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The Invention of a National Monetary System: Banks of Issue, Banking Supervision, and Financial Development in Belgium 1822-1872

Abstract:

In most 19th-century centralized states, national monetary unification has been attained thanks to the creation of provincial branch networks by banks of issue. Through a case study on Belgium, this paper investigates the causes and consequences of this phenomenon, as well as its operational implications. It shows that political pressure – aimed at reducing credit rationing, and hence at fostering economic development – was a key factor in pushing reluctant central bankers to extend their operations outside domestic financial centers. The success of monetary unification crucially depended on the incentive structure embedded in the implemented supervisory policies – aimed at reducing risk-taking in the provinces.