The crisis of the subprime plantation mortgages in the Dutch West Indies, 1750-1775

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Bram Hoonhout

> Finally there appeared in the last place another new Fund, which, following the beaten track, was also represented by an agent, who without discrimination granted Credit whereby in the end even the pettiest, yes craftsmen, were metamorphosed into planters (…)[1]
> *Adriaan Gootenaar, administrator and colonial agent, 1778.*

We just experienced one of the greatest financial crashes in history, which started with subprime loans in the American housing market. Therefore, one might assume that this subprime crisis was a highly unique event, yet there are some interesting historical parallels to be drawn. In the twenty-first century, we find a system that stimulated risky lending to people who could hardly afford a mortgage, yet still received one, based on the premise that the risk would be offset by rising property prices. While this system was successful in increasing homeownership, it also led to the Great Recession after Lehman Brothers declared bankruptcy in September 2008.[2]

In the Dutch Republic, in the second half of the eighteenth century, a credit system was devised that looked remarkably similar. Instead of houses, the collateral consisted of plantations in the West Indies, and the borrowers were people who desired to become rich by producing sugar, cotton or

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[1] *Verslag over de toestand van de kolonie Suriname (door mr. C. Graafland en A. Gootenaar, voormalig secretaris van de kolonie). Met twee bijlagen, 1778*, National Archive, The Hague, Archive Sociëteit van Suriname (hereafter NA, SvS), inv. nr. 509. Original quote: 'Eyndelyk vertoonde sig in de laaste plaatse nog een nieuw Fonds, het welk de gebaande wege volgende, en door een agendaris wierd gerepresentierd, dewelke sonder onderscheyd Crediet verleende waardoor eyndelyk de geringste ja ambachtsleiden in Planters gemetamosphoseerd wierden (…)' (my own translation).

[2] R.M. Hardaway, *The Great American Housing Bubble. The Road to Collapse* (Santa Barbara 2011) xx.

coffee. Rising prices in the booming coffee sector seemed to guarantee the viability of the system and a staggering 80 million guilders is estimated to have been invested in these plantation mortgages, called *negotiaties*.[3] These negotiatie loans were sold to investors, after being cut up in pieces of usually 1000 guilders. Plantation ownership increased dramatically, because credit was granted to almost anyone who desired a mortgage, as Adriaan Gootenaar asserted above. However, the system was too risky to be sustainable and the inevitable crash came in the 1770s, wiping out much of the invested capital.

This article aims to increase our understanding of this subprime plantation mortgage crisis: it starts with a definition of 'subprime loans' and the necessary context, followed by an analysis of the rise and fall of the negotiatie system, through the model of a classic mania; secondly it examines the roles of different actors in the emergence and endurance of the system; the third and final part makes a brief comparison with the twenty-first century subprime crisis.

Subprime lending and its context

First we need to understand what a subprime mortgage actually is In my view, a subprime mortgage has two related characteristics. Firstly, the amount of credit is based on the value of the collateral, rather than on the borrower's capacity to repay. This is because the system aims to attract people of below-average creditworthiness. Secondly, repayments require and depend on a rise in the value of the collateral. In practice this means that, given their low earnings, many borrowers are not able to make periodic repayments of the loan. Consequently, the only way to repay the loan is to sell the collateral at the end of the loan term for at least the original sum.

Furthermore, stable prices are not enough. A subprime system will only continue to work smoothly as long as borrowers can avoid the problem of repayment by taking out more and more credit. This makes a subprime system circular and self-defeating: in order to convince creditors to lend money to unreliable borrowers, the interest rate would have to be set high. Yet this means that borrowers will have difficulty in meeting the

[3] J.P. van de Voort, *De Westindische plantages van 1720 tot 1795. Financiën en handel* (Eindhoven 1973) 184.

required payments, and they are likely to get further into debt. In turn, this makes them even less reliable as borrowers, so they would have to pay high interest rates for any of the extra credit they need. This cycle of debt accumulation makes a subprime system inherently unstable. It can only last as long as lenders are willing to grant ever more credit. In effect this means that the system last as long as collateral values keep rising. Speculation is an important element for the continuation the upward trend, and it follows that a subprime system can only thrive in an atmosphere of overconfidence.[4] While a subprime system will collapse as soon as collateral prices go down, even the flattening of prices can undermine the necessary confidence. Subprime lending would therefore not take place without a potential for high profits, nor would it gain ground if all actors acted rationally and completely understood the risks from the outset. Some form of clouded judgement or irrational exuberance must be present on at least one part of the actors, which can result from information asymmetry or from the complexity of the financial products.[5]

The above characterization is just a first attempt at defining the subprime mortgage concept, for at the moment a generally accepted definition is lacking, and the phenomenon is usually seen in relation to the recent American housing crisis.[6] While the term 'subprime' is indeed recent, it could be useful to go beyond this self-referencing and take 'subprime loans' as a concept rather than an historically specific phenomenon. It then becomes clear that it can be found in other historical periods as well.

The context in which the subprime plantation loans emerged after 1750 was the expansion of plantation economies in what is now Surinam and Guyana. These colonies offered a bright economic future: on slave-driven plantations, valuable tropical commodities like sugar, coffee, and later also cotton, were produced for the European market. This required enormous capital investments but cash was scarce in the colonies. Planters had to import almost everything and their African labour force was especially expensive. Therefore, the governor of Surinam asked the mayor of Amsterdam, Willem Deutz, to devise a credit system to stimulate colonial expansion. And in 1753 Deutz came up with the negotiatie system: a

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[4] M. Lewis, *The Big Short Inside the Doomsday Machine* (New York 2010).
[5] R.J. Shiller, *Irrational exuberance* (2nd edition; Princeton and Oxford 2005) 68-78.
[6] Hardaway, *Housing Bubble,* 142-143; R.J. Shiller, *The Subprime Solution. How Today's Global Financial Crisis Happened, and What to Do about It* (Princeton 2008).

director of a negotiatie fund would act as intermediary between the investors in the Dutch Republic and (prospective) planters in the colonies. The fund would raise capital by selling bonds, which carried an attractive interest rate of five to six per cent. On the other side of the Atlantic an agent would look for creditworthy borrowers and appraisers determined the value of an estate or a new plot of land, based on the total value of the land, buildings and slaves. Subsequently, a mortgage could be arranged with the fund, and the planter typically was allowed to receive up to five-eighth, or sometimes three-quarters, of the appraised value in credit. During the first ten years the planter only had to pay interest, while during the next decade he also had to repay the principal. The new planter had to declare he would send all his produce to the fund director, who would sell it for a commission fee. Often the same condition applied for the planter's imports.[7]

On first glance this system benefited all players involved: the planters got the necessary credit, the fund director received several fees and the investors enjoyed a return on their capital that was almost twice as high as elsewhere in the Dutch Republic.[8] However, the negotiatie system proved subprime, containing far more risks than initially expected. The system attracted many parvenu planters, as loans were based on the value of the estate, rather than its productivity or profitability. As long as the appraisals of the plantations continued to increase, the system appeared sound. Yet when confidence was undermined, it quickly collapsed. Most of the loans originated before 1776 and should have been repaid before the end of the century. However, at the end of the century, less than one-third of the original investment was returned to the creditors, while most of the rest was lost forever.[9] This prompts the question: how was this financial catastrophe possible?

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[7] Van de Voort, *Westindische plantages,* 91-94.

[8] M. 't Hart, 'Mutual advantages: State bankers as brokers between the city of Amsterdam and the Dutch Republic' in: O. Gelderblom ed., *The Political Economy of the Dutch Republic* (Farnham 2009) 115-142: 116.

[9] Van de Voort, *Westindische plantages,* 180, 184, 195.

The plantation loans as a mania

In the literature the failure of the plantation loans is often linked to the 1772-1773 stock exchange crisis in Amsterdam. Especially Piet Emmer claimed that the Bourse crash itself was caused by planters who could not afford their loans anymore once their interest-only period was over.[10] However, the causality seems to run the other way. The stock exchange crisis had an external cause, found in speculation in London by Dutch merchant houses, and only afterwards did it have an effect on the negotiatie system by making investors more wary of their investment portfolio. Alex van Stipriaan and Gert Oostindie have therefore argued against this emphasis on the stock exchange crisis, and focused more on the difficulties that were inherent in the plantation economy in general, and the mortgage system in particular. Indeed, this seems a more promising approach.[11] To enhance our understanding we have to ask a different question. We should not just explore why the negotiatie system failed, but also ask how such a risky subprime structure could it have been so successful in the first place.

If we look more closely at the negotiatie system, we can see it follows Charles Kindleberger's model of a bubble or mania.[12] It started when a new opportunity for profit was created by the financial innovation of the negotiatie fund. Deutz himself had not been very successful himself - by the time of his death in 1757, he had granted 900,000 guilders in unsecured loans out of his own pockets - but a few years later the conditions seemed favourable again. Rising coffee prices and peace agreements with the maroons in Surinam improved the prospects, especially for the coffee sector, which received 85 per cent of Surinam's plantation loans before 1769.[13]

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[10] P.C. Emmer, *De Nederlandse slavenhandel 1500-1850* (Amsterdam 2000) 171.
[11] A. van Stipriaan, 'Debunking Debts. Image and Reality of a Colonial Crisis: Suriname at the End of the 18th century', *Itinerario* 19.1 (1995) 69-84; A. van Stipriaan, *Surinaams contrast. Roofbouw en overleven in een Caraïbische plantagekolonie 1750-1863* (Leiden 1993) 216; G. Oostindie, 'The Economics of Surinam Slavery', *Economic and Social history in the Netherlands* V (1993) 1-24; P.C. Emmer, 'Capitalism Mistaken? The Economic Decline of Surinam and the Plantation Loans, 1773-1850: A Rehabilitation', *Itinerario* 20.1 (1996) 11-18.
[12] C.P. Kindleberger, *Manias, Panics, and Crashes. A History of Financial Crisis* (2nd edition; New York 1989) 17-23.
[13] Van de Voort, *Westindische plantages*, 95-96, 187-188; Van Stipriaan, *Surinaams contrast,* 217.

The result was a real boom in the extension of plantation mortgages. This phase, the heyday of the negotiatie structure, lasted until 1770. Until then the system had proven to be effective in enlarging the plantation sector in the various colonies. As many dozens of new plantations were laid out, the production of cotton and especially coffee increased dramatically.[14] However, the system became overheated. The boom had turned into a bubble as inexperienced planters were given 100 per cent mortgages, based on valuations that were pushed upwards solely by speculation. At the time, this upward trend seemed warranted by rising prices of both inputs and output: slave prices rose and peaked in 1769, while coffee prices also increased dramatically from 72 cents per kilo in 1761 to 104 cents in 1769.[15] But this was really the top of the mania. At this point new entrants were balanced by retreats, as the shaky fundamentals of the system became increasingly apparent. External factors, such as a severe drought and renewed maroon attacks in Surinam, cast doubt on the allegedly bright future of the negotiatie system. Those who foresaw what was happening began to cash out. At least 59 plantations were sold before 1769, valued at more than 9.5 million guilders, over half of them in 1769 alone. Surinam's governor, Jean Nepveu, provided a similar account: he asserted that in 1770 at least 80 plantations were sold, for more than 12 million guilders.[16] Indeed, credit conditions began to tighten and already in 1771 remarks are made about the shortage of credit.[17]

Now that the mania was over, financial distress began to show. The number of new mortgages decreased, and the prices of coffee and slaves came down again from their peaks in 1769-1770. The result was that

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[14] Van Stipriaan, *Surinaams contrast,* 439; E.W. van der Oest, 'The Forgotten Colonies of Essequibo and Demerara, 1700-1814' in: J. Postma en V. Enthoven, *Riches from Atlantic Commerce. Dutch Transatlantic Trade and Shipping, 1585-1817* (Leiden and Boston 2003) 329.

[15] Van Stipriaan, *Surinaams contrast*, 434-5; http://www.slavevoyages.org, accessed 10 May 2013. The Trans-Atlantic Slave Trade Database is a joint project that combines scholarly knowledge on the trans-Altantic slave trade, assembled by many different researchers.

[16] Van Stipriaan, *Surinaams contrast*, 69. According to the calculator of the International Institute of Social History, the sum of 9,5 million guilders would today represent a value of 90 million euros; http://www.iisg.nl/hpw/calculate2.php, accessed 14 June 2013.

[17] J. Hudig Dzn., *De West-indische zaken van Ferrand Whaley Hudig 1759-1797* (Hilversum 1922) 63.

planters were saddled with huge debts, from which they could hardly escape. Slaves, bought at peak prices, could not provide the necessary income in face of the declining coffee prices. And while lower slave prices might sound like a good development from a planter's perspective, it also meant that the valuation of the planter's estate would go down, as slaves formed a key part of a plantation's value. Therefore, it became increasingly difficult for a planter to receive more credit, even if he genuinely wanted to invest in his business. All of this meant that the negotiatie system was very vulnerable, and the 1772-1773 financial crisis provided another major blow. The crisis ended the unbridled optimism and brought down the firm of Clifford & Chevalier, which held plantation loans as part of its portfolio. The final shock was probably the downfall of one of the biggest mortgage funds, that of Abraham ter Borch & Sons, which suspended payments in 1772 and was taken over in January 1774: it showed that even big funds could be brought down by bad loans.[18]

Attempts to fix the system were made, but to no avail.[19] Very little new capital was extended and the result was a credit crunch. This meant that even financially sound planters encountered difficulty in obtaining credit, which was vital to conduct normal business. The investors now faced a tough choice: trying to recollect some of their money by auctioning off plantations, or to restructure and try to run an estate themselves. The former option was unattractive because prices had fallen to a third of the appraised value now that prices were not sustained by speculation anymore. Furthermore, the supply of bankrupt estates was high, and demand was low - if a buyer could be found at all - which depressed prices even further. The second option was almost as bad, as it involved getting into an unfamiliar business and involved additional costs. An administrator had to be appointed and new investments would have to be made. A common solution was therefore to set up a shareholder society, that bought the plantation in name of the collective investors. Instead of bonds the society issued shares. This meant that payouts where only made if actual profits were attained, rather than paying a fixed amount every year. In 1796 two-thirds of the plantations in Surinam was in the hands of administrators, testifying to the failure of the negotiatie system.[20]

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[18] Van de Voort, *Westindische plantages,* 157.
[19] Ibidem, 164-68; *Verslag,* NA, SvS, inv. nr. 509.
[20] Van de Voort, *Westindische plantages,* 154, 160; Van Stipriaan, *Surinaams contrast,* 41.

The main actors and their motivations

Now that the weaknesses of the system have been discussed, we should ask how it was possible for it to have emerged in the first place and why it lasted for decades, with some loans remaining in existence well into the 19th century. The three major actors – fund directors, investors and planters – all seem to have had a distorted view of the risks involved and of who would take final responsibility. And the stakes were high: we have to acknowledge that in a time when a normal soldier in the colonies earned 8 guilders a month, it was a serious risk to lend a planter the huge sum of 80,000 guilders.[21]

How did the fund managers get all this money in the first place? An extensive social network proved crucial. Many fund managers had occupied important positions, like mayor, aldermen, or director of the West India Company. Some were even slave traders. In principal, the directors sold bonds to anyone who was interested. Later funds, like *Voordelig en voorsigtig,* (Profitable and Prudent) founded in 1776, even advertised their fund as a sound way to save for one's pension. The group of investors was highly diverse, from a group of small investors including 'orphans, widows and unmarried women' next to family members of the director, who were not seldom among the biggest investors in the fund.[22] This latter part points to a crucial element: it signifies that a bond was not just a contractual agreement, but also included the implicit moral obligation to return the invested sums. It would be hard for a fund director to tell his own family members he had squandered their capital.

In theory, the fund manager was like a spider in the web, who took no financial risks himself.[23] He merely lent other people's money to overseas planters, who carried the responsibility to repay. This would be a situation of tremendous moral hazard. It would stimulate the fund to take

[21] Van de Voort, *Westindische plantages*, 269-343; G. Oostindie, *Roosenburg en Mon Bijou. Twee Surinaamse plantages, 1720-1870* (Leiden 1989) 283-305. *Dutch Association Papers*, The National Archives, Kew (TNA), Colonial Office (CO), inv. nr. CO 116/48, fol. 103; *Lists of Dutch proprietors of plantations in Demerara, Essequibo, and Berbice*, TNA, inv. nr. CO 111/28.

[22] W.H. Berghuis, *Ontstaan en ontwikkeling van de Nederlandse beleggingsfondsen tot 1914* (Rotterdam 1967) 49-72; Oostindie, *Twee Surinaamse plantages* 356-57; ACA, Not., inv. nr. 5075, fol. 12725/81.

[23] Van Stipriaan, 'Debunking debts', 75.

excessive risks, and extended as many mortgages as possible, based on the idea they could not lose. In practice, the situation was rather more complex. Indeed, from Deutz onwards, virtually all of the most important fund managers paid interest to bondholders out of their own pockets, to compensate for the meager payments the planters made.[24] The key reason was the desire to satisfy the bondholders: since a prominent figure like a fund director would want to uphold his reputation, he could not pass on the losses without hesitation. His name functioned as a guarantee that the financial products he sold were sound, so he could not easily confess he had sold worthless paper. Therefore, it could seem wise to invest some private capital, hoping that prices would rise or next year's harvest would be better. Presenting bondholders with the real state of affairs would be highly problematic. It was unclear who should shoulder the losses, as the contracts were silent on this. Openness would therefore most likely lead to outrage among investors and severely discredit the director and his fund, so secrecy and hope for future improvements must have seemed the better way to go forward.

Yet initially negotiatie directors were confident, and some even bought their own bonds. The overconfidence present in the system was borne out by the more speculative directors, who would extend credit on personal title before any of the necessary paperwork was in order. Typically, two or three commissioners supervised the fund director on behalf of the investors, to make sure the money was well spent. A prospective borrower had to prove that he – and often his wife too – and his plantation were free from any debts. Additionally, he needed to present a proper valuation of the estate. A notary then formalized the mortgage agreement before the plantation was taken onto the fund's balance sheet. However, directors like Fredrik Berewout, and Cornelis Lever & Johannes de Bruine were quick to skip these steps. They advanced sums of 400,000 guilders without proper documentation and consequently the commissioners would not accept these mortgages into the fund. The result was that the directors held the mortgages in their own name, fully exposing them to all the risks involved.[25]

[24] Oostindie, *Twee Surinaamse plantages,* 293; Van de Voort, *Westindische plantages,* 157, 160-3; ACA, Not., inv. nr. 5075, fol. 13917/253; Ibidem, fol. 15259/548. For more examples see below.
[25] ACA, Not., inv. nr. 5075, fol. 12719/102, fol. 12724/39, fol. 12727/53, fol. 12731/16, fol. 12734/103, fol. 12739/201.

So while the fund director aimed to make a profit, the earnings of commission fees could quickly turn into a loss if he decided to take responsibility of a few bad loans. That is not to say that fund directors did not find additional ways of making a profit, for example by charging artificially high prices for the planters' imports. Yet while several fund managers benefited, we must acknowledge that the business was far more difficult, complex and risky than it seemed at first sight.

It would have been easier for fund directors to make a profit if they had kept an interest rate differential between what planters paid and bondholders received. However, this measure was seldom taken, probably because of the competition between the various funds. This meant that in most funds any shortfalls in payments either had to be covered by the fund manager or had to result in lower payouts to the bondholders. But even a buffer was not enough to compensate for the growing debts of unreliable planters, as the case of Ferrand Whaley Hudig's fund demonstrated: the planters had to pay six per cent interest, while the investors received five. The rest was reserved for managing costs and for weathering difficult times, to be returned to investors eventually.[26] However, even such a buffer proved inadequate, as Hudig felt the need to advance large sums of his own capital, such as the 18,000 guilders for the plantation La Confiance.[27]

If bondholders would have been directly confronted with the losses of the planters, they would not have put tens of millions of guilders on the line. Yet because transparency was lacking and they kept being paid, investor confidence remained high until the early 1770s. Yet when the problems were exposed in the 1770s, it became clear that the system was a house of cards. While the early entrants had enjoyed high profits, those who joined the negotiatie bubble late could only lose. Interest rates were lowered, from six to three to 1.5 per cent, and in many years nothing was paid. At the same time, the repayment of the principal was postponed far beyond the original terms, sometimes simply into the indefinite future.[28]

Turning to the motivations of the actors in the colonies themselves, we can see how the negotiatie system encouraged speculation, both fuelling

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[26] Van Stipriaan, *Surinaams contrast*, 221.

[27] *Verslag over de gang van zaken die geleid heeft tot de financiële problemen op La Confiance, uitgebracht door commissarissen aan obligatiehouders, ca. 1776,* Municipal Archive Rotterdam, Archive Fa. Coopstad & Rochussen (Hudig) / Ferrand Whaley, inv. nr. 531.

[28] Van de Voort, *Westindische plantages*, 187-190, 193.

the boom and increasing the likelihood of its destruction. The amount of credit was based on the valuation of the plantation's inventory, and this brought about two weaknesses in the negotiate structure. First, it offered extensive opportunities for fraud: the appraiser (called *priseur*) could be a friend providing a favourable interpretation of the estate. But one could also simply deceive the priseur, for example by borrowing slaves from a neighbour on the day of the valuation, to make one's own slave force seem bigger.[29] The second shortcoming was the vulnerability to speculation. Even if a planter had no intention to inflate his estates' value, the general speculative trend in the colony would have the same effect. In Demerara an acre was worth two to three guilders in 1759, while in 1769 this had skyrocketed to more than 30 guilders. In Surinam the increase was less dramatic, yet land prices also doubled in the 1770s, to come down again quickly after the boom.[30] Such numbers seemed to make planters rich overnight. And since money was so easily available, the temptation to raise one's credit limit may have been too great for many a planter.

Of course not all of this money was spent wisely, and numerous accusations exist of high-living planters who spent most of their time with their female slaves, gambling, and drinking.[31] Moreover, it often occurred that the planter withdrew more than he was allowed to, after which the fund director had to step in again with his own capital. This was partly the result of a timing problem with the bills of exchange. The director kept the current account for the planter, and the latter would draw a bill in case he needed payment for a good or service. But even if the products to compensate the director were underway, one could never be sure what the revenue would be. Yet for the director it was not easy to refuse payment. The alternative, sending the bill back in protest, would mean that the planter had to pay a fine of 25 per cent, which would further increase the financial problems for the planter and harm the relationship between the

[29] *De Koopman, of Bydragen ten opbouw van Neêrlands koophandel en zeevaard* V (1775) 185-203: 188-190.
[30] Van Stipriaan, *Surinaams contrast*, 122; C.A. Harris and J.A.J. de Villiers, *Storm van 's Gravesande. The Rise of British Guiana Compiled from his Despatches* II (London 1911) 624.
[31] Oostindie, *Twee Surinaamse plantages,* 78; Van Stipriaan, *Surinaams contrast*, 288-292; *De Koopman* IV (1773) 116-117 and V (1775) 191-194.

two actors. In practice, the least problematic way was often to honour the bill.[32]

This flexible interpretation of the conditions ensured the smooth functioning of the negotiatie structure, but also offered planters the opportunity to abuse the system. This applied all the more to the initial plantation purchase. Officially, the risks for the mortgage fund were kept in check because the amount of credit would not exceed five-eighth or three-quarters of the plantation's worth. In case the plantation would lose value, the investors would still be protected, while irresponsible planters would be deterred by the significant down payments required. Yet in practice up to 100 per cent loans were no exception. Since payment was usually done in several installments, and arranged by the fund director, this process was open to abuse. The contemporary journal *De Koopman* described how: if one could convince the director to pay the first two installments, the planter had additional time to acquire the money, for example by selling the first harvest of plantation products. Yet if the planter had been unable to procure the capital, it was mainly the director's problem, who would be caught in the middle: either he would have to pay the final installments as well, or would have to try to sell the newly acquired plantation at his own risk.[33] Constructions like this were possible because lending standards were gradually lowered in the competition between the various mortgage funds. Second mortgages and 100 per cent mortgages were no exception. While this allowed the negotiatie system to expand further, it made its foundations ever more unstable.[34]

This competition between funds further inflated the bubble by stimulating 'fund hopping': mortgages could be transferred from one fund to another when a planter had depleted his director's willingness to grant him ever more credit. An example is provided by Joseph D'Strada and his Surinam coffee plantation 'Mon Souci'. In February 1769 D'Strada had received 142,239 guilders in credit from the fund of Hermaal & Van den Bosch. In the next two years the plantation's value rose by 90,000 guilders and D'Strada subsequently wished to withdraw more credit. Yet his fund managers refused, so all parties agreed that a new fund had to be found to transfer the mortgage to. This succeeded: in August 1772 Hageman &

[32] Hudig, *De West-indische zaken*, 31.
[33] *De Koopman* IV (1773) 120-123.
[34] Hudig, *West-indische zaken,* 36; ACA, Not., inv. nr. 5075, fol. 12728/18; fol. 12733/140.

Twisk issued 200,000 guilders in bonds to take over D'Strada's debt. Most of this new loan, nearly 178,000 guilders, was used to reimburse the former fund directors. For the D'Strada this brought an extra advantage, because his ten year interest-only period started anew, thereby postponing the problem of repaying the principal.[35] So Hermaal and Van den Bosch had used 35,000 guilders of their own money to pay for all of D'Strada's uncovered expenses. The fact that Hermaal & Van den Bosch wanted to get rid of D'Strada should have been a warming sign, yet a new and higher valuation inspired enough confidence in the new fund of Hageman & Twisk to accept the mortgage. Without this fund hopping an unreliable planter would eventually run into trouble, while with a new mortgage he received a new chance to use the system to his advantage.

Comparing crises

Even though labeling the eighteenth century mortgage crisis as 'subprime' runs the risk of being anachronistic, new insights can be found when the concept is used open-mindedly to compare different crises. Finding communalities might help to better understand the frequent occurrence of economic crises and points away from the idea that every crisis is unique.

The plantation mortgages fit the definition of a subprime system. Credit was granted to planters based solely on the value of the collateral, ignoring the profitability of the plantation and thus the potential to repay the loan. Furthermore, the system could only exist as long as new capital was injected into the system, for which the plantation's value needed to keep rising. As long as investors and fund directors maintained a positive view of the future of the negotiatie system, rising values and new credit might seemed warranted. Yet speculation, flexible application of the conditions or even outright fraud undermined the system. External shocks – a severe draught, renewed maroon attacks and declining coffee prices – pushed the system past the tipping point from mania to financial distress, while the subsequent stock exchange crisis of 1772-1773 and bankruptcy of Ter Borch's fund sealed the fate of the negotiatie system.

The plantation mortgages had many features in common with the subprime mortgages on American houses. The lowering of lending standards, use of consumption credit, asymmetric information and

[35] ACA, Not., inv. nr. 5075, fol. 12733/89, fol. 12733/74, fol. 12734/39.

obfuscation of risk were comparable, although differences exist in which actors shouldered the ultimate responsibility for the losses.

In the United States borrowers were specifically targeted according to their below-average credit scores, and in the Dutch negotiatie system no thorough credibility check was present other than an agent's opinion. In the twenty-first century a borrower could use the overvalue on his house for consumption, resulting in an increase in household debt from 65 per cent in 1981 to 135 per cent of disposable income in 2008. While such exact numbers are unavailable for the eighteenth century, planters gradually amassed more debt and the stark accusations of conspicuous consumption suggest not all of it was put to productive use.[36] The problem of asymmetric information was also present in both subprime systems. In the United States this was caused both by the immense complexity of the financial products that were traded, and by the originate-and-distribute model of selling the mortgage packages onwards to people who had less intricate knowledge of its contents. The source of information asymmetry was different in the Dutch case. The negotiaties were not necessarily designed to be actively traded, but rather to be held for the full 20 years. This suggests that investors could have had more knowledge of what they invested in, yet in practice this was not the case. Fund directors were not very forthcoming with information, and especially in the early negotiaties it was rather unclear where the money went to. These loans were called 'generale negotiaties', which had the general aim of providing mortgage credit to planters in a specific region in the West Indies, and they provided no information about the receivers or the collateral. Such packages could contain loans to 20 or more plantations and before 1772 at least 40 of these bundles were issued, their names as unspecific as L.a. A, B or C. Investors thus had little knowledge of what they invested in, and lent their money purely on good faith and the word of the fund director. We might even say that the name of the director had the same function here as the triple A-rating of a credit rating agency in the twenty-first century case: the seal of approval was more important than the actual content of the loan. Regardless of this, after 1772

[36] N. Roubini and S. Mihm, *Crisis Economics. A Crash Course in the Future of Finance* (London 2010) 76, 83; Lewis, *The Big Short,* 55, 99-100; R. Cohen*, Jews in Another Environment. Surinam in the Second Half of the Eighteenth Century* (Leiden 1991) 66; H. Bolingbroke, *A Voyage to the Demerary, Containing a Statistical Account of the Settlements There, and of Those on the Essequebo, the Berbice, and Other Contiguous Rivers of Guyana* (London 1807) 37; *De Koopman* V (1775) 191-194.

this type of negotiaties disappeared, to be followed up by loans to individual plantations.[37]

The final common element was the obfuscation of risk. In the American subprime structure financial innovation had many risks, in theory, better manageable. By combining different qualities of loans, repackaging them and selling them onwards, the risk was divided and spread and thereby reduced to negligible proportions. This made it unclear who would shoulder the responsibility for potential large-scale defaults, which was also the case in the Dutch negotatie structure. It could be either the planter, who could be dismissed with his estate put up for sale, or the investor, who might not get his principal back. Since auctions did not bring in enough money to reimburse all the creditors, often both parties lost. The situation became even more complex if the fund director, in theory sheltered from risk, decided to put his own capital on the line by advancing the interest to investors, on behalf of planters in arrears.[38]

The fact that many fund directors took responsibility to fill these gaps accounts for the greatest difference between the two subprime systems. In receiving a bail-out, the American banks were largely sheltered from the losses, while the originators of the negotiatie loans had a more personal agreement with their investors. Therefore, the Dutch fund managers, were also hit personally once their subprime system met its inevitable demise.

[37] Roubini and Mihm, *Crisis Economics,* 63-67, 194; W.W. van der Meulen, 'Beschrijving van eenige Westindische plantage leeningen. Bijdrage tot de kennis der geldbelegging in de achttiende eeuw', *Bijdragen en Mededeelingen van het Historisch Genootschap* 25 (1904) 490-580: 516-518.

[38] Lewis, *The Big Short* 55, 207; Roubini and Mihm, *Crisis Economics,* 63-67, 108.