THE MONETARY PURGE AND THE PERIOD OF SUPPRESSED INFLATION, 1945-1948

The monetary purge

The first measure taken in the financial field was the monetary purge of September 26, 1945. This consisted of the withdrawal of all currency in circulation (banknotes and Treasury notes) with the exception of coins, and the blocking of all deposit money (sight deposits and others) in the banks, followed by the issuance of new currency and the deblocking of bank accounts, after screening, in such amounts as to allow the money supply gradually to expand in accordance with the real growth of the economy.

This measure was intended to serve three objectives. The first was to bring into the open all money and near-money holdings, in particular those improperly acquired during the years of foreign occupation by collaboration with the enemy and operations in the black market. The existing bank secret was abolished. Currency notes not turned in to authorized institutions lost its validity. The second was to register all liquid assets in the form of money and near-money holdings for the purpose of tax assessment under the existing tax legislation and the special reconstruction taxes that were going to be imposed. The third and most important objective was to re-establish an appropriate relationship between the quantity of goods available and the supply of money in circulation.

The achievement of the third and main objective took, understandably, several months. To serve the minimum payments needs
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of the first week following the currency withdrawal and the blockade of bank deposits, new banknotes were made available in an amount of 10 guilders per head of the population, and by the end of the week sufficient additional money was released to finance the income earned over that period. This release was continued for some time until the money supply had filled the national payments circuit. Special releases were authorized to meet normal requirements of enterprises for working capital and exceptional needs for rehabilitation and emergencies that could not be paid out of current income. New bank credit was originally permitted only after the applicant had obtained release of his blocked account; later this provision was dropped, although all new credit remained subject to licensing for a considerable length of time. By the end of 1945 the ratio between national income and the amount of money in circulation in the form of coins, banknotes, and Treasury notes and freely disposable bank deposits had almost returned to its pre-war level. (See Table I).

With respect to the remaining surplus of monetary claims held on blocked accounts, five options were opened:

1. continuation of these holdings on blocked account in the hope and expectation of future releases;
2. transfer of limited amounts to a medium-term savings account;
3. use of these holdings for payment of tax arrears incurred during the occupation;
4. use of these holdings to fulfill obligations in respect to the new special reconstruction taxes to be imposed;
5. subscription to long-term, low-interest bearing Government loans.