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**FREE BANKING IN BELGIUM,
1835-1850**

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The *Studies in Applied Economics* series is under the general direction of Prof. Steve H. Hanke, Co-Director of the Institute for Applied Economics, Global Health and Study of Business Enterprise (hanke@jhu.edu). This working paper is one in a series on currency boards and other topics in financial history.

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Summary

Belgium had a somewhat free banking system from 1835 to 1850. The country had two major banks in Brussels, the Société Générale and the Banque de Belgique; several smaller banks in the provinces; and many private bankers. The system had restrictions on note issue and legal barriers to entry. Belgium suffered from a bank run in 1838 triggered by the threat of war with the Netherlands. The Banque de Belgique had invested its resources in illiquid assets and did not know how or when to reduce its note issue. It was bailed out by the government but knew that another failure would spell its end. This led the bank to reform its activity, deleverage, and hedge the remaining risk. The Société Générale was not seriously threatened in 1838 and continued as before. In 1848, the French revolution of that year and France’s suspension of convertibility induced another crisis. This time it was the turn of the Société Générale to falter, for the same reasons as the Bank de Belgique in 1838. The government intervened through fiat money, suspension of convertibility and permission to monetize liabilities. The free banking system ended with the creation of a central bank on January 2, 1851.

Keywords: Free banking, Belgium.

JEL codes: E59, N13, N23.

Introduction

Belgium had a somewhat free banking system from 1835 to 1850. The country had two major banks in Brussels, the Société Générale and the Banque de Belgique; several smaller banks in the provinces; and many private bankers. Private bankers were wealthy businessmen who used mainly their own resources to practice discount lending. We have little information about the details of their activity. Some issued notes, but the amounts were insignificant. The real barrier to their expansion was the absence of a suitable legal structure.

Such a structure did develop in the form of licenses of incorporation. However, they were subject to political considerations. The Société Générale obtained a license to operate in 1822, when what is now Belgium was still part of the Netherlands. The establishment of the bank allowed King William I of the Netherlands to liquidate some crown lands, to consolidate tax collection and to obtain additional funding without increasing debt or taxes. The Banque de Belgique obtained a license in 1835, after Belgium had achieved independence, because the government needed to counterbalance the Société Générale's position and attitude. No additional charters were granted in Brussels despite petitions from reputable capitalists. Some were granted in the provinces, like the Banque Liégeoise and the Banque des Flandre, but they included restrictions. Therefore, the system was not completely free and suffered from restrictions on notes issue and legal barriers to entry.

The Société Générale and the Banque de Belgique competed fiercely. First, they acted like venture capital firms providing funding to small enterprises through direct participation. They also helped these companies manage and grow their businesses. Second, they offered investment banking services by underwriting stocks and bonds and charged fees for this service, paid by the subscriber. Third, they offered mutual fund services, allowing small savers to participate in stock issues and government bonds. They had a clear vision on how mutual funds allow investment diversification and risk reduction. Their commercial banking activity was an annex to their financial services, since once a company was under their patronage, it would start taking advantage of easy access to credit and discounting. These activities mobilized capital that helped Belgium reach the final stage of the Industrial Revolution.

On another hand, these activities also concentrated the resources of the banks heavily in illiquid assets. The banks were investing directly in the companies, lending them money, and lending funds to brokers to allow them to invest in the same companies. Loans were collateralized with the companies' stocks, which meant that in case of a crisis, the banks would suffer losses on the loans and the collateral simultaneously.

Belgium experienced bank panics in 1838 and 1848. The first was related to military tensions with the Netherlands, while the second was related to the anti-monarchist revolution in France and France's suspension of the gold standard.

During the 1838 panic, the Banque de Belgique was not capable of redeeming its bank notes. This difficulty was the consequence of bad management of the note issue and of illiquid assets.

Where bank notes are convertible into bullion at a fixed rate, adjustment of the real supply should occur through quantities. In the case of shrinking demand for notes, the bank should reduce the supply. Failing to do so will lead to a quick return of notes to the issuer, which, if sufficiently widespread among the public, becomes a bank run. The Bank de Belgique did not know how or when to decrease the supply of notes and ended up with a bank run. The policy of concentrating investment in illiquid assets (the incorporated companies) was also fatal.

The crisis almost led to the liquidation of the bank, which was eventually saved by the authorities. It was clear to the new management that a second liquidity shock would mean the bank's liquidation. This market discipline led the bank to undertake substantial deleveraging and risk hedging. The Société Générale, in contrast, scraped by in the 1838 panic with the help of a loan from Paris banks and the liquidity available to it as the government's fiscal agent. It continued its risky practices, which got it into big trouble in 1848 while its competitor weathered the crisis better.

The 1848 crisis led the public to demand government intervention to help kickstart the economy and to prevent the liquidation of endangered firms, but the government lacked the needed resources. It finally found them in the suspension of convertibility and the monetization of bank liabilities. Monetization was achieved by allowing the banks (mainly the Société Générale since it was in trouble) to issue government-guaranteed notes. The government did not stop there. Since it was "free money," the authorities asked the Société Générale to hand them an additional 12 million francs through subscription to no-interest sovereign bonds. In 1849, the government negotiated with the banks the creation of a monopoly note issuing bank owned by the Société Générale and the Banque de Belgique. This central bank, called the Banque Nationale de Belgique, was created in 1850 and opened in 1851.

In the rest of the paper, we offer an *overview of the banking system* during the free banking era is established; elaborate on the *activity of incorporated banks*; and describe and analyze *the crises of 1838 and 1848*. A body of substantial writing about the Belgian banking system exists, as will be clear from the references. Most of it is in French or, to a lesser extent, Flemish. The novelty of our paper is that it makes some facts better known in English; emphasizes the working of the system as a free banking system, which to our knowledge no previous contribution in any language really does; and collects some data that hitherto have not been readily available.

1 Overview of the banking system

Private banks had existed in Belgium for generations and they served the needs of trade and business. These banks had unlimited liability and only few issued notes. *Incorporated banks*, on the other hand, were the main issuers of notes, but their existence was a political affair. Two main banks operated in Brussels and many others in the provinces.

1-1 Private banks

Numerous banking establishments existed in Belgium, and some of them went back for several generations. They were very influential and were leaders in the major chambers of commerce. Banks were mostly formed by wealthy individuals, who often had made their fortune in trade or industry. Most continued their original business and offered banking services at the same time¹.

Bankers used mainly their own capital, although in some cases wealthy individuals would entrust them their money for investment purposes. The concept of a deposit in the later sense did not really exist, but some merchants kept funds with bankers and used them to make payments². On the asset side, private bankers focused on subscribing to public loans issued by various levels of governments and on foreign exchange³. They also granted short-term commercial credit and discounted bills of exchange⁴ through their networks of correspondents domestically and internationally⁵.

In 1833, 21 bankers existed in Brussels; 11 in Antwerp; 9 in Ghent and Mons; 7 in Liège; 4 in Namur; 3 in Charleroi, Tournai, and Spa; 2 in Leuven (Louvain), Verviers, and Ostende; and 1 in Bruges, Kortrijk (Courtrai), Menin, Ypres, Alost, and Saint-Nicolas. The important bankers of Brussels were: Danoot fils et C^{ie}, V^e Van Schoor et fils, Hagemans-Caroly et C^{ie}, Mattenius, J.A. Coghen, Engler, Hennessy, Overman, Denis et C^{ie}, V^e Goffin, Neustadt et C^{ie}, Masquelier et Desaegher, Messel, Mulder, Vandenhouten et Massart, Mathieu et Moreman, Bartels, Van Dyck and Herry. In other cities, the famous names were Cogels, Osy, De Wolf and Legrelle in Antwerp, and Naegelmakers and Dubois in Liège⁶.

Some of the Antwerp private bankers, such as the Bank Legrelle, issued notes⁷. However, we lack information about the amounts they issued.

Private banks did not disappear with the emergence of incorporated banks. Incorporated banks complemented the private banking system without replacing it, since the private bankers started to rely on the incorporated banks to rediscount bills. In addition, some of the private bankers contributed to the creation and the management of incorporated banks (see Wee & Verbreyt 1997.p22-23).

¹ Chlepner (1926, p. 31).

² *Ibid.*, p. 31.

³ *Ibid.*, p. 32.

⁴ Lebrun (1980, p. 173 and p. 185).

⁵ *Ibid.*, p. 172 and p. 173.

⁶ Chlepner (1926, p. 30) and Chlepner (1930, p. 15).

⁷ Chlepner (1926, p. 84).

1-2 Incorporated banks, a political affair

In Brussels, the status of incorporated companies with limited liability was only granted to banks at the discretionary verdict of the government. The Société Générale acquired its license since it furthered some of King William I's projects. The Banque de Belgique was the French counterbalance of the Société Générale, which was accused of Dutch sympathies. Banks which did not serve the authorities' needs were not granted a license to operate.

1-2-1 The Société Générale

King William I was short of money and needed funding for some public spending (for the construction of battle ships, castles, etc.) but did not want to increase debt or taxes. He decided to sell some government land in the south of the kingdom, but the project was badly received by the States-General (legislative assembly) and by the public⁸. (At the time, the monarch had considerable discretion in managing government spending, and his personal finances and state finances were intermingled to a degree that only exists today in dictatorships.)

On the other hand, many prominent citizens of Brussels were concerned by the reduction in the circulation of gold and the increase of the use of worn and counterfeit coins. They asked the king to create a note-issuing bank to resolve these problems. The Nederlandsche Bank (Netherlands Bank, in Amsterdam) which had existed since 1814, practiced banking activities and issued notes but could not resolve the problem in the southern provinces. Its notes were at the time not widely used outside of Amsterdam; people elsewhere preferred metallic money.⁹

The king saw in the Société Générale des Pays-Bas pour favoriser le développement de l'industrie nationale (Netherlands General Company to Promote the Development of National Industry) an answer to both above challenges and sponsored its creation under the status of an incorporated company with a huge capital of 50 million florins. He took the biggest share in the bank, 20 million florins (105.82 million francs)¹⁰. His contribution was in Crown lands, in return for which the bank would pay two types of annuities. The first amounted to 500,000 florins per year and was paid to the king. The second amounted to 50,000 florins per year, starting in 1825, and was paid to the Syndicate of Depreciation (a government organization in charge of managing the public debt). The second amount was to increase by 50,000 florins per year until reaching 500,000 florins. Both annuities were to be paid until the date of expiration of the authorization on December 31, 1849. At that date, the bank could return the king's 20 million florins in cash or government securities¹¹. The remaining 30 million Florins were offered to the public in the form of stock paying a dividend of 5% per year. However, the public only

⁸ Chlepner (1926, p. 38). At the time, the king's personal finances and state finances were intertwined, and he had a much freer hand in directing government finances than his successors would have.

⁹ See Buyst *et al.* (2005, p. 13).

¹⁰ Lebrun (1980, p. 172).

¹¹ Chlepner (1926, p. 46).

subscribed to 2.7 million florins, so the king stepped and subscribed to a further 12.9 million florins. This round of subscriptions was mainly paid in government securities (12.1 million florins)¹². The Société Générale was allowed to collect deposits, take loans, and issue bank notes (see Appendix I for its full balance sheet). Its bond issuance was capped at 20 million florins and its note issue was not to exceed its capital. (Such a legally imposed limit tying note issue to capital was widespread in 19th century banking systems, existing also for example in the United States and Canada.)

The activities of the bank included discounting and advances on securities, bills of exchange, merchandise, properties, etc. However, to be able to operate the bank needed liquid resources, while most of the capital had been subscribed in lands and government securities. The bank was allowed to issue notes in florins, but they were not frequently used in the southern provinces since people there conducted business in French coins and used the franc as their unit of account¹³. The bank solved its liquidity problem by obtaining the status of fiscal agent for the entire United Kingdom of the Netherlands. Consequently, the bank had agents in more than 60 localities receiving payments due to the government, which gave it access to huge inflows of funds. The bank also had branches in the main localities, the most important being the Banque d'Anvers in Antwerp¹⁴.

The creation of the Société Générale was a jackpot for King William. It allowed him to answer the request of the prominent citizens of Brussels, to keep the States-General away from budget management, to liquidate the Crown lands he wanted to sell, and to make payments efficiently through the bank.

1-2-2 The Banque de Belgique

In 1830, the revolution in the southern provinces of the Netherlands led to Belgian independence and the foundation of the Kingdom of Belgium under the rule of King Leopold I (see Donnet, 1927, p.275). From the time of independence, the idea of creating a second bank became increasingly popular, especially since the Société Générale was accused of Dutch sympathies for several reasons. First, the bank refused to hand to the new government of Belgium the taxes it had collected before the revolution¹⁵. Second, the bank stopped payment for the two types of annuities due as counterparts to the Crown lands it had been granted at its establishment¹⁶. Third, the bank's activities were obscure since it constantly refused any type of examination from the Court of Auditors and its financial statements were kept in absolute secrecy¹⁷. Fourth, the bank charged the government a fee of 0.125% of the amount of taxes collected, increased to 0.25% in 1831¹⁸. The opinion of the public was that instead of charging

¹² Chlepner (1926, p. 48).

¹³ Chlepner (1926, p. 47).

¹⁴ Chlepner (1926, p. 52).

¹⁵ Chlepner (1926, pp. 103-110).

¹⁶ Chlepner (1926, pp. 119-125).

¹⁷ Chlepner (1926, pp. 111-118).

¹⁸ Chlepner (1926, p. 116).

fees, the bank should pay interest to the treasury for the use of the funds it was collecting¹⁹. Fifth, the bank had a monopolistic position in Belgium's financial market. It was the main subscriber to government securities, the sole funder of the country's main companies, and had a substantial influence on political activity. Those powers needed to be counterbalanced and competition in the sector became a necessity.

In addition, many of the local savings banks created to help the masses encountered financial problems after the Belgian revolution. The Société Générale took them over in 1831. Savings deposits paid a high 4% interest rate. Consequently, the Société Générale considered this service a favor to the government and threatened its liquidation each time its relation with the government deteriorated. In 1834, the bank announced its intention to liquidate savings bank operations in all provinces except Antwerp²⁰.

It was the straw that broke the camel's back, prompting the banker-politician-nobleman Charles De Brouckère to press his demand for a license for the Banque de Belgique²¹. In 1835, the Banque de Belgique was established as a rival to the Société Générale, with a majority of French shareholders²², and we date Belgium's somewhat free banking system as beginning with this event. Due to the tensions between the Société Générale and the government, the Banque de Belgique constantly hoped to be granted the function of fiscal agent to the government, but it never happened.

The Banque de Belgique's operations were identical to those of the Société Générale except for the function of fiscal agent. The new bank was authorized to collect deposits, discount bills, grant industrial and commercial loans, subscribe to government securities, etc. The bank was also authorized to issue notes of 40, 100, 1,000, and 5,000 francs.²³ As with the Société Générale, its note issue could not exceed its capital²⁴, which amounted to 20 million francs. Unlike the Société Générale, the Banque de Belgique published yearly financial statements (see Appendix I for full balance sheet).

¹⁹ Chlepner (1926, p. 65 and p. 104).

²⁰ Chlepner (1926, pp. 95-104).

²¹ Chlepner (1926, pp. 95-104).

²² Lebrun (1980, p. 180).

²³ At the time, 40 francs was more than a week of wages for an average worker. There was in the 19th century a widespread feeling that banks should not be allowed to issue notes for "small" denominations because the average person would be better off not assuming the credit risk that came from accepting notes rather than coins in everyday transactions. Hence banks in many free banking systems were prohibited from issuing notes for, say, less than £1 or \$5.

²⁴ Chlepner (1926, p. 66).

1-2-3 Duopolistic competition in Brussels

After the 1830 revolution a climate of freedom and free market ideas predominated in Belgium. During this period, limited liability companies did not request governmental authorization to operate²⁵, even though it was required. For example, the Société des Capitalistes, a mutual fund created by the Société Générale, started its operations in 1836 without a license.²⁶ It only received one in 1841. However, a ruling of the Court of Cassation in May 26, 1842 stated that limited liability companies with no license had no legal existence.

During the period of freedom for other companies (1830-1842), banks still had to ask for a license to operate. In 1835 a license was granted to the Banque de Belgique, but in 1838 a license was refused for the Banque Anglo-Belge.²⁷ This situation created a de facto duopoly in Brussels. In addition, the Société Générale was authorized to issue notes in florins at its creation. In 1832, the Belgium government switched to the franc, equivalent to the French franc, as the unit of account. The bank immediately asked for a license to issue notes in francs, but the government did not grant it until 1837. The delay was mainly due to the tensions between the authorities and the bank, and it reduced the circulation of Société Générale's notes²⁸. The Banque de Belgique began issuing franc notes in 1836. Before 1837, then, the unit of account for bank notes was not homogeneous as it usually is, which posed some barrier to competition.

The existence of only two note-issuing banks in Brussels did not prevent fierce rivalry. The banks competed in both the political market and the financial market. In the political market, the Banque de Belgique hoped to become the government's fiscal agent. It offered to pay interest of more than 1% on the funds it would collect and keep for the government, which contrasts with the fee that the Société Générale charged for this service. The Société Générale knew how use its political connections to prevent the Banque de Belgique from being awarded the fiscal agent function (4.p65). Nevertheless, each bank had its supporters in the parliament continuously arguing who should have this function. Supporter of the Banque de Belgique in the press were likewise constantly attacking the Société Générale and stridently criticizing its actions²⁹.

There was no collusion or coordination in financial services. However, both banks neglected discount activity. They only worked with big companies, while smaller companies used private bankers for discount and paid higher discount rates (up to 8%), if they were able to discount their bills at all³⁰.

²⁵ Chlepner (1926, p. 142).

²⁶ See 2-3-2, *Mutual Funds*.

²⁷ See 1-3-2, *Legal barriers to entry*.

²⁸ Buyst *et al.* (2005, p. 22-23).

²⁹ Chlepner (1926, p. 85).

³⁰ Chlepner (1926, pp. 310-311).

The banks' behavior with respect to note issue is interesting. The two banks accepted each other's notes³¹ until 1838. There were no specific rules for the clearing, but usually when one bank had gathered 1 million francs of the other bank's notes, it would inform its counterpart and the clearing would happen in a day or two. Note clearing generally took place twice a month. The bank having an excess of the other bank's notes would just keep it for the next clearing, so bullion settlement was rarely needed³². This system was potentially hazardous for the bank whose notes were in excess, though. On December 4, 1838, the banks conducted a clearing because the Société Générale had gathered 1 million francs of the Banque de Belgique's notes. On December 6, the London Conference on the status of Belgium rejected changes to the guarantee treaty proposed by Belgium. This decision was communicated to Belgian ministers on December 10. The same day, the Société Générale requested a second clearing since it again had 1 million francs of Banque de Belgique notes. The request caught the Banque de Belgique by surprise; its managers were not expecting another clearing before mid-December. The bank was illiquid and asked the Société Générale to delay the clearing for an additional day. It was hoping to liquidate some of its assets and was betting on a government rescue. The Société Générale accepted but informed its competitor that it now had 1.2 million francs for clearing. On December 12, the Banque de Belgique came with only 1.125 million francs to settle the clearing. It was now obvious to the Société Générale that its rival has serious liquidity problems and that it was the perfect moment to deliver a fatal blow.

On Saturday, December 15, the Société Générale had gathered 300,000 francs of notes issued by the Banque de Belgique. The bank did not wait until the amount reached 1 million francs and did not go through the conventional method of clearing. Instead, it sent an employee to the counter of the Banque de Belgique during business hours requesting redemption of the notes in the presence of other clients. Being short of funds, the cashier asked the employee to come back on Monday, December 17, under the pretext that the cashier was very busy and did not have the time to conduct the transaction. The Société Générale's employee vainly insisted, then returned to his employer with the unredeemed notes. The Société Générale's governor told the employee to go back the same day and insist on being paid immediately. The Banque de Belgique's cashier told him to come back on the 18th. The Banque de Belgique used Sunday, December 16 to squeeze its debtors for cash. It was also still hoping for a government rescue. On December 17, at 1 a.m., the government informed the bank that no rescue would take place. On that day, the Banque de Belgique suspended payments. After the 1838 crisis, the banks refused each other's notes.

This raid, reflecting the competitiveness of the system, wasn't a first in the history of free banking. White (1995) shows that in Scotland, the Bank of Scotland (BOS) refused to accept the notes of the newly created Royal Bank of Scotland (RBS) in 1727. The RBS reacted by accepting the notes of BOS and collecting them. When the amount of those notes became substantial, RBS asked for redemption in Bullion. BOS did not have the bullion and suspended the payment

³¹ Chlepner (1926, p. 156).

³² Chlepner (1926, p. 158).

in March 1728. The solution of the Scottish banks to the problem of note raids was to create option clauses giving a bank the choice of immediate redemption at face value or delayed redemption at a higher value. Option clauses were, however, outlawed in Scotland in 1765 and were never tried in Belgium, where they may well not have received the necessary approval from the government to be included among the practices permitted by license.

1-3 Provincial banks

The provincial banks for which ample information has been collected suffered from the existence of restriction on notes issue and of legal barriers to entry. Banks in Antwerp may have enjoyed a certain degree of freedom, but the lack of information doesn't allow a clear assessment of their situation.

1-3-1 Restrictions on notes issue

Like the Brussels banks, the provincial banks could not issue notes greater than the amount of their capital, but the restriction does not seem to have been binding, as no bank reached that limit. However, other kinds of restrictions undermined the note issue.

The Banque Liégeoise³³ was established in 1835 by a group of capitalist and bankers from Liège with a nominal capital of 4 million francs. In reality, subscriptions to the capital did not exceed 3.5 million francs and the capital actually paid in was 692,000 francs. The bank was authorized to issue notes, but its own self-imposed statutes forbade it from practicing discounting. Since discounting was usually the main tool for a bank to put its notes in circulation, this measure restricted its ability to issue. Therefore, even though the bank managed to put in circulation an amount of 43,000 francs the first year, it could not keep the circulation that high afterwards. The amount of bills did not exceed 1,000 francs in the subsequent years. In 1850, the bank managed to increase its circulation³⁴ but the circulation of its notes was limited to the region of Liège³⁵.

The Banque des Flandre in Ghent, also called the Banque Gantoise, started its activity in 1842. This bank benefited from a good relation with the Société Générale. It aimed to stimulate credit and industry in Flanders. The bank was allowed to discount bills and it collected deposits and issued notes. However, it was not allowed to practice discounting or to take equity participation in industrial or commercial companies, which was the main activity of incorporated banks back then. Its activity was restricted to mortgage lending and to advances on current account. It started to issue notes shortly after its creation and was entitled to issue a maximum of 4 million

³³ The full name was La banque liégeoise et caisse d'épargne (loosely translated, Liège Commercial and Savings Bank).

³⁴ Chlepner (1926, p. 67)

³⁵ Buyst *et al.* (2005, p. 232)

francs, in amounts of 1,000, 250, 100 and 25 francs. It was only allowed to issue up to 300,000 francs in 25-franc notes. The bank opened branches in Brussels and Termonde in 1845 then closed them in 1847³⁶.

The Banque d'Anvers had been founded in 1822 in Antwerp and was permitted to practice all types of banking operations, including note issue. The notes of the Banque d'Anvers were accepted for any payment made at the Société Générale and its agencies. They were also accepted as a mean of payment by the Belgian government³⁷. However, this bank cannot be considered as a separate entity since it was an affiliate of the Société Générale. The circulation of its notes was limited to the region of Antwerp.

1-3-2 Legal barriers to entry

The law required express authorization to establish incorporated companies, and authorizations were few.³⁸ The Société Générale and the Banque de Belgique were authorized for political reasons, as seen above. All other demands, even before Belgium's independence, were rejected, generally without any justification. Here are some examples.

In 1815, Désiré Arnould asked for the creation of a bank of discount (*caisse d'escompte*) at the Mont de Piété de Namur (a charitable pawnbroker). The Netherlands government rejected his request, claiming that the existence of such a bank would harm a possible development of the Nederlandsche Bank in the southern provinces.

Many other requests were made to King William. The famous businessman François Opdenberg³⁹ requested the creation of a Banque de Bruxelles. His demand was disregarded by the authorities until the failure of William's project to sell land and finance his spending. It was then that the king decided to create the Société Générale and presented the project as an answer to the request of prominent citizens of Brussels⁴⁰.

After the Société Générale decided to end its savings bank service in 1835, many requests were lodged with the government for the creation of a rival bank⁴¹. Only the project of the Banque de Belgique was adopted.

³⁶ Chlepner (1926, pp. 228-232).

³⁷ Donnet (1927, pp. 281-282).

³⁸ Discussion about the liberty of establishing incorporated companies without the need of authorizations did not start until 1865 and the law was not adopted before 1873. However, from 1865 the government started giving authorizations easily, which allowed the creation of 15 new banks.

³⁹ He later became a director of the Société Générale.

⁴⁰ Chlepner (1926, pp. 34-39).

⁴¹ Chlepner (1926, p. 64).

In 1834, a group of Brussels investors applied for a license to establish the Banque Territoriale, a note-issuing bank dedicated to real estate loans. Their idea was to allow the circulation of the capital “trapped” in real estate. The government’s approval was conditioned on the bank dropping note issue from its functions. The investors complied, changed the bank’s name to Banque Foncière, and established the bank in June 6, 1835. It was closely connected to the Société Générale.

Two similar “land banks” were created in 1835, the Caisse Hypothécaire and the Caisse des Propriétaires. Both had close ties with the Banque de Belgique, which announced its willingness to accept the securities they issued. The announcement can be seen as a tool to bypass the government ban on note-issuing banks based on real estate, since the Banque de Belgique was a note issuing bank. Government regulation pushed the market toward further concentration.

In 1838, a reputable group of English investors applied to create a Banque Anglo-Belge, but the charter was never granted. The capital would have been subscribed in England but the bank would have operated in Belgium. The bank would have been permitted to engage in all banking operations, including note circulation. The bank’s proposers envisioned a capital of 25 million francs and several branches in the provinces. The potential bank’s director was even received by the king. Even so, the government denied the application for unknown reasons although Belgium was then in a serious financial crisis and fresh capital was desperately needed⁴². Some members of parliament were outraged by the decision and some newspapers accused the government of bending to the will of the Société Générale. The bank was suspected of scheming to preserve its dominant position in the market, especially after the difficulties of the momentary failure of the Banque de Belgique⁴³.

In 1840, the Banque de Belgique was still feeling the impact of the 1838 crisis and bailout and it needed to raise additional capital. The same group of English investors was forbidden to buy stock in the bank. They finally obtained a license in 1840 to create a bank in Ghent, where they established the Banque des Flandre in 1841 under the patronage of the Société Générale. It was the Société Générale that issued the shares of the Banque des Flandre for subscription, just as it did for the companies under its patronage⁴⁴.

1-3-3 Banks in Antwerp

Two banks operating in Antwerp may have had more freedom, although we lack information to allow a clear judgment. The Banque Commerciale was created in 1837 with authorized capital of 25 million francs but started its activity with only 5 million paid in. Information about the bank is limited, but it seems to have had authorization to conduct all banking operations,

⁴² Chlepner (1926, p. 181 and p. 218).

⁴³ Chlepner (1926, p. 183).

⁴⁴ Chlepner (1926, pp. 229-231).

including note issue, equity participation in industrial concerns, and discounting. It was the victim of a bank run and ceased activity in 1848⁴⁵.

Information about the Banque de l'Industrie is also rare. The bank opened in in 1838 and was created with a capital of 10 million francs, half of which was subscribed. Its main activity consisted of stimulating exports not only through financial operations but also through organizing international shipment of goods itself rather than leaving it entirely to merchants. The bank occasionally practiced discounting and advances on goods. It seems that it had suffered losses from the crisis in the textile industry and in 1846 and its shareholders decided on its liquidation⁴⁶.

1-4 Bank notes: restrictions and debate

Belgium did not have a special act that regulated banks in a uniform way distinct from other businesses. Banks were subject to the general provisions of legislation on incorporated companies. Banks, like other limited liability companies, needed a license to operate. The government could refuse licenses and used this power to impose restrictions on banks and to modify their bylaws. Other than the need to obtain a license, there was no specific legislation restricting or regulating bank notes.

The Société Générale initially lacked a license for issuing notes in francs, so it used its affiliate, the Société de Commerce, to issue franc notes in 1837, calling them “cash vouchers” (*bons de caisse*). The minister of finance, Édouard d’Huart, argued that note issue was an activity any company could do. Prime Minister Barthélemy de Theux confirmed that as long as the statutes of the company did not formally restrict it, the government was not allowed to intervene. He added that the Société de Commerce’s action had attracted the government attention to the necessity of adding a restrictive clause to bank licenses henceforth⁴⁷. After March 1837, statutes or licenses were changed such that in addition to the current issuers with limited liability, only new companies with unlimited liability could issue notes. Some newspapers approved this restriction (*Courrier belge* and *L’Observateur*), while others found it very restrictive (*L’Independent*).

The banks that were allowed to issue notes were the Société Générale, Banque de Belgique, Banque Liégeoise, Banque de Flandre, and the Société de Commerce de Bruges, which got a special license in 1838 (see Appendix II) . Since private bankers had an unlimited liability, they did not require the authorizations and licenses that applied to limited liability companies, and some of them issued notes.

⁴⁵ Chlepner (1926, pp. 234-235).

⁴⁶ Chlepner (1926, p. 236).

⁴⁷ Chlepner (1926, pp. 308-309).

Government restrictions never included required reserve ratios. As we have observe, though, there was a standard restriction that bank notes issued could not exceed the amount of capital.

After the 1838 bailout, criticism emerged that issuance of bank notes was risky. The solution frequently advocated was to supposedly improve asset quality by directing banking activity toward discounting instead of financial services. Other critics, like the economic writer François De Pouhon, argued for the creation of a central bank. For De Pouhon, the hardt terms imposed on government borrowing by the Société Générale and the Rothschilds showed the need for a national bank that would collect savings and invest them in government bonds. Louis Chitti, in an 1839 book titled *Des crises financières et de la réforme du système monétaire*, proposed to convert the Banque de Belgique into a government bank. Jules Malou, minister of finance, suggested the merger and the nationalization of the two banks in 1846. Others, mainly in the press, proposed to grant a monopoly of note issue to the Société Générale.

After the 1848 crisis, the general sentiment for the creation of a central bank was crystallized by the proposal of Walthère Frère-Orban. MP Cools and MP Gant were opposed to the creation of the central bank and they argued for competitive note issue. MP Sinave and MP Perceval argued against convertibility and for maintaining the fiat currency system. The law creating the Banque Nationale de Belgique did not grant it a monopoly on circulation. The parliament kept open the possibility of granting the note issue to other banks. In practice, though, no other banks were allowed to issue notes.

2 The activity of incorporated banks

Our analysis of the banks' activity takes their balance sheets as its point of departure. Although incorporated banks were created to back commercial and industrial enterprises, they actually neglected typical commercial banking activity. Their business model was driven by financial services. In this respect Belgium was, to our knowledge, unique among cases of historical free banking in being dominated throughout its existence by "universal"-type financial institutions that engaged heavily in investment banking and long-term lending rather than being dominated by banks focused on short-term commercial loans.

2-1 The balance sheet

2-1-1 Data

Finding and understanding the financial statements are serious challenges, for many reasons. The Banque de Belgique published financial statements but the larger Société Générale did not. Even for the Banque de Belgique we currently lack balance sheets for the crisis years 1838, 1839, and 1848, though we expect to add them in a later draft. Also, when reporting data, the two banks did not maintain fixed categories. Some accounts were merged, then separated for the others. Finally, and most important, the banks used "creative accounting" that can be incomprehensible even for someone familiar with accounting principles.

To overcome these problems, we have made certain assumptions. Although the balance sheets of the Société Générale were kept secret, Jules Malou (1863) published them as tables annexed to his monograph. Malou, a prominent politician, was also a longtime director of the Société Générale and we can safely assume that he had access to all the past “classified” statements.⁴⁸

Although we have so far been unable to obtain some published data for the Banque de Belgique, the economic historian Boris- (Ben-)Serge Chlepner reports most of the data for those years. Unfortunately, his tables round many figures, omit some accounts, and merge others in way that is practical for his analysis but loses some information.

After using Chlepner’s data, we end up with only four missing accounts on the asset sides (bank notes reserves, sundry claims, fixed assets, and dividend coupon and rent) and four on the liability side (bank notes, mortgage notes in circulation, dividend coupon and rent, and profits and loss). Data for the bank note accounts can be reconstructed since Chlepner reported bank notes in circulation, which is the difference between the total issue of bank notes and bank note reserves (notes held in vaults). The other accounts represent small amounts, but instead of neglecting them, we proceeded as follows. For 1838, these accounts were calculated as the simple average of the years 1837 and 1840. For 1848, we took the average of 1847 and 1849. For 1839, we assumed these accounts to be equal to those of 1838 except for profit and loss, which we set at zero, as it was the case in 1840 and 1841.⁴⁹

2-1-2 The Société Générale’s non-banking activities

First, the Société Générale had two non-banking activities: managing the Crown’s lands and collecting taxes.

King William I granted the Société Générale some Crown lands with a value of 42.3 million francs. That amount was registered as a liability and the lands were represented as an asset held by the bank. The land was a major source of liquidity since the bank was continuously selling pieces of it. However, in the balance sheet, the sales did not reduce the liability. Instead, the bank invented two new book entries. On the liability side, “land transactions” reported the cumulative amount of lands sold. On the asset side, “land transactions” reported the share kept by the bank in liquid form (see Tables 1 & 2).

The bank also held the taxes of 1830 collected before the revolution. Since this item was under dispute with the authorities, the bank provisioned it in the liabilities under “government provision” and had, at the same time, some assets mobilized for eventual payments (see Tables 1 & 2). The same goes for the “State Exchequer” (fiscal agent) account, where the amount due to the government is placed in liabilities and the amount kept in liquid funds, at the immediate disposal of the government, is placed in assets (see Tables 1 & 2).

⁴⁸ All the authors that have worked on this era have used the information in Malou (1863) as a reference.

⁴⁹ The full balance sheets are available in Appendix I.

Table 1 - Non-Banking Assets of the Société Générale, 1835-1851

Year	Lands	State Exchequer	Government Provision	Land Transactions	Land Revenue
1835	42,328,000	15,499,000	29,550,000	19,769,000	-
1836	42,328,000	14,035,000	28,219,000	27,809,000	-
1837	42,328,000	13,932,000	27,887,000	23,695,000	1,000,000
1838	42,328,000	15,320,000	28,773,000	23,160,000	2,000,000
1839	42,328,000	11,323,000	28,422,000	21,128,000	3,000,000
1840	42,328,000	16,776,000	14,805,000	20,618,000	3,500,000
1841	42,328,000	12,649,000	14,764,000	20,020,000	4,250,000
1842	42,328,000	16,136,000	14,857,000	19,362,000	7,000,000
1843	-	15,152,000	5,385,000	-	-
1844	-	14,692,000	5,280,000	-	-
1845	-	13,005,000	4,459,000	-	-
1846	-	13,552,000	3,551,000	-	-
1847	-	10,993,000	6,932,000	-	-
1848	-	-	6,115,000	-	-
1849	-	-	5,390,000	-	-
1850	-	-	5,069,000	-	-
1851	-	-	4,612,000	-	-

Table 2 - Non-Banking Liabilities of the Société Générale, 1835-1851

Year	State Lands	State Exchequer	Government Provision	Land Revenue	Land Transactions
1835	42,328,000	18,782,000	23,095,000	102,000	24,621,000
1836	42,328,000	24,928,000	25,002,000	342,000	35,612,000
1837	42,328,000	21,391,000	27,230,000	430,000	33,553,000
1838	42,328,000	18,729,000	31,827,000	509,000	34,605,000
1839	42,328,000	15,912,000	35,099,000	522,000	34,625,000
1840	42,328,000	27,992,000	37,347,000	498,000	34,646,000
1841	42,328,000	12,677,000	39,595,000	501,000	34,644,000
1842	42,328,000	15,518,000	41,844,000	253,000	35,846,000
1843	-	11,499,000	7,627,000	-	5,358,000
1844	-	13,400,000	5,607,000	-	4,203,000
1845	-	21,903,000	4,235,000	-	2,737,000
1846	-	13,071,000	3,666,000	-	1,376,000
1847	-	10,945,000	2,349,000	-	1,404,000
1848	-	-	-	-	1,988,000
1849	-	-	-	-	837,000
1850	-	-	-	-	747,000
1851	-	-	-	-	593,000

Amounts here and in subsequent tables are in Belgian francs unless specified.

Therefore, “State lands” are kept unchanged on the liability side since they represent amounts due to the government. However, we subtracted “Land transactions” on the liability side from the “Lands” on the asset side to end up with the actual lands possessed by the bank.

To assess the total liquid assets of the Société Générale, we should add to the amount of *Cash*, the *Land transactions*, *Government provision*, and *State Exchequer*. Those different categories provided substantial cushions against liquidity shocks. It should be mentioned however, that the bank accepted payments for taxes and lands not only in bullion, but also in bank notes and government securities. Unfortunately, the data we have do not allow us to measure the size of each specific form. Therefore, it is not possible to assess exactly the bullion reserves of the Société Générale.

Finally, we can safely assume that “State lands,” “State Exchequer,” and the provision for the disputed 1830 taxes represented a kind of government lending to the bank. In 1842, the Société Générale settled its dispute with the government and paid most of the funds for which it had made provisions. “State lands,” “Land transactions” and “Land revenue” disappeared from the balance sheet. The “Government provision account” was extended.

2-2 Commercial banking

The standard activity of a note-issuing bank in other free banking systems was to discount bills by issuing notes, deposits, or saving accounts. Belgian incorporated banks discounted bills, but this activity was marginal. They also issued deposits and bank notes, but those were marginal as well. The main source of liability was savings bank deposits.

2-2-1 Short term economic loans

We define short-term economic loans as the lending to industrial or commercial firms or to households, as opposed to financing stockbrokers. The Société Générale did not give enough information on the constituents of the account, but we believe that those activities were combined in the “portfolio account.” For the Banque de Belgique, we have a more detailed reporting and hence short-term economic loans are calculated as the sum of “Portfolio,” “Mortgage loans,” “Commercial loans,” “Sundry loans,” and “Mortgage notes” (see Table 3).

The discount activity is included in the portfolio account. The portfolio account may also include discounting government securities and foreign exchange transactions.

Table 3 - Short-Term Economic Loans of the Banque de Belgique, 1835-1851

Year	Portfolio	Mortgage Loans	Commercial Loans	Sundry Loans	Mortgage Notes
1835	3,613,342	-	-	-	-
1836	7,103,450	994,000	-	20,000	-
1837	6,001,841	882,667	-	40,963	-
1838	3,000,000	200,000	-	91,951	-
1839	2,100,000	100,000	-	91,951	5,500,000
1840	3,926,542	103,000	-	142,939	7,827,350
1841	7,412,060	103,000	1,870,287	142,837	7,827,350
1842	10,658,087	512,500	3,724,617	143,427	7,807,350
1843	14,335,289	512,500	2,610,841	143,277	7,684,875
1844	15,045,930	489,000	3,410,549	143,202	7,656,425
1845	15,036,680	489,000	1,481,839	42,390	5,879,750
1846	13,908,221	489,000	-	1,322	5,234,880
1847	14,119,551	574,500	-	670	4,584,100
1848	9,000,000	600,000	-	620	4,600,000
1849	10,559,490	574,801	2,685,201	570	4,587,100
1850	10,420,839	551,953	1,559,011	500	3,811,000
1851	3,399,663	553,200	560,374	-	3,811,000

For the Société Générale, the overall amount of short-term economic loans was very volatile and never significant. It dropped from 12.7 million francs in 1835 to 6.6 million in 1837.⁵⁰ It kept oscillating, reaching a peak of 16.8 million francs in 1844 and a bottom of 6 million in 1851 (see Table 4). These amounts never went beyond 7.1% of the total assets, which is low for a bank created to support commerce and the industry. By comparison, the Banque de Flandre, a small provincial bank created in 1842, had its portfolio fluctuating around 50 million francs at the first years of activity⁵¹. This clearly proves that the Société Générale centered its activity on another segment of activity.

Unlike the Société Générale's stop-and-go management of its short-term economic lending, Table 4 shows that the Banque de Belgique kept its short-term economic lending more stable over time. After a break due to the crisis of 1838, the portfolio kept on increasing and averaged 14.5 million franc for the years 1843-1847. It dropped with the crisis of 1848 to reach 9 million francs and re-increased to 10.5 million afterwards. This activity represented around 21.6% of the Banque de Belgique's assets for the period under study. This share increases to 36% of the portfolio if all short-term economic loans are considered. In reality, after the 1838 crisis, the

⁵⁰ The tables are constructed based on the balance sheets retrieved from the period under study. Although those data suffer from some approximation (assets are not always equal to Liability from equity), they remain an acceptable source of approximation.

⁵¹ Chlepner (1926, p. 82).

Banque de Belgique repositioned itself on this safe segment and managed to invest about half of its resources in short-term economic loans.

Table 4 -Short-Term Economic Loans and Portfolio

Year	SOCIETE GENERALE		BANQUE DE BELGIQUE		BANQUE DE BELGIQUE	
	Short-Term Economic Loans	% of Total Assets	Portfolio	% of Total Assets	Short-Term Economic Loans	% of Total Assets
1835	12,740,000	7.1%	3,613,342	24.1%	3,613,342	24.1%
1836	9,532,000	4.3%	7,103,450	27.1%	8,117,450	31.0%
1837	6,614,000	2.4%	6,001,841	16.1%	6,925,470	18.6%
1838	8,262,000	2.7%	3,000,000	7.7%	3,291,951	8.5%
1839	7,445,000	2.5%	2,100,000	7.3%	7,791,951	26.9%
1840	7,917,000	2.5%	3,926,542	12.0%	11,999,831	36.7%
1841	8,680,000	2.8%	7,412,060	18.4%	17,355,533	43.1%
1842	11,802,000	3.7%	10,658,087	24.5%	22,845,981	52.5%
1843	12,871,000	5.1%	14,335,289	27.8%	25,286,783	49.0%
1844	16,821,000	6.2%	15,045,930	23.4%	26,745,107	41.6%
1845	12,953,000	4.6%	15,036,680	32.3%	22,929,659	49.2%
1846	11,506,000	4.6%	13,908,221	31.0%	19,633,424	43.7%
1847	9,983,000	4.1%	14,119,551	33.2%	19,278,821	45.3%
1848	7,442,000	4.0%	9,000,000	23.2%	14,200,620	36.7%
1849	11,515,000	6.0%	10,559,490	24.7%	18,407,161	43.1%
1850	9,880,000	5.9%	10,420,839	24.3%	16,343,303	38.0%
1851	5,985,000	4.2%	3,399,663	10.0%	8,324,237	24.4%

Unlike the Société Générale’s stop-and-go management of its economic lending, Table 4 shows that the Banque de Belgique kept this activity more stable over time. After a break due to the crisis of 1838, the portfolio kept on increasing and averaged 14.5 million francs for the years 1843-1847. It dropped with the crisis of 1848 to reach 9 million and re-increased to 10.5 million afterwards. This activity represented around 21.6% of the Banque de Belgique’s assets for the period under study. This share increases to 36% of the portfolio if all the short term economic loans are taken into consideration. In reality, after the 1838 crisis, the Banque de Belgique repositioned itself toward this safe segment and managed to invest about half of its resources in short term economic loans.

2-2-2 Circulation of bank notes

The balance sheet of the Société Générale did not separate bank notes in the value from notes actually in circulation. The difference between the two items is the notes kept by the bank as reserves. Therefore, we cannot have a valid estimation of the amount of the Société Générale’s notes in circulation. For example, table 5 shows that notes were 21 million to 40 million francs prior to 1838; however, Chlepner (1926, p. 84) argues that in reality, the notes in circulation

never reached 14 million. The Banque de Belgique, on the other hand reported both the total issue and notes in the vault. This allows an accurate calculation of its circulation, which was around 3.7 million francs prior to 1848 and reached 10.5 million in 1849 and 1850 (See Table 5).

Table 5 – Circulation of Bank Notes from 1835 to 1851

Year	SOCIETE GENERALE		BANQUE DE BELGIQUE	
	Circulation	% of Total Assets	Circulation	% of Total Assets
1835	21,294,000	11.9%	1,800,572	12.0%
1836	39,294,000	17.7%	3,488,672	13.3%
1837	21,143,000	7.7%	3,710,360	10.0%
1838	26,742,000	8.9%	2,140,690	5.5%
1839	20,704,000	7.0%	-	0.0%
1840	23,875,000	7.6%	609,759	1.9%
1841	25,353,000	8.2%	1,464,393	3.6%
1842	25,353,000	7.9%	2,060,520	4.7%
1843	24,895,000	9.8%	4,186,848	8.1%
1844	24,825,000	9.2%	5,374,244	8.4%
1845	24,075,000	8.6%	5,468,983	11.7%
1846	23,525,000	9.5%	6,664,434	14.8%
1847	23,275,000	9.6%	5,336,855	12.5%
1848	40,575,000	21.6%	7,092,251	18.3%
1849	40,575,000	21.0%	10,461,879	24.5%
1850	32,575,000	19.6%	10,470,735	24.4%
1851	10,645,000	7.5%	1,446,358	4.2%

The total amount of notes in circulation for all Belgium’s banks (including the provincial ones) is estimated at around 20 million francs. The total money supply for the same period is estimated at 200 million francs⁵². Restrictions on note issue discussed above may have contributed to their small share in the overall money supply.

2-2-3 Current liabilities other than bank notes

The two major components of the remaining current liabilities are *demand deposits* and *saving bank deposits*. The Banque de Belgique also reported *other current liabilities* (mortgage notes in circulation and dividends, coupons, and interest paid by the government on its securities (*rente*)).

The banks offered zero-interest demand deposits, represented in the balance under “current accounts.” This liability was very liquid but never gained substantial importance at the Société Générale. It grew from 3.25 million francs in 1835 to 26.7 million in 1838 before dropping

⁵²Chlepner (1926, p. 84).

progressively to reach a bottom of 100,000 francs in 1844. It was then that the Société Générale decided to implement a policy discouraging savings deposits because of their high cost to the bank. Demand deposits therefore grew to reach 28.1 million francs, a peak for the period under study. It was actually the first time since 1835 that demand deposits exceeded savings bank deposits.

In fact, the high liquidity and high interest rate of savings deposits made them the most popular service offered by the bank. Saving banks were created shortly after the Napoleonic Wars, and they were designed to secure steady revenue for individuals with low income. The Industrial Revolution provided higher income, which allowed greater saving, but it also made income more volatile for many people, providing an additional incentive for saving. The 1830 revolution created big problems for the savings banks. The assets, mainly government securities, were jeopardized by the revolution, and the political instability of the period meant less work for people and more withdrawals. In 1831, the Société Générale stepped in and took over most of the savings banks.

The interest rate on savings deposits was 4% on the first 2,000 francs and 3% on the remainder, up to a 4,000 franc ceiling.⁵³ A client needed to notify the bank only 8 days in advance before getting his money back—for the time, a short period for an interest-bearing deposit. These characteristics led savings bank deposits to grow from 19 million francs in 1835 to 45.9 million in 1838 (see Table 7). In 1838 the Société Générale increased the advance notice required to withdraw deposits to 45 days. Even so, the service remained appealing and the amounts invested reached 61.6 million francs in 1842. The Société Générale then took a firm decision to discourage savings deposits by raising the advance notice required for withdrawal to 60 days and restricting the 4% interest rate to the first 1,000 francs (3% being paid on the remaining amount). In 1843 the bank adopted a flat interest rate of 3% on all new savings. Chlepner (1926, p.99) argues that the bank needed to reduce its interest expense because of the high cost. When its financial activities were flourishing (before the crisis of 1838) the bank could afford to pay a high yield. After the crisis the bank needed to cut its costs. The strategy worked: starting with a push from the 1838 crisis, savings bank deposits fell to 23.4 million francs in 1848.

Table 7 shows that this strategy was a masterstroke for the Société Générale since the ratio of current liabilities to total assets remained very stable from 1837 to 1851. This means that the decrease in interest-bearing savings deposits was offset by an increase in zero-interest demand deposits.

⁵³ In 1835, after the Société Générale had threatened to cease offering savings deposits, it went back and improved their attractiveness by raising the ceiling from 500 florins to 4,000 francs (note the change in the unit of account). The ceiling was never a barrier for the bank, since the bank also offered other products yielding the same interest for amounts higher than 500 florins (or later 4,000 francs).

Table 7 - Current Liabilities Other than Bank Notes of the Société Générale, 1835-1851

Year	Deposits	Savings Bank	Total	% of Total Assets
1835	3,254,000	19,054,000	22,308,000	12.5%
1836	8,127,000	28,581,000	36,708,000	16.5%
1837	17,460,000	40,111,000	57,571,000	20.9%
1838	26,730,000	45,897,000	72,627,000	24.0%
1839	20,209,000	44,601,000	64,810,000	21.8%
1840	17,729,000	50,397,000	68,126,000	21.7%
1841	13,159,000	59,483,000	72,642,000	23.4%
1842	8,094,000	61,609,000	69,703,000	21.6%
1843	929,000	58,047,000	58,976,000	23.2%
1844	97,000	57,811,000	57,908,000	21.4%
1845	6,458,000	54,120,000	60,578,000	21.7%
1846	3,132,000	53,199,000	56,331,000	22.6%
1847	3,829,000	48,888,000	52,717,000	21.8%
1848	21,075,000	23,364,000	44,439,000	23.7%
1849	28,087,000	24,478,000	52,565,000	27.2%
1850	11,846,000	24,270,000	36,116,000	21.7%
1851	8,134,000	22,970,000	31,104,000	22.0%

Table 8 - Remaining Current Liabilities of the Banque de Belgique, 1835-1851

Year	Deposit	Savings Bank	Other	Total	% of Total Assets
1835	2,450,249	138,466	562,252	3,150,966	21.0%
1836	4,476,235	397,531	1,452,589	6,326,355	24.2%
1837	10,693,245	777,985	1,921,086	13,392,316	35.9%
1838	11,800,000	1,000,000	2,065,835	14,865,835	38.2%
1839	3,200,000	100,000	2,065,835	5,365,835	18.5%
1840	4,823,815	291,665	2,210,585	7,326,065	22.4%
1841	4,870,564	659,118	2,152,298	7,681,981	19.1%
1842	6,900,536	1,162,166	1,906,497	9,969,198	22.9%
1843	12,500,764	1,890,943	273,443	14,665,150	28.4%
1844	13,710,247	999,387	1,006,138	15,715,772	24.5%
1845	10,689,606	764,254	1,534,590	12,988,450	27.9%
1846	8,586,757	169,928	1,827,219	10,583,905	23.6%
1847	8,112,169	39,014	1,336,835	9,488,018	22.3%
1848	2,600,000	1,000	1,348,959	3,949,959	10.2%
1849	3,228,656	6,398	1,361,083	4,596,137	10.8%
1850	3,451,888	2,617	1,345,439	4,799,944	11.2%
1851	6,625,874	2,617	767,099	7,395,590	21.7%

Debate about the Société Générale ending its savings bank services triggered the creation of the Banque de Belgique. The Banque de Belgique's savings deposit service proposed a delay of three days for withdrawing savings of less than 100 francs and five days for greater amounts. The service offered a 4% interest with a 5,000 franc ceiling. Table 8 shows that savings started at 140,000 francs in 1835 and increased to 1 million francs in 1838. The crisis of 1838 led to a meltdown, and savings deposits fell to 300,000 francs in 1840, after which they again rose, to 1.9 million francs in 1843 (see Table 8). Being still traumatized by the bad experience of 1838, the bank was worried about this growth and added several restrictions on savings deposits in 1843. These measures led to decrease in the account, a movement accelerated by the 1848 crisis, where savings bottomed at a mere 1,000 francs.

Demand deposits at the Banque de Belgique were by far more popular and reached 11.8 million francs and 13.7 million in 1838 and 1844. In reality, the savings bank operations of the Banque de Belgique never managed to challenge those of the Société Générale. Therefore, the ratio current liabilities to total assets fluctuated according to the rhythm of deposits, as Table 8 shows.

2-3 Financial services

The fierce competition between the Société Générale and the Banque de Belgique was mainly in fields of private equity investment, mutual funds services and investment banking. The dynamism of the banks allowed mobilization of capital to Belgian companies, modernization of the industrial base and the achievement of the final phase of the Industrial Revolution⁵⁴.

2-3-1 Private equity investment

The Société Générale and the Banque de Belgique competed aggressively in the market for private equity services. They targeted businesses that had big potential but lacked financial resources—these were often family businesses—and converted them into incorporated companies. The banks then took a share in the company⁵⁵ (and assigned a representative to the company board. This representative was often himself a director of the bank. In today's terminology, it was venture capital activity. The two banks helped nurture the growth of Belgium during the Industrial Revolution much as venture capitalists fostered the success of the information technology revolution in the United States two decades ago.

By using their political influence, both banks managed to avoid refusals, delays, or crippling restrictions that the government might have imposed when granting licenses to incorporated companies under their patronage. In addition, once a bank became a shareholder in a company, the company enjoyed easier terms for discounting bills, easier access to credit (with

⁵⁴ Lebrun (1980, pp. 178-179 and p. 50).

⁵⁵ Lebrun (1980, pp. 176-178).

company shares as collateral), greater influence with the authorities, and a better international network⁵⁶.

“Of the 150 *sociétés anonymes* [companies] set up in Belgium between 1833 and 1838, and with a combined capital of 288.5 million francs, 24 (combined capital of 54 million francs) were created under the aegis of the Banque de Belgique, as against 31 (combined capital of 102 million) under that of the Société Générale”⁵⁷.

The companies created by the Société Générale worked in colliery, metallurgy, engineering, and textile. The Banque de Belgique was involved in the textile industry in Liège and Verviers, metallurgy in Liège, and nonferrous metals and glass.

Venture capital investment was done either directly by the banks or through specialized affiliates. The Société Générale in 1835 created two companies dedicated to financial services: the Société de Commerce, with a capital of 10 million francs, and the Société Nationale pour Entreprises Industrielles et Commerciales, with a capital of 15 million. Their mission consisted in creating incorporated companies and taking shares in them. It was not unusual to see both the Société Générale and its two affiliates holding shares in the same company. The Banque de Belgique created a venture capital arm in the Belgian province of Luxembourg in 1837⁵⁸.

Table 9 shows the parent banks’ exposure to financial assets. It does not take into account their venture capital firms’ exposure. The account titled “stocks and bonds” in the Société Générale’s balance sheet is actually almost all stocks. Table 9 shows that the bank’s stocks increased spectacularly from 3.8 million francs in 1835 to 45.7 million in 1839. From 1839 to 1843, the amount of stocks fluctuated around 51 million francs, then jumped to 67.3 million in 1844. The jump was due to the bank buying back its own shares from King William of the Netherlands. The bank’s large exposure to stocks was damaging during the 1848 crisis, and the amount was cut more the half the next year. It is also worth mentioning that total exposure to market activity, including stocks and bonds, was particularly high for the bank, averaging 30% over the period of study.

The Banque de Belgique saw its exposure to stock market rise from 7.3 million francs in 1835 to 14.4 million in 1837. It was then traumatized by the 1838 crisis and reduced its exposure to those assets to an average of 8.3million francs during the subsequent years.

⁵⁶ Lebrun (1980, pp. 178-179).

⁵⁷ Wee and Verbreyt (1997, p. 50).

⁵⁸ Chlepner (1926, p. 70 and p. 73).

Table 9 - Financial Assets Held by Banks, 1835-1851

	SOCIETE GENERALE				BANQUE DE BELGIQUE			
	Government Bonds	% of Total Assets	Stocks and Bonds	% of Total Assets	Govern-ment Bonds	% of Total Assets	Stocks	% of Total Assets
1835	24,116,000	13.5%	3,797,000	2.1%	-	0.0%	7,272,767	48.4%
1836	24,071,000	10.8%	11,426,000	5.1%	-	0.0%	13,903,461	53.1%
1837	29,957,000	10.9%	35,921,000	13.0%	-	0.0%	14,378,326	38.6%
1838	23,646,000	7.8%	40,154,000	13.3%	-	0.0%	12,200,000	31.3%
1839	18,043,000	6.1%	45,687,000	15.3%	-	0.0%	5,200,000	18.0%
1840	27,887,000	8.9%	54,766,000	17.4%	-	0.0%	6,068,954	18.6%
1841	33,017,000	10.6%	51,524,000	16.6%	-	0.0%	7,743,782	19.3%
1842	33,809,000	10.5%	53,649,000	16.6%	-	0.0%	6,752,298	15.5%
1843	28,906,000	11.4%	48,272,000	19.0%	-	0.0%	6,896,395	13.4%
1844	23,375,000	8.7%	67,342,000	24.9%	12,403,000	19.3%	7,037,646	11.0%
1845	18,981,000	6.8%	67,227,000	24.1%	-	0.0%	8,938,613	19.2%
1846	19,629,000	7.9%	68,572,000	27.6%	-	0.0%	9,345,919	20.8%
1847	20,208,000	8.4%	69,287,000	28.7%	-	0.0%	8,648,318	20.3%
1848	10,564,000	5.6%	32,788,000	17.5%	-	0.0%	8,450,000	21.8%
1849	21,047,000	10.9%	58,218,000	30.2%	-	0.0%	8,254,064	19.3%
1850	18,805,000	11.3%	54,837,000	33.0%	-	0.0%	8,531,347	19.9%
1851	7,773,000	5.5%	57,780,000	40.8%	-	0.0%	15,481,867	45.4%

It is obvious that by taking equity shares instead of debt, the banks exposed themselves to high risks. Even when they granted credit, it was often long-term loans collateralized with equity shares. If a company encountered trouble, the shock would affect both the loan and the underlying collateral simultaneously. In summary, the assets of both banks were not very liquid. Their liabilities, on the other hand, consisted mainly of capital, but also included some short-term components such as bank notes and deposits.

2-3-2 Mutual funds

The Société Générale and the Banque de Belgique also created mutual funds to encourage small investors to take shares in the companies they were involved in. In 1836, the Société des Capitalistes was established under the patronage of the Société Générale. The public called this company the Mutuality. The capital of the Mutuality was 50 million francs and it was allowed to be increased up to 100 million, although only 12 million were actually paid at its establishment. The statutes adopted by its shareholders stated that the company aimed to help the spirit of association and attract more capital to companies; allow investors to diversify their portfolios to reduce the risk related to investing in one company; and give small investors the possibility

of investing small amounts of funds in the biggest industrial companies⁵⁹. The Mutuality also aimed to invest in foreign assets and to detain a largely diversified portfolio. It started to operate in 1836 without waiting for a government license. When the license finally came in 1841, many of the objectives expressed in the statutes were removed by the regulator⁶⁰.

The mutual fund created under the patronage of the Banque de Belgique in 1837 was named the Société des Actions Réunies (United Shares Company). Its purpose was to allow small investors to take a share in the big industrial operations and in government securities and to reduce risks through diversification. The company insisted on the safety and promised to not invest in more than 25% of an issue. The public was allowed to subscribe to the company's capital in shares for 3 million francs. The rest of the capital was subscribed using the stock of the Banque de Belgique or companies under its patronage for payment⁶¹.

The service accomplished by the mutual funds was limited. Only a small portion of an issue was available to the public; most stayed in the hand of the banks, their venture capital arms, and the original proprietors. In addition, the shareholders of the banks and of the other companies in the banks' patronage had preferential rights to subscribe to the offering. This scarcity of freely traded shares contributed to the increase in their prices.

2-3-3 Investment banking

The fundamental role of an investment bank is underwriting the initial offering of securities. In addition to taking direct shares in the companies, the Société Générale and the Banque de Belgique (directly or through financial affiliates they created) offered the possibility for the public to subscribe to companies' initial offerings. By doing so, the banks helped the companies to raise funds through selling securities to the public. The banks charged for this underwriting service a commission of 1% paid by the investor (and not by the company)⁶².

An investor who purchased securities was not required to pay the entire amount at subscription. In general, only a payment of 10% was required, and occasionally no money was due at subscription. In addition, when 10% was required, the payment could be fulfilled by a deposit of securities of the underwriting bank or of companies under its patronage. The remaining amount was usually due after a substantial period (a year or more)⁶³.

⁵⁹ Chlepner (1926, p. 71).

⁶⁰ Chlepner (1926, pp. 71-72).

⁶¹ Chlepner (1926, pp. 72-73).

⁶² Chlepner (1926, p. 87).

⁶³ Chlepner (1926, pp. 88-89).

Table 10 - Speculative Loans, 1835-1851

	SOCIETE GENERALE			BANQUE DE BELGIQUE		
	Short-Term Speculative Loans	ST Fin. Loans as % of Total Assets	ST Econ. Loans as % of Total Assets	Short-Term Speculative Loans	ST Fin. Loans as % of Total assets	ST Econ. Loans as % of Total Assets
1835	33,732,000	19%	7%	2,849,616	19%	24%
1836	55,522,000	25%	4%	124,271	0%	31%
1837	101,472,000	37%	2%	14,045,817	38%	19%
1838	121,095,000	40%	3%	22,000,000	56%	9%
1839	129,184,000	43%	3%	15,000,000	52%	27%
1840	128,344,000	41%	3%	12,798,575	39%	37%
1841	131,973,000	42%	3%	12,905,325	32%	43%
1842	133,349,000	41%	4%	11,598,691	27%	53%
1843	122,178,000	48%	5%	16,170,917	31%	49%
1844	124,192,000	46%	6%	13,254,111	21%	42%
1845	130,775,000	47%	5%	10,423,683	22%	49%
1846	110,554,000	44%	5%	10,991,119	24%	44%
1847	105,944,000	44%	4%	11,208,726	26%	45%
1848	92,055,000	49%	4%	12,300,000	32%	37%
1849	68,647,000	36%	6%	12,786,571	30%	43%
1850	49,510,000	30%	6%	9,903,702	23%	38%
1851	47,309,000	33%	4%	9,353,990	27%	24%

Demand for available shares was consistently higher than supply and the bank proceeded to allot shares pro rata to applicants. There were many huge oversubscriptions. For example, it was decided to allot shares in the ratio of 1:25 for the Société des Hauts Fourneaux de Marcinelle et Couillet, 1:4,000 for the Canal de Sambre, etc.

Demand came mostly from stockbrokers for the purpose of speculation. Like other subscribers, stockbrokers only paid 10% of the price of a security up front. Even this they borrowed, because the two big banks actually guaranteed to subscribers a loan equivalent to the price of the security they were buying⁶⁴. (These loans were reported in the bank balance sheets under "security lending.") Therefore, stockbrokers only paid underwriting commission directly from their own pockets.

With little or no capital one could have access to unlimited property. A stockbroker could keep on borrowing and buying stocks indefinitely, especially given he was making capital gains on the assets. Since it was the Industrial Revolution and the development of coal mining, blast

⁶⁴ Chlepner (1926, p. 94).

furnaces and railway companies was occurring, the growth had some fundamental basis and investors had great expectations for the assets.

It is easy to see how this system could produce a speculative bubble. Payment for an issued security was made based on a pre-announced schedule, for example, 10% at subscription, 20% in 4 months, 20% in 8 months, 25% in 12 months and the final 25% in 16 months⁶⁵. As long as the bank kept on lending stockbrokers the funds to acquire stocks, the system worked. The day the banks required the loans to be repaid, stockbrokers needed to sell their stocks and pay, hoping meanwhile to have made capital gains. However, if many brokers needed to sell at the same time, the value of the assets would plunge due to the huge leverage in the economy.

Other types of security lending existed as well but were reported under other accounts. The “current account” designated short-term loans to the companies under the bank’s patronage. These loans were also collateralized with the shares of the companies’ owners⁶⁶. As we have mentioned, in case of a company encountering difficulty, both the loan and the collateral would be irrecoverable. Finally, the “loans and carry forward” account included mainly lending collateralized by securities and some municipality bonds. Therefore, we define *short-term speculative loans* as the sum of “current account,” “loans and carry forward,” and “security lending” (Table 10).

The risk of such a system mainly fell on the two big banks. In a market downturn, brokers defaulted and will only lost the underwriting commission they had paid. The banks reacted to their inability to make payments by seizing the securities issued. However, the disappearance of stockbrokers through default meant a downturn in demand and a drop in the value of the securities. The process could be self-reinforcing for a time as drops in the value of securities caused other stockbrokers to fail. Table 10 shows that the banks’ exposure to this risk was high. It increased for the Société Générale from 19% in 1835 to 49% in 1848—a time when only 4% of the bank’s assets were dedicated directly to lending for productive activity. The Banque de Belgique’s exposure reached 56% in 1838. After the 1838 crisis the bank deleveraged and reduced this type of investment to 21% in 1844. The ratio then increased to 32% in 1848. After 1839, the Banque de Belgique restored a balance between “speculative” (financial sector) lending and “economic” (commercial and industrial) lending.

(We do not claim that lending to stockbrokers is bad in itself. We only claim that experience has demonstrated repeatedly, most recently in 2008-09, that banks lending to other financial firms often overestimate how liquid speculative loans will be compared to commercial and industrial loans.)

⁶⁵ Chlepner (1926, pp. 88-89).

⁶⁶ Chlepner (1926, p. 54).

3 - The crises of 1838 and 1848

The 1838 and 1848 crises had the same causes although they induced different reactions from the authorities. First, *the 1838 crisis* is presented in details. Second, *a discussion of the causes and consequences of bank runs* will be elaborated based on 1838 crisis. Finally, *the 1848 crisis* will be analyzed using the elaborated framework.

3-1 The 1838 crisis

The 1838 crisis started with a political crisis that led the Banque de Belgique to default. The default was followed by a financial crisis characterized by generalized bank runs. The government stepped in to bail out the Banque de Belgique.

3-1-1 The default on payments of the Banque de Belgique

In 1831, King William of the Netherlands had launched a military campaign in attempt to take Belgium back. His army had been stopped by French intervention, which resulted in the treaty of November 15, 1831 (the “Twenty-Four Articles”). The treaty acknowledged Belgian independence, but also imposed the transfer of a substantial debt from the United Netherlands to Belgium and required Belgium to give up parts of Limburg and Luxembourg provinces. The Netherlands rejected the treaty and kept its army ready for war. Belgium considered the treaty unfair but accepted it since the country was still young and fragile. In 1838, the Netherlands decided to accept the treaty, which would enable it to reduce its military spending. However, Belgium was now stronger than it had been in 1831 and would not accept the treaty. On November 13, 1838, King Léopold declared that the rights and interest of Belgium would be defended. On November 18, the lower house of parliament voted absolute resistance against the treaty.

As we noted above in section 1-2-3, the Société Générale demanded redemption of Banque de Belgique notes three times in December 1838, and the third time the Banque de Belgique lacked assets to pay immediately and so it defaulted in December 17. The bank’s assets exceeded its liabilities, so technically it was illiquid, not insolvent.

3-1-2 The financial crisis

The default on payments of the second most important bank in the country sparked runs on all the other banks.

The Société Générale surmounted the run. First, the bank used its strong ties with the French market, liquidated its French treasury bonds and withdrawing its deposits in French banks. It was capable therefore of transporting 20 million francs in French 5-franc pieces⁶⁷. Since the

⁶⁷ Chlepner (1926, p. 98 and p. 167).

crisis was localized to Belgium, French banks were capable of meeting the Société Générale's needs. Second, it restricted the discount activity, accepting only bills maturing in a maximum of six weeks, and at some points completely stopped discounts. Third, it used the press to try to calm depositors. On December 17 the bank issued a press release declaring its willingness to respect the contract signed with government, fully guaranteeing all funds deposited at its savings bank. In reality, no contract was ever signed with the government relative to the savings bank. It was more a message to restore trust in the bank's ability to pay. In addition, the *Courier belge* newspaper wrote on December 18:

All morning, the crowd, stunned by the temporary closure of the Banque de Belgique, and confusing in the same panic the notes of all financial institutions, occupied the offices of the Société de Commerce and the Société Générale, which mobilized all their employees for reimbursement; but note holders were soon reassured by seeing the promptness put to meet their withdrawals. Tonight, only few people came, but most of them left the bank with their notes. Many just counted their money then asked cashiers to keep it. It is in such circumstances that we see the value of having a large cash deposit as collateral for the notes.

This description seems exaggerated, and the purpose of such reports was obviously to restore the confidence of depositors in their bank.

Provincial and private banks also suffered runs. Antwerp, which may have had freer banking system,⁶⁸ saw no bank failures⁶⁹. In Liège, however, two banks went into liquidation. In addition, some private bankers who rediscounted bills at the two big Brussels banks suspended their operations.

3-1-3 The bailout

Banks' restrictions on discounting and credit during the panic, coupled with the prospect of war, created big problems for many commercial and industrial companies. The government decided to intervene and placed some orders for coal and railway materials (a kind of fiscal stimulus), but it was not very helpful. The government then decided to bail out the Banque de Belgique in order to protect the interests of both small depositors and industry. On December 22, the government offered the Banque de Belgique a loan of 4 million francs at 5% interest. On December 26 and 27, the lower and upper houses of the parliament adopted the proposal, and on January 1 it received royal assent⁷⁰.

Three commissioners were assigned to the bank to ensure the execution of these conditions:

- Granting delays in repayment for borrowers.

⁶⁸ See section 1-3-3.

⁶⁹ Chlepner (1926, p. 168).

⁷⁰ Chlepner (1926, pp. 173-175).

- Refraining from requesting repayments that might compromise the existence of businesses.
- Asking for suitable collateral from businesses to guarantee the government's loan.
- Managing loans to stockbrokers, a delicate matter in view of the considerations we discussed above about leverage.

The bailout allowed the Banque de Belgique to resume payments on January 4, 1839. It started by fully reimbursing saving bank deposits and small notes (40 and 100 francs) and partly satisfying other demands for payment. It progressively extended reimbursement until reaching a full acceptance of all type of notes on March 18. On March 19, 1839, the lower house of parliament approved a treaty with the Netherlands and war tensions vanished. Finally, on June 20, a final payment to creditors was made and confidence was restored.

3-2 Discussion of the causes and consequence of bank runs

The first manifestation of the 1838 crisis was the inability of the Banque de Belgique to redeem its bank notes. First, we elaborate a theory of circulation and apply it to the Belgian 1838 crisis in order to understand the Banque de Belgique's deficiency. Then we analyze the second source of trouble, the liquidity risk generated by the bank's unhealthy business model. Finally, we see how the possibility of default led the bank to respect market discipline, while government intervention, in contrast, encouraged crony behavior.

3-2-1 A theory of circulation

The suspension of payments by the Banque de Belgique was triggered by the demand for redemption of notes by the Société Générale. However, this is only a superficial explanation of the Banque de Belgique's illiquidity. A serious analysis should explain why its notes were returning quickly to the issuer.

As has been stressed in work by Lawrence H. White (1995 [1984]) and George Selgin (1988), where banks issue notes convertible into bullion at a fixed rate, the adjustment occurs through quantities. The demand for bank notes is the quantity desired and held by the public. The supply is the quantity issued by the banks (the circulation).

If demand for a bank's notes exceeds supply, the bank can inject more notes into circulation, which can be done by lending. Banks know how to do that. The problem occurs when demand shrinks. Notes will be returned to the bank for redemption. Ordinarily redemption occurs mainly through interbank clearing, not by the public thronging the teller windows. When there is a loss of confidence among the public, one see the long queues of depositors that make for dramatic storytelling.

A free bank has different tools to adjust its supply of notes to a shrinking demand. One tool is to increase its interest rates. An increase in the lending and discount rates will discourage additional issue of notes to borrowers and will prevent bullion outflow. An increase in the

deposit and savings rates will attract the notes back to the bank and prevent their conversion into bullion. It can also bring additional bullion to its vaults. Another tool is to attract more notes of competitors, so as to have them for clearing. This can be done, for instance, by offering merchants favorable terms for this part of their business, such as free cash management services, or accepting them for deposit on favorable terms. A third tool is to reduce the volume of lending and request loans from other, more solid financial institutions.

Note however, that in essence, the work of a banker is very similar to that of any entrepreneur. When it comes to circulation, the banker should assess the needs of the market not only based on past circulation but also on present indicators. If signs argue strongly for a potential decrease in note demand, the bank should react by decreasing the supply beforehand. In addition, the risk of a potential jump in demand for liquidity should be addressed by holding greater bullion reserves.

The inexperience of the Banque de Belgique was obvious and dangerous. Three facts should have prompted the bank to reduce its note supply: the 1837-1838 economic crisis taking place in England and France; the strong possibility of war with the Netherlands; and the slowdown in the domestic metallurgical industries. Instead, the lack of knowhow and experience led the bank to expect the demand of notes based on the past years' demand, as its director, Charles De Brouckère, confirmed: "The management, in no way expecting an accident in the first days of this specific month of December, had a well-stocked treasury, saw that the note circulation was consistent with previous times, and was gathering in Paris the funds necessary to pay the interest [i.e., dividend]"⁷¹.

In 1838, the speed at which the Banque de Belgique's notes were returning was unprecedented and unexpected by the managers. The bank faced an interbank liquidity shortage since it was not able of finding enough Société Générale's notes to offset its own notes presented for redemption.

Between the date the Société Générale requested a second clearing (December 10) and the day the Banque de Belgique suspended payment (December 17) an entire week passed. During that time the bank should have acted promptly to reorder its affairs instead of waiting for a government bailout. The bank should have increased all its rates substantially, stopped all discount operations and announced the acceptance of the Société Générale's notes on favorable terms, such as a small premium to face value or favorable deposit terms. These measures would have allowed the Banque de Belgique to reduce its note supply, increase the amount of Société Générale notes it would be able to present at the next clearing, and attract bullion a hedge against liquidity shocks.

⁷¹ Chlepner (1926, p. 157).

3-2-2 The liquidity risks

The Banque de Belgique also had other problems, but they were similar to those of the Société Générale rather than unique. Table 11 represents the balance sheet published by the Banque de Belgique the day it suspended payments. Traditionally, the bank separated, within cash, bank notes from bullion. On the statement below it merged the categories on purpose. In reality, bullion only represented 400,000 francs out of the 3.875 million francs reported under cash. Therefore, the bank only had 400,000 francs in metal for 3.375 million francs of bank notes in circulation. This problem could have been resolved if the remaining assets were liquid, but they were not, consisting of holdings in industrial companies under the bank's patronage.

Table 11 - Balance Sheet of the Banque de Belgique, December 17, 1838

Assets		Liabilities and Shareholders' Equity	
Cash	3,875,000	Capital	20,000,000
Portfolio	4,838,000	Reserves	161,000
Public Funds A (a)	11,060,000	Bank notes	7,250,000
Public Funds B (b)	1,044,000	Savings bank	1,075,000
Current account	24,523,000	Bonds	1,545,000
Mortgage loan	811,000	Current account	16,354,000

(a) Stocks carried forward or deposited at the bank as collateral.

(b) Stocks belonging to the bank.

When it comes to credit a banker should analyze the financial situation of the borrower and lend him accordingly. The risk must also be assessed and hedged with the proper collateral. The Banque de Belgique was young and swept up in the excitement of incorporating companies' business. Its loans were risky and the collateral was unsuitable since its debt and equity in the companies was not well diversified. Table 11 shows that the management of Banque de Belgique committed the following errors:

- It did not expect the drop in bank notes' demand;
- It did not keep enough bullion in reserve;
- It relied on very liquid liabilities (deposits and savings bank) to finance illiquid assets;
- It did not take proper collateral for lending.

These factors left the bank illiquid when a shock came.

The Société Générale committed the same errors, but managed to avoid suspension of payments for two main reasons. First, it had a huge buffer of implicit government subsidies. The bank collected government taxes, sold government lands, and provisioned cash for potential settlement with the government. It is natural to expect that the bank used some of those funds in time of panic, although because of the lack of balance sheet information for the bank during the whole period, no evidence was found to confirm this. Second, and more importantly, the bank reacted promptly by getting 20 million francs in 5-franc pieces from French bankers to be able to meet withdrawals.

The failure of the Banque de Belgique was a huge disappointment for its management. The bank was initially created as leverage against the Société Générale and as an ally to the government. The first disappointment was when the bank was not granted permission to be a fiscal agent for the government, and the second was the attitude of the government in December 1838. The government refused to lend the funds needed by the bank on December 17, even though the treasury had 10 million francs available in its account at the the Société Générale.

In addition, a big debate took place in Belgium on whether the country would not better off with only the Société Générale. Even when the government finally granted the bailout, another debate took place at the bank's shareholder's meeting. Some shareholders asked for the liquidation of the bank. They argued that an immediate and swift liquidation would allow some return to shareholders, while granting long delays in payment to the borrowers would sacrifice dividends. In addition, the managers of the bank were accused of aiming to save the bank to save their own investment in the companies under the bank's patronage⁷².

Even after the general assembly's decision to accept the government bailout on February 28, 1839, a group of stockholders deposited a mention against the decision on March 19, 1839. Finally, a committee of experts was named by the shareholders to assess the bank's situation and to decide if it was better to liquidate the bank. A decision in favor of accepting the bailout and staying in business was reached and accepted by the shareholders on March 22⁷³ and the bank's management was changed.

3-2-3 Market discipline and cronyism

It was clear to the new managers of the Banque de Belgique that the survival of the bank was precarious and that a second default would be the end. This market discipline pushed the new management to deleverage and to reduce risks substantially by taking four major steps.

First, the bank decided to stop taking equity positions and to liquidate its old illiquid assets. The bank's method was innovative. It reduced principal-agent risk by converting equity into debt—the opposite of usual loan workout procedures. To allow stockbrokers to minimize the loss from liquidating their positions, for this time only it extended the maturity of its loans to three to six months, far longer than usual. Loans collateralized with equities were converted into long-run lending (maturing in 3 to 10 years) and payable in annuities (see Appendix I). The bank then tried to reduce the default risk on lending through securitizing debt into bonds of 1,000 francs paying 5% interest. Some of the bonds were given to the government as collateral for the bailout loan. The bank hoped to sell the rest to the public, thus making the assets liquid⁷⁴.

⁷² Chlepner (1926, p. 177).

⁷³ Chlepner (1926, p. 178).

⁷⁴ Chlepner (1926, p. 179).

Second, the high liquidity of liabilities was also a major concern which led the bank to change the conditions of savings bank deposits in 1843. The bank kept on paying 4% interest to clients but instead of investing their funds in stocks, it invested them in government securities (yielding 4.5%⁷⁵). To eliminate any principal-agent problem, the management revenues from the saving bank came exclusively from a fee of 0.25% charged to the clients. After paying the 4% interest and deducting the fee, any remaining gain that might arise from higher returns was distributed to clients once every four years. For additional safety, the bank added a new clause to the deposit contract allowing it to redeem savings deposits in government bonds⁷⁶.

Third, since savings were only a part of the picture, the management also decided to invest the counterpart of the remaining liabilities, as well as the shareholders' equity, exclusively in discount operations. The short-term nature of discounts would reduce risks substantially. However, the old capital and liabilities were already tied up on the old illiquid assets. The bank needed new capital and after several attempts, including one obstructed by the government, it managed to raise 10 million francs in new capital.

Finally, since the new management had a high aversion to risk, the bank's status was modified. A clause was added indicating that any new capital or liability granted to the bank could only be used to finance short-term operations. Although it refrained from investing in new incorporated companies, the bank increased its investment in some old companies to prevent them from going into bankruptcy. It also seized the stocks of insolvent borrowers.

Now that the new management had a direct relation with the government through the bailout loan, rent-seeking behavior was possible. After the crisis, the bank's profits fell sharply because most of the companies under its patronage reduced or stopped dividend payments. However, the bank pretended that dividend payments to it remained high and included them as revenues.⁷⁷ The unreceived part of this high dividend was added to the bank's assets as an additional loan to the companies. This scheme created phony profits and allowed high dividend payments to the bank's old shareholders. In reality, the old shareholders were taking their dividend from the company's capital since no actual profits were realized. However, if they could convert the bailout money into a permanent liability, they would be taking their dividends from government funds. This was the next step.

In 1842, the Bank declared to the government that it was not capable of repaying its bailout loan at 5% interest without treating its debtors harshly. To protect the bank's debtors, the minister of finance, who was at the same time the bank's director⁷⁸, simply erased the bank's debt. He declared the debt paid and redeposited the amount at the Banque de Belgique.

⁷⁵ The government yield was later reduced to 4% and the depositors' yield to 3.5%.

⁷⁶ Chlepner (1926, p. 101).

⁷⁷ The dividends back them were fixed, like today's coupons on bonds, which allowed the twist.

⁷⁸ Mr. Smits did not resign from his position at the bank after he took office.

Therefore, the bank now only owed the government 2% interest, the amount it offered on the government deposit. This led to a big debate in the parliament and the press.

The next year, the new minister of finance asked the bank to repay the loan and the bank publicly complied, though in reality the process took a long time. Although the account “government” disappeared from the bank’s balance sheet after 1841,⁷⁹ the finance minister declared at the end of 1846 that the bank still owed the government 1.846 million francs and that it would repay the amount in two tranches.

Since the Société Générale benefited from an implicit government subsidy and from Paris rescue funds, it did not have to restructure its balance sheet. It only reformed its savings bank.⁸⁰

3-3 The 1848 Crisis

The 1848 crisis was a replay of 1838. It started with a panic and the banks were in trouble. The only change this time is that the government was incapable of a bailout, so it allowed the monetization of liabilities.

3-3-1 The panic

The Belgian economy faced many difficulties recovering from the 1838-1839 crisis. Financial intermediation remained weak since bank funds were tied up in the old incorporated companies and the stock market was bearish. Starting in 1844, a railway boom brought a breeze of hope to industrial activity (mainly metallurgy), pulling the economy and the financial markets along until 1846, which with 1847 were very harsh years for Belgium. Industrial unemployment rose and a poor harvest produced a food crisis. Flanders was particularly affected and the government tried to increase its spending to ease the recession. This resulted in a further deterioration of public finances, an increase in interest rates, and a drop in the price of sovereign bonds. Finally, the spillover of the 1847 British and French financial crises, related to the end of the railway mania, made things worse⁸¹.

In February 1848, the outbreak of revolution in France created a panic in Belgium. Given the strong political, economic, and cultural ties between France and Belgium, Belgians considered the revolution a prelude to chaos and possibly war. The Brussels stock exchange closed on the February 25 after the crash of industrial and sovereign securities, and the Antwerp exchange followed the next day. People holding any type of paper wanted it converted into bullion. The Banque Commerciale d’Anvers suspended payments on February 28, since the Société Générale was unable to come in assistance. The circulation of notes shrank dramatically during this

⁷⁹ It was probably merged with the deposit account.

⁸⁰ See 2-2-3, *Current liabilities*.

⁸¹ Chlepner (1926, pp. 209-210).

period. The panic began to subside when the French government made its peaceful intentions known, bullion withdrawals stopped on March 4, and the exchanges reopened on March 8. But this was only the beginning of the story.

Concerns reemerged when Belgian laborers working in Paris were armed and sent back to their home country to foment revolution and when the troubles started in Liège and Hainaut provinces. A second round of bank runs and market crashes started, fueled by the French government's adoption of a fiat currency regime on March 15. Belgian banks were experiencing a liquidity squeeze and they asked the government to follow France off the bimetallic standard.

On March 20, 1848 the government introduced a bill in favor of legal tender for the Société Générale and the Banque de Belgique's bank notes. It was a case of "too big to fail" since provincial bank notes and private bankers' notes were not included as legal tender. The bill allowed the two big banks to suspend the convertibility of their notes except for those of 50 francs or less. A maximum of 20 million francs and 10 million francs in new notes were allowed to be issued respectively for the Société Générale and the Banque de Belgique. The notes were guaranteed by the government, which in turn asked the banks for collateral (shares, real estate, government bonds, etc.). The bill also argued for the creation of a public discount bank whose capital would be 8 million francs, funded equally by the notes of the two big banks. The bill was passed in parliament and granted royal assent the same day and published the next.

3-3-2 The banks' difficulty

The Banque de Belgique had already proceeded to restructure its activity and to reduce its exposure to liquidity shocks following the 1838 crisis. It did not face major problems. Savings depositors rushed to withdraw their savings. The savings bank was fully invested in government bonds and included a clause allowing the reimbursement in government bonds. Savers were not happy, did not accept those bonds as payments, and wanted to be redeemed in bullion. It was only until 1852, when the securities appreciated, that the problem got settled, since the bank finally paid the depositors in cash and kept the bonds. The deposits were invested in discount and short-term lending, so it was feasible to squeeze the bank's debtors for cash. However, the government decision in favor of a fiat regime not only eased the pressure on current loans but allowed the bank to grant additional loans. Although the Banque de Belgique could have managed the crisis as described earlier, issuing notes under a fiat regime was a more profitable offer it could not refuse.

The Société Générale on the contrary, had not restructured its activity, since it had avoided difficulties during the 1838 crisis. In 1848, it faced the same problems the Banque de Belgique had had a decade ago. Remember that the problem has two dimensions: mismanagement of note circulation and a liquidity problem.

The Société Générale did not raise interest rates sharply enough to reduce its note supply. On the contrary, it increased circulation under the fiat regime. Table 12 shows the state of the bank at the end of 1847. Cash represents 18.1 million francs while bank notes are 23.3 million francs.

The bank was by this crude measure 5.2 million francs short of liquidity, but the fiat regime gave it an out, leaving the cash available for other operations.

Table 12 - Balance Sheet of the Société Générale on December 31, 1847

Assets		Liabilities and Shareholders' Equity	
Cash	18,123,000	Capital	63,492,000
Portfolio	9,983,000	Reserves	40,826,000
Public funds	20,208,000	Bank notes	23,275,000
Security lending	58,773,000	Savings bank	48,426,000
Stocks	69,287,000	Bonds	38,890,000
Current account	44,580,000	Deposits	3,829,000

The other problem was liquidity. Table 12 shows that demand deposits were not a big problem since they only amounted to 3.8 million francs. However, savings bank deposits were 48.4 million francs and relatively liquid since they could be withdrawn at 60 days' notice. As with the Banque de Belgique in 1838, on the asset side of the balance sheet, security lending and the current account were tied up in the incorporated companies and hence illiquid.

The "Stocks" account was also problematic. Out of 69.3 million francs in securities held by the bank, 40.1 million were its own shares. During the recession, the bank kept on buying its own shares to keep their price high. The 29.2 million francs remaining represent the bank's shares in incorporated companies, which, to repeat, were illiquid. Government intervention allowed the bank to refrain from liquidating the companies.

3-3-3 Monetization of liabilities

When the crisis first emerged, banks reacted by suspending their discount operations and refrained from renewing any maturing loan. Businesses were in difficulty before the crisis, and now they were suffering both falling activity and a credit crunch. Demands for public intervention were getting increasingly insistent but government finances were already in bad shape⁸².

Saving the economy with fiat money was very tempting. We saw that the government already allowed for 20 million francs of inconvertible government-guaranteed notes to be issued by the Société Générale, but this amount was far from enough given the bank's situation.

Another law was approved on May 22, 1848, allowed the issuance of additional notes, designed exclusively to deal with saving deposit withdrawals. The law included the following conditions:

- The Société Générale was allowed to issue 20 million francs of new notes guaranteed by the government.

⁸² Chlepner (1926, p. 240).

- The bank needed to offer collateral as a counterpart to the guarantee.
- The bank was required to pay the government a 4% interest on the amount issued.
- The bank had to issue an additional 12 million francs for buying zero-interest government bonds.
- Notes of all amounts (old and new) were inconvertible.
- Shareholders would not receive any dividend until the entire 20 million francs of new notes were retired from circulation.
- The bank had to publish a balance sheet, a profit and loss statement and an income statement at least once every quarter.
- Some changes needed to be done on the bank's managers' level.
- Government administrators would supervise the bank.

In 1849, the government decided to transform the entire banking system through the creation of a central institution having the monopoly of circulation. This institution, the Banque Nationale, was to be owned by two shareholders: the Société Générale and the Banque de Belgique—a situation heavily criticized by public opinion.

The function of government fiscal agent and the Société Générale's fiscal agent branches were given to the Banque Nationale. The law creating the bank was voted on May 5, 1850 and the bank started its operations on January 2, 1851. It was the end of the free banking era. The Banque de Belgique ceased circulating bank notes in 1851, while the notes of the Société Générale were withdrawn from circulation gradually. The Banque Liegeoise, a small regional issuer, was the last to retire its notes, in 1875.

4 - Conclusions

Belgium's experience with somewhat free banking has received little attention until now. Economists who have analyzed the history of the banking system from 1835 to 1850 have, to our knowledge, neglected both older ideas about free banking and the revival of free banking thought that has occurred during the last 40 years.

Belgium's banking system was only partly free. The most important barrier to greater freedom was the de facto unwillingness of the government to allow more than two entrants into the market for large, nationwide banks. Instead, the banking system was a duopoly at the national level, supplemented with some smaller banks that because of their limited size and geographical scope could only compete with the two big banks in certain segments of the banking business.

That being said, two banks was enough to provide fierce competition. The Société Générale had built-in advantages from its role as the government's fiscal agent (a role maintained more by political connections than by superior business ability), but the Banque de Belgique remained competitive with it. The banks did not merge, nor from what we can discern did they collude to ensure extraordinary profits. Sometimes two major firms are all an industry needs to be highly

competitive: think of microchips, dominated by Intel but strongly contested by the smaller Advanced Micro Devices.

The range of activities in which the two large banks engaged was broad, focusing more on what today we would consider investment banking than on commercial banking. In that respect Belgium seems to have been unique among the free banking episodes we know. The danger of investment banking as practiced by the two large banks is that it can make the asset base illiquid, as the Banque de Belgique found out in its near-death experience in 1838. It changed its ways and became more liquid. The Société Générale, whose role as the government's fiscal agent gave it access to a steady stream of highly liquid tax payments, came through the events of 1838 far more easily, but did not change its ways and then in 1848 suffered the kind of problems the Banque de Belgique had a decade earlier.

We hesitate to draw general lessons about free banking from the experience of one short-lived case that had features not shared by most other free banking systems. If there is a general lesson to be drawn, the most likely candidate is that the broad involvement of the two major Belgian banks in investment banking and corporate finance as opposed to the narrower commercial banking activities typical of other 19th century free banking systems highlights the dangers of the broad approach under the conditions of the time. We would not say the same of the 21st century or even the 20th century given the subsequent development of financial economics and the wider range of avenues for hedging. The case for or against free banking does not rest on the experience of Belgium alone any more than the case for or against central banking rests on the experience of Venezuela alone. We can say that during its era of somewhat free banking, the banking system was innovative and competitive; that one major bank at least learned from its mistakes; and that the two crises the system experienced had their origins in strong external political shocks. Belgium's later experience under central banking is punctuated with banking crises or near-crises, or exchange rate devaluations or suspensions, notably those of 1870 (the Franco-Prussian War), 1873 (worldwide financial crisis), 1914 (World War I), 1925-26 (collapse of a currency peg), 1931 and 1934-35 (the Great Depression), 1939 (World War II), and 2008 (the failure of Dexia). From our wider study of a variety of monetary systems over a long span of time, we doubt that any trouble-proof monetary system exists.

As is usual with scholarly endeavors, we think there is more work that can be done on the Belgian experience with somewhat free banking. It will not tip the scales of the general case for or against free banking heavily, but it is only from knowledge of the details of many individual cases that we can bolster our theoretical statements of "this is how it should have or might have worked" with confidence that "this is how it did work."

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Appendix I: Balance sheets of the Société Générale and the Banque de Belgique, 1835-1851 (amounts in francs)

Assets of the Société Générale from 1835 to 1840						
	1835	1836	1837	1838	1839	1840
Lands	42,328,000	42,328,000	42,328,000	42,328,000	42,328,000	42,328,000
Cash	13,601,000	32,013,000	19,935,000	23,822,000	18,224,000	24,038,000
Portfolio	12,740,000	9,532,000	6,614,000	8,262,000	7,445,000	7,917,000
Public Funds	24,116,000	24,071,000	29,957,000	23,646,000	18,043,000	27,887,000
Loans & Carry forward	16,432,000	31,809,000	48,639,000	63,167,000	74,026,000	58,610,000
Stocks and Bonds	3,797,000	11,426,000	35,921,000	40,154,000	45,687,000	54,766,000
State Exchequer	15,499,000	14,035,000	13,932,000	15,320,000	11,323,000	16,776,000
Current Account Government	17,300,000	23,713,000	52,833,000	57,928,000	55,158,000	69,734,000
Provision	29,550,000	28,219,000	27,887,000	28,773,000	28,422,000	14,805,000
Lands transactions	19,769,000	27,809,000	23,695,000	23,160,000	21,128,000	20,618,000
Lands' Revenue	-	-	1,000,000	2,000,000	3,000,000	3,500,000
Divers	3,432,000	7,982,000	1,439,000	3,576,000	2,919,000	3,048,000
P&L Balance of 1830	4,637,000	4,637,000	4,637,000	4,637,000	4,637,000	4,637,000
Total	203,201,000	257,574,000	308,817,000	336,773,000	332,340,000	348,664,000

Liabilities and Shareholders' Equity of the Société Générale from 1835 to 1840

	1835	1836	1837	1838	1839	1840
State's Lands	42,328,000	42,328,000	42,328,000	42,328,000	42,328,000	42,328,000
Capital and interest	33,895,000	33,891,000	64,966,000	65,108,000	65,100,000	64,640,000
Reserves	5,835,000	6,560,000	19,901,000	21,345,000	22,855,000	24,135,000
Profits and losses	1,274,000	1,231,000	2,390,000	2,414,000	1,548,000	1,847,000
Bank notes	21,294,000	39,294,000	21,143,000	26,742,000	20,704,000	23,875,000
Savings bank	19,054,000	28,581,000	40,111,000	45,897,000	44,601,000	50,397,000
Bonds & commitments	6,655,000	11,052,000	17,167,000	19,702,000	18,894,000	19,472,000
Current account	3,254,000	8,127,000	17,460,000	26,730,000	20,209,000	17,729,000
State Exchequer Government Provision	18,782,000	24,928,000	21,391,000	18,729,000	15,912,000	27,992,000
Lands' Revenue	23,095,000	25,002,000	27,230,000	31,827,000	35,099,000	37,347,000
Lands transactions	102,000	342,000	430,000	509,000	522,000	498,000
Other	24,621,000	35,612,000	33,553,000	34,605,000	34,625,000	34,646,000
Total	3,009,000	627,000	747,000	836,000	9,943,000	3,757,000
Total	203,198,000	257,575,000	308,817,000	336,772,000	332,340,000	348,663,000

Assets of the Société Générale from 1841 to 1845

	1841	1842	1843	1844	1845
Lands	42,328,000	42,328,000	-	-	-
Cash	19,708,000	19,808,000	20,819,000	18,137,000	27,428,000
Portfolio	8,680,000	11,802,000	12,871,000	16,821,000	12,953,000
Public Funds	33,017,000	33,809,000	28,906,000	23,375,000	18,981,000
Loans & Carry forward	61,370,000	62,888,000	55,777,000	72,757,000	73,606,000
Stocks and Bonds	51,524,000	53,649,000	48,272,000	67,342,000	67,227,000
State Exchequer	12,649,000	16,136,000	15,152,000	14,692,000	13,005,000
Current Account	70,603,000	70,461,000	66,401,000	51,435,000	57,169,000
Government Provision	14,764,000	14,857,000	5,385,000	5,280,000	4,459,000
Lands transactions	20,020,000	19,362,000	-	-	-
Lands' Revenue	4,250,000	7,000,000	-	-	-
Divers	1,850,000	1,762,000	1,035,000	217,000	3,810,000
P&L Balance of 1830	4,637,000	4,637,000	-	-	-
Total	345,400,000	358,499,000	254,618,000	270,056,000	278,638,000

Liabilities and Shareholders' Equity of the Société Générale from 1841 to 1845

	1841	1842	1843	1844	1845
State's Lands	42,328,000	42,328,000	-	-	-
Capital and interest	64,400,000	64,652,000	64,322,000	64,338,000	64,407,000
Reserves	25,567,000	27,071,000	28,785,000	30,600,000	32,965,000
Profits and losses	1,891,000	1,891,000	1,987,000	3,416,000	3,764,000
Bank notes	25,353,000	25,353,000	24,895,000	24,825,000	24,075,000
Savings bank	59,483,000	61,609,000	58,047,000	57,811,000	54,120,000
Bonds & commitments	25,035,000	30,426,000	43,381,000	60,063,000	48,094,000
Current account	13,159,000	8,094,000	929,000	97,000	6,458,000
State Exchequer	12,677,000	15,518,000	11,499,000	13,400,000	21,903,000
Government Provision	39,595,000	41,844,000	7,627,000	5,607,000	4,235,000
Lands' Revenue	501,000	253,000	-	-	-
Lands transactions	34,644,000	35,846,000	5,358,000	4,203,000	2,737,000
Other	749,000	3,388,000	7,200,000	5,800,000	4,186,000
Total	345,382,000	358,273,000	254,030,000	270,160,000	266,944,000

Assets of the Société Générale from 1846 to 1851

	1846	1847	1848	1849	1850	1851
Lands	-	-	-	-	-	-
Cash	20,178,000	18,123,000	23,196,000	26,130,000	17,391,000	9,769,000
Portfolio	11,506,000	9,983,000	7,442,000	11,515,000	9,880,000	5,985,000
Public Funds	19,629,000	20,208,000	10,564,000	21,047,000	18,805,000	7,773,000
Loans & Carry forward	65,723,000	61,364,000	50,543,000	29,821,000	21,161,000	20,934,000
Stocks and Bonds	68,572,000	69,287,000	32,788,000	58,218,000	54,837,000	57,780,000
State Exchequer	13,552,000	10,993,000	-	-	-	-
Current Account Government	44,831,000	44,580,000	41,512,000	38,826,000	28,349,000	26,375,000
Provision	3,551,000	6,932,000	6,115,000	5,390,000	5,069,000	4,612,000
Lands transactions	-	-	-	-	-	-
Lands' Revenue	-	-	-	-	-	-
Divers	1,258,000	233,000	15,582,000	1,958,000	2,381,000	733,000
P&L Balance of 1830	-	-	-	-	8,388,000	7,628,000
Total	248,800,000	241,703,000	187,742,000	192,905,000	166,261,000	141,589,000

Liabilities and Shareholders' Equity of the Société Générale from 1846 to 1851

	1846	1847	1848	1849	1850	1851
State's Lands	-	-	-	-	-	-
Capital and interest	64,345,000	64,401,000	34,522,000	36,002,000	32,995,000	32,988,000
Reserves	35,540,000	40,826,000	30,254,000	30,603,000	31,213,000	31,862,000
Profits and losses	4,708,000	4,708,000	234,000	1,233,000	1,559,000	1,562,000
Bank notes	23,525,000	23,275,000	40,575,000	40,575,000	32,575,000	10,645,000
Savings bank	53,199,000	48,888,000	23,364,000	24,478,000	24,270,000	22,970,000
Bonds & commitments	43,417,000	38,890,000	35,733,000	31,091,000	31,058,000	32,839,000
Current account	3,132,000	3,829,000	21,075,000	28,087,000	11,846,000	8,134,000
State Exchequer Government Provision	13,071,000	10,945,000	-	-	-	-
Lands' Revenue	3,666,000	2,349,000	-	-	-	-
Lands transactions	-	-	-	-	-	-
Other	1,376,000	1,404,000	1,988,000	837,000	747,000	593,000
	2,819,000	2,019,000	-	-	-	-
Total	248,798,000	241,534,000	187,745,000	192,906,000	166,263,000	141,593,000

Assets of the Banque de Belgique from 1835 to 1840

	1835	1836	1837	1838	1839	1840
Bullion reserve	1,062,823	3,806,114	1,661,103	1,200,000	700,000	1,545,905
Bank notes reserves	1,636,840	2,822,740	2,756,240	1,628,340	1,170,700	500,440
Portfolio	3,613,342	7,103,450	6,001,841	3,000,000	2,100,000	3,926,542
Stocks	7,272,767	13,903,461	14,378,326	12,200,000	5,200,000	6,068,954
Government Loan						
Stocks buybacks	-	-	-	-	-	-
securities lending	881,870	124,271	74,254	1,700,000	5,900,000	5,495,687
Mortgage loans	-	994,000	882,667	200,000	100,000	103,000
Commercial loans	-	-	-	-	-	-
Sundry loans	-	20,000	40,963	91,951	91,951	142,939
Fixed assets*	219,528	228,415	253,605	249,239	249,239	244,872
Dividend, coupon and rent	22,588	38,588	53,400	76,320	76,320	99,241
Mortgage notes	-	-	-	-	5,500,000	7,827,350
Current account	1,967,746	-	13,971,563	20,300,000	9,100,000	7,302,889
Total	16,677,504	29,041,039	40,073,961	40,645,850	30,188,210	33,257,818

Liabilities and Shareholders' Equity of the Banque de Belgique from 1835 to 1840

	1835	1836	1837	1838	1839	1840
Capital	9,991,950	16,270,850	20,000,000	20,000,000	20,000,000	20,000,000
Reserves	74,318	91,584	161,498	81,619	81,619	1,739
Savings bank	138,466	397,531	777,985	1,000,000	100,000	291,665
Bonds and certificate	-	-	-	1,600,000	100,000	460,366
Current account	2,450,249	4,476,235	10,693,245	11,800,000	3,200,000	4,823,815
Government rescue fund	-	-	-	-	4,000,000	4,260,208
Bank notes	3,460,000	6,350,000	6,520,000	3,883,510	1,247,020	1,209,440
Mortgage notes in circulation	-	-	-	595,750	595,750	1,191,500
Dividend, coupon and rent	562,252	1,452,589	1,921,086	1,470,085	1,470,085	1,019,085
Profits and loss	269	2,250	141	70	-	-
Total	16,677,504	29,041,039	40,073,955	40,431,034	30,794,474	33,257,818

Assets of the Banque de Belgique from 1841 to 1845

	1841	1842	1843	1844	1845
Bullion reserve	1,977,901	2,062,831	3,060,247	4,581,382	4,038,870
Bank notes reserves	713,060	693,560	561,680	1,975,080	3,226,700
Portfolio	7,412,060	10,658,087	14,335,289	15,045,930	15,036,680
Stocks	7,692,146	6,752,298	6,896,395	7,037,646	8,938,613
Government Loan				12,403,000	
Stocks buybacks	51,635				
securities lending	5,527,730	3,863,877	3,817,830	3,861,011	4,838,403
Mortgage loan	103,000	512,500	512,500	489,000	489,000
Commercial loans	1,870,287	3,724,617	2,610,841	3,410,549	1,481,839
Sundry loans	142,837	143,427	143,277	143,202	42,390
Fixed assets*	241,782	242,247	239,357	236,243	268,054
Dividend, coupon and rent	106,987	108,360	104,712	103,916	99,057
Mortgage note	7,827,350	7,807,350	7,684,875	7,656,425	5,879,750
Current account	7,377,595	7,734,814	12,353,087	9,393,100	5,585,280
Total	41,044,370	44,303,967	52,320,090	66,336,484	49,924,636

Liabilities and Shareholders' Equity of the Banque de Belgique from 1841 to 1845

	1841	1842	1843	1844	1845
Capital	26,133,150	29,998,200	29,865,000	29,865,000	27,538,821
Reserves	217,339	371,496	701,651	406,760	565,167
Savings bank	659,118	1,162,166	1,890,943	999,387	764,254
Bonds and certificate	525,426	1,102,335	1,225,095	12,890,886	23,758
Current account	4,870,564	6,900,536	12,500,764	13,710,247	10,689,606
Government rescue fund	4,202,035	-	-	-	-
Bank notes	2,284,440	2,862,440	4,853,240	7,453,240	8,794,740
Mortgage notes in Circulation	1,253,725	646,000	153,750	-	28,000
Dividend, coupon and rent	898,573	1,260,497	119,693	1,006,138	1,506,590
Profits and loss	-	298	9,954	4,826	13,701
Total	41,044,371	44,303,967	51,320,090	66,336,484	49,924,636

Assets of the Banque de Belgique from 1846 to 1851

	1846	1847	1848	1849	1850	1851
Bullion reserve	4,664,256	3,123,062	3,500,000	2,992,986	7,887,310	608,019
Bank notes reserves	3,495,580	5,100,000	3,111,746	17,000	13,000	1,119
Portfolio	13,908,221	14,119,551	9,000,000	10,559,490	10,420,839	3,399,663
Stocks	9,345,919	8,648,318	8,450,000	8,254,064	8,531,347	15,481,867
Government Loan						
Stocks buybacks	106,650	132,221	139,285	146,349	153,413	160,487
Securities lending	5,368,335	4,465,978	5,500,000	6,283,942	3,800,599	2,744,254
Mortgage loan	489,000	574,500	600,000	574,801	551,953	553,200
Commercial loans				2,685,201	1,559,011	560,374
Sundry loans	1,322	670	620	570	500	
Fixed assets*	283,719	293,395	290,235	287,076	299,531	298,539
Dividend, coupon and rent	97,726	95,885	96,003	96,121	91,265	92,523
Mortgage note	5,234,880	4,584,100	4,600,000	4,587,100	3,811,000	3,811,000
Current account	5,622,784	6,742,748	6,800,000	6,502,629	6,103,104	6,609,736
Total	48,618,393	47,880,428	42,087,889	42,987,328	43,222,872	34,320,782

Liabilities and Shareholders' Equity of the Banque de Belgique from 1846 to 1851

	1846	1847	1848	1849	1850	1851
Capital	27,137,412	27,138,945	27,138,945	27,138,946	27,073,483	18,375,585
Reserves	624,384	707,306	692,276	677,245	774,445	1,012,878
Savings bank	169,928	39,014	1,000	6,398	2,617	2,617
Bonds and certificate	11,791	13,418	6,709	-	-	5,995,600
Current account	8,586,757	8,112,169	2,600,000	3,228,656	3,451,888	6,625,874
Government rescue fund	-	-	-	-	-	-
Bank notes	10,257,740	10,532,740	10,300,000	10,575,000	10,575,000	1,540,000
Mortgage notes in circulation	-	-	-	-	-	-
Dividend, coupon and rent	1,827,219	1,336,835	1,348,959	1,361,083	1,345,439	767,099
Profits and loss	3,160	-	-	-	-	-
Total	48,618,393	47,880,428	42,087,889	42,987,328	43,222,872	34,319,653

Appendix II: Belgian note-issuing banks

	Headquarters	Year Founded	Authorized Life (years)	Authorized Capital
Société Générale	Brussels	1822	27	50 M florins
Banque de Belgique	Brussels	1835	25	20 M francs
Banque Liégeoise	Liège	1835	40	4 M francs
Banque des Flandre	Ghent	1841	25	10 M francs
Société de Commerce de Bruges	Bruges	1837	20	3 M francs
Private Bankers	NA	NA	NA	NA

(We hope to add more details later, especially on some of the private bankers.)