs.<sup>64</sup> The conclusion here is that incumbents, in some parts of the Netherlands at least, were engaging in red-lining rather than credit rationing behaviour; cooperative Raiffeisen banks deepened 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.

#### IV

Cooperative integration was a key characteristic of Raiffeisenism's genus in Germany and its imitation in the Netherlands; does its absence in Ireland help explain the divergence in their levels of success? The lack of integration in Ireland did not go unnoticed by contemporaries. Hugh de Fellenberg Montgomery, a leading Unionist landlord who went on a research trip to Germany in 1903 on behalf of the Department of Agriculture and Technical Instruction, wrote:<sup>65</sup>

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<sup>60</sup> Weststrate, *Gedenkboek*.

<sup>61</sup> Guinnane, 'Trust', argues that Irish cooperators 'trusted each other not to be too adamant about repaying loans' because these loans were funded by the government, which had little power to punish non-repayment, rather than by fellow cooperators, who could.

<sup>62</sup> Van Zanden, 'Old rules', p. 127.

<sup>63</sup> This society was also related to the local cooperative creamery (National Archive of Ireland (henceforth NAI), ICOS archive, Columbkille Credit Society, 1088/253a/2).

<sup>64</sup> Management was unpaid, banks often operated from cashiers' personal premises and opened for limited hours. See, e.g., the description of various local *boerenleenbanken* in Vercauteren et al., *Boeren gingen bankieren*.

<sup>65</sup> Montgomery, 'Agricultural co-operation', p. 247.

In many respects the *Raiffeisen Organisation* offers, probably, the best model for the organisation of agricultural co-operative societies; but the difficulty of adopting it as a pattern for Irish agricultural co-operative organisation arises from the circumstance that it is specially framed for the benefit of savings and loan societies doing supply business and that productive societies (dairy societies &c.) were an afterthought in this organisation. [...] In Ireland the dairy societies came first, the supply associations next, and the credit societies last. [italics sic]

A British parliamentary inquiry also alluded to the benefits of cooperative integration, referencing German cooperative banks that were often integrated with cooperative wholesale purchasers.<sup>66</sup> Indeed, Deeg suggests that German cooperative banks could be viewed as functionally equivalent to universal banks, Germany's integrated commercial and investment banking conglomerates, given that they offered a full spectrum of financial services and enjoyed overlapping management with the cooperative enterprises they financed.<sup>67</sup>

From a theoretical perspective, integration can be seen as an important facet of cooperative enterprise: providing economies of scale and scope, and, perhaps more importantly still, with cheap information on income flows from farming enterprises that could help overcome the dangers of *ex post* moral hazard. The importance of associating with other forms of cooperative activity may also reflect cross-subsidization within the cooperative structure; other parts of the integrated business may have been more profitable, or may have had access to better management. This important aspect of Raiffeisenism was not encouraged in Ireland in the way it had been in Germany and the Netherlands, yet some of these information advantages were captured by JSBs through the mobilisation of savings deposits.

Douma uses transaction cost economics to explain why cooperative businesses have proved more successful in some markets than others.<sup>68</sup> He posits that different forms of business organisation are appropriate in different circumstances. Using the case of the Dutch dairy industry in the late nineteenth century, he argues that cooperative dairies were more successful in markets which demanded coagulated milk products with a long shelf-life, such as cheese, than where milk was sold to customers directly; dairy cooperatives could not displace private creameries in urban areas because these incumbents had invested in sophisticated fresh milk distribution networks. The idea behind Douma's work is that organisational forms compete with one another. Perhaps the rapid rise of *boerenleenbanken* can also be seen in this context; their organisational form permitted them to displace incumbents in both the markets for loans (versus *kassiers*) and savings (versus the *Rijkspostspaarbank*). Their organisational form was perhaps most appropriate where the costs of doing downstream business were too high for conventionally owned banks to turn a profit. The Netherlands' cooperatives enjoyed a high degree of enforced cooperative integration; Raiffeisen banks there often made it a requirement that members must also belong to the local chapter of a national (confessional)

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<sup>66</sup> Reports from Her Majesty's representatives (P.P. 1895), p. 22. A similar point is made in Darling, *Some aspects*, p. 36.

<sup>67</sup> Deeg, 'On the development', p. 101.

<sup>68</sup> Douma, 'Waarom bestaan coöperaties?'; Douma and Schreuder, *Economic approaches*.

farming union. Other cooperative enterprises, such as cooperative dairies, became institutional members, sharing management expertise. Integration was facilitated by dense networks of mutual loan cosignatories, facilitating easy information sharing.<sup>69</sup>

In Ireland there were a few notable cases where Raiffeisen societies were integrated with local cooperatives, such as creameries; one of the registered Raiffeisen societies was even called the Kilrea Dairy. Some surviving correspondence from credit cooperatives was written on stationery with headings of the associated dairy cooperative, as in the case of the Ballymoyer credit cooperative, Co. Armagh, whose letter heading stated ‘the Whitecross agricultural and dairy co-operative’.<sup>70</sup> On the whole, however, Irish Raiffeisen banks did not enjoy the same success, possibly because they were not the most appropriate organisation for the job. Incumbents, and especially JSBs, had already cornered the market for loans, and an inability or unwillingness to integrate Ireland’s cooperative enterprises relegated them to an inefficient and costly alternative. As Guinnane highlights, Ireland’s cooperative banks developed neither audit unions nor cooperative clearinghouses.<sup>71</sup> The IAOS performed auditing duties, but these were costly and it soon chose instead to focus on more profitable aspects of its cooperative portfolio: creameries and stores. The IAOS had threatened to establish its own central clearinghouse in 1901;<sup>72</sup> it did so in order to force JSBs to lend to the wider cooperative movement at concessional rates of interest. A favourable agreement was reached in return for cooperative banks channelling all their deposits through JSBs and agreeing not to mobilize savings independently.<sup>73</sup> Whilst this may have hurt them in the long run, at the time this was an expedient solution – a case of cooperative realpolitik. Concessional loans from various government bodies were their other source of funding. Irish Raiffeisen banks’ structure of liabilities could only be maintained if these arrangements were static, an unrealistic assumption: political wrangling saw government bodies withdraw their support for Raiffeisen banks, whilst volatile international markets following the 1907 financial crisis saw JSBs unilaterally alter the IAOS brokered agreements.<sup>74</sup>

Why was there a lack of cooperative integration in Ireland? The way in which cooperative enterprises were established there vis-à-vis the Netherlands provides a possible answer. The emphasis in most discussion on the development of central institutions in the cooperative literature is on

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<sup>69</sup> Sowers, ‘The role of social networks’.

<sup>70</sup> NAI, ICOS Archive, Letter from J. McDermott [manager Ballymoyer Credit society] to IAOS secretary, 15 June 1910, 1088/79/1. Ballymoyer Credit Society worked in conjunction with the Whitecross creamery and loan repayments were made in cash or milk!

<sup>71</sup> Guinnane, ‘A failed institutional transplant’. This absence of a federation did not hamper Ireland’s relatively successful cooperative creameries (Breathnach, ‘The diffusion’, p. 4). However, the creameries’ success does help to explain the Raiffeisen banks’ failure: they developed in-house financial services for their members, vertically integrating their production, therefore competing with Raiffeisen banks.

<sup>72</sup> IAOS, *Annual report 1901*, pp. 10-13. Raiffeisen banks incorporated as unlimited liability societies were legally barred from establishing their own federated clearinghouse, a side-effect of the restrictions imposed on Friendly Societies.

<sup>73</sup> Third report of the R. C. (P.P. 1907), Q.14138; IAOS, *Annual Report 1904*, p. 27.

<sup>74</sup> IAOS, *Annual report 1908*, p. 12.

individual cooperatives combining at a 'higher level'.<sup>75</sup> Whilst this characterisation more-or-less works for the Netherlands, in Ireland the order was more obviously reversed, with a central organisation creating local cooperatives, a top-down development of cooperation. The IAOS established the first Raiffeisen society in Ireland, in Doneraile, Co. Cork, in 1894. It was not until 1912, in the twilight years of Irish Raiffeisenism, that the first cooperative enterprise was founded on the initiative of farmers, because 'in former years the initiative had been taken in all cases by our [IAOS] organisers'.<sup>76</sup>

The role of the IAOS was outlined by IAOS President Horace Plunkett as follows: 'In the first instance it was to consist of philanthropic persons, but its constitution provided for the inclusion in its membership of the societies which had already been created and those which it would itself create as time went on'.<sup>77</sup> Giving evidence to the money lending inquiry, he said that the role of the IAOS was to 'persuade' people to adopt cooperation, which it did by hiring travelling organizers to talk to rural groups and explain the benefits of cooperative methods. George Russell, one such organizer, enticed the crowds with promises of concessional state loans.<sup>78</sup> Meanwhile, in the Netherlands, propagandists employed by the central clearinghouses played a major role in the establishment of local Raiffeisen units.<sup>79</sup> Propagandists were significantly more active in the Catholic networks than in the neutral/Protestant ones; Catholic propagandists, often priests, were invited to lecture at specially-convened meetings of the local chapters of the Catholic farmers' unions to groups of local farmers on the benefits of cooperative banking. The clearinghouse would then provide new banks with the necessary literature and legal advice with which to establish their bank.<sup>80</sup> Unlike in the Irish case, however, the role of the propagandist often continued long after a cooperative's original foundation; the Catholic church maintained formal links with their cooperatives by installing parish priests or other church officials as spiritual advisers to their board of directors.<sup>81</sup> Protestant-led banks appear instead to have been established with the help of local elites, such as village doctors.<sup>82</sup>

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<sup>75</sup> Birchall, *The international co-operative movement*.

<sup>76</sup> IAOS, *Annual Report 1912*, p. 3.

<sup>77</sup> Plunkett, *Ireland in the new century*, p. 192.

<sup>78</sup> Gallagher, *My story*, p. 63.

<sup>79</sup> Borst, 'De Coöperatieve Centrale', recounts how one such organizer operated in the province of Noord-Holland.

<sup>80</sup> This general narrative is consistent with the discussions in 1909 that led to the establishment of the first *boerenleenbank* in Loosduinen (Archief Rabobank Haaglanden (henceforth ARH), The Hague, Notulen Algemene Vergaderingen Loosduinen I).

<sup>81</sup> The Catholic *boerenleenbank* in Rijswijk, a village neighbouring Loosduinen, was run by a Sunday school teacher and met at the school's building (Rijswijk Historisch Informatiecentrum (henceforth RHI), Rijswijk ZH, 80 jaar Rabobank Rijswijk, J. Janse, 1990).

<sup>82</sup> This was the case for the *boerenleenbank* serving the Protestant community in Capelle (Vercauteren et al., *Boeren gingen bankieren*).

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Ostensibly, Ireland had a similar confessional divide to the Netherlands. But while Dutch cooperatives benefited from social division, their Irish counterparts did not. Whilst religious division led to peaceful economic segregation in Dutch rural society, it was a principal cause of social strife on the island of Ireland.

By the late nineteenth century, most Dutch citizens identified themselves with a particular religious denomination, primarily Roman Catholicism, and the liberal *hervormde* (Dutch Reformed) and orthodox *gereformeerde* (literally “re-reformed”) forms of Calvinism. Dutch enterprise and society became highly segregated along religious lines, with different Christian denominations developing sophisticated parallel economies in a process of *verzuiling*, each with its own schools, political parties, newspapers, trade unions, hospitals and banks. The argument put forward, or implied, in the existing literature is that socio-political interest groups – the Catholic clergy above all – were crucial in the creation of the first cooperative banks; these groups viewed cooperatives as a way of consolidating or extending their political influence.<sup>83</sup>

The *verzuiling* of Dutch cooperation was a function of the earlier confessionalisation of rural agricultural politics. A national Nederlandsch Landbouw-Comité (NLC) was established in 1884 to stimulate the improvement of agricultural technology and tackle disease in cattle.<sup>84</sup> However the Catholic press argued that this new grouping did not benefit Catholics as much as Protestants. Support grew for the creation of Catholic-only enterprises in response to *Rerum Novarum*, a Papal Encyclical in support of anti-socialist confessional trade unionism.<sup>85</sup> A new organisation for Dutch agriculturalists emerged in 1895: the Nederlandsche Boerenbond (NBB). The creation of new federated regional unions followed, the largest of which was the Noordbrabantse Christelijke Boerenbond (NCB). These organisations poached members away from the NLC and its federated regional groups. The new unions were predominantly Catholic: farmers in the Catholic provinces (Noord-Brabant and Limburg) made up 73 per cent of the NBB’s membership in 1904, and these groupings were even dominated by Catholics in predominantly Protestant northern provinces.<sup>86</sup>

There was soon serious conflict between regional and federal unions. In 1898 this led to the creation of not one but two central clearinghouses for the Netherlands’ new Raiffeisen banks, one sponsored by the NBB and based in Utrecht, the other by the NCB and based in Eindhoven. The NBB’s clearinghouse rapidly moved away from confessionalism to become a neutral institution and formally disaffiliated from the NBB to complete this process, yet the NCB’s clearinghouse kept its requirement that members sign-up to religious principles: ‘furthering the interest of God, the family

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<sup>83</sup> Jonker, ‘Welbegrepen eigenbelang’; Sluyterman et al., *Het coöperatieve alternatief*; Van Zanden and Van Riel, *The strictures of inheritance*; Rommes, *Rise of rural co-operatives*.

<sup>84</sup> Smits, *Boeren met beleid*.

<sup>85</sup> Pecci, *Rerum Novarum*.

<sup>86</sup> Smits, *Boeren met beleid*.

and property'.<sup>87</sup> As a consequence, new *boerenleenbanken* established after 1898 had a choice of clearinghouse: Catholics chose the Eindhoven network because it was most closely aligned to their interests, whilst Protestants chose the Utrecht network, because it was the other one.<sup>88</sup> The confessionalisation of the Raiffeisen clearinghouses resulted in a *de facto* confessionalisation of local Raiffeisen units, with many villages hosting multiple banks, one for each Christian denomination. The timing of many banks' founding suggests that they were a reaction to the establishment of another denomination's Raiffeisen bank nearby.<sup>89</sup> Banks arguably benefited from catering exclusively for one religious community; peer monitoring was easier, and social sanctions more costly for offenders, but cheaper to administer.

Meanwhile, in Ireland, rather than embrace and use confessional politics to their advantage, cooperative leaders tried initially to keep out of it. They largely failed, and never took advantage of the polity's religious split in the same way as the Dutch. O'Rourke argues that the political divisions following from sectarianism were antipathetic towards dairy cooperation.<sup>90</sup> The same may have been true for Raiffeisen societies. Unlike the Netherlands, there was only one apex institution, the IAOS, which had declared itself to be areligious and apolitical; Protestants and Roman Catholics were involved in its management at the highest levels. Although there is little direct evidence at the firm level to suggest that socioreligious divisions caused the failure of Irish Raiffeisenism, a number of incidents can be found which together suggest it must have been a contributory factor. One example comes from the village of Cliff in Co. Sligo, where 91 per cent of the population was Catholic. In a letter to IAOS secretary R. A. Anderson, local IAOS organizer Paul Gegan writes that he fears that 'the fires of political and religious dissension' may lead to the bank's downfall as the local Roman Catholic population had 'retreated' from the bank.<sup>91</sup>

Confessionalisation in the Netherlands had other advantages; clerical and teacher involvement in the running of Raiffeisen societies there were important aspects of cooperation. As mentioned, there were many cases where banks had priests as spiritual advisors on their management boards. Although their influence varied substantially, in some banks these priests had *de facto* veto power over bank

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<sup>87</sup> The statutes of the *boerenleenbank* in Baardwijk, Noord-Brabant, include a typical clause to this effect (ARL, Statuten Boerenleenbank te Baardwijk).

<sup>88</sup> One additional, regional, clearinghouse was established in 1904, for Catholics residing in the provinces of Holland, further complicating this choice. This proved to be an unsuccessful venture, however; it was closed in 1924 following serious mismanagement, freeing its member banks to join one of the remaining national federations (Borst, 'De Coöperatieve Centrale').

<sup>89</sup> A second *boerenleenbank*, this time for non-Catholics, was established in Rijswijk just months after the first, in 1910 (RHI, 80 jaar Rabobank Rijswijk). A second bank was established in Loosduinen in 1916 by disaffected Catholics (ARH, Bestuursnotulen Loosduinen I) following the example of a new Catholic-only horticultural auction house founded there shortly before (Vijverberg, 'Het Loosduinse'). Corporate business histories of *boerenleenbanken* elsewhere in the country document similar schisms resulting in the founding of multiple banks (Moolenbel, *Van zeven boerenleenbanken*; Moolenbel, *Tussen plak en euro*; Rabobank Gemeente Voorst, *Een eeuw*).

<sup>90</sup> O'Rourke, 'Culture, conflict and cooperation'.

<sup>91</sup> NAI, ICOS Archive, Cliff Agricultural Bank, 8 July 1900, 1088/206A/1.



decision making, strengthening the link between congregation and clientele.<sup>92</sup> However, in Ireland, these important socioeconomic groups were not as prevalent. Clerical assistance was not widespread, despite the prominent support of the Jesuit priest Thomas Finlay, a chair of political economy at University College, Dublin. The Irish Catholic clergy was not a homogeneous body and clerical support was likely determined by numerous conflicting factors. Kennedy notes that: ‘without doubt the clergy entertained a general sympathy for any attempts that might appear to promote the economic prosperity of their congregations, provided there were no adverse side-effects as viewed from the vantage point of the Catholic Church’.<sup>93</sup> He also argues that “kinship ties” may have influenced clerical behaviour and may have reflected their social origins.

If cooperative ventures were at odds with the economic interests of the Irish Church, or those of its prominent financial contributors, or if direct kinship ties were threatened, the clergy may even have actively opposed cooperation. Given that the IAOS had declared that Raiffeisen societies were to be used to attack gombeenism, or rather rural shopkeepers, if successful this may have impinged on the wealthier patrons of the Church; the mixed loyalties of the clergy helps to explain its lack of participation in Raiffeisen societies.<sup>94</sup> Clerical involvement would have been useful; priests could have been an important link between businesses and the society they served. There was already a *de facto* confessionalisation of the Irish education system, leading to clerical control over the patronage of schools;<sup>95</sup> clerical involvement in cooperatives would have made it easier to obtain the services of local teachers to act as cooperatives’ treasurers, in much the same way as they did in the Netherlands.

Social division also played a role in the legal history of cooperation. The issue of limited versus unlimited liability was a divisive issue across Europe; a number of influential actors in both Ireland and the Netherlands believed unlimited liability hampered the development of cooperative banking.<sup>96</sup> From an asset pricing perspective, unlimited liability means that debt holders have full recourse, thus shareholders give more weight to both tails of asset returns, with the consequence that they monitor more closely the efforts of their peers. Unlimited liability implies that if a credit cooperative were to fold, all its members, in unison, would be liable for all outstanding debts. Yet it did not imply that the liability would be shared equally; if the asset holding of members was not homogeneous, then those with more assets (i.e. more deposits) would be forced to contribute more to any settlement. It is therefore unsurprising that, in theory, there could have been some reluctance to

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<sup>92</sup> Vercauteren et al, *Boeren gingen bankieren*.

<sup>93</sup> Kennedy, ‘The early response’, p. 69.

<sup>94</sup> This lack of support may have led to the publication of Plunkett, *Ireland*, which exhorted the view, reminiscent of Weber, *The Protestant ethic*, that Roman Catholicism had been detrimental to Irish economic development.

<sup>95</sup> Akenson, *The Irish education experiment*.

<sup>96</sup> E.g., De Nederlandsche Bank, the Dutch *de facto* central bank, refused many cooperatives access to its discount window because their legal liability choice meant they had little disposable capital (De Vries, ‘Geschiedenis’; Sluyterman et al., *Het coöperatieve alternatief*).

join credit cooperatives, which all chose unlimited liability in accordance with Raiffeisen's principles. In practice, this was a problem in Ireland, but was apparently a non-issue in the Netherlands. Why?

When JSBs were formed in the early nineteenth century, they were established as unlimited liability enterprises. By the time Raiffeisen institutions were introduced to the island, most of the polity's banks had limited their liability in some way, albeit using more complex liability structures than are seen today.<sup>97</sup> Before limited liability was introduced to the UK, contemporary observers of the banking system, such as the parliamentarian Sir William Clay, often complained that unlimited liability attracted low-wealth individuals and repelled the wealthy.<sup>98</sup> The argument went that the choice of unlimited liability resulted in a *de facto* limitation in any case, a market for lemons: a lack of information on the financial assets of shareholding peers results in the non-participation of wealthier shareholders. Using data on the composition of bank shareholders before and after the limitation of Ulster Bank shareholders' liability, in the last quarter of the nineteenth century, Acheson and Turner show that liability limitation if anything increased the proportion of equity-holders with low wealth.<sup>99</sup> What makes Raiffeisen banks so different to JSBs, however, is that shareholdings were not valuable: purchasing a share in a JSB required the handing over of substantial sums of money, whatever eventual additional liability that came with them, whilst joining a Raiffeisen bank merely required a signature. "Shareholders" in Raiffeisen societies may therefore have been of the poor quality identified by Clay.

Rural Ireland was not a homogeneous society, and to ensure success, a credit cooperative required participation from diverse interests. Lee argues that the unlimited liability clause could have hampered the outreach capacity such business organisations theoretically enjoy, as members may have voted not to admit those who, they viewed, did not have sufficient means.<sup>100</sup> Land occupation statistics are evidence of a very unequal distribution: in 1894, when Raiffeisen societies were first introduced to Ireland, 84 per cent of farms were under 12 hectares, 58 per cent were under 6 hectares, and those over 20 hectares, a proxy for the wealthiest, comprised 16 per cent.<sup>101</sup> Conversely to Lee's argument, it is highly plausible that large land occupiers were discouraged from participation in Raiffeisen societies in an Akerlof lemons process, as discussed above. Moreover, wealthier landholders had no pressing need to join a Raiffeisen society as they had access to other credit streams, including limited liability cooperative creameries, and had access to a variety of financial investments in their local communities, including JSB shares. The result was that the most "desirable" members were absent from the Raiffeisen projects of many villages, rendering them unsustainable in the long run. If the

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<sup>97</sup> Acheson and Turner, 'The impact of limited liability'.

<sup>98</sup> Turner, "'The last acre and sixpence'".

<sup>99</sup> Acheson and Turner, 'The impact of limited liability'. This finding is largely confirmed by the authors' other studies of nineteenth-century banking in the UK (Acheson and Turner, 'The death blow'; Turner, 'Wider share ownership?').

<sup>100</sup> Lee, *The modernisation of Irish society*.

<sup>101</sup> Agricultural statistics of Ireland (P.P. 1894). The figures have been converted from acres for purposes of comparison.

wealthier members of Irish society had joined Raiffeisen banks, contributing their knowledge, expertise and wealth, the quality of leadership and administration may have been enhanced.

Unlike the Irish case, the Netherlands had no equivalent to rural JSBs. Provincial banking houses were small partnerships, and the branching of the large joint stock commercial banks of Amsterdam and Rotterdam only really took off in the early 1910s.<sup>102</sup> Whilst wealthy Irish agriculturalists could make use of the services of their local JSB branch, their Dutch counterparts had no such option. Dutch society was not homogenous in terms of wealth-holding, yet the *verzuijing* ensured that communities were instead homogenous in terms of socioreligious identity. Raiffeisenism became an attractive proposition, also for the rural elite; better-off farmers overcame the problems associated with Ireland's Raiffeisen banks' lack of valuable shareholding, and even helped to run these new banks, by taking advantage of their socioreligious proximity to their peers.

## VI

Using a comparison of Ireland and the Netherlands, this paper argues that Raiffeisenism was more successful in the latter because: (1) Dutch Raiffeisen banks mobilized members' savings, whilst their Irish counterparts did not; (2) unlike the Irish case, Dutch cooperative enterprises were highly integrated into the rest of the rural economy; (3) Raiffeisen societies took advantage of the segregation of Dutch society, whilst Irish socioreligious and socioeconomic divisions severely hampered the successful development of Raiffeisenism. The relative importance of these three arguments is a question for future research; the possibility that any one is sufficient to explain the contrasting histories of Raiffeisenism in Ireland, the Netherlands, or elsewhere in Europe, would be speculation at this point.

As discussed in the introduction, this paper is motivated by the pioneering work of Guinnane. He argues that Irish cooperatives were a failure for three reasons: (1) competition in savings markets from the POSB; (2) the weakness of the IAOS as an apex institution; and (3) detrimental norms peculiar to Irish society.<sup>103</sup> This paper strengthens and revises Guinnane's conclusions as follows: (1) it was competition from JSBs rather than the POSB that hampered Raiffeisenism in Ireland, competitors largely absent from Dutch markets, where a post office bank was also present; (2) the IAOS chose not to establish a federated clearinghouse in order to survive this competition, whilst Dutch apex institutions were free to fully integrate into rural society; and (3) the lack of trust Guinnane observes in Irish society can be explained by socioreligious and socioeconomic division.

In conclusion, in light of the discussion in this paper, the question posed by Guinnane is perhaps the wrong one; the issue should not be why Raiffeisen banks failed in Ireland, but instead why

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<sup>102</sup> De Vries, 'Geschiedenis'; Van Zanden, 'Old rules'.

<sup>103</sup> Guinnane, 'A failed institutional transplant'.

they succeeded in the Netherlands and, by extension, Germany. The Netherlands had a highly segmented market, with different specialist financial institutions serving different groups within Dutch society. Raiffeisen banks were able to take advantage of a niche within this market which was still largely unpopulated by incumbents, or, at least, unpopulated by banks that could take full advantage of the society they served. In contrast, Ireland enjoyed competitive, unsegmented markets in which incumbents, such as JSBs and savings banks, already offered rural societies a full selection of financial services; there was little room for new entrants, and little advantage to be gained from cooperative ownership. In explaining the origins of Germany's universal banking system, Deeg argues that its financial markets were highly segmented.<sup>104</sup> Perhaps the German story followed the Dutch case.

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<sup>104</sup> Deeg, 'On the development'. This characterization is in contrast to earlier writing on Germany's banking system in Gerschenkron, *Economic backwardness*. See Fohlin, *Finance capitalism*, for a discussion of the Gerschenkron thesis.

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Table 1. *The institutional attributes of German Raiffeisen banks and their Irish and Dutch imitations*

<i>Category</i>	<i>Germany</i>	<i>Ireland</i>	<i>The Netherlands</i>
System of regulation	Choice limited to one act	Choice of acts; neither designed for cooperatives	Choice of acts; varying appropriateness
Scale of operation	Local	Local	Local
Polity coverage	National	Regional (mainly in the west)	National
Liability structure	Unlimited	Unlimited	Unlimited
Loan security	Two cosignatories	Two cosignatories	Two cosignatories; collateral considered on occasion
Loan term	Varied (short-, medium- and long-term)	Short-term only	Varied (short-, medium- and long-term)
Government subsidy	Little (some subsidized government loans)	Heavy subsidization (concessional loans)	Nominal (small start-up grants)
Use of profits	Retained	Retained	Retained
Unit independence	Yes; but influenced by apex institutions	Yes	Yes; but influenced by apex institutions
Paid management	Only treasurer is paid	None	Only treasurer is paid
Federated apex institutions	Separate regional clearing and audit unions	None	Combined confessional clearing and audit unions
Cooperative integration	Integrated with other cooperative enterprises	None	Integrated with other cooperative enterprises

*Source:* Own research based on the schema used in Hollis and Sweetman, ‘Microcredit’.

Table 2. *Agricultural output per hectare in Germany, Ireland and the Netherlands*

	<i>Germany</i>			<i>Ireland</i>			<i>The Netherlands</i>		
	<i>1871</i>	<i>1891</i>	<i>1911</i>	<i>1871</i>	<i>1891</i>	<i>1911</i>	<i>1871</i>	<i>1891</i>	<i>1911</i>
Wheat	1.17	1.40	1.98	1.52	2.15	2.50	1.65	1.60	2.63
Barley	1.34	1.55	1.99	1.91	2.33	2.42	2.17	2.10	2.79
Oats	1.17	1.53	1.78	1.59	1.95	2.04	1.97	2.01	2.17
Potatoes	5.90	7.43	10.35	6.63	10.12	15.71	7.04	7.11	14.88
Sugar beet		24.77	18.84				37.92	18.30	35.80

*Sources:* Own calculation using Mitchell, *International historical statistics*; Maddison, *The world economy*; Knibbe, *Agriculture in the Netherlands*.

Table 3. *Livestock per 1,000 of the population in Germany, Ireland and the Netherlands*

	<i>Germany</i>			<i>Ireland</i>			<i>The Netherlands</i>		
	<i>1873</i>	<i>1892</i>	<i>1913</i>	<i>1871</i>	<i>1891</i>	<i>1911</i>	<i>1885</i>	<i>1891</i>	<i>1910</i>
Horses	90	78	71	100	127	141	74	59	55
Cattle	395	362	323	737	951	1,076	415	334	339
Pigs	1,774	251	395	300	292	325	122	119	211
Sheep	625	280	85	784	1,009	892	213	177	149
Goats	57	64	54						
Poultry				2,171	3,264	5,809			

*Sources:* Own calculation using Mitchell, *International historical statistics*; Maddison, *The world economy*.

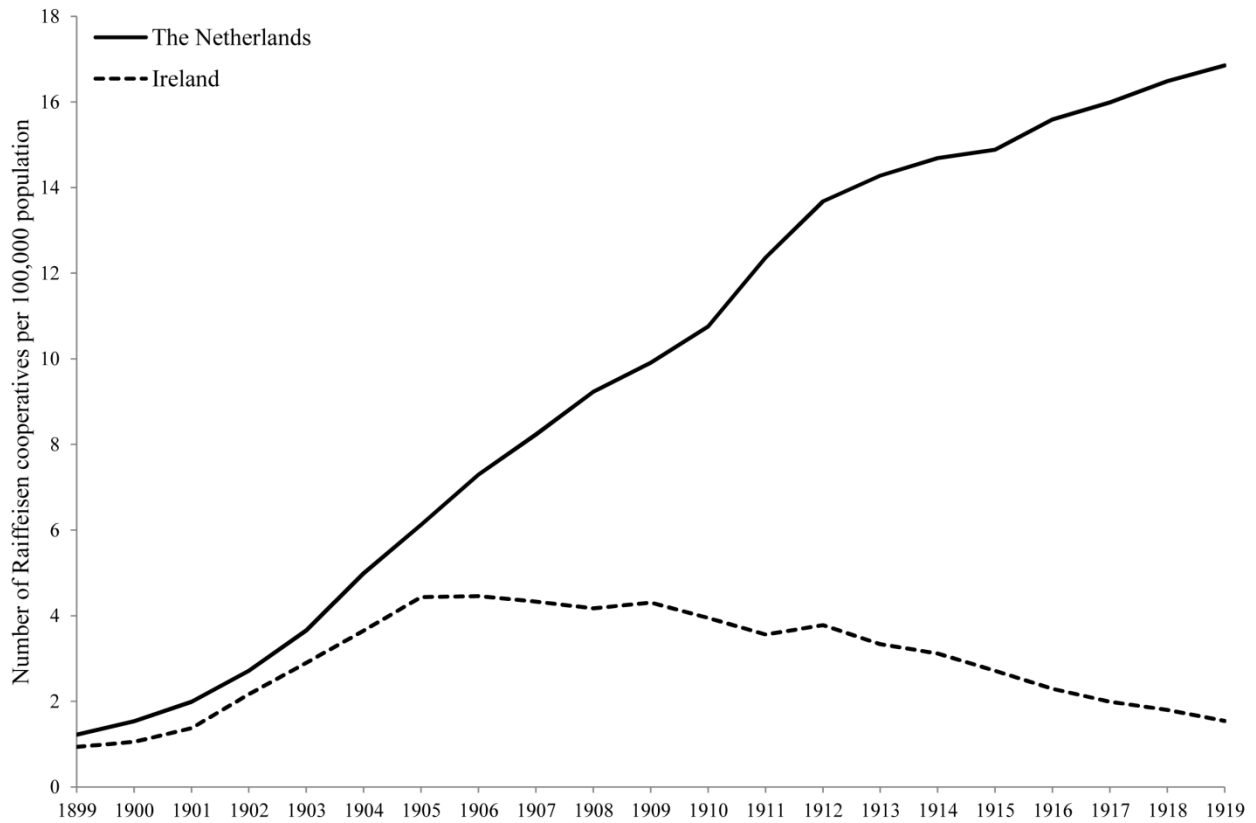


Figure 1. *Number of active Raiffeisen cooperatives in Ireland and the Netherlands per 100,000 population, 1899–1919*

Sources: IAOS, *Annual reports 1899-1920*, for the number of banks in Ireland. CCB, *Jaarverslagen 1904-1919*; CCCB, *Jaarverslagen 1904-1919*; CCRB, *Jaarverslagen 1904-1919*, for the number of banks in the Netherlands. Maddison, *The world economy*, for population data.

