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Central banks under German rule during World War II: The case of Norway¹

Harald Espeli

Until the German invasion of Norway 9 April 1940 the Norwegian central bank had been one of the most independent in Western Europe. This article investigates the agency of the Norwegian central bank during the German occupation and compares it with central banks in other German occupied countries. The Norwegian central bank seems to have been more accommodating to German wishes and demands than the central banks in other German occupied countries in Western Europe.

Keywords: Central banks, World War II, German occupation, Norway

JEL classifications: H56, N44, N94

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Since the 1980s, international research on the development of central banks has been fundamentally influenced by the theories of central bank independence and has mostly focused on the period since 1950.(Cukierman 1992, Crowe and Meade 2007) Central bank independence is difficult to square with foreign occupation. In such cases it would be more meaningful to ask to what extent central banks were able to maintain some kind of independence, if any, from the occupant. The purpose of this paper is to analyse the agency of Norges Bank (the Norwegian central bank), during the German occupation, 1940-45. We will concentrate on 1940 when the most central decisions were made.

Norges Bank's directors, including Governor Nikolai Rygg, chose to stay in their positions during the occupation. The Germans found no reason to relieve them of their duties. The directors were willing to go far in accommodating to German demands. They believed that the alternative – their potential replacement – would be worse for the country, and for the economy, the monetary and financial system, as well as for the central bank itself as a private company with 17 per cent of the shares owned by the state. The most important decision made by Norges Bank during the occupation - that gave the Wehrmacht unlimited access to the Bank's printing press for bank notes – was not the result of direct German pressure, however. This decision was made after instruction by the provisional governmental body in the occupied areas, the Administrative Council, on 24 April 1940. Thus the central bank's loss of independence in relation to the government after liberation was not as dramatic it might seem.

Prior to this study, most of the literature on Norges Bank during the occupation has been written by the Bank's executives (Jahn et al. 1966, pp.312-41,Norges Bank 1945, Norges Bank 1945-46), with the exception of the investigation committee, appointed by the Ministry of finance, which submitted its report in 1948 (Finans- og tolldepartementet 1948). Norges Bank plays a peripheral role in the two seminal works on German economic policies in occupied Norway, although Robert Bohn's study analyses important aspects of the Bank's role, particularly in 1941, from a German perspective (Milward 1972, Bohn 2000, pp.303 ff.).

The paper is structured as follows. First we give a brief overview of Norges Bank's degree of independence prior to the German invasion on 9 April 1940. This is followed by a section on the Bank's war preparations and a longer chronological analysis of political developments in occupied Oslo ending up in the establishment of the occupation account in June 1940. Then follows a few comparisons between Norges Bank and central banks in other Western

European countries occupied by Germany, i.e. Denmark, the Netherlands, Belgium, and France. Comparisons are easiest with Belgium due to the extensive history of its central bank during World War II (van der Wee and Verbreyt 2009). Other occupied countries and areas are not considered because German policies in these were usually more radical and destructive in a general sense and from a monetary perspective. A case in point is Greece with its catastrophic inflation due to unchecked note printing starting immediately after the occupation in spring 1941 (Mazower 1993, pp.53-55, 65-72). Poland and Czechoslovakia were partly annexed and partitioned and Yugoslavia broken up. In the Generalgouvernement a new German controlled note-issuing bank was established replacing the former Polish central bank. On 20 May 1940, pre-war zloty notes were declared illegal and replaced by a new zloty (Emmendorfer 1957, pp.43-50, Loose 2007). The closest to such drastic monetary measures in Western Europe was the decision in March 1941 that the Reichsmark should be legal tender in the Netherlands without being convertible (Vanthoor 2005, pp. 153-154). In relation to the institutional setup of occupation payments, Norway functioned as a model for Denmark, which in contrast to Norway accepted the German occupation on 9 April 1940 without resisting militarily. Norges Bank seems to have been the most accommodating central bank of those considered here.

I

Norges Bank had been organized as a private company since its establishment in 1816. The Act of Norges Bank of 1892 provided government and parliament with no legal powers to instruct the bank in its ordinary activities. This was in accordance with Norway's adherence to the gold standard from 1874. Only during extraordinary times, such as war, could the government for a specific period of time allow the bank to increase the amount of notes in circulation. Such an extraordinary increase in the supply of bank notes had to be a fixed amount and for a specified time period.² Norges Bank was banned from offering the government credit. With a few minor exceptions this ban had been respected, although Norges Bank had functioned as the government's cashier since 1893 (Kolsrud 2001: 176, 298, Finansdepartementet 1983: 109).

The governor and the deputy governor were appointed by the government and could stay in their positions until they retired. The three other members of the board of directors were

² Lov om Norges Bank esp. § 10, 11 and 37.

elected by parliament for six years. These elections and appointments had not created parliamentary controversy after 1892. The governor appointed in 1920, Nikolai Rygg (1872-1957) and his deputy, Sverre Thorkildsen appointed in 1921, formed a working partnership that dominated Norges Bank's activities. Norges Bank's traditional independence from the government survived the interwar period despite Rygg's and the Bank's controversial deflationary monetary policy aimed at Norway's return to the gold standard in the 1920s at the pre-war gold parity. Rygg eventually succeeded in his aim in 1928 (Sejersted 1973, Hveding 1982). The central monetary instrument at the time, the official discount rate, continued to be the Bank's sole responsibility (Smith 1980, pp. 104- 116, 181-183). Another indication of Norges Bank's independent status was related to exchange policy and the question of exchange controls in the 1930s. When Norway followed Britain off the gold standard on 27 September 1931, Norges Bank was the real decision maker, not the government (Lindboe 1965, pp.108-109, Rygg 1950, pp.437-443). A number of other European countries, such as Denmark, quickly introduced comprehensive exchange controls from autumn 1931, reducing the role of its central bank (Olsen and Hoffmeyer 1968, pp. 162-212). Norges Bank successfully opposed governmental exchange controls (Rygg 1950, pp. 465-470, 622-623, Koefoed 1940, pp. 121-125, 142, 178-181). Norges Bank's policies in the 1930s were considered fairly successful by contemporaries as well as later historians. Rygg personified Norges Bank's independence and integrity and enjoyed widespread respect.

II

Like the central banks of the Netherlands and Denmark, but to a lesser extent Belgium, Norges Bank had moved or was in the process of transporting some of their gold reserves to the US in the spring of 1940 (Bramsnæs 1946, pp. 1034-1035, Vanthoor 2005: 156-158, van der Wee and Verbreyt 2009: 25-31). The bulk of the Norwegian gold reserves was however, situated in Norges Bank's head office in Oslo on 9 April 1940, due to legal requirements linked to the issue of bank notes. The gold stock in the head office had, however, been packed and was ready to be transported to one of the two other prepared vaults in case of an emergency when the first reports of a German attack reached Rygg early on 9 April. Due to the combination of well prepared plans and skilful improvisation, the last lorry of gold left the head office for Lillehammer shortly before the first delayed German troops entered the undefended city. This transport was, like the flight of King Haakon VII, the government and parliament that same morning, largely dependent on the sinking of the heavy cruiser *Blücher* at Droebak. The gold stock was eventually transported to Britain and later in 1940 to the US.

The gold reserves became, together with income from the merchant fleet working for Britain and the allies, the financial basis for the Nygaardsvold government in exile in London.

No contingency plans seem to have been made regarding how the head office should react to an occupation of Oslo. Neither the government nor the minister of finance made any decision which was communicated to Rygg as to how Norges Bank should operate after the successful evacuation of the gold stock. Thus Rygg returned to the head office, resuming control on 15 April.

Among the countries Germany attacked and occupied in 1940, the Belgian central bank had the most extensive contingency plans heavily influenced by Belgium's experience during the German occupation in World War I. In winter 1939/40, it was decided that if the country was occupied, the head office, together with the stock of banknotes and the equipment for producing them, would be evacuated. These plans were enacted in May 1940, but after the French capitulation 22 June and with the "rudderless Belgian government", the governor of the central bank returned to Belgium with the equipment in July. The radical contingency plans led to extra difficulties in occupied Belgium (van der Wee and Verbreyt 2009, pp.21-25, 61-78).

III

On the evening of 9 April, Vidkun Quisling, the leader of the miniscule Nazi party, declared a coup-d'état via Norwegian broadcasting in occupied Oslo. With support from some German groups, he appointed a "national government". Quisling's coup-d'état made a Danish solution - the Danish government accepted the German military occupation - impossible. Negotiations between Germany and the Nygaardsvold government finally broke down on 10 April due to the German demand that Quisling should be accepted as prime minister. After confusion and vacillation, the government organized military resistance supported by insufficient military aid from the allies. The campaign lasted until 10 June when the last Norwegian forces surrendered. The king and the Nygaardsvold government travelled to Britain on 7 June to establish a government in exile.

In the occupied Oslo area, Quisling's government, which did not function, was unpopular. Elements of the business elite wanted to remove Quisling so that it would be possible to end the Norwegian military resistance and reach an understanding with Germany. After

negotiations between self-appointed Norwegian representatives, including the leader of the Supreme Court, and German authorities, an agreement was reached to replace Quisling's government with an Administrative Council. The Supreme Court formally established the Administrative Council on 15 April (Stortinget 1946, pp. 127-166). The deputy chairman of the council and minister of finance was Gunnar Jahn, who operated with great authority and self-confidence. Jahn, director of Statistics Norway, had been minister of finance in a Liberal minority government 1934-35 and was considered to be one of Norway's currency experts.

The Administrative Council's main aim was to restore social and economic stability as quickly as possible. The central passage in the Council's inauguration address on 15 April 1940 was that "... everyone must show calmness and self-restraint and at the same time contribute according to ability so that activity and work are kept functioning. Anyone considering the matter thoroughly will understand that sabotage and complication of civilian activity will only create misfortunes." (Administrasjonsrådet 1940, pp. 1-2) The fulfilment of the Administrative Council's aims implied extensive economic cooperation and various forms of direct and indirect support to German forces during the Norwegian campaign.

The Nygaardsvold government accepted the Administrative Council as an emergency body, but emphasized that the council had no proper legal foundation. This was contrary to the conditions on which Hitler had accepted the establishment of the council. Thus, on 24 April, Hitler established Reichskommissariat Norwegen, which was the highest civil and economic body in Norway during the occupation, led throughout its existence by Josef Terboven, who started his work in Norway 23 April. Following failed negotiations with senior parliamentarians about major constitutional changes, Terboven dissolved the Administrative Council on 25 September 1940. Instead, Terboven appointed provisional ministers to lead the ministries, most of them members of the Nazi Party, and made it clear that the road to political influence went through this party.

IV

German invasion plans were based on the assumption that the Norwegian authorities would cooperate. Thus, Norges Bank's head office was not given priority in detailed German

invasion plans.³ The orders of 2 April 1940 on monetary and financial questions stated that domestic monetary values were to be protected, but at the same time Reichskreditkassenscheine (RKKS) had to be accepted as legal tender at an exchange rate close to the one used in the clearing agreement (Stortinget 1947, p. 63). Thus, Norges Bank's note-issuing monopoly was undermined. Although Germany declared that it would adhere to international law when its forces arrived in Norway, the introduction of RKKS contradicted Article 43 of the Hague Convention on land warfare. It stated that the occupant should respect the laws of the country "unless absolutely prevented" by circumstance. RKKS, printed by Reichsbank, can be described as cash credit vouchers denominated in Reichsmark. RKKS were used by the Wehrmacht as a means of payment in occupied territories only. They were not legal tender in Germany. Internally, the Reichsbank's deputy governor, Emil Puhl, later characterized RKKS as "requisition receipts disguised as money" (Götz 2007, p.84). When proclaiming the use of RKKS as legal tender on 10 April, the German military commander in Oslo asserted that their value was guaranteed by the Reich. It cannot be ruled out that Norges Bank's directors believed the German assertion in April 1940. In April 1940, RKKS was an unknown financial innovation that proved to be very effective in forcing occupied areas and countries to finance German war costs. The two other main means of forcing occupied countries to pay German war costs were clearing arrangements and the confiscation of Jewish property (Götz 2007, p.75 ff.)

The first German decree on RKKS' status was adopted 3 May 1940. The decree established Hauptverwaltung der Reichskreditkassen (HVRK), led by the governor of the Reichsbank. HVRK, without any equity or state guarantee, lent the Reich 500 million Reichsmark to finance the Wehrmacht's needs in Norway and Denmark. These decrees were not made known to Norges Bank until the second half of May 1940.⁴ If Norwegian business had refused to accept RKKS as payment from the Wehrmacht for goods and services, the Wehrmacht could just requisition what it needed according to the Hague Convention on land warfare. However, the Germans wanted to avoid requisitions that could engender opposition and resistance. It is doubtful whether the monetary difficulties created by RKKS added very much to the monetary and economic chaos created by the German invasion and the first weeks of the war. In a longer

³ http://www.arkivverket.no/URN:db_read/db/33990/10.

⁴ NA, S-3161, D 1022 Reichskommissar to Norges Bank 22 May 1940, *ibid* D 1023 notes AE/MR to Rygg 31 May and 3 June 1940.

perspective, the central bank's ability to execute monetary policy could be seriously undermined. For Norges Bank and the Administrative Council, the pivotal question was how one could reduce the monetary difficulties created by the circulation of RKKS and, if possible, eliminate them. What were the probable political and economic consequences of the various alternatives?

On 11 April, Norges Bank's head office, led by deputy governor Thorkildsen, was surrounded by German troops, but no other forms of pressure seem to have been applied. This unique incident during the occupation happened prior to and during the first meeting between Norges Bank and German representatives. Thorkildsen pledged that the head office would do nothing that was contrary to German interests. Norges Bank's cooperation included supplying the Germans with "any information" they asked for, as noted by Rygg in his papers on 16 April.⁵ This was the beginning of Norges Bank's loyal cooperation with the Germans. It made formal German regulation of Norges Bank's activities superfluous (Emmendorfer 1957, p. 59).

Norges Bank's willingness to fulfil German wishes, which do not seem to have been explicitly expressed, included collecting written declarations of loyalty to Norges Bank from all the larger commercial and savings banks in the occupied areas, probably starting on 17 April. In the prepared statements distributed by Norges Bank's head office, the private banks declared that they "in a loyal manner and to the best of their ability would comply with the wishes of German authorities that the bank would not make or participate in transactions that could be expected to benefit the British Empire or its allies".⁶ Norges Bank knew that the Nygaardsvold government was an ally of Britain. Thus, the statement was evidence of disloyalty and has been unknown until now. Due to the liquidity crisis following the German invasion, no private bank could afford to refuse to sign the statement.

On 16 April Norges Bank contacted the Reichsbank on German-controlled telegraph lines asking whether the Reichsbank would be willing to make a netting contract linked to the use of RKKS.⁷ The Reichsbank replied by wire the next day asking Norges Bank to send a man

⁵ NA, S 3947, E 4, Rygg's handwritten note 16 Apr. 1940 from a conversation with Paal Berg.

⁶ Andresens Bank's styreprotokoll 19 Apr. 1940. My colleague Knut Sogner kindly informed me about this entry.

⁷ NA, S 3161, D 1022, telegram 16 Apr. 1940.

with authorization to Berlin to discuss all questions.⁸ The Reichsbank's answer was discussed by Rygg, Thorkildsen and German representatives in Oslo 18 April. Norges Bank was encouraged by the German representatives to accept the invitation. Rygg decided that Thorkildsen should go. Prior to wiring the decision back to the Reichsbank, Rygg informed the minister of finance, Jahn, who had not been consulted on the Bank's first wire. Jahn vetoed such a journey and any contact between Norges Bank and the Reichsbank.⁹ Jahn was of the opinion that the "only solution" to the problems caused by RKKS was that Norges Bank treated it as ordinary foreign currency, to be cashed at the exchange rate fixed by Germany.¹⁰

Rygg was disloyal to the Nygaardsvold government when he wired the Reichsbank on 16 April. Rygg did not consult Jahn either. Rygg behaved as an independent central bank governor would do in peacetime, making confidential contact with other central banks on currency and exchange issues without necessarily informing or consulting the government. Jahn felt that Rygg's independent action was unacceptable. Rygg's connection with the Reichsbank was glossed over and has been unknown until now. The incident gave Jahn an upper hand on Rygg that was important for the decisions to come.

Norges Bank's head office probably started to change or cash in RKKS from private banks, which had accepted them as legal tender from their customers according to the decree from the military commander in Oslo, on 16 or 17 April. No public statement seems to have been made on this practice. There is no indication that the Germans asked for, much less demanded, that the head office should cash or exchange their RKKS *directly*. Nor is there any clear indication that the Germans were dissatisfied with the acceptance of RKKS as legal tender in the Oslo area. Things were a bit different in one occupied part of country where Norges Bank's head office had no contact with its branch. This created significant irritation within the Wehrmacht, which Rygg and Jahn were informed about.

On 20 April Rygg, Thorkildsen and Jahn seem to have agreed in principle to try to address the Wehrmacht's irritation and to solve the monetary problems created by RKKS. Jahn's solution

⁸ NA, S 3161, D 1022, telegram from Reichsbankdirektorium 17 April 1940.

⁹ NA, S 3947, E 4, Rygg's handwritten notes to this meeting.

¹⁰ The National Library, Gunnar Jahn's diary 22 Apr. 1940.

was that RKKS should be defined as ordinary foreign currency that Norges Bank should buy on an unrestricted basis directly from the Wehrmacht. That would solve the problems of RKKS as legal tender in competition with NOK. Jahn's solution meant that Norges Bank was to give the Wehrmacht and the Germans a blank cheque for its notes. Rygg's primary solution seems to have been that Norges Bank's purchase of RKKS should be restricted to NOK 15 million, a fairly small amount, which Norges Bank's board of directors could approve without involving its highest body, the supervisory board. However, Rygg and a unanimous board of directors gave in to Jahn's proposal. On the other hand, Rygg summoned, against Jahn's will, the supervisory board on the shortest notice to accept the decision of the board of directors. Although only a few members of the supervisory board could attend the morning meeting on 23 April, the opposition against such a blank cheque was so great that the board of directors was split. Three members joined the opposition. Moral and political reasons, including allegiance to the government fighting the Germans, were important for the opposition. Other arguments related to the dubious value of RKKS. Some said that they would only accept the proposed decision if the Germans ordered them or the Administrative Council instructed them to do so. The opposition majority thought that Norges Bank should continue to cash in RKKS from the private banks in a discreet manner, but not enter into any direct understanding or agreement with the Germans for the time being. Rygg and Thorkildsen stood firmly behind the decision and proposal of the board of directors. This created a serious crisis that was solved during the next 24 hours in a complex process.¹¹

V

The solution meant that just as British troops came to support the retreating Norwegian forces fighting the German army, the Wehrmacht was given a blank cheque to finance the campaign as well as the later occupation. The Germans would get the necessary amount of NOK at Norges Bank's head office in return for the equivalent value in RKKS. Jahn got his will through persuasion and pressure and what was in effect an instruction by the Administrative Council. The council had no legal authority to issue such an instruction according to the Norges Bank Act. It is more than doubtful whether the Administrative Council could invoke what Norwegian legal experts since 1945 have called the constitutional principle of necessity. There is no evidence that German authorities made any demand or imposed any direct

¹¹ The main sources for the decisions of 23 and 24 April 1940 is NA, S 3947, E 4, esp. NR/BD "Om Reichskreditkassenscheine", S 3940, A 1, pp.8 ff.

pressure on Jahn or the other members of the Administrative Council on this issue. Thus, how can Jahn's pressure and the council's instruction of Norges Bank be explained? Why did the Bank give in to this pressure without protesting or demanding a guarantee from the council related to its purchasing of unspecified amounts of RKKS?

When Hitler understood that the Administrative Council would not function as a counter-government to the Nygaardsvold government, the German ambassador in Norway was replaced by Reichskommissar Terboven. On the morning of 23 April the members of the Administrative Council were summoned to a meeting with Terboven, who informed them about his wide-ranging powers. The chairman of the council replied that the council would cooperate in a loyal manner. Beyond the summoning, Terboven gave no signal regarding the future of the council.

The Administrative Council had just started its work and had made few, if any, important decisions before the meeting with Terboven. Jahn seems to have had two combined aims when he proposed that the central bank should purchase RKKS directly from the Germans. First, to get rid of the irritation within the Wehrmacht linked to their use of RKKS and, thus improve the council's standing within the Wehrmacht. The second aim was to show the public in the occupied territories that the Administrative Council and the central bank had regained control of the Norwegian krone as the only legal domestic tender and an important national symbol. This would help to restore confidence in the crisis-ridden economy. The second aim coincided with Norges Bank's *raison d'état*. The restoration of ordinary daily life and a functioning economy to prevent increased popular support for Quisling's Nazi party and German political goals was a strategic aim of the Administrative Council in its first months.

From the perspective of the Administrative Council, Terboven's entry put the council in a state of institutional limbo. For Jahn and the council, Norges Bank's direct cashing of RKKS from the Wehrmacht was considered an important measure of confidence and trust that became more essential after Terboven's entry. At least Jahn and the Administrative Council's chairman seem to have felt that the future of the council was at stake. Although the Administrative Council's instruction of Norges Bank to accept Jahn's solution was one of its most profound, previous researchers have not mentioned it. Norges Bank's legal and operational independence had been almost as strong as the courts. The instruction of Norges Bank on 24 April was followed by a few others in the following weeks. This shows that Jahn

and the council considered Norges Bank to be a subordinate and government-dependent institution of the Ministry of finance.

In the dramatic meetings at Norges Bank's head office, Jahn warned or threatened that the bank would be nationalized if the opposition did not give in. The Administrative Council did not have such legal authority. Jahn's other argument was that he would inform the Germans that he and the council had done their best to find a solution. Norges Bank would thus be responsible for any future difficulties. Jahn in effect washed his hands of the affair and placed the burden of responsibility on Norges Bank.

It had been difficult for Rygg to support Jahn's proposal on 23 April, but when Rygg had made his decision he did not waver - as he had not wavered on the parity issue in the 1920s. Rygg's miscalculation related to contacting the Reichsbank without consulting Jahn had undermined his ability to pursue an independent line against Jahn's will. Moreover, Thorkildsen and Rygg had pledged to German representatives that they would cooperate loyally. It is more difficult to explain that Rygg and Norges Bank did not demand some kind of guarantee from the Administrative Council to compensate for the obvious risks involved in purchasing unlimited amounts of RKKS. After liberation, this was partly explained by emphasising that the decision-makers had underestimated the consequences of the decision. This is true, but more important was the tense and chaotic atmosphere combined with Jahn's demand for a quick decision, which made it difficult to assure the quality of that decision. For Rygg and Thorkildsen the widespread internal opposition, which they considered stubborn and intransigent, came as a shocking surprise. Thus Rygg's main concern during the vital hours was defeating the internal opposition in cooperation with Jahn.

An important explanation as to why the opposition to Rygg and Thorkildsen within Norges Bank acquiesced to Jahn's and the council's pressure, was that the elites in the Oslo area generally agreed to an overall aim of joining ranks. The opposition within Norges Bank accepted that the Administrative Council was the best body to defend national interests in the occupied areas. Thus, they were not willing to challenge its authority, even though that meant that Norges Bank's independence was broken. It was also difficult for these men to continue to challenge Rygg's authority as long as he and Thorkildsen stood firmly behind Jahn's proposal - although three members of the Board of Directors for a while abandoned their former unanimous decision.

After the decision was taken by Norges Bank on noon 24 April, Rygg tried to limit the effects of the blank cheque which he and Jahn offered the Wehrmacht a few hours later. The Wehrmacht's representative during the meeting was pleased to be given direct access to Norges Bank's notes, but made no promises in return. Rygg asked in vain for a pledge that would keep the Wehrmacht's withdrawals from the central bank within specific limits. When Norges Bank a few weeks later asked for a state guarantee in relation to the Wehrmacht's withdrawals, the Administrative Council declined. Jahn later explained this decision by stressing that the Administrative Council, as a provisional administrative body, could not legally accept obligations on behalf of the state. However, according to this logic, Jahn and the Administrative Council could hardly have instructed Norges Bank to accept RKKK as a secure foreign currency.

Rygg and Norges Bank continued to ask in vain for a guarantee from the Ministry of finance to maintain some kind of institutional independence. One effect of this was that Norges Bank had to write virtually begging letters to the Ministry of finance asking for a relatively small state transfer. These transfers were necessary if Norges Bank were to be able to continue paying minimum dividends to its shareowners in the years 1942-45. Rygg, Reichskommissariat and the Ministry of finance all agreed that continued payment of such dividends were essential to maintain public trust in the central bank and the monetary system. The humiliating subjection of Rygg and Norges Bank related to these transactions with the Ministry of finance reflected that Norges Bank's independence was lost.

The other central banks considered here did obtain a state guarantee for their outlays to the Wehrmacht and other German authorities. Although this question generated some discussion in Belgium (van der Wee and Verbreyt 2009, pp.126-163), as opposed to Denmark and the Netherlands, the matter was settled in 1941. In the French case, the state became directly responsible for these outlays in the armistice with Germany in June 1940.

VI

The decisions of 24 April were the beginning of what was later known as the occupation account in Norges Bank's balance sheets. By liberation in May 1945, net German withdrawals had amounted to about NOK 11.3 billion. In 1939 Norway's GDP amounted to NOK 6.253 billion at current prices. The direct Norwegian occupation payments to the Germans were

significantly higher than in any other German occupied country measured per capita (Milward 1977, pp.138-148, Bohn 2000, pp. 321-322, Liberman 1995, p. 65). This reflected the size of the occupation force in Norway, which on average represented about ten per cent of the Norwegian population of less than three million, and enormous military-related building activity.

The withdrawals on the occupation account were the driving force behind a dramatic increase in the money supply, close to 650 per cent, between March 1940 and May 1945, measured in M1 (Eitrheim et al. 2004, pp. 227-228). The Wehrmacht used the price mechanism ruthlessly in its building activity to attract manpower and business. Comprehensive and strict price regulation and control in the rest of the economy nevertheless kept inflation relatively moderate. According to the official wholesale price index, prices increased by 33 per cent in 1940, and more than 60 per cent from 1939 to 1941. Wholesale price increases then slowed down, and in April 1945 prices were about 76 per cent above the average 1939-level. The increase in the official consumer price index was significantly lower, 52 per cent since September 1939. The wholesale price index is considered the best indicator of domestic price developments during the occupation. The larger increase in wholesale prices has three main explanations related to the price regulation system. Price increases in consumer goods and services were regulated more strictly than other prices. Secondly, price regulations were drastically sharpened from April 1940 but were not given retroactive effect on the large stocks of goods which had been imported by wholesalers at increased prices prior to the invasion. Thirdly, price increases due to larger import costs were normally accepted by the Price Directorate and imports had a greater influence on wholesale prices than consumer prices (SSB 1945, pp. 28-44, Espeli 2002, pp.640-642).

In addition, a comprehensive and relatively well functioning rationing system was established in 1940 and 1941. Thus black markets developed to a far lesser extent in Norway than in France, Belgium and the Netherlands (Klemann 2008, Taylor 2000). Public trust in the monetary system meant that income after taxation, which increased significantly, amassed as bank deposits. This surplus liquidity was to a large extent transformed into Treasury bills as the banks had no better investment alternatives.

The occupation account was special in a technical and legal sense. The counterpart of the occupation account was Norges Bank's assets in Hauptverwaltung der Reichskreditkassen

(HVRK) under the agreement between the two in late June 1940. The denomination of German debt and Norwegian assets was not in RKKS, but in Reichsmark, which Norges Bank “in ihren Büchern gutschreiben”.¹² Thus, in a formal sense, Jahn’s proposal of treating RKKS as a currency on Norges Bank’s balance sheet had been realized within nine weeks. Norges Bank’s agreement with HVRK was the result of its decision of 24 April and loyal cooperation. This German concession could have made a difference if the outcome of the war had been different.

VII

How did central banks in other Western European countries respond to the German occupation and to what extent did the Germans interfere directly in their activities? We will focus on the circulation of RKKS and central bank transparency. In addition, and with reference to Norway and the Netherlands, to what extent were their central banks nazified?

Denmark accepted the German invasion on 9 April without offering military resistance and was thus the most amiable and collaborating country that Germany attacked and occupied during World War II. Norges Bank nevertheless functioned as a model for the Danish central bank, Nationalbanken, from a German point of view. The agreement between Norges Bank and HVRK from late June 1940 was more or less copied six weeks later in relation to Nationalbanken (Alkil 1945, 966 pp, Bramsnæs 1946, Olsen and Hoffmeyer 1968: 233). The central banks of Norway and Denmark seem to have been alone in reaching an agreement with HVRK, where German withdrawals in the central banks were to be considered the central banks’ assets in HVRK.

The German supervision of the central banks of Belgium, the Netherlands and France was much less subtle than in Norway and Denmark. The German supervisor in Banque de France was in principle obliged to accept all its decisions until spring 1941 when this controlling power was replaced by general enabling powers to intervene. It is unclear to what extent these powers were used (Emmendörfer 1957, pp 86-106, Patat and Lutfalla 1990). In Belgium, one of the board of directors in the Banque d’Emission was German. The Germans could overrule any board decision as well as imposing their own. This was, however, seldom necessary.

¹² NA, S 3940 A 1, p.45.

The German occupation administration in the Netherlands was most similar to Norway. A Reichskommissariat was established in May 1940 with Arthur Seyss-Inquart as Reichskommissar (Hirschfeld 1988). Seyss-Inquart had the explicit authority to appoint and remove the governor of the central bank. The governor of the central bank, L.J.A. Trip, went far in accommodating German demands, but resigned in March 1941 when Seyss-Inquart made Reichsmark legal tender in the Netherlands. Trip was replaced by Rost van Tonningen, a supporter of the Dutch Nazi Party and a monetary union with Germany. German control of the central bank was secured by a commissar who was also one of the five board members and by appointing a new board member who supported van Tonningen's views. The conflicts among the members of the board of directors eventually led to the resignation of the two pre-war appointed members in June 1943 (Emmendorfer 1957: 66, Hirschfeld 1988, p. 197, Vanthoor 2005, pp. 152-156). While the leadership of the Dutch central bank was nazified, the Dutch Nazi party was not allowed to form a government as the Nazi party had done in Norway.

After Quisling was appointed Ministerial President on 30 January 1942, his ministers started their attempts to nazify the financial sector. This included appointing members of the Nazi party to prominent positions within Norges Bank. Rygg opposed the nazification attempts by every means and succeeded to a great extent. The success was based on the explicit support of the Reichskommissariat, which had no interest in supporting ideologically motivated experiments in monetary policy or in the financial sector.

The decision to give the Germans a blank cheque on 24 April 1940 was the most fateful one made by Norges Bank during the occupation. Rygg's support of the decision was based on a genuine concern that continued use of RKKS could quickly undermine the role of Norges Bank and the credibility of the domestic monetary system. Although conditions in the other occupied countries differed from Norway in important respects, their central banks were much less concerned about the possible detrimental monetary effects of RKKS. The central banks in Belgium and the Netherlands succeeded, with patience, to reach more balanced agreements with German authorities at the beginning of their occupation than Norges Bank's hastily written blank cheque.

In their armistice, Dutch authorities had to accept RKKS as legal tender. The Dutch central bank asked financial institutions to sell their RKKS to them to avoid detrimental monetary

effects. In June 1940 Dutch authorities agreed with Seyss-Inquart that the state should pay German occupation expenses on the condition that Germany stopped distribution of RKKS. Dutch authorities were able to limit occupation expenses to 103 million guilders per month, equivalent to total central government expenditure for 1939. In spring 1941 the Germans demanded increased payments, but that was a unilateral German decision (Barendregt 1993, pp. 18-19, Vanthoor 2005: 153 ff, Hirschfeld 1988).

The Dutch example was more or less copied by the Belgian authorities, seemingly with better results. The Belgian central bank showed great patience both in stopping the circulation of new RKKS in October 1940 as well as removing the existing ones from circulation. This had more or less been achieved a year later. The coexistence of two currencies does not seem to have created serious problems. The central bank's systematic and often successful use of legal arguments, including the Hague Convention, should also be noted. The military government in Belgium was susceptible to legal arguments and the norms of international law, particularly in 1940-41 (van der Wee and Verbreyt 2009: 153). Norges Bank never seems to have tried to use legal arguments systematically to avoid or delay important German financial and monetary demands.

The armistice between France and Germany of 22 June 1940 stipulated that France should pay RM 20 million or 400 million francs per day in occupation expenses. Nothing specific was said about the status of existing or the future circulation of new RKKS. Recent research suggests that significant amounts of new RKKS were put into uncontrolled circulation by the Wehrmacht's units until summer 1943. Then the amount of RKKS was so large that the regulations of the economy and the financing of occupation costs were undermined. Following advice from Banque de France and German economists, most RKKS were withdrawn from circulation in December 1943 to help stabilize the economy and German interests (Götz 2007: 86-87, Occhino et al. 2008: 11, Patat and Lutfalla 1990: 100).

The central banks in France, Belgium, the Netherlands and Denmark seem to have continued to publish monetary figures and their balance sheets more or less as usual during the German occupation. This was the case in the Netherlands in the first couple of years of the occupation and during the whole occupation in Belgium and Denmark. Nationalbanken successfully rejected German claims to discontinue publishing these figures arguing that secrecy would create uncertainty and idle rumours (Bramsnæs 1946, pp. 1022-1023). In the Netherlands and

Denmark, it was also publicly known how large occupation payments were and, at least in the case of Denmark, how large export surpluses the country had on its clearing based trade with Germany.

Extracts of Norges Bank's balance sheets had been published on a monthly basis since the 1850s, and on a weekly basis for decades, giving exact figures on the amount of notes in circulation. Publication of such data was discontinued on 9 April 1940 and was not resumed until after liberation in May 1945. Why did Norges Bank differ so fundamentally in its actions from the other central banks? The lack of transparency in 1940 was the result of Norges Bank's proactive accommodation. Rygg emphasized that the central bank wanted discretion and secrecy when the blank cheque was delivered to the Germans on 24 April 1940.¹³ The Bank and the Administrative Council had no interest in publicity on the monetary consequences of the blank cheque. The Germans had similar interests. When Norges Bank realized that its policy of secrecy on monetary figures was totally out of line with the central banks in the other occupied Western European countries in 1941, Reichskommissariat was unwilling to make changes.

VIII

The committee investigating Norges Bank's activities during the occupation showed great understanding for Rygg's difficult position. The committee concluded that the decision of 24 April 1940 was the responsibility of both Norges Bank and the Administrative Council, but did not directly criticize it. That the voluntary decision in effect was a blank cheque to Germans in the midst of the campaign was glossed over. The general conclusion was that the directors of Norges Bank had done their best to defend national interests and maintain the credibility of the monetary system, for which the Bank deserved "recognition" (Finans- og tolldepartementet 1948, p.19).

The committee's praise of Rygg's and Norges Bank's work and its very cautious criticism - compared to a previous investigating commission's harsh criticism of the Nygaardsvold government's actions prior to 9 April - could be explained in various ways. Three years had passed since liberation and the Cold War was developing rapidly. The legally based treason settlement against political and economic offences during the occupation was in its final phase. No prominent government official or business leader had been sentenced for economic

¹³ NA, S 3940 A 1, pp.12-13 and 17.

treason. Individuals who had criticized top level governmental bureaucrats for their accommodating behaviour in relation to German economic interests in 1940 and 1941 after the liberation, had been persecuted by legal and political authorities (Hagen 2009, pp. 267-299).

The most interesting explanation is another. From 1941, Jahn had become one of the leaders of the civil resistance movement. After liberation, he became minister of finance in the provisional coalition government pending the autumn election, in which Labour won a parliamentary majority. In late 1945, the new Labour government appointed Jahn as Rygg's successor. A few days prior to Terboven's dismissal of the Administrative Council on 25 September 1940, Rygg persuaded Jahn to accept a position as an extraordinary member of Norges Bank's board of directors when he left his position as minister of finance in the council. The Administrative Council then made a formal decision on Jahn's future role in Norges Bank's board of directors. Terboven was sceptical but eventually gave in to Rygg's wishes. From 1941 Jahn shared responsibility for Norges Bank's activities and the consequences of the blank cheque given to the Germans on 24 April 1940. Thus it became impossible for the investigating committee to criticise Rygg and Norges Bank without at the same time criticising Jahn, Norges Bank's governor.

Norges Bank did not regain independence of the government until the 1990s. In recent research, the main explanation for the institutional change and Norges Bank's relative marginalization compared to the interwar period has been linked to the Labour party's explicit aim in 1945 to subordinate the central bank to the Ministry of finance (Ecklund 2008). This explanation is insufficient. The real turning point relegating the central bank to an institution subordinated to the government and the Ministry of finance was the events of 23-24 April 1940. The central decision maker on that occasion was Jahn. To Jahn, it was obvious that Norges Bank was subordinate and not an independent body in the national emergency created by the German invasion. Jahn had not changed his views on Norges Bank's institutional status in 1946. In his first public speech as governor in 1946, Jahn emphasised that "It is obvious that a central bank cannot and should not follow a policy that is not in accordance with decisions made by the parliament and the government."¹⁴

¹⁴ Norges Banks beretning og regnskap 1945, p.14.

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