

Loosing autonomy. The Norwegian Central Bank during WWII

Across the Western world, central banks lost autonomy in the 1930s, a development that reached its apogee over the 1940s and early 1950s. This gradual erosion of central bank autonomy in favour of formal and *de facto* influence to governments was caused by a number of factors. Throughout Europe, in both political and academic circles, monetary policies were seen as a field in which elected officials should be in charge.¹ In the Bretton Woods Agreement, governments, instead of central banks, were handed control over monetary policy instruments and exchange rate management.² During the years that followed WWI, the state gained a larger influence in all areas of economic policy making. In a number of countries, central bank legislation was reformed and government increasingly assumed the role that had traditionally been the preserve of private stockholders.³ Still, the decline of central bank independence started well before the Great War. M.H. de Kock observed, in his book *Central Banking* from 1939 that the recent trend moved in the direction of increased government ownership and control.⁴

The Norwegian central bank, Norges Bank, had a high degree of autonomy in the interwar years, accentuated by the strong, independent role played by the Governor, Nicolai Rygg, in the 1920s. The Norwegian Labour Party, that was critical to the central bank's policies and independence, took office in 1935. This change did not, however, bring about any significant changes in the institution's autonomy, though the central bank's role in exchange rate policies seems to have been weaker in the late 1930s than just after the break down of the gold standard.⁵

¹ Gianni Toniolo, *Central bank cooperation at the Bank for International Settlements, 1930-1973* (Cambridge University Press, 2005). XX.

² Claudio EV Borio and Gianni Toniolo, "One hundred and thirty years of central bank cooperation: a BIS perspective," (2006). 39 f.

³ John Singleton, *Central banking in the twentieth century* (Cambridge University Press, 2010). 144 f.

⁴ M. H. de Kock, *Central banking* (London: P.S. King, 1939), 320 ff.

⁵ Einar Lie et al., *Norges Bank 1916-2016* (Oslo: Fagbokforlaget, 2016), 298.

In 1945, Norges Bank's position was immediately and radically weakened. When in the spring of 1945 the jigsaw pieces were being put in place for a new and genuine division of power between Norges Bank and the transitional post-war government, the fractured and weakened central bank did not participate in any meaningful sense in the negotiations about its own future. The post-war regime left only nominal autonomy to the central bank and handed its traditional levers of power in terms of monetary, currency and credit policy to an assortment of government ministries, in particular the Norwegian Ministry of Finance.

In strict formal terms, Norges Bank had a high degree of autonomy. To the confusion of many, however, the essentially outdated Act of 1892, which ensured the independence of Norway's central bank, was retained all the way until 1985.⁶ The Act was left unchanged not because of a lack of resolve or consensus to carry out controversial amendments, but because it was patently obvious to everyone that it was out of touch with the new political reality and that government exercised control over the what used to be the key spheres of the central bank's influence. As such, the lack of urgency to amend the Act provides compelling, though silent testimony to the loss of autonomy suffered by Norges Bank.

The aim of this paper is to analyse Norges Banks rapid decline from pre-war autonomy to post war subordination, in light of the prevailing knowledge on central bank development. To what degree were the changes a result of political and intellectual developments rooted in the interwar years; of the new monetary system decided at Bretton Woods; or of specific circumstances created by the period of occupation and exile and the transition to peacetime?

Methodologically, I will try to answer these questions by following the discussions and movements of key actors around Norges Bank and the Ministry of Finance, both persons from the interwar generation and proponents of the era to come. It is not satisfactory to

⁶ Helge Syrstad, *Sentralbankens uavhengighet: en analyse av rettsforholdet mellom sentralbanken og de politiske myndigheter* (Bergen: Fagbokforlaget, 2003).

explain the reduced significance of a central bank (or any other large phenomena) by referring to changes in the political, institutional or intellectual context alone. “Context” itself has hardly any explanatory power unless we are able to identify and trace it among historical actors being able to move or change an historical situation. In the following I will try to explain the new role of Norges Bank – a specific part of paradigmatic change in politics and policy making – by following the opinions of key actors and impulses they received during and just after the war.

The main part of this contribution is based on the activities of and disputes around Norges Bank during the war time period. German occupation from April 1940 created a new situation for the Norwegian political administration. The cabinet hastily moved to a five year long exile in London. Before leaving Norway, a new set of managers to formally oversee Norges Bank was appointed. This administration followed the Government to London and represented Norges Bank’s key decision makers in daily operations, in preparations for a post-war monetary reform, and during the Bretton Woods negotiations.⁷

The newly appointed Governor was to display relatively conservative viewpoints in meetings with e.g. Bank of England, J.M. Keynes and the administration in the Norwegian government in London. The reaction from the Ministry of Finance in exile was to regard the competence and judgement of Norges Bank with growing scepticism. This led to a gradually reigning in of the central bank’s formal independence and it hampered the planning of a post-

⁷ This contribution is based on extensive archival research in Norges Bank’s and the Ministry of Finance London and Oslo archives, as well as diaries and correspondence from actors involved. The London based archives of Norges Bank and the Ministry of Finances have not been examined extensively by previous researchers, with three minor exceptions. Economist Egil Bakke, retired civil servant, has written a article on the Norwegian policy on the establishment of IMF and IBRD, on the basis of published material and parts of Norges Bank’s London archive Egil Bakke, "Norges politikk i forbindelse med etableringen av IMF og IBRD," *Norsk økonomisk tidsskrift* 114, no. 1 (2000).. Jan Debes, also a civil servant, utilized some of the material in his book on the Government London administration, without paying explicit attention to the relations between Norges Bank and the Ministry Jan Debes, *Sentraladministrasjonens historie 1940-45*, vol. B. 5 (Oslo: Universitetsforlaget, 1980).. Einar Lie, *Ambisjon og tradisjon. Finansdepartementet 1945-65*. (Universitetsforlaget, 1995). discussed the transition from the London based to the postwar economic policy in a history of the Ministry of Finance (1945–65) based on the Ministry’s London archives, without discussing the relation between the Ministry and Norges Bank.

war monetary reform. This reform that was necessary in order to reduce the large liquidity surplus and return to a functioning market economy, and more specifically to a situation in which central bank operations could work efficiently.

I

In order to understand the swift and absolute decline in the bank's *de facto* autonomy, the peacetime transition must be viewed in both the long and the short term. The long-term perspective is linked to three factors in particular. The first factor is the historical burden from the bank's deflationary policy of the 1920s (labelled *paripolitikk*, or "parity policy"), which damaged the reputations of both Governor Rygg and the central bank itself, especially among the trade unions and the Labour Party. The gold convertibility of the Norwegian krone had been suspended in 1914. In 1921, the Norwegian *krone* had retained only half its value as measured in gold.

Still, Norges Bank decided to bring the value back to pre-war par values. The parity policies enjoyed strong backing of support during its first years. In 1925, the most prominent academic economists argued in favour of a halt in the appreciation of the krone but Rygg was convinced that pre-war values should be restored.⁸ Gradually, scepticism occurred also among politicians, especially from the Labour Party and Agrarian Party.⁹ The policy was, however, fulfilled with the restoration of the old gold values of the *krone*, after years of high unemployment, low investments and a growing debt crisis.

Another factor is of course the emergence of new ideas and practices concerning macroeconomic governance. This paradigm shift presupposed to varying degrees a

⁸ Lie et al., *Norges Bank 1916-2016.*, ch. 9; Francis Sejersted, "Ideal, teori og virkelighet: Nicolai Rygg og pengepolitikken i 1920-årene," in *Demokrati og rettsstat*, ed. Francis Sejersted (Oslo: Pax, 2001)., Trond Bergh and Tore Jørgen Hanisch, *Vitenskap og politikk. Linjer i norsk sosialøkonomi gjennom 150 år* (Oslo: Aschehoug, 1984). 141 f.

⁹ Det norske arbeiderparti and Bondepartiet respectively.

coordination of the fiscal and monetary policies, and as such was not conducive for an entirely independent central bank. In the Norwegian version, inspired in particular by the economics professor Ragnar Frisch, there was very little leeway for independent monetary and interest rate policies.¹⁰

A second, and lasting, Labour-government took office in 1935, with support of the Agrarian Party. The Labour Party had embraced a new macroeconomic theory propagated by Frisch in their political manifesto for the 1933 parliamentary election. In practical politics, as evidenced by Parliament voting and governance after 1935, Labour politicians seem, however, to have relied on relatively conventional principles in fiscal and monetary policies.¹¹ Equally, the years from 1935 until the outbreak of the war were among the more stable and prosperous in the turbulent Norwegian interwar period. This is at least a part of the reason why the relations between cabinet ministers and *Norges Bank* seem to have been relatively stable and free from open conflicts.

Interrupting this harmonious interlude was the Second World War. In April 1940 Germany staged an invasion, followed by a short period of armed resistance and a five year long occupation. Compared with most other European countries during WWII, Norway suffered relatively little during the occupation in terms of acts of war and number of casualties. Nevertheless, the economic ramifications were formidable. Germany feared a potential second front in Norway and numerous fortifications were constructed along the coast. A high number of troops were also held in the country, with a peak of 400,000 German soldiers. These soldiers needed food and quarters, and many of them also sent food back to

¹⁰ Einar Lie and Eivind Thomassen, "A Norwegian fixation: explaining cheap money in Norway, 1945–1986," *Scandinavian Economic History Review* 64, no. 2 (2016).

¹¹ Jens Christopher Andvig, "Ragnar Frisch and the great depression: a study in the interwar history of macroeconomic theory and policy" (Norsk utenrikspolitisk institutt, 1986)., 390 f, Lie et al., *Norges Bank 1916-2016*. ch. 11.

their families in Germany.¹² The overall activity was a major burden on a relatively limited national economy of only around three million people.

The activity was financed by the issuing of German treasury notes, the so-called *Reichskreditkassenscheine* (Reich's credit treasury notes, or RKKS). In Belgium, the Netherlands, and especially France, RKKS were used directly as payment by the German occupiers, and the money circulated for a long while alongside the original banknotes.¹³ In Norway there was a quicker and less troublesome transition to an inflated national currency, as Norges Bank was persuaded and partly pressured by the temporary management of the Ministry of Finance to exchange RKKS for Norwegian *kroner*. This was done partly to avoid a conflict with the German authorities, partly to retain an overview over the growth in total liquidity, and hopefully to be able to influence and limit the spending.¹⁴

The details of the interaction between Norges Bank's Oslo Headquarters and German authorities in Norway will not be a part of this analysis. Based on the end results the efforts of Rygg and his closest associates in curbing the German withdrawals seem to have been largely ineffectual, and it is not easy to envision how they could have succeeded. The cumulative sum of withdrawals from the occupation account was around 11.7 billion Norwegian kroner, which corresponds to roughly 1.3 times the pre-war gross national product.

In the attempts to keep the German withdrawals in check, Rygg acted as though he were still the head of of Norges Bank – formally, however, he was not. As early as April 22, 1940, the Norwegian government decreed that the bank's executive board had been “dismissed”, as it was known in the formal language of the day, and that a new executive

¹² Alan S Milward, *The fascist economy in Norway* (Clarendon Press Oxford, 1972).

¹³ Herman Van der Wee and Monique Verbreyt, *A small nation in the turmoil of the Second World War: money, finance and occupation (Belgium, its enemies, its friends, 1939-1945)*, vol. 35 (Leuven University Press, 2009), Willem Frans Victor Vanthoor, *The King's Eldest Daughter: A History of the Nederlandsche Bank 1814-1998* (Uitgeverij Boom, 2005).

¹⁴ Harald Espeli, "'Cooperation on a purely matter-of-fact basis': the Norwegian central bank and its relationship to the German supervisory authority during the occupation, 1940–1945," *Scandinavian Economic History Review* 62, no. 2 (2014).

board had been appointed that was to accompany the gold reserve and the government away from the invasion forces and the war zone.

The question of whether the old board, and Rygg in particular, should leave their offices, literally speaking, was discussed at several junctures. In May 1941 the executive board registered a lengthy statement in a secret protocol, where it accounted for its deliberations on whether Rygg should resign from his duties, either on his own or together with the entire board. Their assessment was that the interests of both the nation and the monetary system would best be served if they remained in their positions. A corresponding discussion ensued when Rygg turned seventy early in 1942; though his post was not restricted by an age limit, Rygg considered it natural that he should retire. The Ministry of Finance urged him to remain as governor, however, and Rygg complied.¹⁵

II

The jurist Dr Arnold Ræstad was chosen as the new chairman of the executive board in exile; after a brief intermezzo the head of Norges Bank's Gjøvik branch was hired as deputy chairman. The third full-time member was Professor Wilhelm Keilhau, an old adversary of Rygg's. Two additional members of the executive board, were appointed – it was seldom that these latter two met, however, and their deputies usually attended the formal meetings. It was therefore the three full-time members who became the dominant voices of the new executive board.¹⁶ Arnold Ræstad, the new chairman, soon emerged as the strong man of this troika. In 1921–22 Ræstad he had served as the foreign minister in a Liberal government. However,

¹⁵ This is mentioned by both Norges Bank's report on its activities in Oslo, and Jahn et al. 1966.

¹⁶ "Beretning fra Direksjonen for Norges Bank om virksomheten i det frie Norge og i London" (Report from Norges Bank's executive board on its activities in the free Norway and in London) (Oslo: Norges Bank): 2.

most of Ræstad's activities took place in other areas of public life, as an author, publicist, and businessman.¹⁷

Upon establishing itself as part of the Norwegian government in exile in London, the new executive board soon found itself in a number of conflicts with its surroundings, as much due to their outlook on major issues which fundamentally differed with their government partners.

A recurring challenge was the exile bank's relationship to the Oslo office, which continued to employ the insignia of the country's central bank and which remained in contact with several other central banks. From the very beginning, however, the London-based executive board made it clear that *it* represented Norges Bank.¹⁸ In Ræstad's terminology, the Oslo office enjoyed no constitutional foundation, but was to be considered a "de facto institution" – it existed, but with no formal role. When Norges Bank in Oslo nonetheless continued to maintain contact with institutions such as the Swedish central bank and the Bank for International Settlements, so as to settle its ongoing payment obligations, Ræstad and Keilhau deemed it necessary to issue a circular letter to several central banks in July 1942. The letter pointed out that the Oslo office did not represent Norges Bank, that the institution was not bound by agreements made with the Oslo office, and that payments to Oslo could not be considered valid.¹⁹

The letter created quite a stir in several countries and resentment in Oslo. Rygg's explicit reaction alluded in particular to the fact that Norges Bank in reality maintained the payment service in order to ensure that a certain amount of provisions were sent to Norway from unoccupied Sweden. But at the core of his endeavours were his attempts to curb the Wehrmacht's withdrawals from the occupation account; this effort was helped by Rygg acting

¹⁷ Hans Fredrik Dahl, *Arnold Ræstad* [Online dictionary] (Kunnskapsforlaget, 2009 [cited 21.3.2017 2017]); available from https://nbl.snl.no/Arnold_R%C3%A6stad.

¹⁸ Norges Bank London (NBL) to the Ministry of Finance, Aug. 29, 1940, the Ministry of Finance's London Archive (FINL), National Archives of Norway, S-2061/D/L0166.

¹⁹ The letters exist in both Norwegian and English versions in NBL, S-3946/D/Da/L0007.

as the central bank's governor, even though it does not seem that he explicitly invoked this function for himself.²⁰ But a demonstration in the form of a circular letter from London that asserted that Rygg merely led a "de facto" institution hardly strengthened his authority in relation to the occupying power. Incidentally, the letter was rescinded later on as the result of continuous pressure from several ministers and the leadership of the Ministry of Finance (London), who were not informed of the letter in advance and found it incompatible with vital national interests.²¹

Undoubtedly, the greatest task for the London executive board was their comprehensive plans to relaunch the monetary system after the war. This project lasted continuously from 1942 until 1944/45. We will not discuss at length the various proposals and their details – suffice to say that a common trait was their aim to reintroduce and restore stability after the war. There are obvious similarities between especially Ræstad's thoughts and the ideas that dominated the Norwegian debates on monetary policy following WWI, when all the actors wanted to return to a pre-war gold standard. After extensive studies the London-based executive board proposed in 1942 to issue a new *kroner* after the war, with a fixed gold value that was based in particular on pre-war currency rates. This *kroner* was to be gradually put into circulation after liberation and be used alongside the already existing *kroner*.

The proposal was sent to the cabinet's members, several civil servants, the leadership of the Norwegian resistance movement, and the "de facto institution in Norway", and informally also to certain other actors in Norges Bank's immediate circle. All the elements of the plan – tying the *kroner* to gold, determining its value without taking concrete realities into consideration, and circulating the new *kroner* before the old one was withdrawn – were

²⁰ Rygg's reaction reached London through various channels, but is most elaborately expressed in Norges Bank, *Norges Bank under okkupasjonen* (Oslo: Gundersens boktrykkeri, 1945).

²¹ Johan Melander's note "Norges Banks rettslige stilling" (Norges Bank's legal status), Jan. 26, 1943, NBL, S-3946/D/Da/L0021.

criticised by everyone who reviewed the proposal. “But this is complete madness!” thundered the head of the Swedish central bank, Ivar Roth, when he laid eyes on the plan.²²

The Bank of England was equally sceptical, though their viewpoints were expressed in more formal terms to Ræstad and Keilhau. The British pointed out that many occupied countries were currently working on plans for monetary reform after the war, but that none were planning to introduce a new currency and thenceforth use two parallel systems. In particular the Belgian plans to swiftly bind or sterilise a major percentage of the existing amount of money, and then proceed with, what in principle was the same currency, was cited as an interesting example.²³

Paul Hartmann, the minister of finance in Nygaardsvold’s national unity government in London, was also among the sceptics. Hartmann had served for many years as a chief municipal executive in Oslo, and he was one of Ræstad’s closest friends. During his exile in London, Hartmann kept a journal that was obviously written with an eye towards publication at some future date. After mentioning his scepticism of the proposed monetary system, Hartmann felt the need to explain his perception of Ræstad to his journal and its readers:

“I have known him and been his friend since the age of fifteen, I’ve lived with him in both Paris and Oslo. [...] In his youth he acquired a knowledge of classical literature, Greek, and Latin that is entirely exceptional for someone who does not practise in that field. His interest subsequently turned to matters of law and international law, the balance of payments, the national economy, aviation, and radio.” Following this presentation, Hartmann went on to express his doubt as to what all this entailed: “I rather think that he has never collaborated with anyone whom he thought he could learn something from. He often becomes ensconced

²² Paul Hartmann, *Bak fronten: fra Oslo og London 1939-1945* (Aschehoug, 1955)., 59.

²³ Christian Brinch’s note “Møte i Bank of England” (Meeting in the Bank of England), Sept. 3, 1942, and Keilhau’s minutes from Sept. 6, 1942, both S-3946/D/D6/L0006.

in his own line of reasoning, and his ideas tend therefore to detach themselves to a worrying degree from the real world.”²⁴

Hartmann’s criticism was probably rooted in the protracted discussions on gold and the practical concerns regarding the two different *kroner* standards. For Hartmann’s young advisors, the ideas regarding the choice of the *kroner*’s value were just as discouraging. The most important of these advisors was the young economist Knut Getz Wold, who graduated from Ragnar Frisch’s new university program in Economics in 1939, which was infused with new macroeconomic principles. Despite his relative youth, the dynamic Getz Wold (b. 1915), who himself came to serve as a Governor of Norges Bank in a distant future (1970–85), acted with great authority and self-confidence, and his minister granted him a significant amount of leeway.

An important forum for the ongoing discussions was a committee that comprised a prominent Trade Union Member and higher officials from the exile government. In regard to the issue of monetary reform, the members from Norges Bank were in a clear minority. The majority preferred pragmatic arguments when discussing the future level of the exchange rate, in a trade-off between import costs and price pressure on the one hand and cost level and competitiveness on the other. Ræstad, in contrast, did not think in such terms. His deliberations were largely formal and concerned gold standards, the pre-war rate of exchange between *kroner* and pound sterling, and the importance of revaluing the gold reserve, which had last been done in the summer of 1940. In this perspective, Ræstad cannot be counted among the many agents of change from World War II and the postwar era who heralded a transition to new ideas in economic policy in general or monetary and interest rate policy in

²⁴ Hartmann, *Bak fronten: fra Oslo og London 1939-1945*. 60

particular. Knut Getz Wold noted in his journal, with a certain sense of surprise, that all Ræstad's ideas seemed to originate from the post WWI era.²⁵

That the executive board's views diverged from not only from those of the younger economists, but also their central bank peers was also explicitly pointed out by the representatives from the Bank of England. In the aforementioned meetings, the Bank of England's representatives explained that they failed to understand how Ræstad and Keilhau could favour a fixed postwar *krone* value before anyone knew the *krone*'s international value or what the average Norwegian had to pay for "his bread and his ale".²⁶

III

A lesson learned from WWI (and other wartime situations) is that it is difficult to defend the formal autonomy of the central bank when vital national interests are at stake.²⁷ Additionally, autonomy is easily challenged in a situation when the ramifications of the central bank activities are rapidly changing.²⁸ Both circumstances were obviously present in the negotiations between *Norges Bank* and the Ministry of Finance in the government apparatus in London.

Discussions in 1943 and 1944 revolved around four central issues: The role of the Oslo office, the status of the gold reserve, the coming negotiations on a post-war monetary system, and the monetary reform in Oslo. In all these cases, the Bank's management chose a

²⁵ Knut Getz Wold's journal, Jan. 20, 1943, Knut Getz Wold, 0627/d/Dg/L0055.

²⁶ Christian Brinch's note "Møte i Bank of England" (Meeting in the Bank of England), Sept. 3, 1942, and Keilhau's minutes from Sept. 6, 1942, both S-3946/D/D6/L0006.

²⁷ Gjermund Forfang Rongved, "The slide from stability : monetary and fiscal policy in Norway 1914-1920" (Faculty of Humanities, University of Oslo, 2013)., cf. introduction, for literature survey.

²⁸ The obvious example is the workings of the gold standard before and after WWI. The gold standard provided a stable framework for defending the exchange rate by central banks. After the gradual collapse of the gold standard, a new ground was opened on how a new exchange rate should be established, and by whom.

rather confrontational approach in their dealings with the Ministry, and none of the disputes fell out to its advantage.

The abovementioned meeting in January 1943 also demonstrated how Hartmann viewed the relationship between the central bank in exile and the *de facto* institution at home. In several instances, Ræstad and Keilhau had promoted the central bank's formally autonomous position in lesser issues, frequently gaining the approval of the Ministry of Finance, that accepted that the Norges Bank Act of 1892 continued to regulate the relationship between the government and *Norges Bank*. After the London-based executive board had registered their addresses and accounts as the Norwegian central bank, however, Ræstad argued vigorously that Norway's gold reserve should be formally transferred to Norges Bank (London); by that time the Government had deposited the gold in American and Canadian vaults. Although Ræstad's claim was formally understandable, it clearly breached the pragmatic sense of community that characterised, or at least should have characterised, the exile government's common endeavour to win the war and create peace.²⁹ Nor did any transfer of the gold reserve ultimately take place.³⁰

During a meeting early in 1943 Hartmann stated that he envisioned that Norges Bank in Oslo would be further developed following the liberation, and that it was not prudent to make decisions in London that would have a long-term effect in the post-war era. According to Getz Wold's journal, this left Ræstad "stunned", "red-faced and angry".³¹

From a purely administrative perspective, the Ministry of Finance's view should come as no surprise, as the main office in Oslo had more or less been transformed from a central bank to a *de facto* institution when the occupying power took over and the Norwegian

²⁹ "P.M. om disponeringen av og disposisjonsretten til Norges Banks gullbeholdning under dens transport fra Oslo 9.4.1940 til USA og Canada" (P.M. on the disposal of and right of use to Norges Bank's gold reserve during its transportation from Oslo to the United States and Canada, April 9, 1940), NBL, S-3946/D/D6/L006.

³⁰ Cf. Ole Colbjørnsen's undated note, "Merknader til direktør Ræstads innberetning" (Comments on Director Ræstad's report), FINL S-2061/D/LD166.

³¹ Johan Melander's note dated Jan. 21, 1943, S-6/3946/D/D6/L0016, Knut Getz Wold's journal Jan. 20, 1943, PA-0627/D/Dg/L0055.

government left for London; taking such a perspective one step further, it would seem reasonable to contend that the process should be reversed following the liberation. Underlying Ræstad's outrage, however, was a fundamental antipathy against both the "de facto institution" and the Germans who occupied the country, coupled with strong ambitions on behalf of the London-based executive board.³²

Keilhau was even more outspoken in regard to this issue. An important aspect of his line of reasoning was that Norway's domestic economy and monetary system had in reality become linked to the German inflationary monetary system; it was no longer "free and pure":

"We salvaged the merchant fleet and we salvaged Norges Bank. Were the free Norges Bank to be merged with the German-controlled Oslo institution following Norway's liberation, we would thereafter, with no compelling reason, have surrendered one of our most important economic assets to the German-infiltrated portion of our economy [...] Should this proposal really be effectuated, I would allow myself to label it as the "Falkenhorst line" [Falkenhorst was the commander the German invasion of Norway] and consider all of its proponents to be manifest fifth columnists."³³

The strong wordings and disagreements were, however, probably a part of the motivation behind Hartmann's next move, when he a few months later proposed to the cabinet that Norges Bank's executive board should answer directly to the Ministry of Finance. It was first at this juncture that the Norges Bank Act of 1892, which had been continuously interpreted in the discussions between the cabinet ministers, was clearly and formally set aside.

³² "Den norske pengeenhet" (The Norwegian currency), study from the executive board of Norges Bank dated Aug. 25, 1942, NBL, S-3946/D/D6/L0016.

³³ "Prinsippene for den økonomiske nyorientering i Norge etter krigen. Bemerkninger i anledning Knut Getz Wolds P.M. av 2. mars 1942" (The principles for the economic reorientation in Norway after the war. Comments concerning Knut Getz Wold's P.M. dated March 2, 1942", NBL, D/D6/L0016, file 1. Keilhau's views on the relationship between Norges Bank (London) and the Oslo office, as well as his views on Ræstad's opinions, are further illuminated by his "vote of confidence" Oct. 27, 1943, cf. his note dated Dec. 2, 1943, NBL, D/D6/L0017.

Hartmann was vehemently opposed by several of the conservative members of the national unity government, who clearly feared that such a decision would not be reversed were it to be effectuated. Hartmann himself stated that he expected Ræstad to resign if the proposal won through – this led incidentally to Keilhau sending signals that he himself was not that strongly opposed to the minister’s proposal, and Keilhau more than implied that he himself was well qualified for the position as governor of the central bank.³⁴ After modifying the proposal slightly, Hartmann informed Prime Minister Nygaardsvold that he would resign if his proposal was not adopted. The modification consisted in changing the wording of the section that “transferred” Norges Bank’s activity to the Ministry of Finance, to a phrasing where the King or an entity he authorised could issue “instructions for the Ministry of Finance’s and Norges Bank’s areas of activity” without any impediment from the legislation concerning *Norges Bank*. The ordinance, which was to be in effect until liberation, was approved with dissent.³⁵ The central bank was thereby subject to ongoing instruction from the government for the remainder of the London era.

Hartmann considered himself staunchly conservative, especially in regard to monetary issues. There is no reason to presume that he was opposed to a largely autonomous central bank as a matter of principle. But he was very much opposed to an autonomous Ræstad, and to a certain degree an autonomous Keilhau. At the time, Keilhau was set to travel to Washington to participate in the discussions concerning the international monetary and currency policies that were to inform the postwar era. Hartmann, and particularly his young associate Getz Wold, clearly felt that the situation demanded that Ræstad and Keilhau be kept

³⁴ Hartmann: 109; Keilhau’s handwritten letter to Hartmann dated Aug. 24, 1943, FINL, D/L0170. There is little doubt that this represented a turnabout on Keilhau’s behalf; according to Getz Wold’s journal, Keilhau had become “highly enraged” upon initially hearing of the proposal, and characterised it as “brazen”. Knut Getz Wold, July 26, 1943.

³⁵ Provisional regulation of Sept. 3, 1943, included in “Beretning fra Direksjonen for Norges Bank om virksomheten i det frie Norge og i London” (Report from Norges Bank’s executive board on its activities in the free Norway and in London): 116f.

under control. The cabinet's decision of September 1943 provided the Ministry with the formal means to instruct the two key figures.

IV

The major issue of discussion in the winter and spring of 1943 pertained to Norway's position on the proposal for a new international monetary order, which was to be implemented after the war. On the table were two wide-ranging plans, one drafted by the British economist John Maynard Keynes; the other by Harry Dexter White, a high-ranking official in the American Department of the Treasury. Both plans aimed to establish a stable framework for international trade that had been lacking for quite some time, but the solutions they outlined were markedly dissimilar. The differences stemmed in part from differing theoretical underpinnings, but they were sharpened by the divergent British and American interests in technical and political solutions.

We shall not go into detail here about the plans and their elaboration, but instead focus on their key aspects as viewed from the Norwegian perspective. The Keynes Plan entailed the establishment of the International Clearing Union, which was to use a new unit of account, the bancor. Each participating country would start with a certain amount of bancor that corresponded with their prewar trade, population, and gold reserve levels – criteria that incidentally favoured Great Britain. If significant imbalances arose, as measured by the bancor reserves, increased interest rates would induce the countries in question to restore the balance. In such a system, the responsibility for maintaining equilibrium would lie with surplus and deficit countries alike.³⁶

³⁶ Armand Van Dormael, *Bretton Woods: birth of a monetary system* (Springer, 1978), Herman van der Wee, *Prosperity and upheaval: the world economy, 1945-1980* (Harmondsworth: Penguin Books, 1987).

The White Plan proposed two other institutions: a world bank to provide long-term credit to countries that needed it, and a major stabilisation fund to supply more short-term credit; such credit was however to be allocated on the basis of commercial criteria. The White Plan was also based on a system of fixed rates of exchange for the various national currencies. Taken as a whole, these two criteria largely laid the responsibility for eliminating imbalances on the deficit countries in the system.

The Norwegian Ministry of Finance was swift in its reply.³⁷ The ministry's political assessments shared their underlying principles with those of the Keynes Plan. This plan was considered to be the most flexible one, for instance in regard to national exchange rate policies, and more suitable for meeting what the ministry feared would be the truly monumental challenge after the war: how would it be possible to achieve equilibrium in the payment systems with a financially robust United States, with its strong tradition of protectionism, and a more impoverished Europe with major reconstruction needs? None of the studies expressed any confidence that the United States would follow a trade policy that differed fundamentally from the one the country had followed in the wake of WWI. It was therefore necessary to establish a system that would also impel a major surplus country – namely, the United States – to do its part in reducing trade surpluses.

The Norwegian Central Bank's perspective differed entirely from that of the Ministry of Finance.³⁸ The executive board was primarily sceptical to the flexibility and the room for discretion that were intrinsic to both plans, but perhaps primarily in the Keynes Plan. Furthermore, Ræstad and Keilhau pointed out that the plans entailed that elected politicians would assume a greater role at the expense of the central banks, which stood for professional

³⁷ Knut Getz Wold's note dated May 13, 1943, B9.

³⁸ Keilhau, "Utkast til uttalelse om Keynesplanen og Whiteplanen" (Draft statement concerning the Keynes Plan and the White Plan), May 10, 1943; the executive board of Norges Bank, "Forhandlinger om en internasjonal pengeordning" (Negotiations concerning an international monetary system), May 13, 1943, B10.

acumen and which did not depend on the fluctuating moods of the people to carry out their chosen courses of action.

Ræstad and Keilhau met with Keynes a few times in London to discuss the matter. At their final meeting, Ræstad and Keilhau brought with them their own proposal, featuring autonomous central banks, full gold convertibility, and formal obstacles that would hinder member countries within an established cooperation from changing their rates of exchange. The ensuing correspondence aptly symbolises the meeting between future and past – the far-distant past, even. Keynes quashed the issue of independent central banks by stating that this should be decided by the governments of the relevant countries. In contrast, he was quite explicit when it came to determining monetary values and rates of exchange:

“I appreciate the reasons and the experience which lie behind this. But I cannot believe, after the experience of the period between the wars and of this war itself, that anything so conservative would really meet the needs of the new conditions [...] I shall hope yet to convert you and Dr. Keilhau to looking with not too unfavourable an eye to something more ambitious than you are favouring at the present!”³⁹

However, Keynes proved unable to persuade Ræstad, who defended the use of fixed external gold convertibility in a lengthy reply, using arguments that were virtually identical with those he had promoted during the deflationary policy of the 1920s. His arguments were formal, perhaps even idealistic, and in no way related to concrete economic mechanisms or results:

[...] a mobile state of the currency as an international economic order is incompatible with an orderly, as opposed to a speculative, economy [...] it can never be justified as an

³⁹ Keynes to Ræstad, July 4, 1943, NBL B0010.

economic, anymore than on any other, ground to sacrifice the fundamental stabilisation of economic life for purposes of contingency and expediency, however important they may be.⁴⁰

Sending Ræstad to the United States for the impending negotiations does not seem to have been considered. The government had decided early on that Keilhau would make the trip, but the Ministry of Finance was reluctant to appoint him as the head of the delegation. Keilhau was, however, sent to the conference with a written instruction, which in its level of detail, and not least in its candid explanations for being so detailed, was an uncommonly bureaucratic piece of text. Numerous subsections made clear that the Norwegian view was that a flexible international system was called for. The delegation was also instructed not to deal with issues relating to the division of authority between central banks, ministries, and governments. The most exceptional subsection was the seventh one, which went as follows:

“The ministry has decided that the delegation should not issue any statements or make any proposals that in any way anticipate decisions concerning the future monetary system in Norway, cf. the Ministry of Finance’s and Norges Bank’s differing viewpoints on this matter. Nor should any statements be made that may in any way seem to disparage the value of the occupation krone or the status of Norges Bank in Oslo.”⁴¹

An entire book could have been written about Keilhau’s trip to Bretton Woods, though a few paragraphs must suffice here. Keilhau crossed the Atlantic on the *Queen Mary*, which also lodged the British delegation. In telegrams he subsequently sent from the United States, Keilhau reported that he had held productive discussions with Keynes, and that he had set forth proposals that had gained widespread approval. A short while later he also reported

⁴⁰ Ræstad to Keynes, 16.8.1943, NBL B0010. Keynes disagreed, as he would have had he met Ræstad twenty years previously. But now it was Keynes who had the backing of the people’s representatives: “When a particular country’s wage-policy has got out of step with its neighbours’ at the existing rate of exchange, the choice, between deflation in order to create unemployment and a modification of exchange rates, as the best available means to restore equilibrium is a political, as well as an economic and banking, question. And in this country Parliament would be unwilling.” (Keynes to Ræstad, Aug. 16, 1943).

⁴¹ Keilhau, undated, NBL 0010.

that the British delegation had invited him “personally” to attend their preliminary meetings in Atlantic City.⁴²

It was by no means given that Keynes and the British delegation would have welcomed Keilhau to join them in Atlantic City, considering Keilhau’s previously stated views. But these views were probably changing. Keilhau’s personality made a strong impression on the British delegation too. In the words of Lionel Robbins, professor and delegation member, Keilhau was as “a queer Peer Gyntish figure, with an explosive voice and absurd habits and gesticulations”.⁴³ It seems likely, however, that Keynes intellectually wielded a strong influence over Keilhau. Keilhau’s correspondence and post Bretton Woods opinions indicate that he became a strong supporter of Keynes during their journey on Queen Mary. It is for instance difficult to rediscover Keilhau’s/Norges Bank’s viewpoints from 1943 and 1944 in the book that Keilhau wrote in 1946 on the genesis of the new international monetary system.⁴⁴ Professor Johan Vogt’s eulogy for Keilhau upon his death in 1954 also underlined that Keilhau had felt very close to Keynes.⁴⁵

The Ministry of Finance did not pay much heed to the plethora of messages from Keilhau. It was not until the finance minister and his confidantes read in the *Times* and the *Evening Standard* that the Norwegian delegation had proposed the abolishment of the Bank for International Settlements, followed by comprehensive interviews with the head of the delegation that the correspondence began in earnest to flow the other way across the Atlantic. “This is a major attack against the BIS, an acute and controversial issue in foreign policy, one that there isn’t the slightest reason for Norway to instigate,” an alarmed Getz Wold wrote to

⁴² Telegram quoted in a communiqué from the Ministry of Foreign Affairs to the Ministry of Finance, June 28, 1944, NBL 0010.

⁴³ After Harold James, *International monetary cooperation since Bretton Woods* (International Monetary Fund, 1996), 96 f.

⁴⁴ Wilhelm Keilhau, *Det nye internasjonale pengesystem* (Oslo: Aschehoug, 1946).

⁴⁵ Johan Vogt, "Wilhelm Keilhau," *Statsøkonomisk Tidsskrift* 68, no. 2 (1954).

Arne Skaug, counselor at the Norwegian Embassy in Washington.⁴⁶ The BIS issue had not been discussed prior to Keilhau's departure, and the Ministry of Finance's general attitude was that Norway as a small country should not become embroiled in controversial discussions that did not affect its national interests. As it transpired, the BIS proved to be a major and difficult issue at Bretton Woods, even though a toned-down proposal, which was presented later on with the Dutch delegation, won general support.⁴⁷

He was nonetheless instructed to return home after the negotiations had concluded, even though certain reports remained unfinished. When no reply from Keilhau was forthcoming, the finance minister demanded he immediately return in the cheapest way possible and threatened to annul Keilhau's salary and per diem. "I feel offended beyond measure," Keilhau wrote in a final telegram, before he reluctantly left the United States for the London offices.

V

The transition from the London government to the new national unity government in Oslo witnessed a wide-ranging political change in personnel and mood, one that is difficult to entirely comprehend. We can trace the changes in context in a reorientation of key actors, in a number of voices in correspondence and public debate, and finally in the emergence of new players with different horizons on the national scene of policymaking.

A young upcoming economist— who for long stretches of time worked for the Norwegian legation in Stockholm and followed much of the planning that took place in London, in Stockholm, and among the leadership of the Norwegian resistance in Oslo — wrote

⁴⁶ Knut Getz Wold to Arne Skaug, July 14, 1944, RA-0627/D/Da/L0001.

⁴⁷ Toniolo, *Central bank cooperation at the Bank for International Settlements, 1930-1973.*, 269ff; Robert Skidelsky, *John Maynard Keynes: Fighting for Britain, 1937-46*, London: Viking (2001).

in September 1943, a frank and open letter to Keilhau, with a personal reflection on why he thought the ideas from Norges Bank in London seemed outmoded: “I dare say that we who have lived under German occupation also to a great degree have distanced ourselves from the prewar lines of reasoning.” The attitudes of both young economists and prominent bankers had changed by this juncture. This was supposed to serve as a kind of explanation to Keilhau for why key actors in Norway had referred to his and Ræstad’s proposals as “utterly useless and totally insane”. In addition to several technical arguments, the young economist contended that plans that neglected practical consequences and an equitable distribution of the burdens of war, and that only related self-reflexively to monetary theories and legislation would fall dead in the water.⁴⁸ Getz Wold expressed similar thoughts in a letter to Arne Skaug, the abovementioned trade attaché in Washington. “He is completely unable to understand the psychological attitude of those at home, which might have enabled him to view himself and his own endeavours in the proper perspective,” Getz Wold wrote concerning Keilhau, referring to the time that Keilhau had spent in tandem with Ræstad.⁴⁹

Exactly what sort of moods and attitudes were prevalent? The exile communities in London and partly New York and Stockholm had become hotbeds for new impulses and for planning and politics, especially in the field of economics. The administrative milieu also produced numerous young talents who would subsequently become prominent bureaucrats and politicians, like Knut Getz Wold (later Norges Bank Governor), Arne Skaug (later Minister for Trade), and Erik Brofoss (later Minister of Finance, and Norges Bank Governor).

Nevertheless, the overall picture is that the “resistance movement in exile” was dethroned in favour of a broadly defined “resistance movement at home” in politics. All the political parties, but perhaps the burgeoning Labour Party in particular, witnessed a swift and forceful changing of the guard. Those who were associated with the policies of the interwar

⁴⁸ Otto Christian Malterud to Keilhau, Sept. 10, 1943, RA/S-3946/D/D6/L0019.

⁴⁹ Getz Wold to Skaug, Aug. 13, 1943, Ra/Pa-0627/D/Da/L0001.

period, the deficient defence spending, and the lacklustre mobilisation prior to the German invasion had to yield to the next generation.⁵⁰

The new leaders included many from the resistance who enjoyed great popularity and who spoke with great moral authority after the war. The first attempt to form a government centred on Pål Berg, Chief Justice and leader of the resistance movement in Norway during the war. When he encountered opposition, it was the Labour Party's Einar Gerhardsen, who formed a unity government. Gerhardsen's government became the youngest one in Norwegian history. The average age of the cabinet ministers was 44 years, which was far more sensational at the time that it would be today. The youngest minister was only 30-year-old, the former leader of the Norwegian military resistance organisation ('Milorg') from 1943, Jens Chr. Hauge.

This generational shift may be counted among the catalysts for change that were already budding in the 1930s. The generation of politicians who had their formative years in the period before and during WWI was replaced by younger people who had forged their economic and political ideas in the interwar decades of crisis. As a result, both in Norway and in many other countries, a different mood prevailed in 1944/45 compared with the years following WWI, when the ruling political forces wanted to re-establish the pre-war conditions for prosperity. It was a new future that was to be built in 1945, and this was particularly evident in the economic sphere.

A common characteristic of the parties' political manifestos, and of their joint programme for the immediate postwar years, was a strong belief in planning and governance.⁵¹ This belief was related to a clear mistrust in the forces of the marketplace being as unfettered as during the precarious interwar period. But equally significant was a somewhat

⁵⁰ Francis Sejersted, *Opposisjon og posisjon. Høyres historie 1945-1981* (Oslo: Cappelens, 1984). 31 f; Rune Slagstad, *De nasjonale strateger* (Oslo: Pax, 1998). 217 f.; Finn Olstad, *Einar Gerhardsen: en politisk biografi* (Universitetsforlaget, 1999). 188 ff.

⁵¹ Lie, *Ambisjon og tradisjon. Finansdepartementet 1945-65*.

indefinable belief in political action and in “economic democracy”.⁵² This was a concept that was variously understood; in actual practice it entailed both a demand for stronger governance by the Norwegian Parliament (Stortinget) and the government, and arguments for the establishment of corporative agencies in economic life. Such ideas had been articulated and discussed during the crises of the 1930s, and some had also been incorporated in the parties’ political programmes. But across party lines, the inter-war generation of politicians had been reluctant to carry out those ideas in actual practice.

Keilhau’s lack of understanding for the new “psychological attitude” is perhaps best seen in his defence of an autonomous central bank. As he wrote in 1943, the sole purpose of a bank of issue should be to take care of the state’s monetary needs, without any influence from partisan politics. In contrast, the finance ministers were at the core of political power; they were answerable not only to the national assembly, but also to their party and their programme. A transfer of power to the finance minister would therefore entail an expansion of “the political sphere of society at the expense of the technical”; this would hardly be beneficial, Keilhau contended, in what was meant as an understatement.⁵³ But at home in Norway – and in numerous countries that either nominally or in reality were preparing such transfers of power – it was precisely such notions that monetary policy should be protected from “the political sphere of society” that stood at an all-time low during the conclusion and aftermath of the war.

In domestic circles during and after the war, the issue of an “autonomous” central bank hardly seems to have been discussed; it was taken for granted that an entirely new era was dawning for Norges Bank.⁵⁴ When it was suggested in May 1945 that Gunnar Jahn should become its governor, Jahn dejectedly wrote in his journal that someone was trying to

⁵² Trond Bergh, *Storhetstid (1945-1965)*, vol. 5 (Oslo: Tiden, 1987). 191 f.

⁵³ “Utkast til uttalelse om Keynesplanen og Whiteplanen” (Draft statement concerning the Keynes Plan and the White Plan), Keilhau’s note dated May 10, 1943, B10.

⁵⁴ Discussions are found in Norges Bank London’s archive but they have not been found in the Ministry of Finance og Norges Bank Oslo archive.

“get rid of” him, as he was by now convinced that the central bank would in the future be “entirely subordinate to the Ministry of Finance”.⁵⁵

This was not only related to views on “economic democracy” and control by popularly elected representatives, but also the new economic intelligentsia’s views on the role of monetary policy. The modern macroeconomic paradigm was in favour of using a coordinated fiscal and monetary policy to influence aggregate demand, and thereby society’s economic activity. This was part of the international *zeitgeist*, inspired by Keynes in particular. The Norwegian variant achieved its particularity through the economic-political programme of Ragnar Frisch, whose students soon dominated both the economic debate and the governmental postwar planning agencies. The generational shift in economic policy coincided here with the graduation of numerous economists from a recently established programme at the University of Oslo that was inspired by Frisch.⁵⁶

VI

The 1946–50 period is often labelled the “era of reconstruction” in the context of economics and politics.⁵⁷ For Norges Bank, however, there would be no recovery of former glories. In this context Norway followed the same model employed by several other countries, although the central bank’s subordination was more absolute and emphasised more strongly than in most other countries. A few economic policy decisions made early after the liberation marked a transition to a new age.

⁵⁵ Gunnar Jahn, May 25, 1945.

⁵⁶ Bergh and Hanisch, *Vitenskap og politikk. Linjer i norsk sosialøkonomi gjennom 150 år*.

⁵⁷ Trond Bergh et al., *Vekst og velstand: norsk politisk historie 1945-1965: regjering og opposisjon under arbeiderpartistyre* (Oslo: Universitetsforl., 1977)., Helge Ø Pharo, "Bridgebuilding and reconstruction: Norway faces the Marshall plan," *Scandinavian Journal of History* 1, no. 1-4 (1976).

Before the war, it was in practice Norges Bank that determined the exchange rate. However, in 1945, no one disputed that this was a Government matter, and the central bank did not get any privileged role in the preparation of the decision. However, it was more difficult not to charge Norges Bank with the task of restructuring the monetary system.

During the summer of 1945 Norges Bank elaborated a comprehensive program for monetary reform. The main measure was a one-time tax with a high and severely progressive tax rate on growth in wealth between 1939 and 1945, aimed at appropriating large parts of the surplus purchasing power. This proposal was not a novelty from *Norges Bank*, but had been incorporated in various guises into the proposals and drafts that had been elaborated in the central administration in London.⁵⁸ A proposition for a one-time tax won fairly widespread approval immediately following liberation. But the unanimity evaporated already before the new post-war government submitted their bill to the *Storting*, under long discussions on how different sorts of assets should be valued and taxed.

After a parliamentary election resulted in the formation of a majority Labour Party government late in 1945, this proposition was withdrawn.⁵⁹ During the subsequent months a new proposal was drafted. Public opinion was now more critical of the proposal. The young economists who had been educated in Frisch's classrooms had argued all along that the liquidity surplus was not really a major factor behind the inflationary pressure, which, in their view, was primarily caused by the physical absence of consumer goods. That which around six months before had been referred to in abstract terms as a "monetary restructuring" – one that was to alleviate price controls and ensure that those who had become rich from the war would foot most of the bill – was now referred to as a "a record-high tax" to the state. The business community, which at the outset had been the most vociferous supporter of the measure, became more disapproving and demanded several special arrangements. For this and

⁵⁸ Gunnar Jahn, Alf Eriksen, and Preben Munthe, *Norges Bank gjennom 150 år* (Oslo: Norges bank, 1966).

⁵⁹ Einar Lie, "Pengesanering og reguleringsøkonomi," *Historisk tidsskrift* 73, no. 1 (1994)..

other reasons, the Conservative Party's attitude to the tax swung from being favourable to being critical and cautious. By the time the finance minister submitted a proposal to the *Storting* in 1946, the tax rates had been considerably lowered and a number of tax breaks and special arrangements had been introduced.

Hence, monetary policy measures were largely inefficient until the liquidity surplus was eliminated early in the 1950s. Nonetheless, issues pertaining to Norges Bank were still part of the economic debate, but mostly to indicate that the bank played an entirely new role than before. For example, the new finance minister, Erik Brofoss, repeatedly alluded to the central bank and monetary policy in his annual fiscal address to the *Storting*. His main point was that monetary policy had to be an integrated part of a general economic policy; the days when separate goals could be set for monetary policy were long gone.

The finance minister also dealt in detail with Rygg's report to the *Storting* on matters relating to the occupation account. Rygg had argued that the state and not Norges Bank should be responsible for the occupation account, and he made several comments concerning how any war reparations should be channelled through the state and deposited in the account as repayment. In response, Brofoss more or less ridiculed such an exposition of the relationship between Norges Bank and the state. According to Finance Minister Brofoss (later Governor of Norges Bank, 1954-70), it was the economic situation – primarily how the mass of liquidity was to be treated – that had to determine what should be done with these and other payments, and such an assessment had “nothing whatsoever to do with a quasi-legal question of repayment”. His point was in any case to demonstrate that a formal separation between “the state” and “the national bank” was an obsolete notion.⁶⁰

In this situation it was not surprising that the Labour government chose to nationalise Norges Bank, through a proposal in 1949 to acquire the shares that were privately owned.

⁶⁰ *Stortingstidende* 1946: 283 ff.

This took place amidst an international wave of nationalisation; the British authorities had undertaken a corresponding operation in regard to the Bank of England in 1946.⁶¹

In the *Storting*, the centre-right minority opposed the proposal. But also this debate seemed mostly to be about settling old scores, both with the autonomous *Norges Bank* and particularly with Rygg. Several Labour MPs repeatedly invoked the failed monetary policies of the 1920s. As such, the debate over nationalisation served its purpose, providing a new opportunity to renounce the old ways and demonstrate the government's authority and responsibility in the monetary sphere.⁶²

VI

In total, the immediate postwar years led to a near-absolute loss of status and autonomy for Norges Bank. To return to the first of the two questions in the introduction, the change was mainly spurred by the general changes in intellectual and political orientation. Changes in formal, external institutions, as Bretton Woods, played no significant role. The Central Bank's position was undermined by the new impulses, mainly carried by a new generation of economists and politicians. The war itself expedited the changes, both by moving a large part of the coming members of the economic and political elite to the fruitful exile milieu in London, and by creating a willingness and possibility of making a "new" beginning in public policy making.

But how significant were the complicated relationship between Norges Bank in London, the Ministry of Finance, and the "de facto institution" in Oslo? They mattered – to some extent. Though the calamities in London and between London and Oslo are not among the central bank's finest hours, the legacy from the 1920s and the new theoretical and political principles would in any case have diminished Norges Bank's sphere of action in an entirely

⁶¹ John Fforde, *The Bank of England and public policy, 1941-1958* (Cambridge University Press, 1992).

⁶² *Odeltingstidende* 1949: 382–421.

new way. The conflicts between Norges Bank and the government were known only to a very few people home in Norway and can hardly have had any influence on the general opinion in favour of increased political influence also on monetary policy.

In all areas of Norwegian society, the war years caused a reorientation and to a certain extent a radicalisation in the economic and political communities – except in *Norges Bank*. By appointing Ræstad to lead the central bank in exile, the Norwegian government opted for someone who was both more unyielding and more conservative than Rygg himself, and who thereby ended up answering directly to the finance minister. For the same reason, the central bank in exile was not a factor in the new economic-political thinking or in planning the exchange rates and the monetary reform in 1945; this work recommenced after the new all-Labour government was formed late in 1945.

This last point is perhaps the most salient one. The countries that carried out vigorous reforms – Belgium is the most prominent example, but also Denmark tackled its liquidity surplus early on – did so soon after they were liberated. The most striking parallel is perhaps the Belgian central bank, which in 1944 extensively tied up the liquidity surplus on the basis of plans that had been laid during exile in London. When a corresponding operation dragged on in Norway, support gradually eroded. As a result, the Norwegian economy found itself in a situation where monetary measures were quite simply irrelevant. In this way, theories of central bank governance coincided with actual practice in the immediate post-war years. This left Norges Bank and its traditional tools in a political vacuum, which must have contributed to the transfer of formal and informal authority to the ministries in the critical years just after the war.