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Project „Beziehungen und soziale
Netzwerke“, 2003-2007, Prof. Dr. Pfister

Bequest motivation, investments and old-age pocketmoney
– but no transition in life-cycle strategies.
Saving in a 19th century northwestern German municipality

Johannes Bracht

“Asset Management of Households, 1300-1800”
Utrecht, 18 January 2012

Motivation

- Saving is a very strategic economic behaviour. Analysing saving means analysing people’s plans, exspectations and economic capability.
- Bank accounts were introduced in the 19th century. Leading reformers expected to help people in managing economic stress in old age.
- The role of market solutions in life-cycle management. A contribution to the history of institutional change.

(Hypothesis: old-age provision shifted “from households to markets to government” (D. North).

Deductive method

Differentiation of savings behaviour:

- „individualistic“ (life-cycle saving),
 - „reciprocity oriented“ (bequest-saving for securing the childrens aid)
 - „altruistic“ (allowing the children to attain a high living standard)
- „To what purpose did people save?“

Inductive method

Analysing retirement and farm-transfer contracts

„How did people organize and finance old age?“

Context

- In 19th cent. Borgeln is a parish and municipality near Soest (c.9000 inhab.)
- Borgeln is situated in a crop export region (Ruhr-area in the west) on very good soils.
- Remarkably output and productivity gains between 1830 and 1880 (Kopsidis 2004)
- vital labour market (rural servants), vital credit market (citizens) (Bracht 2009), but no land market (G. Fertig 2007)
- One of the first savings banks in Prussia was founded 1825 in Soest. It turned to be the wealthiest savings bank in Westphalia until 1850.



Figure 2: Geographical setting of the study:
Borgeln in Westphalia (borders of 1815)

Data description

- Savings accounts from the savings bank of Soest, possessed by inhabitants of Borgeln (1830-67)
N=601,
left-censored (account opening not documented): 5,
right-censored (closing not documented): 139.
- Land title registers 1830-66
Mortgaged debts
Size and value of landed property
- Farm transfer contracts (N=679)
- Family reconstitution Borgeln (1700-1910)

Figure 1: Simple model of Modigliani’s life-cycle hypothesis

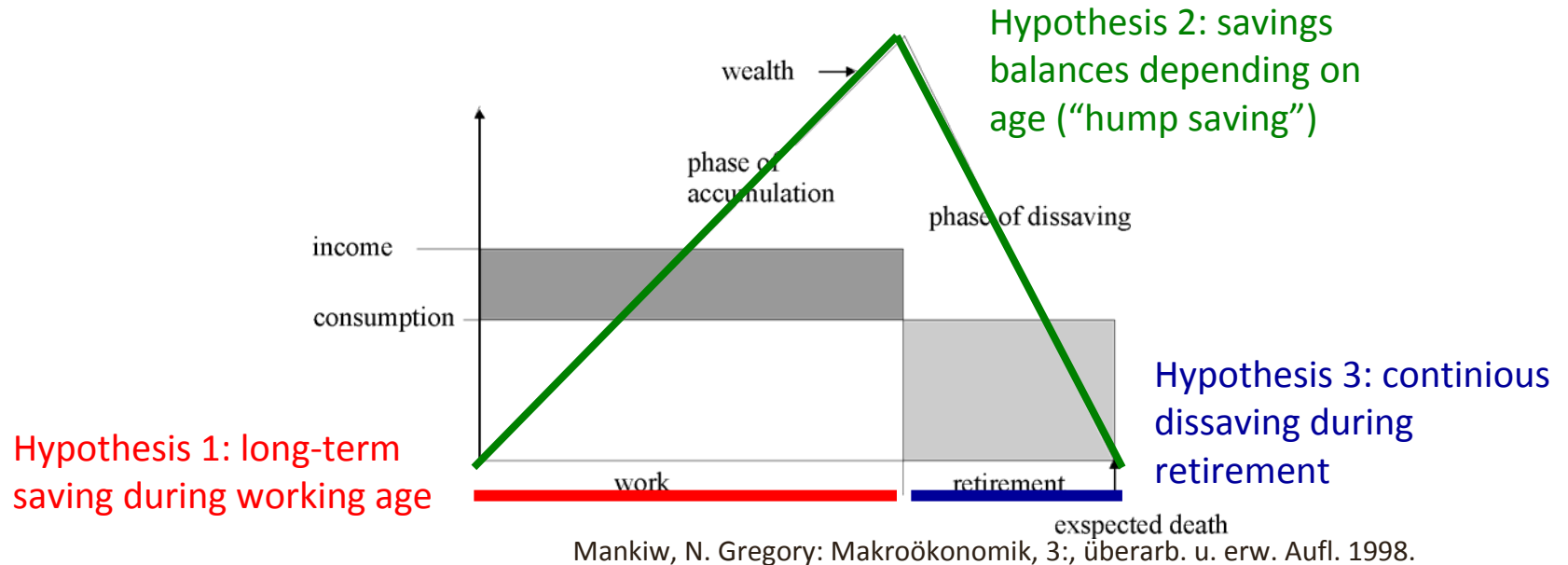


Table 2: Factors influencing the savings balances 1865 (OLS-regression)

	1		2	
	N= Account holders with a house or farm		N= Account holders without a house	
	-coeff.	Sign.	-coeff.	Sign.
Dependent variable:				
Savings balance (nat. Log.) 1865				
Independent variables:				
life-cycle saving	Age of the account holder	3.31	6.99 ***	
	Age of the account holder ²	0.19	-3.06 ***	
	Sex	0.58	-0.07	
bequest saving	Children alive 1865	0.08	-0.09	
income proxies	Farm size	0.56 *		
	Duration of farm possession	-1.01		
	Married		-0.02	
	Widowed	-2.78 ***	-0.34	
	Constant	1.67	0.70	
	N	36	54	
	R ²	0.40	0.23	
	R ² corr.	0.26	0.13	

Table 3: Duration of accumulating and dissaving in Borgeln

	Peasants (Kolone)	Rural servants	Small- holders	others	total
Accumulation/ Saving					
Number of cases (N)	96	212	79	173	560
Duration of accumulation in years (arithm. mean)	5.44	5.27	4.57	6.68	5.63
Dissaving					
Number of cases (N)	70	153	68	132	423
Duration of dissaving in years (arithm. mean)	1.79	1.67	1.59	2.30	1.87

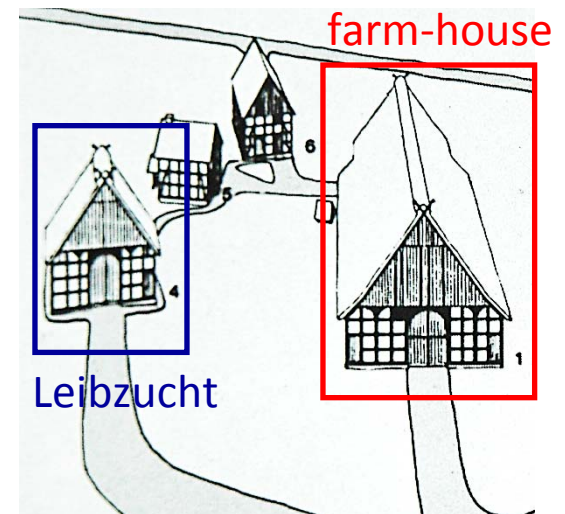
Sources: Savings banks accounts Soest; database „Konten“.

Table 5: Logistic regression on the hazard of withdrawal from bank account

	coeff.	Sign.		coeff.	Sign.
Dependent variable:					
Net withdrawal per year					
Independent variables:					
life-cycle hypothesis (Modigliani)	Age of account-holder 20-29	1.292		1830s	-1.741
	Age 30-39	0.391		1840s	-0.913 *
	Age 40-49	0.146		1850s	1.000
	Age 60-69	-0.741		1860s	0.299
marriage fund, household	Accountholder has married	0.944		Redemption payment	-0.001
	Child was born	0.151		Purchase of land	1.749 ***
cons./ labourer relationship (Chajanov)	Period of child education	-0.180		Sale of land	1.285 +
	Child attained majority	-0.940	+		
inheritance compensations	Child has married	1.128	+	Size of the farm	-0.005
	Spouse has died	1.033		Debt level	-0.001 +
	Farm was handed over	0.117		Price of wheat	-0.066
				Fixed variables	
				Constant	-0.076
Level of significance: + 10%, * 5%, ** 1%, *** 0.1%					
	McFadden-R ²	N			
	0.159	478	each year of a farm owner holding an account, Borgeln, 1830–1866		

The „peasant solution“: old age provision in retirement contracts, 1830-1866

- Most retirement contracts included the formula of transferring „the entire wealth“ to the succeeding generation.
- *Leibzucht* included a room or even a separate house, food and health care supported by the successors
- *Usufruct* was a frequent form of delaying retirement
- No savings accounts were mentioned in retirement contracts before 1866 at all.



Source: Museumsführer Westf.
Freilichtmuseum Detmold, 2. erw. Aufl.
Detmold 1987.

Few exceptions from the rule appear at the end of the 19th century:

*“The couple [Karje] reserves the right of usufruct and administration of the entire wealth and **excludes the capital deposited** at the urban and rural savings banks from handing over to their son” (1879)*

Wilhelm and Maria Mettner reserved
*“the dominium [Herrschaft] in form of the usufruct. The old peasants are allowed to renounce the usufruct and retire [auf die Leibzucht ziehen], whenever they want to. Moreover **all deposits at the savings bank and all savings being made in the time of the usufruct are excluded** from transferring and reserved for full personal use” (1903)*

Few exceptions from the rule appear at the end of the 19th century:

*“Margaretha Wortmann and her son lived nearly for their whole lifetime in the household of [her half brother] Caspar Wortmann. He provided them **entire vital requirements**. The wealth of Margaretha Wortmann includes*

- 1. the plot no. 2-224...,*
- 2. the savings deposed with the Savings bank of Soest amounting 5,801.23 Mark ... and with the Rural Savings Bank of Soest [Ländliche Sparkasse zu Soest] amounting 1,393.95 Mark...*
- 3. Moreover M. Worthmann is the owner of a coffer, a complete bed and a stock of linen.*

*Margaretha Worthmann is **transferring all of her wealth** to her half brother Caspar to his entire property, but she is retaining usufruct for her lifetime.” (1889)*

Conclusion

retirement...

- The “peasant solution”, the *Leibzucht*, remained to be the most preferred and aspired way of old age provision.
- Care and board could only be secured within a *Leibzucht*-relationship, because there was no market-solution for this purpose.

savings...

- no evidence of rational strategies of dissaving for consumption purposes in and during old age
- Saving accounts were—if at all—used for means of accumulation in order to contract a *Leibzucht*
- At best savings enriched the asset allocation opportunities of well-off peasants
- Savings and *Leibzucht*, the “modern” and the “traditional” way , were links of asset allocation chains.
- The “market-solution” promoted achieving the “peasant-solution”.



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