

# **Growth of Central Banking: The Société Générale des Pays-Bas and the Impact of the Function of General State Cashier on Belgium's Monetary System (1822-1830)**

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I intend to reexamine in this paper the creation and the first ten odd years of operation of Belgium's first corporate bank, the Société Générale des Pays-Bas, with special regard to its function as General State Cashier. The bank was founded in 1822 by King William I of the United Kingdom of the Netherlands. It was the only corporate bank in the southern part of the Netherlands until 1835. During the Dutch period, which lasted until September 1830 and up to the creation of the National Bank of Belgium in 1850, it carried out some of the functions of a central bank.

King William I had an extensive knowledge of financial affairs, in fact, they were his private passion. According to Demoulin, he considered banks to be "des créations para-étatiques," institutions that are the state's "helpmates" whether they are owned and managed privately or not. The bank's particular function within the spectrum of the state's tasks were to mobilize

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capital and to extend the benefits of credit. William I was a firm believer in paper money, in the beneficial use of a wide variety of paper debt instruments, and in low interest rates.

On the other hand, the basic objective of his government was the amalgamation of the northern and southern parts of the kingdom. Integration of the two economies was an important factor in this process [4, pp. 22-23]. At first view, the economies of North and South appeared complementary. The commercially experienced Dutchmen seemed admirably equipped to carry and sell the products of the industrial Belgians, the capital accumulation present in the North seemed what was needed to fuel the modernization of the southern industries. But channels linking the two did not exist. The deficiencies were particularly evident in the monetary and financial fields. The persistence, in spite of legislative measures, of two different currency systems prevented a smooth running of the central administration and kept the two markets separate. Financial integration was further hindered by the underdevelopment of the financial structures in the South compared to those in the North. There was almost no paper currency in circulation, there was no major bank. Most wealth, in spite of a relatively high degree of industrialization, was kept in the form of land and real estate. Foreign debt knew a degree of popularity, mostly in commercial Antwerp, but nothing compared to the amounts handled by the Dutch securities market. The *Société Générale des Pays-Bas*,<sup>1</sup> the establishment of which was pushed through in a matter of months in late 1822 after a budget crisis, was constituted to meet the government's financial needs and to embody the King's personal ideas on the proper role of a commercial bank.

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<sup>1</sup>The bank was renamed *Société Générale de Belgique* after a revolution put an end to the United Kingdom of the Netherlands in 1830.

## THE FUNCTIONS OF THE SOCIÉTÉ GÉNÉRALE DES PAYS-BAS

I will briefly mention the functions it was expected to perform in view of the government's objectives. The bank was to assist a newly formed government agency, the Amortization Syndicate, in the execution of its plans to extinguish the public debt that dated from before 1816. It was to serve as a vehicle to place public debt in the South, to assist the Syndicate in the financing of public works, and to serve as a conduit and participant in various loans to central, provincial, and municipal bodies. Finally, the bank was to help carry out the currency reforms prescribed by the monetary law of 1816.

As to the second objective, William perceived the main shortcoming of the financial structure in the southern Netherlands to be the lack of financial instruments for "mobilizing" the national wealth and directing it toward useful enterprise. The main form of "immobilization" was in land and real estate of which large amounts were deadlocked in the public domain. Since the bulk of the royal domains were earmarked for the amortization project, he did not hesitate to propose the transfer of a part of the domains producing revenues for the King's civil list (the country's contribution to the upkeep of the royal household) to the bank. It consisted of forests, land, and other property, valued at 20 million florins, most of it located in Belgium. The bank could manage the properties or sell them, against payment of an annuity to the King's civil list and to the Amortization Syndicate. It was intended to be part of the corporate capital that was set at 50 millions of florins in total, 20 millions of domains and 30 millions in shares of 500 florins each [7, p. 3].

The bank was given permission to engage in a wide variety of banking operations: it could accept deposits of all kinds of valuables, create current accounts against which clients could order payments, it could increase its means by issuing interest-bearing bonds at short or long term. It could discount bills of ex-

change and other commercial paper and issue banknotes payable in specie on demand, it was allowed to make advances and loans on public and private securities, bullion, all kinds of merchandise, and real estate. To allow it to assist in the currency reform, it was given permission to engage in the commerce of gold and silver, in the refining of precious metals, and the minting of coins [7, p. 3]. This range of operations was unusually wide compared to the scope of most commercial banks of the time, and especially compared to contemporary state-connected institutions such as the Bank of England or the Banque de France.

Finally, a third exceptional feature of the bank was its large size. The authorized capital of 30 million florins appears extraordinarily large, even taking into account an optimistic prognosis of growth of commercial operations. William knew, for he had inquired, that the total volume of commerce handled in the city of Brussels did not exceed 25 million florins. [1, SGB, #5] In early 1822, a group of Brussels merchants, headed by a prominent businessman, François Opdenbergh, had requested authorization to establish a private commercial bank with a capital of 3 to 5 million florins [1, SGB, #8]. The Société Générale incorporated the features the Opdenbergh project contained, which were in any case the standard features of a bank of credit and issue, but he refused to bring down the capital to the size they proposed. The reasons for this resolve were complex. The currency reform required an institution of substantial size. An additional factor was that the shares could be paid in cash or in government securities. Thus, the share issue would give a boost to the placing of the debt in the South. Lastly, William had an hidden plan. He was going to make the bank General State Cashier. This meant that the bank was to receive all the tax collections of the kingdom and act as the general paymaster for the government's expenditure. This would mean agencies all over the country and require a large capital base. The state cashier function was not discussed in any of the initial commentaries on the proposed statutes made by various directors, nor does it appear that the matter was put to the Brussels group that was consulted on the proposal. It was, however, clearly part of William's plan from

the beginning and the main reason for the large capital. This appears from an early commissioner's report to the King:

"The treasury would not find in a bank of two and a half or even in one of five million the guarantee which seems essential in order to be the State Cashier and this function [...] would create ten times as much and more transactions than all the proper activities of the bank itself such as they are proposed in the project" [1, SGB, #6].

The Belgians' suspicion about the King's hidden intentions were thus justified, and they were loudly expressed at the launching of the company. Of the public offering of 30,000 shares, only 5,426 1/2 were taken, in spite of the fact that the King, as extra bait, offered to guarantee personally the payment of the first 5 percent dividend. He still had to buy 25,000 shares with his private means, so that slightly over half of the authorized capital could be considered issued and the bank could start operations.

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

## THE FUNCTION OF THE GENERAL STATE CASHIER AND ITS IMPACT ON THE MONETARY AND FINANCIAL SYSTEM

Administratively, the introduction of this service constituted a major institutional reform.<sup>2</sup> The functions of general tax collector (one per province) and that of special tax collector (one per county) were abolished. The tax receipts were to be paid directly into the government account with the bank by the local collectors. For this purpose, sixty-three agencies were established throughout the Kingdom of the Netherlands. All government payments, formerly effected by the higher tax administrators, were now effected by simple money order signed by the Minister of Finance and drawn on the government account [2, pp. 8-15].

What did the cashiership mean to the bank? It meant that about 70 million florins in deposits would flow through the government account in the course of a year [1, SGB, #86, 4, pp. 422]. The costs, which consisted mainly of the maintenance of the agencies and the transportation and transfer of the funds, were covered by a 1/8 percent commission. It was the explicit understanding that the government deposit was not to be separate from other cash deposits. In other words, it could be used for the bank's regular operations. The question is, of course, how much of a reserve requirement was applicable to this deposit. No regulation was stipulated formally in this regard except those dictated by the responsibility of the bank to be able to cover the government's expenditures. Authors have generally assumed that the service required large amounts of cash reserves and that any beneficial effect was minimized because of the fact that the bank

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<sup>2</sup>A royal decree of October 1823 instituted the organization and the attributions of the Public Treasury. General State Archives, Archives SGB, #87, copy, Convention between the Minister of Finance (authorized by decree of 22 September 1823) and the Governor of the Société Générale des Pays-Bas, 27 September 1828 and 31 October 1823). General State Archives, Archives Ministry of Finance, #308.

was required to "immobilize" 10 million florins of its capital as a guarantee.

However, the guarantee requirement never caused the effective immobilization of 10 million florins in cash. The King made a series of secret agreements with the bank in the period 1825 to 1828 that allowed successive deferments of fulfillment of the condition. The total amount of capital immobilized for the state cashiership was probably never more than 1.6 million florins after September 1825. [1, SGB, #86, #27; Fin, #308]

The few balance sheet statements that we have for this period seem to support the conclusion that the service was not a significant generator of funds for the bank.<sup>3</sup> These are, however, merely year-end counts, and they do not give us an adequate account of the availability of the funds. Two-thirds of the gov-

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<sup>3</sup> in mil. Fr.	1823	1824	1825	1826	1827	1828	1829	1830
Gold and silver								
reserve.	6.7	38.4	28.0	21.3	24.4	18	15	9
Current Account	15.3	31.2	37.2	33.5	20	23.6	27.8	32.1

Source: B. S. Chlepner, *La Banque en Belgique. Étude Historique et Economique*, 1926, p. 51. He concludes: "(...) since the Treasury accounts are essentially mobile, the Société was obliged to keep an important gold and silver reserve." But he adds in footnote that another reason for this large reserve was that the SGB, given the currency situation, earned large cash income from the gold and silver trade. He continues as follows: "(This reserve) thus exceeded considerably the figure of the fiduciary circulation, and served not so much as a reserve to cover the circulation, as the fund to provide for the necessities of the Treasury." Cameron concludes that the overall result of the operations during the Dutch period may have been deflationary. Cameron, *Banking in Early Industrialization*, p. 133. He bases his conclusion on the fact that the reserve was usually larger than private current account credits and banknotes, not considering the treasury account a usable deposit.

ernment income consisted of indirect taxes such as excises, death duties, and so on. This factor admittedly makes it somewhat difficult to predict how large the receipts would be and when they would be received. On the other hand, a significant part of the government's disbursements were of a regular and predictable nature, such as pensions and salaries. A particularly large and predictable item was the yearly interest payment on the public debt, for which the government needed to accumulate funds quite some time ahead of the payout date. It is therefore reasonable to assume that at particular times of the year certain amounts of government deposits could be counted on to remain for some time in the account and would be available for use for short-term advances or other uses [2, pp. 32-45].

However, it was not this possibility by itself that made the bank's directors finally welcome the function. What won them over was the government's assurance that a positive balance of 10 to 20 million florins would permanently show in the accounts, with the explicit recommendation that the bank should put it to use in supporting commerce, industry, and agriculture. Ferdinand de Meeûs, governor of the bank from 1830, confirmed this fact in a letter to the Minister of Finance, dated 9 April 1831.

"The Société Générale only took charge of the service of General State Cashier on the condition, strictly speaking only verbally but nevertheless formally agreed on, that it would be in constant possession of a sum which has often exceeded 12 million florins and of which it has made profitable use..." [1, SGB, #2584].

A brochure which the Société Générale published in 1836 claimed the following

"[...] The preceding government, which was very adept at finance, understood how favourable it would be for the industrial and commercial development of the country, not to leave idle capital amounting in average to 15-20 million florins. That was the first consideration which was behind the linking of the General Cashier with a powerful corporation [2, p. 41].



The hand of William I is clearly visible: this was one more way he perceived to "mobilize" resources that were otherwise tied up, in this case by the tax collection system. In a real sense, this 10 to 20 million florins (to the degree that they were not used by general collectors for private banking practices under the old system) constituted a yearly net increase in the money supply, and to the extent and, depending on the way, they were used by the bank there was an additional multiplier effect.

An effective increase in the money supply was not the only monetary effect of the institution of the general cashier. The 1836 pamphlet claimed the following: "To put to use *immediately* the funds levied by taxation in favour of industry and commerce, everywhere the need is felt, that was the first effect of the institution of the General Cashier" [2, pp. 40-45]. Referred to is another, more subtle monetary effect. The bank's more efficient service improved the circulation of the currency, which meant much-needed saving of scarce coinage and an increase in velocity of circulation. Under the old system, the government's monies remained tied up in the collecting and paying out mechanism for at least two weeks. With the use of the bank account, there was still a delay, but it was reduced by at least half. The minister of finance knew the state of the receipts five days after collection on average and could order disbursements immediately. Sometimes the delay was reduced to two or three days. This meant gains in economy as well as efficiency.

Part of this delay was reporting time, part was time lost in the transportation of the money. The old collecting system, as noted above, was three-tiered: the most numerous local collectors passed the receipts on to the county collectors, and these passed it on to the general collector of the province. Since only the general collectors were allowed to effect payments and because of the time it took the monies to reach them, they were obliged to keep large reserves in order to be able to meet certain regular expenditures. Especially large reserves needed to be built up by certain general collectors because of the uneven matching of receipts and disbursements, some provinces having to spend more than they collected and vice versa. These circumstances explain why a fair

amount of these tax collectors turned to money-lending, although the practice was not nearly as well established in Belgium as in France. The bank's agencies, one in every county seat, replaced both the special and the general collectors and effected payments as well. This meant a substantial reduction in travelling time and transportation costs of money and of the necessity for the accumulation of reserves in the provincial capitals. The Société Générale estimated the savings to have been in the order of 100,000 francs in 1836 when the total receipts amounted to only 90 million francs (or about 45 million florins) [2, pp. 40-45].

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

Another reason for this lack of circulation was a widespread distrust of paper money. In part, this was based on ignorance and unfamiliarity with the mechanism; in part, distrust was born out of bitter experience: especially the venture with the French "assignats" was vividly remembered. On the other hand, there were also practical considerations: banknotes were mostly issued on the occasion of discounting operations of commercial paper, but the notes were in too large denominations to be used to meet regular payments, such as, for instance, payroll obligations. The fact that they were only redeemable in the place of issue was another inconvenience. Many businessmen would, for these reasons, insist on receiving only coinage in advance [4, p. 38].

The King went some way in meeting these complaints: a royal decree of 7 March 1823 stipulated that a first issue of banknotes could reach 20 million florins in denominations of 1,000 florins, 500, 200, 100 and 50 florins. The Société Générale was allowed to issue 10 million as effective circulation. On December of the same year, the bank got permission to issue 26,000 small notes worth 25 florins [5, p. 57]. In order to bolster the circulation of the notes, the King stipulated that taxes and government

payments could be paid in notes of the Société Générale or in the Bank of the Netherlands' notes. The two banks should accept and redeem each other's notes, and a clearing mechanism between the two institutions should be established [1, SGB, #27, #22]. In practice, the Société Générale's agents in the North never accepted its own notes as payment because of the loss in exchange this entailed [1, SGB, #22; Den Hague, #5679].

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

As Demoulin has shown [1, SGB, #37-39; 4, pp. 72-80], due to pressure exerted by the King, the branches obtained permission (in 1824) to discount commercial paper at a rate fixed by the head office. But the branch officers were reluctant to take responsibility for the selection, whereupon the company had to change to a system whereby the branches would merely collect the requests for discounts and forward them to Brussels. The Board's credit committee would then either send back the appropriate amount of banknotes for the allocated advances or the rejected bills. It was a lengthy, cumbersome procedure and, since in addition the loan criteria were quite severe, the results, both in expansion of credit and in increase in monetary instruments, were disappointing.

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

located in the Southern Provinces. Its notes were accepted by the state cashier but were only redeemable in Antwerp.

In spite of all the official encouragement, it is estimated that the effective note circulation never reached 10 million florins before 1830. According to B. S. Chlepner, it hovered around 4.5 million from 1825 to 1828 [3, p. 51]. The first revolutionary stirrings in August 1830 produced massive demands for conversion so that the bank had to resort to partial repayment. By December 1830 the circulation was reduced to 1,006,675 [6, p. 29].

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

Finally, if we consider the distribution of discounts of commercial paper that the Société Générale effected in the period 1825-1829, a remarkable fact comes to light: the branch bank at Mons received the lion's share of the credit, especially after 1827. Mons was the commercial center of the Borinage coal basin that exported most of its output to France and, after the completion of the Pommereuil-Antoing canal, (ca. 1827) increasingly to East and West Flanders. The merchants, some of them merchant-bankers, who were the beneficiaries of the bank's credit, were overwhelmingly connected with the mining industry, some also with the new metallurgy. Thus a direct link between growth of banking and industrial development was established.

## CONCLUSION

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

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