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BELGIAN BANKING

AND

BANKING THEORY

BY
B. S. CHLEPNER



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THE BROOKINGS INSTITUTION
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Since the 1929 crisis banking and credit problems have played a prominent role in public discussions. In the United States, as well as in most European countries, banking organization underwent important changes. Commercial banking has been separated more or less completely from investment banking, government supervision of banking has been introduced in a number of countries, the number and the sphere of operations of financial organizations owned or controlled by governments have been greatly extended.

Belgium—although small in size—is one of the most industrialized countries in the world and possesses a highly developed financial organization. Belgium was first to establish so-called "mixed banking," with close relationships between banking corporations and industrial enterprises. For a century Belgian banks expanded largely in a free economy and were not subjected to any government regulation or supervision. In this period they played a prominent role in the economic expansion of the country. The depression of the 1930's and the monetary panic led to a banking crisis. In 1935 government regulation and supervision were introduced and the entire banking organization was thoroughly reorganized.

This volume contains the first comprehensive study of Belgian banking published outside of Belgium. On many points comparisons are made with American practices. The second part of the book reviews some fundamental problems relating to banking theory, particularly the significance of banking in economic evolution, the meaning of banking liquidity, and the regulation of banking by law.

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FOREWORD

The author of this volume has been Professor of Banking and Finance at the University of Brussels since 1918. For some years he was also Director of the Department of Economic Research and Information of one of the leading Belgian banks. Following the *banking reform* of 1935, he became "supervisor" of two large banking institutions. When the invasion necessitated his emigration, I was immediately interested in having him join the staff of the Brookings Institution.

The Belgian banking reform is of no little interest to American students of banking and credit, because the Belgian reform movement designed to introduce a purely commercial banking system in place of mixed banking was similar in purpose to the American banking legislation of 1933. The author shows that the alleged evils were much less serious than was popularly assumed and that the reforms did not, for practical reasons, go so far as to establish a complete separation of commercial from investment banking. This study is not only the first study in English of Belgian banking reform but it is the only comprehensive study of Belgian banking published outside of Belgium.

Although Belgium is a very small country possessed of distinctive economic characteristics, the evolution of the Belgian banking system has been similar in some respects to that of the United States. Although the banking structures and the methods of conducting operations were very different, it appears that Belgian banking played a part in the economic expansion of the country analogous to that played by American banks. Moreover,

Belgian experience with respect to the maintenance of liquidity and the regulation of banking operations has been fairly similar to that in the United States.

American readers will be interested in the conclusions of the author concerning the "personnel" or "human" factor in banking, the significance of business ethics, the role of public opinion, and the importance of putting the right man in the right place.

The Consulting Committee of the Institution consisted of Edwin G. Nourse, Meyer Jacobstein, and Charles O. Hardy.

HAROLD G. MOULTON,
President

AUTHOR'S PREFACE

Until about 30 or 40 years ago the principle of non-interference of government in economic life was closely observed in Belgium. The official doctrine relied exclusively on private initiative, or in some measure on spontaneous collective organizations such as co-operatives, mutual aid societies, and so on. The administrative apparatus was very meager. Strictest economy was the fundamental rule of government finance and even such activities as gathering facts and statistics were neglected. Furthermore, there were no important private organizations or foundations engaged in assembling statistical and historical data. Since the First World War the situation has improved considerably, but even now it is far from being completely satisfactory.

For this reason the statistical material used in this study may appear rather meager to the American reader. He will probably be surprised by the complete lack of data on some points, for instance on banking failures.

For more than 20 years, the author, who was a pioneer in this field, devoted an important part of his time to collecting historical and contemporary materials on Belgian banking (see the bibliography at the end of the volume). He had many contacts with bankers and officials. He hopes that notwithstanding the shortage of official statistics, the present volume gives a fairly accurate picture of the evolution of Belgian banking.

The author wishes to extend his warmest thanks to the Brookings Institution which granted him hospitality when he left his country in order not to fall into the hands of the invading hordes. Not only has he been

able to continue scientific activity but he has also benefited largely from contacts with his American colleagues. Their suggestions have improved his manuscript considerably.

He also thanks the Belgian American Educational Foundation, of New York, particularly its president, Mr. P. C. Galpin, for a grant towards the publication of this book.

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INTRODUCTION

This volume has a two-fold purpose: The first is to describe the evolution of the commercial and investment banking system of Belgium; the second is to review the theory of credit and banking in the light of Belgian experience. Part I is a factual presentation of the main events in the development of Belgian banking from 1830 up to and including the banking reforms of 1935. In the light of this history, we shall ask in Part II, What light does the Belgian experience throw upon such controversial issues as: (1) the significance of banking and credit in economic evolution; (2) the importance of short-term loans in maintaining liquidity; and (3) commercial banking regulation by law.

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