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# BELGIAN POST-WAR RECONSTRUCTION

Belgium was the first of the liberated countries to tackle with courage and decision the monetary and financial chaos bequeathed it by the war. In October 1944, immediately after liberation, the Government eliminated excess purchasing power through a drastic reduction of the amount of currency in circulation. This was accomplished by exchanging pre-liberation money for new bank notes and blocking all cash holdings and bank deposits of more than approximately 114 dollars. In October 1945, the legislature supplemented this action by imposing a confiscatory tax upon war profits and a 5 per cent capital levy, and by converting into a long-term Government loan that portion of the blocked accounts that was not absorbed by these taxes. These measures though thought drastic by some, nevertheless, set an example for all other liberated nations, and they have been imitated in large degree all over Europe and the Far East. Although the legislation brought temporary hardship to a large part of the population, particularly businessmen, it was supported by all political parties, conservative and socialist alike.

As a result of these measures, Belgium's struggle against an over-expansion of the currency has been all but won. At the end of September 1945, bank note circulation amounted to 64 billion francs, as against 100 billion in September 1944, and 30 billion at the time of the German invasion in May 1940. In comparing the figures of 1945 and 1940, it mus be remembered that the Belgian franc was devalued by about one-third to 2.28 cents in terms of dollars in the fall of 1944. It should also be remembered that world market prices in terms of dollars have risen by at least one-third since 1940. Therefore, 64 billion francs in September 1945 would be equivalent to about 32 billion in May 1940. Currency in circulation at the present time would not appear excessive if the production of commodities could be increased to the pre-war level.

Although suffering from the consequences of war and invasion, the country's fiscal situation also appears to be well in hand. Government expenditures for 1945 have been budgeted at 46 billion francs or almost four times as much as before the war. The increase is due to the rise in prices and wages and also to the special needs of the post-war period, such as the expense of distributing foodstuffs, the reconstruction of transportation facilities and public buildings, and the provisions made for war victims. During the first six months of 1945 tax collections have amounted to only 9 billion, but the enactment of the Government's new tax program will undoubtedly increase revenues. The deficit, though large, has been met by borrowing from the public. Only expenditures for advances and "mutual aid" to the Allies were covered by central bank credits, presumably because the Government expects eventually to be reimbursed for these amounts in foreign exchange. The public debt has been estimated officially at 204 billion francs, as against 62 billion in April 1940. The interest-bearing part of the debt however, is expected to be reduced as the result of the Government's fiscal program. If the country's national income again reaches the pre-war level, or about 130 billion francs at the current purchasing power, the service of the debt may be expected to require less than 5 per cent of the national income.

The most unsatisfactory part of the financial situation is the level of prices and wages. Official prices have been maintained at about twice the pre-war level, thus corresponding to the new dollar value of the franc and the general increase in world market prices. The black market, however, has not been eliminated, and the actual cost of living therefore is still about four times the pre-war amount. On the other hand, wage rates have increased only about as much as the official prices, and the actual purchasing power of wages therefore has been virtually cut in half. This situation is unsound, not only because of its effect upon labor but also because of the resulting disparity between the domestic and the international price levels. Pessimistic observers have suggested that the Government will be unable to prevent a further rise in official prices and wages, and may be compelled again to devalue the currency. The Government, however, is convinced that as the rehabilitation of the economy progresses, the actual price level will eventually be brought down to the official figure and thus permit the maintenance of the present wage scale and exchange rate.

It is not surprising that the financial situation of the country has not fully returned to normal notwithstanding the success of the Government's currency program. During the war, the country suffered losses, including about 140 billion francs in payments to Germany, and a very large amount of physical destruction and looting. Moreover, a large part of the country's investments in Central and Eastern Europe is now practically worthless. These losses represent a very substantial portion of the country's estimated pre-war wealth. Even after liberation, the destruction of the country continued because of the unexpectedly long period of border fighting and the reinvasion which took place during the Ardennes offensive. For many months, the Belgian transportation system had to be used predominantly for the military requirements of the Allies and could be of little assistance in the rehabilitation of the country's economic system. The Port of Antwerp, Belgium's main harbor, and the industrial center of Liege were subject to V-1 and V-2 bomb attacks which caused even more actual damage than the fighting. These events delayed the repatriation of deported Belgian workers and retarded the reconversion of manpower and equipment to civilian uses. Consequently the supply of consumer goods remained at the low level which prevailed during the German occupation. This more than any other fact hampered the Government's effort to raise the efficiency of labor to the pre-war level.

Considering these difficulties, the progress made in the restoration of the country's industries is indeed astonishing. As late as February 1945, the country had more than 300,000 unemployed. In spite of the repatriation since that date of an equal number of workers deported during the occupation, the number of unemployed had dropped by September to 100,000. Power plants are working at 80 per cent or normal. The output of the coal mines, the backbone of the country's economic system, is approaching 60 per cent per normal and would be considerably higher if a great number of the foreign workers who formed the bulk of the mining personnel before the war had not left the country during the German occupation.

Inland waterways and textile mills are also operating at almost 60 per cent. Railroads and heavy industries are working at only 30 to 40 per cent of normal but even these low figures are six to eight times as high as those reached at the beginning of this year. These results have been achieved without aid from UNRRA, and it appears certain that the country will not need relief in the future.

The most important obstacle to a more rapid pace of industrial recovery is the lack of imports. Railroads and coal mines, the two worst domestic bottlenecks, require imports of new equipment for more efficient operation. The manufacturing industries all need basic raw materials from abroad. Since the country is one of the most densely populated and most highly industrialized nations of the world and is utterly dependent upon foreign sources of grain and meat, the population needs large quantities of imported foodstuffs. In 1937, Belgium imported 39 million tons of merchandise, valued at 27.5 billion francs. During the first six months of 1945, total imports were less than 1 million tons, valued at about 2.7 billion francs. This drop was caused mainly by the scarcity of shipping facilities. In recent months, more ship space has been made available for civilian goods, and the monthly figures are now approaching an average of 1 million tons, or about one-third of the pre-war figure. During the next few years, however, Belgium will need even larger imports than before the war. Inventories, completely exhausted by the Germans, must be replenished, machinery and materials are needed to repair the war damage, and consumer goods and other finished products, usually supplied by domestic sources, must be imported since domestic industries are not yet operating at pre-war levels. It may be expected, therefore, that in 1946 imports will reach a record total.

Until recently, the technical obstacles to increasing imports have been so great that the financial problems of international trade were of minor importance. In the future, however, the question of financing imports will become much more important. During the war, the Government made plans for a complete customs union with the Netherlands and close economic collaboration with France. As yet these proposals have not been put into effect, but the Government has concluded important trade and credit agreements with the United Kingdom, France, the Netherlands, Switzerland, and the Scandinavian countries, and is now negotiating others. While these agreements retain distinct traces of bilateralism and thus do not measure up to the standard of free trade, they assure a regular flow of merchandise within specified limits at stable rates of exchange and permit the country to resume gradually its position as one of the centers for international commerce.

It is to be expected that Belgium and the United States will soon reach an understanding with respect to commercial policy. For some time to come this country may have to be the main source of supply for most liberated countries, especially for reconstruction machinery and materials. It may be expected that during the next year a much greater part of Belgian imports will come from the United States than in pre-war times, and that its deficit in respect to the United States alone may reach a very substantial sum. Under normal conditions, this would require no special attention since the Belgian balance of current international payments as a whole was generally in equilibrium. In the past, the country was able to finance imports from the United States out of the proceeds from its exports to other countries and out of its foreign investment revenues. In the more distant future, the Bretton Woods organizations are expected to reestablish the smooth working of the international transfer of payments. At present, however, exports to most countries will not provide the Belgian economy with dollars because of exchange restrictions. The country, however, can face the problem of its dollar deficit with more confidence than most other European nations. Its gold and dollar assets are very considerable. Moreover, Belgium is the only Allied country that has granted more lend-lease aid to the United States than it has received. By the end of September 1945, total lend-lease aid and advances to the Allies by Belgium totalled 24 billion francs, or more than half the country's annual budget. In October 1945, the United States and Belgium concluded an interim agreement settling the mutual obligations. The United States paid a sum of 61 million dollars for troop pay advances made in francs by the Belgian Government prior to VJ-Day. The United States also acknowledged that the goods and services furnished to the American armed forces as "reciprocal aid" prior to VJ-Day exceeded by at least 90 million dollars the lend-lease aid given to Belgium. In view of that excess, the United States permitted the Belgian Government to select up to 45 million dollars of army surplus material stored in Belgium and having civilian utility, and cancelled a Belgian debt of about 42 million dollars for lend-lease goods that had remained undelivered by VJ-Day. Finally, the United States agreed to pay in cash for all goods and services furnished to the American armed forces after that date.

The Export-Import Bank of Washington has announced that it is about to grant to Belgium a loan of $100 million, $45 million of which would be for the purchase of lend-lease goods not delivered before the end of lend-lease on VJ-Day. It has also announced that Belgium would be eligible to benefit from a credit line of $100 million to be opened to exporters of American cotton. These credits and the settlement of Belgium's troop pay advances and reverse lend-lease claims will probably cover the greater part of the expected dollar deficit for 1946. The remainder of the deficit could be taken out of the country's reserves. In 1947, the deficit probably will have shrunk to manageable proportions, and in later years the country's reconstruction may have advanced sufficiently to permit its balance of international payments to reach the pre-war equilibrium.

A solution of these financial problems will go far to enable Belgium to readjust its foreign trade to the changes caused by the war. Belgium has always been more dependent upon foreign commerce than most other countries; its total foreign trade in 1937 including imports, exports, and transits, was larger than the total national income. The country is therefore greatly influenced by--and in turn exercises a great influence upon--other parts of the world, especially Western and Central Europe. In 1937, Germany was Belgium's second most important source of supply and its third most important customer. The loss of much of the trade with Germany and other Central European countries will be felt very deeply, and must be counterbalanced by strong efforts to secure new markets for Belgian products, especially in fields formerly dominated by certain types of German goods. Fortunately, the demands for most Belgian goods will be pressing for many years to come. In 1937, about two-thirds of all Belgian exports consisted of iron and steel, non-ferrous metals, textiles, coal, machinery, chemicals, and precious stones. Iron, steel, and machinery will be needed urgently for the reconstruction of the devastated areas. Belgium has a dominant position among Continental European countries for the refining of copper and zinc, and to a lesser extent of tin and lead. Having been cut off for six years from its main sources of supply of these metals, Europe will be ready to accept almost any quantity of them in the immediate future. Textiles and coal at present are probably the scarcest commodities in all Europe. Chemicals, and especially the famous Belgian fertilizers, will be vitally needed for the rehabilitation of European agriculture. In this field, Belgium will profit from the proposed dissolution of the German chemical trusts, which hitherto virtually monopolized the world market. Precious stones will not be needed in impoverished Europe but the United States will probably provide a remunerative market for them. During the years of general reconstruction, the export of all these items, and many less important ones, may well be limited by the country's productive capacity rather than by the demands of its customers.

For the United States, the revival of the Belgian export trade will mean relieving the strain upon our own industries. During the immediate future, our foreign trade policy may have to be directed toward preventing foreign demand from depriving domestic consumers of scarce commodities rather than toward a further expansion of exports, which will probably reach record dimensions in any case. Belgium will be able to produce such goods as machinery, textiles, and chemicals, and provide such raw materials as steel and non-ferrous metals, which the United States will not be able to export in unlimited quantities because of urgent needs for domestic use. Moreover, Belgium will be able to obtain from its customers many goods for which there would not be a market in the United States, such as grains, dairy products, ores, hard coal, hides, and fibres. Belgian foreign trade will therefore supplement, rather than compete with, our own. A typical example of this relation is indicated in the recent trade agreement between Belgium and Denmark, under which Denmark promises to supply Belgium with butter, cattle, potatoes, fish, and seeds, while Belgium undertakes to furnish Denmark iron and steel, chemical products, zinc plates, glass, and machinery. The exportation of Belgian fertilizers to Continental European countries will be of particular importance. The rehabilitation of European agriculture is necessary to end the semi-starvation of most European nations, and incidentally to limit the shipment of UNRRA supplies from the United States.

In recognizing the importance of free international trade, the Belgian Government has shown great interest in the Bretton Woods agreements and the proposed international trade conference. The whole structure of the Belgian economy is based upon multilateral trade since a large part of its exports goes to countries other than those from which it derives its imports. In 1937, the country had a sizable excess of imports from the United States, Canada, and Argentina, and this excess will probably be even larger in the post-war period. On the other hand, it had a substantial surplus of exports to the United Kingdom, France, and the Netherlands. Belgium therefore is vitally interested in having the currencies of its customers freely convertible into dollars. Its interest in this respect is identical with that of the United States.

Belgium will probably oppose any attempt to divide the world into currency blocs. We may expect this similarity of economic goals to contribute toward making the traditionally friendly economic and financial relations between the two countries even closer in the post-war period.