Chapter 26

The End of an Era

The Currency Reform in Action

The Gutt Operation was an extremely large-scale undertaking. At the 2,158 bank branches and post offices accredited for the purpose, no less than 1.3 million individuals applied to exchange old banknotes for new\(^1\). Between 9 and 12 October, a total of 14.4 billion Belgian francs’ worth of banknotes were exchanged and a further 73.6 billion francs’ worth of old banknotes were declared and deposited, but not exchanged. The Bank estimated the stock of banknote’s held by banks, public, semi-public and assimilated institutions at 2.5-3 billion francs, meaning that an overall amount of 92.5-93 billion francs’ worth of old banknotes had fallen into the net of exchange, declaration and deposit.

At the Bank, the staff was swamped by all the extra work. The tellers in the Head Cashier’s Office simply could not cope, the more so as all transactions at that time were executed manually. In addition to handling the banknotes, there was also the more complex work involved with the current accounts: new accounts had to be opened to deal with the surplus of old banknotes that were not permitted to be exchanged for new, and, a little later, existing current accounts had to be split into temporarily and indefinitely frozen accounts, occasioning even more work. There was also the business of checking current account balances as at 9 May 1940 for those who had opted for the frozen balance exemption and no less time-consuming in respect of administration was the organization of the exchange control. At top level, moreover, contacts had to be re-established and maintained with other central banks.

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\(^1\) Interview with W. Pluym.
As indicated above, the economy had been in decline since the spring of 1944, when the railways and other routes from Germany to France via Belgium began to be a particular target for Allied bombardment. During the re-conquest of the country at the beginning of September, the situation became even more dire. It is true that the liberation was taking place at an unanticipated speed, but this did not mean that the advance of the Allied armies was reducing the economic dislocation. The proposed currency reform further increased uncertainty and disquiet among many producers and sellers, who questioned whether the time was right to put goods onto the market.

The publication of the monetary decrees on 6 October 1944, nevertheless, came as a shock. At a stroke, they cut the circulation of banknotes (including Treasury money) from 107 billion to 23 billion Belgian francs. Despite the expansion to nearly 32 billion francs, following a decree of 28 October, this still represented an enormous contraction. Including deposits on transfer accounts, the overall money supply was reduced drastically from 165 billion to 57.5 billion francs, which was not far from its level 50.5 billion francs in May 1940.

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Table 26.1: Development of the money supply in Belgium (1936-1948) (in billions of Belgian francs)

<table>
<thead>
<tr>
<th>MONEY SUPPLY COMPONENTS</th>
<th>1936-1938 (average)</th>
<th>As at start of May 1940</th>
<th>Released to end of October 1944</th>
<th>As at end of 1944</th>
<th>As at end of 1945</th>
<th>As at end of 1946</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury money</td>
<td>1.6</td>
<td>1.6</td>
<td>6.4</td>
<td>6.3</td>
<td>6.8</td>
<td>5.5</td>
<td>4.4</td>
</tr>
<tr>
<td>BNB banknotes</td>
<td>22.0</td>
<td>29.8</td>
<td>100.9</td>
<td>25.3</td>
<td>38.8</td>
<td>69.9</td>
<td>72.2</td>
</tr>
<tr>
<td>Current account balances</td>
<td>3.7</td>
<td>0.9</td>
<td>3.6</td>
<td>3.6</td>
<td>3.8</td>
<td>3.5</td>
<td>6.3</td>
</tr>
<tr>
<td>Balances at the Postal Cheque Office</td>
<td>2.9</td>
<td>4.7</td>
<td>11.0</td>
<td>6.7</td>
<td>10.7</td>
<td>16.5</td>
<td>18.3</td>
</tr>
<tr>
<td>Bank deposits</td>
<td>12.8</td>
<td>13.5</td>
<td>42.7</td>
<td>15.4</td>
<td>14.6</td>
<td>34.8</td>
<td>43.3</td>
</tr>
<tr>
<td>Total</td>
<td>43.0</td>
<td>50.5</td>
<td>164.6</td>
<td>57.4</td>
<td>74.2</td>
<td>131.5</td>
<td>145.6</td>
</tr>
</tbody>
</table>

Source: Janssens, *De Belgische frank*, p. 334.

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2 BNB, Archives, *Studiedienst*, SD 11, dossier 01.02.02.50 (B642): note concernant les résultats des mesures d’assainissement monétaire et la situation de la circulation monétaire au 31 décembre 1944 (strictement confidentiel).
be the case. He and his advisers had, in fact, got their estimates wrong about both supply and demand. The more flagrant miscalculation was on the supply side. The economy remained disorganized and few goods were reaching the market, even after 6 October. For the time being all Belgian imports of raw and ancillary materials were suspended and the port of Antwerp, the first port to fall virtually intact into Allied hands, was open only for military purposes. Consequently, no help was to be expected in the immediate future from America or from neutral countries, such as Sweden, Switzerland, Spain and Portugal. Moreover, there was a dire lack of coal: the Belgian mines were running at only half capacity, so that there were even restrictions on the use of gas and electricity.

The supply-side crisis was exacerbated by what was initially a very strict campaign against economic and financial collaboration. In circulars to his prosecutors and deputy-prosecutors, the chief military prosecutor, Ganshof-van der Meersch, demanded strict application of article 115 of the Penal Code; and the ministers in the final Pierlot government who were drawn from the Resistance organizations and from the Communist Party, were no less severe. It is therefore not surprising that more than 13,000 prosecution dossiers for economic collaboration were opened in Belgium, a vast difference to the 1,200 in neighbouring France. Furthermore, numerous companies were placed under sequestration by the deputy-prosecutors, which had the additional effect of temporarily paralysing a substantial level of production. In January 1945, the monthly average of industrial output was barely 16 per cent of the level in 1936-1938 and it failed to climb above the pre-war level until the beginning of 1947.

3 BZ.Ndl, London Archives, 1940-1945, GA, diplomatieke zaken (DZ) EZ/CHZ: report of the envoy van Harinxma thee Slooten (Brussels) to his minister, 20.10.1944; ARA, fonds Société Générale de Belgique, Direction, Nokin Papers, dossier 99, copy 550/1: letter of 23.01.1945 from Blaise to Major-general Erskine.

4 BEngl, Archives, Belgium, ov 88, dossier 36: letter of 05.10.1944 from Baudewyns (Brussels) to Siepman (London). In respect of what follows, see chiefly: D. Luyten, Burgers boven elke verdenking? Vervolging van economische collaboratie in België na de Tweede Wereldoorlog, Brussels, 1996.

Reality fell short of expectations on the demand side, as well. To begin with, the government had assumed – naively, as it turned out – that the liberation of the country would coincide with the end of the war and that Belgium would then be immediately able to import raw materials and goods a-plenty, and thereby amply satisfy market demand. The effect of the currency reform was also wrongly estimated, the government having assumed that the measures of 6 October 1944 would enable it to keep the money supply fully under control and that, as the economy gathered pace, it would be able gradually to liberalize the flow of money at the times and down to the last cent set out so meticulously in its plans. In practice, alas, things turned out quite differently, beginning with the fact that the liberation of Belgium did not coincide with a total cessation of hostilities. Against Field-Marshal Montgomery’s judgement, General Eisenhower had decided that the Allied armies should over-winter in Belgium, before delivering the final attack on Germany. His decision was prompted by his experience of the Normandy beaches, which were far from equipped to handle the convoys required to supply the troops. He needed a port like Antwerp that could efficiently store and distribute the mass of material coming from overseas. Consequently, Antwerp had first to be liberated and then re-equipped. All that would take time and also meant that a considerable proportion of the American, British and Canadian forces – more than a million men – would spend the entire winter in Belgium. The numbers were, in fact, increased after von Rundstedt began his offensive in the Ardennes in December 1944.

The troops temporarily stationed in Belgium naturally spent their money chiefly in the locations where they were quartered, thereby creating unexpected additional demand in a Belgium pursuing a strict monetary policy. The armies also had need of services and goods that they could not bring in from outside, and these also had to be purchased and paid for locally. In 1943 and again in 1944, the Belgian government in London and in Washington had spent days – weeks and months, even – negotiating with the Allies to get them to agree to pay their troops solely in Belgian money, once the country had been liberated. Their agreement had been obtained, but at no small price, as the government had made 16 billion Belgian francs in new banknotes available to the allied armies for the troops’ pay alone, and a further 19
billion francs had been transferred to them for the purchase of goods and services. Of course, these amounts were not fully taken up and the pay of American and Canadian troops would be reimbursed in full in hard currency by their countries, though this occurred only later (after the cessation of hostilities in Europe) and effectively only after October 1945. As agreed, the services provided to the Allied armies were charged to the liberated country concerned, as its share in the Allied war effort. Whether it was repaid or not, however, the monetary aid for the military liberation of Belgium resulted overall in a considerable injection of new banknotes into circulation, representing yet another check to the government’s monetary plans at an untimely moment.

A second major factor disrupting monetary reform was the releasing earlier than planned the account balances temporarily frozen at banks and savings banks. A campaign to have the balances released had begun in early November 1944 among the self-employed and the liberal professions. Gutt’s response to the campaign was an announcement on 18 November that he would address the problem very shortly, an announcement that was followed on 22 November by the issue of two ministerial decrees granting significant exemptions to industrial, commercial and craft businesses and to a number of citizens who had suffered war damage. From the beginning of 1945 on, exemptions were granted at an increasing rate by Gaston Eyskens and Franz De Voghel, Gutt’s two immediate successors as Minister of Finance. The net result of this accelerated unfreezing was a further injection of new banknotes into circulation, again, much earlier than had been planned.

The government was itself partly responsible for the distortions in executing the monetary reform. After the liberation, the budget deficit expanded by leaps and bounds, reaching 35.8 billion Belgian francs in 1945 and 37.1 billion francs in 1946. Only 12 billion francs of this could be covered by a long-term loan. A further proportion was financed by the private bank sector taking up short-term Treasury certificates and a further proportion by the Postal Cheque Office, which the Treasury

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7 BNB, Archives, Studiedienst, DS 12, dossier 01.02.02.70 (A 269/1): assainissement monétaire (review by Gutt at the end of 1948, beginning of 1949, p. 9).
8 BNB, Archives, DC, 16.04.1945.
once now controlled. A final and not inconsiderable proportion of the
deficit was covered by the Bank advancing new banknotes to the gov-
ernment.

The sharp rise of the deficit was due in part to payments to the Allied
armies, but also to a steep increase of the government’s own expen-
ditures. Already in December 1944 the Social Pact, concluded during
the war in secret between the trade unions and the employers’ associa-
tions, was translated into concrete measures, such as the setting-up of
the State Social Security system, whose costs were covered in part by
the government\textsuperscript{10}. The government also felt itself obliged to grant sub-
stantial subsidies to agriculture and the coal industry, in order to keep
the prices of vital foodstuffs and coal low. At the same time, it faced
urgent tasks of settling war damage claims, reconstructing the trans-
port infrastructure in Antwerp, the Ardennes, and elsewhere amongst
other commitments. Yet to fund all this tax receipts were limited: the
economy was still dislocated despite all the efforts to restore its effi-
ciency. Table 26.2 indicates how public debt, which had already risen
appreciably during the war, continued to climb after September 1944,
rather than declining, as planned.

Table 26.2: Trend of Belgian public debt (1940-1945) (in billions of Belgian francs)

<table>
<thead>
<tr>
<th>Components of public debt</th>
<th>30 April 1940</th>
<th>30 September 1944</th>
<th>30 September 1945</th>
<th>31 December 1946</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated debt:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- domestic debt</td>
<td>35.3</td>
<td>41.7</td>
<td>42.2</td>
<td>104.7</td>
</tr>
<tr>
<td>- foreign debt</td>
<td>17.8</td>
<td>16.5</td>
<td>24.1</td>
<td>11.2</td>
</tr>
<tr>
<td>Total consolidated debt</td>
<td>53.1</td>
<td>58.2</td>
<td>66.3</td>
<td>115.9</td>
</tr>
<tr>
<td>Short-term debt</td>
<td>12.2</td>
<td>71.3</td>
<td>109.7</td>
<td>110.6</td>
</tr>
<tr>
<td>Medium-term debt</td>
<td>0.7</td>
<td>37.7</td>
<td>36.4</td>
<td>28.6</td>
</tr>
<tr>
<td>General total</td>
<td>66.0</td>
<td>167.2</td>
<td>212.4</td>
<td>255.1</td>
</tr>
</tbody>
</table>

Source: BNB Archives, sd, Smeers Papers, file 1: dette publique belge; De Ridder, ‘The
Belgian Monetary Reform’, 39 (xvi, 1), p. 35.

As an orthodox central banker, Governor Frère was fully behind Gutt’s
currency reform, but he watched with disquiet as the money supply

\textsuperscript{10} BZ.Ndl, London Archives, 1940-1945, GA, diplomatieke zaken, (DZ) EZ/CHZ: report
of the envoy van Harinxma thoe Slooten (Brussels) to his minister, 20.10.1944.
rapidly expanded in terms of notes and coins. He soon began a counter-offensive, focusing on deposits on transfer accounts. Starting at the beginning of December 1944, he concentrated on the necessity of curbing private bank lending in the form of advances in current account against the guarantee of temporarily and even indefinitely frozen account balances. This brought him into direct conflict with the business world, with Bekaert and Peltzer more than once sounding warnings at meetings of the supervisory council during the winter of 1944-1945. Bekaert stated that reserves in the business sector had been drained by the stagnating economy and that the over-drastic currency reform had not created any room for bridging the crisis. Businessmen hoped that the economic climate would shortly improve, but they were obliged to have recourse to bank credit in the meantime. By cutting back lending the Bank was putting the business world in an impossible position.

The continuing scarcity of goods became all the more acute during the winter months of 1944-1945. The government therefore felt obliged to maintain the rationing of essential foodstuffs and even to reduce the allowance for certain goods, including coal, margarine and butter. The interplay of scarcity of goods with an uncontrolled increase in money circulation sent retail prices soaring, and no government’s controls or subsidies were able to reverse the trend. In October 1944, the ‘official’ retail price index already stood at 260 (as against a pre-war level of 100). By September 1945, the index had risen to 387, staying at that peak level for a few months, but in the course of 1946 began to fall step-by-step, reaching a level of 331 in December of that year.

May 1945 saw the import of foodstuffs, raw materials and other goods expanding again, initially in the wake of the special aid programmes, one of these being the Military Civil Program, which had been set up in November 1943 within the framework of the inter-Allied conference held at Atlantic City. No less effective in this respect, however, were the bilateral monetary agreements that provided Belgium with the oppor-

11 BNB, Archives, RR, 06.12.1944; DC, 09.12.1944, 20.12.1944, 08.01.1945; RR, 10.01.1945, 14.02.1945.
12 BEngl, Archives, Belgium, ov 88, dossier 36: letter of 05.10.1944 from Baudewyns (Brussels) to Siepman (London). See also: dossier 4: Cobbold, Impressions of a week in Belgium, 18.12.1944.
tunity to purchase goods on credit, the most important of which were the Lend Lease and the Reverse Lend Lease agreements concluded with the Americans at the beginning of 1945, and the Financial and Mutual Aid cooperation agreement concluded with the British 14.

Anticipating the liberation, the Belgian government in London had also purchased foodstuffs from Canada, Argentina and the Belgian Congo during the war. In addition, soon as circumstances permitted, a mission headed by the Minister of Supply, Paul Kronacker, was sent to the United States and Canada to procure goods outside the framework of the aid programmes and the other agreements 15.

The recovery in industry and commerce was once more opening up the prospect of a growing market in commercial paper, in which the Bank had traditionally played an active part, and it was at this moment that the Banking Commission, headed by Eugène De Barsy, its new, dynamic and dirigiste chairman, gave the Bank the opportunity of renewing its grip on financial and monetary affairs. That came, in February 1946, with the Banking Commission’s imposition of an obligation on the private banks to invest a high proportion of their deposits in Treasury certificates. By this the Bank saw a way to regain control of the volume of short-term money and credit and also to curb the too rapid expansion of deposits on transfer accounts 16.

CRITICISM AND EVALUATION

High expectations that could not immediately be satisfied inevitably had a negative effect on public opinion. Indeed the Belgian population was already exhibiting disquiet, disappointment and irritation at the end of autumn 1944, only a few months after the liberation. In this respect, too, Gutt had miscalculated. During his visit to Washington at the beginning of 1944, he had already been warned by White of the American Treasury Department that his plan was too demanding and too harsh for a country just emerging from four years of occupation.

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14 BNB, Archives, DC, 22.02.1945 ff. See also: De Staercke, pp. 147-148.
15 BNB, Archives, DC, 01.10.1945, 08.10.1945.
16 BNB, Archives, Studiedienst, DS 1, dossier 01.02.01 (A 262/2): le crédit à l’économie privée de 1940 à 1950.
Unruffled, Gutt had replied that: ‘I will make them accept the plan, because I will make them understand’. He even thought that the population would be behind him when the measure requiring moveable wealth to be declared was announced and that everyone would realize that justice was being done and that the hated war profiteers would be unmasked and punished.

The first negative reactions were directed at the monetary decrees\(^\text{17}\), which were claimed to be discriminatory. Why, for example, were Belgians living abroad (les émigrés) escaping scot-free? Why were there no exemptions for the lower income groups? The exemption for the funds of cultural associations, churches and other non-profit organizations also came under attack as opening the door to unsound practices and downright malpractice. Similar criticism was levelled at the exemption of 50- and 20-franc banknotes from declaration: inside knowledge had clearly led to abuses, and some of those in the know had salted away huge quantities of these small denominations before 6 October.

Uncertainty about what was ultimately to happen with the indefinitely frozen account balances likewise attracted a great deal of negative reaction, partly inspired by a number of economists who shared Van Zeeland’s views and who had been sharply critical from the outset of what they termed the deflationary character of the currency reform. However, it was not only economists who ascribed the continuing economic stagnation mainly to the deflationary effects of Gutt’s currency reform, but the business world, as well\(^\text{18}\).

Criticism gained momentum when, in December 1944, Gutt submitted his bill on the taxation of the increments in wealth, which was a logical consequence of the bill for the mandatory declaration of moveable assets, approved in the preceding October\(^\text{19}\). Bankers and stockbrokers looked askance at such measures, forecasting a drift into the doldrums for dealing in shares and government securities, if the intention to register all securities was maintained. However, the proposal to levy a tax

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\(^{18}\) BZ.Ndl, London Archives, 1940-1945, GA, diplomatieke zaken (DZ) EZ/CHZ: report of the envoy van Harinxma theo Slooten to his minister, 03.11.1944.

\(^{19}\) BNB, Archives, *Studiedienst*, DS 11, dossier 01.02.02.50 (A 255/6): Mallien, The currency reform and the bill for an extraordinary tax on the growth of wealth.
on the growth of wealth upset all members of the middle- and higher-income groups now feeling themselves threatened.20

Tax specialists, too, had their doubts about Gutt’s reforms, regarding the tax on the increments in wealth as an inefficient way of punishing war profiteers. Moreover, collecting the tax would demand an extensive administrative apparatus, something that the tax authorities did not possess at that moment. Many people also found the tax fundamentally dishonest and immoral, as it targeted the growth of wealth from both reputable and disreputable activities: the bon-vivants who had blown their war profits were rewarded, whereas the careful savers were punished.

Worse still was the indefensible stipulation that the burden of proof regarding the extent of wealth as at 9 May 1940 lay with the tax subject. How could small entrepreneurs and those with a modest capital be expected to produce proof going back to May 1940 when they were not accustomed to keep accounts in those days and in many cases did not even have a bank account? For those with a large capital, there would be no problem in producing proof and those with really substantial fortunes would be untouchable, because their fortunes would have dated from before the war. Measures of this sort were regarded as unacceptable, discriminatory and anti-social, as well as dangerous in the turbulent social climate of a country only recently liberated.

These were all solid arguments, though there was more than once a hint of self-interest, depending on who was putting them forward. Reporting to his minister, Binnert Philip van Harinxma thoe Slooten, the Dutch ambassador to Belgium, made the ironic comment that: ‘resistance (to the tax proposal) from the monied class is all the greater, as it has always been a matter of course to mislead the tax authorities by submitting inaccurate income returns....For many here, even if they had not profited at all from the war, (there is) a great discrepancy between their far too low income declarations before the war and what they have now been obliged to declare as wealth’21. The ambassador had put his finger on the spot: the opposition to the bill was no longer a matter for learned economists offering an alternative approach to post-war policy. Rather,

20 Newspaper La Libre Belgique, 30.11.1944, quoted by Van Praag, L’opération Gutt, pp. 103-107.
21 BZ.Ndl, Londens archief, 1940-1945, GA, diplomatieke zaken, GA 194.45.
it was a matter of every Belgian above the poverty line feeling targeted, which goes some way to explaining why, on 6 February 1945, Parliament passed a motion of no confidence in the Pierlot government. Gutt’s successors, Eyskens and De Voghel, dropped the proposal and replaced it with one for three other taxes, including a moderate, one-off levy of 5 per cent on certain elements of wealth. These three new taxes were approved by Parliament in the autumn of 1945 and raised nearly 50 billion Belgian francs, a sum that was applied to reforming the public finances.

To assess the Gutt Operation meaningfully in the light of history, it must necessarily be examined from both an economic and a structural angle: in other words, from a short-term and from a long-term point of view. Taking the short term first, the decrees were already attracting a great deal of comment and discussion at the time of their actual implementation. As indicated, there were numerous politicians, businessmen and economists in Belgium who were critical of the deflationary effect of the drastic reduction in the money supply and who consequently held the reform responsible for the crisis that Belgium suffered during the first year after the liberation, the more so as the reform did not achieve its stated aim of an immediate fall in prices. That view was undoubtedly too one-sided. Unforeseen circumstances – and unforeseeable by anyone – combined to thwart a rapid recovery of the Belgian economy and were thus partially responsible for the economic crisis during the initial months following the liberation.

However, the government was itself responsible for some of the unfavourable circumstances. One in particular was the naivety with which, when still in London, it had regarded the post-war situation in Belgium, a naivety indicative of an ivory-tower mentality. Others were the chaos in the supply chain and the unnecessary boosting of the black market, a consequence of the immediate abolition of the German-inspired administrative system of rationing. There was also the months-long dislocation of industrial production, *inter alia* a consequence of the harsh attitude towards economic collaboration. In addition there were inconsistencies and miscalculations not only on the monetary side of the reform, but chiefly on the fiscal side; these served to generate too much emotional reaction and tension for the process of economic recovery to be set in train and pursued in an atmosphere of national solidarity and calm. Gutt’s aim was a reform that respected distributive equality and
restored a sense of morality through the selective punishment of war profiteers. In reality, his measures often produced the opposite result: on the monetary side, they proved anti-social in certain respects; while, fiscally, they left numerous loopholes for shrewd war profiteers and hit many in the mid-income bracket hard.

Despite the unfortunate circumstances and the mistakes that were made, many economists and politicians of the time took a positive view of the Gutt Operation. Belgian economists in the Liberal and Socialist camps, including Dervichian, Louis de Brouckère and Frère, the governor of the Bank, had defended the monetary reform from the start and continued to do so. Eyskens and Dupriez\textsuperscript{22} in the Christian-Democrat camp likewise remained fervent supporters of the monetary measures. However, everyone had to acknowledge that Gutt had not achieved his aim as regards prices and wages, though analysts argued that this failure did not alter the fact that his operation had clearly served to put a brake on inflation\textsuperscript{23}.

Gutt’s monetary reform was also positively received abroad. Seeking to reform his country’s currency after the liberation, the Dutch Minister of Finance, Lieftinck, looked to the Belgian experiment for inspiration, though drawing the necessary conclusions from the Belgian experience and taking account in his bill of a number of errors and shortcomings that had come to light during the implementation of the Gutt Operation\textsuperscript{24}. Great interest in Gutt’s plan had also been shown by Mendès-France during his time with the Free French forces in London, where he was in contact with the Belgian government. It had prompted him to introduce a similar plan in Corsica, when the island was liberated in 1943. However, it was not approved of by De Gaulle, who, when France was liberated, set it aside in favour of the proposals of René Pleven, who felt that reform could be achieved more smoothly through a large-scale,

\textsuperscript{22} BNB, Archives, Studiedienst, dossier 01.02.02.70 (D 312): Dupriez, Etude critique de la politique des prix, 10.04.1945.

\textsuperscript{23} BNB, Archives, sd, De Voghel Papers, dossier c: presentation in the Chamber of Representatives of the bill on the war tax (written speech of 13.08.1945, with annotations by the minister). The allusion to ‘l’impôt monétaire’ refers to a proposal made at the time by Dupriez, but not taken into account (see above).

long-term *Emprunt de la Libération* (a liberation loan) and a one-off levy on wealth and on war profits.\(^25\)

Once hostilities had finally ended in the summer of 1945, Gutt’s reform was able to demonstrate that, in economic terms, the negative criticism of the early months had been exaggerated. What the reform had actually done was to lay the foundation for economic and financial stability, restoring confidence in the economic future of the country and creating the popular energy and optimism needed to tackle the task of reconstruction. No mean achievement. It has to be said, though, that the plan benefited from a number of fortunate circumstances. Belgium’s industrial equipment and port infrastructure had not been dismantled or seriously damaged, contrary to what had occurred in neighbouring countries. Belgium was also able to share in the substantial stock of foreign currency built up in the Belgian Congo during the war, which consequently put her in a position to begin fairly quickly to import raw and ancillary materials from abroad, once peace had been restored in 1945, and even to purchase consumer goods in America. Furthermore, the government’s liberal trading policy in a seller’s market and the consequent growth of the country’s gold and foreign currency reserves created ample scope for credit facilities to be granted to other countries within the framework of the monetary agreements on the Belgian model. These circumstances, too, aided economic recovery.

Looking back, it can be seen that there was a lot of truth in the claim that the financial reforms had produced a favourable economic result in the short term: their contribution to ‘le miracle belge’ of the 1946-1949 period was indeed highly significant. However, their effect over the long term is another question and one that has to be asked, because ‘the miracle’ had lost much of its lustre by the end of 1949. Statistics for all West-European countries from about 1950 on indicate high annual growth figures for each of them, with the exception of Great Britain and particularly Belgium. The weakening of the Belgian rate of growth during the 1950s was so marked that the country came to be called ‘the sick man of Europe’. The question then is whether there was any link between that weakening and the Gutt Operation, and the suggestion put forward here is that there probably was.

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\(^{25}\) Van Praag, *L’opération Gutt*, pp. 120-141.
In essence, the Belgian monetary reform was a monetary and financial operation conceived in purely technical terms, without any foundation in economic reality and without any integration into a longer-term plan for industrial reform. Gutt’s traditional liberalism, in fact, was no longer relevant and most economists in Europe regarded it as outdated.

The era of the mixed economy had dawned. Through planning and direct intervention, governments now had to adapt the structure of their economies to the requirements of the coming new world order and the new world economy. In the Netherlands, the Minister of Finance, Lieftinck, integrated his restrictive monetary policy into the Tinbergen Plan, which was geared to a general restructuring of the Dutch economy. The Federal German Republic followed suit, albeit later in 1948, with the Minister of Economic Affairs, Ludwig Erhard, linking German currency reform to a structural economic reform known as ‘Soziale Marktwirtschaft’: this incorporated the planned dirigisme of the Nazi era into a market-oriented system, thereby initiating a particular version of the mixed economy for the long term. In France, a plan likewise aimed at restructuring the economy in a longer-term perspective – the ’Plan national de rééquipement et de modernisation’, put forward by the General Commissioner of the Planning Office, Jean Monnet – was accepted by the French government and included in its political programme. A similarly long-term structural reform was pushed through in Italy by Luigi Einaudi, one aim of which was, among others, state-directed economic development of the south of the country. The monetary reforms undertaken at the same time in France and Italy met with failure, but the long-term economic component of their respective post-war policies put down firm roots and enabled both countries to enjoy a dynamic rate of growth during the 1950s and 1960s.

This long-term economic strategy was lacking in Belgian government circles in London. It was only in November 1946 that, in a confidential note from Washington to Belgium’s Prince-Regent, Gutt gave an indication of his fear that something might be wrong with the way the Belgian economy was developing. Of the two reasons he put forward for this, the first was that prices in Belgium were rising much too quickly in comparison with their rate of increase in the sterling zone,

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26 De Staercke, Mémoires sur la Régence et la Question royale, pp. 367-372.
which meant that Belgium’s export position would in time come under threat. He reproached his successors Eyskens and De Voghel for this, claiming that they had pursued, within the framework of the Social Pact, too lax a wage policy, contrary to the situation in Great Britain and the Netherlands, where a policy of austerity was still in place.

The second reason advanced by Gutt was what he saw as the absence of a plan for re-equipping the Belgian economy. It so happened that Jean Monnet had just succeeded in selling such a plan in the United States, which had enabled him to win substantial long-term loans for France. Again, Gutt blamed his successors Eyskens and De Voghel for what he called their lack of structural vision, but the same could equally be said of him. Ought not the Belgian government in London, and particularly the Minister of Finance and Economic Affairs, to have prepared such a long-term plan for reforming the industrial structure of the country and to have integrated it within the plan of overall monetary reform that was launched in October 1944?

However, Gutt’s personal, ideological makeup did not lend itself to such a vision. The concept of government-guided dynamic growth was foreign to him. He remained fundamentally true to his original liberal objective of static, microeconomic equilibrium and did not realize that a long-term industrial restructuring programme could be integrated into his monetary reform. Immediately after the liberation, the Belgian economy had been favourably influenced by external factors, but these had been transitory. Once their effect had worn off, the structural weaknesses of the Belgian economy were revealed and the rate of growth began to lag behind that of the country’s more dynamic neighbours. It was a question of waiting for the laws promoting regional expansion, introduced by Gaston Eyskens in 1959, before any significant start could be made on industrial restructuring in Belgium. The establishment of the European Economic Community with effect from 1 January 1958 came at a timely moment to give the necessary boost to the Belgian restructuring to enable it to be anchored within the new, dynamic Europe. Numerous foreign companies then arrived to set up business and brought with them advanced technology and modern business techniques, introducing a spiral of expansion. The response to this appeared to be active and immediate in Flanders and the Brussels region, but much more muted in Wallonia, though this is a hypothesis
that requires further research. Such research could contribute to a bet-
ter insight into the complex, diverging Flemish-Walloon development
within the Belgian economy after the Second World War.