

# Economic growth in Europe since 1945

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## 7 Economic growth in postwar Belgium

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### 1 Introduction

Over the postwar period as a whole, the Belgian economy has grown more or less in line with the economies of its neighbours. Long an industrialized country, Belgium was relatively well-off after the Second World War and remains so today. But Belgian postwar growth followed a distinctive path, the main feature of which was a sharp improvement in its relative performance around 1960. Belgium started the postwar period with an economic structure that resembled that of the UK, another early industrializer, and, like the UK, it lagged behind other countries in improving productivity during the 1950s. Since 1960 Belgian growth has accelerated, and productivity growth, especially in manufacturing industry, has been unusually rapid and sustained. One major task of this chapter is to explain why growth was relatively weak before the 1960s and why it improved so strikingly thereafter. Another is to consider the nature and sustainability of Belgium's relatively strong growth performance in the 1970s and 1980s, particularly when seen against its very high unemployment rate and the parlous state of its public finances.

This survey builds on a diverse, yet relatively underdeveloped, secondary literature. There have only been a few attempts to survey the Belgian experience of economic growth since the war (De Brabander, 1981; Van Rijckeghem, 1982; Vandewalle, 1982; Vandeputte, 1985, 1993; Van der Wee, 1985, 1987; Mommen, 1994). The rest of the existing literature tends to break at around 1960, although not because relative performance improved then. While influential interpretations of the 1950s had already been published in the 1960s (Lamfalussy, 1961; Denison, 1967), detailed historical investigation of the first decade or so after war has largely been the product of the last decade, as archives have become available and as there has been broader international interest in reconstruction and European integration (Blomme and Scholliers, 1993). Work by economists, as against historians, has been shaped by the major macroeconomic databases, in which 1960 is often the first observation. This reflects an important statistical constraint: Belgium's official national accounts start only in 1953, although there are some partial accounts dating from 1948.<sup>1</sup> The lack of earlier national accounts hinders longer-term growth accounting and also makes the early years of the series for the postwar capital stock,

constructed by the perpetual inventory method, somewhat shaky (de Biolley and Gilot, 1987).

With due caution, then, the next section of this chapter gives a short statistical overview of Belgian economic growth. There follows a discussion of the distinctive features of the country's economic structure and sociopolitical institutions, and a look at the legacy of the interwar years and the Second World War. Postwar growth is then treated in greater detail for four periods: reconstruction in the late 1940s; the 1950s; the 1960s and early 1970s; and the late 1970s and 1980s. Finally, the question of whether the country's structure of production impeded growth is examined, with particular attention on the role of corporate control in structural inertia and productivity growth.

## 2 Postwar economic growth: main features, structures and institutions, initial conditions

### 2.1 Belgian growth in historical and comparative perspective

The basic features of Belgian economic growth during the twentieth century are shown in Table 7.1.<sup>2</sup> Up to 1950 the growth rate of GDP was among the slowest in Europe, in part because of the country's early demographic transition and very slow population growth (Lesthaeghe, 1977). But the growth of output per capita was also slower than in any neighbouring country, and only Germany and the Netherlands had slower rates of growth in output per hour worked. Relative to France and Germany, which in 1913 had distinctly lower levels of per-capita income, this need not be surprising. But Belgium's slow growth meant that it fell further behind both the UK, the European leader in 1913, and the Netherlands, more or less Belgium's equal on the eve of World War I.

After the Second World War, Belgian growth accelerated, but until 1960 it remained relatively weak. Although output per hour worked grew more rapidly than in the UK during the 1950s, output per capita grew at about the same rate. At the end of the 1950s, by which time European reconstruction had been completed, the Belgian economy stood in much the same relation to the British economy as it had on the eve of World War I. It had been passed during the preceding half century by all of the countries in north-west Europe except Austria and Finland. There had been no catching up and a lot of falling behind (Camu, 1960: 404).

Since 1960, Belgian performance has distinctly improved. The 1960s were truly golden for the Belgian economy. Its rate of labour productivity growth increased by more than 2 per cent per annum and its growth in output per capita was among the highest in north-west Europe. Since the early 1970s, growth has, like elsewhere, slowed down, but the growth in both output per capita and per hour has remained relatively respectable.

The fundamental break in Belgian performance around 1960 corresponded to an increase in the rate of non-residential investment. The investment share increased sharply from the 1950s to the 1960s, remained high until the early 1970s, then fell off during the late 1970s and 1980s (van Meerten, 1993, and Figure 7.2 in section 3.3). But, at least in simple calculations using conventional factor shares, the increase in capital formation does not account for much of the acceleration in the growth of

Table 7.1. *Major growth indicators: Belgium and north-west Europe, 1913–90 (annual compound growth rates)*

	Belgium	Netherlands	France	Germany	United Kingdom	NW Europe
<i>GDP</i>						
1913–29	1.43	3.65	1.86	1.20	0.71	1.41
1929–38	−0.04	0.33	−0.39	3.78	1.90	1.61
1938–50	1.29	2.41	1.36	−0.41	1.63	1.33
1950–60	3.00	4.61	4.57	8.17	2.67	4.70
1960–73	4.93	4.83	5.38	4.34	3.18	4.33
1973–90	2.19	2.11	2.39	2.13	1.90	2.13
1913–50	1.03	2.43	1.15	1.30	1.29	1.43
1950–90	3.27	3.61	3.90	4.33	2.51	3.48
1913–60	1.44	2.89	1.87	2.72	1.58	2.12
1960–90	3.37	3.28	3.67	3.08	2.46	3.08
<i>GDP per capita</i>						
1913–29	1.13	2.15	1.94	0.76	0.27	1.06
1929–38	−0.50	−0.89	−0.59	3.12	1.45	1.14
1938–50	1.03	1.11	1.39	−1.03	1.13	0.85
1950–60	2.40	3.29	3.65	7.05	2.23	3.88
1960–73	4.43	3.57	4.31	3.45	2.65	3.50
1973–90	2.07	1.51	1.94	2.13	1.79	1.92
1913–50	0.70	1.07	1.14	0.74	0.84	1.01
1950–90	2.91	2.62	3.13	3.77	2.18	2.92
1913–60	1.06	1.54	1.67	2.05	1.13	1.61
1960–90	3.08	2.40	2.96	2.70	2.16	2.60
<i>GDP per hour</i>						
1913–29	1.83	2.88	2.79	1.38	1.45	1.89
1929–38	1.02	−0.12	3.04	2.38	0.92	1.78
1938–50	1.17	0.33	0.62	−0.39	2.25	1.25
1950–60	3.15	4.16	4.58	7.08	2.11	4.19
1960–73	5.30	5.25	5.25	5.16	3.90	4.81
1973–90	3.02	2.42	2.98	2.67	2.03	2.44
1913–50	1.42	1.31	2.14	1.04	1.58	1.66
1950–90	3.79	3.77	4.11	4.57	2.66	3.64
1913–60	1.78	1.91	2.66	2.30	1.69	2.19
1960–90	4.00	3.64	3.96	3.74	2.84	3.46

*Note:* The growth rates for NW Europe refer to total output for the region comprising Austria, Belgium, Denmark, Finland, France, Germany, Netherlands, Norway, Sweden, Switzerland and the UK.

*Sources:* Maddison (1989, 1991, 1994).

output per worker. This conclusion is fully consistent with results from international cross-section studies. Both Dowrick and Nguyen (1989) and Crafts (1992) find that, after allowing for investment effort and the opportunities available for catching up to the United States, Belgium did distinctly less well than it should have done during the 1950s, and better than it should have done during the decades thereafter.

Over the long term, the pattern of economic growth in Belgium most resembles that of its French and Dutch neighbours. All three countries grew relatively fast from 1913 to 1929, then, as members of the Gold Bloc, they saw output per capita fall in the 1930s. All were occupied during World War II, but managed to make modest gains in output and productivity over the 1940s. All three countries did better in the 1960s than in the 1950s.

## 2.2 *Continuities in economic structure and sociopolitical institutions*

Throughout the postwar period, the Belgian economy has been characterized by several structural features that form the context for growth and the economic policies that might influence it. First, the Belgian economy has long been very open to international trade, and during the postwar period it has become increasingly so. The share of exports in final demand shows a fairly steady rise from the already high level of 19 per cent in 1953 to more than 44 per cent in the mid-1980s. This openness to trade has meant that international competitiveness and external balance have been central concerns for businesses, unions and government. The interactions between the large and important open sector and the rest of the Belgian economy, more sheltered from international competition, will figure prominently in the analysis of the country's economic growth.

Trade is all the more important because Belgian production and exports have a high import content. Belgium essentially imports raw materials (and since the late 1950s energy) and exports the value added in transforming them. One example is non-ferrous metals, an industry based initially on local mines but in the twentieth century dependent on supplies from the Congo and other parts of the world. Another is the automobile industry: Belgium has no native manufacturers, produces relatively few components, but is one of Europe's major assemblers (Bloomfield, 1978: 187). Belgian commercial policy has reinforced this sort of specialization by maintaining low or no duties on raw materials (Duquesne de la Vinelle, 1963: 84). High import content is the other side of having few natural resources. Coal, the country's major resource since its early industrialization, continued to be mined into the 1980s, thanks to subsidies, but its importance declined significantly as domestic production was allowed to fall off sharply from the early 1960s.

Belgian producers have tended to specialize in standardized, semi-finished manufactures: yarn instead of finished cloth, bulk chemicals instead of pharmaceuticals, steel products instead of engineering goods (Camu, 1960: 413). Belgium's revealed comparative advantage has persistently been in bricks and glass, non-ferrous metals, chemicals (mainly fertilizers), iron and steel, and textiles and apparel (Crafts, 1989; Balassa, 1977; Culem, 1984). Drèze (1961) saw this choice of products as a consequence of the small size and the openness of the economy. Yet there has been a persistent concern that such products have low income elasticities of demand, have high degrees of cyclical volatility and are highly susceptible to competition from

countries with lower labour costs (Waelbroeck and Rosselle, 1961; Krul, 1964: 59). The human capital content of Belgian exports has also been low (Tharakan and Waelbroeck, 1988).

The Belgian economy, and especially the manufacturing sector, has come increasingly under the control of foreign firms (Van Den Bulcke, 1978; Sleuwaegen, 1987; Vanden Houte and Veugelers, 1989; Daems and Van de Weyer, 1993). Siemens, General Motors, Philips and IBM were all present in Belgium before the Second World War. Since the war, and particularly since the 1960s, the role of foreign firms has increased. In 1968 they accounted for 22 per cent of value added in manufacturing; by 1990 this had reached 59 per cent. This is far higher than in other small countries such as the Netherlands or Denmark. The other side of foreign multinationals' large role in the Belgian economy is that there have been few Belgian multinationals (Van Den Bulcke, 1986; Devos, 1993).

Belgian financial capital has been relatively mobile. At the beginning of the century, Belgian holding companies mobilized resources to finance tramways and other engineering projects throughout the world. Later, during the interbellum and in the 1950s, they made major investments in the Congo, now Zaire (Van der Wee, 1981). Smaller savers, including the famous Belgian dentist, have long been welcome at banks in Luxembourg and elsewhere. The international mobility of Belgian capital has been a major constraint on tax and exchange rate policy.

The nature of Belgian society and politics has also influenced growth and constrained policy. Belgium has been described as the most thorough example of 'consociational democracy': that is, a political system replete with mechanisms for resolving conflicts and protecting minorities in a deeply divided society (Lijphart, 1981). Longstanding and strong ideological differences among anti-clerical conservatives, socialists and Catholics on both the right and the left have been overlaid with linguistic and territorial quarrels between French and Dutch speakers.<sup>3</sup> The result has been a fragmented but very stable party system, a thorough politicization of public services, and the prevalence of coalition governments able to act only on the basis of complex compromises (Frogner, 1988). One important consequence of this political structure has been persistent problems with the public finances. Pressures to satisfy all interest groups have inflated spending while making it difficult to raise more revenue, particularly in the frequent periods of political crisis (Vuchelen, 1991). Borrowing has been a relatively easy alternative, since the National Bank has lacked independence from the Ministry of Finance and has formally or informally been able to mobilize funds via its control of the commercial banks. This soft budget constraint has contributed to Belgium's persistently high debt-GDP ratio and to its sharp increase since the late 1960s. Another consequence of the Belgian political structure has been excessive short-termism. During most of the postwar period, as will be seen, it is difficult to discern any coherent strategy for economic growth.

The weakness of Belgium's parliamentary government has been compensated to some extent by parallel institutions of decision making. Representatives of trade unions, business and government come together frequently, not only in collective bargaining, but in a dense network of institutions and advisory bodies developed in large measure since the Second World War (Balthazar, 1981). Yet Belgian corporatism has been less centralized and authoritative than that in other small

countries. The labour interest has been riven by competition between socialist and Catholic trade unions. The central employers' organization has faced competition from regional organizations and has had difficulty reconciling sectoral and regional interests. Over the entire postwar period, the level of strike activity has been distinctly higher than in Germany, the Netherlands or Sweden; similar to that in France; and lower than that in the United Kingdom (Cornwall, 1990: 121).

There has been a shifting, and often ambiguous, balance between centralization and decentralization in industrial relations. Some factors, notably widespread indexation and links between wages and social security benefits, have made for centralized negotiations. Yet large differences across industries and regions in costs and markets have pushed towards decentralization. One result has been that the relative importance of national, sectoral, regional and enterprise negotiations has varied considerably across industries and across periods. This accounts for the difficulty that Belgium has posed for constructors of indices of corporatism (Bruno and Sachs, 1985: 226). Another result has been that the government has increasingly found it necessary to intervene in order to deal with the contradictions arising from the mix of centralized and decentralized institutions. A third result has been extremely strong attachment to agreements once arrived at, notably to the systems of wage indexation and social security (Scholliers, 1991).

These economic and political features have distinguished Belgium from other European countries, even other small countries, and they provide the context for postwar growth and policy. Since the war, the increasing internationalization of product and capital markets, along with deterioration of the public finances from the late 1970s, has steadily reduced the scope for classic macroeconomic policy. The great importance of foreign trade (along with wage indexation) has inclined governments towards preserving stable exchange rates with principal trading partners. Monetary policy has generally been dedicated to this goal, although in periods of general exchange rate instability Belgium has faced the problem of which currency or currencies to follow (Duquesne de la Vinelle, 1963: 80–1). The use of fiscal policy has been limited both by the state of the public finances and by the difficulties of securing agreement on tax and spending programmes. What has been left in the government arsenal are policies, either explicit or disguised, that have sought to influence the distribution of income between capital and labour.

The close conjunction of economic and social policy, particularly where it affects distribution, recurs in the history of the Belgian economy. High relative cost elasticities of exports and imports have meant that exchange rate changes can have large effects on the distribution of income, and that the success of monetary policy depends crucially on the behaviour of wage earners. At several critical junctures – in the mid-1930s, just after the Second World War and in the early 1980s – major changes in direction have explicitly linked exchange rate policy with packages of measures dealing with taxation, indexation, social security and bargaining institutions.

### 2.3 *The legacy of the 1930s and World War II*

At the end of the Second World War, Belgium found itself with an overall productive capacity that had hardly changed since the late 1920s. During the Depression of the 1930s, output grew hardly at all, as Belgium's adherence to gold

delayed recovery (Cassiers, 1989). Once it finally left gold and devalued by 28 per cent in 1935, the economy enjoyed a few years of limited prosperity before the threat of war put a damper on activity. In the 1930s, the investment rate fell off markedly. It was well below levels in other European countries and probably at best only sufficient to maintain the overall capital stock (van Meerten, 1993). During five years of German occupation, output was severely reduced by materials shortages and there was little new investment (Baudhuin, 1945: 269, 357–9). Belgium thus finished the war with an outmoded productive apparatus, albeit one that had suffered relatively little damage (Durviaux, 1947: 243).

Labour productivity and real wages rose only modestly during the 1930s (Table 7.1 and Scholliers, 1991). There were few gains from structural change. The sectoral distributions of both industrial production and exports had altered little from before World War I (Hogg, 1986: ch. 2). The major Belgian industries remained coal, steel, non-ferrous metals, textiles and glass. The industries of the second industrial revolution – automobiles, electrical equipment, organic chemicals – saw only limited development during the interwar years. If anything, overall productivity was adversely affected by shifts in employment during the 1930s, as labour shed by the export industries often found low-productivity employment on farms and in small shops (Goossens *et al.*, 1988).

Despite low levels of investment, labour productivity in some parts of the open sector of the economy appears to have grown rapidly during the 1930s (Cassiers, 1989). This was particularly evident from 1932, as firms started shedding labour previously kept on short time. Some inefficient firms closed or were merged into other concerns, but coherent programmes to rationalize capacity were rare and often failed due to the desire of family enterprises to remain independent (Hogg, 1986: 76–7). The large holding companies proved unwilling or unable to use their financial power to coordinate production. As there is little evidence of major new technological developments in the 1930s, most of the gains in productivity must have been incremental, the result of persistent pressures to reduce production costs in order to remain competitive on shrinking international markets. During the war, the German authorities singularly failed to rationalize Belgian production (Gillingham, 1977: 153–4, 170).

Productivity gains in the open sector of the economy must have been counterbalanced by relatively little change in the sheltered sector, although systematic evidence on this point is wanting. As in the UK, liberal economic policies gave way to many anti-competitive practices (Broadberry and Crafts, 1992; Mommen, 1994: chs. 2, 3). Protection was not a serious option for most Belgian manufacturing, dependent as it was on exports. New legislation made it easier to cartelize the domestic market, although its effects were limited (Vanthemsche, 1983). Belgian farmers and coal producers, oriented primarily to the home market, but previously open to international competition, acquired special privileges (Hogg, 1986: ch. 3). Backed by powerful interest groups, they managed to obtain quotas, import duties and subsidies during the 1930s. Small shopkeepers, another powerful group, also secured protection against larger retailers (Boddewyn, 1971: 53–4). Many of these anti-competitive practices survived the Second World War.

Not all developments in the 1930s and during the war were so unpromising for postwar growth. One important longer-term change was the continued improvement

in the education of the labour force. School attendance only became compulsory in 1914, and actual attendance before the First World War had been low by north-west European standards. Belgium thus started the twentieth century with a population that was poorly educated, so the rate of growth of the labour force's average educational attainment grew relatively rapidly during the interwar years and into the postwar period. But despite these changes, there were still persistent complaints during the 1930s about the lack of technical skills in the Belgian workforce (Hogg, 1986: 65–7).

Another potentially positive legacy of the Depression and the war for subsequent economic growth was the move, albeit more limited than in other small countries, towards corporatism (Katzenstein, 1985; Luyten, 1993). In Belgium the years 1935 and 1936 were crucial. In March 1935 the socialists entered the government and became involved in shaping a package of measures to deal with the economic crisis. In June 1936 a major strike, largely initiated from the shop floor and involving about a fifth of the workforce, posed a serious threat to the government, but also faced trade union leaders with the need to regain control of their members (Strikwerda, 1988). At union instigation, the government called a National Labour Conference which produced important agreements on the length of the working week and on union recognition in collective bargaining. By the late 1940s, such conferences would become a permanent feature of Belgian industrial relations. The late 1930s also saw an acceleration in the development of an expanding network of parastatal institutions run by representatives of employers and unions, and dealing with industrial relations, social security, and economic and social development. Contacts during the war furthered the *entente* between management and labour. Employers reluctantly came to accept that organized labour would become a limited but institutionalized player in a bargaining process with business and government. The unions, especially the socialists, obtained a share of power, but came to acknowledge the legitimacy of management (Balthazar, 1981).

A final legacy of the war for postwar growth was a healthy foreign exchange position. The Belgian gold stock survived the war largely unchanged, and sales of minerals from the Congo added to reserves. In the immediate aftermath of the war, Belgium's foreign exchange position was further strengthened by dollars earned from billeting American forces and from traffic through Antwerp, the only major European port still largely intact. The Belgians thus had far more room for manoeuvre in economic policy than did other European countries, most of which faced serious foreign exchange shortages.

### 3 The phases of postwar economic growth

#### 3.1 Reconstruction in the late 1940s

The rapid recovery of output and consumption after the Second World War has popularly been known as the 'Belgian miracle' (Cassiers, 1995). By 1948 Belgium's relative position seemed so enviable that it hardly appeared to need Marshall Plan aid, and indeed received very little. Yet this miracle was short-lived. By 1950 only Germany and Austria among countries in north-western Europe had registered less growth in per-capita output since 1938.<sup>4</sup> Only France and Germany had had

smaller increases in hourly productivity. Belgium's share of world exports only remained much the same in 1952 as it has been in 1938 thanks to big increases in textile and metal exports within the newly formed Benelux (Adam and Waelbroeck, 1962).

The 'miracle' owed much to strong demand for Belgian goods in the first years after the war. The concentration of American troops on Belgian territory in 1945 gave rise to large expenditures. Then, as reconstruction got under way elsewhere in Europe, Belgian specialities such as coal, metals, glass and cement were in great demand. Domestic demand was also strong. The Belgian government relatively quickly left the allocation of goods to the market, following what has been called alternatively the 'economics of abundance' or an 'exercise in supply-side economics' (Baudhuin, 1958; Kindleberger, 1987). Some of this demand spilled abroad, but domestic producers also benefited.

Belgian producers were in a good position to respond to postwar demand. There had been relatively little war damage, so once shortages of materials, especially coal, had been eased, production could be restored quickly. Balance of payments problems were not a serious impediment to imports of materials and machinery. A monetary reform just after the liberation reduced the monetary overhang and made it possible to maintain relatively stable prices in the years after the war.

But some aspects of the 'Belgian miracle' may have impaired subsequent growth. Liberal economic policies favoured consumption. In the absence of trade controls, Belgians imported substantial quantities of nylon stockings, Coca-Cola, passenger automobiles (including Cadillacs) and spirits from the United States in 1946 and 1947 (Kindleberger, 1987). Although the investment rate increased after the war, to 15–16 per cent of national income, it remained well below that in other European countries (Bismans, 1992: 413; van Meerten, 1993). In the interests of price stability, the central bank kept interest rates high, which may have stifled industrial borrowing (MEA, 1948: 88; MEA, 1949: 100). Most private investment, in practice, was financed out of retained earnings, which tended, however, to reinforce existing specializations.

In the late 1940s there was surprisingly little public concern for modernizing industry (Camu, 1961: 495–9). The government's worries about its own finances kept public investment at low levels, and much of this was channelled into transport and coal mining. In the initial negotiations for Marshall Plan assistance, Belgium requested no direct aid, only help in financing its exports to other European countries (Kurgan-van Hentenryk, 1993a, 1993b). When, in 1950, the Belgians did ask for direct aid, they intended to use it for public investment (40 per cent), for agriculture and fishing (30 per cent), and for coal mining (30 per cent). The aid they did receive went almost entirely down the mines. More generally, the government's major concern after the war was maintaining social peace, which meant that it favoured production and consumption over investment (Kurgan-van Hentenryk, 1993b).

Labour costs rose after the war, turning Belgium from a low-wage economy in the 1930s into a high-wage economy by 1950 (Dupriez, 1951; Cassiers and Solar, 1990). This has often been attributed to an across-the-board nominal wage increase of 60 per cent granted by a national labour conference in 1994, but careful examination reveals that real wages immediately after the war were only 50–60 per cent of those

before the war, and that prewar real wage levels were not reached until 1947 or 1948 (Scholliers, 1993). These wages were high by European standards, but can be seen as the other side of the strong demand for Belgian goods and of Belgium's rapid recovery of output. Up to 1948 unemployment was quite low and employers were particularly concerned to keep factories running, so trade unions were well placed to push up wages, despite government attempts to control increases (Dupriez, 1951; Dancet, 1988). The rationalization and extension of the social security system from 1945 also contributed to the rise in labour costs.

Energy costs also increased, thanks to government policy towards coal mining. Belgian heavy industries – steel making, non-ferrous metal refining, glass making – were very energy intensive. Until the 1930s, Belgian manufacturers benefited from relatively cheap coal and electricity. This started to change during the Depression, as protection was granted to domestic coal producers. After the war, Belgian prices for coal and electricity were higher than in neighbouring countries, which created particular problems for heavy industry (Dupriez, 1951).

These increases in labour and energy costs were not particularly damaging while demand for Belgian goods was strong. But by 1949 other European economies were getting back on their feet. The devaluation of sterling, along with the Scandinavian and Dutch currencies, in 1949 gave an additional boost to these countries. Belgium chose to devalue by only 12.3 per cent, instead of Britain's 30.5 per cent, which magnified the cost disadvantages of its export-oriented industries. Strikingly, even this small devaluation – in fact, a relative revaluation – was opposed by the Socialist Party, whose leader deemed it a 'measure against the common man' (Bismans, 1992: 475). This general concern for maintaining a strong and stable franc would cast a shadow over much of the following decade.

### 3.2 *The silver fifties*

Growth in Belgium during the 1950s was, like elsewhere in Europe, faster than had ever been experienced before. The rapid growth of world trade and the reduction of trade restrictions created great opportunities for a small country. Maddison (1982) reckons that gains from trade added 0.4 per cent to the Belgian growth rate from 1950 to 1962. Yet output and productivity growth lagged behind neighbouring countries, even when allowances are made for Belgium's lack of war damage and its already high level of income (Dowrick and Nguyen, 1989; Dumke, 1990; Crafts, 1992). In the growing export markets, Belgian manufacturers were losing market share (Waelbroeck and Rosselle, 1961; Kindleberger, 1967: 121–3). Unemployment remained relatively high throughout the decade.

Much of the 1950s can be seen as a prolonged, and not entirely successful, adaptation to the large shocks caused by recovery elsewhere and by the relative revaluation of the franc in 1949. During the 1950s, Belgian wages grew less rapidly than those in neighbouring countries. Yet the appreciation of the Belgian franc had wiped out these potential gains in competitiveness. Labour costs per unit output expressed in dollars increased by 3 per cent in Belgium (and 1 per cent in France) between 1948 and 1957, while they fell in the United Kingdom by 5 per cent, in the Netherlands by 28 per cent and in Germany by 29 per cent (Eichengreen, 1993). Energy prices, too, remained relatively high during the 1950s (Krul, 1964: 61; De

Staercke, 1963; Van der Rest, 1962).

Demand for Belgian goods was quite volatile (Romanis, 1964; Krul, 1964: 59). As a marginal supplier of standardized semi-finished goods, Belgium often did very well in booms and very badly in troughs. Domestic demand did not take up much slack in downturns. Government policy was generally deflationary, as the predominant intellectual current put priority on monetary stability.<sup>5</sup> There was no counter-cyclical public investment policy for several reasons: concern for the state of the public finances, the political difficulties of taking decisions, and the absence of a strong Keynesian influence in policy making (Krul, 1964: 348–9).

In this environment, the investment share, though higher than before the war, was low by European standards. But the investment share may understate Belgian efforts because the relative price of capital goods seems to have been a good deal lower in Belgium than in its neighbouring countries (de Voghel, 1961). On the other hand, the relatively capital-intensive nature of Belgian industry meant that depreciation as a share of national income was high, and that Belgium's investment share had to be higher than elsewhere to achieve the same net increase in the capital stock (Denison, 1967: 137–9).

Investment was not low for lack of savings (Beuthe, 1964: 106–8; De Brabander, 1981). The household savings rate was high and rising. Although the predominance of retained earnings in financing business investment has sometimes been taken as an indicator of weaknesses in financial intermediation, capital does not seem to have been in short supply in the 1950s. A persistent trade surplus suggests that funds were flowing abroad. Large investments were made in the Congo, and firms such as Bekaert and ACEC expanded internationally.

Much investment during the 1950s has been described by Lamfalussy (1961) as 'defensive'. Enterprises were faced by a squeeze on profits, as the result of high wage and energy costs and low export prices, and reacted by investments designed to rationalize production. They modified existing productive facilities only on the margin without renewing or diversifying them. These defensive investments brought some rapid productivity gains. In manufacturing industry, labour productivity growth was lower than in France, Germany and the Netherlands, but much higher than in the UK (Beuthe, 1964: 36). The opportunities for such gains may be traced to the relatively ripe age of the capital stock just after the war. Replacing old machines with up-to-date equipment could bring large increases in efficiency, but by the early 1960s the potential for such vintage effects was being exhausted (Paelinck, 1962).

Outside manufacturing industry, productivity growth was relatively slow. Competitive pressures were less in the parts of the economy sheltered from trade. Most of the measures adopted during the Depression to protect farmers and small retailers were retained throughout the 1950s, and the formation of Benelux was hampered by the demands for protection by Belgian farmers and textile producers (Beokestijn, 1990; Mommens, 1990). The weaknesses in coal mining, particularly in the Walloon region, were a constant preoccupation and a drain on resources (Milward, 1992: ch. 3).

During the 1950s, the energies of Belgian governments were largely focused on non-economic issues, notably the royal question in the late 1940s, and the control and financing of schools during much of the 1950s. The dominant economic policy stance in the 1950s put priority on the balance of payments, then price stability, then



employment (Bismans, 1992: ch.13). There were some measures to encourage investment and productivity growth, but these were quite limited in scope, and public investment was relatively low (De Brabander, 1981). The lack of government initiatives owed much to its chronic deficit. The Belgian public sector was the only net dissaver in western Europe during the 1950s (Camu, 1960: 415–17).

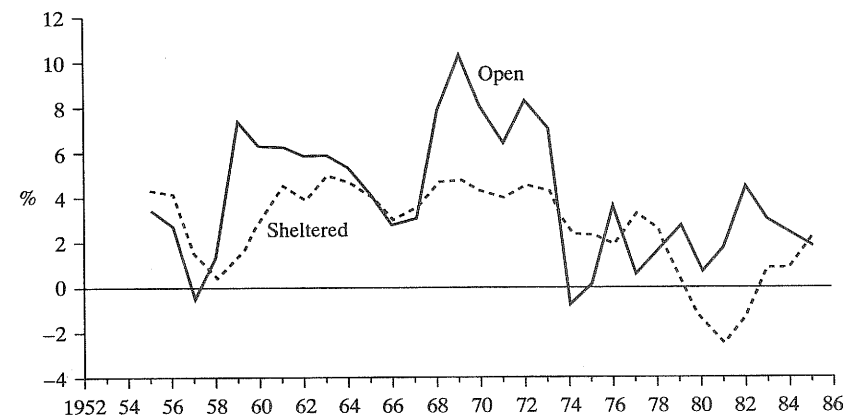
Governments did try to encourage good relations between employers and unions in the hope of promoting private sector growth. Yet, despite the so-called social pact of 1944, industrial relations after the war were far from peaceful (Pasture, 1993). It took some time before new institutions of bargaining became fully operative, and there were variations in their development across regions (Dancet, 1988). Strike activity was as high (or higher) during the late 1940s and 1950s as it had been in the 1930s. But the trend was towards better relations. The joint protocol on productivity signed in 1954 has often been hailed as a sign of new attitudes. Productivity bonuses were widely introduced in the 1950s and early 1960s, but they were usually tied to the firms' profits rather than individual effort or labour productivity (Dancet, 1988).

### 3.3 The golden sixties (and early seventies)

The sharp acceleration in output growth from around 1960 is a central feature of postwar Belgian economic history (Table 7.1). As in other countries, the investment rate increased in the early 1960s. But more significant was the improvement in the efficiency with which capital and labour were used: here Belgium did much better in the 1960s than its state of development and factor inputs would have warranted (Dowrick and Nguyen, 1989). Belgian performance on international markets also improved. Where in the 1950s it had lost market shares, during the 1960s these were maintained (Van Rijckeghem, 1982; NBB, 1988).

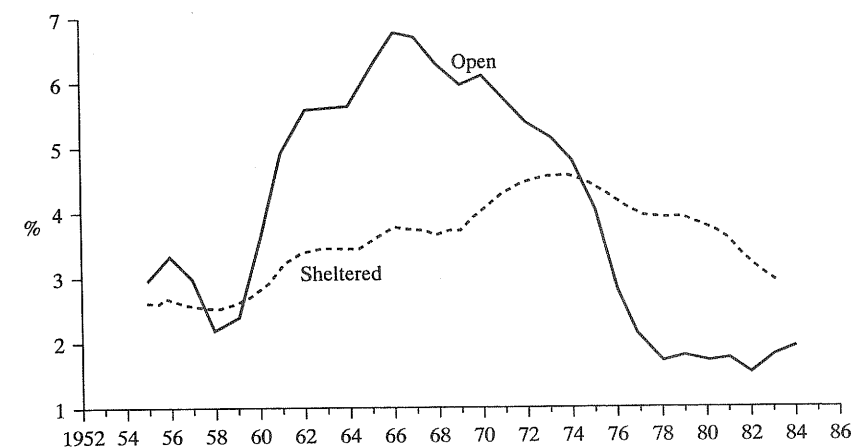
The improvement in Belgium's performance in the 1960s, as well as its subsequent difficulties in the 1970s and 1980s, had a differing incidence across the economy. The openness of the Belgian economy calls for a disaggregation into an open (or tradables) sector and a sheltered (or non-tradables) sector. The open sector includes most of manufacturing and, in a small country like Belgium, has little influence on the prices of either its imported inputs or its final products. The sheltered sector includes construction, transport and communications, and marketed services, and is primarily influenced by internal demand and domestic costs. Government is held apart from this disaggregation of the private sector.

The growth in output and productivity by sector is shown in Figure 7.1 and Table 7.3. Growth in the early 1960s accelerated first in the open sector, but remained more or less balanced until around 1967. The same is true of the growth in labour productivity. By contrast, in the late 1960s and early 1970s, the growth of both output and labour productivity in the open sector was exceptionally high. The sectoral rates of capital formation are shown in Figure 7.2. The golden sixties and early seventies stand out as a prolonged investment boom in the open sector. Capital formation in the sheltered sector also increased, but much more gradually, and only reached its peak rate in the mid-1970s. Both the labour force and employment grew little in the early 1960s, with the open sector taking on more labour than the sheltered sector. Later in the decade, when the labour force began to grow faster, most of the increase in employment occurred in the sheltered sector (Figure 7.3).



Source: Bureau du Plan.

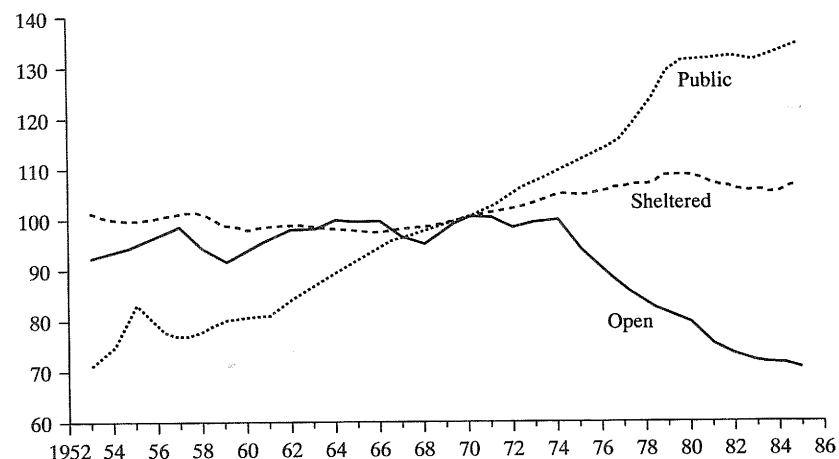
Figure 7.1 Sectoral growth rates of output: Belgium, 1953–86 (three-year centred moving averages, 1980 prices)



Source: Bureau du Plan.

Figure 7.2 Sectoral growth rates of capital formation: Belgium, 1953–86 (three-year centred moving averages)

The initial impulses for the acceleration in growth around 1960 came both from abroad and from the domestic economy. Table 7.2 shows the growth rates of the various components of final demand. During the first years of the 1960s, almost all of the growth in exports went to Belgium's partners in the newly formed European Economic Community. This had profound effects on the nature of Belgian trade, about which more later, but it did not increase the already high rate of export



Source: Bureau du Plan.

Figure 7.3 Sectoral employment: Belgium, 1953–85 (1970 = 100)

Table 7.2. Final demand growth: Belgium, 1953–86 (1980 prices, % per annum)

	1953–60	1960–7	1967–74	1974–81	1981–6
Private consumption	2.77	3.39	4.87	2.35	1.04
Investment	5.37	6.44	3.94	–1.59	0.64
Public consumption	3.26	5.89	4.71	3.11	0.31
Internal demand	3.20	4.25	4.60	1.52	0.89
Exports	7.65	7.42	10.78	4.39	3.56
(World demand)	n.a.	8.29	10.26	3.88	3.96
GDP	3.06	4.67	4.78	1.76	1.03

Source: Bureau de Plan.

growth. The initial demand stimulus came from an increase in government spending. This was not really a belated conversion to Keynesianism (Bismans, 1992: 520–39). Although the Eyskens governments of 1958–60 did intend to increase public investment on infrastructure and to provide subsidies for private investment, they planned to do so without resort to additional borrowing. But expenditure increased by more than expected, largely as a result of commitments made in the School Pact of 1958. Additional tax revenue was not forthcoming because the government's package of fiscal and social measures was weakened as a result of the general strike of 1960–1. The net effect was to raise the full employment deficit from about 2 per cent of GNP in the 1950s to about 4 per cent in the early 1960s (Boelaert, 1983).

This increase in public sector demand could simply have led to a balance of

payments crisis, but changes in the productive structure of the economy made it possible for expansion to continue. Belgian membership of the European Economic Community was a crucial factor. Studies of the gains from integration show that the direct effects of tariff reductions were not large (Van Meershaeghe, 1992: 78). But the prospects of the large market and the suppression of barriers gave a new dynamism to the Belgian economy. One indication is the noticeable improvement in Belgian performance relative to other EEC members in the important German market, although all of them benefited from similar tariff reductions (Kervyn de Lettenhove, 1968).

Changes in industrial structure during the 1960s were subtle, but profound. The distribution of output across major industries did not change markedly, leading Van der Wee (1985) to argue that the rapid growth of demand during the 1960s boom retarded necessary shifts in specialization. But important changes did take place within sectors (Kervyn de Lettenhove, 1968). Many traditional Belgian products lost market share, even within the EEC. Producers of both linen and cotton yarn, longstanding Belgian specialties, suffered (though wool spinners benefited from the rise in carpet manufacture). At the same time, new specialties, such as plastics, soap, plywood and automobiles, developed within traditional sectors (NBB, 1969).

The rise of new products was often associated with direct investment by foreign firms. Between 1960 and 1972 investment by foreign firms may have accounted for one-third of gross investment and half of net investment in manufacturing, although the net inflow of capital was much less, since foreign firms raised funds in Belgium (Van Rijckeghem, 1982: 592–3). For a country with few indigenous multinationals, American and European firms were important conduits for new technologies and new forms of organization (Vanden Houde and Veugelers, 1989). Both by direct competition and by example, they probably improved the performance of domestic firms (Kervyn de Lettenhove, 1968; Weber, 1983). The effect of the multinationals was likely to have been strongest towards the latter part of the period, when the stock of foreign direct investment had become large enough to make a difference to aggregate output growth. Foreign investment was disproportionately concentrated in Flanders, and helped output and incomes in the hitherto impoverished north of the country to surpass those in the older industrial areas of Wallonia (Van Rompuy, 1978; Vandersmissen, 1975).

The so-called Expansion Laws of 1959 were intended to stimulate both inward and domestic investment, and are commonly cited as a reason for improved performance (Van der Wee, 1985). These laws – one national in scope, the other directed at regions in difficulty – provided loan guarantees, interest subsidies, tax relief and other benefits to investors. Originally intended as temporary measures to help get the economy out of recession, they were repeatedly prolonged until the late 1970s. More than a third of gross capital formation in the 1960s benefited from some assistance under the Expansion Laws. Much of the aid went to foreign firms, particularly those setting up in Flanders, so that far from backing 'national champions' Belgium, if anything, bent over backwards to attract firms from abroad. But the importance of the Expansion Laws has been questioned. The aid given was probably not large enough to have significantly increased the rate of investment (De Brabander, 1981; Gilot, 1987). It was given unselectively and tended to favour



capital-intensive projects, often by existing firms (Camu, 1961: 496–7; Van den Broeke, 1984). Subsidies played only a minor role, relative to other considerations, in attracting multinational investment (Weber, 1983; Vanden Houte and Veugeliers, 1989).

The turnabout in Belgian economic performance around 1960 also owed something to the renunciation of a variety of anti-competitive policies that impeded the reallocation of resources. Fiscal pressures and the impatience of Belgium's partners in the European Coal and Steel Community led to the decision, in November 1959, to let the coal-mining industry in Wallonia run down (Milward, 1992: ch. 3). Subsidies and restrictive agreements employed in the 1950s to limit the effects of Dutch competition within Benelux were wound up (Boeckstijn, 1990, 1992). Other restrictions were lifted in the service sector. After 1961 small shopkeepers lost much of their protection from the competition of supermarkets and large-scale retailers (van Waterschoot and Deleeck, 1992). From 1962 commercial banks were no longer required to keep 65 per cent of their assets in government securities. These policy changes were made individually and for a variety of reasons, but together they represented a move towards liberalization of the economy.

Industrial relations improved noticeably in the 1960s, with a marked falling off in strike activity. Increasing cooperation between employers and unions was consecrated in 'social programming', another innovation made around 1960 (Dancet, 1988; Pasture, 1993). This involved biannual consultations between employers' organizations and trade unions. A national agreement first established norms, often minima, for changes in wages and other benefits. These norms then guided sectoral and enterprise negotiations. The government was not a formal partner in these negotiations, but it was expected to legislate in accordance with their outcomes (Janne and Spitaels, 1975). Whether social programming helped foster the acceleration of economic growth, or faster growth made it easier to reach agreements, remains an open question. The programmed social progress of the late 1960s involved significant extensions of the social security system, which would be a major factor in the rising public sector deficits of the late 1970s and early 1980s. When economic conditions did become more difficult in the 1970s, the system singularly failed to deliver agreements that were consistent with macroeconomic stability.

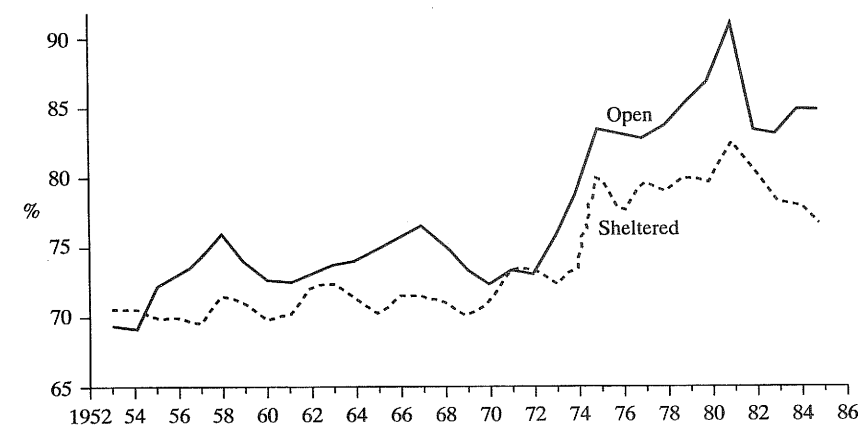
From the late 1960s and into the early 1970s, the driving force behind growth was the rapid increase in exports, with domestic consumption playing a supporting role (see Table 7.2).<sup>6</sup> Output and labour productivity growth were particularly high in the open sector. Unemployment remained very low, exerting some upward pressure on wages. But, thanks to rapidly rising productivity, unit labour costs in both the open and sheltered sectors hardly changed (Table 7.3). The share of wages and salaries in value added, as well as profit rates, remained relatively stable through most of the 1960s and early 1970s (Figure 7.4 and Weber, 1983).

Some commentators have seen in the late 1960s and early 1970s the seeds of subsequent difficulties. Löwenthal (1987) stresses the pressure on public finances, pointing to increases in spending and in national debt per head. Government spending certainly grew faster than national product in the 1960s, but Belgium was by no means exceptional in this regard. For long-term growth the more important question is whether the government used the increased resources efficiently. Doubts have been cast on the value of infrastructure projects such as the port of Zeebrugge

Table 7.3. *Sectoral cost, price and productivity growth: Belgium, 1953–86*  
(% per annum)

	1954–60	1960–7	1967–74	1974–81	1981–6
Nominal wages					
Open	4.37	8.22	12.26	13.59	7.63
Sheltered	4.41	7.42	10.48	10.06	5.93
Value-added prices					
Open	0.37	3.47	4.83	3.70	4.13
Sheltered	1.57	3.20	6.88	7.82	6.76
Real product wages					
Open	3.99	4.59	7.09	9.54	3.36
Sheltered	2.80	4.08	3.37	2.07	–0.78
Labour productivities					
Open	3.57	4.15	7.09	4.80	5.23
Sheltered	3.11	3.95	3.33	0.16	0.91
Real product unit labour costs					
Open	0.40	0.42	0.00	4.52	–1.78
Sheltered	–0.30	0.13	0.04	1.91	–1.67

Source: Bureau de Plan.



Source: Bureau du Plan.

Figure 7.4 *Sectoral shares of wages in value added: Belgium, 1953–85*

and some of the later extensions to the motorway system (De Brabander, 1981). The true capital costs of many projects were inflated by the long time it took to complete them (Vandersmissen, 1975). Expenditures on education, which increased rapidly during the 1960s, served to create overlapping and competing programmes, particularly in secondary education (Solar, 1993).

The burden of the public debt – measured as the share of interest payments in

national product – remained roughly constant from the early 1960s until around 1977. The Belgian debt ratio did not fall by as much in the 1960s as it did in other countries, and in 1970 it remained relatively high: 48 per cent, as against 13 per cent in France, 7 per cent in Germany and 29 per cent in the Netherlands (Van Rompuy and Vleminckx, 1983). But this large debt did not necessarily make the country more vulnerable to a downturn, since it was mostly held by Belgians. Moreover, it has not been alleged that government borrowing crowded out private investment during the late 1960s and early 1970s.

Vandeputte (1993: 137–45), by contrast, sees the emerging problem as state interference in the economy. A proliferation of tax laws in the late 1960s created confusion and more work for businesses. Price controls of varying strength were used to fight inflation. Subsidies were increasingly used to keep firms in business.

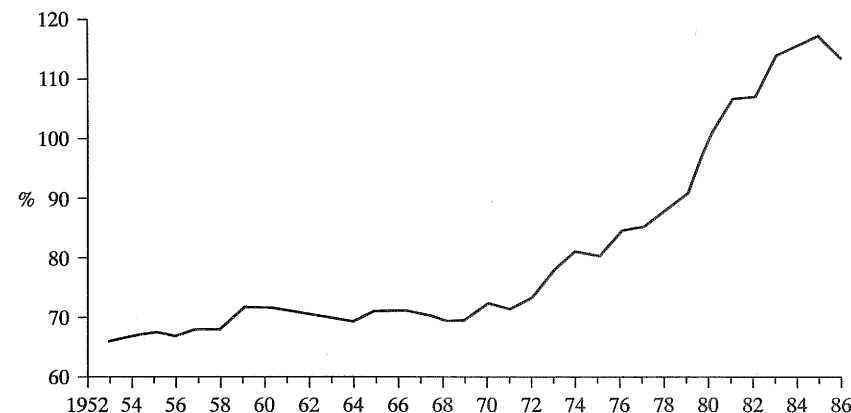
Whatever the deficiencies of these boom years, and they are easier to see with hindsight, the first years of the 1970s were marked by considerable optimism (Savage, 1991: 334). Trade was growing rapidly. Investment remained at historically high levels. Foreign firms were continuing to set up in Belgium. Even traditional sectors like steel and textiles were adding to capacity.

### 3.4 The leaden seventies and eighties

In Belgium, as almost everywhere else in Europe, economic growth slowed down markedly from the mid-1970s. For a small country dependent on exports, the effects of the unexpected deceleration in the growth of world incomes and trade were particularly harsh. Belgian export volume fell by 11 per cent in 1975, and subsequently grew at rates much slower than those which had prevailed in the 1960s and early 1970s. Even when the growth of world demand recovered in the late 1980s, it was nowhere near the level of the golden sixties. This fall in the growth of export demand was the major factor making for the slower growth of output and employment in Belgium in the 1970s and 1980s (Mehta and Sneessens, 1990). But to make matters worse, during much of the period, adverse domestic price and cost changes made it particularly difficult for Belgian producers to compete on international markets. In this unfavourable environment, the growth of labour productivity remained relatively high, with the consequence that measured (and disguised) unemployment rose markedly.

These sombre decades can be broken into two fairly distinct subperiods, with the break coming around 1982. This break does not correspond to any sharp or definitive change in the pace of growth. Output growth, if anything, slowed down somewhat in the early and mid-1980s. Only in 1988–90, after the countershock in energy prices and an improvement in world trade, did output grow faster than it had in the late 1970s, although still at a rate well below that common in the golden sixties. Moreover, this more rapid growth was not sustained after 1991.

The reason for breaking these decades into two subperiods concerns not the results, but the underlying dynamics of growth. The 1970s were marked by mounting disequilibria – between sectors, in the labour market, the public finances and the balance of payments. These disequilibria were, in general, more pronounced than elsewhere in Western Europe, and can be traced to major institutional failures in Belgium. Decisive action in the early 1980s, which included the devaluation of the



Source: Bureau du Plan.

Figure 7.5 Relative value-added prices, sheltered sector/open sector: Belgium, 1953–86

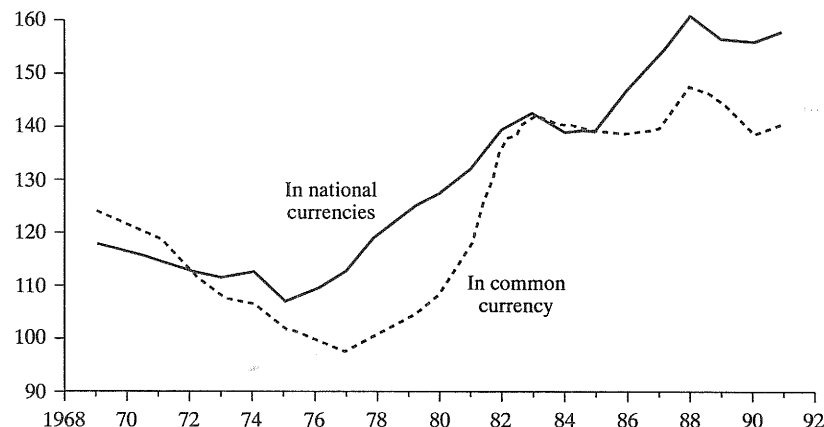
franc and a highly restrictive incomes policy, stopped things from getting worse. Whether these and subsequent policies have done more than stabilize the situation remains an open question.

#### 3.4.1 Increasing disequilibria and policy inertia, 1973–82

The fall in output growth after 1973 took place in both the open and sheltered sectors of the Belgian economy, but after the giddy successes of the late 1960s and early 1970s it was much larger in the open sector. The growth rate of labour productivity also fell in both sectors, although it has remained at both historically and internationally high levels in the open sector. The very large gap which opened up between productivity growth rates in the two sectors was distinctively Belgian. Englander and Mittlestädt's (1988) estimates show that in other European countries the gap between the manufacturing sector and the entire enterprise sector in both labour and total factor productivity growth was usually no more than 0.5–1.0 per cent. In Belgium the difference was 2.0–2.5 per cent. One implication of this large gap in productivity growth was that, with only modest output growth in both sectors, the contraction in employment would be concentrated in the open sector (Figure 7.3).

During the 1970s, the open sector faced a particularly severe squeeze on profits (Weber, 1983; Savage, 1991: 132–9). Its proximate causes were, in more or less equal part, the sharp fall in the rate of growth of labour productivity and faster growth in the real product wage (Table 7.3). The latter was the result of an acceleration in nominal wage growth combined with a slowdown in the growth of the sector's value-added price.

In the wake of the 1973 oil shock, the open sector was hit by a large rise in the costs of its intermediate inputs, which since it was unable to pass them on in increased output prices, reduced its value-added price. One element was, of course, the rise in



Note: Competitiveness in national currency calculated by dividing an index of unit labour costs for Belgium's principal competitors by an index of Belgian unit labour costs. In common currency the foreign index has been adjusted by an index of the trade-weighted exchange rate.

Source: IRES.

Figure 7.6 Indices of competitiveness: Belgium, 1969-91

energy prices. This affected producers in all countries, but since important sectors of Belgian industry are energy intensive, Belgium was affected relatively more (Savage, 1991). The open sector also saw increases in the prices of the inputs it purchased from the sheltered sector. Sheltered sector producers were more able to pass along cost increases, which led to a marked and continuing deterioration in the intersectoral terms of trade (Figure 7.5).

Nominal wages did not adjust to these changed conditions, but continued to rise rapidly on the basis of agreements signed before the shock. These agreements provided for substantial real wage increases and, as always, the indexation of nominal wages. From 1974 the consumer price index rose faster than the GDP deflator and much faster than value-added prices in the open sector, so indexation further increased real product wages.

These increases in wage and intermediate input costs put pressure on profits and led to a sharp increase in the share of wages in value added, from about 74 per cent until 1973 to around 84 per cent from 1975. The overhang of high wages and the continuing deterioration of the intersectoral terms of trade meant that this increase persisted throughout the 1970s (Figure 7.4).<sup>7</sup>

These cost pressures combined to produce a marked deterioration in Belgium's international competitiveness during the early 1970s. This was severely exacerbated by exchange rate policy. Maintaining a strong franc kept Belgium's relative unit labour costs high until the late 1970s, even though relative wage and productivity movements began to favour Belgium from around the mid-1970s (Figure 7.6 and Buyst, 1993). The country suffered persistent losses in its share of foreign markets, even after allowance has been made for its relatively unfavourable export structure (Konings, 1988; Savage, 1991: 313-14; Pagano, 1993).

In the sheltered sector of the economy, labour productivity growth also slowed down in the 1970s. Real product unit labour costs rose more rapidly than in the 1960s, but not nearly so fast as in the open sector, thanks to the ability of sheltered sector producers to pass through rising wage and energy costs into higher prices. Profit rates in finance, energy and distribution remained relatively high in the late 1970s (De Grauwe, 1983). Yet there was still pressure on the profit share: as in the open sector, the share of wages in value added increased by about 10 percentage points in the mid-1970s (Figure 7.4). Many workers in the sheltered sector were able to secure handsome gains during the 1970s. In 1980, average earnings in several service sector occupations were far higher than in neighbouring countries, whereas in manufacturing the differences were much smaller (Petit, 1986: 174).

National and sectoral wage negotiations in the late 1960s and early 1970s tended to produce fairly uniform increase in wages and benefits across the economy. Any individual industry's fortunes thus depended on its rate of productivity growth and the extent to which it could pass on cost increases (Houard, 1977). The same was true across regions: slower productivity growth in Wallonia than in Flanders, with similar wage trends, led to a fall in Wallonia's relative competitiveness from the late 1960s to the mid-1970s (Ghymers, 1977; De Grauwe, 1980).

Rising labour costs put pressure on the system of industrial relations and led the state to assume a more central role in wage determination. From the mid-1970s, employers, particularly those in the open sector, began to press hard for wage moderation and an end to indexation. The system of national collective agreements between employers and trade unions broke down in 1975, leading the government to intervene (De Villé, 1986; Bogaert *et al.*, 1991). Indexation was suspended, as a temporary measure, for nine months in 1976, then promises of wage moderation were exacted from the unions during the next few years.

The initial surge in wages in 1973-5 led Belgium to diverge from other European countries. High wages kept internal demand at internationally high levels from 1974 to 1980 (Savage, 1991: 246). Those with jobs gained at the expense of those who became unemployed or lost their businesses. High import demand, along with reduced competitiveness in the open sector, led to a persistent balance of trade deficit from 1974. The rise in real wages was a major factor behind both the rise in unemployment and the presence of inflationary pressures in Belgium during the 1970s (Bruno and Sachs, 1985: 206-7, 214-15).

To keep inflation under control, the Belgian government relied primarily on monetary policy in the absence of any consensus on restrictive fiscal or incomes policies. This monetary policy centred on maintaining the nominal exchange rate, which reinforced the loss of international competitiveness up to 1977 or 1978 (De Grauwe, 1983; Spaey, 1982). The mid-1970s have an eerie resemblance to the 1950s, with exchange rate policy undermining wage moderation and firms concentrating their investments on rationalization.

The government's finances deteriorated very rapidly in the late 1970s (Figure 7.7). This happened in other European countries, but was more severe in Belgium (De Grauwe, 1983). Much of the deterioration was endogenous, the result of an essentially passive reaction to changing circumstances after 1973. Tax revenues fell, unemployment payments rose and, after several years of large deficits, interest charges increased (Beckers, 1982; Löwenthal, 1987). But some of the rise in the



Sources: Bureau du Plan and Banque nationale de Belgique.

**Figure 7.7** Net financial need of the government as a share of GDP: Belgium, 1953-93

government deficit resulted from decisions taken at the time. Some of the increase in social security costs, which rose from 15.9 per cent of GDP in 1974 to 22.5 per cent in 1981, arose from extensions of coverage and benefits. Government spending on industrial subsidies and job creation in the public sector also increased rapidly (Figure 7.3 and Buyst, 1993). The rise in the deficit was also the result of decisions not taken. Vuchelen (1991) estimates that about a third of the total increase in the public debt over the 1970s and 1980s can be attributed to political instability, much of which stemmed from conflicts over non-economic issues.

The second oil shock in 1979 and recessions in other European countries in the first years of the 1980s exacerbated all of Belgium's problems. The import price shock was once again translated into increased wages, which by maintaining consumption and by increasing firms' costs worsened the trade deficit. The government's finances began to deteriorate more rapidly as the burden of interest charges rose and industrial subsidies and unemployment benefits increased. The rising government deficit could only be reconciled with a strong franc by real interest rates that were from 1979 among the highest in Europe. The domestic consensus behind restrictive monetary policy began to break down, but agreement could not be reached on an alternative, particularly since politicians were preoccupied with conflicts between Walloons and Flemings that were only in part economic.

#### 3.4.2 Stabilization and limited recovery, 1982-90

Severe pressures on firm profitability and on the exchange rate led to major changes in policy in 1981-2. The government's immediate objective was to restore competitiveness by a substantial redistribution of primary income from households to firms (De Villé, 1986). A first, somewhat timid step was taken in 1981: the Christian Democrat-Socialist coalition negotiated moderate wage restraints and decreased employer social security contributions for blue-collar workers. These measures quickly gave way in 1982, with the replacement of the Socialists by the

Liberals in the government, to stronger wage and price controls and an 8.5 per cent devaluation of the franc. The system of social programming, which had broken down from the mid-1970s, was suspended altogether from 1981 to 1985, and the government used special executive powers to pursue its economic goals. These measures produced an effective real wage cut of about 12 per cent and a restoration of business profits (Bogaert *et al.*, 1991).

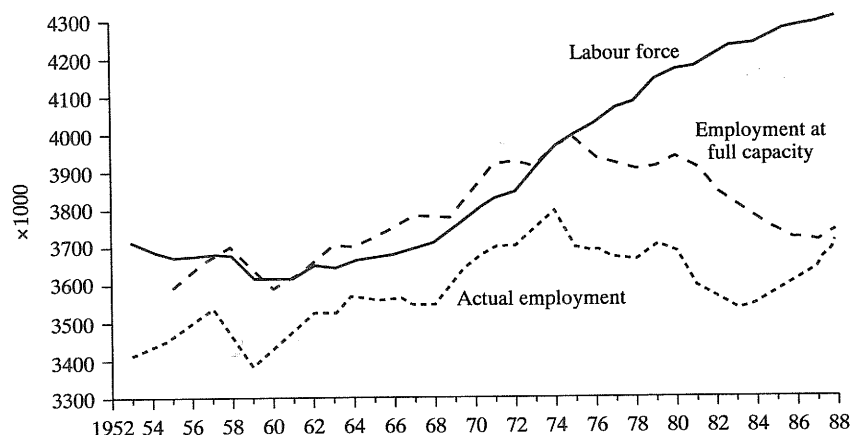
The government's medium-term objective was to restore the public finances by new substantial transfers from households and firms to the state. This was to be done by increasing social security contributions, reducing transfers and reducing public sector employment. There was, of course, a contradiction between the short-term and medium-term policies: the rise in social security contributions continued to increase the wedge between after-tax wages and labour costs until the mid-1980s, which limited the gains in competitiveness and complicated collective bargaining.

The change in policy had mixed results. It was effective in righting the balance of trade, although initially more through the restriction of domestic demand than through increased exports. After 1980 internal demand fell off to a level below that in other countries (Savage, 1991: 246). The rise in unit labour costs was halted, then partially reversed, from 1982 (Table 7.3). But cost pressures on the open sector from the rise in sheltered sector relative prices continued unabated into the mid-1980s (Figure 7.5). Wage moderation and exchange rate changes during the early 1980s did restore competitiveness, pushing relative unit labour costs below their level around 1970 (Figure 7.6). Although Belgium consistently ran a trade surplus from 1983, an improvement in its performance on export markets is perceptible only, if at all, from 1986 (Pagano, 1993). Reliance on a strong franc policy, implicitly in 1983-4 and explicitly from 1987-8 in the context of the European Monetary System, did not help prospects in the open sector.

One reason why a strong, or at least a stable, exchange rate has been a major policy goal is that the system of indexation has been maintained.<sup>8</sup> Although indexation has at times been suspended and manipulated, particularly in the early 1980s, it has remained sacred to Belgian trade unions. The persistence of indexation and the importance of social security contributions in labour costs have been centralizing tendencies in Belgian industrial relations, although throughout the 1980s and in the early 1990s it has been extremely difficult to conclude national agreements between employers and unions without government intervention. At the same time, the locus of wage bargaining has tended to become increasingly decentralized: regional and enterprise negotiations have become more important than those at national and sectoral level (Beaupain, 1983; Dancet, 1988).

The restoration of profitability in the 1980s was not sufficient to produce significant increases in private sector investment until the very end of the decade. In the mid-1980s, firms used increased profits to retire debt and improve their balance sheets. New tax advantages for shareholders, another element in the government's programme, also helped firms to substitute equity for debt. In any case, firms' profits never recovered to the level of the early 1970s, nor did they improve over the longer term relative to profits in other countries.<sup>9</sup>

Low investment and the substitution of capital for labour since the mid-1970s have reduced the Belgian economy's employment capacity (Figure 7.8). With the



Note: Employment at full capacity has been calculated using the estimated parameters from a disequilibrium macroeconomic model of the Belgian economy.

Source: Mehta and Sneessens (1990).

**Figure 7.8 Labour force, employment capacity and actual employment: Belgium, 1953–88**

continuing rise in the labour force, unemployment worsened during the late 1970s and 1980s, and would not easily be reduced simply by an increase in demand.

Government policy since 1981 has been only partly effective in restoring the public finances. The 'snowball effect' of rising interest charges on the government deficit was slowly halted. Interest charges as a share of GNP continued to grow until 1986, reaching a peak of 11.7 per cent. Since then they have levelled off, remaining at 10–11 per cent of GNP, despite a major fall in other government spending. Expenditures, exclusive of interest payments, fell from just over half of GNP in the early 1980s to around 42 per cent in the early 1990s, with most of the fall taking place between 1984 and 1989. Public sector investment has been severely cut back, from a relatively high 3.6 per cent of GDP in 1980 to only 1.6 per cent in 1989, the lowest level in Western Europe. Employment in the public sector stopped growing, but did not decline in the 1980s (Figure 7.3).

While government policies during the 1980s managed to halt the potentially disastrous trends of the late 1970s, they have not been able to increase the rate of economic growth. When more rapid growth did take place in 1988–90, it was the outcome of drastic improvements in the external environment. The fall in oil prices helped energy-intensive industries in Belgium and contributed to the resurgence of world demand for Belgian products.

### 3.4.3 Continuities in performance during the 1970s and 1980s

In the 1970s and 1980s, both labour and total factor productivity in the open sector of the Belgian economy rose rapidly by international standards. Although much of the investment that took place was oriented towards saving labour (Mehta and

Sneessens, 1990), the rapid growth of total factor productivity indicates that the substitution of capital for labour was not the whole story. In any case, until the late 1980s, capital formation in the open sector was quite low, in part because of the squeeze on profits and in part because of slower growth of world demand (Figure 7.2 and Van Rompuy *et al.*, 1986).

One way in which productivity grew was through the closure of less efficient enterprises, although perhaps not too much should be made of this effect. In some sectors, firms which ought to have been closed were kept open. Out of concern to maintain employment, governments in the 1970s and early 1980s were all too willing to subsidize loss-making firms (Leonard and Van Audenrode, 1993). Between 1975 and 1984, aid to enterprises grew by 9–13 per cent per annum (Gilot, 1987). The so-called national sectors – steel, textiles, coal, shipbuilding and glass – soaked up large subsidies, which were carefully calibrated to satisfy regional interests. During the 1980s, the pressures on central government finances and the devolution of industrial policy to the regions led to a reduction in subsidies and a rundown of these industries.

The 1970s and 1980s saw a profound shift in the control of industry. During the troubled years of the 1970s, employment in multinational enterprises held up better than it did in Belgian firms (Van Den Bulcke, 1983). In the 1980s, many of the Belgian firms which survived the 1970s were taken over by foreign firms (Daems and Van de Weyer, 1993: 56–7). Foreign ownership may have brought technological or marketing advantages, or it may have imposed greater discipline on costs. In either case, the large increase in foreign control of Belgian industry must have contributed to the relatively rapid rate of labour productivity growth in the open sector.

Productivity growth in the sheltered sector was much slower than in the open sector during the 1970s and 1980s. This is not, perhaps, surprising since the sheltered sector contains many service industries. But productivity in many Belgian services grew less rapidly than in neighbouring economies, although the differences were not so great as in the open sector (Englander and Mittelstädt, 1988).

Some of the relatively poor productivity performance of the sheltered sector must be laid to industries run or controlled by the state. Until the 1980s, these industries often operated with a soft budget constraint. Studies of several state-run industries (and of some public services included in the government sector) suggest that in the 1980s they were, by international standards, very inefficient providers of services (Vuchelen and Van Impe, 1987: 103; Moesen, 1990). Whether they had become relatively more inefficient during the 1970s and 1980s is not known. Englander and Mittelstädt's (1988) total factor productivity calculations for transport and communications, which in Belgium includes the state-owned railway, airline, telephone and postal companies, show Belgian performance to have been relatively poor. During the late 1970s, state-owned industries were certainly under pressure to take on additional labour (De Borger, 1993). This changed in the 1980s as the deterioration of government finances tightened the budget constraint. But another consequence of tighter control of the public purse was a sharp drop in public sector investment, including investment in state-run industries. Yet, unlike in other European countries, there were no significant privatizations during the 1980s (Vuchelen and Van Impe, 1987).

#### 4 Structural change and the control of industry

A persistent criticism of Belgian economic performance during the past fifty or sixty years has been that it has depended too much and for too long on steel, non-ferrous metals, textiles and other products of its early industrial development, and that there has been a failure to move towards more modern industries (Hogg, 1986; Van der Wee, 1981, 1984, 1987; Löwenthal, 1987). The blame for this structural inertia has often been placed on the holding companies, the predominance of which has been a distinctive feature of Belgian capitalism. These concentrations of financial power, which once had control over a large share of heavy industry, are alleged to have acted mainly to preserve and exploit their existing assets in Belgium (and the Congo), and to have lacked the dynamism to channel resources into new activities (Van der Wee, 1981, 1984). This argument, while it contains an important element of truth, needs refinement.

As an explanation of alleged weaknesses in Belgian economic growth, particularly before 1960, too much emphasis has been put on shifts in the composition of industry and trade. Simple analyses of the hypothetical effects of shifting resources among sectors or among industries show that plausible changes in structure would have had little impact on the growth rate (Daems, 1978: 130–5; Sprumont, 1986). Similarly, the studies of Belgian export performance, while showing a consistently unfavourable product specialization, find that loss of market share within product groups has generally been a much more important factor (Waelbroeck and Rosselle, 1961; NBB, 1988; Konings, 1988; Pagano, 1993).

These results should not be surprising. Structural change has contributed very little to explaining growth elsewhere (Denison, 1967: 223–4; Maddison, 1982; Matthews *et al.*, 1982: ch. 9). The largest structural effects in postwar Europe came from shifting resources out of low-productivity agriculture, a path along which Belgium had already travelled a long way by 1945. Nor should it be surprising that Belgium has not managed to alter markedly its trade structure. Studies of revealed comparative advantage show a high degree of persistence in most European countries (Crafts, 1989). Moreover, the great exception to this persistence has been the UK, where changes in specialization have been seen as a sign of economic weakness rather than of strength.

If changes in industrial structure have been less important than performance within industries, and this was certainly true of the major improvement in Belgian growth around 1960, then criticism of the holding companies for failing to shift resources into more modern industries is not really telling. More to the point would be the observation that they failed to assure that their subsidiaries performed better. While holding companies have at various times sought to reap gains from cooperation among their subsidiaries, their internal organization has left much to be desired, as this appraisal from the 1970s bears witness:

The holding company conducts an ill-defined corporate policy through a loose organization, which might be too flattering a term to describe the real system . . . There is nothing in the holding company comparable to the staff functions of the conglomerate's head office. Uniform control systems such as standardised accounting practices are not utilized, which should make it much more difficult to coordinate the operations of the subsidiaries

and to evaluate performance . . . The holding company structure is probably the poorest way in a modern economy to organise control, which apparently is the central business of the large Belgian holding company. (Daems, 1978: 34–5)

Why did this form of organization persist for so long? Daems, the leading student of the holding companies, argues that it was not because they were particularly efficient financial intermediaries. Instead, their structure permitted 'large investors to implement their policy preferences and diversify their wealth at the same time' (1978: 122). Uncertainty about the future and the likelihood of conflict among shareholders over corporate policy made this control worth paying for.

This explanation for the persistence of holding companies raises more questions than it answers. What sorts of policy have been pursued by those with control? Why has the central organization of the holding companies remained so weak? It particularly raises difficulties in the case of the dominant holding company, the Société Générale, in which large individual investors have never held more than a few per cent of the shares.

An alternative interpretation, which also emphasizes the importance of corporate control, is that the holding companies can be seen as federations which served to permit owners or managers to retain effective control of the constituent firms (De Geest, 1972; Kurgan-van Hentenryk and Puissant, 1990: 217–18). They were vehicles through which firms in capital-intensive industries could, with less risk of losing control, raise funds and cooperate with other firms in the same and related industries. Firms in highly cyclical industries, like steel, could benefit from the holding's financial support in downturns, thus protecting themselves against the loss of control. This interpretation is consistent with the lack of staff functions, which remained in the subsidiary firms; with the specialization of directors, who supervised sectors from which they were recruited (and by which they were sometimes even paid); and with the very limited mobility of managers and investment capital among holding company subsidiaries (CRISP, 1962: 403, 424; Granick, 1962: 136–40; Cvetkov, 1972).

The holding companies, a legacy of Belgium's industrial past, had once played a dynamic role in growth. Before the First World War they mobilized capital for industrial development and channelled Belgian savings into transport and utility companies abroad, thus providing export markets for their industrial subsidiaries (Van der Wee, 1981). But during the interwar years, the holding companies increasingly concentrated on the domestic market and exploited their privileged position in the Congo colony (Kurgan-van Hentenryk, 1992). In these contexts, federations of firms were likely to be anti-competitive. The Société Générale was instrumental, for example, in putting together domestic coal and cement cartels and both domestic and international steel cartels (Kurgan-van Hentenryk and Puissant, 1990: 240–3; Hogg, 1986).

By the postwar period, holding companies had become a vehicle for largely conservative interests. They played a major role in delaying mine closures and in securing national and European Community subsidies for coal mining (Milward, 1992: ch. 3). The electricity generators and distributors, largely controlled by the holdings, resisted efforts at nationalization and have kept electricity prices among



the highest in Western Europe (Mommen, 1994: 96, 167). In the steel industry, capacity increases in the 1950s took the form of enlargements and modernizations of existing mills rather than construction of new integrated mills.<sup>10</sup>

When Belgian economic growth accelerated in the 1960s, the holding companies played only a minor role. They have, in fact, offloaded many of their industrial subsidiaries, sometimes with state help, and have shifted their resources increasingly towards the sheltered sector of the Belgian economy and abroad (*Revue Nouvelle*, 1972: 445; Storms, 1972; Sortia, 1986).

Viewing the holding companies as federations serving the interests of constituent firms brings them into line with a more general, and equally common, criticism of Belgian capitalism: that it is too familial (Daems and Van de Weyer, 1993: 116). Family firms, it is argued, have been oriented more towards short-term profits and maintaining their autonomy rather than towards growth (Camu, 1960: 411). The share of investment financed by retained earnings has been persistently high (Camu, 1960: 411; Maldague *et al.*, 1993: 140). Family firms have been more risk averse, particularly with respect to intangible investments in research or overseas marketing. In general, Belgian firms tend to spend less on both of these activities than do firms in other small countries, such as the Netherlands, Sweden or Switzerland (Jacquemin and De Jong, 1977: 124; Fagerberg, 1988).

Industrial policy has done little to overcome these deficiencies. Its main thrust from the 1950s to the 1970s has been to subsidize physical capital formation (Boelaert, 1983; Gilot, 1987). This bias, along with the country's traditional product specialization, may explain why the structure of Belgian trade suggests that the country is abundant in capital- and natural resources and scarce in human capital (Culem, 1984; Tharakan and Waelbroeck, 1988). Moreover, industrial subsidies have been given unselectively. The *politique de guichet*, which has also characterized grants for research and product development, has meant that resources have tended to go to existing firms and industries (CEB, 1962: 436; Boelaert, 1983; Gilot, 1987; Jaumotte, 1987).

The major way in which the deficiencies of Belgian familial capitalism have been overcome is through the participation of multinational firms in the Belgian economy. Whatever its other defects, industrial policy has been relatively non-discriminatory, making Belgium one of the European countries most open to foreign investment (Sleuwaegen, 1987: 167). Multinational investment, especially since the 1960s, has introduced new products and methods. In the 1970s, multinationals were more ruthless in closing inefficient plants, thus avoiding the long and costly agonies of firms in the 'national sectors' and/or under the wing of the Société Générale. Foreign firms have played a major role in the high and sustained rate of productivity growth in the open sector of the Belgian economy.

The importance of foreign control in the Belgian economy, and its increasing role in other European economies, should impose a certain caution on the interpretation of variables for national research and development in the cross-section regressions used in testing the new growth theories. Royalties and fee payments by Belgian subsidiaries to their foreign parent companies suggest the crucial importance of technology transfers from abroad (Van Den Bulcke, 1983: 313; Sleuwaegen, 1987: 164).

This view of indigenous Belgian enterprise is not too far from Chandler's characterization of British capitalism as personal (Chandler, 1990). Both countries

had dynamic entrepreneurial classes in the nineteenth century. Both had a relatively slow development of large firms with managerial hierarchies. The role of the holding companies, seen as federations, is analogous to the British mergers that resulted in little rationalization and left the constituent companies with considerable autonomy. But, fortunately for Belgium, its industry did not suffer from other defects of British capitalism. Its owners and managers were, as in France, often trained as engineers, making for technical, if not always commercial, competence (Granick, 1962: 259). Its trade unions, while well developed and firmly implanted, left shop floor control in the hands of management.

## 5 Conclusion

The history of Belgian economic growth since the Second World War is a tale of decline and resurgence. From the First World War until around 1960, Belgium fell behind its neighbours. During the interwar years, and particularly in the 1930s, it suffered from being a small open economy in an unfriendly world. Its plight was made worse by long adherence to the Gold Standard, which weakened its export industries, and by the rise of anti-competitive practices in the domestic economy. Belgium emerged from the Second World War with relatively little damage, but few gains in productivity, and with an unusually good foreign exchange position. Perhaps because it was relatively well off, Belgium failed to take full advantage of this situation. The late 1940s and 1950s were marked by a search for social peace and the protection of established economic interests. Private and public complacency prevailed.

From 1960 to the present, Belgian economic growth has been stronger than that of its neighbours. The decisive elements in this resurgence were a liberalization of the economy, which was not unrelated to Belgium's adherence to the European Community, and the accompanying influx of foreign investment. Growth has been led by a dynamic open sector which has had unusually rapid productivity growth. This has been true even after 1973, despite (or as a response to) the slowdown in world trade, rising unit labour costs and restrictive monetary policy. In this period, productivity increases have come at the expense of open sector jobs – one element making for Belgium's unusually high rate of unemployment in the 1970s and 1980s (De Villé and Van der Linden, 1993).

The dark side of Belgian growth since 1960 has been the public sector and those parts of the open and sheltered sectors controlled by the state. Productivity growth has been slow relative to that in other countries, and these sectors have absorbed considerable resources in subsidies and public investment. The government's own finances have deteriorated since the early 1970s. This has been a consequence of the slowdown in growth, but also of political instability and the difficulty of reconciling diverse and well-established interests.

The prospects for Belgian economic growth in the 1990s rest ultimately on a resurgence of growth elsewhere in Europe. Whether Belgium benefits fully from any increase in external demand will depend on the strength of its open sector, over which hangs the dreadful dilemma posed by the public debt. Failure to reduce the debt burden will undermine the credibility of government policy, with the likelihood of a risk premium on interest rates, and it will endanger Belgian participation in the

European Monetary Union, which may lead to exchange rate volatility. Neither of these effects would encourage the international investors who have been so important to the Belgian economy. On the other hand, a serious reduction of the public debt would be likely further to increase taxes and social security charges, which have already had the effect of discouraging the creation of jobs. Austerity could also poison relations between management and labour, which would discourage foreign investors.

## NOTES

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- 1 The first ten years of the national accounts were put together retrospectively and published only in the mid-1960s. These and subsequent official figures may themselves be a weak reed (Denison, 1967; Kestens, 1990). Some coefficients used in estimating consumption and value added have not been changed since 1953.
- 2 These comparisons draw on the data in Maddison (1989, 1991, 1994). Maddison's estimates for Belgium before 1953 are based on extrapolations using production indices and should be regarded as provisional and perhaps not highly reliable. The detailed reconstruction of historical Belgian national accounts is currently under way at the K.U. Leuven, so that better figures should be available in the years to come.
- 3 There have been regional differences in economic growth that have important implications for Belgian politics. Here the differences between Flanders and Wallonia will only be touched on incidentally, since, by comparison with other European countries, these regional variations are not large.
- 4 Comparisons with 1938 tend to favour Belgium. Belgian output was lower in 1938 than in 1937. In all other European countries for which Maddison (1989) presents data, output was higher in 1938. On the other hand, the year 1950 may be relatively unfavourable to Belgium.
- 5 Another factor is the slow growth of consumption demand, which grew by only 2.3 per cent per annum, while in the OEEC it advanced by 4.2 per cent on average. Households started to save more of their income, with the average savings rate rising from 9.4 per cent in 1950 to 15.0 per cent in 1960. Lamfalussy (1959) saw this behaviour as even more deflationary than the National Bank's monetary orthodoxy.
- 6 Some of the growth in exports is exaggerated by the finer international division of labour. Export statistics record total value rather than value added. Automobiles accounted for 9 per cent of Belgian exports in 1965, but the Belgian contribution was only about one-third (Kervyn de Lettenhove, 1968). It has been alleged that the rapid growth of both exports and imports during one year in the 1960s can largely be explained by the increase in shipments of materials between Ford plants in Belgium and Germany (Kindleberger, 1967).
- 7 An increase in the wage share took place in other European countries, but the

Belgian increase was much larger (De Grauwe, 1983).

- 8 Another reason for a strong currency stand was to help reduce the costs of financing the national debt. By credibly linking the franc to the mark, interest rates could be brought down.
- 9 The OECD profitability index for the private sector went from 94.8 in 1971 to 62.7 in 1981, a 34 per cent decline (*Economie Européenne*, no.50, Dec. 1990). For Germany, the comparable figures are 96.4 and 84.3 (– 13 per cent); for France, 114.4 and 79.7 (– 33 per cent); for the Netherlands the decline was 9 per cent, and for the twelve EEC countries, 12 per cent. But profitability recovered strongly between 1981 and 1988: it increased by 32 per cent in Belgium compared to 20 per cent for Germany, 25 per cent for France and 26 per cent for the Netherlands. However, it is immediately clear that the recovery did not (as for France and the UK) restore profitability to its 1971 level.
- 10 Lamfalussy (1961) and De Brabander (1981) use the fact that the holdings controlled a large share of the steel industry as an argument against indivisibilities in investment. It would take a more detailed study of decision-making by the holding companies in the 1950s to discriminate between these explanations.

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