European

Recovery

Program

BELGIUM & LUXEMBURG

COUNTRY STUDY

February 1949 • Washington, D. C.
Economic Cooperation Administration

Belgium & Luxemburg Country Study

European Recovery Program

Economic Cooperation Administration
February 1949 • Washington, D. C.

United States Government Printing Office, Washington : 1949

This document is based on the best information regarding Belgium-Luxemburg currently available to the Economic Cooperation Administration, and the views expressed herein are the considered judgment of the Administration. Both the text and the figures for 1949–50 are still preliminary in character; participating countries will therefore understand that this report cannot be used to support any request, either to the Organization for European Economic Cooperation or to the Economic Cooperation Administration, for aid in any particular amount for any country or for any particular purchase or payment.

Paul G Hoffman

FEBRUARY 14, 1949.

Administrator.

Contents

PART I

Summary and Conclusions

ECA aid to Belgium-Luxemburg[1] seeks first to enable that economic union to contribute more fully to the recovery of other European countries by maximizing sales to them of scarce goods such as steel, coal and coke. By extending conditional aid to such countries, that is, by selling them goods for their own soft currencies, Belgium is able to secure an equal sum in dollars with which to pay for its own imports from dollar areas. The second purpose of aid is to maintain economic stability while Belgium takes steps to shift internal expenditures away from consumption and towards savings.

Belgium-Luxemburg has made progress both materially in production and consumption and organizationally in attaining monetary stability. It has been able to eliminate most direct government controls of the economy. Fortunately, Belgium-Luxemburg is not burdened with major problems of physical reconstruction or of overcoming wartime losses of foreign assets to the same extent as some other participants. This is not to imply that the postwar problems and difficulties of the two countries are now solved or are no longer of importance. Such could not be the case for an area so dependent on trade with the rest of Europe.

Out of the total aid of 247.9 million dollars recommended by ECA for 1948–49 only 16 percent or 40.4 million dollars takes the form of loans to assist Belgium-Luxemburg with its internal problems. The remainder or 207.5 million dollars is in the form of conditional aid and is to be matched by Belgium net exports to other participating countries. Thus, the total amount of goods available to Belgium-Luxemburg will not be changed by conditional grants; for every import from the Western Hemisphere paid for by the United States there must be a corresponding export of Belgian goods to other participating countries. Belgium, in effect, earns its dollar assistance by such exports.

Belgium-Luxemburg receives real assistance through such conditional grants. Participating countries no longer possess substantial gold or dollars of their own which Belgium can earn by the sale of its

[1] Belgium and Luxemburg form an economic union. While two sovereign countries, in economic relations with the outside world they may be considered as one. For the sake of convenience, the area as a whole will frequently be referred to as "Belgium."

exports and, consequently, Belgium would not have dollars with which to finance its purchases from the Western Hemisphere. Conditional aid enables Belgium-Luxemburg to exchange its traditional export surpluses, such as steel, for its traditional import requirements, such as Western Hemisphere foodstuffs and raw materials.

Belgian recovery has recently reached a turning point, where inflation has been halted. It is at an economic crossroad where inflation, deflation, and stability are all possibilities. The safest assumption is perhaps that Belgium is headed for some continued unemployment and deflation in 1949–50. Belgian authorities could offset this by a return to inflationary policies, and there is some internal political pressure in favor of this course. But such measures would prevent necessary readjustments from being carried out. The Belgians therefore hope that they can obtain adequate foreign assistance to permit them to solve their unemployment problem without recourse to inflation. A desire for internal economic stability is behind the request for ECA assistance.

Belgium also has the problem of increasing capital investment to permit a long-delayed expansion of public works and a rehabilitation of industrial plants which have not had a sufficient share of the national income. Belgium wants to finance this investment without a corresponding inflationary increase in money supply.

The Belgian authorities could possibly enforce an abrupt switch from consumer-goods imports to capital goods imports and divert internal expenditures from consumption to savings. But Belgium rightfully prides itself on its free-enterprise system which it so successfully maintained through the immediate postwar readjustment period. Furthermore, in the face of growing unemployment due to the slight deflation resulting from its drive for monetary stability, Belgium fears a business slump if an abrupt shift from consumption to savings should occur.

A serious depression in Belgium would be a blow to the ERP. It would mean lost production that is needed in western Europe. It might discourage other participating countries from attempting to stabilize their domestic economies. For Belgium itself it would mean serious economic losses.

In this dilemma the ECA has provided dollars to give Belgium time to make the necessary adjustments and yet maintain relative stability. It allows Belgium to exchange the "soft" European currencies it earns from exports into dollars to pay for imports, through the medium of conditional grants. This makes it possible for Belgium to furnish much-needed goods to other participating countries. The "drawing rights" which are the counterpart of "conditional grants" make it possible for countries which are unable to earn sufficient Belgian francs to continue buying from Belgium, and thus help to avert even more serious unemployment in Belgium.

The 1948–49 OEEC recommendations of 207.5 million dollars in conditional aid and 42.5 million dollars in loans are considered adequate. The loan allotment has been reduced slightly to 40.4 million dollars. The ECA has worked out a revised balance of payments for Belgium-Luxemburg, on the basis of more recent data. The most striking difference is in the uncovered dollar deficit: 157.8 million dollars in the early OEEC forecast, and only 29.4 million dollars in the most recent ECA estimate. This results from an increase in exports to dollar areas over forecast levels, a lower level of imports from dollar areas, and an increase over the predicted amount in receipts of gold and dollars from other participating countries. Further improvement during the next 6 months is possible, so that 1948–49 may close with a somewhat smaller net decrease in monetary reserves than is currently anticipated.

The greater gold and dollar receipts from other participants indicate that the originally estimated net surplus in intra-European trade of 207.5 million dollars was low. This is not in itself necessarily undesirable, but does show that the figure is by no means too large in comparison to European requirements for Belgian products.

The loan allotment of 40.4 million dollars must be examined in the light of conditions as they exist in 1948–49, rather than as they may develop during 1949–50. As noted above, 1948–49 may well be the beginning of a transition by Belgium from postwar difficulties to internal stability, but as long as Belgium continues to suffer to some extent from the same internal difficulties as other participants, net ECA aid is justified in some amount. While it is difficult to fix an exact figure for such needs, or to determine the exact point at which they cease to exist, it is clear that Belgium did require direct aid during 1948 and that an abrupt termination of this requirement is not to be expected. Furthermore, the internal transition appears to have begun only with the middle of the current fiscal year, and should not become fully effective for several more months.

The ECA balance-of-payments forecast indicates a dollar deficit of the order of 69.8 million dollars (without taking into account the loan allotment of 40.4 million dollars, which reduces the net deficit to 29.4 million dollars). Since Belgium has a relatively free economy, this deficit may be taken to be a more or less true reflection of the actual postwar disequilibrium still persisting in the internal economy. The figure 40.4 million dollars, represents only about 60 percent of this estimated gross deficit, and therefore does not appear excessive. The Belgian franc counterpart will be used for certain investment projects, mostly repair of actual war damage, which cannot be financed with presently available internal savings. The need to use the franc counterpart for this purpose may also be taken to indicate a real need arising out of postwar circumstances, and therefore justifying a loan.

Of the total Belgian allotment for 1948–49 of 247.9 million dollars, o total of 196 million dollars has so far been allotted, 40.0 million dollars as a loan and 155.6 million dollars as conditional aid. This leaves an allotment of 51.9 million dollars still to be made, all in the form of conditional aid. In the second calendar quarter of 1948, Belgium-Luxemburg received an allotment of 20 million dollars, of which 3 million dollars was a direct grant and 17 million dollars was a loan.

It has been estimated that during 1948–49, Belgium-Luxemburg is to extend 218.5 million dollars of drawing rights and to receive 11 million dollars, making a net extension of drawing rights of 207.5 million dollars. Net ECA aid for 1948–49, therefore, amounts to 40.4 million dollars.

The totals of the first two annual programs are summarized in the following table:

	1948–49	1949–50
	(In millions of dollars)	
Belgium-Luxemburg request for gross dollar aid	358.2	[1] 250.0
OEEC recommendation of gross dollar aid	250.0	([2])
ECA estimate of gross dollar aid	247.9	200.0

[1] Minimum request; maximum estimated was 400.0 million dollars.
[2] National submissions for 1949–50 not yet examined by OEEC.

The 1949–50 program as submitted by Belgium-Luxemburg provides for a continued increase in domestic production, imports and exports, and for an expansion of investment, particularly by the government. At the same time, consumption levels are expected to increase above the high level attained in 1948–49.

Total exports are estimated to increase from 1,534 million dollars in 1948–49 to 1,892 million dollars in 1949–50. This represents a 23 percent increase. Programmed increases in imports are only about 11 percent, from 1,697 million to 1,915 million dollars. However, the Belgians claim that they could increase exports even further (by up to 150 million dollars, to participating countries) if they could obtain an equivalent amount of additional United States conditional aid. In view of this, the rate of exports cannot be considered an undue burden on the country's domestic economy.

Industrial production is expected to increase to 130 percent of prewar, compared to 84 percent in 1946, 103 percent in 1947, and 111 percent for the first eight months of 1948.

The world shortage of steel has provided a strong market for the Belgian and Luxemburg mills and their production has expanded as ore and fuel became available. Idle capacity has been gradually put into operation, and repairs and modernization are steadily progressing. This trend is expected to continue through 1949–50 and to bring about a further increase of 550,000 tons in raw steel production over 1948–49 estimates. If the demand continues and payments facilities can be arranged these estimates should be attainable.

For a number of reasons, the balance of payments submitted by Belgium in connection with the 1949–50 program appears to require revision. The Belgian estimate of trade with other participating countries assumed a current surplus of only 150 million dollars (after allowing for some gold movements or increases in Belgian clearing credits) whereas in fact it is likely to be somewhat greater. This was done because Belgium assumed that total ECA assistance would be no more than that provided in 1948–49 (250 million dollars). Of this total, Belgium wanted to obtain 100 million dollars in the form of ECA loans available for financing internal investment. This left a remainder of only 150 million dollars to be taken in the form of ECA conditional grants for the financing of its net trade surplus with other participants.

Another figure which seems to require correction is the relatively low estimate of exports to other Western Hemisphere countries.

An estimated balance of payments, adjusted for the above and certain other corrections which appear necessary, results in residual gold or dollar movements which leave a net drain on Belgian monetary reserves of 30 million dollars. This would represent some saving as compared with the decrease in monetary reserves of 116.6 million dollars required by Belgium's original submission. Imports (including imports from the dollar area) are expected to increase, but exports (including exports which earn dollars) will increase to an even greater extent. Thus, the real deficit with the dollar area (excluding earnings of dollars from other participants) will fall despite a generally higher level of trade.

The amount of ECA aid requested by Belgium-Luxemburg for 1949–50 is 250 million dollars; the ECA estimate for 1949–50 is 200 million dollars. The 200-million-dollar figure for aid appears to represent the minimum need for financing the net Belgian surplus on current account with other participants in 1949–50. Indeed, the desire of participating countries may well be to revise this figure upwards, particularly if some allowance is to be made in OEEC's final recommendations for net (nonconditional) aid to Belgium. While only slightly below the conditional grant for 1948–49 (207.5 million dollars), it is much less than the probable total of dollars Belgium will receive for trade with other participants in the current fiscal year. It thus allows for a narrowing of the gap between exports and imports with other participants by as much as one-third. To expect a greater shift in the coming fiscal year does not seem realistic. Any attempt to lower the aid figure would probably only result in larger gold payments to Belgium by other participating countries. This would not be desirable and might well have the effect of increasing the ECA aid needed by these countries. At the same time, the 200 million dollars of ECA assistance, plus outside borrowing of perhaps 65 million dollars, will still leave Belgium with a dollar deficit of about 30 million dollars. While not too large, in view of Belgium's present gold reserves, it serves to indicate the need for still further adjustment in the pattern of Belgian trade and payments. This deficit is estimated on the assumption that there will not be any further substantial gold and dollar earnings from other participating countries, and that the current tendency toward serious unemployment in Belgium will be corrected during the coming year. Failure of either assumption might greatly reduce or even eliminate the predicted drain on Belgian gold reserves.

The ECA program cannot cover all the needs of European development and ECA assistance must be reserved for those cases where adjustments cannot be made without it. Belgium has attained a position where it can look to non-ECA sources for satisfaction of some of its legitimate needs. This applies, in particular, to its entirely normal requirements for foreign investment capital. Other institutions exist to meet requirements for foreign loans, where the sole barrier to private lending is political risk; and ECA should not duplicate their functions. The foreign capital which Belgium requires in order to finance public works as an offset to unemployment (without inflation) can probably be obtained to some extent from private sources. In cases like this, ECA assistance must, therefore, be primarily in the form of exchange of soft currencies, an operation contributing to rehabilitation of other European countries with Belgian goods.

PART II

Chapter I. Analysis of the Current Situation

The Belgian-Luxemburg Economic Union

Belgium and Luxemburg are sovereign nations. Yet the relations between the economies of the two countries are so close that it is virtually impossible to treat them separately.

The Economic Union of Belgium and Luxemburg began in 1922 as a customs and (partial) monetary union. It has since developed into an almost complete economic union. Goods move freely between the two countries (with some minor exceptions), and Belgian and Luxemburg currencies are freely convertible. Luxemburg maintains full political sovereignty, has its own tax system (other than customs), and sometimes follows economic policies divergent from those in Belgium. Yet economic union prevails over any discrepancies which may result from these differences, and is a model for other plans for the integration of presently sovereign economies.

A common monetary system is the mechanism through which the policies of one partner impinge on the economy of the other. Any marked movement of prices in Belgium, for example, almost inevitably brings on a similar movement in Luxemburg.

Much of the economic information that is available, however, relates only to Belgium. It is therefore necessary to assume in this report that what is generally true of economic conditions in Belgium is also generally true in Luxemburg. This assumption is generally correct, since the population of Belgium is nearly thirty times as large as that of Luxemburg.

Population has not changed much in either area since before the war. In Belgium there has been an insignificant increase from 8,396,000 at the end of 1939 to 8,453,000 in 1947. The population of Luxemburg declined slightly from 300,000 to 289,000.

Benelux

The recent efforts toward an economic union between Belgium-Luxemburg and the Netherlands are to some extent inspired by success of the union between Belgium and Luxemburg. They are dealt with in a separate paper, since they concern both Belgium-Luxemburg and the Netherlands.

A. USE OF RESOURCES

Belgium emerged from the war with fairly substantial financial reserves from the prewar period. Therefore, resources were available out of earlier accumulations to finance a temporary extraordinary demand for consumer goods. Belgium was also fortunate in that there was relatively less destruction of plant and equipment than in many other German-occupied countries. Thus the Belgian Government did not have to plan to devote large amounts of current production immediately to the reconstruction of productive plant.

The government was in a position to choose between two general economic policies: re-creation of free markets at the earliest possible moment, or continuation of wartime controls while under-maintenance and destruction of the war period was made good.

In general, the former course was adopted, and the policies of the Belgian and Luxemburg governments since liberation have been to remove government controls, allowing the use of resources to be decided in free markets. Even before free markets were sufficiently developed to influence the economy, the governments had decided against a policy of austerity. Abundance, as contrasted with controlled austerity, was thus a matter of deliberate policy. The result was a high rate of consumption. This has created difficulty in maintaining an adequate level of investment.

1. *Consumption.*—There is very little statistical evidence as to the amounts of particular commodities consumed in Belgium. However, it appears that consumption as a whole has come close to, or perhaps has even exceeded prewar levels. Some tendency to exceed prewar levels may be explained by the backlog of demand built up during the German occupation and by the psychological reaction to wartime privations. The present relatively high level of consumption is indicated by such statistics as are available on retail sales and real wages. Real national income in 1947 was close to the prewar level and industrial production has recently been higher than prewar. While the volume of exports is about 31 percent below prewar levels, the volume of imports has recovered to within 7 percent of prewar levels. More goods are being retained within the country. There is no indication that the rate of individual savings is high or that the rate of investment is excessive.

Such general conditions indicate that Belgium is well supplied with goods and services and that this supply is not being drained by an ambitious capital investment program. They also indicate that real earnings are high, and in the absence of substantial private savings probably go largely to consumption.

The Belgian food supply is adequate. As a whole, food consumption is about equal to prewar, though the level of consumption of individual items is somewhat uneven. Estimated calory consumption per head of population per day is 2,800 for prewar years, 2,780 for 1947–48 and 2,820 for 1948–49. Consumption of less essential consumer goods has been particularly striking. Consumption of bananas, for example, is double the prewar per capita average.

The expansion in use of petroleum products has been great. Fuel oil consumption will be about six times as large in 1948–49 as it was in 1937–38, and nearly three-quarters again as large as in 1947. There are no restrictions on the sale of gasoline, and in 1948–49 the consumption of gasoline will be about two-thirds again as large as in 1935–38 and 27 percent above the 1947 level.

Private automobile registration is expected to reach 160,000 by the end of 1948, compared to 140,000 before the war. Imports of automobiles during the first 9 months of 1948 totaled 32,000, of which 13,000 were from the United States. The demand for automobiles appears to have slackened in recent months, as a result of saturation of the market.

These demands for imported consumer goods are obviously contributing to the level of dollar expenditures incurred by Belgium. Belgian authorities claim that they cannot refuse to supply market demands if they are to maintain a free economy. However, even if rationing is considered inadvisable, it appears that the possibility of exercising control through fiscal means (such as high taxation with rebates to essential users) has by no means been exhausted.

2. *Investment.*—As a result of the Government's policy of avoiding control of consumption, as well as of certain monetary problems, consumption has recovered to a greater extent than investment. In a sense, Belgium's current prosperity has been maintained only at some expense to her future prospects. While private investment is more or less equal in total to presently desired levels, government investment has fallen behind. However, private investment has to a large extent gone into increases in stocks of goods, and has not been adequate in certain key industries such as coal mining.

Government direction of investment has been relatively limited in the past, but may increase in importance in the future. There is at present no rigid Government plan for investment. The Government has developed a set of investment targets, mainly by surveying the plans and desires of private industry and Government agencies.

Fortunately, Belgium did not suffer capital losses by wartime destruction to the same extent as other liberated areas. Housing and transportation suffered to a greater extent than manufacturing plants.

War losses of industry were small enough so that, despite a probable net disinvestment in 1944 and 1945, the productive capacity of the country was on the whole as great by the end of 1946 as before the war (according to an estimate made by the Belgian Ministry of Economic Affairs).

Furthermore, Belgium did not experience a great loss in foreign investment or colonial holdings. Unlike the Netherlands, Belgium has had little increase in her population, and therefore does not need a great expansion of capital equipment in order to provide employment for a growing labor force.

But despite these relatively favorable factors, the Belgian Ministry of Economic Coordination and National Reequipment points out:

* * * the conclusion that Belgium's situation is privileged is not justified. Investment needs are great, particularly because of the delays in replacement and failure to carry out expansion which resulted especially from the devaluations between the two wars, and from the scarcity which prevailed during the occupation and the first two years which followed." "* * * The economic system of the country has aged, and this ageing results in an increase in sales prices, which constitutes an inevitable menace for the future. (Ministere de la Coordination Economique et du Reequipement National: Troisieme Rapport Relatif au Probleme des Investissements, Brussels, 1948, p. 2.)

Belgium believes that such investment need not involve ventures into untried fields. With some exceptions, therefore, investment policy (governmental and private) appears to be limited to replacement and improvement of the existing industrial structure and eschews any projects involving a fundamental change in the nature of the Belgian economy. The investment problem is thus regarded as one of raising the level of efficiency of existing enterprises by modernization and replacement, a problem which existed even before the war.

The importance of making such investment now is increased by the probable loss by Belgium of its prewar position as a "cheap labor" country. Success of Belgium's program of monetary stabilization, and the policy of restoring high consumption, have raised real wages to at least prewar levels. On the other hand, the prospects are that for some years the real wages in some competitive countries will lag as a result of price inflation. Furthermore, in the Netherlands and western Germany the increased density of the population, resulting in the former country from natural growth and in the latter from the influx of refugees, will probably keep labor in these areas relatively cheap.

If Belgium therefore retains its present position as a country of relatively expensive labor, investment per worker will have to be increased to raise output per worker above prewar levels. Only in this way can costs be kept low enough to compete with other countries of a reconstructed Europe. The alternative would be inability to continue paying the real wages Belgian labor has come to expect, which might have socially dangerous consequences.

For the time being, Belgium is protected from such changes by the great demand for her products, and by the fixed exchange rates of some countries which are potential competitors for international markets. Such exchange rates, combined with monetary depreciation, effectively prevent reflection in international markets of the decline in real cost of labor which may have taken place. But in the long run only increased investment can provide genuine protection against a fall in living standards in the direction of low levels in other countries.

Adequate statistical material on Belgian investment is not obtainable. However, the Belgian Ministry of Economic Coordination and National Reequipment has made an excellent study on the basis of presently available information. This is devoted mainly to gross investment in fixed capital (including ordinary replacement). It includes plant and equipment and excludes increases in stocks of raw materials and goods.

Gross investment in fixed capital is shown in table 1. It is based on an estimate of capital goods production in Belgium in each year from 1945 to 1947, minus exports and plus imports of such goods. The value of all new building has been estimated, as has the value of investment work done by regular plant employees, using equipment and supplies of the enterprise. (This is called "auto-investment" in the Belgian tables.) Finally there is an estimate for the value of steel used for investment purposes, other than the steel whose value has already been counted in the estimate of capital goods production.

TABLE 1.—*Estimated gross (fixed capital) investment*

[In billions of Belgian francs]

	1945 (value, percent)		1946 (value, percent)		1947 (value, percent)	
National production of capital goods less exports	2.7		6.9		10.9	
Imports of capital goods	3.2		6.4		6.9	
Building	4.0		10.0		12.5	
Steel for investment purposes	.4		1.5		2.0	
"Auto-investment" by producers	1.4		2.0		2.0	
Total	11.7		26.8		34.3	
Government investment	5.4	46	10.7	40	10.6	31
Private investment	6.3	54	16.1	60	23.7	69
Total	11.7	100	26.8	100	34.3	100

Source: Ministere de la Coordination Economique et du Reequipement National. Troisieme Rapport Relatif au probleme des investissements, Brussels, 1948, pp. 16, 38.

Gross fixed capital investments for 1947 are estimated at 34.3 billion francs (about 750 million dollars). Out of every 10 million dollars of such investment about 3 million dollars are by the Government and 7 million dollars is private investment. In Belgium, Government investment has to provide not only public facilities like schools, hospitals, and highways and bridges, but also embraces the railroads and ports.

Normal replacement requirements included in gross fixed capital investment, are estimated at 17.7 billion francs a year for 1947. Net new investment, therefore, was 16.6 billion francs in 1947, or 7.8 percent of the national income. Of this, net private investment was 9.0 billion francs or 54.2 percent of total net investment. Similar estimates for previous years are attempted in table 2.

TABLE 2.—*Estimated net (fixed capital) investment*

[In billions of Belgian francs]

	1945 (value, percent)		1946 (value, percent)		1947 (value percent)	
Gross investment: [1]						
Government	5.4	46	10.7	40	10 6	31
Private	6 3	54	16.1	60	23 7	69
Total	11.7	100	26.8	100	34.3	100
Normal replacement: [2]						
Government	2.1		2 5		[5] 3.0	
Private	10.4		12.1		[5] 14.7	
Total	12.6		14.5		[5] 17.7	
Net investment: [3]						
Government	3.3		8 2	67	7 6	46
Private	[4] −4 1		4 0	33	9 0	54
Total	[4] −.9		12 3	100	16 6	100

[1] From table 1.
[2] Estimate for 1945 and 1946 is derived from Belgian estimate for 1947 reduced to 1945 and 1946 prices by the following index (1936–38=100) 1945, 255; 1946, 295, 1947, 350.
[3] Gross investment minus normal replacement.
[4] Net disinvestment.
[5] Ministere de la Coordination Economique et du Reequipement National: Troisieme Rapport relatif au probleme des investissements, Brussels, 1948, page 42.

To determine the total net investment in 1947, an unknown (but probably large) amount for net increases in stocks of goods should be added to the figures given in table 2. Such stocks (particularly of imported items such as cotton, wool, tobacco, etc.) were heavily depleted during the war, but by the end of 1947 had in general been restored to normal or even abnormally high levels throughout the economic system. In some cases the amounts involved were equivalent to an entire year's normal consumption.

Information is not available in Belgium to make a good estimate of changes in stocks as such. But in order to give a better sense of the grand total of investments, and hence of the investment problem as a whole, a more or less arbitrary estimate of 10 billion francs increase in inventories in 1947 has been made.[1]

[1] Reported amortization during the year amounted to 6.4 billion francs (Ministere de la Coordination Economique et du Reequipement National: Troisieme Rapport relatif au probleme des investissements, Brussels, 1948, p. 59). There is evidence, however, that

If this rough estimate for increases in stocks is added to the estimates of fixed capital investment shown in table 2, total net investment in 1947 appears to be in the order of 26 to 27 billion francs. The net government investment was shown in table 2 as 7.6 billion francs and it is not believed that government additions to inventory were significantly large. This would indicate that private net investment in fixed capital and inventories was in the order of about 19 billion francs.

The problem of investment in Belgium in 1947 does not appear to have been particularly a lack of increase in domestic capital, but rather to have been a matter of lack of domestic savings. Investments in 1947 fell only about 4 billion francs short of the goal set by the Ministry of Economic Coordination. This alone would not necessarily indicate difficulties for future years, because it would not be necessary to continue to build up stocks as they were being built up in 1947.

However, the Belgian economy as a whole was operated at a foreign deficit of 13 billion francs or about 295 million dollars in all currencies.

Thus while investments in domestic plant equipment and inventory totaled nearly 12½ percent of the national income, nearly half of this domestic investment was not taken out of current Belgian production or out of imports paid for currently with Belgian exports, but was made possible by borrowing money abroad or selling foreign assets held in Belgium. If the net unfavorable balance on current account is subtracted from the 26.6 billion francs of estimated total investment in 1947, only 13.6 billion francs remain as that portion of investment financed by domestic savings, either forced or voluntary. In other words, only about 7 percent of the 1947 national income was saved for investment purposes.

Belgian savings in 1947 were not adequate to finance the 10-year investment target established by the Ministry of Economic Coordination. While the target of the Ministry was an annual gross rate of private fixed capital investment of 24.4 billion francs, the investment needs for the first few years were estimated at 26.1 billion francs. These figures compare with a private investment in fixed capital of perhaps about 23.7 billion francs in 1947. Thus total private domestic

profits used for amortization and the building up of inventories are not fully reported. (Societe Nationale de Credit a l'Industrie: Rapport * * * de l'Exercise Cloture le 31 Decembre 1947, Brussels, 1948, p. 7.) As a result, the amortization figure should probably be doubled. Thus, amortization, hidden and open, may have been in the order of 12.8 billion francs. Of this, 9.3 billion must be subtracted to take care of normal replacement requirements. (This figure is obtained by adding the replacement requirements for "Transportation," "Industry," and "Consumers" and "Handicraft.") The remainder of 3.5 billion francs probably went to building up inventories. To this may be added the increase in reserves of 4.2 billion francs, giving a total of 7.7 billion francs of self-financing of stock increases. Increases in commercial bank short-term assets of about 1 3 billion francs and increases in National Bank credit of 0.8 billion francs should also be added, making a total estimated increase in working capital of around 10 billion francs.

investment fell not too far short of the goal set by the government which would have provided for an increase in net investment from 9 billion francs in 1947 to about 11½ billion at the present time. But even this is serious for the future standard of living because this "plan" was itself inadequate for any other assumption than that of relatively conservative industrial development based on a strong competitive position.

An interesting aspect of Belgian private investment is the great reliance placed on the reinvestment of undistributed profits. The Belgian government has taken positive steps to encourage this so-called self-financing. In August 1947 legislation was passed permitting private firms to reevaluate capital assets upward for accounting purposes. The limit fixed by law was 2.5 times the prewar values, supposed to reflect the general decline in the value of the currency. The increased values permitted greater tax-free depreciation allowances, thus favoring the retention of profits in the enterprises. Furthermore, corporate income tax rates on undistributed profits were fixed at 37 percent, significantly below the rate of 45 percent applying to distributed profits.

It is recognized that this is a form of "forced savings." The Ministry of Economic Coordination has argued in its Third Report (p. 67) that "If profits had been distributed instead of being reinvested they could have gone into consumption."

During a period of inflationary price rises there is an interplay between savings of this sort and investment. Such price rises permit corporations to earn extraordinarily large monetary profits. Insofar as price increases tend to diminish confidence in the currency, they provide not merely the wherewithal but also the incentive for business to seek to turn money profits into "real values," particularly new equipment and increased stocks of goods.

There is no question that there was very substantial investment from undistributed profits in 1947. The Ministry of Economic Coordination estimates that out of private investment in 1947 of 23.4 billion francs, 13.9 billion or about 60 percent came from "self-financing." The Third Report of the Ministry says that "The reinvestment of profits has permitted a satisfactory answer to the 'quantitive' problem presented by the reequipment of the private sphere." But the rise in the price level, source and motive of "self-financing," tended to reduce the rate of voluntary individual savings. Furthermore, it tended to divert voluntary savings into unproductive channels: "real values" such as hoarded foreign exchange, diamonds and gold, as a hedge against further inflation. Inflation, always a palliative of sorts for a shortage of investment capital, thus tended to retard the legitimate cure—new voluntary savings.

Apart from the problem of quantitative inadequacy of savings as contrasted with investment in 1947, there were problems arising out of the direction of private investment. There were for example large investments in trucks, stimulated by the sale of United States Army surplus vehicles at advantageous prices, but investment in certain basic fields such as coal mining and electric power production lagged substantially.

Although it has recently been charged that the shortage of capital in coal mining results from the stringent credit policies of the Government, the main reason appears to be that coal prices have been strictly controlled. In the absence of control over most of the rest of the price structure, profits in the coal industry have been reduced or eliminated. This, of course, has discouraged the provision of new capital. Other industries which have remained under control (because of their importance to the cost of living) have experienced similar difficulties, in particular the electric power and gas industries. The dilemma that the Government has not so far resolved is the apparent alternative of insufficient investment in critical areas or renewed inflation because of price rises in these fields.

The Government also faces difficult problems with respect to savings. Forced savings via the route of undistributed profits have not proved enough. The rate of voluntary savings by individuals has been extremely low. To some extent, this is due to the growing importance of social security provisions for old age and other needs. In part, it is due to the general political and monetary uncertainty of western Europe as a whole, for monetary instability in other countries is not conducive to confidence in the currency of Belgium. In any event, as the experience of other countries shows, an attempt to raise the level of voluntary savings by maintaining absolute monetary stability within a country is at best time-consuming. Time is required to reduce the fever of consumption that occurs under inflationary conditions and to replace it with the desire to save. In the meantime, there is always the danger that the artificial consumption levels of an inflationary period may become habitual.

One result of the dilemma may be increasing intervention by the Government in investment matters. When capital is short, the Government may be tempted to ration it. When voluntary savings are low, the Government may seek to create forced savings, either without obvious intervention, by way of inflation, or by intervention through the Government taxing and spending system. Belgium has sought to avoid both, and in particular to reduce the importance assumed by the former in the early postwar years. But it has gradually come to undertake the latter to an increasing extent. There are already signs of attempts to intervene both by credit rationing and the use of tax revenues to finance investment. The share of direct governmental investment in total fixed capital investment was only 33 percent in 1947, but about one-fourth of the "private investment" of the country was financed either by the Government or by Government-supervised banks, such as the National Corporation for Industrial Credit. Government-influenced investment was therefore almost half of total investment in that year.

The Government investment in 1947 fell short of covering needs by a substantial amount. The program of investment needs indicates a required investment by the Government of 13 billion francs a year. The estimated investment in 1947 was about 10.6 billion francs.

The need for this investment is great. Much of the direct damage done by the war was to public property (particularly roads, canals, bridges, and ports). While wartime damage to manufacturing plants was repaired or replaced by 1947, public properties continue to be in an alarming state of disrepair. Important new investment projects, such as electrification of the railroads and expansion of port facilities, continue to be neglected for lack of funds. One example illustrates the nature of the Government investment problem in Belgium: In the highway between Brussels and Antwerp, one of the most heavily traveled roads on the Continent of Europe, there is still a Bailey bridge erected by the British Army during the liberation.

This may appear surprising in the case of a country as rich as Belgium. But the Belgian Government believes with some justice that a primary reason for the prosperity and stability of the country has been the avoidance of an excessive program of Government investment. In the words of the semiofficial National Corporation for Industrial Credit, the Government's policy is as follows: "Recognizing the existence of a situation of full employment, and not wishing to withdraw from the private sector of the economy the labor which it so greatly needed, the state has put off until later the carrying out of large public works, except in cases where circumstances required immediate action." (Societe Nationale de Credit a l'Industrie: Rapport * * * de l'Exercice Cloture le 31 Decembre 1947, Brussels, 1948, p. 3.

On the other hand, even the limited resources made available to cover public investment needs are in danger of being reduced. The Government is pledged to provide financial assistance for the repair of war damages to private property. It began to redeem this political obligation on a small scale in 1946 and 1947. Growing political pressure will probably force a great increase in war-damage compensation payments in coming years. If the budget is to remain within present limits, this will mean a decrease in funds available for the government's own reconstruction programs.

3. *Governmental use of resources.*—The Government's role calls for only passing mention in a discussion of use of resources as such. As

has just been pointed out, Government use of resources for investment is probably too small. As is pointed out below in the discussion of Government finances, administrative consumption appears to be excessive but is being reduced. The military program is not at present a very significant factor in the Government's consumption.

4. *Exports.*—On the basis of prewar prices, the present level of export trade is only about 69 percent of prewar (table 3). However, since the terms of trade appear to have shifted in favor of Belgium, the equivalent real value at present may be somewhat higher than this proportion would indicate.

TABLE 3.—*Exports of Belgo-Luxemburg Economic Union*

[Millions of Belgian francs]

	1936-38 (annual average)	1946	1947	1948 [1]
Current prices	22,310.6	29,863.5	61,608.9	71,543.7
Index of volume [2]	100	33	60	69
Value in 1936-38 prices	22,310.6	7,362.5	13,386.4	15,394 3

[1] Figures for first 9 months expressed at annual rate.
[2] Rough estimates by U. S Department of Commerce, subject to revision after further study.

The major Belgian export is iron and steel, accounting for 29 percent of the total value of exports in the first eight months of 1948. This is a far higher percentage than that attained in 1937 (19 percent). The proportion of woolen and cotton exports has declined from about 15 percent in 1937 to 11 percent in 1948. The proportion of finished capital goods (mechanical, electrical, and railroad cars) has increased from 4 to about 9 percent, while raw and semifinished industrial materials (other than steel) have generally decreased in importance. "Other merchandise," a category including much of Belgium's miscellaneous consumer goods and luxuries, has fallen from 22 percent of the total in 1937 to 15 percent in 1948. Thus, the commodity distribution of Belguim's foreign trade appears to reflect:

(*a*) The growing relative importance of steel and finished investment goods.

(*b*) The decline in the importance of raw material exports and reexports.

(*c*) The decline in market possibilities for miscellaneous consumer goods.

B. SOURCES OF RESOURCES

1. Production

Belgian industrial production has more than recovered its prewar level. It should be remembered, however, that this was itself a generally depressed period for Belgium.

While the official index of production in 1947 averaged 106 percent of the 1936–38 average, Belgian industrial production had surpassed that level in many major industries. The trend toward increasing production, apparent in such areas in 1947, continued throughout the early months of 1948 to a level of 122 in April. Industry suffered a set-back in the summer, but the index of production has since recovered.

Present Belgian-Luxemburg steel production is at the rate of about 6 million tons a year (of which about 57 percent is exported). The index for Belgian iron and steel production for the first 7 months of 1948 was 169.3 as compared to 112.1 in 1947 (1936–38=100). The greatest factor in limiting iron and steel production in 1947 had been the shortage of domestic and imported metallurgical coke. Coke supplies in 1947 were about 93 percent of the prewar average. However, during the first 7 months of 1948, coke production has shown an increase to 105.6 percent of prewar levels. This is also expected to be the approximate 1948–49 average. Further increases in output of steel will now depend mainly on availability of scrap and rich iron-ore supplies, which gives little immediate hope of improving.

Coal production still remains below the 1938 level, but the production index shows a slight increase from 82.4 in 1947 to 86.6 in the first part of 1948 and has continued to rise since. The chief deterrents to recovery in the coal industry are the continued shortage of skilled labor and the growing obsolescence of machinery and equipment.

Until recently output per man has been considerably below the prewar average, in 1947 by 23 percent. Production is now rising, mainly because of an increase in the number and quality of miners resulting from the import of Italian labor to replace German prisoners of war.

Coal production is expected to increase to 106 percent of the 1935–38 average in the coming year.

The index of the textile industry fell from 109.5 in 1947 to 107.7 in the first 7 months of 1948. While the cotton yarn index rose from 108.2 in 1947 to 113.4 in the first part of 1948, cotton cloth production experienced a decline from 138.2 to 130.2. Even more radical declines were felt in the wool industries where yarn dropped from 164.4 to 138.2 and wool cloth from 149.6 to 128.6. A large part of this decrease in 1948 may be attributed to the presumable saturation of domestic demand and to the sharp contraction of the export market because of the growing inability of former importers to pay for Belgian products.

Other industries have shown major increases in the first part of 1948, cement now standing at 114.3, glass at 117.9, and paper 135.3.

In general, agricultural production has not recovered to as great an extent as industrial output. Difficulties in obtaining supplies of some fertilizers and animal foodstuffs, and a shortage of agricultural labor, have been important handicaps to agricultural recovery. Wartime deterioration in the quality and quantity of animal population has been difficult to overcome.

Dairy production has declined to about 80 percent of the prewar level, mainly as a result of the shortage of foodstuffs. Grain and potato crops were generally good in 1948.

The reduction in export opportunities had an unfavorable effect on the production of such specialties as chicory, grapes, flowers and ornamental plants, early potatoes, and horses.

2. Imports

The development of Belgian-Luxemburg imports (in terms of prewar prices) is given in table 4. Imports have recovered to about 91 percent of prewar. Imports from the United States are now approximately twice their prewar equivalent, while imports from most other countries have declined. Coal and petroleum continue to be the leading group of products imported. Imports of finished capital goods (mechanical and electrical) have increased from about 5 percent of the total in 1937 to 8 percent in 1948 (first 8 months). Imports of automobiles (and other vehicles) have doubled in importance. Imports of finished consumer items and luxury goods were generally of greater importance in 1948 than in 1937.

TABLE 4.—*Imports of Belgo-Luxemburg Economic Union*

[Millions of Belgian francs]

	1936–38 (annual average)	1946	1947	1948 [1]
Current prices	24,223.2	56,586.7	85,528.0	87,125.3
Index of volume [2]	100	83	91	93
Value in 1936–38 prices	24,223.2	20,105.3	22,043.1	22,527.6

[1] Figures for first 9 months expressed at annual rate.
[2] Rough estimates by U. S. Department of Commerce.

C. BALANCE OF RESOURCES

Information which would permit the compilation of an accurate balance of resources for Belgium is not available. The only estimates of national income are largely the work of Professor Baudhuin of the University of Louvain. Although Professor Baudhuin has made estimates for prewar years, these cannot be readily compared with his postwar estimates for 1946 and 1947.

In general terms, national income for prewar years was considered to be about 65 billion francs, net. Of this about 47 billion went into consumption, and 14 billion into various forms of "savings". Of this 14 billion, hoarding of cash, increases in stocks of goods, and export of capital took about 2 billion, leaving about 12 billion falling under the somewhat special definition of investment which is current in Belgium (Ministere de la Coordination Economique et du Reequipement National: Deuxieme Rapport Relatif au Probleme des Investissements, Brussels, May 1947, p. 146).

Professor Baudhuin's estimates for 1946 and 1947, with such data from his 1938 estimate as appears to be roughly comparable, are shown in table 5. Since no Belgian estimates for 1948 are yet available, the figure shown for 1948 should be regarded as merely tentative projections without official standing of any sort. While compiled by a private individual in the United States, they do indicate trends.

TABLE 5—*National income at factor cost*

[Millions of Belgian francs]

	1948	1947 [2]	1946	1938 (comparability doubtful)
I. Income from occupational activity:				
1. Wages	-	60,400	54,100	26,000
Employees' and employees contributions to social insurance	-	10,000	5,200	-
2. Salaries	-	23,700	17,500	10,500
- Employees' and employees contributions to social insurance	-	2,400	2,000	
3. Wages and salaries of government employees: [1]				
National	-	12,000	9,200	
Local	-	1,200	1,000	
Railroads, etc.	-	8,500	6,500	
4. Members of boards of directors, business executives	-	1,400	1,000	650
5. Professions	-	2,700	2,400	800
Total	-	122,300	98,900	37,950
II. Mixed incomes:				
1. Industrial enterprises	-	25,000	19,000	9,000
2. Trade, handicrafts, cafes	-	36,000	24,000	
3. Agriculture	-	16,000	17,500	4,000
4. Irregular activities	-	7,000	25,000	-
Total	-	84,000	85,500	13,000
III. Income from capital:				
1. Real estate	-	10,000	9,500	7,000
2. Securities	-	10,800	5,500	7,250
3. Undistributed profits of corporations	-	3,000	3,000	-
Total	-	23,800	18,000	14,250
Grand total	-	230,100	201,900	65,200
Less taxes of income of current year	-	−18,000	−11,800	(3)
Grand total	240,000	212,100	190,100	65,200

[1] Including contributions for social insurance and pensions.
[2] War pensions, included in the 1947 estimate calculated by Prof. Baudhuin (in the amount of 2,500 million francs) have been omitted here.
[3] Original estimate did not make any deduction for direct taxes. It is not known whether such a deduction would be consistent with the methods used to arrive at the total.

Sources: U. N. Department of Economic Affairs: National Income Statistics of various countries, 1938–47, Lake Success, 1948; Institut de Recherches Economiques et Sociales: Bulletin, Louvain, August 1948, pp. 455 et seq.)

"Income from securities" (i. e. profits and interest) entering into the 1946 income estimates were from the year 1945, and therefore abnormally low. Taxes on 1946 income are those collected in 1947.

"Irregular activities" include profits from the domestic black market, and illegal foreign exchange, gold, and diamond transactions. "Black" wage payments above legal scales, believed to be about 6,000 million in 1946 and 2,500 million in 1947, are included in the estimate of wages (The Statist, 28 February 1948). "Black" wage payments were substantially reduced in 1948, by incorporation in official wage scales.

To determine the total amount of goods and services available to the economy, the net import surplus (including invisible payments and receipts) may be added to national income. This is done in table 6.

TABLE 6.—*Disposable product at cost*

[In billions of Belgian francs]

	1947		1948	
	Value	Percent of total	Value	Percent of total
National income—national product	212.1	94	240.0	94
Deficit on current account	13.0	6	[1] 14.5	6
Total	225.1	100	254.5	100

[1] Average of current deficits for 1947–48 and 1948–49.

The deficit on current account thus amounted to about 6 percent of the total supply of goods and services available to the Belgian economy in 1947 and 1948. As has already been pointed out, it was this surplus of imports, not paid for out of current production, which made it possible for Belgians to engage in substantial domestic capital accumulation although current savings covered only about half the domestic investment.

D. EXTERNAL BALANCE OF PAYMENTS

1. Over-all

Belgium's historical role in the European economy is as a net exporter to Europe, and a net importer from the Western Hemisphere. Food and raw materials from outside Europe supplied the Belgian labor force and factories, and their industrial products found outlets largely in Europe. The whole Belgian economy developed around the possibility of buying outside Europe with the proceeds of exports to Europe. In the final analysis, this meant that the Belgian economy was a link in a circuit closed by the convertibility of sterling: The dollars which Europe paid to Belgium came from the earnings and resources of the sterling area.

In the postwar period, Belgium has managed to return to her traditional pattern of trade. She again provides net exports to Europe, and makes net imports from the dollar area. But she has been able to do so only because of certain extraordinary and nonrecurrent factors. At no time since the end of the war has the old pattern of payments been reestablished that made possible the triangular flow of trade and payments. It is the break-down of this triangular flow that has made it necessary to use ECA funds to finance part of the purchases of Belgian products by other participating countries.

The development of various expedients for financing net exports by Belgium to Europe falls roughly into three overlapping periods: 1944–46, 1946–47, and 1948.

1944–46.—In the period immediately after liberation, the Belgian economy was at a low ebb. A very substantial part of available resources went into support of the Allied armies, including port services, repair and manufacture of equipment and pay of Allied troops. There was little left to export after domestic demands and military requirements were met. Thus Belgium was not immediately able to resume her traditional net exports to Europe.

During this period Belgium continued to need and receive imports that had to be paid for in dollars. Belgium had fairly large foreign resources that she could use for this purpose and was able to obtain substantial foreign loans, including 100 million dollars from the U. S. Export-Import Bank, and about 100 million dollars from Canada. The total amount used from September 1944 to December 1946 was 147 million dollars. In addition, particularly in 1945, the United States, United Kingdom, and Canada made large payments in foreign exchange in settlement of Belgium's lend-lease and troop-pay disbursements. These amounted to over 500 million dollars from September 1944 to December 1946, or almost three-quarters of the total net import of goods and services during the period (725 million dollars).

The extraordinary resources provided by settlement of military debts have not been as important since the end of 1946 (receipts in 1947 were only about 50 million dollars). Belgium had to find other ways of maintaining her prewar pattern.

1946–47.—Beginning in 1946, Belgium began to develop a significant net export surplus with Europe. During most of this period it was possible to obtain dollars for part of this surplus (after credits granted by Belgium were used up by other countries). In 1947 Belgium received about 366.2 million dollars in gold or dollars from other countries now participating in ERP. Of this, however, only part was for the net current surplus accumulated with Europe during 1947, and the remainder was in settlement of Belgian exports made in 1946.

The major source of such dollars was conversion of Belgian holdings of sterling. From this source Belgium received 273.5 million dollars. A part came from repatriation of dividends accumulated during the war on Belgian investments in the United Kingdom.

It is significant that only a part of the converted sterling came from direct trade between Belgium and the United Kingdom, and that an important part (as in prewar days) came from triangular trade between the United Kingdom, Belgium, and other European countries.

Under a special agreement with the United Kingdom (which began to be effective after the suspension of free convertibility of sterling) Belgium was permitted for a time to accept sterling from certain countries, and was allowed to convert any sterling earnings over a certain minimum balance into dollars.

Toward the end of 1946 and throughout 1947, however, other European countries became increasingly unable and unwilling to pay dollars to Belgium for her net exports. Demands that Belgium grant additional credits to countries which imported from her increased in intensity. During 1947 Belgium's net postwar clearing credits increased to a peak of 11.2 billion francs, or 256 million dollars. In other words, it was possible to continue Belgian net exports to Europe only on the basis of credit from Belgium to the European countries involved.

Since Belgians were not prepared to save this amount in order to make permanent investments in these countries, the development of clearing credits added to the inflationary pressure within Belgium.

The inflationary pressures within Belgium became so serious that toward the end of 1947 the National Bank began to cut off additional credit to other European countries, and to demand repayment of a part of the credits already granted. A part, however, had to be consolidated into medium-term loans.

1948.—During the early part of 1948, Belgium continued to reduce her net credit to Europe by obtaining payment in gold, dollars, or imports. This caused other European countries to seek to cut their imports from Belgium, in order to save their dollar resources, and threatened certain Belgian export industries with unemployment. Thus, the extraordinary resources available during the second period were to an increasing extent insufficient to maintain Belgium's prewar pattern.

At this point Belgium was threatened with depression because of a loss of export markets in Europe, and with a loss of imports (essentials as well as nonessentials) because of an inability to switch exports to dollar areas in large enough volume. On the other hand, the participating countries faced the prospect of being unable to secure imports from Belgium, among others imports of steel, in the quantity that they had been obtaining in 1947.

The intra-European payments scheme, introduced in the second half of 1948 to facilitate European trade through the use of ECA funds, permitted participating countries to continue to import a surplus of goods from Belgium. It was thus the third extraordinary factor which came to the rescue of Belgium's prewar pattern in the postwar period. For 1948–49 the scheme provided for conversion into dollars (in the form of ECA conditional grants) of about 207.5 million dollars of soft currency proceeds of Belgian exports to Europe. This is somewhat less than the Belgian surplus on current account with other participants during 1947, about 240.5 million dollars.

In addition, Belgium expected to obtain 28.5 million dollars in gold and dollar payments from other participants, in settlement of net balances over and above those to be covered by the payments scheme. Actual gold and dollar receipts from participants in 1948–49 will be much higher.

Thus, in each of the three periods a more or less temporary possibility of meeting dollar requirements has been found. The military payments of the first period gave way to the large gold and dollar receipts from other participants, which, in turn, were more or less replaced by ECA conditional aid. But this last also has its limits, both as to time and as to amount. In the final analysis only the full restoration of convertibility of other European currencies would permit Belgium to continue her prewar economic pattern without change.

2. Balance With Other Participating Countries

Trade with the United Kingdom represents a special problem for Belgium. Before the war, about three-quarters of Belgian trade was conducted in sterling (either with the sterling area, other areas which habitually used sterling such as Scandinavia, or through British banks with the rest of the world). Since the war, the Belgian franc has become a "harder" currency than the pound sterling. Thus, Belgium can no longer find better use for sterling payment facilities than for her own currency.

The European payments scheme allows the United Kingdom to purchase more from Belgium than she sells to Belgium. But the United Kingdom quota of "drawing rights" against Belgium is not sufficient to cover the actual deficits which have arisen. The United Kingdom will thus have to make large gold payments to Belgium during 1948–49, or reduce its deficit in some way.

Belgian authorities claim that one reason for the deficit is the unwillingness of the United Kingdom to provide a sufficient supply of goods which Belgians wish to buy. Such goods, it is said, are reserved for dollar markets. Other reasons are the very high prices of United Kingdom exports as compared with competing American products which are available on Belgian markets and the high price demanded for British coal, before the war an important export from England to Belgium.

The temporary disappearance of Germany as a major factor, in European commerce, reflected in the decline in Germany's share in Belgian trade, has also had important effects on Belgium. On the one hand it has meant the loss of German markets and the disappearance of the formerly lucrative transshipment trade through Belgian ports, as well as decreased supplies of Ruhr coal and other products. On the other hand, it has given new importance to industries, such as steel, in which Belgium normally competes for world markets.

Another important shift has been the decline in trade with France. While particularly marked in 1947 and 1948, it has been almost continuous since 1945. Imports from France were reduced by the great rise in the French price level while the exchange rate with Belgium remained fixed. Belgian exports to France, on the other hand, have been limited by French inability to pay. This was alleviated only temporarily by the intra-European payments scheme.

3. Balance With Other Areas

Trade with Canada and Latin American countries is close to the prewar pattern. Exports to Latin America can probably be increased as a partial solution of Belgium's convertible currency problem.

Trade with Eastern Europe has approached a balance, although Belgium had a deficit with this area before the war. Balance has been achieved, however, by reducing imports from Eastern Europe rather than by increasing Belgian exports.

Imports from other areas (principally Asia) are below the prewar proportion, while the prewar share of exports has been maintained.

4. Balance With the Congo

Relations between Belgium and her African colony are somewhat special. Unfortunately, reliable information is not available on the details. It appears, however, that Belgium is now running a deficit with the Congo, both on current and on capital account. Until recently, the Congo had a dollar deficit which was covered by Belgium in the amount of about 25–35 million dollars a year. This no longer appears to be the case, and it may be assumed that Belgium will not have to disburse dollars for the Congo in the future. On the other hand, there appears to be little prospect that Belgium will receive dollars directly from the Congo (apart from some purchases of gold out of current production). The postwar demand for Congo products (some of which are of strategic importance) has resulted in a sudden spurt of development. The nature of new investments is such that a large part of the necessary equipment must come from the United States. Thus, dollar earnings of the Congo will be absorbed by the colony's own requirements for capital goods for a number of years to come.

5. Balance With the United States

The prospects of closing the gap between Belgian imports and other payments to the United States and Belgian exports to the United States may well be identical with the prospects of Belgian viability. Even if the net favorable balance with participating countries were fully convertible, Belgium's dollar difficulties would not be over. The share of imports coming from the United States is more than double prewar, while the share of total exports going to the United States is only about 65 percent of the prewar average. The resulting dollar deficit represents almost four-fifths of the total net unfavorable balance of trade.

While the reduction of exchange difficulties would certainly help, the magnitudes involved seem such that positive action to reduce the unfavorable balance with the United States is indispensable. No satisfactory solution can be worked out by Belgium alone and the cost to Belgium of closing the gap entirely through direct balance of her accounts with the United States would be stupendous.

On the import side, the recovery of the rest of western Europe would provide a partial solution. By making it possible for Belgium to return to prewar sources of supply, it would eliminate in part the extraordinary demand for United States products which has resulted from shortages elsewhere. In addition, however, the high demand for semiluxuries produced in the United States may have to decline.

Such a decline could result from either:

(*a*) Deflation in Belgium, with a consequent reduction in present high incomes, or

(*b*) An eventual realignment of exchange rates.

The Belgian Government might control foreign trade with the United States more strictly, though it is loath to take measures that seem to it inconsistent with the principles of a free economy; but however drastic such action may be, the dollar problem would remain unless Belgium could convert into dollars the proceeds of sales it makes to other areas.

An increase in Belgian exports to the United States would be made easier by a fall in Belgian export prices. However, a reduction in United States tariffs or an improvement in Belgian marketing techniques might result in significant increases in United States purchases of Belgian goods, even at their present prices.

Nonetheless, the Belgian economy is not geared to earning by direct sales to the United States all the dollars it needs. No matter how great the expansion of sales along past lines, Belgium simply does not produce enough goods designed to sell in United States markets.

Barring conversion of its economy to producing goods for dollar markets, expensive even if it succeeds, Belgium will continue to have an import surplus with the United States. In the meantime, it has and can continue to have an export surplus with other countries, provided in some way it can be turned into dollars which in turn can be converted into imports of goods.

E. INTERNAL BALANCE OF FINANCE

More than in most other participating countries, fiscal and monetary developments are the basic determinant in the current economic situation of Belgium, since other government controls have been reduced to a minimum. This, of course, was a gradual process, and is even now by no means completed. At all times, therefore, the economy has been a mixture of free enterprise and direct control, in varying proportions.

Direct government controls ceased to be a preponderant influence around 1946 or 1947, however. The increase in prices (as compared to prewar) caught up with the increase in money (including bank deposits) in circulation. This wiped out the "purchasing power overhang," that could only be contained by rigorous controls during and after the war. As is indicated in table 7 by the ratio of net money supply to wholesale prices, the price level had returned to its prewar relationship to the volume of money. At about the same time, the abnormally low "velocity of circulation," typical of a controlled economy in which the prices are prevented by law from rising in proportion to the increase in money supply, returned to the customary prewar average. (It is, of course, possible that black-market transactions offset the apparently low velocity of circulation on legal markets.)

TABLE 7.—*Indications of repressed inflation*

	1936-38 average	1945	1946	1947	June 1948
Net money supply	100	300	338	354	356
Wholesale prices	100	255	295	359	392
Repressed inflation as indicated by ratio of money supply to wholesale prices	100	117	116	99	91
National income	[1] 100	NA	292	325	363
Repressed inflation as indicated by ratio of money supply to national income	100	NA	116	109	97

[1] 1938.

The Belgian authorities then believed that they had virtually succeeded in directing the economy of the country back to normal. Indices such as are shown in the table must be interpreted with extreme caution, but there were other encouraging signs. There was relative stability of note circulation during the last three quarters of the year. Progress was being made in balancing the budget. There were hopes that price stability had been attained.

Unfortunately, predictions turned out to be premature. For the pendulum continued to swing towards the other extreme: open price inflation. The increase in the price level soon outstripped the increase in currency circulation. Although this presumably was caused in part by increase in prices, particularly in the first years after liberation, the continuation of this movement in the last year and a half appears to result more from political factors than from economic developments. The "cold war" has awakened fears of invasion, rooted in two experiences of Belgians within a generation. Such fears are not conducive to the favorable development of normal savings, although they have resulted in a widespread tendency towards hoarding of banknotes, which may have sterilized as much as 10 billion francs of the inflationary potential during the last several years. They account in part for the problems already discussed above. Combined with the vestige of a feeling of privation bred during the German occupation, such fears tend to develop a psychology of living for the moment, which expresses itself in the monetary sphere by an abnormal rate of expenditure of income.

Beginning around the middle of 1948, however, Belgium's postwar monetary development entered on what appears to be a new stage. The government and the National Bank had begun to exercise significant deflationary pressure about a year before. The budgetary deficit declined, and credits to other European countries were reduced. Immediate effects were not visible, partly because upward readjustments of the official price level were undertaken at the same time (such as the elimination of price subsidies), partly because the momentum of the inflationary movement appears to have carried it forward for some time after many of the original causes were eliminated.

Rising unemployment was one sign of the growing effectiveness of the deflationary policies pursued for a year and a half. But it also indicates price and labor supply rigidities in the Belgian economy which are preventing a smooth transition from inflation to monetary stability. Unemployment rose to about 300,000 (totally and partially unemployed) by the end of 1948.

More encouraging was the drop in the official index of retail prices. In October 1948 it showed the first important decline in several years, falling 7 points or 2 percent to 396. This was the first tangible and constructive result of the gradual decrease in inflationary pressure during the previous year, resulting from both a decrease in government deficit financing and a decline in credits granted to other European countries. Belgium thus has come to a point where prediction of future developments is difficult. The inflationary developments of previous postwar years may have reached an end. It would be premature to assert this possibility, in view of the many times in the past when stabilization appeared almost as close, only to fail to materialize. Yet Belgium appears to have reached a stage at which monetary stability is probable if present policies and conditions continue to prevail. The major question is now whether domestic political reactions to the transitional difficulties of stabilization will upset the application of these policies.

F. FINANCIAL SITUATION AND POLICY

1. Government Finances

The Government budget has been one of the primary causes of inflationary increases in money supply in the postwar period.

Mainly because regular bulgetary procedures were not completely restored until 1947, the usual published summaries of budgetary information are somewhat misleading, particularly as to the changes from year to year. An attempt has therefore been made to correct for such discrepancies as are known. The results are given in table 8.

The deficit in 1945 resulted from heavy expenditures on reconstruction of transport and other facilities damaged during hostilities, and large outlays for the support of Allied armies during combat and redeployment. This was followed by a remarkable improvement in 1946, a slight relapse into deficit financing in 1947, and further reductions in the annual deficit for 1948 and 1949. Most of the improvement since 1945 has resulted from reductions in "expenditures resulting from the war," (particularly price subsidies) and from increases in revenue. "Ordinary expenditures," on the other hand, have increased substantially, while the deficit on extraordinary account has fluctuated without showing any definite trend.

Deterioration in the budgetary situation during the fiscal year 1947 was caused mainly by an increase in "expenditures resulting from the war" and a decline in "receipts resulting from the war" (mostly the counterpart of Government imports of food and other materials).

Subsidies included in "expenditures resulting from the war" are:

Year	Amount in millions of Belgian francs	Percent of total budgeted expenditures
1946	9,307	9.5
1947	11,734	16.3
1948	10,740	13 6
1949	7,000	9.0

It will be noted that there was a sharp rise in expenditures on subsidies in 1947, both absolutely and relatively, even though price subsidies for coal were eliminated at the beginning of the year. This increase resulted from the increase in the foreign prices of imported commodities which were subsidized internally, and the unexpected growth in the volume of imports in that year (Institut de Recherches Economiques et Sociales: Bulletin, Louvain, August 1948, p. 269). This new development, which threatened to wreck all efforts to balance the budget, forced the Government to institute a change. Many subsidies were eliminated, along with the rationing and price-control systems they supported. To compensate the poorer groups of the population for the resulting increases in prices, a system of supplementary grants to lower-income groups was introduced at the same time. A portion of the burden of these grants in lieu of subsidies had to be transferred to employers in May 1948.

TABLE 8.—*Belgian Government's budgetary situation*[1]

[In millions of Belgian francs]

	Actual expenditures and receipts, 1938	Appropriations and receipts to August 1948			Estimate based on first 8 months, 1948	Budget estimate, 1949
		1945	1946	1947		
Expenditures:						
Ordinary	11,953	28,412	31,883	36,055	41,566	47,692
Resulting from war		44,541	22,746	22,176	19,845	12,426
Extraordinary	2,528	7,696	22,535	13,809	17,737	11,466
Total	14,481	80,649	77,164	72,040	79,148	71,584
Receipts:						
Ordinary	11,108	21,202	42,242	46,395	56,650	59,457
Resulting from war		46	4,184	541	2,060	951
Extraordinary	35	30	14,229	6,895	6,910	6,354
Total	11,143	21,278	60,655	53,831	65,620	66,762
Balance:						
Ordinary plus resulting from war	−845	−51,705	−8,203	−11,295	−2,701	+290
Extraordinary	−2,493	−7,666	−8,306	−6,914	−10,827	−5,112
Total	−3,338	−59,371	−16,509	−18,209	−13,528	−4,822

[1] Based on data from Bulletin-Hebdomadaire de la Kredietbank, Brussels, Nov. 7, 1948, corrected (in accordance with information provided in Institut de Recherches Economiques et Sociales: Bulletin, Louvain, August 1948) as follows.

(a) "Irregular expenditures," mostly made in 1945 but brought into the 1946 budget, were subtracted from 1946 figures and added to 1945 figures in following amounts.

	In millions
Ordinary expenditures	46
Expenditures resulting from war	18,299
Extraordinary expenditures	5,214
Total	23,659

(b) Belgian franc contribution to IMF of 10,800 million francs, included in 1947 extraordinary expenditures figure, was subtracted because this was a bookkeeping transaction representing no actual expenditure of money.

(c) Contribution to National Railway Co., 3,000 million francs in 1947 figure for "expenditures resulting from war," was subtracted from that budget and added to 1946 "expenditures resulting from war," since it represents regularization of expenditures made in 1946 or previous years.

Also included in the 1949 figure for "expenditures resulting from the war" is 3,613 million francs for war damage compensation, including a grant of 2,500 million for loans to repair property damages, and 1,100 million for pensions and grants to victims of the war.

Thus, "expenditures resulting from the war" now consist of a variety of more or less politically inspired measures to satisfy the interests of one or another class of the population. It is of some interest that the proportion devoted to price subsidies and other measures offsetting the effect of price rises on the lower-income groups has declined, while increasing amounts have been allocated for repair of property damaged during the war.

The large receipts and expenditures of the "extraordinary" (capital) budget in 1946 and succeeding years include receipts from the Belgian capital levy and (as expenditures) interest and amortization of bonds issued as part of the currency reform. Receipts from the capital levy are supposed to balance exactly the interest and amortization payments on currency reform bonds. The net deficit on the extraordinary budget represents Government long-term borrowing, devoted largely to investment purposes. Investment expenditures included in the extraordinary budget are about 5 billion francs in 1946, 4 billion in 1947, 5.4 billion in 1948 and 5.7 billion for 1949.

The increase in ordinary expenditures for 1949 will be due largely to increases in prices, pensions, and salaries (because of price rises) and a 2 billion franc contribution to local government finances which the national government had to begin making in 1949 (probably for the same reason). The number of government employees is still about 45 percent above prewar, but represents only about 1 percent of the population.

Three-fifths of all tax revenue comes from levies on consumption. Roughly speaking, one-fifth of revenue comes from customs and excise taxes, and two-fifths from "turn-over" or sales taxes. "Turn-over" taxes now amount to an average of 4½ percent on every sale except the final sale to the consumer. For goods which pass through a number of distinct stages (from raw material, through semifinished product, finished manufacture, wholesaler, and retailer) the proportion of tax in the total price may be quite large.

Thus, the Belgian tax system is generally regressive in character. As in many countries, taxes fall most heavily on the poor.

Income and property taxes account for two-fifths of the revenue, though there is a significant amount of evasion of these taxes. This means that three-fifths of the tax revenue is collected by taxes on consumption. (However, in addition to normal taxes, the capital levy introduced in connection with the currency reform absorbs an amount roughly equivalent to one-fourth of the regular taxes on income and property.)

The main source of the expected increase in revenue in 1949 is an increase in the rate of collection of taxes due for previous years (from 3,125 million in 1948 to 5,436 million in 1949). Such increases may mean an improvement in the efficiency of the tax-collecting system and in its ability to prevent evasion.

Government debt figures are more useful than Belgian budgetary statistics in analyzing the impact of government financing on the economy in any particular year. Both the receipts and expenditures attributed to any one budgetary year actually spread over that year and the following one.

Net domestic indebtedness increased by 69.0 billion francs from liberation to June 1948. Foreign debt rose by 6.9 billion, giving a total government deficit of 75.9 billion. (See table 9.) Deficits of local governments may be estimated in a similar manner, by comparing annual figures for total indebtedness.

TABLE 9.—*Total national and local government deficits*

[In billions of Belgian francs]

	National government		Local government—total deficit	Total	Of which financed by domestic borrowing
	Total deficit	Of which financed by foreign borrowing			
August 1944–December 1945	60.5	2.1	[1] 3.0	63.5	61.4
1946	[2] –4.6	5.5	[2] –2.6	[2] –7.2	[2] –1.7
1947	13.1	[2] –.4	2.2	15.3	15.7

[1] December 1944–December 1945.
[2] Surplus: decrease in indebtedness.

2. Money

The monetary reform of October 1944, introduced soon after liberation, was the keystone in Belgium's monetary policy, without which other measures would have been ineffective. This reform provided for the exchange of bank notes, blocking of bank balances and other monetary holdings (40 percent temporarily and 60 percent on a longer term basis, with some important exemptions) and special taxes on capital and war profits.

During the war, German occupation cost levies, forced exports to Germany, and other inflationary factors resulted in an increase in the total volume of money to three times the prewar level. The resulting inflationary pressure was made greater by a precipitate drop in production of goods and services, during and after liberation, to about 50 percent of prewar levels.

The currency reform resulted in an immediate reduction in the volume of money (including bank deposits) to 72 billions, somewhat higher than the 1936–38 average of 63 billion francs.

No part of the money supply existing on the day of financial reform was actually repudiated. Of the total reduction of about 114 billion francs, 42 billion took the form of temporary blocking. About three-quarters of the temporarily blocked balances had been released by the end of 1947 (all but 9 billion francs) and most of the remainder was to be released in the course of 1948. Another 63 billion was "permanently blocked," only to be converted later into a long-term interest-bearing forced loan. Holders of this loan could use it to pay their obligations under the capital and war profits taxes. The portion of the loan left outstanding is to be redeemed out of the remaining revenue from the special taxes, and (to the extent of about 20 billion francs), out of future ordinary revenues.

Some critics believe that the rate of release, particularly of the temporarily blocked 40 percent, was too rapid. A substantial part of the increase in circulation has been due to unblocking of this portion of the old money supply. It thus may be partially responsible for the inflationary pressures evident since the end of 1944. The forced loan scheme also presents certain threats of inflation in the long run. As in other monetary reforms involving funding of a part of the old purchasing power surplus, there is doubt whether the collection of the special taxes and the redemption of the forced loan can be carried out without inflationary repercussions on the economy in the future. In particular if ordinary tax revenue is to be used to redeem a large part of the forced loan, the result may be deficits in the ordinary budget in future years. But the immediate benefit of the scheme cannot be denied. As a whole, Belgium's monetary stabilization measures have had the greatest success of all European attempts along these lines. They demonstrated the practicality of monetary reform. The sudden contraction in circulation immediately after liberation made the currency a functioning instrument, permitting Belgium to escape both the perils of gradual repudiation (such as occurred in Germany) and of pronounced price inflation (as in France).

An increase in the liquid means of payment occurred after the reform, however. It amounted to 87.9 billion francs between December 1944 and June 1948.

TABLE 10.—*Total monetary circulation*

[In millions of Belgian francs]

Date	Treasury notes and coins	National Bank notes	Postal checking deposits	National Bank deposits	Demand and 30-day commercial bank deposits	Total (gross)	Index (1936–38=100)
1936–38 [1] (annual average)	1,456	21,946	3,430	3,518	16,298	46,648	100
August 1944 [2]	4,942	98,733	10,482	6,106	36,844	157,107	338
End of December 1944	6,371	41,286	8,138	3,551	14,353	73,699	158
End of December 1945	6,833	70,376	17,716	3,444	34,721	133,140	285
End of December 1946	5,856	72,165	22,387	6,217	43,785	150,410	322
End of December 1947	4,269	79,761	27,783	4,718	43,313	159,844	343
End of March 1948	4,532	77,442	26,118	5,241	44,868	158,201	339
End of June 1948	4,583	78,365	26,612	5,723	46,287	161,570	346

[1] Annual average

[2] Average for month.

It is accounted for by the needs of Allied armies during liberation, government deficits, and the unblocking operations. After deducting certain increases which did not add to the effective circulation (550 million francs created as part of Belgian participation in the IMF and 1,131 million francs for the net increase in commercial bank holdings of cash and reserve deposits), the net increase in the amount of money in circulation may be estimated at 86.2 billion francs. Total unblocking operations from December 1944 to December 1947 covered 22.2 billion francs. Total Government deficits (domestically financed) were about 75.7 billion francs during the period. These two factors alone more than account for the increase in money supply.

National Bank credit has been an important source of the expansion of money supply in the postwar period. In the past year, however, Belgium has succeeded in restricting the two major sources of postwar inflation, the Government deficit and loans to other European countries. The fate of Belgium's efforts to stabilize her currency may depend on the ability of the country to continue to do so. It is therefore important to examine these sources of inflation in some detail.

National Bank credit to the government was extended directly to cover government deficits and was most important in 1944 and 1945, during and immediately after liberation. It developed as follows:

TABLE 11.—*National Bank financing of Government deficit*

[In billions of Belgian francs]

Period	Change in Bank's holdings of treasury certificates [1]	Net changes in domestic indebtedness of Government
Middle of 1944–end of 1945	+24.1	+58.3
End of 1945 and of 1946	[2] −1.5	−9.6
End of 1946 and of 1947	+.5	+13.5
Total	+23.1	+62.2

[1] Excluding certain bookkeeping adjustments connected with the Belgian monetary reform and participating in the IMF.
[2] Decrease in indebtedness.

However, of the amount borrowed in 1944–45 perhaps three-fourths went originally to support Allied armies, and only one-fourth was borrowed by the government for its own immediate use.

Thus, it is only fair to state that much of the inflationary appeal to the National Bank in the year and a half after liberation resulted from the need to supply goods and services to Allied troops. During 1946, however, the Belgian Government's own expenditures grew and continued borrowing would have been necessary if not for repayments by the Allies to the Belgian Government. (These repayments, it has been pointed out above, were a most important source of foreign exchange during that year.) Such repayments amounted to at least 17.3 billion francs during the period from September 1944 to December 1946, or to 11 percent of total government expenditures under the 1945 and 1946 budgets. It must be recognized that it was difficult to limit government expenditures once price increases had started. Nevertheless, it is a fact that the state of the Belgian Government budget made it necessary to leave in circulation the inflationary increase in money supply caused by Government borrowing in 1944–45.

It may therefore be concluded that about 40 percent of the Government domestic deficit since liberation has been financed by a directly inflationary appeal to the central bank, mostly in the first year and a half. Although the Government has succeeded fairly well in avoiding recourse to the central bank during the last few years, this has caused discontinuance of politically useful expenditures such as price subsidies, and inability to provide funds for war damage compensation and public investment projects. There are thus political pressures which might cause the present policy of avoiding inflationary deficits to be abandoned in the future.

National Bank credit to other European countries has also contributed to inflating the money supply. Belgium's net position in payments agreements (mostly with Europe) developed approximately as follows:

TABLE 12.—*Net credit to foreign countries through payments agreements*

[In billions of Belgian francs]

Date	Net total	Annual change
Dec. 25, 1944	0.5	
Dec. 25, 1945	2.9	+2.4
Dec. 25, 1946	4.2	+1.3
Dec. 25, 1947	10.4	+6.2
Sept. 16, 1918	9.0	−1.3
Total		+8.6

The high point in Belgian clearing credits was reached at the end of October 1947, when the net total attained 11.7 billion francs. This represented a net expansion since December 1944 of 11.2 billion francs, or 256 million dollars, about $32 per head of population. Thereafter, the National Bank succeeded in halting the increase, and in reducing the total amount outstanding by 2.2 billion francs in less than 12 months.

From the point of view of the domestic economy and of eventual readjustment of the Belgian balances of payments, such clearing credits were a serious disturbance. Their inflationary effect was two-edged: (*a*) the Bank had to issue new money to pay Belgian exporters for their sales to Europe, and (*b*) the amount of goods and services available within the domestic economy was reduced correspondingly. At the same time, deflationary pressure which should have resulted from the fact that Belgium was running a dollar deficit, and which would have corrected in part the causes of the dollar deficit, was prevented from being effective. For example, the extension of clearing credits during the period more than balanced the contraction in domestic money supply which should have resulted from sale of gold reserves. The net loss of gold from December 25, 1944, to September 16, 1948, matched by corresponding payments of francs to the National Bank by Belgian importers, was 4.0 billion francs, or less than half of the simultaneous expansion of money supply through clearing credits.

The rather abrupt end to the extension of clearing credits produced almost immediate repercussions on Belgian export industries, and brought demands for a revival of inflationary credits to encourage exports. There are some indications that Belgium may now be tempted to grant additional credits (over and above drawing rights made available under the payment scheme) to countries which agree to buy textiles, in order to relieve the unemployment problem in the textile industry.

Commercial banks appear to be another important element in Belgium's current inflationary difficulties. Credit expansion by commercial banks has been almost exclusively in the field of private credit, however, and has not been a substantial factor in financing Government deficits since the end of 1945. From December 31, 1944, to June 30, 1948, commercial bank credits to private borrowers expanded by 13,353 million francs. Loans to the State, on the other hand, show a small decrease (611 million francs) between the two terminal dates of the period. The net expansion (for major items) was thus 12.7 billion francs. Total deposits increased by 33.2 billion francs. Of this increase, however, about 20.7 billion was caused by unblocking of temporarily blocked deposits.

In an attempt to control inflationary credit operations by commercial banks, certain drastic measures were taken during 1946 and 1947, including increases in the National Bank discount rate. During the first three quarters of 1946 the expansion of bank credits to private enterprise was financed by a reduction of holdings of government debt. In order to halt this process of monetization of the debt, banks were required (from February 1946 on) to maintain reserves of Government Treasury Certificates (or cash) equal to 50–65 percent of deposit liabilities. Though this measure served its immediate effect, a consequence in the future may be to channel a substantial part of any further expansion of bank credit into satisfaction of the needs of the State. The new requirement also made the commercial banks more susceptible to central bank credit policy, since there resulted a greater need for rediscounting with the National Bank. The National Bank used its reinforced position to encourage lending against genuine commercial bills and to discourage consumer credit and loans which financed increases in stocks of merchandise.

3. Savings

The importance of increased savings at this juncture is indicated by a recent statement of M. Gaston Eyskens, Belgian Minister of Finance: "Under the conditions of full employment in which it functions, the Belgian economy cannot pursue two contradictory objectives at the same time: the expansion of consumption and the development of investment. Since liberation the economy has implemented a policy of abundance. It has no reason to regret this, since the reconstruction of human labor power has restored the productivity of the economy. But it is time for savings to take over from consumption, and for our productivity to serve investment" (Institut de Recherches Economiques et Sociales: Bulletin, Louvain, August 1948, p. 284).

A Belgian economist estimates total voluntary savings in billions of Belgian francs in 1947 as follows:

Net issues of securities

National Government:			
New loans floated	7.0		
Debt retirement	—2.5		
		4.5	
Local government and semi-State institutions:			
National Co. for credit to industry	0.7		
Telephone and telegraph monopoly	.5		
New borrowing of local government	.8		
		2.0	
Private securities		3.1	
Total		9.6	
Increase in investments of savings banks (other than in securities quoted on exchanges)		1.4	—2.4
Grand total		11.0	—12.0

(Albert-Edouard Janssen, in Institut de Recherches Economiques et Sociales: Bulletin Louvain, August 1948, p. 283.)

Compared to the equivalent in prewar years (an average of 6 billion francs in 1936–38), this represents a mere 100 percent increase, while in general the value of money is only one-fourth of prewar. In terms of this estimate voluntary savings in 1947 would have been only 5 to 6 percent of national income.

4. Gold and Hard Currency Reserves

At the end of 1944, the National Bank's holdings of gold were 732 million dollars. They remained more or less steady throughout 1945 and 1946, but in 1947 payment of 56.25 million dollars in gold to the International Monetary Fund initiated a decline which continued throughout the year. National Bank gold holdings reached a low point of 578 million dollars in February 1948.

Since early 1948, a moderate increase in foreign exchange control restrictions, plus purchase of gold from the Congo and receipts of gold or dollar payments pursuant to payments agreements, have resulted in an increase in the National Bank gold stock by about 65 million dollars. At the end of September 1948, these holdings stood at 643 million dollars.

It has been the policy of the National Bank to maintain substantial gold reserves, as a psychological barrier against distrust in the currency. For this reason, holdings of dollars and other convertible foreign exchange have been kept at working balance levels throughout the period covered by the table. Although the bank has been unable to avoid some loss of gold since liberation, in general gold reserves have been held remarkedly stable and have been consistently above the prewar legal requirement that they equal 30 percent of the National Bank's sight liabilities.

5. Exchange Rates

The present exchange rate, established in October 1944, was proposed by the Belgian Government-in-Exile and accepted by the Allied authorities. This rate, 43.8 Belgian francs to the dollar, represented a devaluation of about 33 percent as compared to prewar. It was confirmed by the Monetary Fund as the official parity of the franc in September 1946. During the period of the war, and since 1944, there have been substantial increases in internal prices. To some extent these have been offset by parallel increases abroad. A Belgian study of retail prices in April 1948, for example, showed that, with prices in Brussels taken as 100, the price level in Paris was at 99.3, in Stockholm at 143.4, and in New York at 115.5 (The Statist, London, 26 June 1948). This would indicate that the franc is undervalued. Alternatively, statistical calculations can be made showing overvaluation of the Belgian franc compared to other European currencies.

Such calculations are greatly affected by the extent of government price controls and subsidies in various countries. The Belgian Government has followed the policy of keeping such controls to a minimum, whereas many other participating countries have established comprehensive price control and subsidy systems.

In general, the Belgian franc would appear to be undervalued (if anything), insofar as the rest of Europe is concerned. In the highly complex world exchange-rate web, as much the product of political forces as of economic realities, it is difficult to see how Belgium alone could bring about a readjustment of exchange rates which would benefit her. To correct any undervaluation against other European currencies without increasing the difficulties in exporting to dollar markets, Belgium would have to introduce so-called "disorderly cross-rates."

Thus, the probable undervaluation with Europe may have to be accepted as given for the time being, pending a general readjustment of exchange rates. The handicap of overvaluation with the United

States is, in this case, not very pressing. Possibilities of expanding exports to the United States may be limited more by market factors than by price considerations. Imports at the present rate of exchange, moreover, serve to stabilize the Belgian price level.

6. Volume of Credit and Interest Rates

Since the monetary reform, a policy of tight credit has been followed in Belgium. After an interim reduction during 1945, interest rates have been increased progressively. The increase in money circulation during 1945 led to a growing ease in the money market. Beginning in February 1946, the application of restrictions on credit (such as the special reserve requirements for banks) caused a gradual tightening of long-term interest rates. The National Bank raised its discount rate in October and November 1946. However, the liquidity of the economy was still sufficient to cause a slight decline in the return on long-term bonds (an increase in market prices of fixed-interest securities) during the first half of 1947. In August of that year, the National Bank again raised its discount rate, forcing the rates in other money markets to follow suit. Another important development during 1947, indicating increased confidence in the long-run stability of the currency, was the elimination of the abnormal differential between the rates of return for medium- and long-term obligations (in favor of the former). This tended to make the marketing of long-term bonds easier.

7. Prices

The official index of retail prices was reestablished only in September 1946, after a wartime interruption. With 1936–38 taken as 100, it then stood at 324. On the eve of liberation, it has been at about 275. Developments during 1947 and 1948 are shown in table 13.

Price movements appear to have resulted mainly from the reduction in government subsidies. Average retail prices were fairly steady between January and June of 1947. In July, about the time of the abolition of most food subsidies, they began to increase rapidly. The increase was confined to food components of the price index, while nonfood items actually fell. A new plateau appears to have been reached around the end of the year.

Part of the rise in prices, particularly in 1947, resulted from the rise in international prices. Thus, during 1947 the United States price index for raw materials increased from 179 in January to 195 in June and 212 in December. By November the price of grain on United States markets had attained four times prewar, which in terms of the official Belgian exchange rate (devalued by one-third in 1944) meant an increase in the cost in Belgian francs to six times prewar.

In February 1948, there was a new jump, again mainly due to the abolition of most remaining controls of foodstuffs (particularly ra-

TABLE 13.—*Belgian price indices*

[1936-38=100]

	Official retail prices			Official wholesale prices	IRES [1] wholesale prices
	Total index	Food index	Nonfood index		
1947					
January	332	282	412	340	330
February	332	282	411	341	335
March	329	280	405	349	342
April	330	278	413	352	341
May	332	280	412	352	341
June	334	286	412	355	343
July	338	303	406	356	351
August	352	320	403	363	370
September	353	323	401	365	371
October	358	336	396	367	387
November	359	339	396	370	389
December	364	347	395	376	390
1948					
January	366	347	396		395
February	387	380	399		413
March	393	383	408		413
April	396	387	414		420
May	398	389	415		420
June	397	387	415		416
July	396	386	415		419
August	400	393	414		419
September	403	399	413		420
October	396	387	412		

[1] Institute of Economic and Social Research, University of Louvain.

tioning and price control of meat). This time nonfood components followed suit, possibly because the cost of the compensation payments to the "economically weak" was transferred from the State to the employers around the same time.

From March to September the retail price index was fairly stable, fluctuating within a range of 10 points, or about 2½ percent.

In October the retail price index dropped by seven points, the largest decline in the past 2 years.

The increase in the cost of imports in 1947 was a major element in the decision by the Belgian Government to remove price subsidies on foodstuffs in order to prevent the cost of such subsidies from wrecking its attempts at budgetary equilibrium (Institut de Recherches Économiques et Sociales: Bulletin, Louvain, August 1948, p. 440).

By the end of 1947, direct price subsidies continued only for coal and gas, bread, animal feedstuffs, butter and table oil. What few subsidies remain are not of very great importance to the retail price level. Thus the danger of an upward price movement if they are eliminated in the future is not great.

The removal of price subsidies without unleashing a wage-price spiral was a major accomplishment. It means that if monetary inflation can be avoided in the future the stability of the Belgian price level is more or less assured. The decline in retail prices in October lends substance to this belief.

G. LABOR PEACE, PRICES, AND PRODUCTIVITY

Labor peace was and remains one of the most important nonmonetary factors in Belgium's recovery program. Most of the government's economic policy can be (and usually is) explained in terms of the effect on real wages of labor.

The encouragement of consumption, for example, was intended to restore incentives for labor. The idea that increased supplies of consumer goods are an investment in greater productivity of labor has captured the Belgian imagination. There is even a tendency to justify on this ground consumption of luxuries not even remotely within the reach of working class income. Yet, organized labor (which is strong in Belgium) would not have accepted the idea if in application the workingman had not seemed to get his fair share.

Economic history in Belgium, reinforced by observation of current developments in surrounding countries, tends to make the Belgian labor movement extremely sensitive to any redistribution of real income through inflation, in favor of the rich and at the expense of the wage-earners. Yet, like some other European labor movements, the Belgian unions appreciate that in a serious inflation wages can never keep up with prices. The attitude of Belgian labor has thus been mixed: insistence on the one hand that wage-earner income be kept at least abreast of price changes, and recognition on the other that open wage increases might well make it impossible to maintain real wages in the long run.

These conflicting tendencies have found organizational expression in the National Conferences of Labor, periodic government-sponsored meetings of labor, employer representatives, and government officials, which began in 1939. The recommendations of these conferences form the basis for negotiation of industry-wide wage increases, for governmental subsidy policy and for other measures designed to maintain the real value of wages. They are thus the means by which the balance necessary to labor peace is determined and maintained. One of the first acts after liberation, for example, was an increase in average wages, by 60 percent in September 1944. This increase improved for the time being the very low level to which real wages had sunk at the time of liberation (possibly one-half of prewar). Rising prices forced the granting of an additional 20 percent general increase in July 1945. Though necessary in view of the great discrepancies then prevailing, such direct wage increases had almost immediate repercussions on the price structure. They were thus in part illusory.

The government has since sought to provide the benefits of wage increases by indirect means. These have included special vacation allowances, premiums outside official wage rates for regular attendance at work, and a complex system of income subsidies to the "economically weak." Official wage rates have remained under Government control, at least in theory, even though control of other prices has been largely eliminated. However, officially tolerated and unpunished evasions of this control have been important.

Another part of the attempt to maintain labor peace was the great expansion of social insurance after liberation. The cost of social insurance in 1947, 20.7 billion francs, was 28 to 30 percent of the total wages. Of this, the Government bore 2.7 billion francs out of general revenues. Levies on employers and employees brought 17.9 billion francs. This was 23.9 percent of total wages, as compared to 17.8 percent in 1945 and 8.4 percent in 1936–38. Two-thirds of the charge was borne by employers, and thus entered into the calculation of prices. However, the expansion of social security is so new that it has not as yet had time to affect the wage demands of workers. These are still based on previous requirements, including the necessity of providing for old age or illness. The increase in social insurance thus represents an addition to real wages (in the form of State provision for the future) rather than a mere transfer of a portion of current wage income within the working class (Institut de Recherches Economiques et Sociales: Bulletin, Louvain, August 1948, pp. 304–305).

There are no satisfactory indices of wage developments in Belgium. Nevertheless, even after consideration of increases in retail prices, real income of labor appears to be at least as great as before the war, if not somewhat higher.

But this is not true for all occupations. Public utility workers (gas, electricity, and tramways) are worse off than the average, because Government price control has been maintained with greater rigidity in those fields, and has tended to exert pressure on wages. As in all countries which have suffered from price inflation, white-collar workers are also in economic difficulties.

Despite the attainment of prewar real wages, labor productivity has not recovered to normal levels. The Belgian Ministry of Economics has estimated that for basic industries (coal, coke, iron and steel, nonferrous metals) in 1947 production was 87.3 percent of the 1936–38 average, while employment was 111 percent. Productivity of labor as indicated by these necessarily rough estimates would thus appear to have been only 78.5 percent of the prewar level. However, productivity appears to have been rising during 1948 at a fairly rapid rate. An improvemnt in labor productivity is essential if Belgium is to maintain her competitive position, and balance her international accounts in the long run.

II. POLITICO-MILITARY SITUATION

1. Internal Political Situation

Belgium has a middle-of-the-road coalition government. There are strong traditions of economic liberalism as opposed to the principles of state direction of the economy. Although all Belgian Governments since the liberation have been coalitions of parties with widely divergent views, the country has at no time been politically or socially unstable.

The present Catholic-Socialist coalition was originally formed in March 1947 under the leadership of Prime Minister Paul Henri Spaak, a leader of the Socialist Party. It represents the strongest combination of political forces that has governed Belgium since the liberation. The two Government parties together have a large majority in the Parliament, holding 161 of the 202 seats in the Chamber and 138 of the 167 Senate seats. The opposition consists of the remaining two parties: The Communists, who in the last general elections of 1946 polled about 11 percent of the popular vote (but who have probably lost ground since then both politically and in the vital trade-union movement); and the Conservative Liberals, then supported by about 8 percent of the electorate.

By tacit agreement between the Socialist and Catholic parties, the tenure of the present Spaak government is to be limited until the next general elections, now scheduled for the early autumn of 1949. For the first time women will be permitted to vote in a national election. A majority of the leadership and rank and file of both parties desire the continuance of the present coalition until that time. Many Socialists and Catholics are not in basic disagreement on some aspects of economic, financial, and fiscal policy. But the extremists in each party certainly hold widely divergent views. One example is the "Royal Question" where the right-wing Catholic supporters of King Leopold insist on a rapid solution looking to the King's early return, to which the Socialists and the two minority parties are opposed.

In terms of internal politics (and particularly as they relate to the vital trade-union movement) the economic and social problem which at present is causing greatest concern is the fear of increasing unemployment. Certain key industries, such as textiles, leather, and glass, have recently been obliged to curtail production and lay off workers because of difficulties in marketing products abroad for hard currency. The solution of this problem will be a principal objective of the present government. The manner in which it is handled will, for obvious reasons, be related to the evolution of the general internal political situation. The government's success or failure in this field will affect not only the coming elections but also the ability of the anti-

Communist trade-union leadership (which in the past 3 years has successfully reduced Communist influence within the unions) to continue to prevent Communist penetration and gains.

2. Military

With its relatively small population and metropolitan area, Belgium has a correspondingly small military establishment. Based on available published figures, the military budget for 1949 is slightly under 10 percent of the total budget, not a serious strain on Government finances or on the economy.

Chapter II. Basic Problems

A. GENERAL STATEMENT

The basic problems of Belgium may all be linked with internal and external monetary conditions. Indeed, this is almost necessary if a practical approach to their solution is to be found. Thanks largely to her splendid efforts to attain monetary stability, remarkably successful despite certain shortcomings discussed above, Belgium is now very close in over-all terms to a balanced free economy.

Belgium, like every other country at the end of the war, was struggling with two urgent problems: To get her economy back into running order so that she could produce as much as she had to consume; and to get rid at least of the more extreme regulations of economic life that were imposed during the war.

Belgium has made significant advances in dealing with these problems. Her wage-price-credit problems are of manageable proportions. Her economy will produce enough in the aggregate to support a reasonable standard of living and to furnish the necessary investment goods, if only it is possible to convert the proceeds of exports into dollars. But Belgium is not in balance with respect to her ability to earn dollars and her need to spend dollars.

In attaining an approximate over-all balance Belgium has been favored by the relatively limited extent of war damage, by the fact that she produces goods which have been greatly desired in the post-war world, and by the fortuitous circumstances of her liberation, which provided large foreign exchange income in the immediate postwar years. But the attainment of monetary stability, even within this favorable environment, will be no insignificant accomplishment.

The almost continuous inflation of the currency in the early post-war years, however, permitted the growth of certain anomalies which still prevent genuine balance. Not least of these was consumption at close to prewar levels before productivity had recovered to prewar standards. This resulted in abnormally high net imports from the dollar area. The after-effects of these anomalies have not as yet been entirely eliminated. They are expressed in a very high level of production costs, and in rigid prices. These resist monetary pressure for deflation, because they are under pressure in the opposite direction from a standard of living which has not been fully realistic in the past. Belgium thus faces certain immediate problems, even before balance can be achieved in the present environment.

In addition, however, Belgium faces the long-run problem of adjusting to an environment which may be much less favorable than it has seemed to be in the past. To assume that the products which Belgium normally produces will continue to command scarcity premiums is unrealistic, as the Belgians well know. In the case of steel, the most important export product, Belgium must face renewed competition from the rapidly expanding and reviving industries in countries which are now her customers. Already the expansion of steel production in other participating countries is eating into her present sources of iron ore. French and Swedish output of ore went largely to Belgium when she led in recovery of steel production; but it is now increasingly retained at home or sold to other countries whose industry is recovering. Present demand for steel, furthermore, is largely cyclical. The huge investment programs undertaken in other countries have created a rate of demand which cannot be matched by current production. But demand will decrease once the programs are fulfilled. Furthermore, Belgium will be faced with greatly increased competition from other European producers which are now expanding their steel industry. At the same time the austerity policies of other European countries, made necessary in part by their investment programs, are undermining the traditional markets for Belgian exports of consumer goods.

To meet these problems, Belgium may feel herself forced to turn at this late date to more rigid Government controls. Her industry is not now equipped to supply dollar markets directly, since it was developed to produce for European needs. Conversion to products with ready sale in the Western Hemisphere, particularly if it has to be done fast, would require expensive investments. In some other countries such investments have been made possible only by strict rationing of consumption or by serious price inflation, both relatively graceless forms of forced savings. But neither of these appeals to the Belgians. Indeed, their fear of both may have influenced them to pin their faith on a return to prewar conditions, which would obviate the necessity of radical changes in their economy. It may have led them to overestimate the likelihood of full restoration of prewar prosperity on the Continent of Europe. This fear is probably at the bottom of their present disagreements as to economic policy with the United Kingdom, the major source of dollars for Europe as a whole before the war.

But Belgian restoration of a balanced financial system is so close to attainment that a return to Government controls might be wasteful and probably ineffective. Under present conditions, for example, a reduction of excessive gasoline consumption might be more speedily and more surely attained by continued deflation of consumer purchasing power than by reintroduction of rationing (and its silent companion, black markets).

The basic problems for Belgium, then, are:

1. The elimination of those handicaps to a free-enterprise system which have prevented full adjustment in the past. In particular, this means gradual elimination of the various means by which the belief has been perpetuated that European conditions did not change as a result of the war.

2. The development of methods of influencing the free-enterprise system to bring readjustments to the conditions of the future.

3. For the next few years, some means of preventing strains which will be caused by needed adjustments from becoming socially and politically intolerable.

The first requires continuance of present efforts to maintain monetary stability. The first and second both require, more than anything else, an abandonment of Government interventions which have actually been undertaken in Belgium until now, particularly in the foreign trade field. The third requires some form of foreign assistance, to cushion the shock of the belated transition which Belgium must now make. The three are so closely related that the special meaning of each point will best be seen by discussing the problems of internal balance and of external balance separately.

B. PROBLEMS OF INTERNAL BALANCE

As a producer of capital goods and consumer goods with highly elastic demand (certain types of textiles, for example) and as a country greatly dependent on international trade, Belgium has always been particularly vulnerable to the cycle of prosperity and depression. Present prosperity, for example, stems from the accumulated European demand for capital goods. This has permitted an increase in Belgian export prices, more than offsetting the increase in the world market prices of food and raw materials which Belgium must import. It has provided ready markets for all the exports which Belgian heavy industry wishes to make.

But, the Belgians realize that this heavy demand for their goods will decrease. They therefore wish to make readjustments now, in preparation for the lean years of increasing competition and shrinking demand for capital goods, which would accompany any downswing in the business cycle. Such readjustment, as indicated above, would require an increase in the over-all efficiency of their economy, a gradual reduction of costs and prices.

Some Belgians feel that this requires a general deflationary movement and a more or less significant contraction for the time being in the interests of long-run stability. The present prosperity has resisted the efforts to attain stability through the monetary system.

The Belgian Government has striven to maintain a deflationary policy during the last 2 years. But it would have great difficulty in continuing to pursue this policy if unemployment remains at its present level. In any case, it is recognized that the implementation of Belgium's investment program, so essential to the reduction of real costs of production, might produce some transitional unemployment; men replaced by machines must often be retrained and relocated before they again find useful employment.

To minimize the hardships inherent in such readjustment, the Belgian Government plans to launch a large-scale public works program at the propitious moment. They take pride in the fact that needed repair and improvements of roads and buildings and other public works were deferred while labor was short, and that there will thus be useful work for those displaced from private occupations when unemployment again becomes serious.

But in order to carry out these long-range plans successfully, the Belgian authorities must first achieve a balance between a number of forces which are difficult to control. First, they must bring the expansive developments within the economy to a halt. For example, as long as inflation continued, it was impossible to bring pressure to bear to eliminate an unhealthy growth in the retail distribution system. It was also difficult to create compelling economic motives for new investment to increase efficiency and reduce costs.

As long as Belgium granted credits to other countries where there was even more inflation, it was almost impossible (without reintroducing Government regimentation of the economy) to keep Belgian enterprises from making profits out of exports, however inefficient their production. Inefficiency was in effect protected by inflationary developments, and the competitive system was unable to exercise its normal selective function in Belgium.

The momentum of inflationary movements, and the resistance to deflationary pressures, delayed visible direct results for over a year after the Belgian monetary situation was more or less stabilized. Only in the last month or two have price decreases become a visible portent of success of the government's deflationary policy. Only recently has a decline in money holdings of the public foreshadowed a limit to the wave of consumer spending. This means success for the attempt to saturate the consumer markets with goods, made at great expense over several years. If this policy now succeeds, and consumption in Belgium settles down to a normal balance with production and needed investment, it will have been well worth the cost, since the alternative was the costs of greater government control. But deflation, sometimes a most useful corrective, can get out of hand as easily as inflation. Belgium thus faces a precarious transitional period, in which it must balance the perils of inflation against the dangers of deflation.

Her problem is complicated by the environment in which it must be solved. The attempt at stabilization is not and cannot be conducted in a political vacuum. Deflation is politically dangerous under the best of circumstances. In Belgium the growth of unemployment has already caused serious concern, and has been mainly responsible for the importance attached to increased public works. But if the deflationary pressure exercised to date is to be immediately countered by new types of inflationary financing, it will rapidly evaporate.

Realizing this, the Belgian Government hopes to finance public works out of genuine savings rather than by expansion of the money supply. If new real savings or an equivalent can finance measures to smooth the transition from inflation to stability, the most difficult social and political problems of deflation can be avoided or ameliorated. At the same time, inflationary positions in the economy can continue under the pressure of monetary contraction until they are eliminated.

The prerequisite of such an operation is ability to finance increased public works without an expansion of money supply. There appear to be three theoretical possibilities of doing so:

(*a*) An increase in taxes, or a decrease in present government expenditures, in order to produce a budgetary surplus;

(*b*) An increase in voluntary savings; or

(*c*) An increase in foreign loans or assistance.

Perhaps the most appropriate of these three would be the development of a budgetary surplus. This would permit the Government to pay for its new capital expenditures out of revenue. Tax measures, if skillfully applied, could have the virtue of operating selectively in those areas of the economy where inflationary conditions continue. The danger of interference with healthy activities, which accompanies any deflationary or anti-inflationary program, might be minimized.

Failure to develop such a surplus in the past few years of prosperity has been a serious gap in the over-all program of monetary stability. Even after direct inflation to cover government deficits ceased, it has meant that the government has had to turn to domestic capital markets for its own investment needs, thus diminishing the amount available for private investment. In view of the probable shortages of domestic savings, particularly if large-scale readjustments are to be undertaken, government surpluses are needed in any event, as a form of forced savings which does not have inflationary repercussions.

This means that the tax burden, modest in the past as far as higher income brackets are concerned (particularly if the scale of evasion is taken into account), may now have to be increased. Politically, this is most difficult, particularly in view of the deflationary pressures which are already evident, and even though the only alternative may be forced saving through government control of the economy.

But even if tax rates are increased significantly, there is little prospect that a budgetary surplus could be developed immediately unless a general reform of the tax system is also undertaken. At present levels of tax revenue, the Government barely manages to meet its current expenses. Hopes expressed in past years that the ordinary (and war expenditure) budget would be balanced have been deceived repeatedly by actual developments. As long as price rises were an important factor, this was almost inevitable, because of the normal lag between increases in Government expenditures and receipt of increased tax revenues.

But the Belgian tax system is very sensitive to the downswing of the business cycle. Since a very large part of tax revenue is derived from turn-over taxes and other indirect levies, an increase in business activity results in a more or less corresponding increase in tax revenue, and a decrease caused by the elimination of inflationary developments would bring a serious drop in tax collections. If the Belgian Government has been unable to produce a surplus in the current boom period the present tax system may be even more inadequate to make revenue available for investment if there is a deflation.

The second possibility, financing public works by borrowing genuine savings, also looks less adequate now than may well be the case in the future. The Belgian Government follows the European tradition of separating its budget into two parts: The ordinary budget devoted to current expenses and revenues, and the extraordinary budget, containing expenditures on public works, and receipts from long-term borrowing. Since liberation, the entire extraordinary budget has been financed by borrowing. The theoretical justification is that capital improvements undertaken by the Government will in the long run pay for themselves by increasing the wealth of the country, and thus increasing Government revenue. Whatever the merits of this theory, it is evident that the source of the borrowed funds is a primary determinant of the effect of "extraordinary budget" operations on the economy. Recognizing this, the Belgian Government has sought to limit its extraordinary borrowing to the amount of funds available on the capital market. This was probably not sufficient to ensure in the past that all the Government's capital expenditures were made out of real domestic savings, since inflationary procedures were simultaneously used to supply funds to the capital market.

But now that over-all monetary stability appears to have been attained, the continuation of this self-imposed limitation does in effect mean that the Government must hope for an expansion of real domestic savings if it is to increase the amount of domestically financed public works. An expansion of domestic savings is also necessary if new investment is to take place on a scale sufficient to transform the Belgian economy into a direct earner of a large part of her dollar needs.

The rate of savings in Belgium probably has been relatively low in the past few years. There are a few indications, however, that it may begin to increase. In particular, the demand for securities appears to be somewhat greater than in the past while the fever pitch of consumption of certain types of goods seems to have abated somewhat. Since psychological imponderables are involved, there is no way of predicting future developments. Nevertheless, continued price stability or even a downward movement of prices would be conducive to a rise in the importance of savings, provided the international situation does not deteriorate. If other factors are auspicious, it might even be possible for the Government to assist in the recovery of savings, by judicious application of tax benefits, savings campaigns, and other stimuli.

For the immediate future, however, Belgium cannot be sure that genuine savings at home, governmental or private, will meet its real investment needs. It therefore seeks an increase in net foreign assistance, discussed below in connection with the 1949–50 program.

C. PROBLEMS OF EXTERNAL BALANCE

Many of Belgium's problems result from the fact that she has been driven by the desire to restore free enterprise. Thus, a part of the expenditures of dollars that seems excessive when measured by austerity standards is really the cost of restoring a free enterprise system under difficult conditions. Often, possible reductions in dollar expenditure could be effected only if Belgium reintroduces Government controls. The Belgians believe such controls may cost as much or more in the long run. Thanks to generally intelligent monetary policies, Belgium has succeeded well enough with free enterprise to provide more than merely ideological justification for much of the extra expense she has incurred.

Until last year, foreign exchange controls were progressively relaxed in Belgium to a point where Belgian importers could obtain authorization to buy almost anything from whatever country quoted the cheapest prices. On the other hand, exchange rates, and more especially the rate of exchange of the Belgian franc against the dollar, have been fixed. And with the existing pattern of official exchange rates, purchase from the United States was often more economical (in Belgian francs) than imports from soft currency areas. For the same reason, the soft currency areas were often more attractive export markets than the Western Hemisphere. If exchange rates had truly reflected market forces, it is possible that much of the demand for consumer goods, in particular, would have been satisfied in European markets and that, on the other hand, a larger proportion of Belgian exports would have moved toward dollar areas. This situation, so long as it continues to obtain, intensifies Belgium's dollar balance of payments problems.

As long as Belgian exports to soft-currency areas produced dollars (at least to some extent) this was not the cause of immediate difficulties. But with the suspension of convertibility of sterling by the United Kingdom and with the growing difficulties of conversion in other countries, Belgium was unable to continue importing from the United States on the same scale. Toward the end of 1947 stricter controls were introduced, particularly on imports of nonessentials from the United States.

On the export side, similar difficulties have arisen, but in reverse. Exports to the Western Hemisphere have been slow to recover, while possibilities of exporting to Europe have been limited mainly by Belgium's insistence on hard currency payment.

From the very beginning of the restoration of intra-European trade, Belgium was a creditor with some countries. As she recovered industrially, and came closer to a monetary balance, the probability of export surpluses with most western European countries became greater. The mere fact that economic recovery and monetary stabilization proceeded more rapidly in Belgium than in surrounding countries meant almost inevitably that Belgium would tend to have a favorable balance of trade with such countries. Some, such as the Netherlands, were impoverished by the war. They needed goods for reconstruction, and were not in a position to provide normal exports in return. Others slid rapidly into inflation, while maintaining more or less fixed exchange rates. The result was a chronic overvaluation which made exports unattractive for their own producers, and gave added inducement to their importers to procure from cheap sources of supply in more stable countries such as Belgium.

Furthermore, the disappearance of German competition and the decline in British exports of industrial goods to Europe meant a greatly increased demand for Belgian products. This was further reinforced by the tight world supply situation for such commodities as steel and machinery. In response to these favorable factors, Belgian export prices rose, not without some encouragement from Belgian authorities. Since the rise in Belgian export prices was even more rapid than the rise in the cost of Belgian imports, there resulted a shift in the terms of trade in favor of Belgium. It was therefore much more difficult for other countries to pay for the products they needed from Belgium.

Two temporary expedients to maintain the level of Belgian exports, despite this underlying unbalance, have already been mentioned. The first was the large net clearing credit granted by Belgium during 1946 and 1947. This was originally considered to be merely a means of covering temporary seasonal differences between imports and exports. But it developed that the differences were due to underlying factors, rather than to seasonal "swings." When it became evident that many of her European debtors would be unable to continue gold payments on their obligations, the internal inflationary effect of such "foreign investments," when Belgium was herself short of capital, began to be painfully obvious. The National Bank then decided that "because of international conditions and the necessity of preserving the monetary structure of this country the present amount of credits to foreign countries no longer seems capable of being increased" (Banque Nationale de Belgique: Rapport * * * sur les opérations de l'Année * * * 1947, Brussels, 1948, p. 14). This has been a cardinal point in subsequent policy.

But the reduction in Belgian credits caused difficulties for Belgium in one respect. While in 1947 the major handicap to Belgian industrial recovery was the shortage of raw materials (which might also be described as a shortage of imports), the most important depressing factor in 1948 was the inability of other European countries to pay for Belgian goods. Specific industries were particularly hit by "payments" or "foreign exchange" difficulties. Thus, during 1948 substantial unemployment developed for the first time in the textile industry. In general, semiluxury and nonessential industries suffered marked unemployment as a result of the tightening of foreign markets, although heavy industry had no immediate difficulty with export sales.

The effects of this contraction in ability to pay were reinforced by growing competition for available markets, as other countries with less "hard" currencies began to recover their ability to export. Belgium's keen interest in the establishment of an European payments scheme may be explained by these difficulties alone. As a relatively hard-currency country, Belgium could not meet soft currency competition as long as payment difficulties grew in intensity.

The second temporary expedient is the Intra-European Payments Agreement, under which Belgium provides Belgian francs to her European customers against the dollars received as conditional grants from ECA. These dollars have made it possible for Belgium to retain her markets in Europe and at the same time to maintain a more or less hard currency, by avoiding inflationary clearing credits and rigid government controls which would force her importers to buy in expensive European markets.

But now that Belgium does not directly control the granting of credit to other European countries she suffers from a new difficulty. Other European countries, no longer required to maintain Belgian favor in order to continue to enjoy a surplus of imports from Belgium, have refused to buy less essential Belgian exports (such as textiles).

They now seek to use an increasing proportion of their ability to buy from Belgium to purchase "essentials" such as steel.

Thus, for the long run, Belgium faces alternatives dictated by her surroundings, the choice of which will depend in the final analysis on where she thinks her real future lies:

(*a*) In artificially maintaining exports of less essential goods to other participating countries, without receiving imports of an equivalent value.

(*b*) In using normal economic incentives to bring about a more or less drastic shift in her internal economy, permitting a reduction of her traditional dependence on European markets for exports and an increase in her ability to pay for non-European products by direct export to the Western Hemisphere.

The former possibility means the continuation, by Government intervention, of markets which no longer have an economic basis for existence. This Belgium has done in the past, in the ways described above. In a sense, such intervention is a form of unemployment relief, of prevention of a business depression. Since it is recognized as such in Belgium, there may be a great temptation to make use of it as deflationary pressures increase.

However, this is precisely the sort of Government intervention Belgium has criticized most vigorously when it has been used by other participants. One of the most important Belgian criticisms of the European Recovery Program, for example, is that it has encouraged large-scale Government intervention to divert resources from consumption into ambitious investment programs. This, in turn, has been reflected in an abnormal demand for Belgian steel and a lack of demand for Belgian (and other) consumer goods in world markets. When the abnormal demand for investment goods ceases, Belgium fears that the result will be a serious depression, and a disappearance of established consumer markets which might have offset the decline in investment demand. Yet Belgium, in seeking by its own intervention to keep alive consumer markets based on Europe's prewar standard of living, has gone to the opposite extreme.

The second course of action, a shift in exports to non-European markets, would cause difficulty for Belgium. It means a strenuous reconversion of her economy. But it might also be disliked by other European countries, some of which might prefer that Belgium join the ranks of soft-currency countries. This might imply increased Belgian net exports to the other participating countries, financed either by Belgian credits or by increased Belgian purchases of European goods, not justified by comparative prices.

To some extent, increased Belgian purchases of European goods will come in any event, as economic recovery makes additional goods available and recovery of financial balance makes competitive prices possible. Such a shift is certainly to be welcomed wherever prices of European commodities are reasonably in line with those of Western Hemisphere sources.

Until now, Belgium has made neither choice very clearly, but has believed in a third possibility. Belgium believes that her future lies in continuing to supply European markets, but has refused to derive the logical conclusion that she must then become herself a soft-currency area. While recognizing in part that Europe is at present unable to pay dollars for the desired surplus of exports Belgium has nevertheless believed that this is only temporary, that in the near future her faith in hard-currency practices will be justified by a return of the ability of normal customers to buy on a hard-currency basis.

While it would be defeatist to accept the assumption that no part of Belgium's prewar pattern of trade can be rescued by European recovery and that there will be no dollars in Europe for Belgium to earn in 1952–53, it appears clear that the dollars or other hard currency will not be available in prewar amounts.

The basic problem which must be solved is whether one part of western Europe can achieve satisfactory balance ahead of the rest. Some Belgians apparently believe that their country can, that monetary and other difficulties of other countries need not spread across its borders. They have based this belief on what may have been exaggerated expectations as to the rate at which other countries will be able to overcome domestic problems. Belgium may now have to recognize that other countries will not be able to pay for the exports she has come to consider normal. If she draws the logical conclusion that she must therefore shift some of those exports elsewhere, in a larger sense this would help the return of Europe to balance with economic reality, rather than hindering it.

Chapter III. Description and Critique of the Recovery Program

A. THE ROLE OF THE PROGRAM

In the case of a country like Belgium it is necessary to understand the role of a long-term economic program. Specific goals for the production of steel or wheat will not be implemented by direct Government action. They are little more than estimates of what businessmen and farmers are likely to decide to do under conditions that will prevail by the end of the period under consideration.

On the other hand, what businessmen are likely to do will depend in Belgium very largely on what the Government does in the fields of fiscal and monetary policy. Since businessmen are free to follow their own interests, they will be even more responsive than businessmen in a controlled economy to changes in the "economic climate." The nature of decisions which the Belgian Government must make in the fiscal and monetary field at least will determine the climate in which business decisions are made in Belgium.

In a sense therefore an outline of proposed measures in these fields would constitute the long-term program of Belgium. It will have been evident from the preceding pages that these decisions have not all been taken yet. One reason is that they must now be made in concert with the Netherlands Government, and plans for the Benelux Economic Union are not sufficiently advanced to permit resolution of many of the problems involved.

This is not to say that the estimates of specific production goals or expectations in the 1952–53 program are meaningless. Far from it. Not only do they give the best available basis for estimating today the impact of Belgian plans on the economy of western Europe as a whole, but beyond this, an exercise such as this is necessary to the sensible formulation of the Government's own plans. Indeed something not unlike this was done by the Belgian Government for its own purposes, when it drew up its 10-year investment program. Among other things such a prediction brings into focus the basic monetary and fiscal problems that beset Belgium in its efforts to maintain a free economy.

In accordance with its agreement with the Netherlands, Belgium is unable to release any separate information on the impact of the Benelux 1952–53 program on Belgium alone. It is therefore necessary to discuss the Benelux program as a whole, without attempting to describe specifically its effect on the individual participating countries. Separate discussion of the role of Belgium is possible only in a very general sense.

B. THE INVESTMENT PLAN

While no specific connection has been made between the program submitted to OEEC and the 10-year investment plan drawn up by the Belgian Government in 1947, it appears evident that the principles of the latter have been incorporated in the former. (See table 14.) The basic criterion of the 10-year investment plan was maintenance of Belgium's traditional competitive position, rather than any radical change in direction or any substantial expansion. The total of gross fixed capital investment, about 40 billion francs a year, was relatively modest, yet exceeded expectations as to the availability of internal financing. About one-fifth, or 7.5 billion francs per year (171 million dollars), was to be met by foreign borrowing.

Since Belgium's investment problems are relatively small, and since Belgium has in general been spared from a major wartime upheaval of the economic basis for her existence, such conservatism appears at first glance to be justified. It signifies in particular that Belgium will not be tempted to devote a dangerously high portion of current economic resources to long-term investment projects of doubtful value. The proportion of wasted effort and resources in the total investment effort will probably be low. It is important to judge Belgian plans and results in the investment field against this standard, which has its own merits, rather than against the goals set by other countries which face a problem of a different character. But it is also important to examine the problems Belgium actually faces, and how they compare with the problems assumed in preparing the investment program.

The targets for private investment needs were developed for the most part by consultation of trade associations and similar organizations, and reflect the desires of individual industries for the future. Since Belgium has a free-enterprise system, such desires may actually be far more significant than any government projection which could be substituted. However, in order to keep the program in perspective, it is important to note that it is not a "plan" which will be carried out by government intervention, but has far more of the character of a prediction, to be realized only if over-all policies and circumstances permit, and if the political climate of Belgian economic life in the future is conducive to the realization of investment desires.

The targets for Government needs, similarly, represent the investments which the Government believes would be useful and which it hopes to be able to carry out.

TABLE 14.—*Investment targets,*[1] *1948–57, and actual investment in 1947*

[In millions of Belgian francs]

	Ten-year target	Annual average	Annual target for first few years	Actual investments
A. Public				
State:				
Transport and communications	8,399	840	1,250	1,118.5
Public works	46,732	4,673	4,800	2,864.8
National defense	5,186	513	650	588.2
	60,317	6,032	6,700	4,571.5
Subsidiary administrations:				
Local government	27,400	2,740	2,750	1,874.2
Ports of Antwerp and Ghent	9,500	950	1,000	262.8
	36,300	3,630	3,750	2,137.0
Semigovernmental:				
National railways	43,605	4,360	4,500	2,733.4
National interurban railways	1,260	125	200	82.5
Telephone and telegraph monopoly	8,811	881	900	1,092.7
	53,676	5,367	5,600	3,908.6
Total (governmental)	150,833	15,089	16,050	10,617.1
B. Private				
Public utilities:				
Road transport	12,750	1,275	1,275	2,600.0
Inland waterways transport	2,000	200	200	200.0
Merchant marine and fishing	12,500	1,250	1,250	1,214.0
Air transport	1,200	120	120	200.0
Urban transit	1,500	150	150	84.0
	29,950	2,335	2,995	4,298.0
Industry:				
Coal mining	18,000	1,800	2,100	1,300.0
Electricity	13,600	1,360	2,700	1,451.0
Coal derivatives	4,400	440	750	500.0
Iron and steel	7,200	720	1,100	750.0
Metal manufacturers	12,500	1,250	1,250	1,220.0
Other	45,500	4,550	4,550	4,180.0
	107,200	10,720	12,450	9,401.0
Commerce and handicrafts	7,000	700	700	1,000.0
Agriculture	15,000	1,500	1,500	900.0
Housing	85,000	8,500	8,500	6,500.0
Unidentified				1,284.0
Total (private)	244,150	24,415	26,145	23,383.0
Grand total	395,043	39,504	42,195	34,000.0

[1] Gross investment; including replacement; in fixed capital, excluding stocks of goods.

Source: Ministere de la Coordination Economique et du Reequipement National—Troisieme rapport relatif au probleme des investissements, Brussels, 1948, pp. 142–43.

The essential characteristics of this program are:

(*a*) A significantly larger rate of investment, over the next few years than actually occurred in 1947.

(*b*) A large expansion of Government investment, which lagged in 1947 as compared to private investment, to cover the needs of the railways, ports and communications as well as other government institutions.

(*c*) Somewhat greater private investments, particularly in coal mining and electric power, which were neglected in 1947.

(*d*) Diversified investment rather than heavy concentration in a few basic sectors of the economy.

C. AGRICULTURAL AND INDUSTRIAL COMMODITIES

1. Agriculture.—Food consumption levels, which are now about prewar, will probably be fully restored by the end of the period. Emphasis will be placed at first on rebuilding livestock numbers and gradually intensifying meat production to fill domestic needs. While this will involve somewhat heavier imports of foodstuffs, at least part of which must come from the dollar area, it is considered a more economical and rational development than continued large meat imports. Fertilizers, chiefly produced within the participating countries, will also continue to be used more liberally than in prewar years with a view to obtaining larger yields. Some adjustments in the agricultural sector will be necessary in view of the anticipated inclusion of the highly developed Netherlands agriculture in the Economic Union.

2. Solid Fuels.—Belgian coal production (Luxemburg has no coal) is scheduled to increase during the next four years and will probably be a major source of the increase in production for the Benelux union as a whole. Many of the mines in southern Belgium are very old and uneconomic to operate. Also, most of the coal veins in Belgium are very thin and extensive mechanization is difficult. However, it is planned to push modernization and mechanization to the greatest extent possible, to group mine properties into larger units for more economic operation, and to put increasing stress on efficiency.

3. Crude Steel.—The Belgium-Luxemburg program anticipates that by the end of the recovery period crude steel output will have increased substantially over the 1935–38 average. However, the major portion of this increase occurs in the earlier years. Actual production in 1947 was 4,534,000 tons and is estimated to rise to 6,750,000 tons in 1948–49 and to 7,300,000 tons in 1949–50. While this appears to be a startling increase, it is to be noted that the prewar figure was well below capacity production, and the program assumes that the predicted output can be obtained largely by renewal and modernization of existing plant facilities rather than by direct expansion.

No exports of crude steel are contemplated, although the British have obtained some in 1948.

All iron ore, except for the relatively small quantities of "minette" produced in Luxemburg, must be imported. Sweden and France will doubtless continue to be the chief source of supply, with possibly less emphasis on high-grade Swedish ores as fuel shortages become less of a factor.

4. Finished Steel.—A considerable expansion of tin plate capacity is contemplated, and also of light sheets. In the latter sector one of the large Belgian companies, with technical assistance from an American concern, is installing an important cold-rolling mill. Similar improvements and extensions are being made by the largest Luxemburg company aided by a loan obtained over a year ago from the

Export-Import Bank. Other metallurgical improvements by various companies in the two countries are actively under way, chiefly with domestic financing but with some expectation of loans from United States sources.

With the present heavy world demand for metallurgical products, the growth in Belgian-Luxemburg steel output seems amply justified at least for the next year or two. Whether foreign markets will continue to absorb the programed high production throughout the recovery period depends upon political, trade and payments factors which cannot be determined accurately. However, Belgium-Luxemburg plans provide a businesslike degree of conservatism and elasticity, in that they are based primarily on modernization and more efficient use of existing facilities rather than the establishment of large new enterprises.

5. Nonferrous Metals.—Although raw materials must be imported, Belgium had well-developed industries for refining and transformation of copper, zinc, lead, cobalt, and other nonferrous metals. The Belgian Congo supplies practically all the copper ore and crude copper now refined in Belgium. Refining facilities have also been established in the Congo. The production goal does not appear unreasonable.

6. Textiles.—Use of raw cotton and wool in production of textiles (largely for export) is expected to increase for 1952–53. The amount to be consumed by the end of the recovery period appears to be considerably overestimated, particularly since world textile markets are already beginning to show the difficult competitive conditions characteristic of prewar trade.

7. Chemical Products.—The Belgian chemical industry, already well advanced, plans important expansions over the prewar level. The industry is primarily one of transformation, since coal is almost the only native raw material. However, a wide range of heavy chemicals, dyestuffs, and pharmaceuticals are produced.

In fertilizers, the principal expansion of output is expected to be in nitrogenous products. In view of the greatly increased world demand for nitrogenous fertilizers, marketing should be possible if Belgian costs can be kept at competitive levels.

D. CRITIQUE OF THE PROGRAM

The fundamental defect of the present long-term program is that it is overoptimistic as to the possibility of maintaining a surplus of exports to western Europe.

Expectations as to textile exports appear highly unrealistic, in view of the difficulties which Belgium is experiencing at present in selling textiles.

Even her expectations as to steel output, the most important and generally most realistic part of the Belgian program, may require some revision. Belgium depends on supplies of French and Swedish iron ore. Even now she is having difficulty in obtaining French ores in usual quantities. As France and Sweden expand their own steel production, or sell ore in greater quantities to other countries which plan rapid development of iron and steel output, availability of supplies for Belgian industry may become even more restricted than at present. At the same time, the present favorable market for Belgian steel may not last long. When United States exports again become available in greater quantities, the higher costs of Belgian production may exclude it from many overseas markets. Furthermore, the expansion of output in other European countries would tend to reduce Belgium's importance in European markets as well.

Thus, Belgium may have to think in terms of greatly increased investment, both to bring costs down and to shift the character of her production to fit overseas markets. In the case of steel, as for the economy as a whole, this means specialization in products requiring intensive use of skilled labor, and a shift away from less finished goods in which mass production is the major factor. Such investment requirements probably imply substantial revision of the present investment program, which is based on maintenance of the present economic pattern with little change.

The essential role of criticisms like these is to bring broader problems into view. All these measures, a shift in markets, greater investment, and a reduction in cost, requires some kind of fiscal and monetary policy designed to bring them about (or, as an unsatisfactory alternative, some form of government control). Here the Belgian program is least clear. Although in the various discussions in OEEC the Belgians have indicated awareness of the need for a financial policy to implement their long-term program, there has not as yet been sufficient agreement with the Netherlands to indicate the probable nature of such a policy.

It is clear that the success of the 1952–53 program would require: (1) An increased exploitation of Western Hemisphere markets; (2) the reduction of barriers to trade throughout the world; and (3) an increase in the ability of Belgium to earn dollars in Europe, which in turn means an increase in the dollar-earning capacity of other participating countries.

Chapter IV. Justification of ECA Aid

A. REASONS FOR AID

Belgium appears to be a country very close to over-all financial balance, but not close to balance with the separate currency areas into which the world economy has divided. Belgium has overcome most of its internal postwar difficulties, by its own efforts, and deserves full credit for this achievement. In doing so, however, it has reduced its own need for further United States aid.

There are thus very basic policy questions as to the place of aid to Belgium in the ECA program. The questions are really as to the type of aid Belgium should receive from the ECA and as to the type of obligations Belgium should be expected to assume in return for ECA assistance.

Belgium has recognized the existence of both these large questions, the first in the type of aid it requested for 1949–50 and the second in its day-to-day relations with the Economic Cooperation Administration.

1. Type of Aid

In discussion of the 1949–50 program at the OEEC, Belgian representatives have asked that a primary determinant of its share in ECA aid be its need for foreign capital. For 1948–49, the Belgians claim, OEEC started with the net need of other participating countries for Belgian goods. From this was determined the drawing rights which Belgium should extend and consequently the conditional grants which Belgium should receive. This was then subtracted from the total of dollar aid considered necessary to cover a reasonable dollar deficit and the remainder was then available in the form of net aid to Belgium. for 1949–50, the Belgians asked OEEC to reverse its procedure; to begin with Belgium's need for foreign capital (estimated at $100 million), and to add to this any net requirement of other participants for Belgian exports.

The Belgians justify this request as follows (OEEC/PR (48) 56, note by the Belgian Delegation on the Distribution of American Aid for 1949–50, Paris, December 7, 1948):

In short, it is a question of starting not only from certain signs of disequilibrium produced by the war, but from the total consequences of the war.

These are seen in shortages which appear under different aspects according to the policy practised by each country. A deficit in the balance of payments or insufficient investments are signs of the same fundamental deficiency produced by the war and to some extent successfully controlled by the more or less appropriate economic policy of each country.

Apparently, Belgium feels that it is being penalized for the relatively greater degree of stability it has maintained. Other countries have forged ahead with large investment programs. These, however necessary, have sometimes resulted in Government deficits and inflation. The result was to increase the size of their external deficits, and particularly of their dollar deficits. Belgium, on the other hand, has sought to limit investment (particularly Government investment) to available internal means of financing. Insofar as Belgium has succeeded, the result was that no part of its external net balance resulted from its own investment, and that its dollar deficit was more or less correspondingly smaller than would otherwise have been the case.

2. Relations Between Belgium and ECA

In its day-to-day relations with ECA, Belgium itself recognizes the distinction between its position and that of many other participating countries. Its representatives have, indeed, expressed the fear that ECA might seek to apply the same standards of scrutiny to its requests as must be applied in the case of other countries. Belgian imports from the United States, for example, include types or quantities of consumer goods which cannot be considered essential by average European standards. If some other country which has progressed less toward a return to prewar conditions were to ask ECA financing for such goods, the request would have to be refused. But the application of such standards to Belgium would be neither economically justified nor administratively effective.

If ECA were to refuse financing of particular commodities, Belgium has sufficient non-ECA dollar earnings and resources to buy itself what it wishes, and makes sufficient "essential" purchases to use up whatever ECA assistance it may obtain. The only result would be some shift between the types of goods procured with ECA funds and with Belgium's own resources, and little or no change in the make-up of Belgian purchases from the dollar area as a whole. Thus, the very fact that Belgium is so close to internal recovery makes it almost impossible to attain a desired result by imposing specific restrictions on the use of ECA financing.

Only the over-all amount of ECA financing and the general conditions on which it is given can directly affect Belgian policy. But, since most of it has been given as a counterpart to Belgian exports to other participants, there are even limitations in these respects. A decision to change conditional grants to Belgium is also a decision to change the amount of Belgian goods received by other participants. A great decrease might hamper the recovery programs of these other ERP countries, by cutting down on their ability to buy Belgian steel and other essentials. A great increase, on the other hand, would reduce the incentive for other countries to correct any internal difficulties which may prevent them from paying for Belgian products with increased exports to Belgium.

But while it is true that Belgium is earning the equivalent of its conditional grants by exporting to other participants, it is equally true that Belgium would have great difficulty in finding alternative means of exchanging "soft" European currencies for dollars. Belgium is thus able to earn dollars in European trade largely because ECA makes dollars available for this purpose, which no private agency would do, and no other public agency can do. By making this possible, ECA assistance not only furnishes needed goods to other countries, but helps to avert a serious depression in Belgium. More important for the long run, Belgium is thereby given time to make necessary adjustments against the future when this extraordinary assistance will no longer be available. Finally, it should be recalled that ECA aid now minimizes (but does not eliminate) the adjustment that Belgium must eventually make. Now, without ECA assistance, it would have to make the far more difficult and transitory adjustment to a Europe that is only on the road to recovery. In return for this opportunity, Belgium is expected to make good use of this time.

From the point of view of long-run balance, the attainment and the maintenance of monetary stability remain the primary necessity. Fortunately, the opportunity to restore balance in Belgium is close at hand.

In the transitional state, basic policy requirements must of necessity be mixed. On the one hand, the overcoming of inflationary tendencies is a primary necessity if balance is to be attained. Postponement of stability for fear of the unpopular measures necessary to reach balance would be unfortunate. On the other hand, a serious depression in Belgium would be a blow to the European Recovery Program. It would mean lost production that is needed in western Europe. It might discourage other countries from attempting to balance their economies. For Belgium itself, it might mean serious political and social disturbances. Thus, the possible gain of a reduction in Belgium's dollar deficit as a result of a depression would have offsetting costs which cannot now be measured. ECA aid covering at least part of the possible dollar deficit will have a very important influence in helping to resolve this conflict.

B. PROGRAM FOR 1948–49

The 1948-49 OEEC recommendations of 207.5 million dollars in conditional aid and 42.5 million dollars in loans are considered adequate. A slight reduction in the loan allotment is recommended, to 40.4 million dollars. The ECA has worked out a new balance of payments for Belgium-Luxemburg, on the basis of most recent data. The most striking difference is the uncovered dollar deficit: 157.8 million dollars in the OEEC recommendation, and only 29.4 million dollars in the ECA estimate. This results from an improvement in exports to dollar areas, a lower level of imports from dollar areas, and an increase over the predicted amount in receipts of goods and dollars from other participating countries. Further improvement during the next 6 months is possible, so that 1948–49 may close with a somewhat smaller net decrease in monetary reserves.

The greater gold and dollar receipts from other participants indicate that the originally estimated net surplus in intra-European trade of 207.5 million dollars was low. This is not in itself necessarily undesirable, but does show that the figure is amply justified by European requirements for Belgian products. The loan allotment of 40.4 million dollars requires a somewhat different type of justification. As noted above, 1948–49 may well be the beginning of a transition by Belgium from postwar difficulties to internal stability. But as long as Belgium continues to suffer to some extent from the same internal difficulties as other participants, net ECA aid is justified in some amount. While it is difficult to fix an exact figure for such needs, or to determine the exact point at which they cease to exist, it is clear that Belgium did require direct aid during 1948 and that an abrupt termination of this requirement is not to be expected. Furthermore, the internal transition appears to have begun only with the middle of the current fiscal year, and should not become fully effective for several more months.

The ECA balance of payments forecast indicates an uncovered dollar deficit of the order of 69.8 million dollars (without taking into account the loan allotment of 40.4 million dollars). Since Belgium has a relatively free economy this may be taken to be a more or less true reflection of the actual postwar disequilibrium still persisting in the internal economy. The figure of 40.4 million dollars represents only about 60 percent of this estimated amount and therefore appears reasonable. The Belgium franc counterpart will be used for certain investment projects, mostly repair of actual war damage, which cannot be financed with presently available internal savings. The need for the franc counterpart in order to make these investments possible may also be considered as confirmation of the existence of real needs arising out of postwar circumstances. Such needs, insofar as they cannot be covered out of Belgium's own resources, may well justify an ECA loan.

Of the total Belgian allotment for 1948–49 of 247.9 million dollars, a total of 196 million dollars has so far been allotted. This leaves an allotment of 51.9 million dollars still to be made, all in the form of conditional aid. During the second calendar quarter of 1948, Belgium-Luxemburg received an allotment of 20 million dollars, of which 3 million dollars was a grant and 17 million dollars was a loan.

During 1948–49, it is estimated that Belgium-Luxemburg will extend 218.5 million dollars of drawing rights and to receive 11 million dollars, making a net extension of drawing rights of 207.5 million dollars. Net ECA aid for 1948–49, therefore, amounts to 40.4 million dollars or the loan total for the fiscal year.

C. PROGRAM FOR 1949–50

The 1949–50 program as submitted by Belgium-Luxemburg provides for a continued increase in domestic production, imports and exports, and for an expansion of investment (particularly government investment). At the same time, consumption levels are expected to increase above the relatively favorable level attained in 1948–49.

1. Consumption

Increases in consumption will be accompanied by a slight increase in dollar imports. The consumption levels projected for 1948–49 were based on full employment. Insofar as can be judged, they at least restored the prewar standard of living in Belgium.

A number of economies in the use of dollars are possible, even within the consumption levels proposed in the program. Many of these, however, would require the payment of somewhat higher prices by Belgium (e. g., imports of grain from South America and eastern Europe instead of the United States).

2. Investment

There will be a reasonable increase in the over-all total of investment, comprising a relatively modest increase in private investment, and a substantial increase in public investment. Total gross fixed capital investment will be at the rate of 43.7 billion francs a year. This is somewhat higher than the annual rate provided in the Belgian 10-year investment program for the first few years (42.2 billion francs).

A comparison between the 1949–50 investment program and the 10-year program drawn up in 1947 is given in the following table:

TABLE 15.—*1949–50 investment program compared to plan of 1947*[1]

[In billions of Belgian francs]

	Annual targets set in 1947[2]	National program,[3] 1949–50	Of which imports
Public investment	16.1	15.1	0.3
Of which, railroads	4.4	4.4	0.0
Private industrial investment	16.1	18.4	6.2
Of which:			
Transport	3.0	2.3	1.8
Coal	2.1	3.7	.3
Electricity	2.7	2.1	.4
Iron and steel	1.1	1.7	.5
Metal products	1.3	1.3	.8
Agriculture	1.5	1.9	.5
Housing	8.5	8.3	.0
	42.2	43.7	[4] 7.1

[1] Available information not strictly comparable.
[2] Ministere de la Coordination Economique et du Reequipement Nationale: Troisieme Rapport relatif au probleme des investissements. Brussels 1948, pp. 142–3. Annual needs for first few years of 10-year program.
[3] OEEC PR (48) 43/02 (rev.).
[4] Approximately the same as in 10-year program.

According to this table, there have been some significant changes within the totals, but the latter are more or less the same. Plans for investment in transport (trucks, etc.) have been revised downward. Development of electric power is to be delayed, while reequipment of coal mines and the iron and steel industry is to be undertaken at a faster rate than was originally planned. This appears to indicate an attempt to overcome deficiencies of previous years in the case of coal, and an increasing apprehension over ability to meet foreign competition in the case of both coal and steel. The modification of plans for the expansion of transport facilities may simply be a response to the approaching saturation of the market for trucks.

3. Trade

Total exports will increase from 1,534 million dollars in 1948–49 to 1,892 million in 1949–50. This represents a 23-percent increase. Planned increases in imports are only about 11 percent, from 1,697 million to 1,915 million dollars. However, the Belgians claim that they could increase exports even further (by up to 150 million dollars to participating countries) if they would obtain an equivalent amount of additional United States conditional aid. In view of this, the rate of exports cannot be considered an undue burden on the country's domestic economy.

4. Production

Industrial production is expected to increase to 130 percent of prewar, compared to 84 percent in 1946, 103 percent in 1947 and 111 percent for the first 8 months of 1948. It is difficult and possibly undesirable in the case of Belgium to attempt a sharp distinction between domestic resources and foreign trade, because the latter is so great a factor in the country's economy. An attempt will therefore be made to discuss the picture as a whole for individual branches of the economy. It is significant that this type of discussion frequently leads to the conclusion that domestic production will expand only if export possibilities are as favorable as is assumed in the program.

The postwar shortage of feeds and bad crop conditions in 1947 have prevented restoration of livestock numbers. As in the long-term program, the Belgium-Luxemburg program for 1949–50 emphasizes the need for an increase in animal herds which should eventually make the country less dependent upon imported meat, fats and milk, thus decreasing dollar requirements. By 1950, livestock numbers will still be considerably under prewar, but would show a substantial and reasonable increase over the previous year.

This increase will require a large supply of feedstuffs, and imports of 1,130,000 tons of coarse grains are programed, as against 904,000 tons in 1948–49 (1,235,000 tons prewar). Continuation of large imports of dairy products from the United States is nevertheless envisaged. About 10 million dollars of agricultural machinery is to be imported in 1949–50, over half from the United States. Imports from the United States will probably have to be lower because of the unavailability of the items desired. A part of the Belgian demand for agricultural machinery could probably be switched to European sources of supply.

The general outlook in agriculture is a further intensification of the shift to "factory farming" along the lines of the Dutch and Danish dairy industries, with a consequent increase in imports of animal feedstuffs. Mechanization is a partial answer to the problem of the high cost of farm labor. There is some merit to such a shift, as long as the high standard of living in Belgium is maintained, as it means the production at home of a higher proportion of expensive foods, and the import from abroad of raw materials for this production.

At the present time, coal production is only slightly below the prewar annual average of 28.5 million tons. In 1949–50, coal production is expected to reach 29.0 million tons, with consumption at 31.7 million tons. Imports will be mainly from Germany, Poland and Great Britain. Exports are forecast at 3.5 million tons, of which 815,000 tons represents metallurgical coke.

The world shortage of steel has provided a strong market for the Belgian and Luxemburg mills and their production has expanded as ore and fuel became available. Idle capacity has been gradually put into operation, and repairs and modernization are steadily progressing. This trend is expected to continue through 1949–50 and to bring about a further increase of 550,000 tons in raw steel production over 1948–49 estimates. If the demand continues and payments facilities can be arranged, these estimates should be attainable.

TABLE 16.—*Steel production (1,000 tons)*

	1947	Estimates, 1948–49	Estimates, 1949–50
Raw steel	4,534	6,750	7,300
Index	100	150	161
Finished steel	3,584	5,637	5,880
Index	100	159	166
Exports of finished steel	2,068	3,344	4,065
Index	100	162	197

Increased steel production requires increases in capital investment and in raw materials. A portion of the new capital equipment must come from the United States, if the Belgian steel industry is to benefit from the latest technological developments. Raw materials for increased steel production (with the possible exception of coal) must also come largely from abroad. Increased use of home (Luxemburg) iron ores would require a much greater supply of coal, since this ore is low in iron content. It would also require a great expansion of pig iron capacity, since the iron industry is now operating at capacity with richer imported ores. An increase in scrap supplies, which might reduce coal requirements, would also have to come from imports. Thus, while there are certain possible substitutions as between various types of imports, there is little possibility of substitution of home resources for foreign resources, barring an impracticably great rise in home coal production.

5. External Balance of Payments

For a number of reasons, the balance of payments submitted by Belgium in connection with the 1949–50 program appears to require revision. The Belgian estimate of trade with other participating countries assumed a current surplus of approximately 150 million dollars (after allowing for some gold movements or increases in Belgian clearing credits). This was done on the assumption that total ECA assistance would be no more than that provided in 1948–49 (250 million dollars). Of this total, Belgium hopes to obtain 100 million dollars in the form of ECA loans available for financing internal investment. This left a remainder of only 150 million dollars to be taken in the form of ECA conditional grants for the financing of its net trade surplus with other participants. The merits and demerits of this procedure are important, and have been discussed above.

Another figure which seems to require correction is the relatively low estimate of exports to other Western Hemisphere countries.

An estimated balance of payments, adjusted for the above and certain other corrections which appear necessary, shows residual gold or dollar movements resulting in a net drain on Belgian monetary reserves of 30 million dollars. This represents some saving as compared with the decrease in monetary reserves of 116.6 million dollars required by Belgium's original submission. Imports (including imports from the dollar area) are expected to increase, but exports (including exports which earn dollars) will increase to an even greater extent. Thus, the real deficit with the dollar area (excluding earnings of dollars from other participants) will fall despite a generally higher level of trade.

The amount of ECA aid requested by Belgium-Luxemburg for 1949–50 is 250 million dollars; the ECA recommendation for 1949–50 is 200 million dollars. The 200 million dollar figure for aid appears to represent the minimum need for financing the net Belgian export surplus with other participants in 1949–50. Indeed, the desire of participating countries may well be to revise this figure upwards, particularly if some allowance is to be made in OEEC's final recommendations for net (unconditional) aid to Belgium. While only slightly below the conditional grant for 1948–49 (207.5 million dollars) it is much less than the probable total of dollars Belgium will receive for trade with other participants in the current fiscal year. It thus allows for a narrowing of the gap between exports and imports with other participants by as much as one-third. To expect a greater shift in the coming fiscal year does not seem realistic. Any attempt to lower the aid figure would probably only result in larger gold payments to Belgium by other participating countries. This would not be desirable and might well have the effect of increasing the ECA aid needed by these countries. At the same time, the 200 million dollars of ECA assistance, plus outside borrowing of perhaps 65 million dollars, will still leave Belgium with a dollar deficit of about 30 million dollars. While not too large in view of Belgium's present gold reserves, it serves to indicate the need for still further improvement of the Belgium balance of payments.

This deficit is estimated on the assumption that there will not be any further substantial gold and dollar earnings from other participating countries, and that the current tendency toward serious unemployment in Belgium (and thus to a reduction in the need for dollars) will be corrected during the coming year. Failure of either assumption might greatly reduce or even eliminate the predicted drain in Belgian gold reserves.

Some explanation of the suggested borrowing from other sources must also be made in considering the aid figure for Belgium-Luxemburg. The ECA program cannot cover all the needs of European development and ECA assistance must be reserved for those cases where adjustments cannot be made without it. Belgium has attained a position where it can look to non-ECA sources for satisfaction of some of its legitimate needs. This applies to its entirely normal requirements for foreign investment capital. Other institutions exist to meet requirements for foreign loans, where the sole barrier to private lending is political risk, and ECA should not duplicate their functions. In cases like this, ECA assistance must, therefore, be primarily in the form of exchange of soft currencies, an operation involving rehabilitation of other European countries with Belgian goods. The foreign capital which Belgium requires in order to finance public works as an offset to unemployment (without inflation) can probably be obtained to some extent from other sources.

PART III

Appendix Tables

TABLE A. Illustrative Balance of Payments for 1948–49, OEEC Estimate.

TABLE B. Illustrative Balance of Payments for 1948–49, ECA Estimate.

TABLE C. Illustrative Balance of Payments for 1949–50, Belgium-Luxemburg Estimate.

TABLE D. Illustrative Balance of Payments for 1949–50, ECA Estimate.

TABLE A.—*Illustrative balance of payments for 1948–49*

[OEEC estimate, in millions of dollars]

	Dollar account			Nondollar account	Grand total
	United States	Other	Total		
1. Imports	355.1	259.2	614.3	1,006.9	1,621.2
2. Exports	79.2	214.6	293.8	1,281.0	1,574.8
3. Merchandise balance	−275.9	−44.6	−320.5	+274.1	−46 4
4. Invisibles (net)	−60.4	−21.5	−81.9	+40.4	−41 5
5. Current account balance	−336.3	−66.1	−402 4	+314.5	−87.9
6. Settlements		[1] +1.5	[1] +1.5		
7. Capital transactions:					
a. Non-ECA financing					
b. Repayments		−1 7	−1.7		
c. Other					
8. Net position	−336.3	−66.3	−402.6		
9. Estimated requirements for United States aid			250 0		
10. Uncovered deficit			152 6		

[1] Includes DOT deficit of 30 million dollars.

TABLE B.—*Illustrative balance of payment for 1948–49*

[ECA estimate, in millions of dollars]

	Dollar account			Nondollar account	Grand total
	United States	Other	Total		
1. Imports	324.1	302 1	626.2	1,042.4	1,668.6
2. Exports	100 0	299.2	399.2	1,234.0	1,633.2
3. Merchandise balance	−224.1	−2.9	−227.0	+191.6	−35 4
4. Invisibles (net)	−60.4	−30.0	−90.4	−30.0	−120.4
5. Net current position of DOT's	−25.0	−5.0	−30.0	+75.0	+45.0
6. Current account balance	−309.5	−37.9	−347.4	+236 6	−110.8
7. Settlements		+78.1	+78.1		
8. Capital transactions:					
a. Non-ECA financing	+3.0	+1.1	+4.1		
b. Repayments	−9 8	−2.3	−12 1		
c. Other					
9. Net position	−316.3	+39.0	−277.3		
10. Estimated requirements for United States aid			−247.9		
11. Uncovered deficit			29.4		

TABLE C.—*Illustrative balance of payment for 1949–50*

[Belgium-Luxemburg estimate, in millions of dollars]

	Dollar account			Nondollar account	Grand total
	United States	Other	Total		
1. Imports	352.7	286.7	639.4	1,276.8	1,916 2
2. Exports	115.6	289.9	405 5	1,487.0	1,892.5
3. Merchandise balance	−237.1	+3.2	−233.9	+210.2	−23.7
4. Invisibles (net)	−67.4	−12 5	−79.9	−85.8	−165.7
5. Current account balance	−304.5	−9.3	−313.8	+124.4	−189.4
6. Settlements		[1] −17.8	[1] −17.8		
7. Capital transactions:					
a. Non-ECA financing					
b. Repayments	−18.9	−3.3	−22 2		
c. Other					
8. Net position	−323.4	−30.4	−353.8		
9. Estimated requirements for United States aid			250.0		
10. Uncovered deficit			103.8		

[1] Includes deficit of DOT of 34.3 million dollars.

TABLE D.—*Illustrative balance of payment for 1949–50*

[ECA estimate, in millions of dollars].

	Dollar account			Nondollar account	Grand total
	United States	Other	Total		
1. Imports	333.8	379.7	713.5	1,139.2	1,852.7
2. Exports	115.6	400.0	515.6	1,375.9	1,891.5
3. Merchandise balance	−218.2	+20.3	−197.9	+236.7	+38.8
4. Invisibles (net)	−67.4	−27.5	−94.9	−70.8	−165.7
5. Net current position of DOT'S	0	0	0	+75.0	+75.0
6. Current account balance	−285.6	−7.2	−292.8	+240.9	−51.9
7. Settlements		+20.0	+20.0		
8. Capital transactions:					
a. Non-ECA financing	+65.0		+65.0		
b. Repayments	−18.9	3.3	−22.2		
c. Other					
9. Net position			−230.0		
10. Estimated requirements for United States aid			200.0		
11. Uncovered deficit			30.0		

FOR EUROPEAN RECOVERY

SUPPLIED BY THE

UNITED STATES OF AMERICA