European Recovery Program

The Netherlands Country Study

Economic Cooperation Administration

February 1949 Washington, D. C.

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Administrator

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THE NETHERLANDS

PART I

Summary and Conclusions

World War II destroyed the economic stability which The Netherlands had succeeded in maintaining for thirty years. Until World War II The Netherlands had paid for a surplus of imports by means of shipping revenues, capital investments in the United States and Europe, and foreign exchange receipts obtained from Indonesia.

At the end of the war, The Netherlands had suffered vast losses from the German occupation, amounting to nearly one-third of its national wealth. Its shipping fleet had been cut in two, its income from investments in Germany wiped out, and its principal dependency, Indonesia, had suffered from the severe consequences of Japanese occupation. The Netherlands, as a result, was forced to liquidate substantial dollar investments in the United States to pay for its rehabilitation needs and, in addition, to borrow extensively from national and international sources. Its trade deficit vastly increased in the post-war period because of these reconstruction and consumption requirements. The economic dislocation in Germany—once The Netherlands' principal supplier—also forced it to purchase even more imports from the United States. Thus, its dollar deficit further worsened. Last but not least, The Netherlands was no longer able to obtain the foreign exchange from Indonesia which had largely enabled The Netherlands to obtain raw materials and food in the Western Hemisphere.

ECA aid has helped The Netherlands in making substantial recovery progress. Improvement in industrial production over pre-war, farm and industrial rehabilitation and the rebuilding of its merchant fleet and its railroad transportation system are among the accomplishments of The Netherlands in this effort.

The progress made, however, does not permit The Netherlands to regain consumption standards which prior to the war were among the highest in Europe. This prosperity was based on the native enterprise, intelligence and efficiency of the people, as well as on the returns from overseas investments. It was reflected in a highly developed agriculture, a large force of skilled industrial labor and an outstanding merchant marine. The receipts from so-called invisible sources were in fact not only sufficient to pay for an excess of merchandise imports over exports but also to permit further flow of Dutch capital abroad.

Manufacturing was about twice as important as agriculture both in the number of workers employed and in its contribution to the national income. Because of the country's deficiency in natural resources, with the important exception of coal, and because of the dependence

of its agriculture on imported feeds and fertilizers, The Netherlands was heavily dependent upon international trade, maritime transport and transit traffic. Before the war its principal customers were Germany, the United Kingdom, Belgium-Luxemburg and the East Indies. Its principal suppliers were those same customers plus the United States.

The Netherlands has suffered to a great extent as a result of the War's disruption of the German economy and the consequent loss of most of the Rhine transit traffic. The Dutch have been forced to develop new sources of industrial goods once supplied by Germany and must search for new markets for agricultural exports once sold to Germany.

Against this economic background, and in the face of a rapid and continuing population growth, the Dutch have developed plans for a large investment program. While many of the lost pre-war sources of revenue will be restored in part, the Dutch must develop and expand new sources of revenue. Gross investments are now running at one quarter of the gross national product and, on a net basis, the proportion approximates 15%. The investment effort is being channeled into the more directly productive categories and, in consequence, the serious housing problem cannot be alleviated in the near future.

On their own the Dutch would be in a position to do little more than protect their remaining industrial and agricultural equipment from further depreciation. They cannot create enough new capital to solve the post-war problems. With ECA assistance the Dutch can provide against depreciation, make good the most critical war damage, create the fixed plant necessary for a rapidly growing population and expand industries as a foundation for viability at the end of the ECA period. This is the clearest way of expressing the direct value of United States assistance to The Netherlands.

The rate of industrial activity, exclusive of the building industry, has moved ahead rapidly to a considerably higher level than was normal before the war. The elimination of post-war bottlenecks, the freer flow of raw materials, the substantial restoration of the railroads—these and other less important factors explain the high rate of industrial activity. A higher degree of labor efficiency, resulting from the recent investment program, may also be a contributing reason, although Labor productivity is generally still below pre-war levels. In any case, the Dutch still have a long way to go and it is to be hoped that industrial output will continue to move to higher levels. For as far ahead as can be seen, this increase in The Netherlands' gross national product must be reserved primarily for long range objectives and cannot be made the basis for rapidly increasing consumption standards.

Present Dutch consumption is low in relation to the other countries of Western Europe. Textile consumption is about two-thirds of pre-war. Housing space is closely rationed, with a considerable amount of doubling-up and tripling-up among the Dutch families. Not only do these comparisons reflect a serious absolute drop in Dutch standards, but they place the Dutch in a much poorer relative position than in the pre-war structure of Europe.

During the coming year the Dutch plan a relaxation of consumption restrictions, particularly among the higher quality foods. The long-

range program contemplates recovery of the consumption level to a standard approximating pre-war by 1952/53. Over-all standards of living would, however, remain far short of pre-war because of the large backlog of requirements for housing and other durable goods.

The Netherlands long-term recovery program has been planned in the framework of the proposed economic union with Belgium and Luxemburg (Benelux) now scheduled to come into effect January 1, 1950. The projected rise in the Dutch levels of consumption assumes that they must more nearly approximate the consumption patterns in Belgium and Luxemburg, where rationing no longer exists. ECA has carefully considered, and will continue to consider, that requirement in its review of the Dutch program. In any event long-run consumption objectives should be considered against the background of the more serious problems that confront the country. The Dutch, for example, are counting on a restoration of receipts from Indonesia to more than $150 million per annum by 1952/53, a target which may prove difficult to attain. The loss of investment income and the drop in the transit traffic must also be taken into account when even modest consumption standards are envisaged. The restoration of consumption to pre-war levels can only be accomplished through an investment expansion program which has a reasonable chance of success but which still remains to be tested.

The Dutch also face a long-range problem of currency convertibility for which no clear solution is offered in their existing recovery program. They are planning on a large dollar deficit with the Western Hemisphere continuing even in 1952/53. This deficit, they hope, may be offset by large dollar earnings through triangular traffic involving Indonesia and through large net dollar earnings resulting from trade with the other participating nations. The Dutch investment program appears to be directed towards such a three-cornered pattern but it is doubtful that they can ever depend as heavily on such receipts as before the war. No one can tell yet whether the Dutch will be able to earn the amount of dollars they have estimated. As far as dollar earnings in Europe are concerned, other participating nations are also thinking in terms of the same method of offsetting their Western Hemisphere deficits. The Dutch are therefore giving close consideration to a more direct approach to their long-range dollar earning problem.

The estimated aid received by The Netherlands and Indonesia through ECA in 1948/49 and the request and recommendation for 1949/50 are summarized in the following table:

	1948/49	1949/50
	(In millions of dollars)	
Netherlands and Indonesia request for gross dollar aid	657.0	507.0
OEEC recommendation of gross dollar aid	496.0	a
ECA estimate of gross dollar aid (including D.O.T. and Indonesia)	469.6	355.0

a National submissions for 1949/50 not yet reviewed by OEEC.

To date The Netherlands and Indonesia have received $368 million of the 1948/49 program, of which $119.2 million is a loan, $240.3 million a di-

rect grant, and $8.5 million conditional aid. An additional allotment of $101.6 million will be necessary to complete the program for the current fiscal year. The Netherlands and Indonesia had already received $27.5 million as a loan and $87.5 million as a direct grant in the second calendar quarter of 1948.

During the current fiscal year the Netherlands economy has had a rapidly increasing rate of industrial and agricultural production. Agricultural production reflected the rise over the unfavorable 1947 level, which was to a considerable degree reduced by very bad weather, as well as an improvement resulting from reclamation of land flooded by the Germans. Total meat production is expected to increase somewhat as are yields of dairy products and all crops except grains. Potato production in 1948 was 85 percent above pre-war and vegetable production about the same as pre-war. Pig and poultry numbers have also shown increases against 1947 but remain considerably below pre-war. During the coming year the Dutch plan a modest relaxation of consumption restrictions to allow some improvement in the quality of the present drab diet.

While the 1948/49 program has required substantial imports for industrial development, improvement in the balance of payments deficit on current account as against 1947 has been made possible by a great improvement in exports. Imports from all areas are running some 30 percent in excess of the 1947 calendar-year level. These imports include large quantities of industrial raw materials—crude oil, coal, iron ore, lead, zinc, copper, and aluminum—at cost levels substantially higher than pre-war, which are vital to the capital expansion program. In the case of food imports the stress being laid on animal feedstuffs indicates the intention to increase livestock numbers. The merchandise deficit in all currencies will be, as in calendar year 1947, in excess of $500 million.

Although the part of The Netherlands investment program concerning manufacturing industries that contribute directly to the export trade with dollar areas is relatively small, the over-all magnitude of the program seems justified. Because of staggering war-time capital losses and because of the need for developing new sources of revenue, the Dutch must carry out a substantial capital-formation drive. The fact that they have been willing to restrict consumption to relatively low levels suggests the importance they themselves place on capital expansion. The rehabilitation of the Dutch economy, in which the 1948/49 program is a first step, will depend in large measure on the success of this attempt greatly to increase capital formation, without creating a dangerous inflationary situation.

In spite of the large investment program, the substantial fiscal deficit and the other inflationary factors in the Dutch financial position, the government has been able to maintain reasonably stable prices during the major part of the postwar period. Rationing, direct price controls, subsidies, and other measures have been freely used to suppress the latent inflationary forces. The sterilization of the counterpart fund to date has also been important in eliminating some of the inflationary forces. Since so much depends on continued internal stabil-

ity within the Netherlands, there should be no relaxation in the fight against inflation.

The Dutch have requested $92 million of direct assistance for Indonesia in the 1950 fiscal year as compared with an uncompleted program of $61 million in the current fiscal year. Because of developments in Indonesia in December 1948, ECA, in concurrence with the Department of State, suspended aid to Indonesia on the grounds that an effective economic assistance program for that area could not be assured. Wholly aside from the ultimate disposition of the Indonesian problem, its economic recovery would represent a major contribution to a viable Europe. Not only has Indonesia been historically an important supplier of critical raw materials but because of a normal dollar surplus with the Western Hemisphere it has been an important source of dollars for Europe. Without the restoration of Indonesian trade, The Netherlands' difficulties in regaining economic stability will be seriously increased.

A modest program of economic aid to Indonesia whenever it could be appropriately extended, might therefore make a direct contribution to European recovery at least as large, dollar for dollar, as any other proposed use of ECA funds. If the Indonesian political situation should be settled to the satisfaction of both sides before the end of the current fiscal year, it would be possible to resume some program of economic assistance to Indonesia. On this contingent basis, ECA has estimated for the 1950 fiscal year the sum of $10 million to finance an Indonesian program. It is felt this sum is necessary to expedite immediate aid to Indonesia until such time as alternative sources of funds may be tapped on the assumption of more normal financial risks based on internal economic and political security.

The continuance of conservative consumption standards, moderate reservations as to the composition of the investment program, doubts as to the prospective availability of certain supplies, and changes in price assumptions were the basis for the ECA reduction in total Netherlands assistance. In addition, ECA concurred in the view expressed by OEEC that The Netherlands had treated the invisible items of shipping and tourism rather pessimistically. It is not possible at this juncture to estimate the precise effects of the cuts on either the investment or the consumption plans. It is obvious that these plans must be reexamined in the light of the prospective tight supply of certain critical dollar items.

No slack remains to cover any contingencies or any important dollar drains not covered in the original submissions. For these reasons ECA estimates that $355 million is the minimum that will permit the achievement of the 1949/50 Netherlands and Indonesia program under the conditions outlined above. The importance of The Netherlands as a factor in the achievement of our aims and objectives in Europe, its alliances (the Benelux union and the Brussels Pact), and the long history of cordial United States-Netherlands relations makes this aid vital to the maintenance of the structure of European democracy.

PART II

CHAPTER I

Analysis of Current Situation

In light of all the problems confronting the Dutch the tendency is strong to underestimate their drive towards long-term objectives. A glance at the economic recovery to date will, however, dispel most of the extreme pessimism. In May 1945 the Dutch transportation system was close to a standstill, about 10% of the arable land was under fresh, brackish and salt water, industrial production was only a fraction of the pre-war level, and food consumption in the worst areas had dropped to the sub-subsistence per capita level of 400 calories daily. Within eight months the inundated area had been reclaimed, industrial production is now above the pre-war level, the national diet, while tightly restricted, is adequate, and recovery has progressed in an atmosphere of relative financial and labor stability. What we now accept as an accomplished fact would have been considered sheer optimism at the time of the German surrender.

Industry and Transport

Manufacturing industry in The Netherlands has traditionally been based upon the use of skilled labor and the importation of raw materials for fabrication into products for export, mainly to Europe and the East Indies. The effect of the war was virtually to stop industrial production by the time of liberation. For 1945, the index of industrial production (exclusive of building trades) averaged about 30% of pre-war. It has since risen rapidly year by year to 110 in the first ten months of 1948 (1938=100). Reflecting the rapid population growth, per capita industrial production in 1948 averaged less than pre-war.

Industrial Production

(Exclusive of building trades, 1938 = 100)

	1946 Year	1947 Year	1948 Average 10 Months
Total Index of Manufacturing Industry	73	92	110
Coal	62	75	82
Electricity	111	142	165
Cement	88	114	135
Coal Tar	53	69	85
Cotton Spinning	47	63	75
Shoes	78	111	136
Pig Iron	70	108	165
Newsprint	33	37	68

Production has risen most in the leather, rubber and shoes groups, reflecting in part the rapid expansion by the new Goodrich factory of the output of tires and tubes, a substantial part of which is exported to Belgium. Public utility activity has boomed, largely in the electric power and artificial gas categories. The metal products industry, paper and chemicals also exceeded pre-war levels in 1948.

Recovery of production of clothing, textiles, building materials and foodstuffs is lagging. Textile output in 1948 was at about the pre-war level, clothing output at 69% of pre-war, and output of the other groups was somewhere in between. Production of all these items is limited by the lack of sufficient plant or equipment in one degree or another and by raw material availability. Clothing and textiles require raw material imports that for the most part must be bought with dollars. Importation is therefore strictly limited and the finished products strictly rationed. Much the same is true of the building materials group. Its production has been lagging because of the policy of limiting housing and other parts of the construction program. The foodstuffs industry has been adversely affected by restriction on demand, both at home and abroad, for semi-luxury and luxury food products.

The lag in coal output presents a serious problem. Before the war the Netherlands was able to export certain types of coal in the form of coke. Exports amounted to more in value than imports which were of certain types not available in sufficient quantity in the Netherlands. Coal and coke exports are now negligible and coal imports from the U. S. must be paid for in dollars.

The lag in coal output has been due primarily to the low productivity of labor and to the deterioration of the seams. During the major part of 1948 the output of the Dutch mines lagged well behind the production targets but, thanks to a sharp revival at the end of the year, full year production approximated 11.0 million tons as compared with the pre-war normal of about 13.5 million tons per annum. The technical problems confronting the coal industry are such that a recovery to pre-war levels is not a reasonable expectation.

A further difficulty in recovery progress is that the machinery, equipment, and semi-finished products used by industry were largely of German manufacture and design. Hence Germany was also the source for the supply of parts needed for their maintenance. These facts help to explain some of the difficulties that stand in the way of Netherlands industrial recovery.

In statistical terms the recovery of the Dutch transportation system, particularly from the chaos of May 1945, has been remarkable as borne out in the table which follows. Care should, however, be exercised in interpreting these data. The railroads are employing extensively worn out and obsolete equipment which must be replaced if the Dutch are to carry out their recovery objectives. The transportation problem must still be rated an acute one. Quantitative figures indicating restoration do not show the age of the rolling stock or automobiles in use.

Rehabilitation of Netherlands Transport
(Number of vehicles)

	Aug. 1939	May 1945	July 1948
Road Traffic			
Passenger cars	100,000	30,000	81,000
Public conveyances	4,500	500	3,500
Delivery vans	20,000	7,200	21,000
Trucks	28,000	7,000	34,000
Bicycles (thousands)	3,760	3,000	3,690
	Dec. 1940	July 1945	July 1948
Rolling Stock			
Engines	1,042	499	978
Electric and Diesel train units	704	562	770
Passenger cars	2,854	412	2,027
Freight cars	29,397	6,382	22,500

The restoration of the Dutch railways makes a particularly impressive story. The quantities of materials, equipment, and labor involved in the restoration were enormous. Two hundred and twenty railway bridges were blown up, including the 19 largest. Total damage by the Germans to the railroad system is estimated at over $200 million at pre-war prices. It is in this sector of the economy that American assistance has been especially warranted. The destruction by the Germans was partly in retaliation to the railway strike called by the Netherlands Government-in-exile in September 1944.

The rehabilitation of the Dutch Merchant Marine is of outstanding interest since it is through this industry that the Dutch will ultimately cover a substantial part of their foreign exchange requirements. In 1939 the total fleet under the Netherlands flag was 2,724,000 gross tons. This fleet was cut in half by heavy wartime losses in allied services. By April 1, 1948 the fleet had been restored to 2,556,000 gross tons and, at the present time, is close to the pre-war level. Foremost contributing factors to this revival have been the purchase of U. S. war-built ships and the construction of new vessels in Dutch and foreign yards.

All in all, industrial recovery appears to have exceeded the rate that the Dutch themselves had expected. The weak spots are coal, where the outlook is inherently limited, and the building industry, where relatively depressed conditions have been deliberately imposed to permit attainment of higher priority objectives. The real test will probably come in the newer industries, particularly where the Dutch are attempting to replace German and other traditionally efficient sources. It is in this area that the investment program must be watched most closely.

Labor

An important factor in the rapid recovery of industry production has been the relatively low level of labor unrest. The drive of the Communist controlled unions subsided in 1946, particularly in the critical waterfront sector. Stability of labor conditions has been achieved through close cooperation between employers, labor organizations and

the government based in large part on measures to control the rise in retail prices and rents, and to ration consumer goods.

Much of the government's interest in higher consumption levels stems from a desire to maintain this labor stability and, given a reasonable level of consumption together with the continuation of reasonably full employment, the industrial relations outlook appears satisfactory.

Labor productivity, which was seriously impaired at the end of the war, has been showing marked evidence of recovery. Low productivity is due mainly to the shortage of capital equipment, insufficient materials to keep workers continuously employed, the scarcity of skilled workers, and to comparatively low but rising morale of employees. Immobility of labor caused by the housing shortage is also an important factor. While the productivity problem is a real one, the standard statistical measurements cannot easily be applied to the Netherlands economy. The indexes have, for example, been depressed by the large amount of essential repair work, an area where productivity is inherently lower than in new construction.

Productivity of Labor

Year & Quarter	1938=100
1945 4th	68
1946 4th	79
1947 4th	84
1948 4th	87

As previously noted the productivity problem is particularly serious in coal mining where most of the obstacles to recovery can be found in one form or another. The restoration of a high level of productivity in coal mining is unfortunately not a reasonable probability. In the industrial fields, however, the large investment program should have favorable effect and indeed there is already evidence of the stimulating influence of the investment program.

A most serious dislocation of manpower has occurred in the shipping industry, particularly in the two ports of Amsterdam and Rotterdam, due mostly to the low volume of transit traffic. Rotterdam was so severely damaged during the war that a substantial reconstruction program proved necessary. Partly because the new apparatus requires fewer workers than before the war to handle a given amount of traffic, only about two-thirds of the pre-war employment is now required. As traffic increases, manpower is being recruited from former dock and harbor workers who had secured temporary work elsewhere and appear anxious to return to their old jobs.

Netherlands farm labor has a good reputation for efficiency. Just after the war higher industrial money wages and better working conditions attracted much of the farm labor. A subsequent increase in farm wages to offset the drain of farm labor to industry has resulted in a relatively good balance of employment between industry and agriculture. Taking 1938/39 as 100, industrial wages in September 1948 were 175, farm wages were 259 and the cost of living in August was 203.

Consumption

The Netherlands recovery program has required a rigorous maintenance of tight consumption levels especially with respect to food, clothing, household durables and housing. A gradual relaxation of consumption levels in food, and at a slower pace in clothing, is being followed but low consumption of consumer durables and housing will continue.

Food consumption is now approximately 2775 calories per day as compared with 2850 pre-war. This comparison does not, however, provide a good measure of the dietary problem of the Netherlands since, as in all countries suffering from post-war dietary dislocations, foods high in caloric value have been substituted for the better quality items such as meat, eggs, fats and fruits. The table below shows the depressed consumption levels for quality foods, particularly the animal fats and proteins.

Netherlands Per Capita Food Consumption, (kg. per year)

	Pre-war	1947-48	1948-49
Grain as flour	102	118	123
Sugar (refined)	34	29	33
Potatoes	130	163	161
Dry legumes	3	4	4
Vegetables	50	50	45
Fruits & nuts	56	38	36
Meat	41	24	26
Fish	11	10	11
Eggs	8	5	5
Whole milk	130	135	138
Cheese	7	6	6
Fats (fat content)	22	18	19

The Netherlands is planning a modest increase in food consumption in its 1949/50 program and to end the rationing of almost all items by the end of the 1949 calendar year. Bread and sugar rationing came to an end during the fall of 1948 and tea will follow shortly. Eggs were derationed in January 1949 and tobacco is likely to become unrestricted somewhat later in the year. The following table indicates the trend of the critical food rations since the end of the war:

Rations of certain foods for adults per period of four weeks

Item	Unit	May 1945	May 1947	Jan. 1949
Cocoa	Gram	...	25	12½
Coffee	"	...	125	125
Tea	"	...	50	50
Fats	"	475	1000	1250
Cheese	"	200	400	450
Eggs	Piece	...	4½	4½
Meat	Gram	325	800	800

Textile and clothing rationing is severe. Each person in the Netherlands is now permitted 95 ration points a year as compared with an

estimated pre-war consumption of about 170 points per capita. Under this program a three-piece man's suit requires 60 points and a woman's dress 15-25 points. A man's shirt requires 20 points.

Agriculture

Netherlands agriculture has recovered markedly considering the land damage caused by the wartime inundations and the effects of the 1947 winter and drought. The agricultural lands damaged during the war, which amount to nearly 15% of total land available, have now been brought back to use. Other arable land also suffered from lack of fertilizers, improper drainage and poor crop rotation.

Damage and restoration of agricultural areas in the Netherlands
(Thousand hectares: One hectare = 2.5 acres)

Cause of Damage	Damaged by War Causes	Probably Permanently Unfit	Largely under Cultivation at end of 1948
Inundation	244.6[a]	.5	244.2
Conversion into airfields	8.2	1.5	6.7
Other war measures	72.7	.5	72.1
Total	325.5[a]	2.5	323.0
of which in province of Zeeland	51.2	.4	50.8

[a] Including 18.9 thousand hectares inundated due to lack of coal and electricity for operation of the pumping system.

Dutch ingenuity and courage in conquering the sea and creating valuable land from the sea bottom are traditional. Since land is so scarce in Holland and since industry is becoming more important, the area devoted to farming is expected to decrease somewhat and to be more intensely cultivated. Reclamation projects which would increase arable land by at least six percent, largely in the Zuider Zee area, have been temporarily shelved because of the large expenditures required for their execution. About half of the total agricultural land in the Netherlands is now devoted to meadows and pastures for the production of livestock and livestock products. The number of livestock is substantially below pre-war.

Netherlands Livestock and Poultry
(Thousand head)

	At the summer census of:		
	1938	1947	1948
Cattle	2763	2366	2313
of which milk cows	1503	1325	1324
Sheep	654	460	425
Pigs	1538	857	871
Horses on farms	312	315	302
Poultry	29600	14000	17500
of which laying hens	15000	7000	7800

The relative lack of cattle after the war results in an inefficient use of farm labor because farm workers, along with their other activities,

could tend larger numbers. Since much of the feed must be imported, the Dutch have not found it possible yet to restore their livestock to the pre-war level.

Production in the Netherlands of meat, milk products, eggs and animal fats is far below pre-war production. Total fats production exclusive of butter is nearing the pre-war level due mainly to an increase in the output of vegetable and marine oils. In 1948/49 total meat production is expected to increase somewhat because of a 10% rise in pork production. Output of milk, butter, and cheese is also expected to increase in all categories by about 20 percent.

Production of Netherlands Livestock Products
(Thousand tons)

Products	Pre-war Average (1933-37)	1947/48	1948/49
Meat			
Beef and veal	137	100	95
Mutton and Lamb	9	3	2
Pig Meat	194	85	85
Other Meat, including Poultry	31	22	20
Offal	21	5	8
Total	392	215	210
Milk			
Total production,	5075	3600	4400
of which for human consumption as fresh, dried and canned milk	1293	1300	1550
Milk Products			
Butter (fat content)	83	50	63
Cheese	121	65	80
Eggs	126	60	70
Fats			
Slaughter fats	63	18	19
Vegetable oils	3	4	14
Whale oil	—	13	13

Production of most crops, except coarse grains, increased substantially in 1948. Increases were marked in wheat and potatoes. Potato production in 1948 was 85% above pre-war production and vegetable production about the same as pre-war. Production of sugar beets, oil seeds and fodder roots were also above pre-war. Vegetables now produced are not of the same luxury types as before the war. Substantial amounts of cabbage are, for example, being shipped to Germany, the Netherlands' traditional market for vegetables.

These developments to some extent reflect, as in the case of increased output of potatoes and home consumption of vegetables, the lowered quality of the Dutch diet since the end of the war. Because of a lack of foreign exchange or insufficient availability of world supplies, the Netherlands had difficulties in attempting to import certain essential foods such as sugar and oil seeds.

Netherlands Crop Production

(Thousand metric tons)

	Pre-war Average (1933-37)	Crops harvested in 1947	1948
Wheat	425	194	303
Rye	468	318	377
Total bread grains	893	512	680
Barley	104	179	138
Oats	326	338	314
Total coarse grains	430	517	452
Potatoes	3066	4611	5600
Sugar beets	1696	1577	1593
(as refined sugar)	227	200	225
Oil seeds	12	13	29
(oil equivalent)	3	4	14
Fodder roots	3337	3058	4086
Vegetables	909	850	850

Investment Program

The long-term investment program of The Netherlands is the heart of its import program and of primary importance to ECA. If the Netherlands is to attain a satisfactory balance of payments pattern by 1952-53, it is vital that large-scale investments be made. There are four principal reasons why these investments must be large: to wit, extensive war losses, rapidly increasing population, the back-log of demand unfulfilled during the war, and the loss of overseas investments. The quantity of aid required for the investment program is so large, and its importance to Dutch recovery so great, that every consideration must be taken to insure that the investment program will be one designed both to increase exports to the greatest degree possible as well as to meet most essential domestic needs.

The magnitude of the Netherlands investment program must be considered in terms of the tremendous war losses suffered in that country. According to The Netherlands Government's figures, direct war losses amounted to approximately $7.8 billion at 1948 prices. These losses are equivalent to perhaps 30 percent of the economic pre-war wealth of the country. The Netherlands' estimate of war damages and removals is as follows:

Estimate of War Damage and Removals in the Netherlands

(In millions of dollars at 1948 prices) [a]

Industry	1010
Agriculture	920
Trade & Services	450
Traffic & Transport	1600
Housing	730
Stocks	2690
Government	450
Total	7850

[a] 1938 guilder values times 280 which is 1948 average of wholesale price index (1948 = 100) Adjustment is also made for the 30% depreciation of the guilder against the dollar foreign exchange since 1938. The price adjustment is conservative since the index of construction costs, which might be more applicable except for stocks, was about 350% above 1938.

The Netherlands population trend intensifies the effects of the wartime capital losses and underscores the need for rapid capital restoration and expansion. The population increased from 8.7 million to 9.8 million between 1938 and 1948. By 1953 the population is expected to reach 10.5 million. These increases have resulted from a high birth rate and one of the lowest death rates in Europe.

Additional people need houses, schools, hospitals and utilities, all of which facilities had previously suffered war losses. Additions to the labor forces, currently amounting to about 45,000 a year, need instruments of production to keep employed and earn a living. Most of the additional labor force is expected to be employed in industrial enterprises where capital requirements per worker are higher than in agiculture. The number of farm laborers is expected to show little change.

Netherlands Manpower

(Thousands)

	1938	1947	1948	Estimate for 1952-53
1. Industry	1070	1175	1260	1380
2. Agriculture	635	560	565	585
3. Trade	435	520	540	560
4. Traffic	290	340	345	375
5. Banking	50	55	55	55
6. Domestic services	250	175	185	210
7. Religion & professions	100	140	140	145
8. Education	92	100	103	110
9. Subtotal (1-8)	2922	3065	3193	3420
10 Government	163	415	365	300
11. Semi-government (Incl. Military)	—	30	30	30
12. Total employed (9-12)	3085	3510	3588	3750
13. Increased training	—	100	100	100
14. Internees	—	5	2	—
15. Registered unemployed	354	50	45	145
16. Invisible unemployed	51	194	159	64
17. "Normal" working population	3490	3859	3894	4059
Total population	8680	9714	9862	10356

The importance of the post-war investment program to the Dutch economy is indicated by the following analysis of the distribution of available resources:

Distribution of Available Resources

(In millions of dollars)

(1938 in 1938 prices, 1947-1948/49 in 1948 prices)

	1938		1947		1948/49	
Claimants on Resources	Amount	Percentage	Amount	Percentage	Amount	Percentage
Consumption by						
a. families	1510	65	3550	62	3720	62
b public authorities	300	13	840	15	780	13
Gross investments	520	22	1290	23	1460	25
Total	2330	100	5680	100	5960	100

Immediately after liberation the Dutch efforts were directed primarily towards the repair of war damage. The de-flooding of Walcheren, for example, required quick action before the destructive effects of the North Sea had left a permanent mark. Pressure for relieving the acute housing shortage—caused by a combination of war damage and the vigorous population growth—has also been great, but, in contrast with the de-flooding projects, housing has been forced to wait.

The housing situation in The Netherlands underscores the seriousness of investment need. New housing is not keeping pace with the increase in population. It will not be until 1952 that conditions will begin to improve. About one-third of Dutch families are living two or more families to a house, sharing sitting rooms, dining rooms, baths and kitchens. In Limburg, Zeeland, The Hague, Rotterdam, and Arnhem, the most critical housing areas, a person desiring accommodations must, to obtain a government permit, establish proof that he works in the area before he is allowed to domicile. He is then permitted a fixed number of rooms of limited size depending on the number and composition of his family. Any excess space must be registered with the housing authority and rented.

Netherlands Housing Program, War Damage, and Requirements

	Number of Houses
Completed In:	
1945	389
1946	1,593
1947	9,208
1948	29,000
To be completed in:	
1949	37,000
1950	45,000
1951	49,000
1952	55,000
1953	60,000
War Damage:	
Completely destroyed	82,500
Heavily damaged	41,000
Slightly damaged	400,000
Housing shortage on May 1, 1947	300,000
Annual requirements	
Total	55,000
For replacement	20,000
For population growth	35,000

The decision of The Netherlands to give top priority to directly productive investments in industry and transportation in the current program is highlighted in the following table:

Estimate of Net Investment in Netherlands Since Liberation [a]

(Millions of dollars, approximately at 1948 prices)

	1946	1947	1948	Total
Industry	—	130	185	315
Agriculture	—	60	60	120
Trade and Services	—	5	25	30
Traffic & Transport	—	170	150	320
Housing	—	—10	35	25
Stocks	200	285	175	660
Government	—	25	65	90
Total	200	665	695	1,560

[a] Negative figure in housing for 1947 indicates disinvestment, i.e., amount by which gross investment is less than depreciation. Adequate data for groups other than stocks are not available for 1946. In that year there was probably a disinvestment in the government category of about $25 million and a corresponding net investment in the other categories as a whole.

This heavy rate of investment in directly productive equipment is something more than a replacement of war-time losses and an offset of deferred depreciation replacement. It is an attempt to re-establish the earning power of the Dutch economy. As is outlined in detail elsewhere, the loss of investment earnings from U.S., German and Indonesian sources, the loss of other Indonesian revenues and the loss of a major part of the Rotterdam transit revenues pose serious questions. Expansion of industrial activity may be at least a partial answer.

While ECA assistance to The Netherlands must be considered broadly as aid to the entire economy, the big investment program is clearly the most critical factor in the inability of the Dutch to meet their aggregate

needs with their own resources. Significantly, the value of capital equipment and raw materials imported in 1948-49 for investment use is estimated as roughly equal to The Netherlands trade deficit and roughly equal to the contribution of ERP financial assistance for that year.

During the ECA first year program, The Netherlands intends to produce or import $1,460 million of capital goods for domestic investment. A large part of domestic production could have been exported considering the kind of market that has been prevailing. If the Dutch, through such additional exports and through reducing imports of capital goods, had balanced their trade deficit in 1948/49, the amount destined for gross domestic investment would be reduced from $1,460 million to less than $1,000 million. Since depreciation in 1948/49 is estimated at $720 million, the net investment would be small indeed. If the import deficit were not financed by foreign assistance, the rebuilding of Dutch capital would be painfully slow.

Any new investment program of this magnitude involves a wide range of risks of which ECA is well aware. The most unfavorable possibilities are that, with the aid of ECA assistance, the Dutch may be committing themselves to an uneconomic pattern of activity over the long-term future. Generally the investments, not counting the inventory increases, have been concentrated in merchant shipping and in the lighter or processing manufacturing industries which are peculiarly adaptable to Dutch talents and resources. It is assumed that more information will be forthcoming from the Dutch government so that ECA can assure itself that the program is both feasible and consistent with the investment programs of the other participants.

The Netherlands Government is clearly alive to the necessity of a carefully considered investment program. It exercises a review control over all current investment. Any expansion of existing enterprises or the creation of new enterprises requires a license specifying the activity, prospective volume of production and all other pertinent facts. Any business seeking imported equipment requires an import license. In its licensing policy the Government uses as its primary criterion the extent to which the proposed investment will lead to the earnings or savings of dollars. Since a large part of the productive equipment used in The Netherlands must be imported from abroad, the investment controls in the hands of the government are obviously effective.

It should be noted in this connection that, except for most of the coal mines, public utilities and railways, the demand for investment goods comes from private enterprise. The government program has been drawn-up with sufficient flexibility to allow initiative and performance based on determinations of private business to meet a range of objectives.

A mechanism for bridging the gap between Government and private enterprise is the Central Industrialization Board or CIVI, made up of public and private members. This body reviews the technical aspects of the proposed investments to make sure that they meet the standards of the most advanced engineering practices. As a matter of future significance, a joint Benelux Commission of Government officials also reviews certain investment proposals to test their consistency with the objectives of Benelux union.

Since there is a considerable lag between the time of payment for capital goods imports and the initial production from the investment, it is difficult to make any positive check on the success of the post-war investment program to date. The Netherlands authorities estimate that this lag averages from 1½ years to 2 years. There is perhaps an equal lag between the time of payment for raw materials for capital goods production and the initial use of the finished product. The current rapid expansion in Dutch production may be one indication that the earlier post-war investment program is bearing fruit.

Balance of Payments

Before the war the deficit in the Netherlands balance of trade averaged between 25 and 30 percent of total imports. On current account the Netherlands earned substantial invisible receipts from overseas investment, from merchant shipping activities, and from transfers of remittances, pensions, insurance payments, etc., from colonial dependencies. These receipts in almost every year met not only the complete merchandise deficit but afforded a surplus to finance expenditures on capital account which increased the Netherlands overseas investments.

Of all the current account receipts in the pre-war period, by far the most important was the payment transfer from Indonesia. Indonesia was also important to the Netherlands' economy as the principal direct supplier of tin, rubber, fats and oils, and a wide range of tropical products. The return on the processing of these items was an important factor in the Dutch national income since they were among the more important Dutch exports. In a following section the critical importance of Indonesia is outlined in detail.

Foreign exchange receipts to the Netherlands from all sources were used to finance imports of industrial commodities and semi-processed industrial raw materials furnished principally by Germany, Belgium-Luxemburg, the United Kingdom and the United States. The principal sources of feed, fertilizer and grains to meet the domestic food deficit were the United States, Agentina, and to a lesser extent Germany. Although Germany was the principal market for the Netherlands exports of food and agricultural products, its consumption of Netherlands exports was considerably less than the quantity of materials which it furnished. The United States was only a small consumer of the products of Holland.

Net invisible receipts on current account which used to be very important have largely disappeared on a net basis. Foremost factors in the disappearance of the net invisibles are the melting away of the Indonesian surplus, the virtually total loss of income from investments in Germany and the heavy liquidation of investments in the United States. Liquidation of investments in the United States alone exceeded $100 million between the end of the war and the beginning of the ECA period. Even during the ECA period some liquidation of these United States investments has continued and in the aggregate may not be far below $50 million during the first full year of ECA. Instead of offsetting the trade deficit as it did before the War, the

consolidated net invisible account now adds substantially to this trade deficit.

To add to the costly effects of the reduction in investment income, the Dutch are now confronted with the necessity of meeting heavy repayment schedules on capital account. To cover their most urgent needs immediately after the war, they had to borrow from many dollar sources. Amortization payments to United States lending agencies and private dollar repayments will generally run at $40 to $50 million per annum in the next few years.

The pattern of international account financing faced by the Netherlands in the post-war period is brought out clearly in a capital account analysis of 1947, a year for which the various elements in the capital account can be segregated. In that year the deficit in the dollar currency area, generated principally by an import surplus, amounted to about $550 million. The uncovered deficit with Belgium was an additional $30 million. Other capital payments, principally the settlement of short-term dollar loans, were approximately $40 million. These obligations were financed as follows:

(In millions of dollars)

Dollar credits	250
International Bank loans	44
Monetary Fund drawings	46
Gold sales	4
Repatriation dollar balances	36
Liquidation of foreign investments	141
Dollar investments in the Netherlands	14
Forced credits and miscellaneous	85
	620

Since the middle of 1948 this pattern has been considerably modified by the extent to which ECA has financed the dollar deficits. The Dutch have not been forced to seek any substantial outside dollar credits and forced liquidation of their investments throughout the world has been decelerated. On an over-all basis, however, the Dutch should be able to reduce their necessary capital assistance (including ECA assistance) in the future, as indicated by the balance of payments which is shown in detail both for 1948/49 and 1949/50 in the appendix to this report. These tables give both OEEC and ECA estimates for both years.

The several balance of payments statements bring out the critical importance of the restoration of a strong invisible account. The rebuilding of the merchant marine and the increased attention to the tourist trade may be major contributors. While progress in these areas is certain, there is little hope for anything like the highly favorable prewar balance on invisible account in the foreseeable future.

Another critical element in the invisible balance will be the degree of restoration of the transit traffic through the Rhine gateway. Although an agreement was reached between the United States and the United Kingdom Military Governments in Germany with representatives of The Netherlands and Belgian Governments at the end of October 1948, it is too early to estimate the probable rate of transit trade re-

covery. After a long stalemate among these governments regarding the shipment of goods through the ports of Rotterdam and Antwerp. An agreement was reached which provided for the reciprocal use of the low-country ports, the Rhine, and tributary waterways. At present traffic remains a very small fraction of pre-war levels.

Whatever the ultimate recovery in invisibles may be, it is all too apparent that the Dutch must establish a closer trade balance than existed before the War. This they have not as yet done for understandable reasons. Because of increased competition of Denmark, New Zealand and Australia in agricultural products, as well as Britain's own efforts towards producing more of its own food, they have been hard pressed in the agricultural markets of the United Kingdom. Exports to Germany are also in a depressed state and it is worth noting that a truncated Germany may have to subordinate vegetable purchases for other foods of a higher caloric content. With Belgium, the Netherlands has faced a similar trade stucture problem, since its exports to Belgium are of a less essential character than imports from the Belgian steel and machinery industries. Nevertheless, the Dutch are now making significant progress in reducing their merchandise deficit from the peak level prevailing in 1947.

Netherlands Global Imports & Exports [a]

(In millions of dollars)

	1938	1946	1947	1948
Imports F. O. B.	736	736	1,448	1,680
Exports	593	307	710	1,021
Merchandise Balance	—143	—429	—738	—659

[a] Includes dependent overseas territories.

The really critical point in the Netherlands trade position, however, is the fact that the Dutch have not succeeded in making substantial progress toward reducing the merchandise deficit in the dollar trading area. The table below shows that North America, which provided 11.8 percent of Dutch imports before the war, now provides more than 20 percent. On the other hand, it now buys only 4 percent of Dutch exports, as compared with 5 percent before the war. In broad terms the meaning of these trends is that North America is supplying goods which used to be furnished by Central Europe, but is not receiving a commensurate increase in the Dutch exports. This is the major cause of the Dutch imbalance in dollar trade.

Netherlands Imports and Exports by Percent
(By source and destination in percentages)

IMPORTS

	1937/38	1948/49
Principal Areas:		
North America	12.0	22.0
South America	7.5	8.0
Other Non-part. countries	11.5	11.0
Sterling area	15.0	20.0
Participating countries (outside sterling area)	45.0	34.0
Colonies	9.0	5.0
TOTAL	100.0	100.0

EXPORTS

	1937/38	1948/49
Principal Areas:		
North America	5.0	3.5
South America	3.0	5.0
Other Non-participating countries	10.0	12.0
Sterling Area	29.0	25.5
Participating countries (outside sterling area)	43.5	46.0
Colonies	9.5	8.0
Total	100.0	100.0

Trade with Eastern Europe has remained a factor of relatively small importance in Netherlands total trade. It has continued as a secondary source of supply and is one of the less important outlets for Dutch exports. The percentage of trade with Eastern European countries has varied during the pre-war and post-war periods between 5 and 10 percent. The most significant trading partner in this group is Czechoslovakia, with imports from that country (approximately $26 million) accounting for almost one half of all Netherlands imports from Eastern Europe, and with exports of about $14 million approaching the same ratio. Trade with Czechoslovakia is perhaps tenth in total importance to the Netherlands. The balance of this trade with Eastern Europe shows a considerable import deficit. Trade agreements have been concluded with several individual countries, but exports from the Netherlands will have to increase considerably if a trade balance is to be achieved.

Indonesia

Dependent areas of ERP countries have always been regarded as falling within the scope of ECA operations, since such areas affect to varying degrees the balance of international payments of the mother country. The chief Netherlands dependent overseas territory, Indonesia, is most important to the European Recovery Program. It is a vital source of supply for many essential materials such as rubber, copra, palm oil, tin, bauxite, quinine and petroleum which not only contribute directly to European recovery but are sold in large quantities in dollar markets. Since Indonesia is normally a substantial net dollar

earner, it can—assuming a satisfactory political situation—eventually become again a source of dollars for the Netherlands and even for other European countries which may achieve a surplus in their trade with Indonesia. Before the War Indonesia used its net dollar receipts above all to purchase the Netherlands guilders which were required to meet payments of pensions, interest and dividends, and other remittances to the metropolitan Netherlands. About 70 percent of a total prewar foreign investment of $2,130 million in Indonesia was Dutch in origin.

With these considerations in mind the ECA has allotted to Indonesia since April 3, 1948 funds amounting to $72,700,000 and has issued procurement authorizations totaling about $61,500,000. Over half of these procurement authorizations were for textiles, rice and wheat flour, the availability of which stimulated efforts to increase production and export of essential materials. The OEEC had previously recommended that $84,000,000 of ECA assistance be made available during the fiscal year 1949.

On December 22, 1948, following Netherlands military action in Indonesia, the ECA suspended its assistance program. This action, which was taken in consultation with the Department of State, was based on the ground that conditions favorable to the continuation of an effective aid program no longer existed and that further commitment of ECA funds would therefore be unjustified.

The possibility of the resumption of assistance to Indonesia should, however, be left open. If conditions favorable to a sound and enduring recovery of Indonesia develop, the expenditure of ECA funds on Indonesia is likely to make a contribution to European recovery at least as large if not larger than any other ECA expenditure. A decision to resume the program could be made only if a political settlement were achieved which would make peaceful development of the Indies possible. Moreover, a reappraisal of the needs of Indonesia would probably have to be made on the spot by a special mission.

Since the war Indonesia has made no net contribution to the Netherlands. In fact its debt to the Netherlands has grown by about 900 million guilders since 1940 owing in large measure to the fact that the Netherlands Government has lent Indonesia the guilders necessary to meet payments and defray other expenditures in the Netherlands proper. Indonesia has been running a deficit in its dollar balance of payments, thus making impossible any contribution to alleviate the dollar shortage of the Netherlands.

The war and its aftermath inflicted much damage in Indonesia. Oil installations, transport facilities and processing plants suffered heavily and have had to be largely reconstructed. Plantations were neglected and in some cases destroyed, thus requiring new plantings which could become productive only after a number of years. The conflict between the Dutch and the Indonesian Republicans greatly hampered rehabilitation by creating conditions of insecurity and of economic and political instability.

The financial and monetary situation has been symptomatic of the generally unfavorable conditions. Government budgets have shown

chronic deficits as the result of large military and rehabilitation expenditures on the one hand and low government receipts on the other. The government debt increased from 1,387.4 million guilders in 1940 to 4100 million at the end of August 1948. In addition there was a fourfold increase in the volume of money in circulation from 1939 to 1947 and a sharp rise in prices, reflecting loss of confidence in the Indonesian guilder.

Nevertheless, substantial recovery has taken place at least until last December when the Dutch began their military action against the Indonesian Republic. Largely because of increased production and imports of food and textiles, the price index of prices of rice and textiles which by the summer of 1947 had risen respectively to 4000-5000 and 8000-10,000 as compared with 100 in 1938, fell to 600-700 and 2000-2500 by the fall of 1948. Thus the deterioration in the value of money was not only arrested but reversed.

Of greater significance has been the rise in production, as indicated in the table below:

Production of 20 Leading Commodities in Indonesia During 1938, 1947 and 1948

(In thousands of metric tons)

Commodity	1938 [c]	1947 Tonnage	1947 % of prewar	1948 [a] Tonnage	1948 [a] % of prewar
Domestically Consumed Products [b]					
Rice (cleaned)	4,300	3,000	70	3,800	88
Maize	2,100	1,300	62	1,500	72
Tapioca	8,500	5,600	66	7,000	83
Sweet Potatoes	1,300	1,200	90	1,300	97
Peanuts	200	130	65	150	75
Soybeans	320	180	57	250	79
Export Products					
Rubber (estates)	175	85	24	74	42
Rubber (native)	185			147	79
Copra	850	179	21	253	30
Tin Ore	25	16	64	26	104
Bauxite	245	55	22	321	131
Palm Oil	244	1	4	53	23
Sisal and Abaca	90	1	1	5	6
Tea	81	1	1	9	11
Cinchona	10	1	10	6	60
Coffee	46	neg.	neg.	10	22
Sugar	1,376	27	2	40	3
Tobacco	41	neg.	neg.	5	22
Pepper	56	neg.	neg.	neg.	neg.
Kapok	16	3	19	7	44

[a] Based on January-September rate of production except for copra and palm oil for which actual figures are available.

[b] Commodities produced only for domestic consumption, and include production only in Java and Madura. Statistics on these commodities are not available for the other islands.

[c] Includes production from the entire territory of the N.E.I. whereas the 1947 and 1948 figures reflect only that of the Dutch controlled areas.

It will be noted that production of domestically consumed foodstuffs increased considerably in 1948 and is now on the whole about 85% of pre-war. Output of export products has expanded more slowly. Only two commodities—tin and bauxite—are at or above pre-war level but these are of minor importance in total value of exports. The significant items of dollar value which normally accounted for a large part of Indonesia's exports such as rubber, copra and palm oil are still far below pre-war levels, even though production showed substantial improvement from 1947 to 1948.

Exports of major commodities have also increased in 1948 as shown below:

(In thousands of metric tons.)

	Average 1936-38	1947	From Dutch-Controlled Areas Only: On basis of Jan-Sept rate: 1948	Estimate[1] Fiscal 1948-49
Rubber	353	85	288	425
Copra	520	153	247	340
Palm Oil	196	1	28	100
Palm Kernels	42	neg.	5	30
Tin	25	16	32	35
Tea	70	3	4	11
Bauxite	271 (1940)	91	415	400
Sugar	1,000	2	80	60
Tobacco	48	2	12 (Jan-June)	8
Rattan	n a.	n.a.	19	25
Cinchona	7 (1938)	2	3	5
Quinine	n.a.	33	51 [2]	150 [2]
Kapok	21	3	7	10

[1] Estimate based on assumption that output of entire archipelago would be available for legal export after January 1949 but not before.
[2] Metric tons.

The over-all balance of merchandise trade has improved markedly over the last year. The trade deficit which amounted to about $155 million in 1947 totaled but $55 million in the first three quarters of 1948. In fact, during the third quarter of 1948 a small export surplus appeared for the first time. Trade with the major dollar areas, the United States and Japan, showed an import surplus of only $38.5 million in the first nine months of 1948 as compared with one of $110 million during the entire year 1947.

Development of Indonesia's Foreign Trade

(In millions of dollars; unadjusted for price changes)

	1938	1946	1947	1948 First Quar.	1948 Second Quar.	1948 Third Quar.	1948 Total 9 mos.
Imports	268	67	284	103.8	79.0	87.7	270.5
Exports	379	58	129	49.2	74.1	92.2	215.5
Balance	+111	—9	—155	— 54.6	— 4.9	+ 4 5	— 55.0

Subject to the terms of the political settlement, The Netherlands Government in Indonesia expects that by 1952-53 the balance of payments for Indonesia will have improved to such an extent that it will be possible to make net payments to The Netherlands amounting to about $152 million, most of which would be in dollars. This expectation may be excessively sanguine, especially since the amount appears to be based on the assumption that the Indonesian population will not successfully claim a larger share of Indonesia's total resources for the purpose of raising their standard of living above the pre-war level. Nevertheless, if a peaceful settlement of the present troubles in Indonesia is reached, the Dutch can probably look forward to the restoration of at least some portion of its previous dollar income from that area.

During 1949/50 Indonesia is still expected to run a deficit in its international payments. In its submission to OEEC The Netherlands Government in Indonesia estimated the deficit in its over-all balance of payments at about $269 million. Of this amount about $92 million

is with the dollar area and $161 million with The Netherlands. The latter total is expected to be virtually all financed by the metropolitan Netherlands since it is a deficit in Netherlands guilders.

There is reason to believe that if conditions favorable to the resumption of ECA assistance develop the amount of ECA aid required will be substantially less than the total indicated above.

The ECA estimate for the 1949-50 program is $10 million. If political conditions develop favorably and the ECA assistance program is resumed, it is possible that little extraordinary dollar financing will be necessary to meet the deficit in the gold and dollar balance of payments. The financing of any specific rehabilitation projects might then be undertaken by other institutions or by private venture capital. Indonesia might in the following year be able to balance its dollar account and perhaps even make a small contribution to the Netherlands.

Financial Situation

The domestic financial policies of the Netherlands' Government have been directed primarily toward establishing internal financial stability. To this end the Government has sought (a) to contain inflationary pressures which could not be eliminated and (b) to reduce, and where possible to eliminate, the source of such pressures. The success of this policy may be measured by the relatively slight increase in the cost of living index since the war's end and a substantial reduction in food subsidies which has already raised prices since September. Although, between the end of 1938 and the end of 1945, the index had about doubled, rising from 101 to 192, by the end of September 1948 it had advanced only to 203 and had in fact shown a slight decline from the high of 207 reached in the summer of 1948. Through good management the Government has therefore been able to suppress the latent inflationary forces in the recovery program. (Principal financial statistics of the Netherlands for the post-war period appear on the following page.)

The government's policy of containment has been effective in holding Netherlands' prices and wages at levels considerably lower than the neighboring European countries and simultaneously permitting a slight increase in real wages. Recent evidence has indicated that the containment program is becoming less important as inflationary forces diminish and deflationary factors emerge but the immediate outlook is far from clear. The principal inflationary pressures have been continued deficit financing by the government, the use of savings held privately for current individual expenditures and a large investment program which has not yet created an expansion of a supply of goods commensurate with the resources absorbed. These inflationary factors have thus far outweighed deflationary forces such as the import surplus and the temporary sterilization of the counterpart fund. The Government has expanded its normal sphere of activity to the point of financing important types of investment activity for which risks have been too great or normal incentives inadequate to attract financing from the private sector. Largely because of such activity, and by reason of reduced tax yields in the initial part of the period resulting from low

levels of production and national income, the budget deficit, until the latter part of 1948, has been of substantial proportions and has been a major factor in the Netherlands inflation.

Selected Financial Statistics of the Netherlands

	1938	1945	1947	1948 Mar.	1948 June	1948 Sept.
Exchange rate-guilders per dollar[1]	1.82	2 66	2.66	2.66	2.66	2 66
Gold and foreign assets (million dollars)[2]						
Netherlands Bank—total	1003	296	334	334	351	345
Gold	998	270	232	194	184	174
Foreign exchange	5	26	102	150	167	171
Other banks—exchange	63	113	103	111	103	103
Total	1066	409	435	455	454	448
Money supply—total[2]	2601	4436	7436	7583	7808	7801
Currency	1079	1458	3105	3034	3074	3156
Deposit money	1522	2978	4331	4549	4734	4645
Blocked money[2]	—	3058	1432	1432	1191	1028
Money and capital market						
Govt. bond yield, %	2.87	3 02	3.06	3 10	3.08	3.11
Treasury bill rate, 3 mo. %	.21	1.71	1.35	1.45	1.36	1.10
Stock prices (1938 = 100)	100	—	227	265	239	236
Price indexes (1937 = 100)						
Wholesale	94	167	250	257	258	257
Cost of living	101	176	199	203	207	203

[1] Averages.
[2] End of period.

Government expenditures, in addition to credit financing facilities extended to the private sector, include direct investment contributions amounting to about 150 million guilders in 1949. These contributions are most important in the fields of housing, public works, aviation and military. Military expenditures (not including those resulting directly from overseas operations) are the largest single expenditure item. The total military expenditures budget amounts to 757 million guilders in 1949 as compared to 694 million guilders in 1948, 17 and 21 percent, respectively, of the total budgets.

The tax structure is based on a moderately progressive income tax, a program of excise taxes supplemented by a heavy sales tax of 6%, and a corporation tax program roughly amounting to about 40% of gross profits after a deduction for reserve accumulation of 15% of profits. The general impact of the fiscal program appears to be regressive with a greater proportional burden on those income groups with the highest propensity to spend. Of total tax revenues of about 3 billion guilders anticipated in 1949, 640 million will be realized from individual income taxes and 712 million, the largest single revenue category, from the sales tax. The returns from excise taxes and other levies with a heavy incidence on low income consumers total an additional 555 million guilders. Until recently, however, the net anti-inflationary effect of these measures was partly offset by resort to dissavings from liquid assets in the Netherlands and the liquidation of overseas investment, the proceeds of which were transferred back to the Netherlands. Furthermore, the real burden on the lower income groups was moderated by the success of Government controls of consumer goods prices, supplemented by a system of subsidies. Although the revenue expectations expressed in the 1949 budget assume continuation of existing taxes at present levels, the Government is considering a downward change in corporation taxes if necessary as an incentive to

maintain private investment initiative. The Government is, therefore, prepared to relax at the appropriate time on a selective industry basis the present steeply graduated tax on distribution of profits, and to allow the accumulation of depreciation reserves on the basis of replacement costs rather than on the present standard of original cost. A probable factor in this decision is the fact that total returns from this tax are relatively minor.

The improvement in the budget situation may be the critical factor in the containment of inflationary forces. The prospective budget deficit for this year is only 660 million guilders as compared to 1,294 million in 1948 and 1,150 million in 1947. However, military costs may affect subsequent Netherlands budgets. Expenditures have been reduced, principally by limiting the scope of food subsidies and by reducing war damage compensation payments. The national government has also transferred the major responsibility for housing to the local governments, but the prospective increase in local government deficits may partially offset the expenditure reduction at the national level.

On the revenue side the Government anticipates a moderate increase in tax yields principally through an increase in proceeds of the sales tax. With the strengthening of the internal capital market, the 1949 budget can probably be financed without serious additional inflationary effects.

The accumulation of local currency in the counterpart fund established by the Netherlands Government in accordance with the Bilateral Agreement is reaching substantial proportions, and, as previously pointed out, the withholding of these funds from circulation is a factor in limiting the impact of inflation. The Netherlands Government has just come forward with a comprehensive program for the utilization or ultimate disposition of the counterpart funds accruing until March 1949. This program or some modification thereof will be submitted to the National Advisory Council on International Monetary and Financial problems.

It is possible that total anticipated savings of about 1750 million guilders—including 400 million from institutional sources, about 250 from individual savings, and anticipated reserve accumulation of business above 1 billion guilders plus the import surplus—may exceed the financial requirements of the investment program and create an additional net deflationary factor. However, the recent abandonment of several subsidies on cost of living items might lead to a demand for excessive compensatory wage adjustments. It is too early to appraise the possibility of such action leading to a wage-price upward spiral.

All in all, the winning of the battles against inflation has been one of the major postwar accomplishments of the Dutch Government. The inflationary forces inherent in the large investment program are, however, so strong that the outcome still hangs in the balance. Since so much depends on continued internal stability within the Netherlands, there should be no relaxation in the attempt to suppress and remove the inflationary forces.

CHAPTER II

The Benelux Long-Term Program

The Netherlands long-term recovery program was submitted to OEEC as part of the combined program of the Benelux Economic Union scheduled to be established in 1950 by the countries of Belgium, the Netherlands, and Luxemburg. A study has been prepared by ECA of the proposed Union which is now in the planning stage. Similarly OEEC has also reviewed the long-term programs of these three countries as the Benelux program. The Netherlands long-term program is therefore treated in detail by ECA in a separate report.

The goals of the program include attainment of balance in total international payments, restoration of food and clothing consumption to about pre-war levels and maintenance of a sustained high rate of employment. For the Netherlands to achieve these aims will require more intensive development of its agriculture, expansion of its industrial capacity, and full use of its increasing labor force. It will also require as much restoration as possible of pre-war markets and determined development of new markets for its expanded export output.

The long-term program requires total production of goods and services by the Netherlands at about 130% of 1938 in 1952/53. At present, while industrial output is already higher than 110% of 1938, agricultural output has not yet reached pre-war levels. Production goals include modernization and expansion of existing industries on a selective basis as well as the development of new industrial enterprises. The Netherlands will seek to expand and develop industries requiring skilled labor. It will also seek to capitalize on its advantageous geographic position in the complexity of European transit traffic. In agriculture intensification of production is anticipated by means of further mechanization, cultivation of multiple purpose crops, and consolidation of existing small-scale farms.

Consumption levels for food and clothing are to be increased and rationing ended even before the Union is scheduled to go into effect in 1950. Housing needs, however, will only be met in crucial areas, sufficient to increase availabilities in those areas to levels prevailing elsewhere in the country. Significant additions to the housing supply are not expected to be built until after the 1952/53 period.

The Netherlands feels that in its efforts to develop Benelux it is seeking to carry out a program to which this government has set great store. To the extent that Benelux is successful in facilitating and stimulating the growth of international trade by reduction of barriers which hamper such trade it will be carrying forward a principal policy enunciated in the title to the Economic Cooperation Act.

Admittedly there are great difficulties in achieving this goal. These difficulties include fiscal and monetary adjustments, the rate of improving consumption standards, and structural re-adjustments which may be required throughout the economies of all three countries. There is also the question of determining to what degree an overall integrated investment program may be required. In addition certain sanguine assumptions are inherent in the program such as the anticipated receipt of over $150 million from Indonesia in 1952/53. The qualifications which ECA may have, however, on individual aspects of the program does not diminish ECA's desire to take every possible step towards the attainment of Benelux.

CHAPTER III

Programs for 1948/49 and 1949/50

A. THE 1948/49 PROGRAM

The original Netherlands submission for 1948/49 requested aid for the Netherlands proper amounting to $523 million, a figure which was revised downward by the OEEC to $412 million and subsequently reduced by ECA to $408.6 million. To date the Netherlands has received $104.5 million of this amount as a loan, $198.1 million as a direct grant, and $4.4 million as conditional aid. An additional $101.6 million will be necessary to complete the program for the current fiscal year. The Netherlands had already received $25 million as a loan and $80 million as a direct grant in the second calendar quarter of 1948.

The ECA estimates the dollar deficit on current account of the Netherlands at $378.5 million in 1948/49. Heavy maturities on previous loans now coming due will increase the estimated deficit by about $40 million. Most of this total deficit of $421.3 million will be covered by the proposed ECA allotment of $408.6 million. The estimated uncovered balance will be $12.7 million.

During the current fiscal year the Netherlands economy is experiencing a rapidly increasing rate of industrial and agricultural production. Agricultural expansion has been in some measure fortuitous, the increase over the low 1947 level to a considerable degree reflecting more favorable weather conditions. Another important factor has been the steady improvement resulting from reclamation of land flooded by the Germans, which totaled over 10 percent of total land available. Total meat and poultry production is expected to increase somewhat, as are yields of dairy products and all crops except coarse grains. Potato production in 1948 was 85 percent above pre-war, and vegetable production about the same as pre-war. Bread grain production is scheduled to increase over 100,000 metric tons against 1947 to over 630,000 tons and sugar beet production will also rise substantially.

Industrial production (exclusive of the building trades) for the first ten months of 1948 stood at 110 percent of 1938. The rise has been most notable in the leather, rubber, and shoe industries, in output of electric power and artificial gas, and in metal products, paper, and chemicals. Repair of the damage of over $200 million which the Germans inflicted on the railroad system has been sufficient so that lack of transport facilities is no longer a limiting factor on the economy, and the total fleet under the Dutch flag has been restored to a level about equal to pre-war.

Investment at a very high rate in 1948 has been aimed not only at replacement of wartime damage to capital plant and under-maintenance during the occupation, but also at a determined expansion of industrial activity. During 1948/49, the Netherlands intends to produce or

import capital goods for domestic investment to the value of $1,460 million. As previously stated, the program is officially supervised insofar as import licenses are granted only to proposed projects which will earn or save dollars.

The program was undertaken in conjunction with strict controls, which thus far have contained inflationary pressures. These have included rationing, materials allocations, import controls, restrictions on the expansion of bank credit, reduction of budgetary deficits, and blocking of bank deposits and publicly held currency. Prices as well as wages have been maintained at levels considerably lower than those in neighboring countries.

The 1948/49 program requires such substantial imports that no significant improvement in the balance of payments deficit on current account appears possible. Imports from all areas are running some 30 percent in excess of the 1947 calendar year level. These imports include large quantities of industrial raw materials—crude oil, coal, iron ore, lead, zinc, copper, and aluminum—at levels substantially higher than pre-war, which are vital to the capital expansion program. In the case of food imports the stress laid on animal feedstuffs indicates the intention to increase livestock numbers. The merchandise deficit in all currencies, although smaller than in 1947, will run to approximately $520 million.

Available supplies of consumer goods are still somewhat below the pre-war level. The drop in certain quality food items is particularly marked and the housing problem is becoming even more acute. Top priority is being given to production and import of goods most essential to the capital investment program which absorbs one quarter of the total resources available to the Dutch people.

Without expressing an opinion at this time regarding the composition of the Netherlands investment program, its order of magnitude seems justified. Because of staggering wartime capital losses and because of the need for developing new sources of revenue, the Dutch must carry out a substantial capital formation drive. The fact that they have been willing to restrict consumption to relatively low levels suggests the importance they themselves place on capital expansion. The rehabilitation of the Dutch economy, in which the 1948/49 program is a first step, will depend in large measure on the success of this attempt greatly to increase capital formation.

B. THE 1949/50 PROGRAM

For 1949/50 the Metropolitan Netherlands has requested direct ECA aid amounting to $415 million as compared with $408.6 million currently set aside for 1948/49. The ECA estimate of the Dutch dollar deficit on current account with the United States, after reasonable adjustments in the country's submission, comes to $280 million. Similar adjustments in the balance with other Western Hemisphere countries yield a deficit with those areas of an additional $59 million. A further capital account deficit of $9 million results in a total deficit of $348 million. ECA has therefore estimated $345 million of direct dollar aid to be necessary.

The Netherlands 1949/50 program anticipated total imports of $1,792 million in contrast with the ECA estimate of $1,600 million. The Netherlands export target was $1,309 million in contrast with ECA's estimate of $1,150 million. ECA reduced imports from the United States from $321 million to $304.1 million and imports from the other Western Hemisphere countries from $148 million to $141 million. Similar reductions were made in imports from other countries.

The Netherlands export program was also reduced on an overall basis. Exports to the United States were increased against the Netherlands submission on the basis of recent trade statistics. Exports of other Western Hemisphere countries were cut slightly against the Netherlands estimate because of the trend of recent exports to that area.

The 1949/50 agricultural program anticipates an increase in the number of pigs and in the production of sugar beets and potatoes. Because of the lack of native and imported fodder, pig stocks have so far been limited. Foodstuffs will continue to be imported at a high level because of the proportionate increase in requirements consequent to the growth of population. Principal agricultural imports will include bread grains, coarse grains, fats and oils, cotton, meats, tobacco, wool, and other fibers.

On the industrial side, the Netherlands plans to continue to import large quantities of coal, petroleum, iron and steel, lumber, paper and pulp, non-ferrous metals, and machinery and equipment items. These imports are to further the Netherlands' rehabilitation and investment program. Particular attention is being paid to the rehabilitation of several gas and coal plants, the expansion of refinery and flour milling capacity, public power projects, and a moderate increase in steel and pig iron ingot production. Also included in the program are the erection of a ball bearing works, the manufacture of knitting machines, industrial sewing machines, and expansion of diesel engine output. The production in the metallurgical and chemical industries is also to be increased and it is further intended to restore large nitrogen fixation plants devastated during the war.

ECA has cut this program slightly on the assumptions that certain items would not be available in the quantities sought and that the projected level of intended consumption of such items as petroleum was too high in relation to past experience. In addition ECA has had reservations concerning the over-all character of the investment program.

The gross investment program involves utilization of about 25 percent of total gross national resources. This goal will require a net investment program of about $750 million. Continuation of a program of this size is a difficult strain on Dutch production resources. To achieve the net investment goal, the rate of gross investment must continually increase to allow for additional depreciation requirements. Furthermore, as new plant is created, additional labor is required for its operation with a consequent restriction of labor availability for the investment program. While labor productivity should be increased by the investment program, the labor shortage in the Netherlands is likely to remain a problem. This is particularly true with respect to

technicians, foremen, trained personnel and industrial engineers. Labor mobility has also been reduced by the shortage of housing and transportation facilities.

In addition to these reservations concerning the ability of the Netherlands to carry out this program is the fact that the time lag between payment for capital goods imports and initial production from these imports is so lengthy. Netherlands authorities have indicated that this lag may average as much as one and one-half to two years. A significant portion of the investment program includes imports of machinery, the delivery time for which, after firm order is placed, may run from 12 to 24 months. It may therefore be assumed that a further increase in industrial output may be possible as the capital expansion program bears fruit. If increased production is in fact realized it will enable the Netherlands from domestic sources to carry the investment program farther than had originally been anticipated and may even allow for some increase in the output of items for consumption.

Barring the possibility of a substantial cut in domestic food production, the people of the Netherlands should have a reasonable chance of improving their diet slightly in 1949/50, although the program as recommended by ECA will not enable the Dutch to raise per capita consumption levels to those existing in some other European countries. In considering the over-all program in relation to adjustments made by ECA, it has been assumed that imports of high calorie foods, such as grains, will be provided substantially at the levels originally requested by the Netherlands government.

The Netherlands 1949/50 program includes the derationing of textiles at the end of 1949. If Benelux comes into being as scheduled in 1950, this derationing may require careful planning by both countries to prevent heavily increased consumption demands by the Netherlands upon Belgium in this field, particularly if Belgium and Luxemburg retain their free import program.

Exports for 1949/50 are projected by the Netherlands government at more than $1.2 billion, an increase over the current period of more than $300 million. Particular attention was called by the OEEC to the fact that agricultural exports are expected to increase by over $200 million in the 1949/50 period and textiles by $32 million. ECA has considered the concern expressed by the OEEC as to the possibility of meeting this goal and itself feels that the program may be overly optimistic. The strain of the investment program on the productive resources of the Netherlands economy may make the achievement of these goals difficult.

Furthermore, the semi-luxury character of many Netherlands exports makes attainment of goals dependent upon a relaxation of the present programs of austerity now rigorously followed in most European countries, as well as many other parts of the world. There is little evidence in the programs of other participating countries that a relaxation of the austerity programs is in fact contemplated, and available evidence from non-participating countries which also bulk large in Dutch expectations for increased exports is similar. Accordingly, in the balance of payments projected for the Netherlands ECA has reduced the estimate of exports substantially.

The Netherlands government is giving serious consideration both in the immediate period and in long-range planning to increasing that proportion of exports marketed in hard currency areas. It is realized that at the present time normal commercial incentives for exports are greater in soft currency areas than in the United States or Western Hemisphere markets. Therefore a vigorous program designed to expand markets for Dutch products in dollar areas is being undertaken by the Netherlands government. In so doing the Netherlands government, which has already applied for technical assistance for agricultural personnel, is also seeking technical assistance for industrial projects and is considering such assistance for trade promotion.

On invisible account ECA concurs with the OEEC opinion that Netherlands shipping estimates for the 1949/50 period may be somewhat pessimistic. It is anticipated that the Dutch fleet will reach approximate pre-war tonnage levels during that period. Accordingly, the Netherlands submission has been revised moderately upwards with respect to activities in the dollar area. A similar viewpoint is taken with respect to the estimates for tourist receipts. The extent to which the secular change in the balance of payments position in the Netherlands affects capital requirements has been discussed at length in earlier sections.

On the basis of available information the Netherlands will be able to secure financing of imports from the Argentine in the amount of $18 million in the 1949/50 period. This amount is an advance payment to the Netherlands by the Argentine on ship construction.

As has been suggested the intended economic union between the Netherlands, Belgium and Luxemburg presently scheduled for the 1st of January 1950, will require considerable further planning among these countries during the coming year. To the extent that these plans will cause shifts in the internal programming of each of these countries, the 1949/50 plans of the Netherlands may require substantial modifications.

PART III

Appendix Tables

Table A. Summary Balance of Payments—OEEC Estimate for 1948/49.

Table B. Summary Balance of Payments—ECA Estimate for 1948/49.

Table C. Summary Balance of Payments—Netherlands Estimate for 1949/50.

Table D. Summary Balance of Payments—ECA Estimate for 1949/50.

Table C. Summary Balance of Payments—Netherlands Estimate For 1949/50

	U.S.	Dollar Account Other	Total	Non-Dollar Account	Grand Total
1. Imports	321.0	130.0	451.0	1218.0	1669.0
2. Exports	38.0	46.0	84.0	1119.0	1203.0
3. Merchandise Balance	—283 0	— 84.0	—367.0	— 99.0	—466.0
4. Invisibles (net)	— 31.0	— 8.0	— 39 0	+ 54.0	+ 15.0
5. Balance on Current Acct.	—314.0	— 92.0	—406 0	— 45.0	—451.0
6. Settlements Under Payments Agreements					
7. Capital Transactions					
a. Non-ECA Financing					
b. Repayments	— 5.0	— 4.0	— 9.0		
c. Other					
8. Net Position	—319.0	— 96.0	—415.0		
9. Est. Requirements for ERP Financing			+415.0		
10. Uncovered Deficit					

Table D. Summary of Payments—ECA Estimate For 1949/50

	U.S.	Dollar Account Other	Total	Non-Dollar Account	Grand Total
1. Imports	304.1	123.0	427.1	1172 8	1599.9
2. Exports	46.7	69.0	115.7	1046.0	1149.7
3. Merchandise Balance	—257.4	— 54.0	—311.4	—126.8	—450.2
4. Invisibles (net)	— 23.0	— 5.0	— 28 0	+ 70.0	+ 42.0
5. Balance on Current Account	—280.4	— 59 0	—339.4	— 56.8	—408 2
6. Settlements Under Payments Agreements					
7. Capital Transactions					
a. Non-ECA Financing					
b. Repayments	— 5.0	— 4.0	— 9.0		
c. Other					
8. Net Position	—285.4	— 63.0	—348.4		
9. ERP Financing			345 0		
10. Uncovered Deficit			3.4		

ERRATA

Table D Summary Balance of Payments.

On line 2, Exports, Non-Dollar Account, should be changed from 1046.0 to 1034.0. On line 3, Merchandise Balance under Non-Dollar Account, should be changed from —126.8 to —138.8. On line 5, Balance of Current Account, the Non-Dollar Account figure of —56.8 should be changed to —68.8.

Table A. Summary Balance of Payments—OEEC Estimate For 1948/49

	Dollar Account U.S.	Dollar Account Other	Dollar Account Total	Non-Dollar Account	Grand Total
1. Imports	331.0	105.0	436.0	1228.0	1664 0
2. Exports	32.0	33.0	65 0	935 0	1000.0
3. Merchandise Balance	—299.0	— 72.0	—371.0	—293.0	—664.0
4. Invisibles (net)	— 21.0	— 8.0	— 29.0	+ 16 0	— 13.0
5. Current Account Balance	—320.0	— 80 0	—400.0	—277.0	—677.0
6. Settlements Under Payments Agreements		— 9.0	— 9.0		
7. Capital Transactions					
a. Non-ECA Financing					
b. Repayments	— 3.0		— 3.0		
c. Other					
8. Net Position	—323.0	— 89.0	—412.0		
9. Est. Requirements for U. S. Aid			—412 0		
10. Uncovered Deficit					

Table B. Summary Balance of Payments—ECA Estimate For 1948/49

	Dollar Account U.S.	Dollar Account Other	Dollar Account Total	Non-Dollar Account	Grand Total
1. Imports	320.9	99.6	420.5	1102.3	1522.8
2. Exports	38.0	24.0	62.0	943.0	1005.0
3. Merchandise Balance	—282.9	— 75.6	—358.5	—159.3	—517.8
4. Invisibles (net)	— 19.0	— 1.0	— 20.0	+ 50.0	+ 30.0
5. Current Account Balance	—301.9	— 76.6	—378.5	—109 3	—487.8
6. Settlements Under Payments Agreements		— 9.0	— 9.0		
7. Capital Transactions					
a. Non-ECA Financing	+ 12 5	+ 5.1	+ 17.6		
b. Repayments	— 51.4		— 51.4		
c. Other					
8. Net Position	—340.8	— 80.5	—421.3		
9. Est. Requirements for U. S. Aid			408.6		
10. Uncovered Deficit			12.7		