

# Europe's post-war recovery

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## 10 “Belgian Miracle” to slow growth: the impact of the Marshall Plan and the European Payments Union

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The economic reconstruction of Belgium after the Second World War took place under conditions largely different from those in neighboring countries. A particular configuration of favorable circumstances permitted a very rapid economic recovery, subsequently known as the “*Belgian Miracle*.” But this miracle was shortlived. From the mid 1950s the Belgian economy was already showing signs of weakness that put it at a disadvantage relative to its competitors: relatively slow growth, insufficient investment, little advance in productivity. The legacy of this period may still be a burden forty years later.

This chapter reviews the characteristic features of Belgian growth after the war and examines the way in which they were influenced by the Marshall Plan and the European Payments Union. The relative prosperity of the Belgian economy in 1948 is first considered. Then the structural weaknesses which had appeared by the late 1950s and their principal causes are discussed. Finally, some hypotheses about the role of the Marshall Plan and the European Payments Union in the relative weakness of the Belgian economy are proposed.

It is argued here that: 1) the resumption of growth in Belgium was particularly rapid after the war thanks to the limited character of wartime destruction, to the specialization of Belgian industry in producer goods in strong demand, and to a timely and effective monetary reform itself reinforced by social reform. 2) The relatively slow growth in Belgium during the 1950s can be explained by its aging industrial structure, by the defensive nature of investment, and by the loss of competitiveness arising from a combination of high wages and a high exchange rate. 3) The

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Marshall Plan and the European Payments Union contributed to the relative weakening of the Belgian economy by encouraging investment to be defensive and by reinforcing the traditional industrial structure.

### 1 The "Belgian Miracle" and the immediate post-war period

Of all European countries involved directly in the war, Belgium was the first to restore its economy, thanks to the union of several favorable factors. The causes of rapid reconstruction fall into three groups: those originating in Belgium's wartime experience, those arising from its economic structure, and those resulting from economic policy choices.

#### 1.1 The heritage of the war

Having capitulated at the beginning of the war (May 28, 1940), Belgium suffered much less destruction than did its neighbors. Production could thus be relaunched after the war faster and more easily than elsewhere. The liberation of the port of Antwerp (September 4, 1944), the only major European port still largely intact, was a major stimulus to economic activity. The concentration of Allied troops in Belgian territory in 1945 gave rise to large expenditures, for the most part in dollars. This helped increase exchange reserves, which were already high thanks to a large stock of gold maintained intact during the war. Unlike the situation in neighboring countries, the repositioning of Belgium was not held back by insufficient foreign exchange.<sup>1</sup>

#### 1.2 The economic structure of Belgium

Belgian industry was a major beneficiary of the structure of demand in immediate post-war Europe. Any reconstruction period is particularly favorable to an economy specializing in such basic products as coal, semi-finished metals, and cement (table 10.1).<sup>2</sup> The growth of industrial production was thus highly stimulated by apparently limitless markets, both at home and abroad.

#### 1.3 Economic policy choices

The war led everywhere to an increase in government control of economic activity which was only progressively relaxed as reconstruction took place. In maintaining diverse controls on consumption, production, prices, and

Table 10.1. Sectoral distribution of industrial production, 1956 (percentage)

	Belgium	OEEC
Mining and quarrying	15.3	6.6
Food processing	6.9	12.2
Textiles	13.3	8.4
Metal production	15.0	8.1
Metal fabrication	32.3	29.3
Chemicals	5.6	10.3
Gas, water, and electricity	2.5	5.2
Other industries	8.7	19.9
TOTAL	100.0	100.0

Source: A. Lamfalussy (1961), from OEEC.

wages until 1950, Belgian public authorities participated in this general trend.<sup>3</sup> But from 1944 two major decisions distinguished Belgium from other countries and shaped its subsequent growth: one was a major social reform; the other was monetary reform.

#### 1.3.1 SOCIAL REFORM AND THE RISE IN WAGES

In the same way that the First World War led throughout Europe to urgent demands for social reform, the need to maintain social cohesion during the liberation of 1944 favored the blossoming of a new series of reforms. The first measures were taken in Belgium.<sup>4</sup> The groundwork was laid while the country was still under German occupation as representatives of trade unions and employers organizations put together a draft agreement on social solidarity, the Social Pact. This agreement consisted of a coherent set of measures dealing with wages and social policy that were intended to protect workers, guarantee their purchasing power, and, more generally, provide a context for economic growth.<sup>5</sup> Most of the measures in this

<sup>3</sup> A detailed list of regulations may be found in Van Audenhove (1990), vol. I, pp. 324 f.

<sup>4</sup> Léon (1977), p. 527. For more details about Belgium, see Scholliers (1993).

<sup>5</sup> After a declaration of principle engaging the representatives of employers and employees to work together loyally, the text of the agreement foresees a series of measures for maintaining the purchasing power of wages, re-establishing immediately after the war legislation and agreements relating to the duration of work, creating a fund for re-equipping households, establishing a comprehensive system of social security, increasing family allowances, establishing worker representatives in factories, reinforcing the role of the *commissions paritaires*. (For the complete text, see Fuss, Goldschmidt-Clermont, and Watillon (1958), pp. 828–42.) The program was fully carried out, in steps, after the liberation. For detail on the measures taken, see Chlepner (1956) or Van Audenhove (1990), vol. I, pp. 326–34.

<sup>1</sup> For more details, see Baudhuin (1958) and Van Audenhove (1990). Kindleberger (1987) lays stress on this point.

<sup>2</sup> A similar phenomenon occurred after World War I. See Cassiers (1989), pp. 127–40.

Table 10.2. *Indices of wages\* in Belgian francs (Belgium = 100)*

	1938	1950
Belgium	100.0	100.0
Netherlands	142.3	65.0
Great Britain	168.4	88.6
Germany	210.5	76.9

Note: \*Including social security charges; average for all workers, except miners.  
Source: Masoin (1951).

agreement were enacted in the months that followed the liberation. From September 16, 1944 the *Conférence Nationale du Travail* – the official body for social negotiations at the national level – decided on an increase in nominal wages of 60 percent over the level in May 1940; a further increase of 20 percent was granted on July 30, 1945. The *Office National de Sécurité Sociale*, created on December 28, 1944 from scattered institutions developed before the war, was the crowning glory of post-war social legislation.<sup>6</sup> A decisive step was taken toward institutionalizing social negotiations at the sectoral level by granting legal status to the existing *commissions paritaires* on June 9, 1945.

These social reforms had several consequences. The first was the creation of a social peace which would guarantee that wage demands were moderate in the following years. The social reform led to what contemporaries called a “*changement de régime*” in the Belgian economy:<sup>7</sup> the rise in wages in 1944–5 pushed Belgium up among the high-wage countries of Europe, whereas it had always been known previously for its cheap labor (table 10.2).

The increase in wages and social security charges led to a substantial rise in firms’ costs, the consequences of which will be examined later. This radical measure ensured simultaneously the increase in the purchasing power of wages and the rapid growth of consumer demand: the index of retail sales in department stores passed its post-war level by 1947.<sup>8</sup>

Given the already prevalent practice of indexing wages to the cost of living, such a large jump in incomes could have given rise to a vicious inflationary spiral. It did not because the draft agreement on social solidarity conceived of the rise in direct and indirect labor costs as part of a larger and more coherent set of economic policies:

The problem of wages is directly linked to that of prices and money. In effect, from the economic point of view, the three elements are interdependent and the adoption of consistent measures concerning the stabilization of the domestic money supply, the adaptation of prices and the readjustment of wages will be the first conditions of the country’s economic and financial recovery. . . . In the interests of the workers themselves, the concern to give the Belgian currency after the war as high a value as possible must thus be predominant. In the case where devaluation becomes inevitable, it must be kept to a minimum.<sup>9</sup>

This declaration follows in a direct line from the innovative policies attempted in Belgium in the late 1930s, when the Van Zeeland government successfully combined what started as independent proposals by the socialist party for a *Plan du Travail* and by Professeur Léon Dupriez for management of the exchange rate.<sup>10</sup> Dupriez continued his work during the war and furnished the Pierlot government constituted on September 26, 1944 with calculations that permitted an immediate and rigorous monetary stabilization.

### 1.3.2 THE MONETARY STABILIZATION OF 1944, OR “OPERATION GUTT”

Camille Gutt, the Minister of Finance in the first Belgian post-war government, immediately applied (October 6, 1944) an anti-inflation plan that had been prepared in London during the occupation. Notes were withdrawn from circulation and bank accounts blocked. Each citizen received, in exchange for old notes issued by the National Bank, 2,000 francs in new notes printed for the government in exile. Notes over and above this amount were transformed into “blocked assets,” either temporary (42 billion francs, 24.5 percent of monetary circulation) or permanent (63 billion francs, 36.7 percent of monetary circulation).<sup>11</sup> As the economy recovered from 1944 to 1949, temporarily blocked assets were reimbursed progressively in such a way as to control rigorously the growth of the money supply and to maintain the parity of the Belgian franc with sterling. The franc joined the International Monetary Fund on September 17, 1946 at the rate fixed during the monetary reform: 176.5 francs to the pound. This rate was maintained until the devaluation of the pound in 1949. “The essential role of the monetary reform was to hold the franc firm amidst the monetary disorders of the world.”<sup>12</sup>

Historians have seen the Belgian monetary stabilization of 1944 as “a

<sup>6</sup> See Cassiers (1989), pp. 68–72, 195–8, and 201–3.

<sup>7</sup> Notably Dupriez (1951); Snoy et d’Oppuers (1953); van der Rest (1961).

<sup>8</sup> Banque Nationale de Belgique, *Statistiques économiques belges, 1950–1960*, vol. I, p. 18: general index of sales in large, multi-product shops deflated by the retail price index.

<sup>9</sup> Fuss, Goldschmidt-Clermont, and Watillon (1958), p. 829. Own translation.

<sup>10</sup> See Cassiers (1989), pp. 175–203.

<sup>11</sup> For more details, see Bismans (1992); Dupriez (1978); Janssens (1976); or Van Audenhove (1990).

<sup>12</sup> Dupriez (1978), p. 173.

good example of a successful deflation," in the same way that they have picked out the precocity and audacity of Belgian social reforms.<sup>13</sup> But the close connections between these two reforms have not received the attention they merit, in light of the originality of associating monetary deflation and large wage rises.<sup>14</sup> The draft agreement on social solidarity, as well as the comments of L.H. Dupriez, confirm that the conjunction of these two reforms was deliberate.<sup>15</sup> In guaranteeing a fixed exchange rate based on purchasing power parity with the sterling zone, that is, with Belgium's principal trading partners, the monetary stabilization assured at the same time strict control of inflation and stable price expectations for export industries. The health of these industries in the early days of recovery was sufficiently good – at least relatively – for a large rise in wage costs to be conceded at one go. The improvement in the living standards of the population was not seen only as a social demand: it was also perceived as a means of enhancing the qualifications and productivity of labor and as the sharp stimulus required to transform industrial structures. In the short run the role of the institutions freshly created was to prevent any uncontrolled wage rises; in the longer run they were to assure the growth of wages and the stability of the franc.

The results of this strategy seem to have been very positive in the short run and much more qualified in the long run.

#### 1.4 The state of affairs on the eve of the Marshall Plan

By 1948 Belgium had recovered to its prewar level of economic activity (table 10.3).

Contemporary observers and historians are agreed that reconstruction, more rapid in Belgium than elsewhere (table 10.4), was achieved by 1947.<sup>16</sup> Agreement is also widespread that reconstruction put old structures back into place without renewing them.<sup>17</sup> This would hamper later growth.

## 2 The disquieting state of affairs at the end of the 1950s

Within ten years after the Marshall Plan was launched in Europe, Belgium

<sup>13</sup> Léon (1977), p. 517.

<sup>14</sup> The Belgian case appears to be the exact opposite of the Italian and French cases, in which post-war inflation is interpreted by Casella and Eichengreen (1993) in terms of distributional conflicts. This comparison, which is outside the brief of this paper, deserves study.

<sup>15</sup> Notably the pages devoted to the rise in wages in his work on the monetary reforms (1978).

<sup>16</sup> It is worth, however, remembering Camu's (1960) observation that all comparisons to 1938 are particularly favorable to Belgium and France since they were hit harder by the recession of 1938 than other countries.

<sup>17</sup> Beuthe (1964); Camu (1961); Lamfalussy (1959, 1961).

Table 10.3. *Selected indicators of economic activity (1936–8 = 100)*

	1946	1947	1948	1949
National income <sup>a</sup>	—	99	100	106
Industrial production <sup>b</sup>	80	102	109	110
Electricity production	120	140	151	157
Industrial employment <sup>c</sup>	—	118	—	—
Export volume	—	—	91	101
Import volume	—	—	112	110
Consumption volume <sup>d</sup>	84	97	94	108

Notes:

<sup>a</sup> Nominal income deflated by an average of wholesale and retail prices.

<sup>b</sup> IRES (Institut de Recherches Economiques et Sociales) index.

<sup>c</sup> 1937 = 100. Based on 1937 and 1947 census.

<sup>d</sup> Consumption index deflated by retail prices.

Source: Banque Nationale de Belgique, *Statistiques économiques belges*.

Table 10.4. *Production and foreign trade*

	1948 (1938 = 100)		1959 (1948 = 100)	
	Belgium*	OEEC	Belgium*	OEEC
Industrial production	121	97	140	209
Metal production	141	88	158	224
Import volume	116	81	179	214
Export volume	95	79	223	289

Note: \*Belgian–Luxemburg Economic Union for foreign trade.

Source: OEEC, Statistical Bulletins, 1956 and 1962.

would seem to have lost its advantageous position. The slowdown in Belgian growth during the 1950s – at least in relative terms – is evident (table 10.4 and figures 10.1 and 10.2).

From the late 1950s several Belgian economists took up the question of why the economy had lost its dynamism.<sup>18</sup> The different arguments invoked during the 1960s are well summarized by Van Rijckeghem (1982). Only the main lines will be recalled here.

<sup>18</sup> The most interesting contributions are by Beuthe (1964); Camu (1960, 1961); Lamfalussy (1959, 1961); Waelbroeck and Rosselle (1961).

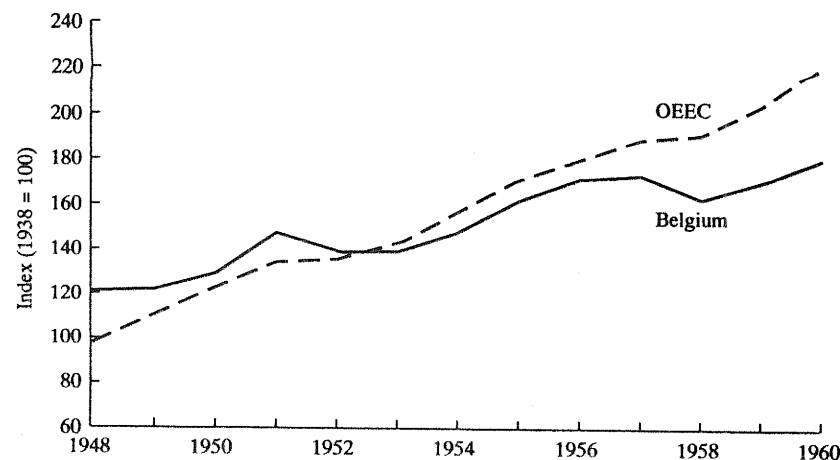


Figure 10.1 Industrial production (1938 = 100)  
Source: OEEC, Statistical Bulletins.

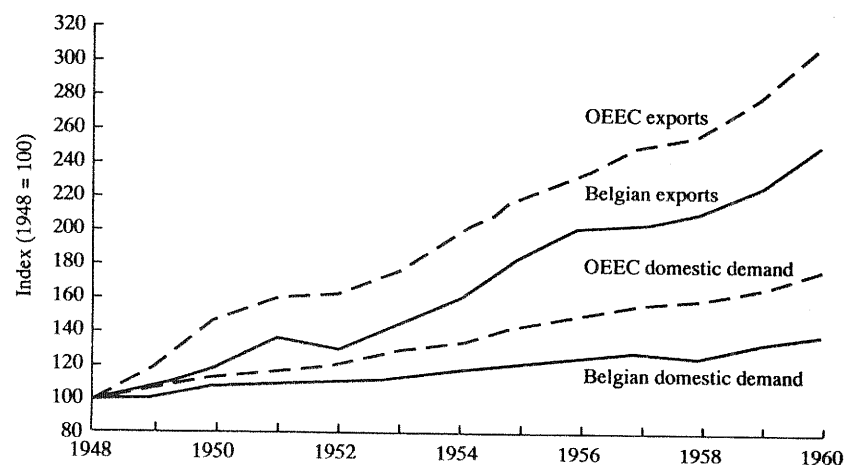


Figure 10.2 Exports (X) and domestic demand (DD) (1948 = 100); 1954 prices and exchange rates.  
Source: OEEC, Statistical Bulletins

### 2.1 The structures of production and exports

If the particularities of Belgium's industrial structure explain in part its rapid post-war reconstruction, could they not also have been responsible for its slow growth in the 1950s? Did not the demand for the basic products in which Belgium specialized have to fall off as reconstruction took place

Table 10.5. Industrial structure and export growth, 1958 compared to 1951–3

Index of exports for major industrial countries (1951/3 = 100)	140.7
Index of exports for Belgium* (1951/3 = 100)	121.3
Difference: [(Belgium/industrial countries) – 1]	– 13.8%
of which: composition of exports	– 3.9%
change of market share	– 10.3%

Note: \*Belgian–Luxemburg Economic Union.

Source: Own calculation from Waelbroeck and Rosselle (1961).

elsewhere? These questions were carefully examined by Waelbroeck and Rosselle (1961) who found that structural effects seem to have played only a small role. Of the 14 percent fall in Belgium's exports relative to those of major industrialized countries, only at most 4 percent could be explained by their composition. The rest of the fall (10 percent) resulted from loss of market share (table 10.5).

Before examining the possible causes of these falling market shares, it should be observed that the structure of the Belgian economy, rather than adapting to changes in the structure of world demand, appears to have become more out of kilter over the period. As Camu (1960) remarked, "Belgium continues to concentrate its efforts on sectors which once made it great, but which, today, are declining in importance in world trade." A detailed study of changes in production between 1948 and 1960 confirms this judgment: it was above all the sectors producing mainly semi-finished products that had the highest growth rates.<sup>19</sup>

In sum, if the initial structure of Belgian exports cannot by itself explain the slow growth of the 1950s, increasing concentration on products for which world demand was stagnant or declining seems to have exacerbated the problem.

### 2.2 Defensive investment

The nature of investment undertaken in Belgium during the 1950s was one important cause of slow growth. It helps explain two phenomena already cited: the accentuation of traditional specialization and the loss of competitiveness in these declining markets. In effect, according to the interpretation advanced by Lamfalussy (1961) and shared by several others,<sup>20</sup> two traits characterized Belgian investment in this period: (1) its

<sup>19</sup> Carbonnelle (1962), p. 195.

<sup>20</sup> Notably Camu (1960), p. 418; Beuthe (1964), p. 99.

Table 10.6. *Wage costs, productivity and unit labor costs in manufacturing in 1957 (1948 = 100)*

	Productivity	[Wage costs]		[Unit labor costs]	
		in domestic currency	in dollars	in domestic currency	in dollars
Belgium	142	164	144	115	102
Netherlands	144	169	118	117	83
Germany	223	196	155	88	68
France	164	250	135	152	83
Italy	217	153	141	77	65
United Kingdom	121	175	123	145	101
United States	128	157	157	123	123

Source: Lamfalussy (1959) from OEEC and own calculation from author's data.

concentration in stagnant industries (coal, steel, railroads, textiles) and (2) the priority accorded to rationalization as against innovation. This type of investment, described as defensive, took place on the margin of existing equipment and at relatively low cost. It was a response by industrialists to intense pressure from foreign competition under conditions of high wages and low profits.<sup>21</sup> It assured – at least in the medium term – reasonable gains in productivity for investment expenditures well below the average (figure 10.3).

This interpretation is consistent with international comparisons of productivity and labor costs in manufacturing (table 10.6). Belgium's productivity growth was modest but not exceptionally weak (col. 1). But Belgian manufacturing industry did become significantly less competitive relative to its Dutch, German, French, and Italian rivals (col. 5).<sup>22</sup> The reasons lie in the weakness of domestic demand and in exchange rate policy.

### 2.3 Weak domestic demand and exchange rate policy

Unit labor costs expressed in a common currency condense the three principal determinants of competitiveness: productivity, wage costs, and the exchange rate. The decomposition in table 10.6 suggests that Belgium

<sup>21</sup> The relationship between the growth of wages and that of productivity are discussed in Cassiers and Solar (1990).

<sup>22</sup> For a broader international comparison of unit labor costs, see Eichengreen (1993).

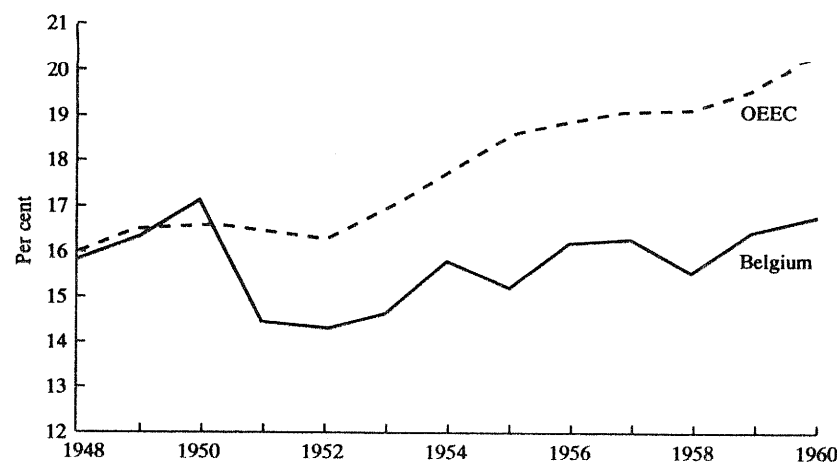


Figure 10.3 Investment as a share of GNP; gross domestic fixed capital formation, 1954 prices and exchange rates.

Source: OEEC, Statistical Bulletins

had modest productivity growth, a relatively slow growth in wage costs, and an ambitious exchange rate policy.

Faithful to the declarations in the Social Pact, Belgium made clear in 1949 its determination to give the franc "*a value as high as possible*." While sterling devalued by 30.5 percent, followed by all of the sterling area, Scandinavia, and the Netherlands, the devaluation of the Belgian franc was limited to 12.3 percent, which meant that the Belgian currency had *appreciated* by 26.2 percent against the currencies of its major trading partners.<sup>23</sup>

Figure 10.4 suggests that the deterioration of Belgian competitiveness, so noticeable at the end of the 1950s, was intimately connected to the decision in 1949 to devalue the Belgian franc by less than the currencies of its principal European trading partners were devalued. This choice, painful for exporting firms, apparently contributed to slowing the growth in nominal wages. In effect, from 1950 to 1955, all of the countries in table 10.6 recorded faster growth in wages than did Belgium.

This observation can be pushed further back to the double reform – social and monetary – undertaken immediately after the war. In 1944 wages were abruptly raised but any hint of inflation was snuffed out by monetary deflation. Firms were able to tolerate this conjunction of a strong franc and

<sup>23</sup> L.H. Dupriez (1978), pp. 196–204.

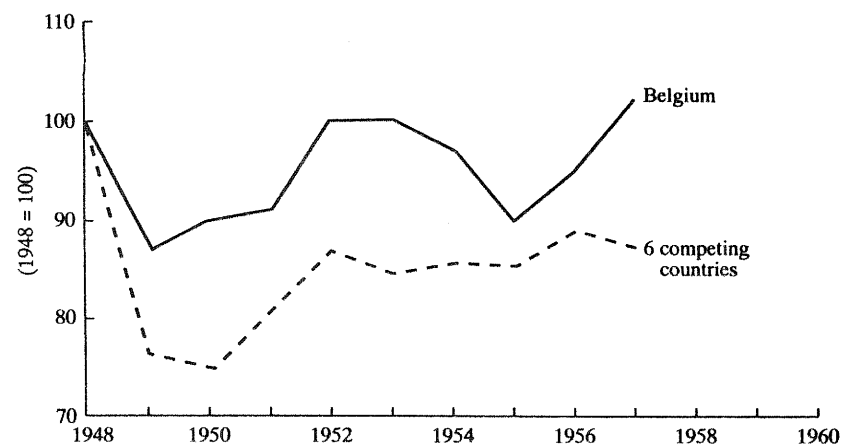


Figure 10.4 Unit labor costs in dollars (1948 = 100), relative to competing countries: unweighted average.  
Source: See table 10.6.

high wages because general economic conditions were very favorable to the Belgian economy. By 1949 the overvaluation of the franc had impaired the competitiveness of Belgian enterprises. This choice of economic policy contributed to the defensive character of investment as well as to the slowing of growth in nominal wages.

The policy of the strong franc was nonetheless pursued without deviation and was encouraged by persistent surpluses on the balance of trade and services (figure 10.5). These surpluses resulted from domestic demand which was even less dynamic than exports. The more rapid growth of exports than of domestic demand was by no means unique to Belgium (figure 10.2) but it was more marked than elsewhere (table 10.7).

Lamfalussy (1959, 1961) attributed the slow growth of domestic demand to two sorts of behavior: a strong propensity to save by households (figure 10.6 and table 10.8) and a weak propensity to invest by Belgian firms (figure 10.3).<sup>24</sup>

To summarize, Belgian economic growth during the 1950s was slowed by weak domestic demand and by relatively weak export demand (figure 10.2). That the slowdown was not absolute but only relative to neighboring countries should be remembered, if for no other reason than to explain why it passed unnoticed until the end of the decade. The remarkable expansion of the European economy offered Belgian exporters a rapidly growing

Table 10.7. Share of domestic demand in GNP\* (percentage)

	Belgium	OEEC
1948	81.8	87.0
1960	71.3	79.3
Percentage change	-12.9	-8.9

Note:  $*(C + I + G)/(C + I + G + X)$  in constant (1954) prices, from the national accounts.

Source: OEEC, Statistical Bulletins.

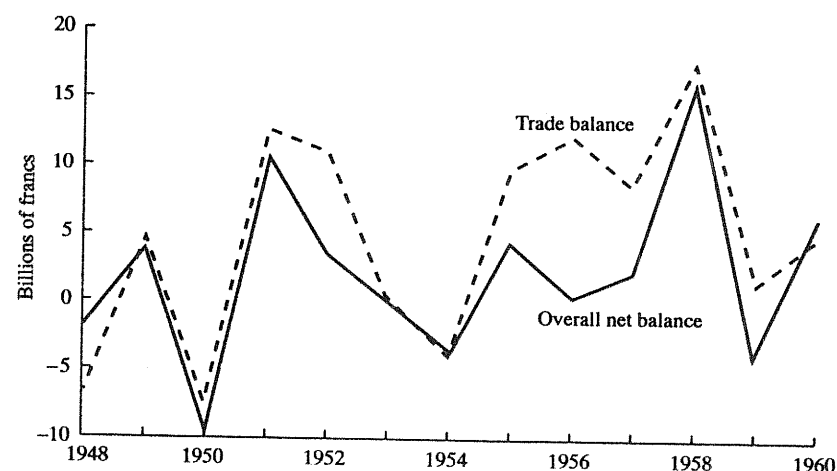


Figure 10.5 Belgian balance of payments (billions of francs)  
Sources: Banque Nationale de Belgique and Lamfalussy (1959).

market, which they could exploit despite the weaknesses which would only later be identified.

The expansion of intra-European trade from which Belgium benefitted was stimulated by the Marshall Plan. But did the Marshall Plan and the European Payments Union have any role to play in the structural weaknesses or the feeble domestic demand that afflicted the Belgian economy?

<sup>24</sup> See as well Lamfalussy (1959), p. 60 and Camu (1960), p. 411.

Table 10.8. *Average savings rates, 1950–60 (percentage)*

Germany	12.2
Belgium	12.3
France	5.7
Netherlands*	10.1
Great Britain*	2.3
United States*	7.6

Note: \*1950–9.

Source: Frank (1962) from EEC and UNO.

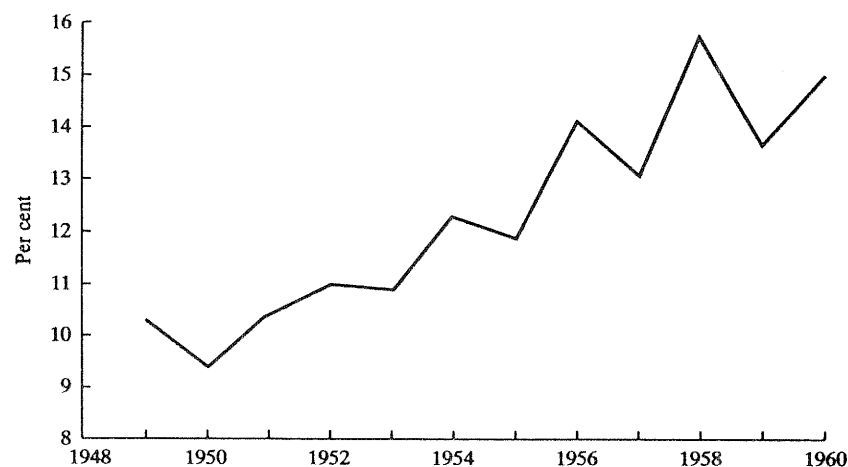


Figure 10.6 Household savings rate in Belgium (% of GNP)

Source: Frank (1962).

### 3 The impact of the Marshall Plan and the European Payments Union

#### 3.1 The principles of intervention

By the time the United States offered to help accelerate European reconstruction by means of the Marshall Plan, the reconstruction of the Belgian economy had already been largely achieved.<sup>25</sup> This explains why the direct assistance received by Belgium was very small. Among the sixteen

<sup>25</sup> It was impossible to integrate the information contained in a book published after the present chapter had been written: *Le Plan Marshall et le relèvement économique de l'Europe*. Colloque tenu à Bercy sous la direction de René Girault et Maurice Lévy-Leboyer. Paris, Imprimerie Nationale, 1993.

Table 10.9. *Foreign trade by monetary zone*

		Exports as % of total exports	Imports as % of total imports	Trade balance as % of total imports
Dollar zone	1937	10.5	12.3	– 3.6
	1949	8.4	23.2	– 15.0
	1951	12.7	23.1	– 9.8
	1953	15.0	15.9	– 1.9
EPU zone	1937	70.4	59.1	+ 5.3
	1949	69.8	57.4	+ 10.8
	1951	70.9	59.9	+ 14.0
	1953	68.4	67.5	– 4.1

Source: Ministère des Affaires Économiques (1955).

countries that signed the European Cooperation Act,<sup>26</sup> Belgium was the exception: thanks to the very rapid rebuilding of its industrial base, it was generally a creditor with respect to its European trading partners (table 10.9). It did not lack the means to pay for its imports; rather Belgium was beginning to feel the effects of other countries' payments difficulties.<sup>27</sup> As a result, Belgium benefitted above all from conditional assistance.<sup>28</sup> This second form of Marshall Plan intervention required that Belgium provide its European debtors with drawing rights in Belgian francs in compensation for the credits in dollars that it received. These dollar credits were to help it pay for imports from the United States, which had become very large immediately after the war because of the problems faced by its traditional suppliers (table 10.9).

<sup>26</sup> The Economic Cooperation Act – the official name of the plan conceived by General Marshall – was signed on April 3, 1948. American assistance to signatories of the act began on July 1, 1948. The sixteen countries concerned (Austria, Belgium, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxemburg, the Netherlands, Norway, Portugal, Sweden, Switzerland, the United Kingdom) were brought together in the Organization for European Economic Cooperation (OEEC), which was charged with putting together a detailed program for economic recovery and the liberalization of exchange. After enlargement the OEEC became, in 1961, the Organization for Economic Cooperation and Development (OECD).

<sup>27</sup> Milward (1984), p. 274; Van Audenhove (1990), vol. I, pp. 330–1.

<sup>28</sup> Altogether, over the period 1948–51, direct aid amounted to \$68 million and conditional aid to \$446 million, Baudhuin (1958), p. 93. Also see Kurgan-Van Hentenryk (1993) and Bossuat (1992).



In a Europe of inconvertible currencies<sup>29</sup> the direct injection of dollars and the system of drawing rights accompanying the Marshall Plan permitted a vigorous recovery of intra-European trade. This was further stimulated by the multilateral payments mechanism organized among OEEC countries in the context of the European Payments Union (EPU) from July 1950.<sup>30</sup>

This system did not suit Belgium well at all.<sup>31</sup> With its chronic surplus relative to its EPU partners and its chronic deficit relative to the United States, Belgium was continually frustrated by the inconvertibility of European currencies *relative to the dollar*, that is, by the absence of a return to full convertibility. While its reserves in gold and dollars fell, those in inconvertible European currencies rose considerably, jeopardizing domestic monetary stability.<sup>32</sup> Concerned since 1944 to control the expansion of the money supply, Belgium took, from 1951, a series of measures to limit its surplus relative to the EPU zone. In an article surveying these measures, the National Bank of Belgium observed that it was somewhat paradoxical to see a country taking restrictive measures to limit its balance of trade surplus, above all when the country lived to a great extent on the resources obtained through trade, but stated that the weaknesses inherent in the EPU had forced it to act.<sup>33</sup> Triffin described the discriminatory measures taken by creditor countries as falling into three sorts:

The incentive to discrimination by the creditors was not so much the result of inadequate gold reserves or settlements as of their reluctance to pile up an indefinite amount of EPU credits. Three methods were simultaneously used by them to reduce their intra-European surpluses. The first was to encourage capital exports and repayments to other EPU countries and to step up their rate of intra-European liberalization far beyond the formal requirements of the Code of Liberalization. The second was to restrict imports from non-EPU sources in an effort to force traders to seek substitute sources of supply within the EPU area. The third – and the most absurd from a collective point of view – was to impose restrictions on their exports to other EPU members.<sup>34</sup>

<sup>29</sup> Some since the war, others since the 1930s. The dollar, for its part, had explicitly become the official currency for international settlements in the Bretton Woods agreements of 1944.

<sup>30</sup> For a description of how the system functioned, see Triffin (1957) or Eichengreen (1993).

<sup>31</sup> Belgian representatives sought in vain, throughout the negotiations, to obtain other arrangements. See Triffin (1957); Hogan (1987); Godts Peters (1987); Milward (1987).

<sup>32</sup> From 6.1 to 19.6 billion francs between June 1950 and December 1951; Banque Nationale de Belgique (1952), p. 99.

<sup>33</sup> Banque Nationale de Belgique (1952), pp. 98 and 101.

<sup>34</sup> Triffin (1957), p. 204.

### 3.2 *Impact on the orientation of Belgian growth*

The confrontation of the characteristic features of Belgian growth with the principles of intervention of the Marshall Plan and the European Payments Union suggests a series of hypotheses concerning the impact of these institutions on Belgian economic development.

The Marshall Plan intervened in Belgium principally by conditional assistance, which could be considered a subsidy to those importing Belgian goods. In this respect it favored greater openness: it encouraged exporters without offering any assistance to firms producing for the domestic market.

Grants and direct loans by the United States to Belgium were negligible since the relatively good health of the Belgian economy did not justify them. Belgian industry was reconstructed largely on a traditional basis. It thus did not benefit, as did other OEEC countries, from the incentive to modernization and innovation that was a feature of direct assistance.<sup>35</sup>

Belgium's surplus with respect to the OEEC put it on par with the United States as a giver of aid but "American aid was given by virtue of political decisions, which took a certain time; Belgian aid resulted directly from the execution of the bilateral payments agreements."<sup>36</sup> It thus came more quickly and as such was appreciated. This institutional element must have endowed Belgian producers with an advantage over their competitors in obtaining sales contracts and thus permitted them perhaps to go easy on improving productivity.

The European Payments Union pushed Belgium into reacting in the three ways described by Triffin. Measures intended to restrict exports to the EPU zone must inevitably have affected the growth of exports since the OEEC countries were by far Belgium's leading trading partners (table 10.9). This may have contributed to the relatively slow growth of Belgian exports noted above.

The restrictions on imports payable in dollars that were put into effect from 1951 must have slowed the purchase of investment goods from the United States and hence the diffusion of modern production techniques. This may have played a role in the lack of innovation mentioned above, itself partially responsible for slow growth. The same restrictions, which limited imports from the United States during the period when consumers had become fascinated by the *American way of life*, may also help explain the high household savings rate noted above.

Finally, the measures which encouraged capital exports to EPU

<sup>35</sup> See Kurgan-Van Hentenryk (1993). The little direct aid that Belgium received went into the bottomless coal pit. On this point see Milward (1992).

<sup>36</sup> Dupriez (1978), p. 172.

countries – without the reverse being true – could not have favored investment in Belgium.

#### 4 Conclusions

This chapter reviews the characteristic features of Belgian growth after the war and examines the ways in which they were influenced by the Marshall Plan and the European Payments Union. The Belgian miracle of the years 1944–8 was followed by relatively slow growth in the 1950s. The immediate post-war “miracle” was founded on the conjunction of fortuitous elements inherited from the war, of structural elements such as favorable industrial specialization for a reconstruction period, and of institutional elements establishing from 1944 the framework of labor relations and of monetary and exchange rate policies. The strong links between social and monetary reforms are worth emphasizing: the Social Pact demonstrated the complementarity between the rise in wages from before the war – pushing Belgium up among the high wage countries – and the maintenance of monetary stability.

On the eve of the Marshall Plan, Belgium's situation was so enviable that American funding hardly seemed justified. Ten years later, however, Belgium's relative position had deteriorated seriously. The search for an explanation for this deterioration has highlighted the interactions of structures, behavior, and economic policy. The relatively slow growth of the Belgian economy in the 1950s was due to problems with both export and domestic demand. The poor performance in export markets can be explained by the combination of an aging industrial structure and a deterioration in cost competitiveness. The defensive nature of investments froze the industrial structure at the same time as neighboring countries were renewing their productive capacity. The choice of a relative revaluation of the Belgian franc in 1949, just when the country's prosperity seemed established, hindered competitiveness and may have led to a vicious circle: the profit squeeze put pressure on wages and slowed investments, doubly depressing domestic demand, which in turn dimmed the prospects for profits. In such a deflationist climate the slow growth of imports gave way to a current account surplus which confirmed the central bank in its persistent choice of a strong franc.

Neither the Marshall Plan nor the European Payments Union, which responded mainly to the needs of large nations, could help Belgium to find a way out. By subsidizing Belgium's trading partners the Marshall Plan boosted Belgian growth in the short term but retarded much needed structural adjustment. Where a push toward industrial reconversion would have helped, Belgium received encouragement to develop its traditional

exports. In the meantime other European countries – Belgium's competitors – could reconstruct and modernize with the benefit of direct aid of which Belgium received practically none. The European Payments Union did not suit it any better: whereas Belgium had the means for a rigorous and ambitious management of its exchange rate, it was tripped up by partial convertibility. Paradoxically, Belgium may have suffered from having achieved too early what the rest of Europe needed the Marshall Plan and EPU for: the restoration of a market economy and achievement of social stability. In other words, given the international context of the late 1940s, Belgium would have benefitted from an active industrial policy to complement social stability and exchange rate management. Only at the end of the fifties did the government take this path with the introduction of the Expansion Laws. These measures, combined with a return to the full convertibility of currencies and the integration of the European market, would contribute to the exceptionally strong Belgian economic growth of the ‘sixties.

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