An 'Atypical' Case? The First Emergence of Brussels as an International Financial Centre, 1830-1860

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Abstract:

Economic historians often take for granted the idea that financial centres have followed one standard bottom-up development process, gradually evolving from commercial hubs to banking places. This chapter suggests that such an interpretation is rather simplistic. The analysis is focused on a remarkable counterexample: the sudden emergence of Brussels as an international financial centre in the mid-19th century. The case-study is articulated into five parts, each one looking at a different aspect of the growth of the new centre (capital resources, business elites, regulation, the domestic money market, and the foreign exchange market). The conclusion is that the top-down process observed in the Brussels experience sheds light on the fact that semi-institutional actors (such as central banks, or commercial banks connected to the political power) can successfully enact specific policies aimed at enhancing local financial development.

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It is often taken for granted that the historical path followed by developing financial centres has been more or less the same in all cases: as synthesized by Charles Kindleberger, a 'staple theory' of finance has been constructed, according to which 'banking starts out to serve the needs of sovereigns and nobles; develops in connection with commerce; then less personally with governmental finance; next with transport, including shipping, canals, turnpikes, and railroads; then with industry; and finally with intermediation in insurance, mortgages, consumer finance, factoring, pension funds, and the like'[2]. Yet, a lot of examples do not seem to fit into this linear scheme: for instance, there are important commercial hubs that never developed banking activities, while there are banking centres that were never significantly involved in financing trade or sovereign debt. In this respect, the emergence of Brussels as an international financial centre during the 19th century is a particularly interesting case, not only because of its apparently 'atypical' course (a jump start to the industry phase), but also because of its impressively rapid success[3]. Such features make the Brussels case very relevant for a reflection on our current understanding of the determinants of financial development.

Even though many aspects of Belgian economic history have been studied in the last decades, a proper assessment of the reasons that led to the concentration of financial activities in what then was a rather peripheral city is still missing to date. This gap in the literature is perhaps to be attributed to the fact that scholars have mostly looked at this process as the natural outcome of some broader phenomena taking place at that time. On the one hand, in line with the traditional emphasis on industrialization, the process has been seen as the side effect of Belgium's economic take-off during those years[4]. On the other hand, echoing the early-20th-century perception of Brussels as a sort of offshore financial centre (see below), it has been interpreted as the product of *laissez-faire* legislation – especially the stock exchange liberalization of 1867 and the corporate law reform of 1873[5]. However, despite including many elements of truth, both interpretations fail to provide a satisfactory explanation. On the

[2] Charles P. Kindleberger, "The Formation of Financial Centers: A Study in Comparative Economic History", in Richard Roberts (ed.), *International Financial Centres: Concepts, Development and Dynamics*, I (Aldershot: Elgar, 1994), pp. 191-268, esp. p. 199.

[3] Youssef Cassis, *Capitals of Capital: A History of International Financial Centres 1780-2005* (Cambridge: Cambridge University Press, 2006).

[4] See e.g. Herman Van der Wee and Martine Goossens, "Belgium", in Rondo E. Cameron and Valeriĭ I. Bovykin (eds.), *International Banking 1870-1914* (Oxford: Oxford University Press, 1991), pp. 113-129.

[5] See e.g. Stijn Van Nieuwerburgh, Frans Buelens, and Ludo Cuyvers, "Stock Market Development and Economic Growth in Belgium", *Explorations in Economic History* 43:1 (2006), pp. 13-38.

one hand, even not mentioning the fact that by the first world war Belgium was perhaps more financially advanced than any other industrial power[6], the idea that such a development was led by real growth fails to explain why it was the then peripheral Brussels market to become the centre of Belgian industrial finance instead of any other one – most notably, the already established Antwerp market[7]. On the other hand, the timing of the process shows that *laissez-faire* reforms probably played a role in priming the boom of the Brussels stock exchange at the eve of the first world war, but not its first take-off in the central part of the 19th century[8].

Figure 1 shows the number of securities listed on the official bulletin of the Brussels bourse (*Cours authentique de la bourse de Bruxelles*) in the years before 1870 for which this publication is available. It appears that the turning point in the centre's expansion and internationalization took place during the 1850s: while in the first half of the century domestic equities dominated the exchange, the number of foreign securities listed kept growing thereafter[9]. However, besides being unavailable for many years, this series suffers from an additional shortcoming: the fact that securities were *listed* does not necessarily mean that they were actually *traded*. Trading volumes at that time could actually be close to zero for a long time for many of the securities officially listed at the exchange. Yet volumes are impossible to assess, unless through proxies. In order to overcome this problem, the same kind of survey as in figure 1 is performed in figure 2.1 by using the listings published by Belgium's most important newspaper of the time, *L'Indépendance belge*: the idea is that the press provided information concerning securities actually traded on a significant scale, and omitted those lacking interest from the general public. The picture completes and confirms the previous

[6] Raghuram G. Rajan and Luigi Zingales, "The Great Reversals: The Politics of Financial Development in the 20th Century", *Journal of Financial Economics* 69 (2003), pp. 5-50, esp. pp. 15-17.

[7] During the early decades of the 19th century, Antwerp had regained a relevant position as an international commercial hub, enjoying from established exchange relationships with the most important financial centres: see Hilde Greefs, "Exploiting International Webs of Relations: Immigrants and the Reopening of the Harbour of Antwerp on the Eve of the Nineteenth Century", in Adrian Jarvis and Robert Lee (eds.), *Trade, Migration and Urban Networks in Port Cities c.1640-c.1840*, (St. John's: Maritime History Publications, 2008), pp. 81-107. Although trading in securities was not among Antwerp's main specializations, *a priori* the city was much better placed than Brussels as a candidate for the development of a national equity market.

[8] Data on the number of equities listed on the Brussels bourse over the long run can be found in Van Nieuwerburgh, Buelens, and Cuyvers, "Stock Market Development". Notice that unlike those presented here, their data do not cover other classes of securities – like corporate or sovereign bonds.

[9] By the 1860s, Brussels was ready to host large-scale international financial ventures, such as e.g. the infamous Langrand-Dumonceau enterprise: Guillaume Jacquemyns, *Langrand-Dumonceau promoteur d'une puissance financière catholique*, I-V (Brussels: Université Libre de Bruxelles, 1960-1965).

findings: not only the two waves of expansion (the late 1830s, and then the 1850s)[10], but also the retrenchment of the 1840s (when trading volumes of many equities evaporated completely) can be observed. The dependence of Brussels' very first emergence on the floatation of domestic equities appears even more striking if compared with the evolution of the Antwerp bourse during the same years (figure 2.2). A much more international market for sovereign bonds before 1835, Antwerp remained almost completely untouched by the incorporation booms of the late 1830s and 1850s, and was since relegated to a second-stage role[11].

What were the determinants of Brussels' take-off as a national and international financial centre? In the spirit of this book, this chapter aims at providing some answers by reviewing the main aspects of this process. Section 1 focuses on capital resources available on place, and on the domestic investing public. Section 2 deals with the composition of the Brussels business elite, and the connections this provided with the foreign investing public. Section 3 is about domestic regulation and taxation. Section 4 examines the performance of the national currency and the features of the domestic money market. Section 5 covers the foreign exchange market. The last section concludes.

Figures 1, 2.1, and 2.2 about here

1. *Capital Resources and the Domestic Investing Public*

When in 1822 king William I of the Netherlands started planning the foundation of a bank of issue in Brussels, an anonymous advisor warned him that 'like almost all the towns and cities of the [Southern] provinces, Brussels only possesses a manufacturing industry and consumer-

[10] Limited to the early 1850s, an apparent discrepancy exists between the two surveys. These years look like a period of stagnation in figure 1, and of expansion in figure 2.1. The reason is the following. In the event of the restructuration of the banking sector that followed the 1848 crisis, many of the shares issued in the 1830s (which had hardly traded during the 1840s) were finally delisted; in the meantime, a number of new equities were floated. *L'Indépendance belge* had not been mentioning untraded securities since 1842, while the official bulletin had been bound to continue to do that; as a result, figure 1 only shows the balance of the substitution process between old untraded securities and newly floated ones.

[11] Karel Veraghtert, "Bruxelles éclipse Anvers: Le centre boursier belge se déplace 1800-1840", in Geert De Clercq (ed.), *À la bourse: Histoire du marché des valeurs en Belgique 1300-1990* (Louvain-la-Neuve: Duclot, 1992), pp. 167-178.

based trade. There are, without a doubt, more genuine speculators and investors in Amsterdam than there are in the whole of Belgium. Belgium is, generally speaking, an affluent country with wealthy property owners, but few private individuals there have large cash sums available or circulating'[12]. Also in 1822, one leading Antwerp banker stated that in the Southern part of the United Kingdom of the Netherlands, people were used to 'blindly follow the suggestions of some prominent notaries for investing their patrimony, yet these ones just put their [customers'] wealth in real estate – either in outright purchases or in mortgages'[13]. Although such claims were perhaps exaggerated, the illiquidity of the Belgian capital market during the Dutch period is a fact confirmed by many pieces of evidence. A handful of securities – almost exclusively sovereign bonds – were officially listed at the Belgian bourses, but the extent to which such assets were diffused among the public seems to have been rather limited. The establishment of Société Générale (SG), the first joint-stock bank operating in Belgium, does not appear to have enhanced the mobilization of local capital, as in its early years the bank mostly devoted to managing its real-estate endowment, acting as the Treasury's agent in the South, and financing the Dutch public debt[14]. Neither did the first appearance of municipal savings banks provide much more liquidity to the banking system, as the new institutions hardly prospered in the late 1820s[15].

The events of 1830 marked a revolution in the structure of Belgium's embryonic financial system. On the one hand, SG freed itself from the control of its largest shareholder (i.e. William I himself, whose stake was frozen by the directors of the bank)[16] and thus lost of its status of a *de facto* State bank. On the other hand, most of the municipal savings banks – which were invested in Dutch sovereign bonds – were severely hit by the impairment of the Netherlands' credit. As a result, many smaller savings banks failed, while three of them (those of Brussels, Ghent, and Liège) were absorbed by SG. In order to perform its role as the Treasury's agent, the bank had developed a dense network of more than sixty agencies

[12] René Brion and Jean-Louis Moreau, *The Société Générale de Belgique 1822-1997* (Antwerp: Fonds Mercator, 1998), p. 19.

[13] Ben Serge Chlepner, *La banque en Belgique: Étude historique et économique*, I (Brussels: Lamertin, 1926), p. 21.

[14] Robert Demoulin, *Guillaume I^er^ et la transformation économique des Provinces Belges 1815-1830* (Liège-Paris: Université de Liège-Droz, 1938), pp. 71-104.

[15] Els Witte, "Les origines des caisses d'épargne en Belgique 1825-1850", in Bernard Vogler (ed.), *L'histoire des caisses d'épargne européennes*, I (Paris: Éditions de l'Épargne, 1991), pp. 171-189, esp. pp. 172-173.

[16] Helma Houtman-De Smedt, "La Société Générale de 1822 à 1848: Évolution de la «banque foncière» à la «banque mixte»", in Herman Van der Wee (ed.), *La Générale de Banque 1822-1997* (Brussels: Racine, 1997), pp. 13-62, esp. pp 38-53.

throughout the country; after the nearly disappearance of savings banking, SG conceived the idea of building on its local agencies in order to develop the collection of deposits and centralize their management. The outcome of these events was a very peculiar one. In most European countries, savings banking remained tied to a municipal and philanthropic dimension, in which available funds used to be invested in either microcredit initiatives or sovereign (and sub-sovereign) loans. Conversely, in the newborn Kingdom of Belgium savings banking was dethatched from such a small-scale dimension, so that available funds were finally invested in major financial enterprises such as industrial development[17].

The consequences of this situation cannot be underestimated. Figure 3 shows the amounts of savings collected by Belgium's two biggest banks, viz. SG and Banque de Belgique (the country's second universal bank founded in 1835, hereafter BdB). Available evidence suggests that the total sums collected by all other banks were a trifle with respect to those collected by the two universal banks[18]: as a result, the figure covers by far the biggest part of the country's total savings. The picture is impressive: after the opening of SG's savings division in 1833, deposits grew by many million francs every year to top the fabulous sum of 61.6 million francs at the end of 1842[19]. Despite being Belgium's second collector of savings, BdB – a smaller and Brussels-based corporation – never actually managed to compete with SG for depositors. Figure 4 displays the role of savings within the total liabilities of universal banks: in the case of SG, deposits accounted for 20-30% of the bank's balance sheet throughout the period – a level never touched anymore in the company's history[20].

Figures 3 and 4 about here

The reasons for the success of SG's savings division were not only dictated by the capillarity of the bank's agency network. The conditions offered to depositors were very attractive: an

[17] Witte, "Les origines", pp. 185-187.

[18] Els Witte and Sabine Parmentier, "Les caisses d'épargne belges au cours de la première moitié du XIXe siècle: Une affaire de la haute finance appuyée par les pouvoirs publics", in August Van Put, Chris De Noose, and Paul Tanghe (eds.), *Les banques d'épargne belges: Histoire, droit, fonction économique et institutions* (Tielt: Lannoo, 1986), pp. 53-85.

[19] To have an idea of the importance of this sum, consider that in 1843-1844 the average amount lent by the Bank of France – by far the biggest bank of a much larger economy than Belgium's – only reached 155 million francs: Maurice Lévy-Leboyer, *Les banques européennes et l'industrialisation internationale dans la première moitié du XIXe siècle* (Paris: Presses Universitaires de France, 1964), p. 489.

[20] Erik Buyst and Michelangelo Van Meerten, "La Société Générale et le développement économique de la Belgique", in Van der Wee, *La Générale*, pp. 537-670, esp. pp. 556-557.

interest rate of 4% was allowed on deposits up to the rather high ceiling of 4,000 francs, and money could be withdrawn with only a few days' advice[21]. The prospect of such a safe and remunerative form of investment proved successful in diverting the wealthy Belgians' capital from real estate[22], thus enhancing for the first time the liquidity of the banking system. The influx of cash allowed SG to launch its grand underwriting policy of industrial securities, which – together with a similar move by BdB – prompted the expansion of the Brussels stock exchange in the second half of the 1830s[23]. According to Chlepner[24], the involvement of the general public in stock trading was very limited at the time: only a rather small group of agents – mostly tied to the universal banks themselves – was apparently involved in the speculative row of 1835-1838. If we buy this thesis, then we can conclude that the way the Belgian public provided the necessary resources to the expansion of the stock exchange passed through the intermediation of the savings divisions of universal banks, rather than through direct investment in securities.

Large reliance on callable deposits, however, made banks particularly vulnerable to balance sheet mismatches in the event of crises. In 1839, the suspension of payments by BdB was only partially tied to its depositors' attitude (see figure 4); yet in 1848, the extent of the savers' run on SG counters alone was such a big shock on the bank's balance (see figure 3) that only the issuance of unconvertible notes allowed for its survival. This latter crisis led universal banks to a deep rethinking of their activities in deposit collection: as an eminent member of SG's post-crisis board, Jules Malou, pointed out in 1863, savings banking had to be seen as 'a way for accumulating small sums, not a way for investing already piled-up capital', as it was 'based on two mutually inconsistent ideas, productivity and almost instantaneous callability of deposits'[25]. BdB closed down its savings division in 1852, while SG lowered the ceiling for interest-bearing deposits from 4,000 to 1,500 francs. During the 1850s, SG's savings collection stabilized around the post-crisis level – less than one half of

[21] Jules Malou, *Notice historique sur la Société Générale pour favoriser l'industrie nationale établie à Bruxelles 1823-1862* (Brussels: Decq, 1863), p. XV.

[22] Some coeval observers pointed out that the advantageous conditions offered by Belgian banks *de facto* transformed the savers' accounts into a proper form of investment – which increased the banks' exposure to the risk of runs. In 1835, the average size of savers' accounts at SG equaled 1,200 francs, while at the Paris municipal savings bank it only equaled 480 francs (Chlepner, *La banque*, p. 98). In an effort to correct for this situation, in 1838 and 1842 SG slightly worsened the conditions offered to large depositors; the move had a limited impact.

[23] Stefano Ugolini, "Universal Banking and the Development of Secondary Corporate Debt Markets: Lessons from 1830s Belgium", mimeo.

[24] Chlepner, *La banque*, p. 94.

[25] Malou, *Notice*, pp. 25-26.

the pre-crisis one. Moreover, the sharp decline in the amounts deposited at universal banks was not counterbalanced by the appearance of new big savings collectors at least until 1865, when the State-owned Caisse Générale d'Épargne et de Retraite was founded[26].

It is plausible to think that the disappearance of a very safe and remunerative form of investment – as bank deposits had been in the 1830s and 1840s – forced the Belgian wealthy to look for alternative assets, viz. for securities; this would have provided the stock exchange with fresh resources in the 1850s. Of course, such an interpretation – which builds on Malou's somewhat exaggerated contempt of savings[27] – should not be overemphasized. The limit imposed by SG's savings division on interest-bearing deposits (4,000 francs) was actually a rather high ceiling, but Belgium's florid upper class must have had liquid supplies largely exceeding such a threshold. This means that the loss of attractiveness of deposits probably played a role in making the middle classes (rather than the upper classes) familiar with securities[28]. In this view, more investigation would be needed in order to assess the validity of Chlepner's thesis that the general public was not at all involved in stock trading in the 1830s[29].

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[26] Caisse Générale d'Épargne et de Retraite (CGER), *Mémorial 1865-1965* (Brussels: CGER, 1965), pp. 61-64. In presenting to the Parliament his plan for the foundation of CGER, the Finance Minister Frère-Orban declared that 'during the last years, and especially after 1850, the number and the size of savings banks have grown remarkably in our neighbouring countries. We are the only ones to have remained stationary since 1840 – worse still, we must admit, we have even regressed'.

[27] Malou wrote his *Notice* in 1863, at the time the Parliament was debating on the foundation of CGER – a plan to which, in his capacity of manager of a potential competitor (i.e. SG), he was fiercely opposed (CGER, *Mémorial*, pp. 85-107). As a consequence of this conflict of interests, Malou's claims about the dangers of savings banking must be probably read as a sort of veiled scaremongering.

[28] Describing Belgium's financial system at the eve of the first world war, Walther Meynen pointed out that one of the peculiarities of this system rested on the degree of penetration of securities to the portfolios of almost all classes of the Belgian society, down to small savers. According to him, the general public was so well-acquainted with this kind of assets that universal banks relied on a capillary network of brokers more than on direct over-the-counter transactions with their customers, when they were to place the securities they had underwritten. Although this description refers to a much later period than the one considered in this chapter, it is reasonable to hypothesize that such an extraordinary acquaintance of the Belgian public with the bourse had its roots in the much-lamented 'disruption' of savings banking activities in the country after the 1848 crisis. This would also provide one possible explanation for the early rise of a general demand for the liberalization of brokerage activities, which led to the 1867 reform of the Brussels stock exchange (see below). Walther Meynen, *Das belgische Bankwesen* (Berlin: Siemenroth, 1910), pp. 57-58.

[29] Chlepner, *La banque*, p. 94, bases his thesis on a article published by *L'Indépendance belge* (26th September 1836), stating that 'shares issued by our joint-stock companies are far from being as widespread as people could think; some days ago, a Brussels newspaper admitted that in Antwerp – which is nonetheless at our gates – they were hardly known'. Yet since January 1837 Antwerp's most important financial newspaper, *Journal du commerce d'Anvers*, regularly published the prices of industrial equities listed at the Brussels bourse – which means that public interest on these securities was growing beyond the capital's city walls.

To sum up, during its first two decades as an independent State, Belgium found itself with a rather peculiar banking structure: savings collection was very early centralized by universal banks, which applied these resources to the underwriting business in the industrial sector. This enhanced the first development of the Brussels stock exchange, but also exposed banks to the risk of violent balance sheet mismatches – which eventually took place in 1839 and 1848. After the latter crisis, universal banks imposed more penalising conditions on large deposits, thus encouraging the direct placement of these funds to securities. Nevertheless, the aggressive savings-collection policy enacted by banks during the 1830s and 1840s succeeded in mobilizing the capital of the Belgian middle class, which proved to be an irreversible process. When a new underwriting wave took place in the 1850s, a domestic reservoir of liquid funds was by then available to be invested in newly-issued securities.

2. Business Elites (and the Foreign Investing Public)

One striking aspect of the first expansion of the Brussels stock exchange during the 1830s is the fact that it took place in a rather insulated environment. This is reflected by the scarcity of connections between the local business elite and outer banking networks. Before the foundation of the first joint-stock banks, Brussels was host to a handful of private banks, mostly devoted to trade-related activities on a very small scale[30]. Together with some entrepreneurs, landowners, and politicians, these local bankers formed the bulk of the administrations of universal banks[31]. The Paris Rothschild house had appointed a permanent agent in Belgium's capital city, but his activities were mostly related to the management of the country's public debt[32]. Thus the financial elite that made the 1830s boom (and bust) was almost exclusively Brussels-based. These very circumstances provide perhaps the best explanation for the fact that the floatation of new Belgian industrial equities was enacted in Brussels rather than in the country's main financial centre, i.e. Antwerp: lacking strong

[30] Ben Serge Chlepner, *Le marché financier belge depuis cent ans* (Brussels: Falk, 1930), pp. 14-16.

[31] Ginette Kurgan-Van Hentenryk, *Gouverner la Générale de Belgique: Essai de biographie collective* (Brussels: De Boeck, 1996), pp. 16-21.

[32] The Rothschilds appear to have had many concerns in the Belgian industry, but in these early years their business was generally run in close partnership with SG: on this issue, see Bertrand Gille, *Lettres adressées à la maison Rothschild de Paris par son représentant à Bruxelles*, I-II (Leuven-Paris: Nauwelaerts, 1961-1963).

contacts with the outer world, the closed and inward-looking elite that controlled the two universal banks had no other chance than developing the local equity market in order to be able to manage the process properly.

The event that marked the end of this situation was the recapitalization of BdB by Jonathan-Raphaël Bischoffsheim in 1841. A member (in law) of the Frankfurt Goldschmidt banking dynasty, Bischoffsheim sensed the great potential opportunities lying in Brussels' highly-leveraged (and highly-politicized) banking system, and consequently became one of the protagonists of its development. A leading administrator of BdB (1841-1850), of the National Bank of Belgium (hereafter NBB: 1851-1870), of many joint-stock companies affiliated to BdB, and of the most important Brussels-based merchant bank (his own, which became the Belgian branch of Paribas in 1872), Bischoffsheim dominated the national stage for nearly four decades[33]. Acquainted with a network of leading European merchant bankers (which he later turned into the NBB's correspondent network: see below), he contributed to the integration of the city in the international financial system. Moreover, Bischoffsheim encouraged the venue to Brussels of that group of Jewish financiers, mostly connected with his family (Oppenheim, Goldschmidt, Hirsch, Errera, Cassel, Stern, Brugmann), that constituted the core of Belgium's small albeit powerful private banking sector for decades[34]. The implantation of a cosmopolite business community since the 1840s played a crucial role in the internationalization of the Brussels stock exchange. According to Chlepner[35], during the third quarter of the 19th century – which he calls the 'age of splendour' of Belgian merchant bankers – these businessmen were responsible for the floatation of the first bulk of foreign securities in Belgium[36].

To sum up, while the very first expansion of the Brussels bourse in the 1830s took place in a sort of vacuum – foreign players, as it was the case for the Rothschilds, mainly intervened through the intermediation of domestic agents –, the second wave of financial growth in the

[33] Pierre Kauch, "Jonathan-Raphaël Bischoffsheim 1808-1883", *Revue du personnel de la Banque Nationale de Belgique* 1 (1951), pp. 5-23.

[34] Samuel Tilman, *Les grands banquiers belges 1830-1935: Portrait collectif d'une élite* (Brussels: Académie Royale de Belgique, 2006), p. 343. The only important Brussels merchant bank that was not related to Bischoffsheim was the house of Samuel Lambert, the Rothschilds' agent for Belgium. A fierce rivalry had always existed between the Rothschilds and the Bischoffsheims. After SG's crisis in 1848, the Rothschilds loosened their contacts with the universal bank, and the Lambert house grew more and more independent on the Belgian stage (Gille, *Lettres*, passim).

[35] Chlepner, *Le marché*, pp. 50-52 and 60-61.

[36] Foreign securities were underwritten either directly by their houses or (more often) by the joint-stock banks (especially BdB) in which these financiers were leading administrators.

1850s happened in an environment that was much more interconnected with the international financial system. Although the structure of the domestic financial system did not change substantially – Belgian universal banks continued to dominate the market –, the evolution in the composition of the local business elite opened new transmission channels between Belgium's capital city and the most important foreign places. This process laid the basis for the internationalization of the Brussels stock exchange – which was to reach extraordinary levels at the beginning of the 20th century.

3. Regulation and Taxation

As it has been already pointed out, scholars have put much emphasis on the 1867 and 1873 reforms as the main steps of a process of full liberalization that, combined with the absence of corporate taxes on revenues and dividends, allegedly led to the expansion of the Brussels stock exchange[37]. This conveys the idea of Belgium as an *ante litteram* offshore financial centre that profited from capital flights from the neighbouring countries.

No doubts, lax regulation and low taxes played an important role in boosting the international competitiveness of the Belgian financial centre; yet this was only true in the period following 1880, when more restrictive legislation was passed and taxation raised in most European countries[38]. In other words, in the decades preceding 1914 Brussels became a more attractive place because other countries tightened regulation, not because Belgium relaxed its own[39]. As a result, it is difficult to indicate the Belgian *laissez-faire* legislation as a distinctive factor of the Brussels financial take-off in the mid-19th century.

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[37] Van Nieuwerburgh, Buelens, and Cuyvers, "Stock Market Development".

[38] Théophile Théate, *Les sociétés anonymes: Abus et Remèdes* (Brussels-Leipzig: Misch & Thron, 1905); Hans Willems and Frans Buelens, "Regulation of the Stock Exchange in an Emerging Market, between Law and Practice: The Belgian Case 1801-1867", mimeo.

[39] 'In Germany the income tax was levied on a tax return assessment basis, which had the inconvenience of violating secrecy. Conversely, in Belgium the income tax was levied on a pay-as-you-earn basis, which had the advantage of preserving anonymity. As a result, German capital emigrated to a certain extent towards the Brussels bourse. Likewise, in France the regulation of the Paris bourse and the conflict between *coulisse* and *parquet* produced the effect of increasing the importance of the Brussels market. This made Mr Caillaux, rapporteur of the French Lower House commission on the income tax, ask 'if German and French legislators had agreed in making Belgium the promised land of commerce, finance, and industry' [25th March 1900]'. Roland Durviaux, *La banque mixte, origine et soutien de l'expansion économique de la Belgique* (Brussels: Bruylant, 1947), p. 72.

A quick look at the regulatory framework during the first years of life of the Kingdom of Belgium seems to suggest that the impact of the liberalization process of the 1860s and 1870s has probably been overestimated. Since the Napoleonic age and throughout the Dutch period, the country had stuck to the *Code de Commerce* – which provided it with an internationally recognized legal standard adopted by the whole Continental region that had previously joined the French Empire. The *Code* imposed rather strict rules on brokerage activities (a monopoly of agents appointed by the political power) and on incorporation (subject to governmental authorisation). Yet it does not seem that this legislation ever really threatened to harm the growth of financial activities. On the one hand, the brokers' monopoly was systematically circumvented through the development of a curb market (viz. the so-called *Lloyd bruxellois*, the Brussels equivalent to the Paris *coulisse*)[40]. On the other hand, formal governmental control proved rather ineffective in restraining incorporations, especially during the 1830s: even in the few cases in which attempts in this sense were made, companies went public anyway before authorisation was granted (as in the famous case of Mutualité Industrielle)[41]. Last but not least, in the decades of our concern neither was income taxation levied (as in most other European countries, except Britain and Austria)[42], nor were capital controls ever established.

To sum up, the traditional depiction of Brussels as an early offshore financial centre can be effective in explaining its exceptional early-20th-century growth, not its first take-off in the mid-19th century. Rather than an abolition of restrictive regulation, the 1867 and 1873 reforms should be read as a reconciliation between legislation on the one hand, and a practice that had grown far beyond formal limits on the other hand.

[40] Chlepner, *Le marché*, pp. 46-47. The practice was so much dethatched from the letter that even official actors systematically circumvented the law. For instance, in order to prevent any sort of conflicts of interests, the *Code de Commerce* strictly forbade brokers to transact operations on their own account; however, the proceedings of the Administration Board of the NBB report that in January 1852, the Bank illegally discounted an amount of bills to broker François Depouhon. A very controversial protagonist of the Brussels business life (Gille, *Lettres*, passim), Depouhon would later on become a director of the NBB itself.

[41] Brion and Moreau, *The Société*, pp. 77-79. As Belgian jurist Théophile Théate acutely pointed out, subjecting incorporation to governmental authorisation had an effect not in restricting, but in overheating financial activity: as a matter of fact, authorisation boiled down to a sort of quality certification for the general public, who was then induced to invest in new companies regardless of their true value. Théate, *Les sociétés*, p. 13.

[42] Edwin R. A. Seligman, *The Income Tax: A Study of the History, Theory, and Practice of Income Taxation at Home and Abroad* (New York: Macmillan, 1914).

4. The National Currency and the Domestic Money Market

According to the traditional view, the main achievement of the foundation of the NBB in 1850 was the transformation of Belgium's inadequate and fragile monetary system, which had suffered from two convertibility crises in two decades, into a modern and resilient one[43]. This idea is exacerbated by Buyst and Maes[44], who conclude that during the 19th century the NBB acted as a mere provider of currency stability. However, the traditional emphasis on the 1839 and 1848 crises as two big shocks for the Belgian franc does not seem to be corroborated by quantitative evidence. Figure 5 shows that in spite of formal inconvertibility, in neither occasion Belgium's currency suffered from major depreciations with respect to the British pound, the French franc, or the Dutch gulden. The relative depreciation of the pound and appreciation of the gulden during the 1850s were tied to the fluctuations in the prices of bullion[45] rather than to the action of the newly-created bank of issue.

Figures 5 and 6 about here

Yet the foundation of the NBB did actually mark a crucial event in Belgium's monetary history, although this went beyond the narrow field of convertibility defence. Figure 6 reports market interest rates in London, Paris, and Antwerp for the period 1830-1860. It is possible to see that during the 1830s and 1840s, the Antwerp rate was more or less the same as the Paris one, while the London rate generally remained at a much lower level (except for a few short time lapses). Yet from 1851 a big change took place: Belgian market rates decoupled from both British and French ones, constantly remaining at the lower bound of the picture. Thus, the NBB's action proved fundamental in making the Belgian franc not merely a stable, but most of all a low-yield currency.

The 'graduation' of the domestic monetary system passed through the massive development of a sector of the money market that had stayed rather neglected by universal banks in the previous decades, viz. the market for acceptances – or bills of exchange. Figures 7 and 8 provide two different albeit consistent indicators of the discount activities of Belgium's three

[43] Charles A. Conant, *The National Bank of Belgium* (Washington: National Monetary Commission, 1910).

[44] Erik Buyst and Ivo Maes, "Central Banking in Nineteenth-Century Belgium: Was the National Bank of Belgium a Lender of Last Resort?", *Financial History Review* 15:2 (2008), pp. 153-173.

[45] Stefano Ugolini, "The International Monetary System 1844-1870: Arbitrage, Efficiency, Liquidity", mimeo.

biggest banks[46]. The boost given by the new bank of issue is impressive: the overall supply of credit to the acceptance market increased more than fivefold in the space of a decade[47]. Such a result was made possible by the penetration of the NBB in the provinces (see figure 9): through the creation of a large network of local branches (twenty-five provincial offices, plus the Brussels and Antwerp headquarters, were operating by 1860), the Bank enhanced the development of peripheral money markets, which had suffered in the previous decades from their isolation with respect to the core centres[48]. Such a penetration was easily enacted by the Bank through the diffusion of its banknotes, as fiduciary circulation had largely been underdeveloped in the provinces up to that moment. As a result of this process, within a decade from the NBB's foundation a truly national and centralized monetary system had finally been established in Belgium.

To sum up, the creation of the NBB gave a substantial contribution to the emergence of the Brussels financial centre not because it merely granted convertibility, but because it boosted the development of a larger and deeper domestic money market, which provided financial activities with a steady flow of funds[49]. Moreover, the Bank's active discount policy proved successful in keeping domestic interest rates at lower levels than abroad, which no doubts made Belgium an attractive place for foreign borrowers. The way this result was achieved will be dealt with in the next section.

Figures 7, 8, and 9 about here

[46] Figure 7, showing the yearly volume of bills discounted by the Belgium's three biggest banks, provides the best indicator of the amount of credit supplied by the banking system to the economy. However, the series suffers from two flaws: a) data for BdB are missing for some years (1835, 1839, 1849, and 1850), and b) data for NBB include bills rediscounted with it by universal banks, so that the total volume of commercial paper discounted could be overestimated. In order to rule out the possibility that these shortcomings create major distortion in the overall picture, this is complemented by the complete series of end-of-year commercial portfolios for the three banks (figure 8). The two figures are mutually consistent.

[47] However, it must be bore in mind that these sums also include bills denominated in foreign currencies discounted by Belgian banks (see below).

[48] While big industrial plants had always had their bills discounted by universal banks in Brussels, smaller provincial firms had long been denied access to credit at the same conditions as metropolitan concerns. As a matter of fact, SG had mostly made use of its country branches for collecting savings rather than providing credit. In the end, the complaints of provincial borrowers provided one of the main arguments in favour of the foundation of a new bank of issue (Chlepner, *La banque*, pp. 310-312).

[49] The fact that bills payable in another corner of the country would always be eligible for discount at the NBB provided a national standard that encouraged private short-term investment in acceptances throughout Belgium: in other words, the Bank's action was effective not only on the demand side, but also on the supply side of the domestic money market.

5. *The Foreign Exchange Market*

Among the main tasks envisaged for the newborn NBB, Finance Minister Frère-Orban included the creation of a large foreign exchange market in Belgium. This was meant to sustain the growth of the country's weight in international commerce: up to that moment, many foreign transactions had to be cleared via London or Paris, which implied extra costs – and a loss of competitiveness – for Belgian traders[50]. The NBB actually proved very eager to enter the foreign exchange market, although mainly for a different reason than fulfilling the Frère-Orban's expectations: as a matter of fact, playing with foreign currencies provided the Bank with the means for both boosting its revenues and smoothing the effects of external shocks on its own discount policy. All this ultimately allowed the NBB to keep lower domestic interest rates than abroad – as observed in the previous section[51].

These aspects of the NBB's policy have received little attention up to now, but archival sources provide much information on the Bank's astonishingly sophisticated action[52]. Figure 10 shows that a large share of the bills discounted by the NBB were payable abroad. While almost the totality of bills denominated in Belgian francs were taken from the Belgian public, most of the bills denominated in foreign currencies were purchased abroad through the Bank's correspondents[53] – which proves that support to the foreign exchange market in Belgium was definitely not the driving force behind the NBB's policy. Yet this does not mean that the public was not benefiting from the Bank's action. Figure 11 compares the different interest rates offered by the NBB to open-window discounters. For most of the time the Bank's counters did discount foreign bills on demand: claims on France (Belgium's main trade partner) were customarily taken (with a few disruptions only), but also claims on Britain and the Netherlands were occasionally purchased from the public. The discount rate applied by the Bank was equal to the current onshore market rate on that currency, so that the bearer of the bill did not face any extra cost for having it paid – which actually proved a very

[50] Pierre Kauch, *La Banque Nationale de Belgique*, I (Brussels: NBB, 1950), p. 99.

[51] The refined mechanisms through which this policy was worked out go beyond the scope of this chapter. On the NBB's foreign portfolio management, see Stefano Ugolini, "The Origins of Foreign Exchange Policy: A Detailed Analysis of the Case of the National Bank of Belgium 1851-1853", mimeo.

[52] This section is mainly based on the proceedings of the NBB Administration Board: Archives générales du Royaume/Algemeen Rijksarchief (Brussels), Banque Nationale de Belgique/Nationale Bank van België, *Procès-Verbaux du Conseil d'Administration*, 1851-1860.

[53] A survey on the database used in Ugolini, "The Origins" (covering all NBB foreign exchange operations during the years 1851-1853), revealed that only 22.4% of the foreign bills discounted by the Bank in this period were taken from the Belgian public.

advantageous instrument for exporters. But there is more: figure 11 also shows that for quite a long period, the NBB applied a lower discount rate for 'international' bills denominated in Belgian francs (i.e. claims drawn on Belgium by a foreign agent) than for 'fully domestic' bills (i.e. claims drawn on Belgium by a Belgian agent). This means that since the beginning of its operations, the Bank was very keen on imposing an upper bound to the offshore interest rate on Belgian francs[54], which acted as a cap on refinancing costs for foreign borrowers in Belgian currency. Last but not least, the Bank was also offering dealers in foreign currencies an additional instrument: repurchase agreements (i.e. the Bank bought foreign bills spot to resell them forward). As the repo rate was generally pegged to the Bank's 'international' discount rate – and was thus often lower than the onshore market rate on the concerned currency – holders of foreign claims (like e.g. exporters) found it more advantageous to borrow on their security at the NBB rather than to discount them in the open market. As first-class foreign merchant banks were also admitted to contract repos, this instrument must have played a role in enhancing the diffusion of the Belgian franc abroad.

To sum up, even though the NBB's involvement in foreign exchange operations was mostly dictated by other concerns than smoothing international transactions, the Bank's action proved substantial in providing the necessary infrastructure for the emergence of a foreign exchange market in Brussels. By reducing the cost of transactions to and from Belgium, the Bank boosted the competitiveness of the Belgian franc as an international means of payment, thus laying the path towards its assumption of a first-stage role in the late 19th century[55].

Figures 10 and 11 about here

[54] Of course, as no capital controls existed at the time, the offshore and onshore interest rates were bound to be the same – which turns out to be the case: compare figures 6 and 11. Thus the differential between the NBB's discount rates on 'international' and 'fully domestic' bills should be interpreted as a quality spread: while the first were typically drawn by major merchant bankers, the latter were drawn by small local agents and were thus much riskier assets for the Bank.

[55] Marc Flandreau and Clemens Jobst, "The Ties that Divide: A Network Analysis of the International Monetary System 1890-1910", *Journal of Economic History* 65:4 (2005), pp. 977-1007. Besides the development of a large foreign exchange market, Frère-Orban had a further ambition for Belgium's financial place: the establishment of an international bullion market. In order to reach this aim, the Finance Minister tried to push the NBB to provide large lines of credit to bullion traders. Especially during the late 1860s and early 1870s, the Bank financed the vast operations of the Brussels mint, whose productivity had been taken to extraordinary levels by the recent installment of new powerful machinery: Kauch, *La Banque*, pp. 145-148). Such feverish minting activities will cost Belgium serious embarrassments with respect to the other members of the Latin Monetary Union after 1873: Henry Parker Willis, *A History of the Latin Monetary Union: A Study of International Monetary Action* (Chicago: University of Chicago Press, 1901).

Conclusions

This chapter has reviewed different aspects of the growth of a brand new international financial centre by looking at the case of 19th-century Brussels; the overall picture emerging from this survey confirms that the chosen case deserves much attention, as its apparently 'atypical' course opens new perspectives on the determinants of financial development. In this respect, it was possible to see that institutional (or semi-institutional) actors played by far the most important role in driving the process. During the 1830s, the expansion of the Brussels bourse was led by two universal banks that were rather spurious creatures: SG, created as a State bank under the Dutch rulers, performed the functions of Treasury's agent and 'national' savings bank – while BdB, founded by a political lobby opposed to SG, was intended to replace the rival as Belgium's proto-central bank. The crucial role of universal banks, controlled by a local elite lacking external connections, explains why Brussels (and not Antwerp) emerged as the national market for industrial equities. After the 1848 crisis SG and BdB became purely private concerns, but a major impulse to the financial development of the Brussels place was now given by the newborn NBB – the central bank, whose policies were often influenced by the government. The Bank encouraged the creation of a deep and truly national money market, and provided the necessary infrastructure for the internationalization of the Belgian franc.

To conclude, the success story of 19th-century Brussels suggests that a general reappraisal of our knowledge about the emergence of financial centres might be wanted. Take the case of those centres whose development followed an apparently 'typical' path: given the role of (say) London or New York as commercial hubs, how much did the behaviour of institutional actors (like the Bank of England or the Federal Reserve respectively) concretely contribute to the growth and internationalization of financial markets in these places?[56] To all likelihood, many elements are still to be clarified in our understanding of the historical dynamics of financial development – including the lessons lying there for the future.

[56] For an assessment of the action of the Bank of England and of the Federal Reserve limited to the establishment of international acceptance markets, see (respectively): Marc Flandreau and Stefano Ugolini, "Where It All Began: International Trade, the Market for Acceptances, and the Making of Lending of Last Resort in Britain", mimeo; J. Peter Ferderer, "Institutional Innovation and the Creation of Liquid Financial Markets: The Case of Bankers' Acceptances 1914-1934", *Journal of Economic History* 63:3 (2003), pp. 666-694.

Figures

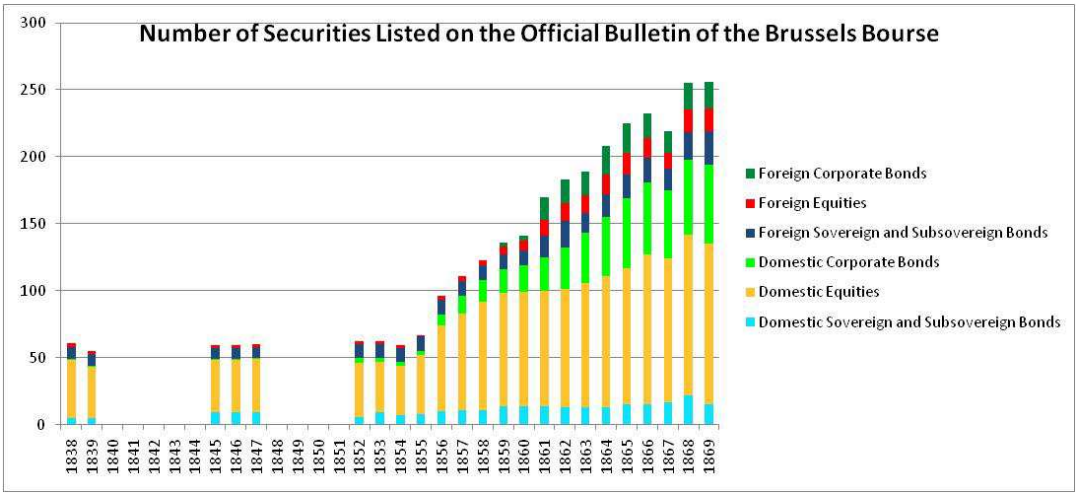

Figure 1: Number of securities listed on the official bulletin of the Brussels Bourse, 1838-1869. Source: *Cours authentique de la bourse de Bruxelles* (1838-1869).

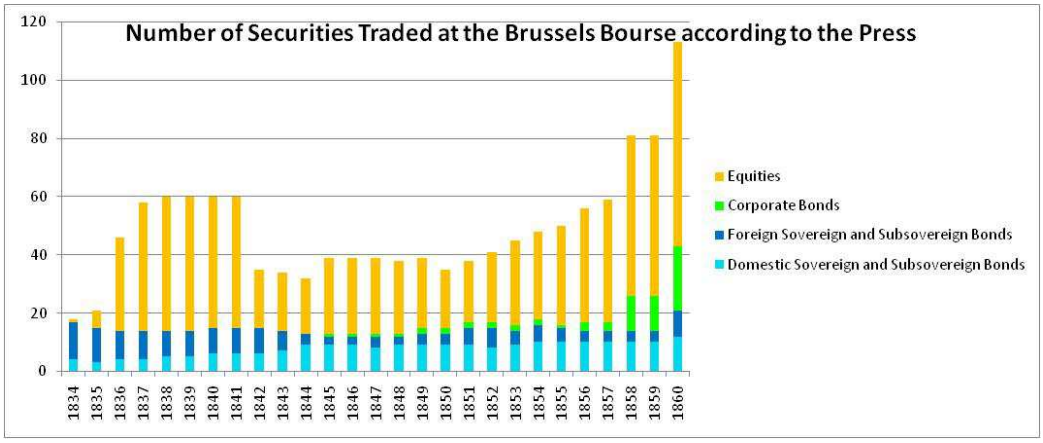

Figure 2.1: Number of securities traded at the Brussels Bourse according to the press, 1834-1860. Source: *L'Indépendance belge* (1834-1860).

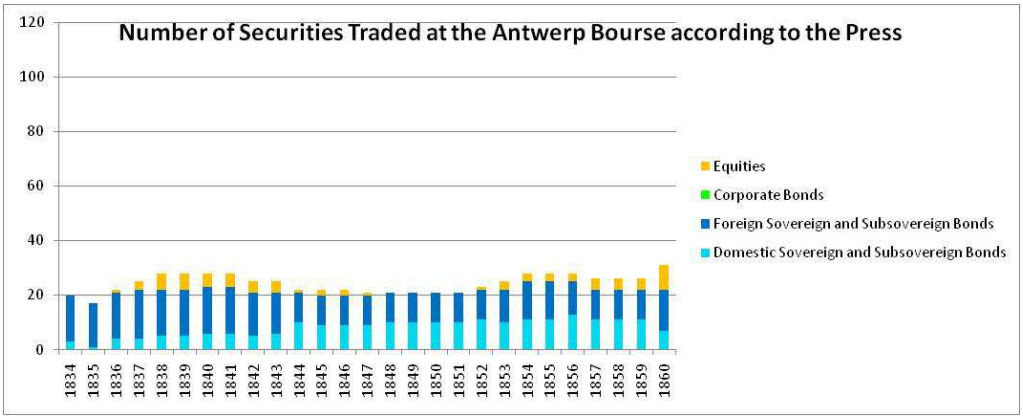

Figure 2.2: Number of securities traded at the Antwerp Bourse according to the press, 1834-1860. Source: *L'Indépendance belge* (1834-1860).

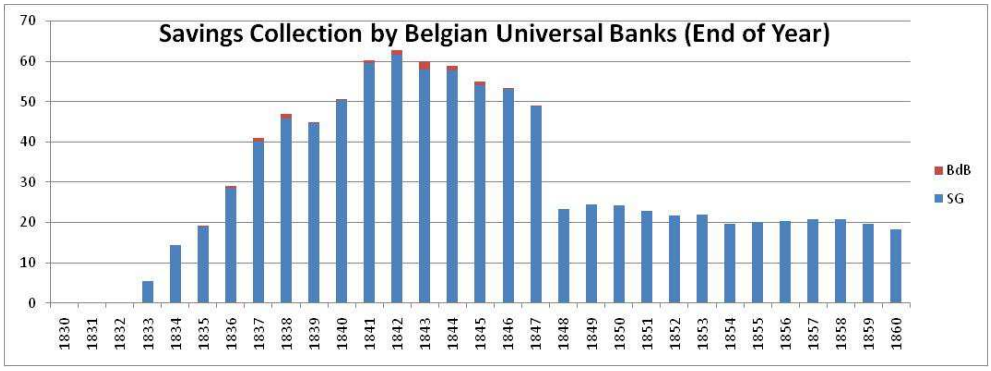

Figure 3: Savings collection by Belgian universal banks (in million francs), 1830-1860. Source: Malou, *Notice*, p. XV; Chlepner, *La banque*, pp. 76-79.

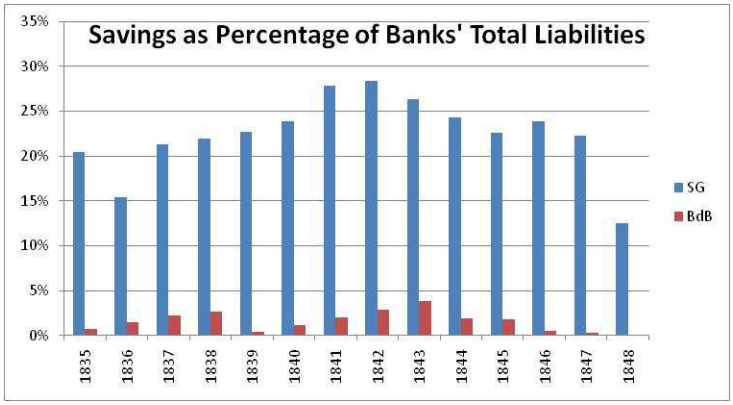

Figure 4: Savings as a percentage of banks' total liabilities, 1835-1848. Source: Malou, *Notice*, p. XV; Chlepner, *La banque*, pp. 76-79.

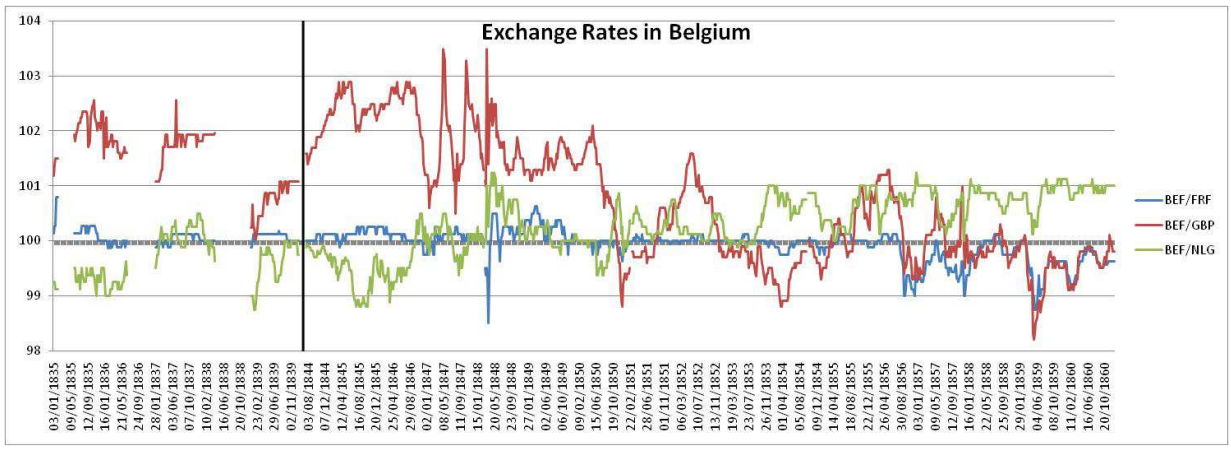

Figure 5: Exchange rates in Belgium (weekly), 1835-1839 and 1844-1860. 100 = Official metallic par. BEF: Belgian franc; FRF: French franc; GBP: British pound; NLG: Dutch gulden. Source: *Moniteur belge* (1835-1839); *[Cours authentique de la] Bourse d'Anvers* (1844-1851); *Cours authentique de la bourse de Bruxelles* (1852-1860).

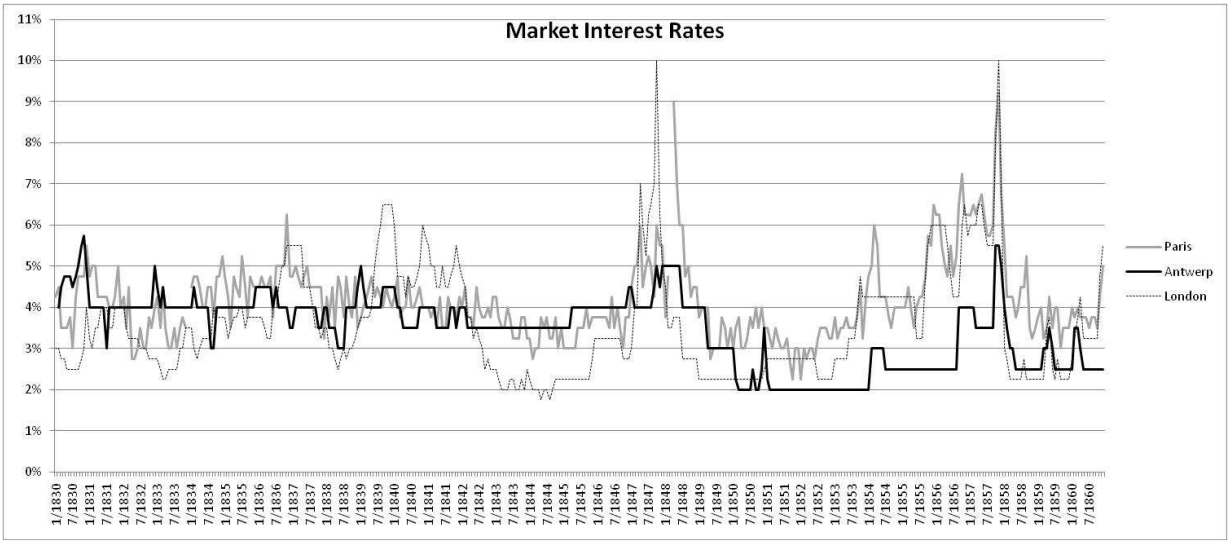

Figure 6: Market interest rates in Antwerp, Paris, and London (monthly), 1830-1860. Source: Antwerp: *Journal du commerce d'Anvers*, from StudieCentrum voor Onderneming en Beurs (Antwerp), SCOB database (courtesy of Frans Buelens); Paris: Vincent Bignon, Marc Flandreau, and Stefano Ugolini, "Bagehot for Beginners: The Making of Lending of Last Resort Operations in the Mid-19th Century", mimeo; London: Elmer Wood, *English Theories of Central Banking Control 1819-1858* (Cambridge Mass.: Harvard University Press, 1939), pp. 92-93, and Ugolini, "The International".

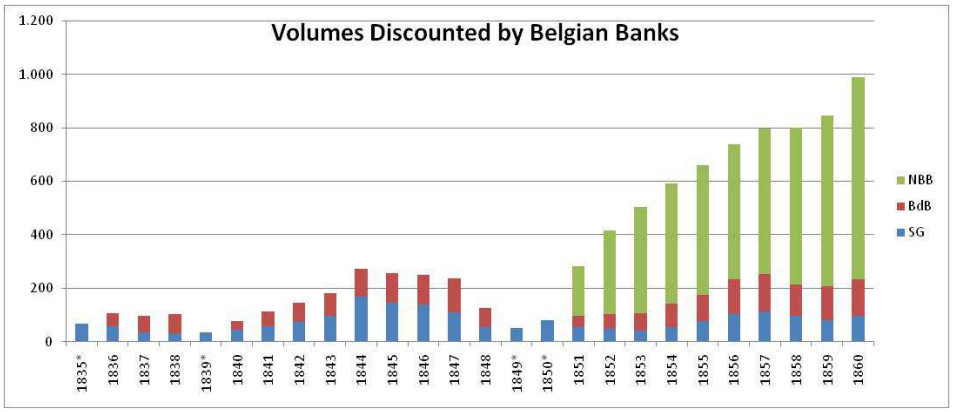

Figure 7: Volumes discounted by Belgian banks (yearly, in million francs), 1835-1860. Note: BdB data are missing for 1835, 1839, 1849, and 1850. Source: Malou, *Notice*, p. XX; Chlepner, *La banque*, p. 80; A. Van Schoubroeck, *L'évolution des banques belges en fonction de la conjoncture de 1850 à 1872* (Gembloux: Duculot, 1951), p. 346; *Moniteur belge* (1852-1861).

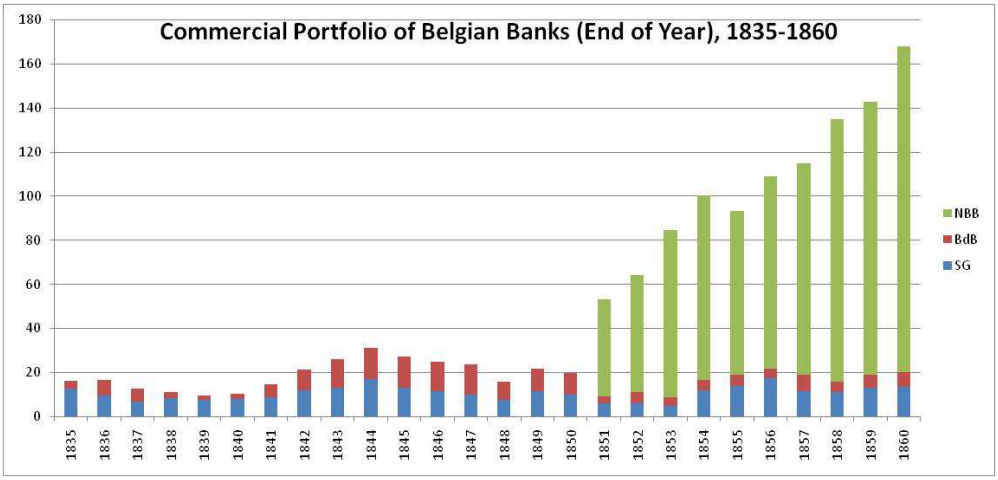

Figure 8: Commercial portfolios of Belgian banks (end-of-year, in million francs), 1835-1860. Source: Chlepner, *La banque*, pp. 76-79; Van Schoubroeck, *L'évolution*, pp. 346-349; *Moniteur belge* (1852-1861).

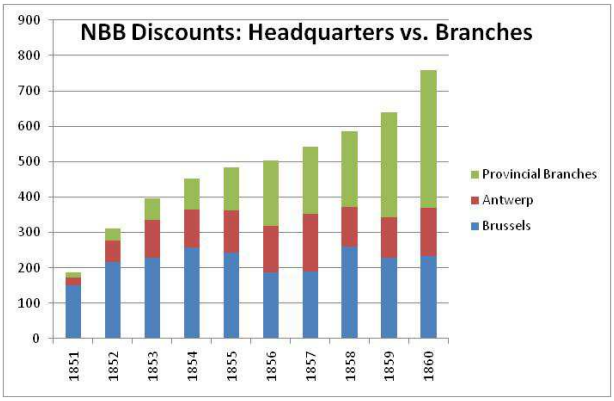

Figure 9: NBB discounts: Headquarters vs. Branches (yearly, in million francs), 1851-1860. Source: *Moniteur belge* (1852-1861).

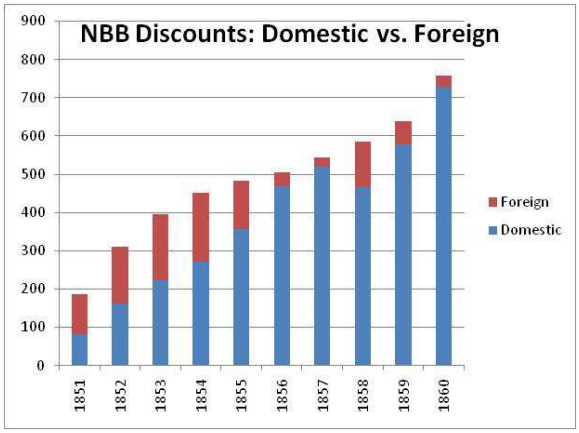

Figure 10: NBB discounts: Domestic vs. Foreign (yearly, in million francs), 1851-1860. Source: *Moniteur belge* (1852-1861).

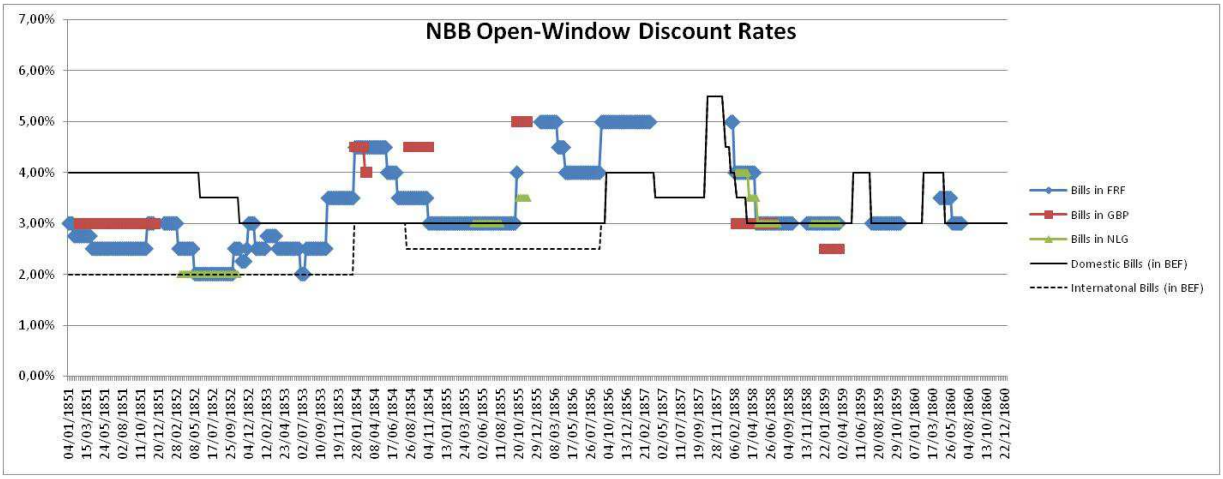

Figure 11: NBB open-window discount rates (weekly), 1851-1860. BEF: Belgian franc; FRF: French franc; GBP: British pound; NLG: Dutch gulden. Source: AGRB, NBB, *Procès-Verbaux du Conseil d'Administration* (1851-1860).