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ECONOMIC PROBLEMS OF LIBERATED BELGIUM

One glance at the map of western Europe will impress one with Belgium's importance to postwar Europe.

The present German counterattack emphasizes the strategic role of Belgium as the hub of international communication lines between central and western Europe and the Channel ports. Fortunately, the fighting has not reached any important industrial or agricultural area. But it may have completed the destruction of the Ardennes forest, and certainly has retarded the rehabilitation of the country by forcing the Allies to devote more supplies and transportation facilities to purely military purposes. In view of the additional losses and sacrifices, the task of reconstructing the Belgian economy now becomes even more urgent.

In spite of its small size, Belgium is one of the most important industrial nations of the world and before the war its steel productionn was surpassed only by that of the United States, Germany, the Soviet Union, the United Kingdom, France, and Japan. Belgium has suffered from German aggression longer than any other western country, and its difficulties under German rule were symbolic of the fate of all the small nations of Europe. Belgian developments will now be watched for any clues as to the future of these small nations after liberation.

It may be expected that Belgium will play an important role in the reconstruction of other European countries. Its industries will no doubt be operating long before those of central and eastern Europe, and part of this output will be available for export. The use of these facilities by the Allies during the years of reconversion and rehabilitation, will save valuable shipping space and lessen the burden upon the resources of the other United Nations.

With an appreciation of Belgium's economic role in postwar Europe, the Belgian Delegation took an active part in and made a substantial contribution to the International Financial and Monetary Conference at Bretton Woods last July.

Belgium is a very densely populated country; in 1937 it had a population of 8.4 million, living in an area of 11,800 square miles. Sixty-nine per cent of the working population in 1930 was engaged in industry and commerce, as compared to 51 per cent in the United States. It depends heavily upon foreign trade; in 1937 it had imports of 27.9 billion francs,[1] exports of 25.5 billion, and a transit trade of 31.5 billion. Imports and exports together were equal to about 70 per cent of its national income, as compared to less than 10 per cent in the United States.

The country's national wealth, estimated at 443 billion francs for 1939, has been reduced severely by the German occupation. The Germans not only conscripted workers for labor in Germany and confiscated or

1/ The Belgian franc was quoted at 3.37 U. S. cents before the present war, and has been equal to 2.28 cents since liberation. Foreign trade figures are for the area of the Belgian-Luxembourg customs union.

looted the property of anti-Nazis and Jews, but they also imposed tribute payments upon the country in the form of occupation costs and so-called advances. In 1943 and 1944, these levies constituted about 45 per cent of the total national output; for the entire period of occupation, they amounted to about 143 billion francs. These payments, financed partly by the administration and partly by the central bank, increased the public debt from 66 billion to 156 billion francs, and the note circulation from 31.5 billion to 99.5 billion francs during the period of occupation. Thus Belgium was at the same time swamped with paper money and denuded of goods. The scarcity of necessary commodities, caused by the German efforts to gear the economy to the German demands for armaments rather than to the needs of the Belgian population, was aggravated by the stoppage of imports. As a result, Belgian national income, as measured in terms of actual purchasing power, declined from 64 billion to 27.5 billion prewar francs between 1939 and 1943.

In spite of these losses, the situation of Belgium is in some respects better than that of, say, the United Kingdom or the Netherlands. The country has retained most of its foreign assets (estimated at 50 billion francs as of 1939) and has not accumulated any foreign debts. Before the war, its exports were sufficient to pay for more than 90 per cent of its imports. Its extensive colonial empire has remained free from Axis occupation. Most important of all, it suffered little destruction during the campaign, its vital coal mines and the harbor of Antwerp remaining almost intact.

<u>Immediate Tasks</u>

The most urgent problems confronting the Government after liberation were the country's needs for foodstuffs and coal. Its unsettled financial condition also needed immediate attention. In order to combat inflation, the Government blocked a very large part of all cash holdings and bank deposits and decreed an exchange of most of the old currency for new notes. It is still too early to judge the effect of these measures, but according to preliminary reports the Government has succeeded at least in stopping the increase in the cost of living and curbing black market activities. The official price index stands at about 200 per cent of the 1939 average. Since the franc has been devalued by about 32 per cent, the price level is now equal to only 135 per cent of the 1939 figure in terms of gold or dollars. If the index could be stabilized, and actual prices made to conform to the official ones, this rise would be about the same as that of the wholesale commodity prices in the United States.

The Government has supplemented its program of domestic financial stabilization by a series of treaties with neighboring countries. It has negotiated a monetary and customs union with the Netherlands, and concluded an agreement with the United Kingdom, providing for mutual credits up to the equivalent of 5 million pounds for the purpose of ensuring the stability of the exchange rate of pound sterling and franc. The full effect of these agreements, however, will not be felt until greater freedom of trade has been restored.

Less progress has been made in solving the problems of food and fuel supply. Belgium's coal production (30 million metric tons in 1937) normally is ample for all its needs. Under German occupation, however, production fell to a fraction of normal, partly because of the lack of new machinery, but mainly because of the lower efficiency of the miners, due to underfeeding and even more to their unwillingness to work for the Germans. In order to restore the productivity of the mines, the Government must make available more food, and also convince the miners that sabotage, strikes, and slow-downs are no longer patriotic duties.

The food situation is particularly serious because in peacetime Belgium imported almost two-thirds of its foodstuffs requirements (4 million metric tons, valued at 5.4 billion francs, in 1937). The country is practically self-sufficient in vegetables and potatoes, and produces the larger part of its requirements of milk, beet sugar, and fruit. This was formerly true also of meat and animal fats. But livestock production was based on imported fodder and concentrated feeds, and under the German occupation the number of cattle was reduced by about one-sixth in order to reach a level more nearly corresponding to the domestic fodder supplies. The Belgian Congo used to supply quantities of vegetable fats (palm oil), cane sugar, and coffee. Grains (wheat, barley, and corn), which represent by far the most important single item, both as to bulk and value, will have to be shipped from non-Belgian overseas sources.

Ability to bring in required imports is limited by the scarcity of shipping and the necessity for using the harbor of Antwerp to supply Allied troops on the western front. The even flow of domestic supplies is hampered by the psychology of many farmers. For 4½ years it was considered patriotic as well as profitable to hide farm products from the administration (which acted as collecting agent for the Germans) and then channel them into the black markets where Belgians could secure them. Now the Government's problem is to convince the farmer that such activities are not only unpatriotic but also unprofitable. The deflationary measures of the Government were intended in part to make it clear that producers could not expect any further rise in prices. The farm situation is somewhat complicated by the linguistic problem; the majority of the farmers are Flemish while the majority of miners and workers in the heavy industries are Walloons. The Germans tried to exploit any differences between the two groups both in the First and the Second World Wars. The farmers fared better than most other groups under the German occupation, feeling less political oppression and making profits by black market operations. On the other hand, because of their wartime profits they were hard hit after liberation by the monetary program of the Government.

Rehabilitation of Communication and Industry

Once the people's minimum requirements of food and fuel are satisfied, the rehabilitation of industry and commerce will command chief attention. Paradoxically, resumption of trade will have to precede the increase in domestic output to some extent, since Belgian industry is based mainly upon imported materials. However, Belgium has large resources of gold and foreign exchange as well as an excellent credit rating, and imports therefore can be financed before Belgian goods become available for export. Difficulties in the supply of materials during the period of transition will arise from the lack of shipping and other reasons of military strategy rather than from financial factors.

The Belgian coal mine installations are greatly in need of renovation. The equipment has not been renewed since 1939, and is largely worn out or obsolete. A new source of supply for pit props must be found because some of the former sources can no longer be drawn on. The Germans have devastated a large part of the forests of Belgium and adjoining territories, which provided significant quantities of these props before the war. Baltic timber may be needed by the states of the Soviet Union for the rehabilitation of their own mines, and Baltic exports therefore may be diverted from the Belgian market even after complete defeat of Germany reopens trade routes to the Baltic Sea.

The needs of the Belgian inland transportation system are even greater than those of the coal mines. Belgium has had for years a very dense railroad network (3,215 miles with 3,358 locomotives and 117,000 freight cars in 1937). German requisition of rolling stock, the absence of replacement, and inadequate upkeep have left the system with a depleted and dilapidated stock of equipment. Highway traffic has suffered just as severely. Belgium also has excellent roads (5,625 miles of national highways and 23,125 miles of provincial and municipal roads in 1938) and the number of motor cars was large by European standards (154,000 passenger cars, 76,600 busses and trucks, and 67,000 motorcycles in 1938). Looting, requisitions, and lack of replacements, however, have reduced these figures to a small fraction of their former size. The important system of inland waterways (1,080 miles with 9,000 barges and tugboats in 1937) needs new locks and new vessels.

Manufacturing industries will be compelled to import the machinery and tools necessary to get their own production under way until the domestic machinery industry is rehabilitated. Even in normal times, however, most raw materials processed by Belgian manufacturers must be imported. The speed with which particular branches of the industry will be able to reestablish their plants and secure materials will not be uniform. In the field of metallurgy, the steel industry will be easiest to satisfy because about one-third of the iron ore comes from Luxembourg and most of the balance from Lorraine. Moreover, the steel mills were kept in good condition by the Germans in order to produce armaments. The copper industry depends largely upon imports from the Belgian Congo. The zinc industry, next to that of the United States the largest in the world (representing 13.5 per cent of world production in 1937) may have to overcome greater difficulties because the raw materials have to be imported mainly from non-Belgian overseas sources.

In the field of textiles and clothing, the wool and cotton industries are the most important. Flemish woolen goods have been famous ever since the middle of the tenth century, and before the war imported raw wool was the most valuable single import (2 billion francs in 1937). From the point of quantity, wool and cotton imports were almost exactly equal; wool imports were mainly of Australian origin while one-third of the cotton came from the Congo and a large part of the rest from the United States. Linen production, the third largest branch of the Belgian textile industry, is based mainly upon domestic raw materials. The rayon industry was one of the oldest in Europe, but its importance relative to other countries had decreased in the interwar period. Under the German occupation, however, it expanded at the expense of the wool and cotton mills since raw materials for these industries were no longer available.

Mining, transportation, metallurgy, and the textile industries together employ about 60 per cent of all industrial workers in the country. Among the smaller fields of enterprise, the Belgian chemical industry in the past has acquired world fame. The country was one of the leading producers of industrial chemicals, artificial fertilizers, and photographic chemicals. If the Allies strip the German dye trust of its monopolistic power, the Belgian dyestuff industry probably will forge to the front in Continental Europe. Most of the industry's raw materials, with the exception of coal tar, must be imported, largely from other Continental European countries. Precious stones, many of them obtained from the Congo, form the basis of the Antwerp stone cutting and trading industry, the most important center of that kind in the world.

Prospects of Foreign Trade and Shipping

Belgian foreign trade may be expected to increase sharply as soon as the wartime difficulties of transportation are overcome. Imports must rise if Belgian industry is to receive not only its usual raw materials but also the machinery needed for its reconstruction. Exports must rise if the pent-up demand of other European nations for industrial products is to be satisfied.

Belgium always has been a protagonist of free trade, and before the First World War tariffs were for revenue only. In the interwar period a more protectionist attitude was adopted, but its free-trade area was enlarged by a customs union with Luxembourg in 1922, and trade agreements with the Scandinavian countries and the Netherlands (Oslo, 1930, and Ouchy, 1932). Treaties concluded immediately after liberation with the Netherlands and the United Kingdom, indicate that the country intends to continue on this course. A credit agreement has been concluded with France. These measures are the more important since the three countries just mentioned accounted for 45 per cent of Belgium's total foreign trade in 1937.

Closer economic relations with these areas are expected to compensate for the loss of part of the German trade, which accounted for 11.6 per cent of total Belgian commerce in 1937. During the war, the Belgian economy has been geared completely to meet German needs, and Germany became the country's best "customer." Therefore the consequences of a disruption of this trade will not be negligible. The prospects for Belgian trade with the rest of Europe are more promising, however. European countries other than those mentioned above accounted in 1937 for 14.5 per cent of total Belgian commerce. Belgium had an excess of imports in relation to all central and eastern European countries (with the exception of the Baltic states). Therefore Belgian commercial relations with these countries may profitably be resumed even before their currency conditions return to normal. Moreover, Belgian industry is able to replace Germany as a source of supply for central Europe, especially in the fields of metallurgy, textiles, and chemicals.

Belgian shipping also may be expected to profit from the German defeat. The harbor of Antwerp handled in 1937 about 13,500 ships with 25.5 million net register tons. This tonnage is bound to increase since Antwerp's main competitors, the ports of the Netherlands and Germany, will probably be out of commission for some time to come. In spite of the importance of the Belgian harbors, the Belgian merchant marine before the war was negligible, consisting of only 96 vessels of 252,000 tons in 1939. Belgian ships handled only 9 per cent of the traffic in Belgian ports while German ships handled 22 per cent -- twice as much as the trade with Germany itself. If Belgian vessels replace the German, at least as far as commerce in Belgian waters is concerned, the tonnage of the Belgian merchant marine might well expand to many times its prewar size.

Belgian -- United States Trade Relations

American investments in Belgium and Belgian investments in the United States were small before the war; only Belgian balances with American banks were significant (182 million dollars at the time of the German invasion, May 1940). Mutual trade relations, however, were very close. In 1937, the last year of normal international relations in Continental Europe, the United States took fifth place in Belgium's foreign trade, with exports to Belgium of 95 million dollars, and imports from Belgium of 75 million. This volume does not, however, indicate the limits of trade possibilities between the two countries. After the First World War, the United States exported goods valued at 378 million dollars in 1919 alone, and the annual average for 1920-1929 was 128 million. Total trade figures as well as the value of important exports and imports for characteristic years between 1919 and 1937 are shown in the accompanying table.

In addition to the commodities shown in the table, U. S. exports to Belgium included feeds, fruits, tobacco, chemicals, semimanufactured steel products, and industrial machinery while imports included other precious stones, wool manufactures, nonferrous metals, glassware, fertilizers, and wood products. In the period of rehabilitation immediately following the First World War, the United States exported large quantities of breadstuffs, meat products, cotton cloth, cattle, and wood products. The sharp drop in U. S. exports to Belgium in the thirties was due in part to the fall of the price level, but mainly to the shrinkage in the Belgian national income. In 1939, the income per head was equal to about 257 dollars, only about four-fifths that of the Netherlands, and one half that of the United States. Under conditions of international peace and economic cooperation -- such as did not exist in the 'thirties -- economic conditions in Belgium should improve rapidly and bring about a proportionate rise in imports, especially of consumers' goods. Some of the goods that are very sensitive to variations in the degree of prosperity form a large part of American exports to Belgium, such as automobiles, gasoline, canned fruit, and tobacco.

The amount of U. S. imports from Belgium apparently is less elastic; the 1937 figure was not surpassed materially in the interwar period. But Belgium will be able to pay for its imports not only with the proceeds of its own imports and with other revenues (foreign investments, tourist traffic), but also by utilizing the exports of the Belgian Congo. The United States imported goods from the Congo valued at only 2.6 million dollars in 1937, but since the outbreak of the Second World War imports have sharply risen. They reached 25 million dollars in 1940 and 34 million in 1941, and economic relations with the Congo have become even closer since the entry of the United States into the War. Part of these imports has been used for war purposes, another portion represents substitutes for materials temporarily unavailable elsewhere, and some went to the United States only as long as the Belgian market was closed to them. But at least part of the increase may well prove permanent, and together with Belgian gold and dollar balances already accumulated, help to prevent a "dollar scarcity" in Belgium.

Belgian-United States Trade, 1919-1937
(Millions of dollars)

Commodity	1919	1929	1932	1937
U. S. imports:				
Diamonds (cut, not set).........	1.8	17.2	5.8	21.8
Flax and flax manufactures......	(1)	6.5	2.5	9.1
Cotton manufactures.............	0.2	1.4	1.0	5.8
Iron and steel products.........	0.2	4.4	1.7	4.9
Furs (undressed)................	0.2	6.8	0.3	2.9
All others......................	5.3	37.7	10.1	30.6
Total...........................	7.7	74.0	21.4	75.1
U. S. exports:				
Automobiles and accessories.....	2.2	26.5	7.2	21.5
Petroleum and products..........	8.6	12.7	6.3	13.3
Cotton (raw)....................	25.4	20.3	6.0	11.6
Wheat...........................	69.3	6.6	3.0	10.6
Chemicals.......................	1.0	0.7	0.2	4.7
Linseed cake....................	2.8	4.5	1.2	4.2
Copper..........................	1.6	8.8	1.1	4.0
All others......................	267.0	34.8	15.3	25.4
Total...........................	377.9	114.9	40.3	95.3

1. Less than $50,000.
Based on data compiled from FOREIGN COMMERCE AND NAVIGATION OF THE UNITED STATES.

In this way, the reconstruction of the Belgian economy may be expected directly to contribute to the economy of the United States, and to strengthen the ties of international economic relations as envisaged at Bretton Woods.

Belgium's economic stability is essential to winning the peace.