A Small Nation in the Turmoil of the Second World War

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CHAPTER 23
Belgium and the New Economic World Order

BELGIUM AND THE BRETON WOODS AGREEMENTS OF 22 JULY 1944

The problems exercising the governments and central banks in London and Washington were much broader than the setting of new, more realistic exchange rates aimed at economic recovery in Western Europe after the war. In particular, there was the question of a new economic world order. Everyone was agreed that the ending of the war would provide a unique opportunity to rid the world of the pre-war monetary chaos and to harness international cooperation to achieving a stable and ordered system of free world trade and unhindered payment flows.

In June 1942, Gutt invited the famous English economist John Maynard Keynes to dinner, together with Baudewyns, Ansiaux, Jef Rens and Fernand Van Langenhove, to discuss post-war recovery. Since the Anglo-American discussions in 1941 about the Lend Lease Agreement, Keynes had been working on a comprehensive plan for the post-war organization of international payment flows; his underlying assumption was that any such plan ought to be to the benefit of the ‘national economy’, with full employment as the main priority. This did not mean that Keynes had no regard for the world economy; on the contrary, he was an ardent champion of greater openness and of broader international cooperation than had been the case during the inter-war years. In this, a dominant role would be played by the United States, in consequence of the enormous creditor position she had built up vis-à-vis the rest of the world, a position that would certainly continue to extend. The United States had by far the greatest gold reserves of any country and, after the war, would be the major supplier of both producer and

1 Crombois, Camille Gutt, 1940-1945, p. 364, footnote 17.
consumer goods. This, Keynes foresaw, would lead to an exceptional scarcity of dollars for all countries after the war, irrespective of their side as a belligerent.

In view of this situation Keynes, with the support of the Treasury, had published a plan for setting up an International Clearing Union. The Union was presented as a type of international bank that would use a new unit of account, the *bancor* with a fixed, but adjustable gold parity. Each participating country would be allotted a quantity of *bancors* in proportion to its pre-war trade volume, population and gold reserves, criteria that were clearly to the advantage of Great Britain, whose Imperial Preference System and monetary policy had allowed her to sustain her foreign trade better than other countries during the 1930s. Moreover, the Union would adopt a multilateral clearing system. Where the total balance (credit or debit) exceeded the allotment of *bancors*, progressively rising interest rates would be applied as a sanction to countries both in surplus and deficit, thereby prompting all countries to work to achieve a new equilibrium in their balances of trade and payments.

A plan was likewise being prepared in the United States by Harry Dexter White, a top official at the American Treasury Department. White had formulated some of its proposals at the beginning of 1941 and had developed them further when, in December of that year, the United States had joined the Allied camp. The proposals were published in April 1942 as the White Plan. White suggested the creation of two supranational institutions to guide the recovery of the world economy: a world bank for the provision of long-term credit and an international stabilization fund for the provision of short-term credit, the two to function within a context of fixed exchange rates, free world trade, and the free movement of money and capital. The stabilization fund would use multilateral offsetting to facilitate international payment flows. It would draw its resources from its members, whose contributions would be in gold and in their national currencies. The fund would thus act as a sort of international bank, where all participating countries would be able, on the most favourable conditions, to purchase foreign currency, in order to cope with temporary deficits in the balances of trade and payments.

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payments. This would serve to counter any brake on commercial expansion, brought about by balance-of-payment problems, and thereby help to correct the unequal distribution of gold reserves in the world3.

The two plans had a number of features in common, particularly that regarding an international, multilateral clearing system, which was very much on the lines of the *Deutsche Verrechnungskasse* set up by Hjalmar Schacht. However, there were also important differences. Keynes, for example, wished to place the burden of eliminating temporary balance-of-payments’ disequilibria on countries in surplus and countries in deficit, White solely on countries in deficit4. Looking to achieve a political consensus, the two men negotiated intensively to harmonize their plans during the months that followed. They came up ultimately with a joint proposal that included the establishment of a World Bank and an International Monetary Fund, a proposal that was eventually discussed, amended and approved by the forty-five countries represented at the international conference at Bretton Woods in July 1944.

Theunis was distrustful of the joint proposal right from the outset, his ideology being too liberal to accept supranational organizations. A negative view of the two plans was also taken by Gutt5. These were not the sole voices raised in criticism. Ranged against the proposals were also the entire banking world in New York, the Republican Party (led by Senator Robert Taft), the Federal Reserve Bank of New York and the Federal Reserve Board in Washington. Each had its own specific motives, but together they created a formidable opposition. The American bankers feared competition from the World Bank and the Fund; the Federal Reserve institutions feared the loss of their strong grip on monetary policy; and the Republican Party was by tradition averse to the *dirigiste* slant of the New Deal inspiration that it detected in the White Plan and whose influence it feared in the subsequent joint proposals6.


5 Quoted by Crombois, *Camille Gutt, 1940-1945*, p. 375.

However, the project had the backing of the American president, and all its opponents consequently found themselves obliged to adjust to the new monetary landscape it introduced. In European circles the proposal immediately conjured up the spectre of a liberator reserving the right to set exchange rates unilaterally in the liberated territories, and preferably ‘soft’ rates that would give greater purchasing power to the pay of the invading forces. Proper agreements about rates had therefore to be made, and made fairly quickly, because the invasion of Europe was believed to be imminent.

During the spring an summer of 1943 intense bilateral talks to evaluate the joint plan of White and Keynes began in Washington between representatives of the American Treasury and representatives of the European Ministers of Finance. The Europeans thought that the problem of exchange rates would now be addressed, as it was integrally bound up with the plan. Furthermore, the European governments in exile wanted certainty about the exchange rates that would be applied by the Allied military command after the landings. Representing Belgium in the talks was Boël and he quickly received the impression that the American Treasury had weaker rates in mind for the Belgian franc than had been decided by the Belgian government in London. As mentioned above, the rates had been fixed at 162 and 42 Belgian francs to the pound and the US dollar respectively, but during the discussions with the Americans these rates were adjusted to 160 and 40, as the Americans preferred rounded figures.

At the beginning of October Boël himself came to the conclusion that the rates proposed by Belgium no longer corresponded to reality: the war was dragging on and clandestine sources were informing him that the issue of banknotes in Belgium was getting increasingly out of hand, so that the earlier calculations were no longer accurate. All this

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8 ARA, Administrative services of the Prime Minister: letter of 10.08.1943 from Gutt (London) to Pierlot (London) and Boël’s reports of 26.07.1943 and 16.08.1943 on his discussions in Washington.
convincing him that Gutt’s preferred rates of 176.625 and 43.827 Belgian francs to sterling and the US dollar respectively were the correct ones.

In January 1944, accompanied by Theunis, Ansiaux and Boël, Gutt conducted fresh exchange-rate negotiations in Washington with White, in which British, French, Dutch and Norwegian representatives were also involved. Calculations by Ansiaux and Boël indicated that Gutt’s preferred rates were the most obvious ones to adopt; indeed, they were very much in line with the French and Dutch options. A margin of uncertainty nevertheless remained, as the future relationship of sterling to the US dollar remained unknown. White’s initial reaction to the Belgian proposal was sceptical: he feared that the suggested rates were too high and would be an obstacle to Belgian exports, which would be a crucial factor in Belgium’s post-war recovery.

Tradition has it that, towards the end of difficult talks, which had been continued by Ansiaux after Gutt’s departure, White suddenly asked how much a female cloakroom assistant received in Belgium for her services, to which Ansiaux is supposed to have answered ‘one franc’. After a few seconds’ silence, White is then supposed to have declared that, in that case, he sympathized with the Belgian proposal. To everyone’s relief, he closed the meeting with the redeeming statement that it was up to the Belgian government to determine its country’s rates of exchange. Provided the rates were reasonable, the American government would agree to them. At the Belgian Cabinet meeting of 7 April 1944 in London, Gutt once again tabled the proposal that he and Ansiaux had defended in Washington. This time his rates of respectively 176.625 and 43.827 were approved. He had good reason to be satisfied.

A final, major question remained to be resolved. The establishment of an International Stabilization Fund and a World Bank had still to be

9 ARA, Theunis Papers, ‘correspondance Theunis-Gutt’: letter of 07.10.1943 from Theunis (New York) to Gutt (London).
10 ARA, Theunis Papers, ‘correspondance Theunis-Gutt’: memorandum with a report of the meeting in White’s office, 07.01.1944; letter of 24.01.1944 from Theunis (New York) to De Schryver (London).
11 BNB, Archives, London Archives, dossier ‘Janssen’: notes on a conversation with Ansiaux, 23.02.1944; BNB, Archives, SD, Ansiaux Papers, dossier ‘période de guerre et immédiatement après-guerre’ (letter of 03.05.1985 from van Bellingen to Ansiaux, with the text of an announcement made by Ansiaux at a colloquium in London).
proposed to the future member states and approved. During the winter of 1943-1944, White and Keynes had reached an accommodation and now submitted a joint project that by and large embodied the American plan. During the discussions, the interests of the Benelux countries were successfully defended by Boël, Crena de Jongh and Jacques J. Polak. Combining the membership quotas set for Belgium and the Netherlands meant that the two countries could jointly appoint an executive director in the executive committee of both the Fund and the Bank.

Gutt, Theunis and Boël played a fairly important role at the Bretton Woods Conference (1-22 July 1944), at which they represented Belgium, together with Joseph Nisot, Baron de Gruben and Boris-Serge Chlepner. Gutt was elected one of the four deputy-chairmen of the conference and, with Theunis, was asked to prepare the reports of the World Bank commission. During the discussion Boël drew attention to the principle of fixed exchange rates, which Keynes had previously succeeded in substantially watering down, while pushing through his own opinion of the problem, but the Belgian delegation was able to get the regulations for this important issue tightened up again.

Theunis and Gutt left the Bretton Woods Conference feeling relatively satisfied at the results that had been achieved. They were impressed by the unanimous will to work for international cooperation, so different and so new in comparison to the politics of the 1930s. For an export-oriented country like Belgium, it was extremely advantageous to see the emphasis being placed on the idea that the key to sustainable recovery of the world economy was an expansion of world trade.

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12 BNB, Archives, SD, Ansiaux Papers, A 1, dossier 0.1/30: letter of 25.05.1944 from Boël (Washington) to Gutt (London).


14 Crombois, Camille Gutt, 1940-1945, p. 389.

15 ARA, Administrative services of the Prime Minister: letter of 24.07.1944 from Gutt (New York) to Pierlot (London); ARA, Theunis Papers, 'correspondance Theunis-Spaak': letter of 03.08.1944 from Theunis (New York) to Spaak (London).
THE BANKNOTES FOR THE ARMY OF LIBERATION AND FOR THE CURRENCY REFORM

As already indicated, financing the army of liberation became a thorny problem, in consequence of the landing of the Allies in North Africa at the end of 1942. Gutt therefore contacted the British Treasury at the beginning of 1943 and emphasized that the Allied troops landing in North-western Europe would have to respect certain elementary rules, one of which was that an army of liberation in Belgium would be required to settle its expenditure and pay its troops exclusively in Belgian francs. The Belgian government in London would make the requisite banknotes available at the appropriate moment\(^\text{16}\).

An agreement was reached in May 1943 with the British Treasury, according to which the Belgian government would instruct the Bank to deposit 750 million Belgian francs in banknotes with the Bank of England, for the account of the War Office. In a further agreement concluded on 29 October, that was increased to 4 billion Belgian francs and provision was made for a line of credit to be opened at the Bank for 1 billion Belgian francs. Repayment was to be made in sterling at a rate to be determined by the Belgian government in consultation with the British government, once Belgium had been liberated. The provision of services to the Allied armies would be borne by Belgium as a contribution towards the liberation of her territory\(^\text{17}\).

Thus, by December 1943 full preparations were being made for the issue of banknotes to be advanced to the Allied armies and the new banknotes to accompany the currency reform. Contrary to what he had achieved with the British, Gutt had still not been able to conclude a concrete agreement with the Americans. In an attempt to find a satisfactory arrangement, he had a fresh meeting in Washington on 29 December with White and his assistant Taylor. Irritated by Gutt’s insistence, however, White rejected every proposal and declared that there could be no immediate solution for Belgium. In particular what was holding him back was the fact that the estimates for the cost of re-conquering Eu-

\(^{16}\) S OMA, Archives, Gutt Papers, dossier AA, 1624: letter of 15.04.1943 from Gutt (London) to Waley (London).

\(^{17}\) S OMA, Archives, Gutt Papers, dossier AA 1624: letter of 07.05.1943 from Gutt (London) to Waley (London) and Gutt’s memorandum of 29.10.1943.
rope still had to be endorsed by Congress, a delicate matter. White was, in fact, looking to integrate everything into a single package covering the entire operation of the landing and the re-conquest, and only when that had been done would it be possible for a specific arrangement to be made for Belgium. However, Gutt continued to press his point, arguing that, he, too, had budgetary obligations with regard to the Belgian people. Moreover, he could not see why, if Great Britain could come to an arrangement with Belgium, the United States still would not. It was all to no avail. White remained unmoved and closed the discussion with the vague promise that the United States would honour its obligations and proceed in due time to the reimbursement of all costs. However, a separate agreement between the two countries was at present out of the question.

Further discussions took place in January and February 1944, but also without success. At one moment, White even declared that he knew nothing of the Belgian banknotes being printed in Great Britain and that the US dollars (bearing a yellow seal) for the American troops to be landed in North-western Europe were ready. Ultimately, he agreed in principle to Gutt’s demand for American military expenditure in liberated Belgium to be in Belgian banknotes.

During these difficult talks, Gutt, Ansiaux and Boël had held consultations with the French and the Dutch, to take joint action to get agreement from White about the amount of money held by the American army of liberation, but that did not lead directly to any formal agreement. Nevertheless, White gave the Belgian delegation a few guarantees. He would propose to Congress that the American army of liberation undertake to pay exclusively in Belgian francs in Belgium and would also attempt to have all military expenditure reimbursed within the framework of the Mutual Aid Agreement. Furthermore, he promised that the military command would keep accurate accounts of all expenditure. An agreement on those lines was ultimately signed on

20 ARA, Theunis Papers, ‘correspondance Theunis-Gutt’: letter of 10.03.1944 from Ansiaux or Boël (Washington) to Gutt (London).
1 June 1944 with the Supreme Commander of the Allied forces\textsuperscript{21}, and by 6 September, 1,840 crates of Belgian banknotes in denominations of 1,000, 500, 100, 50 and 10 francs were in the hands of the Supreme Headquarters Allied Expeditionary Force (SHAEF).

THE ORGANIZATION OF THE BANK’S RETURN TO BELGIUM

From the autumn of 1943 onwards, the Belgian government and the Bank’s management in London and in New York began to prepare for their return to Belgium\textsuperscript{22}. A memorandum with clear proposals was already on the table in October\textsuperscript{23}. Authority would be delegated to one of the directors in London, who would follow closely behind the army of liberation and immediately assume control of the Bank’s branches as they were liberated, as well as the head office in Brussels. The director would be accompanied by a small staff and, via the Belgian Military Mission, would also work with the Allied Supreme Commander, all the while retaining his independence. The government’s choice for this task was Ansiaux, who received his appointment in the spring of 1944\textsuperscript{24}.

In December 1943, Theunis began to look for a way to ditch the Bank’s management in Brussels and turned to Nisot, his legal adviser in New York, to find one\textsuperscript{25}. Nisot’s proposal was ready by the beginning of January: the government was to issue a decree stating that, from the time of the liberation to the first subsequent general assembly, the management of the Bank was to be exercised exclusively by the Governor.
and the two directors from London. That same decree would invest Ansiaux with authority to act during the re-conquest of the country, which would automatically disqualify the Brussels management of the Bank from exercising any authority in the interim.

In Baudewyns’s opinion no special decree was required for the Brussels management to be purged after the country’s liberation and for Ansiaux to be invested with the agreed authority, as both the organic law governing the Bank and the Bank’s own bye-laws provided for such measures to be taken. This became a point of dispute between Nisot and Baudewyns, and was ultimately resolved in Baudewyns’s favour.

The liberation was now at hand and Ansiaux joined the army of liberation as soon as it approached the Belgian border. Theunis in New York and Baudewyns in London, together with the government, began to organize their return to a liberated country. This came at the beginning of September 1944.

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26 BNB, Archives, Ansiaux Papers, A 2: note de Nisot (New York) concernant la bnb, 03.01.1944.

27 BNB, Archives, London Archives, 1944: letter of 06.03.1944 from Baudewyns (London) to Theunis (New York) (statut juridique de la Direction de la bnb en prévision du retour).

28 BNB, Archives, sd, Ansiaux Papers, A 2, dossier 9.1/26; 'correspondance Gutt et autres': letters of 24.03.1944 and 30.03.1944 from de Selliers de Moranville (New York) to Ansiaux (London).