
Growth of Central Banking.
The Société Générale
and its Impact on the Development
of Belgium's Monetary System
during the United Kingdom
of the Netherlands (1815-1830)

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During recent decades historical research has focused mainly on the direct role of banks in the industrialization process. The results have highlighted the fact that banks could play an important entrepreneurial role and that they have done so in the past in a number of developing countries by providing capital requirements and leadership to industry and trade during the crucial stages in the process.¹

Recently, however, the attention of historians has swung back to the more traditional aspects of banking, in particular the historical role of bankers as providers of monetary means. The pressing problems of inflation and stagnation and the ensuing debate between monetarists and Keynesians created a great number of interesting monetary issues and produced theories which encouraged historians to take a new look at monetary history.² After all, the fact remains that, throughout the centuries of existence of banking institutions, the monetary function, (i.e. the provision of reliable and convenient means of payment), has been a more important function of banks.

The development impact of the growth of financial institutions, where a direct intervention in the industrialization process is not immediately apparent, is not easily demonstrated nor is it readily quantifiable. We take the view that

¹ See in particular for Europe: CAMERON R., et al., *Banking in the early stages of Industrialization. A study in comparative economic history* (1967); LEVY-LEBOYER M., *Les Banques européennes et l'industrialisation internationale dans la premier moitié du XIXe siècle*. (1964); CAMERON R. (ed.), *Banking and economic development. Some lessons from history* (1972).

² For a discussion of the issues see: BORDO M.D. and SCHWARTZ A.J., *Issues in monetary economics and their impact on research in economic history*, in GALLMAN R.E., *Recent developments in the study of business and economic history. Essays in memory of H.E. Kroos.*, (1977), pp. 81-130.

financial development, although not a sufficient factor, plays an important role as a facilitator of economic development when an underlying impetus for growth is at work in the economy.³

We intend to reexamine in this paper the creation and the first ten years of operation of Belgium's first corporate bank, the *Société Générale des Pays-Bas*, with special regard to the monetary function. The bank was founded in 1822 by King William I of the United Kingdom of the Netherlands who exercised a direct personal influence over it. It was the only corporate bank in the Southern part of the Netherlands until 1835. During the Dutch period, which lasted until September 1830, and up to the creation of the National Bank of Belgium in 1850, it carried out many of the functions of a central bank. We will concentrate on the period before 1830 when the ties with the government were the strongest. This will give us the opportunity to highlight another factor in financial development that is often underestimated: the importance of the role of the state in determining the shape of the financial and monetary system.

As stated above, our working hypothesis is that financial development facilitates the industrialization process, provided that an impetus for real growth is present. We will establish first, that in the period under consideration real development did take place.

Economic Development during the Dutch Period

In response to the publication of Rostow's stage theory, Belgian historians also debated the question whether the "Rostowian take-off" happened at all in Belgium, and if so, whether Rostow's indication of its timing was accurate. In conformity with the general trend, no consensus was reached on the former question, revealing once again the rigidity of Rostow's definition of this initial stage of industrialization. It is however a generally shared opinion that by 1850 Belgium had reached the level of development capable of sustained growth (third stage in Rostow's scheme) and could already be defined as an industrialized nation since at that time more than 50% of the population earned its livelihood outside the agricultural sector. Rostow dates the timing of Belgium's take-off from 1833 onwards. To summarize the debate, it suffices to say that most historians favour the traditional view that the accelerated phase of the transformation process was stretched out at least over the entire first half of the XIXth century.⁴ Within this period, three distinct bursts of growth can be identified, alternating with longish periods of stagnation and relative regression. The first burst took place in 1800-1810, when mechanized cotton and wool spinning took hold and coalmining expanded significantly. The second burst, to

³ Dow S.C. and EARL P.E., *Money matters. A Keynesian approach to monetary economics*, (1982), pp. 14-20.

⁴ CRAEYBECK, J., *The Beginnings of the Industrial Revolution in Belgium*, in CAMERON R. (ed.), *Essays in French Economic History*, (1970), pp. 187-200.

which we will presently return, occurred during the second half of the Dutch regime from about 1822 to 1829. The third happened during the first decade of Independence from 1833 to 1838 and was marked by the start of railway construction, by the expansion of modern metallurgy and by the completion of the transformation of the textile industries.

Opinions are divided about the significance of the progress made under the French Regime, but there is no doubt about the reality of development during the Dutch period. An important indicator of capital accumulation and one on which we have now abundant information thanks to a recent publication, is the proliferation of steam engines.⁵ From 1795 to 1814, only sixty-three engines were installed in the Belgian regions of the French Empire. Of these, 33% were of foreign origin, most were pumps of the Newcomen-type used almost exclusively in the coalmines. But in the fifteen years of the United Kingdom, 423 engines were installed, a seven-fold increase. More importantly, not more than 11% of them were imported. Almost all were of the advanced Watt-type. In fact, the Belgian machine construction industry was born in this period. Construction shops rarely limited themselves to engines, and the largest among them produced machinery of all kinds.⁶ A significant aspect of this burst of development is the fact that, although the bulk of the horsepower was still absorbed by the mining industry and the new metallurgy, steam engines were introduced for the first time in a number of light industries, notably in foodprocessing, sawmills, chemical factories, paper and glass manufacturing. This indicates a widening of the development process, beyond the leading sectors, in preparation for a solid base for sustained growth.⁷

A more spectacular achievement was the successful introduction of coke-fuelled iron production. By 1830 ten coke blast furnaces were built and 40 refineries "à l'anglaise".⁸ However, viewed in the perspective of the evolution of the total metallurgic sector, the achievements of the Dutch period can only be characterized as a pioneering effort. The real breakthrough happened a decade later.

The last significant indicator of progress that will be mentioned here is the great strides made in the improvement of the transportation network, especially in canals. Communication links essential to Belgian industry, such as the canal joining the new growth region of Charleroi to the capital, or the Terneuzen

⁵ VAN NECK A., *Les débuts de la machine à vapeur dans l'industrie belge, 1800-1850*. Vol. II, 2 in series: *Histoire Quantitative et Développement de la Belgique au XIXe siècle*, 898 p.

⁶ The largest producer JOHN COCKERILL (about 19% of the total amount of steam-engines produced in South) was an important constructor of machinery for the textile and metallurgic industries.

⁷ VAN NECK A., *op. cit.*, in particular table p. 477.

⁸ LANDES, D.S., *The Unbound Prometheus: Technological change and industrial development in western Europe from 1750 to the present*, (1969), pp. 176-177.

canal providing the textile town on Ghent with access to the sea, were constructed in this period. The truly grandiose achievement in the construction of waterworks owed much of its success to the active support of King William I, which earned him the nickname of "Canal-King". The government's methods of financing the works however provoked less complimentary reactions. Funding was often obtained in an unconstitutional manner. Secret transactions and agreements took place. In fact, the King sought personal control over state finances and to achieve this, he created a number of institutions of both a public and private nature over which he exercised a strong personal influence and which operated in the strictest secrecy. One of these institutions was the *Société Générale des Pays-Bas*, which was founded in 1822. After the revolution of 1830, it was renamed *Société Générale de Belgique* and called *Société Générale* for short.

The foundation of the Société Générale revisited

A very complex set of purposes lay behind the birth of this unusual financial establishment which inaugurated the beginning of Belgium's modern financial system. In spite of renewed research on the country's early banking history, the authorities on the subject remain two authors whose works date from the inter-war period. Their interpretation of the origin of the bank has not been seriously revised since then. The works referred to are Demoulin's classic study, "Guillaume Ier et la transformation économique des Provinces Belges (1815-1830)" published in 1938 and banking historian B.S. Chlepner's "La Banque en Belgique" dating from 1926.⁹ Chlepner used a wealth of contemporary secondary sources, while Demoulin's work is based on very extensive use of the archives of the Dutch government and the bank. Demoulin's interpretation is by far the more authoritative of the two, because Chlepner, writing in the twenties, is clearly an advocate of the "mixed" banking system which was then in its heyday in Belgium. The published information on the foundation of the bank and on operations during the first decade of its existence is very scant and Chlepner dealt with that period in a rather perfunctory way. It is however relevant to mention him because the impression he leaves was taken up by later banking historians who did not bother consulting Demoulin. He takes it for granted that the *Société Générale* was created from the onset as a "mixed" bank i.e. that it was William's intention that it would engage in industrial financing and direct investment. He offers no explanation for the virtual absence of these operations during the Dutch period other than suggesting that involvement with William's public finance schemes prevented it from doing so. When, in the early 1960's, under the influence of development economics and historical theories

⁹ DEMOULIN R., *Guillaume Ier et la transformation économique des Provinces belges, (1815-1830)*, (1938); CHLEPNER B.S., *La Banque en Belgique. Etude historique et économique*, (1926).

such as those of Gerschenkron, the role of banking in industrialization became the focus for attention, Belgium's early lead in what can be called development banking was rediscovered. Cameron and other scholars followed the impression created by Chlepner and assumed that the *Société Générale* was conceived by William I as a development bank. Later studies have demonstrated that it was the first Belgian Governor, Ferdinand Meeus, and a small group of directors who carved out this role for the bank after 1830. This was partly initiated by the need to deal with bad debts incurred before 1830 because of abuses of the traditional commercial credit instruments by the same directors.¹⁰

The bank's original name may have contributed to this mistaken impression.¹¹ In the style of the times it was descriptive: "General company of the Netherlands for the Encouragement of national industry" (although industry was used in the sense of "industriousness") and the stated purpose was "to contribute to the progress, development and prosperity of agriculture, manufactures and commerce." But, in spite of William I's proven interest in industrial investment — he spent a personal fortune on shares — there is no indication from the statutes or from any prior discussion, that the bank was meant to aid industry in any other way than by giving loans and advances on shares, on security of merchandise in stock or on property. In fact, article 22 of the statutes explicitly prohibited the acceptance of so-called "circulation" paper, which often constituted a disguised way of lending at medium term to enterprises.¹² Besides the task of supporting industry by providing investment capital William assigned to another of his special agencies: the *Industrial Fund*. This fund received part of customs receipts to invest in new enterprises.

This does not imply that William's plans for the bank ran along orthodox lines. We need to go back to Demoulin and the archival sources to find out how he intended the *Société Générale* to promote economic development, if it was not by means of direct investment.

The King, according to Demoulin, considered banks to be "des créations para-étatiques", institutions which are the state's "helpmates" whether they are owned and managed privately or not. The banks' particular functions within the broad spectrum of the state's tasks were to mobilize capital and to extend the benefits of credit. William I was a firm believer in paper money, in the beneficial use of the wide variety of paper debt instruments and in low interest rates.¹³ On

¹⁰ LAUREYSSENS J., *The Société Générale and the origin of industrial investment banking*, *Revue belge d'histoire contemporaine*, B.T.N.G., VI, 1975, 1-2, pp. 93-115.

¹¹ The original project called the company "banque" but the Dutch State Secretariat substituted it with "société" in order to avoid conflicts with the Bank of the Netherlands. DEMOULIN, *op. cit.*, p. 59.

¹² TRIOEN L.F.R., *Collection des statuts de toutes les sociétés anonymes et en commandite par actions en Belgique*, (1838), Vol. I, p. 3.

¹³ See excellent analyses of William I's ideas and character and his relationship to the state in DEMOULIN, *op. cit.*, pp. 22-23.

the other hand, the basic objective of his government had been, from the onset, the amalgamation of the northern and southern parts of the Kingdom. Integration of the two economies was an important factor in this process. At first view, the economies of North and South appeared complementary. The commercially experienced Dutchmen seemed admirably equipped to carry and sell the products of the industrial Belgians; the capital accumulation present in the North seemed what was needed to fuel the modernization of Southern industries. But channels linking the two did not exist, even the purely commercial ones needed to be built.¹⁴ The deficiencies were particularly evident in the monetary and financial fields. The persistence, in spite of legislative measures, of two different currency systems prevented a smooth running of the central administration and kept the two markets separate. Financial integration was further hindered by the underdevelopment of the financial structures in the South compared to those in the North. There was almost no paper currency in circulation; there was no major bank. The first successful public corporation, an insurance company, had only been founded in 1819 and by 1822 very few had followed suit. Most wealth, in spite of a relatively high degree of industrialization, was kept in the form of land and real estate. Foreign debt enjoyed a degree of popularity, mostly in commercial Antwerp, but nothing compared to the amounts handled by the Dutch securities market. The currency problem was irksome. At the foundation of the Kingdom in 1815, the two parts of the Kingdom inherited different systems. The South used French coins, mostly silver ones. The North's currency was the florin, in gold and silver pieces. The problem was aggravated by the poor quality of the coinage, especially that of the North. In both parts, old and worn pieces, issued by previous regional administrations were still in use. The monetary law of 1816 had established the florin as the legal tender and had made provisions for the gradual replacement of all the currency. But this law was particularly badly conceived since it not only overvalued silver in terms of gold but also fixed too high an exchange rate for the franc. The result was an outflow of new and sound silver florin pieces to France where they were recoined into francs and reimported into Belgium. Interest rates in the South being higher than in the North, gold specie equally tended to flow to the South. All this produced a *de facto* separation of the two money markets. The South finally continued to use francs while in the North the bad currency kept sustaining the circulation. A central bank of issue was founded in 1814: the Bank of the Netherlands. However, since its notes were redeemable in florins, they were not accepted in the South because Southerners lost out on their exchange operations with the North.¹⁵ For all these reasons, William I needed a powerful financial institution established in the South and linked to the state which could procure the precious

¹⁴ This was the task of another of William's institutions: the *Nederlandse Handelsmaatschappij* (the "Commercial company of the Netherlands").

¹⁵ CHLEPNER, *op. cit.*, pp. 20-33.

metals and assist in the minting of the replacement coinage.¹⁶ In addition, this institution would provide the paper money circulation lacking in the South. However, an ideal, unified currency system, even with a satisfactory paper circulation, would not have solved William's greatest financial problems. These were created by the need to finance recurring budget deficits and the amortization of the huge public debt. This debt dated from before 1816 and most of it was incurred by the Dutch. William had committed the proceeds of gradual auctions of the royal domains (or crownlands) to its extinction, but the results, by 1822, had not been very satisfactory. In order to make the bulk of the debt more easily saleable, parts of it had been subject to conversions. These manipulations, in addition to issues of new loans, made for a very lively securities market. However, the wealth of the South (where the greater part of the domains were located) could not be tapped sufficiently because of the absence of a solid market for securities and the lack of a powerful financial institution which would be instrumental in placing the debt. Needless to say, the existence of the currency and exchange barriers added to the problem.

Faced with an extraordinary budget deficit of 50 million florins at the beginning of 1822, the King produced a scheme that would resolve all these problems at once without the issue of new loans or increasing the burden of taxation. This was the plan that would eventually lead to the creation of the *Société Générale*. In order to increase the proceeds from the alienation of the domains the king proposed replacing the auctions by lottery sales. The prize money could be paid either in domain land or in money, at the choice of the winner. The money however, would not be paid out in coin but in bearer notes, convertible to coin. These notes would be issued by the administration of the Royal Domains, the government agency which ran the lottery. It was clear from the King's project that he intended to turn this branch of the finance department into a financial institution, a kind of real estate bank, which would produce revenue on a regular basis, from the proceeds of the lotteries, from the exploitation of the remaining domains and from certain toll receipts. The revenues would be designated for particular government purposes such as amortization of the old debt and the financing of projected public works. It would also be a bank of issue since additional proposals made it clear that William intended the bearer notes to be more than temporary promissory notes. They would be accepted for payment of taxes throughout the Kingdom, they could also be used for other purposes, and there were plans for a clearance agreement with the Bank of the Netherlands: in short, it would become a national fiduciary currency. The notes of the Bank of the Netherlands and those of the new institution would "circulate together, which would be very helpful in attenuating the disadvantage of the present exchange rate".¹⁷ The draft law for the institution of the lottery

¹⁶ *General State Archives*, Archives SGB, # 673. *Mémoire sur la monnaie* (1822) presumed to be by COUNT G.C. VAN HOGENDORP.

¹⁷ Quotation from the proposal cited by CHLEPNER, *op. cit.*, p. 40. The project and "*Exposé des motifs*" was published in the *Journal de Bruxelles* of 3 February, 1822.

for the royal domains was solidly defeated by the *Staten-Generaal* (Parliament), and the King had to abandon the idea of a lucrative lottery and the hope of a general solution to his financial and monetary problems. But with characteristic stubbornness he succeeded in realizing his objectives by splitting his project in two, and creating a separate financial institution for each of the parts. The debt manipulation and the generation of funds based on the alienation and exploitation of the public domains was assigned to the Amortization Syndicate, which later acquired a dubious reputation for its secretive and convoluted dealings. The other institution was the *Société Générale des Pays-Bas*, which was created in a matter of a few months after the defeat of the first proposal. The discussions on the proposal and the final statutes themselves reveal how William managed to shape the institution in such a way that it would be equipped to meet his government's needs and to embody his personal ideas on the role of a commercial bank.

In the King's view, the *Société Générale* had to fulfill two main objectives of the government: first, to help carry out its financial policy in the South and second, to remedy the shortcomings of the monetary and financial structure of the South. In the first case the bank was to assist the Amortization Syndicate in the execution of its plans to extinguish the old public debt, to serve as a vehicle to place the debt in the South, to assist the Syndicate in the financing of public works, and to serve as a conduit and participant in various loans by central, provincial and municipal bodies. Finally, the bank was to help carry out the currency reforms prescribed by the monetary law of 1816.

As to the second objective, William perceived the main shortcoming of the financial structure in the southern Netherlands to be the lack of financial instruments for "mobilizing" the national wealth and directing it toward useful enterprise. The main form of "immobilization" was in land and real estate of which large amounts were immobilised in the public domain. Since the bulk of the royal domains were earmarked for the amortization project, he did not hesitate to propose the transfer of a part of the domains producing revenues for the King's civil list (the country's contribution to the upkeep of the royal household) to the bank. It consisted of forests, land and other property, valued at 20 million florins, most of it located in Belgium. The bank could manage the properties or sell them, against payment of an annuity to the King's civil list and to the Amortization Syndicate. It was intended to be part of the corporate capital which was set at 50 millions of florins in total, 20 millions of domains and 30 millions in shares of 500 florins each.¹⁸

Landholding by essentially commercial banks was not uncommon. In an age when corporations were still very new, property assets served as a security and

¹⁸ TRIOEN, *op. cit.*, Statutes SGB. The real value of the domains was a matter of dispute before and during the whole period the properties were in the bank's possession (till the final settlement in 1842). It is probably true that they were worth more than 20 million florins. See LAUREYSSENS J., *The Société Générale and the industrial origin of investment banking*, *Revue belge d'histoire contemporaine*, L.T.H.G., 1975.

guarantee for shareholders and depositors. But for this reason, they were usually not meant to be sold nor manipulated for speculative purposes. In other words, they were not to be considered part of the capital resources of the bank. Clearly, William and his supporters amongst the founders of the bank, thought the property should be used by the bank as a source of funds for its operations.¹⁹ He probably counted on the landgrant to inspire initial trust and attract investors. But, by the conditions he attached to the grant, he built in a major incentive to alienate the properties and thus mobilize the capital. Jules Malou, the first historian of the *Société Générale*, and also one of its early directors and vice-governors (1849-1872), claimed that the sales were a necessity, not an option. The annuities due were calculated to include potential capital gains, so that in order to earn the dues the bank, in his words, would have to sell "those goods, which are in the worst of mortmain, that of the State (...). The transfer of the domains to the *Société Générale*, with the faculty or rather the necessity to sell, made them reenter commerce, and so directed them towards the resources of private activity and interest."²⁰ For a number of reasons, the bank did not sell any real estate during the period under review, but in the early 1830's, the opportunity was used to the limit to acquire funds for the bank's industrial investments. Thus it was William I, whom the Belgians rejected in 1830, who gave the *Société Générale* the means to build its initial industrial empire within Belgium.²¹

In keeping with the King's belief in the benefits of the proliferation of paper debt and credit instruments, the company was given permission to engage in a wide variety of banking operations: it could accept deposits of all kinds of valuables, create current accounts against which clients could order payments, it could increase its means by issuing interest-bearing bonds at short or long term. It could discount bills of exchange and other commercial paper and issue banknotes payable in specie on demand, it was allowed to make advances and loans on public and private securities, bullion, all kinds of merchandise and real estate. To allow it to assist in the currency reform, it was given permission to engage in the commerce of gold and silver, in the refining of precious metals and the minting of coins.²² This range of operations was unusually wide compared to the scope of most commercial banks of the time, and especially compared to contemporary state-connected institutions such as the Bank of England or the Banque de France.

Finally, a third exceptional feature of the bank was its large size. The authorized capital of 30 million florins appears extraordinary large, even taken into account an optimistic prognosis of growth of operations, in commercial

¹⁹ *General State Archives*, Archives SGB, # 35. Commentary of the Directors on Statutes.

²⁰ MALOU JULES, *Notice Historique sur la Société Générale pour favoriser l'industrie nationale* (1823-1862), p. 11.

²¹ See J. LAUREYSSENS, *op. cit.* (1975).

²² TRIOEN, *op. cit.*, Statutes SGB.

credit, real estate and public debt. William knew, for he had inquired, that the total volume of commerce handled in the city of Brussels did not exceed 25 million florins.²³ The southern Netherlands did not pay more than 30 million in taxes every year!²⁴ It was not surprising then, that when William's commissioners took the project to Brussels and presented it to a selective group of wealthy property owners and businessmen, the size of the undertaking caused bewilderment and aroused suspicion as to the King's hidden intentions. They considered a bank of 3 to 5 million florins more than appropriate to meet the needs of Brussel commerce and recommended that the King should either authorize the creation of a smaller independent private bank of issue and credit or drop the pretension and found a larger totally state-owned bank for government purposes.²⁵ In early 1822, a group of Brussels merchants, headed by a prominent Brussels businessman, François Opdenbergh, had requested authorization to establish a private commercial bank of the size they had in mind.²⁶ Only after the defeat of his "domain bank" was the King willing to consider the idea. The *Société Générale* incorporated the features the Opdenbergh project contained, which were in any case the standard features of a bank of credit and issue, but he refused to bring down the capital to the size they proposed. The reasons for this resolve were complex. The currency reform required an institution of substantial size. An additional factor was that the shares could be paid in cash or in government securities. Thus, the share issue would give a boost to the placing of the debt in the South. Lastly, William had an hidden plan. He was going to make the bank General State Cashier. This meant that the bank would receive all the tax collections of the kingdom and act as the general paymaster for the government's expenditures. This would mean agencies all over the country, in the North as well as in the South, and thus would require a large capital base. The state cashier function was not discussed in any of the initial commentaries on the proposed statutes made by various directors, nor does it appear that the matter was put to the Brussels group that was consulted on the proposal. It was, however, clearly part of William's plan from the beginning and the main reason for the large capital. This appears from an early commissioner's report to the King: "The treasury would not find in a bank of two and a half or even in one of 5 millions the guarantee which seems essential in order to be the State Cashier and this function (...) would create ten times as much and more transactions than all the proper activities of the bank itself, as they are proposed in the project".²⁷

²³ *General State Archives*, Archives SGB, # 5. Confidential letter, Brussels, 10 Sept., 1822, by the secretary of the city of Brussels. The estimate comes from Max Delfosse, a respected and knowledgeable merchant.

²⁴ DEMOULIN, *op. cit.*, Annexes, p. 422.

²⁵ *General State Archives*, Archives SGB, # 6, Memorandum to the King from the commissioners, no date, no signature.

²⁶ *General State Archives*, Archives SGB, # 8, project Opdenbergh.

²⁷ *General State Archives*, Archives SGB, # 6.

The Belgians' suspicion about the King's hidden intentions were thus justified and they were loudly expressed at the launching of the company. Of the public offering of 30,000 shares, only 5,426 1/2 were taken, in spite of the fact that the King, as extra bait, offered to guarantee personally the payment of the 5 percent dividend. He had to buy 25,000 shares with his private means, so that slightly over half of the authorized capital could be considered issued and the bank could start operations. With this majority of shares in his possession combined with the government's power to nominate the president (who is still called Governor to this day) and the Board of Directors, the King had no problems implementing his plan to make the bank the General State Cashier. By 1824 the service was fully operational.²⁸

At first sight, the function does not strike one as a particularly noteworthy feature. The idea was not terribly original and other historians have not attached much importance to it. In this particular case, the function had substantial consequences. As with so many of William's ideas, this initiative was motivated by a curious mixture of political calculation, practical consideration, personal greed and vision. As far as politics was concerned this was one more move to bring as many of the financial operations of the state under his personal and secret control as possible. On the other hand, he meant the service to be a major instrument in his amalgamation policy. A closer scrutiny of the service and its monetary and financial effects is therefore warranted.

The function of the General State Cashier and its impact on the monetary and financial system

Administratively, the introduction of this service constituted a major institutional reform. It meant, in fact, the creation of an important step in the development of the modern public finance system. The functions of general tax collector (one per province) and that of special tax collector (one per county) were abolished. The tax receipts were to be paid directly into the government account with the bank by the local collectors. For this purpose 63 agencies were established throughout the Kingdom of the Netherlands. All government payments, formerly effected by the higher tax administrators, were now effected by simple money order signed by the Minister of Finance and drawn on the government account. The change generated considerable controversy, not so much during the Dutch period because government accountability was then practically non-existent, but after independence when the state's general auditing bureau, the "Cour des Comptes" (Court of Accounts) was reinstated to its

²⁸ Royal decree of October 1823 instituted the organization and the attributions of the Public Treasury. General State Archives, Archives SGB, # 87, copy, Convention between the Minister of Finance (authorized by decree of Sept. 22, 1823) and the Governor of the Société Générale des Pays-Bas, 27 Sept., 1828 and 31 Oct., 1823). General State Archives, Archives Ministry of Finance, # 308.

former functions. Under the old system, which was basically copied from the French, at each level of collection the collector was accountable to the one above him up to the general collectors ("receveurs généraux") who were accountable to the Treasury. At each stage, the receipts were verified and endorsed and finally, at the Treasury, all were recorded, by origin, in the "grand livre" of the Treasury. In the same way, all records of expenditures by the state agents as well as extraordinary items were verified and ended up recorded in the same general record of the Treasury. This record of the State's debits and credits was submitted every year to the "*Cour des Comptes*" audit. As a guarantee each collector had to deposit a certain amount of caution money.²⁹

Under the new system, the controlling task was transferred to new tax inspectors, who did not handle any money. The bank's agents, like common bank tellers, received deposits, with no notice of origin attached, against receipts and executed payments on order. The bank merely notified at frequent intervals the Minister of Finance of the balance of the government's account.

The bureaucrats of the *Cour des Comptes* were mostly perturbed about what they saw as a reduction in safeguards and in accountability of the executive branch of government in the handling of the state finances. It is, however, not within the purpose of this paper to discuss the constitutional or institutional aspects.

In terms of the bank's impact on the economy, the cashiership meant that about 70 million florins in deposits flowed through the government account in the course of a year.³⁰ The costs, which consisted mainly of the maintenance of the agencies and the transportation and transfer of the funds, were covered by a 1/8 percent commission. It was also the explicit understanding that the government deposit was not to be separate from other cash deposits. In other words, it could be used for the bank's regular operations. The question is, of course, how much of a reserve requirement was applicable to this deposit. No regulation was stipulated formally in this regard except those dictated by the responsibility of the bank to be able to cover the government's expenditures. Authors have assumed generally that the service required large amounts of cash reserves and that any beneficial effect was minimized because of the fact that the bank was required to "immobilize" 10 million florins of its capital as a guarantee.

However, the guarantee requirement never caused the effective immobilization of 10 million florins in cash. The King made a series of secret agreements with the bank in the period 1825 to 1828 which allowed successive deferments of the fulfillment of the condition. The total amount of capital immobilized for the state

²⁹ An., *Du Caissier Général, de ses avantages et de la nécessité de sa conservation*, (Brussels, 1836), pp. 8-15.

³⁰ *General State Archives*, Archives SGB, # 86. Document dated 19 Sept., 1823. Estimate of the capital necessary for the functions of the State Cashier. See also DEMOULIN, *op. cit.*, Annex, p. 422. The general tax receipts amounted in 1828 to 70, 177, 589 florins.

cashiership was probably never more than 1.6 million florins after September 1825.³¹

The few balance-sheet statements that we have for this period seem to support the conclusion that the service was not a significant generator of funds for the bank.³² These are, however, merely year-end counts and they do not give us an adequate account of the availability of the funds. Two thirds of the government income consisted of indirect taxes such as excises, death duties, and so on. This factor, admittedly, makes it somewhat difficult to predict how large the receipts would be and when they would be received. On the other hand, a significant part of the government's disbursements were of a regular and predictable nature, such as pensions and salaries. A particularly large and predictable item was the yearly interest payment on the public debt, for which the government needed to accumulate funds quite some time ahead of the payout date. It is therefore reasonable to assume that at particular times of the year certain amounts of government deposits could be counted on to remain for some time in the account and would be available for use for short term advances or other uses.³³

³¹ *General State Archives*, Archives SGB, # 86. Document, 19 September, 1823; # 27, *idem*, Secret Royal Decree, 8 September, 1825; Secret Royal Decree, 2 March, 1826; Secret Royal Decree, December 1826. Archives Ministry of Finance, 308, Inventory of documents relative to the State Cashier, for notice on the conventions of 26 Oct., 1827 and 23 November, 1828.

³²

Year	in mill. Francs	
	Gold and Silver Reserve	Current Account
1823	6.7	15.3
1824	38.4	31.2
1825	28.0	37.2
1826	21.3	33.5
1827	24.4	20.-
1828	18.-	23.6
1829	15.-	27.8
1830	9.-	32.1

Source: CHLEPNER B.S., *La Banque en Belgique. Etude Historique et économique*, (1926), p. 53. He concludes: "(...) since the Treasury accounts are essentially mobile, the Society was obliged to keep an important gold and silver reserve". But he adds in footnote that another reason for this large reserve was that the SGB, given the currency situation, earned a large cash income from the gold and silver trade. He continues as follows: "(This reserve) thus exceeded considerably the figure of the fiduciary circulation, and served not so much as a reserve to cover the circulation, as the fund to provide for the necessities of the Treasury". Cameron, on the other hand, concludes that the overall result of the operations during the Dutch period may have been deflationary. CAMERON, *Banking in early industrialization*, p. 133. He bases his conclusion on the fact that the reserve was usually larger than private current-account credits and banknotes, not considering the treasury account a usable deposit.

³³ *Du Caissier Général, de ses avantages et de la nécessité de sa conservation*, (1836), p. 32-45.

However, it was not this possibility by itself that made the bank's directors finally welcome the function. What won them over was the government's assurance that a positive balance of 10 to 20 million florins would permanently show in the accounts, with the explicit recommendation that the bank should put it to use in supporting commerce, industry and agriculture. Ferdinand de Meeûs, governor of the bank from 1830, confirmed this fact in a letter to the Minister of Finance, dated 9 April, 1831. "The *Société Générale* only took charge of the service of General State Cashier on the condition, strictly speaking only verbally but nevertheless formally agreed on, that it would be in constant possession of a sum which has often exceeded 12 million florins and of which it has made profitable use..."³⁴ A brochure which the *Société Générale* published in 1836 claimed the following: "(...) The preceding government, which was very adept at finance, understood how favourable it would be for the industrial and commercial development of the country, not to leave idle capital amounting in average to 15-20 million florins. That was the first consideration which was behind the linking of the General Cashier with a powerful corporation."³⁵ The hand of William I is clearly visible: this was one more way he perceived to "mobilize" resources which were otherwise tied up, in this case by the tax collection system. In a real sense, this 10 to 20 million florins (to the degree that they were not used by general collectors for private banking practices under the old system) constituted a yearly net increase in the money supply, and to the extent and depending on the way they were used by the bank there was an additional multiplier effect.

An effective increase in the money supply was not the only monetary effect of the institution of the general cashier. The 1836 pamphlet claimed the following: "To put to use *immediately* the funds levied by taxation in favour of industry and commerce, *anywhere the need is felt*, that was the first effect of the institution of the General Cashier"³⁶ Referred to is another more subtle monetary effect. The bank's more efficient service improved the circulation of the currency, which meant much-needed saving of scarce coinage and an increase in velocity of circulation. Under the old system, the government's monies remained tied up in the collecting and paying out mechanism for at least two weeks. With the use of the bank account, there was still a delay, but it was reduced by at least half. The Minister of Finance knew the state of the receipts five days after collection on average and could order disbursements immediately. Sometimes the delay was reduced to two or three days. This meant gains in economy as well as efficiency.

Part of this delay was reporting time, part was time lost in the transportation of the money. The old collecting system, as noted above, was three-tiered: the most numerous local collectors passed the receipts on to the county collectors,

³⁴ *General State Archives*, Arch. SGB, # 2584.

³⁵ *Du Caissier Général...*, *op. cit.*, p. 41.

³⁶ *Du Caissier Général...*, *op. cit.*, pp. 40-45 (the emphasis is mine).

and these passed it on to the general collector of the province. Since only the general collectors were allowed to effect payments and because of the time it took the monies to reach them, they were obliged to keep large reserves in order to be able to meet certain regular expenditures. Especially large reserves had to be built up by certain general collectors because of the uneven matching of receipts and disbursements, some provinces having to spend more than they collected and vice versa. These circumstances explain why a fair amount of these tax collectors turned to money-lending although the practice was not nearly as well established in Belgium as in France. The bank's agencies, one in every county seat, replaced both the special and the general collectors and effected payments as well. This meant a substantial reduction in travelling time and transportation costs of money and of the necessity for the accumulation of reserves in the provincial capitals. The *Société Générale* estimated the savings to have been in the order of 100,000 francs in 1836 when the total receipts amounted to only 90 million francs (or about 45 million florins).³⁷

The last and most important effect was the boost the General Cashiership provided to the bank's notes and, thus, to the general acceptance and use of fiduciary money. As I mentioned above, King William was a firm believer in paper money, but for reasons explained, the notes of the Bank of the Netherlands did not circulate in the South.

Another reason for this lack of circulation was a widespread distrust of paper money. In part, this was based on ignorance and unfamiliarity with the mechanism; in part, distrust was born out of bitter experience, especially the venture with the French "*assignats*" was vividly remembered. On the other hand, there were also practical considerations: banknotes were mostly issued on the occasion of discounting operations of commercial paper, but the notes were in too large denominations to be used to meet regular payments, such as, for instance, payroll obligations. The fact that they were only redeemable in the place of issue was another inconvenience. Many businessmen would, for these reasons, insist on receiving only coinage in advance.

The King went some way in meeting these complaints: a royal decree of 7 March 1823 stipulated that a first issue of banknotes could reach 20 million florins in denominations of 1000 florins, 500, 200, 100 and 50 florins. The *Société Générale* was allowed to issue 10 millions as effective circulation. On December of the same year, the bank got permission to issue 26,000 small notes worth 25 florins.³⁸ In order to bolster the circulation of the notes, the King stipulated that taxes and government payments could be paid in notes of the *Société Générale* or in the Bank of the Netherlands' notes. The two banks should accept and redeem each other's notes and a clearing mechanism between the two institutions should

³⁷ DEMOULIN, *op. cit.*, p. 38.

³⁸ DE TROYER M., *Financiële Intermediatie politiek van de Société Générale, 1822-1850*. Unpublished thesis, K.U.L., 1974, p. 57.

be established.³⁹ In practice, the *Société Générale's* agents in the North never accepted its own notes as payment because of the loss in exchange this entailed.⁴⁰

Furthermore, five of the agencies in the South were set up as branch offices, staffed with prominent local bankers and merchants. There was one in each of the commercial centres: in Mons, Liège, Tournay, Ghent and Antwerp. Initially, however, these branches had no authority to carry out any proper banking activities beyond the handling of the government account.

As Demoulin has shown,⁴¹ due to pressure exerted by the King, the branches obtained permission (in 1824) to discount commercial paper at a rate fixed by the head office. But the branch officers were reluctant to take responsibility for the selection, whereupon the company had to change to a system whereby the branches would merely collect the requests for discounts and forward them to Brussels. The Board's credit committee would then either send back the appropriate amount of banknotes for the allocated advances or the rejected bills. It was a lengthy, cumbersome procedure and, since in addition the loan criteria were quite severe, the results, both in expansion of credit and in the increase in monetary instruments, were disappointing.

The King kept on pressing the Board to widen its operations geographically and in scope. With the support of a few farsighted members of the executive and of the Council of commissioners representing the shareholders, his efforts finally led to the creation of a subsidiary in Antwerp. The *Banque d'Anvers*, incorporated separately, had to operate under strict surveillance by the *Société Générale's* Board of Directors. Its discounting operations were still limited: it could accept only bills offered by inhabitants from Antwerp and they should be payable in a town located in the Southern Provinces. Its notes were accepted by the State cashier but were only redeemable in Antwerp.

In spite of all the official encouragement, it is estimated that the effective note circulation never reached 10 million florins before 1830. According to Chlepner, it hovered round 4.5 millions from 1825 to 1828.⁴² The first revolutionary stirrings in August 1830 produced massive demands for conversion, so that the bank had to resort to partial repayment. By December 1830 the circulation was reduced to 1,006,675 million.⁴³

³⁹ *General State Archives*, Arch. SGB, # 27. Royal decree May 1825. # 22 of Interior Regulations, art. 80, 81.

⁴⁰ *General State Archives*, The Hague, State Secretariat, Secret # 5679, Report by Minister of Finance Elout, 11 Feb., 1824, and Report by Governor SGB, Repelaer Van Driel, 29 May, 1824.

⁴¹ DEMOULIN, *op. cit.*, pp. 72-80. Gen. State Arch., Arch. SGB, # 37-39.

⁴² CHLEPNER, *op. cit.*, p. 51. 1823: 1.2; 1824: 6.3; 1825:9.1; 1826:9.1; 1827:9.4; 1828:9.4; 1829:NA; 1830:2.1. In mill. Frs. the florin is worth slightly more than double the franc.

⁴³ See above and MALOU, *op. cit.*, p. 29.

Although these results can only be described as poor in terms of actual increases in the money supply, and although the King failed in his aim to create an acceptable fiduciary money circulation in the South, nevertheless, the improvements in the monetary system were significant. A powerful corporate bank of issue and credit was established in the capital. The subsidiary bank in Antwerp and the four agencies in the important commercial and industrial centres formed the basis of a national network for the distribution and circulation of the monetary and financial instruments. The use of the *Société Générale* as a conduit for the public funds thus led to the development of a foundation for a unified national financial market with Brussels at its centre.

Finally, if we consider the distribution of discounts of commercial paper the *Société Générale* effected in the period 1825-1829, a remarkable fact comes to light: the branch bank at Mons received the lion's share of the credit, especially after 1827.

Year	Discounts/yr (in fl.)		Distribution (in fl.)		%	
	(1) Total	(2) Brussels	(3) Branches	(4) Mons		
1825	25,852,854	21,037,799	4,815,157	18.6	2,633,835	54.7
1826	24,966,818	23,333,129	1,633,689	6.5	711,376	43.5
1827	26,015,542	10,974,307	15,041,235	57.8	4,891,810	32.5
1828	27,246,293	9,503,979	17,742,314	65	12,391,203	70
1829	42,322,381	19,575,201	12,747,180	30	NA	
1830	49,727,298	13,031,756	36,695,542	73	25,125,603	68.5

Source: DE TROYER, unpublished thesis, p. 63. Based on Reports SGB.
NA = not available.

Mons was the commercial centre of the Borinage coal basin which exported most of its output to France and, after the completion of the Pommereuil-Antoing canal (ca. 1827) increasingly to East and West Flanders. The merchants, some of them merchant-bankers, who were the beneficiaries of the bank's credit, were overwhelmingly connected with the mining industry, some also with the new metallurgy. The commercial bills traded by the branch were for a large part fictitious bills, called "circulation paper" and were used to furnish the cash-starved coalmining operations with working capital. They were automatically renewed at maturity and in fact enabled the mines to finance expansion of production. A petition by a group of the producers dated 30 November 1830, confirms this use of funds: "(these bills) are not ordinary commercial bills, the *raison d'être* for which ceases when the value is realized at maturity, but they are in reality loans made to our industrialists, who have not kept this value in their hands to pay out at maturity but have used it to increase their means of

production and to obtain it at lower cost"... Thus an direct link between the growth of banking and industrial development was established.⁴⁴

Conclusion

The founding of the *Société Générale des Pays-Bas* by King William I marks the beginning of Belgium's modern financial system. Up to about 1834 it can still only be described as elementary. It is generally known that from 1834 in Belgium, the *Société Générale* in the lead, developed an unique set of financial institutions geared to supporting industrial development. A reevaluation of the purpose and the functions of the *Société Générale* before 1830 reveals that the impact of the bank on the country's monetary-financial structure was more significant than had been generally believed. In particular, the effects of its function as the general state cashier were understated. The Treasury provided the bank with a significant amount of its cash reserves in a way that could be characterized as an injection of hard money into the economy. This money would have otherwise been locked up in the tax collection system. Furthermore, the operations of the general cashier increased the velocity of circulation, thus saving on coinage and improving the efficiency of the public finance system. These operations also led to the establishment of a network of agencies and branch banks that formed the basis for an unified national financial market with Brussels firmly at its centre. The endorsement by the King of the bank's notes as payment for taxes in all the agencies meant one further step in the direction of a national fiduciary money system. Finally, the Brussels financiers established the first links with the industrial sector through the new branches that would lead them directly into active ownership and financing after 1830.

⁴⁴ For elaboration of the practice and its effects see: LAUREYSSENS J., *Le crédit industriel et la Société Générale des Pays-Bas pendant le Régime hollandais (1815-1830)*, *Revue belge d'histoire contemporaine*, B.T.H.G., 1972, III, 1-2.