A Small Nation in the Turmoil of the Second World War

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The dilemma concerning cover for The Note Issue

The growing circulation of banknotes during 1941 placed the Bank in a dilemma regarding the legal requirement to hold a minimum quantity of gold – 40 per cent – as cover for its direct obligations to pay cash. That requirement dated back to 1850, the date of the institution’s establishment, when the minimum quantity was set at 30 per cent. That minimum had been raised to 40 per cent in 1926 and had been reaffirmed in article 7 of royal decree of 24 August 1939.

With the occupation, the question of the cover requirement surfaced again. Within a very short time, the issue of banknotes had expanded to an unprecedented degree. A prime reason for this was the enormous amounts that the Bank was advancing to the Treasury to pay the costs of occupation; another lay in the fact that the clearing balances and the conversion of Reichskreditkassenscheine had to be settled in Belgian francs. As a result, the Bank was forced to provide a continuous flow of banknotes, thereby skewing the cover percentage. With the outlook for the months ahead certainly offering no improvement, Goffin, the new governor, decided to place the problem on the agenda of a meeting of the board of directors.

The board found the matter too complicated and its implications too far-reaching for an immediate decision to be made, deferring the decision until it had obtained opinions from the jurists Marcq and Van.

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1 Van der Wee and Tavernier, De Nationale Bank van België, pp. 198-199, 308.
2 BNB, Archives, AR, 24.09.1941.
3 BNB, Archives, DC, 27.08.1941.
4 BNB, Archives, DC, 06.09.1941.
Dievoet, as well as from economists, in this instance Professor Dupriez and Jean-Jacques Vincent, head of the Bank’s Economic Research Department. Furthermore, the director Berger would consult the Bank- aufsichtamt and Ingenbleek would take up the question with Raoul Hayoit de Termicourt, Advocate-general of the Court of Cassation.

Three aspects of the problem were examined during the consultations: legal, economic and ethical. The legal aspect could itself be viewed from a logical or from a formal standpoint. Logically, following the suspension of the Belgian franc’s gold convertibility on 10 May 1940, the Bank was no longer subject to the cover requirement; indeed, convertibility was the raison d’être for the requirement: suspension of one meant that there was no sense in the other. In May 1940, however, the government had omitted to abolish the cover requirement. Thus, in formal terms the requirement was still in force. Insofar as it was considered possible for the Bank to continue to issue banknotes, it was up to the administration to find a legal measure to solve the problem. The economic aspect involved the threat of inflation: whether the Bank continued to issue banknotes or if the issue was taken over by another institution, money circulation would continue to expand, and price inflation with it. The ethical aspect, finally, involved criminal law and centred on the question of whether the continued issue of banknotes by the Bank or their issue by another institution did not imply the provision of financial aid to the enemy; again, article 115 of the Penal Code was hauled out for examination.

There were three possible options to be explored, following a decision to halt the issue of banknotes by the Bank and to have that issue continued by another institution. The first was a reintroduction of the Reichskreditkassenscheine: the board was chary of this, feeling that it left the door wide open for an uncontrolled plundering of the country. The second was for a proposal to the Military Government that it reintroduce the Reichsmark as legal tender. The reaction of the Board was also unanimously negative.

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5 BNB, Archives, Studiedienst, 1, dossier 01.02.01.70 (A 242/ 6), ‘circulation’: Kauch, note relative à la couverture légale, December 1942, pp. 5-6.
6 BNB, Archives, DC, 10.09.1941.
7 BNB, Archives, SD, 12, dossier 8.11/ 1, ‘période de guerre’, s. f. 5: la situation financière et monétaire aux Pays-Bas (memorandums of 08.12.1941 and 12.12.1941).
The third option was to bring into circulation the banknotes of another Belgian institution, one that was not subject to the legal requirement of the cover percentage. Ingenbleek\footnote{BNB, Archives, SD, Ingenbleek Papers: Ingenbleek, problèmes de la vie sous l’occupation (X: La dépêche de M. Gutt à Galopin), p. 35.} initially appeared to be in favour of this option and certain members of the supervisory council were definitely so. They continued to defend the idea, arguing that the issue function would thereby remain in Belgian hands and thus ensure Belgium of at least some control. It would also enable the Bank to meet its legal obligations and maintain intact its image as an independent institution\footnote{BNB, Archives, RR, 14.01.1942; BNB, Archives, SD, 13, dossier 8.11/ 3, ‘couverture’: memorandum from the supervisory council, incorporating a report of two informal meetings of the board of directors and a few members of the supervisory council, 23.02.1942 and 25.02.1942.}. Furthermore, a separate note issue agency within the Société Générale de Belgique had brought similar banknotes into circulation during the First World War and the formula had not led to any criticism after hostilities had ended.

If at first there was no immediate agreement within the Bank’s board of directors about whether to accept or reject the third option, a clear consensus to reject it emerged, nevertheless, after far-reaching discussion and at Berger’s prompting\footnote{BNB, Archives, Studiedienst, 1, dossier 01.02.01.70 (A 242/ 6), ‘circulation’: Kauch, note relative à la couverture légale, December 1942, p. 11-12.}. The board took the view that to have the Banque d’Emission issuing banknotes would create a situation of dual currency circulation, something that had more than once been proved to lead to monetary chaos.

The position adopted by the board of directors found support in the advice of the economists. Dupriez was very explicit: the population would regard Banque d’Emission banknotes or, as the case might be, Reichsmarks, as being inferior wartime money and that, in accordance with Gresham’s Law (bad money drives out good), their circulation would encourage people to hoard the notes of the Bank. To keep the circulation of banknotes at a proper level, hoarding would have to be countered by additional quantities of banknotes of other origin being brought into circulation. After the war, that additional issue would represent a potential danger of inflation and give rise to psychological
confusion and monetary chaos, thereby seriously hindering currency reform.\footnote{BNB, Archives, \textit{DC}, 12.09.1941 (Basyn, annexe au procès-verbal du comité de direction).}

The legal aspect of the matter was discussed during a meeting between Berger and Hofrichter on 10 September 1941. Both were agreed that, as the cover percentage had been imposed by law, it was only by a new law that it could be abolished, lowered or suspended. In the circumstances of war, with the Belgian government abroad, the measure would normally have to be taken by the Secretary-general of the Ministry of Finance.

In his opinion of 20 September 1941, the jurist Marcq assessed the competence of the Secretary-general to act as legislator in this matter in the place of the Belgian government in London. Basing himself on the arguments stated in the Court of Cassation’s judgement (arrêt) of 7 April 1941, Marcq felt that the Secretary-general did indeed have that competence: ‘si l’on reconnaît aux secrétaires généraux un pouvoir législatif limité, l’on peut reconnaître au secrétaire général des finances le pouvoir de prendre la mesure envisagée, pour autant qu’il y ait urgence.’\footnote{BNB, Archives, \textit{Contentieux}, Miomandre Papers, dossier ‘Marcq b’: letter of 20.09.1941 from Marcq to Goffin.}

Consulted by Ingenbleek in December 1941, Hayoit de Termicourt spoke in similar terms.\footnote{BNB, Archives, \textit{SD}, Basyn Papers, dossier 6: opinion of 03.11.1941, Hayoit de Termicourt.}

\subsection*{Towards a Confrontation with the Ministry of Finance}

The option for a single currency in circulation implied shifting responsibility onto the Secretary-general’s shoulders. Contacts with the Ministry indicated that Plisnier could in no way reconcile himself to the Bank’s option. He certainly regarded himself as having the legal competence to suspend the article on coverage by decree, but considerations of professional ethics prevented him from doing so.\footnote{Archives, \textit{SD}, 13, dossier 8.11/3, ‘couverture’: annexes 3, 17 and 18.}

In Plisnier’s view, there was, first of all, no economic argument whatsoever to justify such a measure: economic production and activity had
slowed to such a degree that the amount of currency in circulation ought to be reduced rather than increased, if it was to be commensurate with economic development. Secondly, there was a social argument to justify his refusal, in that suspension would open the floodgates for inflation and the hardest hit by it would again be salaried staff, wage-earners and pensioners: in short, all those people on a limited and fixed income.

Plisnier had a third, more tactical reason for refusing, one that for him was very pertinent. In the run-up to the opening of the Eastern front, the Military Government had held out the prospect of a reduction in the costs of occupation and he was looking to open discussions in order to tie that reduction to a concrete figure; maintaining the cover percentage appeared to him to be a valuable means of applying pressure in his confrontation with the German authorities.

By the end of November 1941, the cover percentage had fallen to about 45 per cent and was being projected to fall to the minimum level of 40 per cent within a further three months. At this point, Goffin wrote officially to Plisnier to inform him of the alarming situation and to request him after all to promulgate the measure suspending the cover percentage. Plisnier answered that, until the occupier granted a reduction in the costs of occupation, he would refuse to proceed with the measure.

The Bank, having initially thought that mutual discussion could iron out the difference of opinion with the Secretary-general, now began to see that Plisnier was not prepared to give way: not only was there no prospect of a reduction in the costs of occupation; on the contrary, they had just been increased. Thus, for the Bank only one option remained, i.e. the issue of banknotes by the Banque d’Emission. On 9 January, the Bank therefore resolved to propose that the Banque d’Emission begin printing its own banknotes under the signature of Goffin.

The Military Government was very put out by Plisnier’s continued refusal and the government in Berlin even more so, regarding his stance as a sign of unacceptable obstruction and even considering his

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15 BNB, Archives, DC, 21.11.1941. See also: BNB, Archives, SD, 13, dossier 8.11/3, ‘couverture’: letter of 26.11.1941 from Goffin to Plisnier.
16 BNB, Archives, Studiedienst, 1, dossier 01.02.01.70 (A242/6), ‘circulation’: Kauch, note relative à la couverture légale, December 1942, p. 13. See also: BNB, Archives, DC, 08.01.1942.
17 BNB, Archives, DC, 09.01.1942. See also: BNB, Archives, DC, 31.01.1942.
dismissal. Von Falkenhausen and Reeder did not wish to go that far, as they feared that revoking his appointment would provoke a wave of resistance in Belgian public circles; as always, they were against stirring up public opinion, preferring order and calm, and no friction or tension in the occupied territory that could have a negative effect on economic cooperation with Germany and fuel fresh criticism from Berlin of the Military Government’s handling of policy in Belgium: increasingly they came to favour the idea of an ordinance obliging the Bank to continue issuing banknotes.\(^{18}\) By 5 February 1942, the cover percentage had fallen to 42.48 per cent and two days later the Bank decided to make a final attempt to persuade Plisnier to revise his stance.\(^{19}\)

Goffin put a clear choice before Plisnier. Both the Bank and the Ministry of Finance preferred a single currency to remain in circulation. For that principle to be maintained in the circumstances, article 7 of the royal decree of 1939 had to be amended or suspended and that could be done only by a decree of the Secretary-general or a by German ordinance. It was for the Secretary-general to decide. At the same time Goffin proposed that a number of leading figures from the Bank, the Banque d’Emission and the Ministry of Finance should meet to make a final attempt to reach a compromise.\(^{20}\) Plisnier agreed to a meeting on 27 February.

During the intervening period, Plisnier was besieged by various prominent figures, each attempting to break the deadlock by personal discussion. The gulf, at first, appeared to be unbridgeable, but time – that indefatigable ally of compromise – accomplished its work. The negotiators, indeed, did manage to extract a not unimportant compromise from the Secretary-general: at an informal meeting of the board of directors with members of the supervisory council on 25 February 1942 Smeers, the Government Commissioner at the Bank, let a few words drop that came as an enormous relief to all of them and opened the door to a solution: ‘le refus de M. Plisnier d’intervenir lui-même par un arrêté n’exclut pas une autorisation accordée à la Banque d’obtempérer à


\(^{19}\) B N B, Archives, Studiedienst, 1, dossier 01.02.01.70 (A 242/6), ‘circulation’: Kauch, note relative à la couverture légale, December 1942, pp. 15-18.

\(^{20}\) B N B, Archives, DC, 17.02.1942.
une ordonnance allemande...’ (‘the refusal by Mr. Plisnier to issue a decree himself, does not exclude a consent, given to the Bank for complying to a German order’)21. Now, at the formal meeting of 27 February, Goffin and Plisnier were able to declare without loss of face that, in the higher interest of the country, they were both prepared to accept a possible German ordinance suspending the cover requirement. Responsibility for implementing the ordinance would rest with the Bank22. The jurist Marcq also allied himself with this consensus23.

At its meeting of 5 March 1942, the supervisory council endorsed the agreement that been reached and authorized the board of directors to continue to issue banknotes. Next day, the cover requirement of 40 per cent was suspended by order of the military commander, von Falkenhhausen24. On 9 April, the cover percentage fell below that requirement, but the Bank nevertheless continued to issue its banknotes25. The incident was closed. The wound probably healed, but the scar remained.

THE CLEARING SYSTEM IN DISCREDIT

Over and above the questions of the occupation costs and the cover percentage, a third and by no means minor problem confronted the Bank and the Banque d’Emission in the summer of 1941. It concerned the rapidly growing imbalance in the clearing operations with Germany and, to a less extent, with France and the Netherlands.

With the German attack on the Soviet Union on 22 June 1941, the war entered a new phase, one of total war, with German propaganda

22 BNB, Archives, Studiedienst, 1, dossier 01.02.01.70 (A 242/ 6), ‘circulation’: Kauch, note relative à la couverture légale, December 1942, pp. 19-20.
23 BNB, Archives, SD, 13, dossier 8.11/ 3, ‘couverture’: letter of 28.02.1942 from Goffin to Plisnier; letter of 03.03.1942 from Plisnier to Goffin; supervisory council decision, 05.03.1942 (with a report of the meeting between Ingenbleek and Marcq concerning the agreement reached).
24 BNB, Archives, SD, 13, dossier 8.11/ 3, ‘couverture’: decision of the supervisory council, 05.03.1942; ordinance of 06.03.1942 of the military commander.
25 BNB, Archives, Studiedienst, 1, dossier 01.02.01.70 (A 242/ 6), ‘circulation’: Kauch, note relative à la couverture légale, December 1942, p. 20.
claiming that the opening of the Eastern front ought to be recognized by the entire civilized world as a ‘crusade against evil’: who would want to avoid the sacrifices necessary to defend the ‘values of the West’ against such a pernicious soviet regime? Convinced or not, occupied Europe would be obliged to contribute to the struggle. For Belgium in particular, this had serious consequences for the flow of payments between her and Germany.

Plisnier saw the opening of the Eastern front differently. For him, it meant a considerable reduction in the number of German troops in Belgium; consequently, there could be a sharp cut in the costs of occupation. Even the Military Government had to concede – reluctantly, it is true – that he was right. Moreover, Reeder had been offering the prospect of a reduction since the spring of 1941. Aware of Belgian discontent at the high costs of occupation, in August 1941 the government in Berlin began to insist that certain transactions for the Wehrmacht be withdrawn from the sphere of occupation costs and be settled via the clearing system.

Belgian exports to Germany were not subject to the normal requirement of a licence from the Clearing Office at the Ministry of Economic Affairs. As a result, control of what was being exported was possible only a posteriori, after the Verrechnungskasse in Berlin had demanded payment by the Banque d’Emission and invoices had been presented. Verification of the whole process was the responsibility of the inspection service at the Bank’s Foreign Department, headed by Cracco.

In a memorandum of 1 August, Cracco drew the attention to the ‘alarming’ development within the Belgian clearing system and to the ‘plundering’ – there was no other word for it – of occupied Belgium. He submitted a further memorandum on the same subject on 25 August, together with a statistical review of clearing operations from July.

26 Ndl.BZ, Archives, dossier 5512 GA: letter of 04.10.1941 from the envoy in Lisbon to the Minister of Foreign Affairs (London).
27 Ndl.BZ, Archives, dossier 5512 GA: letter of 04.10.1941 from the envoy in Lisbon to the Minister of Foreign Affairs (London).
28 BNB, Archives, DC, 29.07.1941. See also: Krijgsauditoraat, dossier GI 47/44 (BEB, 1): Hopchet, note au sujet des banques allemandes, 25.06.1945.
29 BNB, Archives, SD, 32, Cracco Papers, dossier 8.11.26/2: Cracco, note relative aux clearings, 01.08.1941.
1940 to July 1941. He emphasized that the Belgo-German clearing system in force no longer had anything to do with the system of traditional offsetting agreements, which did not permit long-term imbalances. Clearing operations were now taking on the form of the provision of a line of credit ‘de telle manière que la mesure du crédit est fixée non plus par le donneur, mais par le preneur de crédit’. Moreover, the attendant risk was no longer being borne by the original private creditors, but by the entire community, which made the clearing system: ‘un véritable complément de contribution de guerre’.

Table 12.1: Development of Belgian clearing accounts (total of Belgian balances) (in millions of Belgian francs)

<table>
<thead>
<tr>
<th>Date</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 October 1940</td>
<td>886</td>
</tr>
<tr>
<td>30 November 1940</td>
<td>1,066</td>
</tr>
<tr>
<td>31 January 1941</td>
<td>1,209</td>
</tr>
<tr>
<td>31 March 1941</td>
<td>1,465</td>
</tr>
<tr>
<td>31 May 1941</td>
<td>1,900</td>
</tr>
<tr>
<td>31 July 1941</td>
<td>2,768</td>
</tr>
<tr>
<td>2 August 1941</td>
<td>2,881</td>
</tr>
<tr>
<td>17 August 1941</td>
<td>3,820</td>
</tr>
<tr>
<td>27 August 1941</td>
<td>4,579</td>
</tr>
</tbody>
</table>

Source: BNB, Archives, SD, Cracco Papers, file 8.11.26/2: memorandum of 25.08.1941; BNB, Archives, DC, 04.09.1941.

Analysis of the credit balance as at 31 July 1941 enabled Cracco to conclude that just 37 per cent of the total stemmed from visible trade, 24 per cent from invisible trade and 32 percent from capital transactions. This last figure was extremely disquieting. Initially, the balance had resulted from the transfers of gold and foreign currency from the Banque d’Émission to the Reichsbank. Since November 1940, however, the increasing balance was due chiefly to the proceeds from the sale of Belgian and foreign shares by Belgian companies to German buyers: the foreign securities apart, much of the sale had to do with the disposal of Belgian assets in South-eastern Europe, in the Balkans and in the Grand Duchy of Luxembourg, now annexed by Germany.

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30 BNB, Archives, SD, 32, Cracco Papers, dossier 8.11.26/2: Cracco, quelques observations fondamentales sur le clearing (les enseignements d’une année d’expérience), 25.08.1941.
The credit balance in the sector of invisible trade resulted primarily from the transfer of savings by Belgians working in Germany to their families in Belgium. That in the sector of visible trade was the largest in absolute figures, but in fact fairly modest in relative figures, due to the large volume of both imports and exports at the time. Heading exports were textile products, coal, crude steel, semi-finished steel products, and goods from the metalworking industry, including locomotives, railway wagons and ships. Heading imports until July 1941 were grain and other foodstuffs, followed by raw materials for the textile and metal industries.

In the course of August 1941, the imbalance in the Belgo-German clearing system took a new and very inauspicious turn. The direct cause was the derailing of an agreement that Janssen had concluded on 17 April 1941 with the central administration of the Reichskreditkassen in connection with the settlement of credit balances in Reichsmarks held by the Banque d’Emission at the Reichskreditkasse in Brussels. The credit balances originated largely from transfers in Reichsmarks made by branches of German banks in Belgium that were looking to receive Belgian francs in return. The banks wanted to pass on those francs to German procurement agencies, who had purchased goods or services in Belgium for the armed forces and who needed Belgian money to pay their Belgian suppliers. At first, Janssen had not opposed this practice. After all, it provided the Banque d’Emission with foreign currency in the form of Reichsmarks that he felt could be used eventually to purchase foodstuffs and raw materials abroad. In addition, the payments concerned were deductible from the costs of occupation.

The arrangement had already begun to go wrong in the summer of 1941. As indicated above, there was a rapid increase particularly in

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31 BNB, Archives, BR BEB, 03.09.1941. See also: BNB, Archives, SD, 15, dossier 8.11/5, ‘clearing’: commandes en carnets à destination de l’Allemagne, 26.09.1941 (‘La cadence actuelle dans le secteur de la construction métallique laisse prévoir une moyenne annuelle de 5 à 6 milliards de francs de commandes (36 pourcent locomotives, 43 pourcent bataaux, 21 pourcent matériel de chemin de fer), dans le secteur de l’industrie de la sidérurgie, grosso modo 1 milliard de francs, dans l’industrie des charbonnages approximativement 1,5 milliard de francs’).

32 BNB, Archives, BR BEB, 03.09.1941; BNB, Archives, RR, 06.08.1941, 04.09.1941.

33 BNB, Archives, SD, 15, dossier 8.11/5, ‘clearing’: extrait du procès-verbal de la séance du CD, 17.04.1941.
German procurement for the Eastern front, generating an alarming rise in the *Banque d’Emission*’s credit balance at the *Reichskreditkasse* in Brussels. When, on 5 August, it came to settling the transactions for July (valued at 461 million Belgian francs in favour of the *Banque d’Emission*), Hofrichter notified Berger, who was responsible for foreign operations since Janssen’s death, that the *Reichskreditkasse* was no longer in a position to settle such credit balances from the proceeds of occupation cost payments\(^{34}\) and therefore demanded that the procedure be revised. He pointed out that most purchase transactions were not for procurement for the German army of occupation in Belgium *stricto sensu*, but for the army in general and for the army on the Eastern front in particular. In consequence, those transactions could no longer be offset against occupation costs, but ought to be settled via the clearing system.

Berger had no option but to accept both the logic of Hofrichter’s argument and its consequences. The *Banque d’Emission* was now faced with taking immediate action to curb any increase in its credit balance at the *Reichskreditkasse* and to prevent any further derailing of the clearing system.

**The Motion of 24 September 1941**

In his discussions of 5 and 6 August, Hofrichter indicated that the financial administration of the Military Government was checking to see what past expenditure, entered as occupation costs, was in fact to be regarded as reimbursement for German purchases made in Belgium, but with a foreign destination. On 11 August, the *Reichskreditkasse* informed the *Banque d’Emission* that, in accordance with the new arrangement, 40 million Reichsmarks had been transferred to its account\(^{35}\), soon followed by two more transfers of respectively 25 and 40 million Reichsmarks (for an overall equivalent of 1,312.5 million Belgian francs)\(^{36}\).

\(^{34}\) BNB, Archives, DC, 05.08.1941.

\(^{35}\) BNB, Archives, DC BEB, 11.08.1943.

\(^{36}\) BNB, Archives, DC BEB, 25.08.1941.
The managing directors now felt that matters were getting out of hand and refused to make payment in Belgian francs for the last transfer, even after von Becker’s threatening telephone call of 25 August demanding payment before noon the following day. The management remained resolute, arguing that the transfer of part of the costs of occupation to the clearing system had a political bearing and that the Commissioner’s demand could be acted upon only after consultation with and authorization from the Ministry of Finance.

Plisnier feared that an outright refusal would weaken his position in the negotiations then being conducted with von Falkenhausen on a possible reduction of the occupation costs, and therefore advised the managing directors to bite the bullet and make the payment. Nevertheless, he pointed out that the amounts in question should be reimbursed by the Military Government to the Ministry of Finance, since Belgium would otherwise be paying twice: once as a part of the occupation costs paid by the Ministry and now again via the clearing system in Berlin. But he agreed with the management that the Banque d’Emission could make payment to the Reichskreditkasse only if ordered in writing to do so and – also importantly – provided the operation did not recur.

The supervisory council of the Bank and the board of directors of the Banque d’Emission had followed the adverse development of Belgium’s clearing balance in Berlin intently. Some of their members had already been sharply critical when Cracco’s memorandum of 1 August revealed that, since November 1940, the distortion of the balance had been due mainly to the sale of Belgian foreign assets to German buyers. The council and the board were even more shocked when the operations to purge the occupation costs resulted in a new sudden rise in the clearing balance in Berlin, implying an increase in the payments to be made by the Banque d’Emission in Belgium. In a fresh memorandum on 11 September, Cracco wrote that concrete measures were required

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37 BNB, Archives, RR, 04.09.1941.
38 BNB, Archives, DC BEB, 26.08.1941: report of the midday session, at which Ingenbleek set out the result of his discussions with Plisnier (in the morning).
39 BNB, Archives, RR, 04.09.1941.
40 BNB, Archives, BR BEB, 03.09.1941.
Three demands should be put to the occupying power: 1) that a clear distinction be made between occupation costs and clearing operations; 2) that all imports and exports of goods be subject to approval by the Ministry of Economic Affairs or the Ministry of Agriculture and Supply; and 3) that, in respect of capital transactions, transfers be subject to a licence from the Clearing Office of the Ministry of Economic Affairs. This office would determine whether there could be any offsetting and, if not, reimbursement would be in Belgian government paper.

One of directors, A.-E. Janssen, proposed that, in line with Cracco’s suggestion, a motion should be drawn up for submission to the Military Government. In that motion, the board of directors would set out its view on the measures to be taken to curb inflation and to achieve a reduction in occupation costs.

The directors convened on 24 September to approve the definitive text of the motion. This referred in the first place to the inflationary effect of many measures taken by the occupier. It went on to say that the occupying power was shamelessly abusing article 13 of the bye-laws by obliging the Banque d’Émission to accept German Reichsmarks without distinction and with no limit as cover for the issue of banknotes by the Bank. Belgian law had laid down that only foreign currency freely convertible into gold could be considered as alternative cover to gold. The occupier was required to respect that law. In the same way as the Bank, the Banque d’Émission was a Belgian institution whose specific public task was to pursue a sound monetary policy. Demands by the German authorities that led directly to uncheckable inflation prevented the Banque d’Émission from fulfilling that task adequately.

The motion also demanded a clear and absolute separation of occupation costs from clearing operations. To guarantee that separation, a mixed committee was proposed that would have executive powers and in which the occupying power, the Ministry of Finance, the Ministry of Economic Affairs and the Banque d’Émission would be represented. The motion also proposed that Belgo-German goods trade be subject to

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41 BNB, Archives, DT, 1, dossier 02.02.01.03 (D. 537/8), ‘notes’: Cracco, addendum à la note du 25 août 1941, relative aux clearings, 11.09.1941.
42 BNB, Archives, BR BEB, 24.09.1941.
a system of quota restrictions and licences, and that government securities be used to settle payments in respect of capital movements.\footnote{BNB, Archives, BR BEB, 24.09.1941.}

The Military Government was impressed by the motion. There was therefore no coincidence in Reeder inviting Leemans, Secretary-general of the Ministry of Economic Affairs, for a discussion on 25 September with Dr. Landfried, State Secretary for Economic Affairs in Berlin, who was visiting Brussels.\footnote{BNB, Archives, SD, 15, dossier 8.11/ 5, ’clearing’: report of 25.09.1941 by Leemans on his meeting with Landfried (see also: letter of 29.09.1941 from Leemans to Goffin, concerning the dispatch of the report).} Landfried opened the discussion with an assurance that the heavy burden of costs laid on Belgium would only be temporary and was dictated by the exceptional circumstances of the moment.

Leemans aired Belgian unhappiness about the state of affairs during the preceding months and, as regards Belgo-German trade, pointed to the contrast between the sharp increase in the Belgian clearing balance and the recently announced export embargo in Germany. He added that Belgium could not even obtain authorization to import freely from other countries and that all these restrictions placed a heavy burden on the development of Belgium’s clearing balance. He asked for counter measures: exports to Germany and the Netherlands (at that moment accounting for 95 per cent of Belgian exports) to be subject to prior licensing by the Clearing Office at the Ministry of Economic Affairs, so that the credit balance in favour of Belgium could be brought down to normal proportions. Furthermore, Belgium should be allowed to trade freely with other countries. Lastly, there ought now to be compensatory imports of foodstuffs from France for the imposed export of coal to that country – without any compensation – which had caused a lot of resentment, the more so as it had led to coal-rationing in Belgium.

Landfried adopted a placatory approach. Reeder would work out a system with Leemans to improve Belgian control of foreign trade and would also commence discussions with France to ensure that, in future, Belgian exports of coal would be offset by imports of grain. Time proved Landfried’s fine words hollow, as nothing ever came of them.
THE MOTION OF 7 JANUARY 1942

On 29 September 1941, the Banque d’Emission was notified that the government in Berlin had transferred a fresh amount of 30 million Reichsmarks to the Banque d’Emission’s account at the Verrechnungskasse, as settlement for purchases in Belgium destined for Germany and wrongly charged to occupation costs. The notification was accompanied by a request for the equivalent amount in Belgian francs to be transferred to the Reichskreditkasse in Brussels. It was stated in addition that a final transfer amounting to 35 million Reichsmarks would follow, completing the regularization of the erroneous charging of occupation costs to the value of 145 million Reichsmarks, the equivalent of 2,182.5 million Belgian francs. The leaders of the Banque d’Emission were upset by the news and suggested that the managing directors should respond: a limit had to be placed on the provision of banknotes to the Banque d’Emission; for the time being, however, this remained just a suggestion.

The month of October brought a new disenchantment, this time regarding Franco-Belgian payment flows. For as long as men could remember, Belgian seasonal labourers had worked on the big farms in Northern France and later as frontier workers in industry, but their numbers had of late begun to increase, particularly since the Wehrmacht’s recruitment of labourers in Belgium to build fortifications along the French coast. At the same time, the Wehrmacht had commenced purchasing goods in Belgium for use in France. So far, the Reichskreditkasse in Paris had financed all expenditure in this respect, recouping it from the Reichskreditkasse in Brussels via mutual offsetting. For its part, the Reichskreditkasse in Brussels financed its payments to Paris with receipts from the Ministry of Finance for settling occupation costs.

On 8 October the Bankaufsichtamt informed the Banque d’Emission that the mutual offsetting arrangement between the Paris and the Brussels Reichskreditkasse was abolished and that, henceforth, the Franco-

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45 BNB, Archives, DC BEB, 29.09.1941 and 01.10.1940. See also: BNB, Archives, SD, 15, dossier 8.11/5, s. f. 7: ordres de paiements, 29.09.1941, 01.10.1941.
46 BNB, Archives, RR, 01.10.1941. See also: Nefors, Industriële collaboratie in België, p. 112.
47 BNB, Archives, SD, 15, dossier 8.11.5/ s. f. 9, ‘virement des RKK’: letter of 08.10.1941 from von Becker to Goffin, 08.10.1941.
Belgian clearing agreement concluded at Wiesbaden on 18 December 1940 and ratified by the protocol of 11 January 1941 would apply. That agreement laid down that all Franco-Belgian payments were to be conducted via the clearing system in Berlin, so that all remuneration for purchases in Belgium by the *Wehrmacht* that were destined for France and all payments for the provision of Belgian services in France were now required to be settled by means of transfers to the *Banque d’Emission*’s account at the *Verrechnungskasse* in Berlin.\(^{48}\)

The letter also announced that the new arrangement would be applied retroactively and that, in consequence, the German government had transferred 43.25 million Reichsmarks to the *Banque d’Emission*’s account at the *Verrechnungskasse*, with the request that the equivalent, amounting to 540 million Belgian francs, be paid to the *Reichskreditkasse* in Brussels.

The managing directors were outraged. In their reply they declared their agreement with an arrangement via the clearing system in Berlin limited to purely commercial transactions with France. However, to apply the arrangement not only to remuneration for goods purchased by the *Wehrmacht* in Belgium and destined for France, but also to remuneration for work performed by Belgians in France, on behalf of the *Wehrmacht*, was going too far. Such remuneration, the managing directors argued, should be regarded as coming under occupation costs and consequently should be borne by the country where those costs were incurred, in this case by France and certainly not by Belgium. They therefore proposed a different, more suitable arrangement, whereby the *Banque de France* would open a special French franc account in the name of the *Banque d’Emission*, in exchange for Belgian franc payments by the *Banque d’Emission*. The Belgian government would be able to use that account to purchase food and other goods in France, free of quota restrictions. If the proposal was not accepted, the *Banque d’Emission* would refuse to pay out the amount of 540 million Belgian francs to the *Reichskreditkasse* in Brussels.\(^{50}\)

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48 BNB, Archives, *SD*, 15, dossier 8.11.5/ s. f. 13, ‘main d’oeuvre belge en France’: letter of 03.11.1941 from Hofrichter to Goffin, 03.11.1941.


The Vice-president of the Military Government, General Harry von Craushaar, now invited Plisnier and Goffin to a meeting with Hofrichter and a number of other German members of the Military Government, in order to have an open discussion about these difficulties\textsuperscript{51}. Von Craushaar first addressed the question of the occupation costs and repeated the proposal that had already been aired with Plisnier on 10 October: if the announced increase in occupation costs from 1 billion to 1.5 billion Belgian francs a month was unacceptable to the Belgian population, those costs could be reduced to 1.25 billion Belgian francs, provided that the Bank granted the Reichskreditkasse in Brussels a credit line of 250 million Belgian francs a month. Goffin immediately replied that the Bank could not accept that solution. Providing credit in that form was contrary to the bye-laws and moreover came within the scope of article 115 of the Penal Code\textsuperscript{52}. Von Craushaar therefore left the matter at 1.5 billion Belgian francs a month.

As regards the Franco-Belgian payment flows, von Craushaar stated that the Banque d’Emission’s repayment of the amount of 540 million Belgian francs to the Reichskreditkasse in Brussels was a non-recurring operation to rectify what had happened in the past and that there would be no recurrence. What happened in the future would be governed by the arrangement of 8 October 1941. This arrangement would remain in force until 30 April 1942, after which the situation would be reviewed. The Military Government nevertheless indicated that it would make a particular effort to keep Franco-Belgian transactions for the Wehrmacht to a minimum and even completely eliminate them, if possible. In the event of any new requests for payment in this respect, the Banque d’Emission could ultimately charge the amount against Belgian occupation costs\textsuperscript{53}.

Plisnier sought to play safe regarding the acceptance of the increase in the occupation costs. In the first place, he drew up a memorandum to be sent to Reeder that summed up the grievances in respect of those

\textsuperscript{51} BNB, Archives, \textit{sd}, 15, dossier 8.11.6, ‘clearing’: entretien avec von Craushaar, 04.11.1941.

\textsuperscript{52} BNB, Archives, \textit{sd}, Malaise Papers, dossier 9.5.5 / s. f. 2: résumé des consultations juridiques, relatives au clearing (in this respect, see particularly the opinion of 23.10.1941).

\textsuperscript{53} BNB, Archives, \textit{DC BEB}, 21.01.1942, 11.02.1942.
costs and bluntly set out the Belgian protest against them. Then, on 12 November, he invited a number of leading figures to a meeting at the ministry to examine whether it was better to reject the increase and resign or to accept it, while voicing strong protest. With the exception of a few hardliners, most of those present opted for the second course, some also declaring their approval of the Military Government’s proposal that Plisnier go himself to Berlin to argue the case. Galopin and the other founder-bankers of the Banque d’Emission were rather distrustful of Plisnier’s strategy and his planned journey to Berlin, fearing that his arguments there for a reduction in the costs of occupation would be at the Banque d’Emission’s expense, i.e. through transfers of a political or military nature being foisted onto the clearing system.

The question of the payment of the 540 million Belgian francs to settle the problem of Franco-Belgian payments dragged on, the stumbling block appearing to be the opening of a special account at the Banque de France in the name of the Banque d’Emission. Op 23 December, von Becker issued an ‘order’ for the Banque d’Emission to make the payment, bringing tension to a peak. Among the managing directors, Van Nieuwenhuyse and Berger argued for refusal: in their view, Belgium could not be forced to assume a part of French occupation costs and they threatened resignation if this happened. Ingenbleek and Galopin found this stance too extreme and talked Van Nieuwenhuyse and Berger out of their planned action. At the meeting of the board of directors on 24 December, the majority of the members indicated that they felt it preferable to obey the order. Nevertheless, everyone was agreed that payment should be accompanied by a new motion even more resolute than that of 24 September. It was also resolved that Cracco’s statistical memorandum concerning the recent development of the Belgian clearing balance should be appended to the motion.

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54 Nefors, Industriële collaboratie in België, pp. 111-112.
56 SG, Archives, Direction, Galopin Papers, dossier 64: aide-mémoire pour la réunion restreinte du 7 janvier 1942 chez M. Plisnier, p. 3. See also: Général Van Oversteyten, Léopold III, prisonnier de guerre, pp. 166-167.
57 SG, Archives, Direction, Galopin Papers, dossier 64: aide-mémoire pour la réunion restreinte du 7 janvier 1942 chez M. Plisnier, p. 3; BNB, Archives, DC BEB, 23.12.1941.
The new motion was submitted to the Military Government on 7 January 1942. It stated that, between the end of August and the end of December 1941, the war taxes imposed by the Germans had gone up by 8.9 billion Belgian francs from 22.2 billion to a total of 31.1 billion. From the beginning of June 1940 to the end of August 1941, the average monthly charge for those taxes was 1.48 billion Belgian francs; from the beginning of September to the end of December, 2.21 billion, an average monthly rise of 730 million that was due not only to the increase in the occupation costs imposed, but also to the expanding clearing balance.

According to the motion, the growth of the clearing imbalance was the result primarily of higher exports and a gradual decline in imports, a divergence that concerned chiefly Belgo-German flows of goods, but increasingly Belgo-French and Belgo-Dutch flows, as well. A second reason was that it was caused by ever increasing numbers of Belgians working in Germany, France and the Netherlands, whose savings – deposited in German, French and Dutch currencies and credited to the Banque d’Emission’s account at the Verrechnungskasse in Berlin – the Banque d’Emission was obliged to pay out in Belgian francs.

The motion emphasized that all the costs destined for France and the Netherlands, were in most cases on behalf of the Wehrmacht and consequently ought to be considered as French and Dutch occupation costs. In conclusion, the motion pressed for urgent work to be made of implementing the motion of 24 September of the previous year.

THE MISSION TO BERLIN (24-28 MARCH 1942)

The ink was barely dry on the motion of 7 January 1942 before a new row broke out over Franco-Belgian payment flows. It concerned the Military Government’s demand on 8 January for the Banque d’Emission to pay out once again 86.25 million Belgian francs for Belgian transactions on behalf of the Wehrmacht in France. This was promptly rejected by the Banque d’Emission, which based its action on the meeting of 4 November with von Craushaar.

59 BNB, Archives, SD, 15, dossier 8.11/5, ‘clearing’: motion of 07.01.1942 (with a statistical annex from Cracco: note relative à l’évolution des clearings, 01.01.1942).

60 BNB, Archives, BR BEB, 24.12.1941.
Both the demand and the reaction appeared to make an impression, causing the Military Government to cast around to see what concessions could be made to calm the situation. In the first place, these consisted of the Bankaufsichtamt announcing that the 86.25 million Belgian francs could be charged against Belgian occupation costs and of Reeder notifying Plisnier on 16 January that the visit to Berlin, planned in the previous autumn, would now definitely take place and that he should make concrete preparations for it.

The motion of 7 January 1942 also had an auspicious effect on the problem of financial transfers. In September 1941, acting on the advice of the Banque d’Emission, Plisnier had submitted a draft decree to the German authorities for approval: its substance being that the proceeds from sales of Belgian shares and of Belgian participations abroad, as well as the proceeds from sales of other assets of a financial nature, should be paid out in the form of a special type of Treasury certificate, to be held at the Ministry of Finance for account of the Banque d’Emission and payable no earlier than three months after the conclusion of peace. At the end of January, the Military Government informed Plisnier that his draft decree concerning financial transfers had been approved (on 3 February 1942 the decree was promulgated).

All attention now passed to the preparations for Plisnier’s trip to Berlin. As the natural head of the Belgian delegation these preparations centred on Plisnier. The Bank and the Banque d’Emission immediately realized that they had been sidelined; indeed, the Military Government initially spoke only of a three-man delegation: Plisnier, Leemans and Galopin; no leader from either bank was included. The conclusion was very quickly drawn that the Bank and the Banque d’Emission would have to seek closer contacts with the Ministry of Finance, even at the cost of some autonomy. They would have to co-operate more with the Secretary-general and form a united front. The changed attitude on

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61 BNB, Archives, DC BEB, 21.01.1941.
62 Nefors, Industriële collaboratie in België, p. 111.
63 BNB, Archives, DC BEB, 06.09.1941, 25.10.1941.
64 Published in the Belgian Official Gazette, 06.02.1942
65 BNB, Archives, DC BEB, 03.02.1942.
66 BNB, Archives, DS, Malaise Papers: Kauch, La Banque Nationale (unpublished text), Part 1, Chapter 7, p. 17.
the part of the two institutions had its first result in the inclusion of Goffin in the delegation.

Plisnier had drawn up a guideline for the delegation’s negotiations and a first version was circulated on 4 February; second and third revised versions followed on 25 and 27 February. The core of the text comprised recommendations to the German government on ways to help Belgium financially and economically, and to make an additional effort in respect of supplies\(^{67}\). Unbeknown to anyone, however, at the end of December 1941 Ingenbleek had reported fully to the Court about the tensions between the Belgians and the Military Government, as well as about the possible resignation of an entire swathe of leading Belgian figures. When further tension arose after the Military Government’s demand of 8 January, Ingenbleek was able to persuade the King, via his aides, to address a personal letter to Hitler, setting out the problems of the country and particularly the great need for food and coal, and also urging that special measures be taken to provide relief for Belgium. The letter was delivered personally to Hitler on 9 February by Werner Kiewitz, German adjutant to the King\(^{68}\).

Hitler was incensed by the royal letter. He found the tone arrogant, felt humiliated by the reference to the hunger being suffered, and made the government in Berlin aware of his anger at the letter’s contents. The upshot was an order from the Fuhrer’s headquarters that the Belgians’ planned trip was to be put off indefinitely. In the end, however, ruffled feathers were smoothed and the trip was once again placed on the agenda, though not for February, as originally planned, but for the end of March\(^{69}\).

In the meantime, Galopin met the Advocate-general of the Court of Cassation, Hayoit de Termicourt, to examine whether the visit to Berlin could actually be justified in the given circumstances, bearing in mind that few, if any, results could be expected. Hayoit de Termi-
court thought it was a patriotic necessity and demanded ‘une politique de présence active aux postes de commandes’.

The managing directors and the board of directors of the Banque d’Émission were now also looking – though somewhat late in the day – to contribute to the success of the Berlin trip. They provided Goffin with the motions of 24 September 1941 and 7 January 1942, adding a third, which had been approved the day before the delegation’s departure. This pressed the German government to set a monthly maximum in respect of both clearing transfer payments and occupation costs; moreover, it urged that those maxima should take account of Belgium’s economic potential. Finally, as regards the clearing transfers, it requested that a detailed description of the type of transaction be given, as well as the names of the ‘real’ beneficiaries.

The delegation departed for Berlin on 24 March, taking the night train and being accompanied by a number of top officials from the Military Government. Schlumprecht, head of the Gruppe Wirtschaft, sought out the members of the delegation on the train, advising them not to argue for more food aid from Germany, as such a request would be badly received. The Russian conquests had not, as expected, resulted in greater imports of grain; on the contrary, food shortages in Germany had increased sharply in recent months. Hitler abhorred anything, exports included, that might exacerbate the shortages, which would demoralize the German population – a risk that had absolutely to be avoided. Schlumprecht stated that it would be better to press for the food supply systems in France, Belgium and the Netherlands to be equalized, which could be brought about by internal redistribution. On industrial matters, he thought it advisable to argue for an extension of the Auftragsverlagerung or contract work system. In respect of financial matters, his advice was not to insist on a simultaneous reduction in occupation costs and clearing operations, as that would stand no chance

70 SG, Archives, Direction, Galopin Papers, dossier 50: conversation Galopin-Hayoit de Termcourt sur le voyage de Berlin, 15.01.1942. Galopin had surmised correctly. At the beginning of March, Funck, Minister of Economic Affairs in Berlin, wrote to von Falkenhausen: ‘je dois de toute nécessité décevoir leurs espérances dans le domaine des frais d’occupation et de monnaie ... je les recevrai donc seulement pour des motifs psychologiques’ (Krijsauditoraat, Plisnier and Crispiels, 1: French translation of German documents, letter of 09.03.1942 from Funck (Berlin) to von Falkenheim (Brussels)).

71 BNB, Archives, BR, 24.03.1942.
and would create bad feeling. A positive result was more likely from
talking solely about a reduction in occupation costs and by dropping
the matter of cutting clearing balances. In fact, those balances repre-
sented a claim, whereas occupation costs could be regarded as being
lost.\footnote{ARA, \textit{fonds ministerie van Financiën}, Plisnier Papers, dossier 2, f: entretien avec
M. Schlumprecht, 24.03.1942.}

The delegation’s reception in Berlin was courteous, but the refusal of
the Minister of Supply to meet some of the members was a clear signal
that nothing was to be expected from Germany as regards food aid.
Even the attempt to obtain an internal redistribution for the available
food supplies between France, Belgium and the Netherlands met with a
refusal on political grounds. The proposal to increase the export of Bel-
gian manufactured goods to third countries in exchange for foodstuffs
also aroused suspicion; the proposal was accepted in principle, though
hesitantly and on the express condition that Germany should in no way
be disadvantaged by such exports.

Somewhat more success was gained over financial matters. During a
meeting at the \textit{Reichsbank}, Dr. Puhl, Deputy-president, told Goffin that
an effort would be made to achieve a better separation between occupa-
tion costs and clearing operations. As far as clearing operations were
concerned he would do his best to exclude the use of the clause ‘\textit{laut
besonderer Mitteilung’}, although adding in confidence that the \textit{Reichs-
bank} had little say in that particular matter.\footnote{ARA, \textit{fonds ministerie van Financiën}, Plisnier Papers, dossier 2, g: note de synthèse
du voyage de la délégation belge à Berlin, mars 1942. For more precision on the
clause "\textit{laut besonderer Mitteilung"}, see Chapter 16.}

The Belgian delegation returned to Brussels on 29 March and con-
vened the following day at the Ministry of Finance to evaluate its mis-
\footnote{ARA, \textit{fonds ministerie van Financiën}, Plisnier Papers, dossier 2, j: réunion au cabi-
net de M. Plisnier, 30.03.1942.} sion. Everyone was agreed that little positive, if anything, had come
out of the visit. Nevertheless, Galopin praised the spirit of solidarity
shown by the delegation members on both the government and the
banking side; the united front had apparently had its effect. That there
was a united front was not entirely true. During the journey back from
Berlin, Goffin, Galopin and M.-L. Gerard held a confidential discussion
with Hofrichter and Schlumprecht\textsuperscript{75}. In that discussion, the bankers stated flatly that the systematic use of the description ‘laut besonderer Mitteilung’ had prevented the clearing system working properly. They suggested that all non-commercial and unjustified commercial transactions be filtered out from the system, even if that meant higher occupation costs.

During the delegation’s meeting on 30 March, Galopin made two interesting remarks. The first concerned the general situation in Germany. Although the delegation was greatly disillusioned by the German refusal to offer any concession on food aid, the reason for that refusal had become obvious to all during the trip. Within a span of just a few months, to everyone’s surprise, the food supply and the psychological climate in Germany had manifestly worsened and it was therefore no wonder that the German authorities were not keen to augment food rations in the occupied territories. The second remark was focused on the Military Government, which had so often appeared demanding and intransigent during discussions in Brussels. It was now very clear to all members of the delegation how correctly and impartially the Military Government had been informing the German government in Berlin about the actual situation in Belgium and about the justified complaints against the regime of occupation. Von Falkenhausen and Reeder had consistently defended Belgian interests with the Nazi government in Berlin. Although this had generally been in vain, it put the leaders of the Military Government in Belgium in a new light. At the same time, suspicion was strengthened within the delegation that tension between the Military Government in Belgium and the Nazi government in Berlin was sharp and that Belgium could easily be affected by the fallout from any open conflict between the two.

Lastly, M.-L. Gérard brought up the question of ‘filtering’ the clearing system. This drew a rapid and curt response from Plisnier, who declared that, although he was also in favour of purging the clearing system of inappropriate transactions, this could not be done at the expense of his own ministry, which was responsible for paying the occupation costs. Very slowly, dangerous cracks in the united front began to appear.

\textsuperscript{75} BNB, Archives, SD, 17, dossier 8.11/ 7, ‘clearing’: entretien de M. Goffin avec M. Puhl à Berlin pendant les journées du 24 au 29 mars 1942.