

INTERNATIONAL MONETARY FUND

May 16, 1947

TO: Members of the Executive Board
FROM: The Secretary
SUBJECT: The Economic Conditions of Western Europe

The Managing Director's report on his recent trip to Europe is circulated herewith to the Executive Board.

Att: (1)

Economic Conditions in Western Europe 1/1. DenmarkIndustrial production

Industrial production in Denmark, as in most of Western Europe, has been rising slowly but steadily. Since September 1946 overall industrial production has exceeded the 1938 level of output. In January and February it was about 105 and 104 per cent of 1938.

This increased production has been made possible, despite lower productivity, through a large increase in the labor force employed in industry. The labor supply for industry has been increased through a diversion of farm workers who cannot be used in agriculture at this time. Further increase in industrial production is largely dependent on increased efficiency of labor, the replacement of worn-out equipment and larger supplies of coal.

Agricultural production

Agricultural production is considerably less than the pre-war volume and far below the capacity of the Danish economy. In summer months, as in June 1946, total animal production (butter, pork and bacon, eggs and cheese) reaches the pre-war average; but in the winter months, because of lack of imported feedstuffs and grains, production declines sharply. The seasonal variations are now far greater than they were before the war. Production of animal products in January 1947 was 69 per cent and in February 64 per cent of the pre-war monthly average.

The restoration of animal production, which is especially significant for Danish exports, will in the first instance depend upon securing imported feedstuffs at prices which make it profitable to produce butter and bacon. At present the high prices of feedstuffs, as compared with butter and bacon prices, makes it unprofitable for Denmark to import the full amount allocated to that country. It may be interesting to note that butter and bacon prices are now 113 and 71 per cent while imported oil cakes are some 300 per cent above pre-war levels.

For the long run, Denmark has the problem of reconstituting its agricultural processing industries by modernizing the dairies and bacon factories. Most of the cooperative dairies and bacon factories were laid out half a century ago. The size of the processing plants was suited to the level of

1/ This brief account will be supplemented with comprehensive surveys of economic conditions in each of the Western European countries to be issued shortly.

production and the transportation facilities of that period. It is unquestionable that larger production units would be more efficient today.

Since the liberation, in adjusting to the smaller volume of agricultural production, processing has become more concentrated. For example, the bacon factories in Jutland, most of whose output is exported, work at a far higher level of capacity than the bacon factories in Zealand whose output is largely for domestic consumption. The reconstruction of the dairies and bacon factories will probably await the availability of labor and materials for construction and the need for enlarged capacity consequent upon the restoration and expansion of agricultural production.

Prices and wages

Denmark has succeeded in maintaining, to an extraordinary degree, stability of prices. The cost of living has practically remained unchanged for more than a year. The index in January 1947 was 167, only one point higher than in January 1946. Wholesale prices have not maintained the same stability largely because of higher prices for imports and exports. Wholesale prices in Denmark rose during 1946 from 194 in January to 211 in December (1936 = 100). In January, February and March 1947, the wholesale price level remained virtually unchanged.

Wage rates are tied to the cost of living and have been reasonably stable. So long as the cost of living can be stabilized wage rates can be kept from rising. On the whole, there have been few labor difficulties. Much of the labor of the country is covered by a general agreement entered into by the Trade Union Council tying wages to the cost of living. During our visit there was a strike in Copenhagen of printers who were not covered by the Wage Stabilization Agreement.

Budget

The budget, including the investment budget, will show a cash deficit of about 100 million kroner in 1946-47. The probability is that for the last few months cash receipts have equalled or exceeded cash payments. The budget projected for the fiscal year ending in 1948 will show a surplus of between 100 and 200 million kroner. These budget figures do not include the receipts from the extraordinary capital levy which are earmarked to repay the advances of the Central Bank in connection with the German occupation.

Balance of payments

There has been no fundamental change in the balance of payments situation in recent months. Production for export is holding up as expected, in part because of the domestic rationing of butter and bacon. Actual shipments in the first 3 months of the year were slightly below expectations. This reflects the difficulty of moving ships because of the frozen harbors.

A new balance of payments estimate for 1947 is being prepared by the Danish authorities. It will indicate an increase in receipts of 150 million kroner resulting from the rise in butter and bacon prices. No change in the projected deficit has been made despite the expected higher export receipts. Nor will the volume of imports be increased. Instead the additional earnings are to be kept in reserve to offset higher import prices.

No serious problem of financing the balance of payments is expected. The arrangements with the Bank of England provide seasonal financing this year. The International Bank loan, if granted, will meet the foreign exchange needs for reconstruction. The Fund resources would be used by Denmark, if at all, only for short credit to be repaid during the year.

2. France

Industrial production

Industrial production in France is at present running at a rate about 95 per cent of the 1938 level. The measure of recovery this represents can perhaps best be seen by comparing it with the target of the reconstruction plan. The Monnet Plan, as projected in the beginning of 1946, set a goal of 100 per cent of 1938 output to be attained by the end of 1946. It is probable that this target will not now be reached until June. This would seem to indicate that it is taking six months longer to reach the industrial target than had been expected.

While the progress in French industrial production is encouraging, there are some qualifications necessary to present in full perspective the significance of the attainment already achieved. The year of comparison, 1938, was not a good year. Furthermore, the present level of output has been attained with a considerably larger use of labor than before the war.

Nevertheless, all things considered, progress during the year has been fair. There has recently been a flattening out of production. The principal difficulty is coal. Domestic output of coal is above the 1938 level, but the supply of imports is inadequate and expensive. The effect is to limit the rate of recovery of industrial production, particularly the production of steel which is essential for reconstruction. Despite this, it is not unreasonable to expect production to continue to improve and a target of 110 per cent of pre-war output (which will be very difficult to attain) is still the aim for the end of 1947.

Agricultural production

Production of agricultural products in France has been seriously affected by the severe winter. Of the somewhat more than 4 million hectares sown with winter wheat, 1-1/2 million hectares have been frozen. Much of this was resown with spring wheat. The crop, nevertheless, will fall far short of expectations.

With normal yield, 4-1/2 million hectares would make France self sufficient in wheat. This is now impossible and France will be heavily dependent upon imports to meet its essential food supply. Great difficulties are expected, particularly in maintaining food distribution in large cities. The bread ration has been cut to 250 grams a day which is very little in a country where people are normally big bread consumers and where meat is scarce. To meet even this reduced ration, some \$90 million will have to be spent on wheat imports in 1947. But this is not the whole cost of the agricultural difficulty. The wheat carry-over into 1948 will be far less than normal. Further imports will be necessary in the first half of next year.

The long-run prospects for agriculture are not unpromising in France. Production is being carried on with greatly reduced labor supply. Before the war, the agricultural labor force was approximately 7,140,000. Today it is about 6,310,000. This figure includes 200,000 German prisoners of war who will be liberated this year and will have to be replaced. Furthermore, the efficiency of agricultural labor, which is relatively good, is being impaired by a lack of agricultural machinery and equipment. The large demand in the United States and in other countries limits the imports of such equipment available to France. At the same time, domestic production of agricultural machinery, which is given high priority, is hampered by a lack of steel.

Another difficulty hampering agricultural production has been the lack of fertilizers which is only slowly being made good. By 1948, it is hoped that the supply of fertilizer will be normal except for "engrais azotes" (nitrates).

Animal production is retarded by the lack of feedstuffs and their high price. Plans are proceeding for the development of production of peanuts and copra in French overseas territories to improve the supply of concentrated feedstuffs. The unwillingness of the rural population to hold savings in the form of francs has impaired the efficiency of animal production. Livestock is being carried through the winter although it would be more economical to slaughter the cattle.

Labor

The supply of labor is wholly inadequate for the many needs. The Monnet Plan foresaw the necessity of recruiting 750,000 men this year. However, if production does not expand at the level expected, actual needs will be somewhat lower than this target. A recent check places the need for new recruitment at about 390,000 men, including the replacement of the 200,000 former prisoners of war. The French Government hopes to make good this number as follows:

- (a) Within France--by reducing the army and the civil administration, and by the release of prisoners, 215,000.
- (b) Outside France--from Italy, 70,000, North Africa, 55,000, and Germans and displaced persons, 50,000.

The further need for labor will depend, of course, on the progress of production. Next year, an additional 250,000 men is expected to be added to the working force. Half of them it is hoped to recruit from within France and the other half through immigration.

The efficiency of labor is considerably below pre-war as may be seen from the fact that with the greatly increased number of employed persons industrial output is slightly below the 1938 level. Some improvement in efficiency is apparently being noted but greater productivity is possible only as equipment becomes available and the coal problem is solved.

Labor has been exceptionally cooperative. Real wages have fallen sharply from pre-war, but labor has not asked for higher wages despite the high cost of living. The C.G.T. has placed emphasis on the fact that higher real wages can come only from more production and not from more, but depreciated, money wages. The C.G.T. has accepted the 48-hour week and the stabilization of wages as trade union policy. During the last eight months, few important strikes have taken place and nearly always these have been against the wish of the leaders.

How long the present labor truce can last it is difficult to say. The avoidance of a general increase in wages obviously depends upon political stability and upon the prevention of the further rise in living cost. The important factor will be the continuance of the bread supply in the large cities. It is possible that wage adjustments can be limited to bringing the lowest level of wages to an agreed minimum standard.

Prices

There has been considerable success in maintaining price stability in the last few months. The psychological effect of the decree to reduce prices has been helpful, but this could only be sustained because of favorable economic factors. Particularly important in keeping prices down has been the pressure placed on business to liquidate inventories. The flow of goods to the market in recent months has been larger than would be expected from current output.

Particularly noteworthy is the decrease, ranging up to 40 per cent, which has taken place in the prices of wines and liquors. Resistance at home and abroad to quoted prices has forced the decline. The prices of fruits and fresh vegetables sold in export markets have also gone down, largely because they were out of line with Italian and Spanish prices.

The difficulties in maintaining present prices is obvious. The supply of consumer's goods, particularly bread and meat, is considerably below pre-war with no prospect of early improvement. This, in itself, would place great pressure on prices. The unbalanced state of the budget has the effect of adding to the disposable funds in the hands of the public that competes for the limited supply of resources.

Budget

The budget remains seriously unbalanced. As it now stands, it is likely that the deficit in the government budget will be about 100 billion francs. In addition, there is a large deficit in the budgets of the nationalized industries. The present subsidy in coal mining is not sufficient and will have to be increased. The nationalized gas and electricity concerns are running a deficit of about 15 billion francs. Other nationalized industries will bring the aggregate deficit close to 30 billion francs. Whether the deficit of the nationalized industries is in fact an operating deficit is open to question. It may be claimed that a considerable amount of investment is being recorded as operating expense. But from the point of view of finance the need for new funds is the same whether it is to meet an operating deficit or to pay for new investment.

The government has great difficulty in borrowing to cover the deficit. The one means open to the government is advances from the Bank of France. The public shows little inclination to buy government bonds although considerable savings do take place through the Caisse d'Epargne. The fundamental cause of the budget problem is the inadequacy of the tax system. Between 50 and 60 per cent of the national income of France is represented by "revenus mixtes". This, in effect, comprises the wages, profits, and interest earned by agricultural and small industrial and commercial entrepreneurs. Apparently it is difficult to tax such income in France. Some means must be found to increase taxes; otherwise, continuation of budget deficits will be inevitable. So long as the budget deficit continues, pressure on the price level in France is inevitable.

Trade and balance of payments

On the whole, French trade during 1946 has been close to the schedule established under the Monnet Plan earlier in that year. Imports have been \$85 million less than expected, largely because of the unavailability of goods. The volume of imports, of course, has been considerably less than projected because the rise in prices has in part been offset by a reduction in quantities.

On the export side, the volume of exports from the franc area has been approximately the amount projected early in 1946. Recent developments on the export side are quite encouraging. During the first three months of 1947, exports from metropolitan France, including exports to French overseas territories, were at an annual rate of more than \$1,600 million. This is roughly equivalent to net exports from the franc area at a rate of around \$1,200 million a year, which is the planned level of exports for 1947. The level of exports for the first three months, therefore, would be adequate, if continued through the year, to reach the export target for 1947. Clearly, as production expands, France should have the capacity to export sufficient goods to meet this target.

The immediate problem on the export side is French prices. It is probable that recent export figures reflect to some extent the disharding of inventories that has been going on in France. This is about at an end. Prices of French production may soon become an impediment to the export of goods from France. This has already been apparent in some important export fields. Further price increases will emphasize the difficulties. A rise of as much as 20 per cent in present French prices for export goods would probably deal a serious blow to the entire French export trade. The maintenance of price stability is of fundamental importance in attaining the French export target.

The 1946 balance of payments deficit on current account (\$1,975 million) was approximately \$100 million below the expected deficit under the Monnet Plan. The 1947 deficit is expected to be approximately \$1,600 million. The greater part of this deficit will be financed through unused credits in the United States and elsewhere, further liquidation of assets, and new loans. There remains, at present, an uncovered deficit of approximately \$400 million. If the balance of payments program of 1947 is to be fully realized, additional resources in this amount must somehow be raised--either from new credits or by further drawing on French resources. The alternative would be a reduction in the import program which might seriously affect the rate of France's recovery.

3. Luxembourg

Production

Industrial production in Luxembourg is concentrated on iron and steel. During 1946 output rose rapidly until by mid-year it reached the 1938 level of production. Since then, there has been some recession in production, largely because of lack of coal and coke.

Agricultural production in 1947 is expected to reach the 1938 output. The further expansion of production is hampered by lack of fertilizers and a shortage of agricultural labor. At present, some 4,000 German prisoners of war are employed in agriculture. These will be released this year; but it is expected that at least 2,500 workers will be replaced by free German workers and possibly some displaced persons.

Retail prices and wages

Retail prices in Luxembourg (excluding rents) are approximately 270 on a 1938 base. This is about 15 per cent below the Belgian level of prices, which is the primary factor affecting Luxembourg prices. Wage rates are tied to retail prices and have been kept relatively stable. The level of wages in Luxembourg is slightly higher than in Belgium, particularly for unskilled workers. No difficulty in maintaining wages and prices is expected.

Currency developments

The incorporation of Luxembourg in the Reich resulted in the replacement of the franc circulation with reichsmarks. At the time of the liberation there were in circulation 236 million reichsmarks in notes, 17-1/2 million reichsmarks in checking accounts, and 256 million reichsmarks in deposits in Germany. These were converted at two rates. The first 100 francs per capita were converted at 10 francs per reichsmark, the remainder at 5 francs per reichsmark. The National Bank of Belgium provided some 1,475 million Belgian francs in connection with this conversion.

The effect of the conversion at the rate of 5 Belgian francs per reichsmark was, in effect, to wipe out more than half of the money supply. This monetary purge was carried out without burdening the State with debt. In this respect, Luxembourg is almost unique.

At the time of the reconversion part of the remaining money supply was blocked. Some 900 million francs remained blocked at the end of 1946. Of this, 300 million francs was in the form of notes and 600 million francs in the form of deposits.

Budget

The ordinary budget is about in balance. The extraordinary budget is dominated by the reconstruction program. So far, some 1,650 million francs have been spent for this purpose. The 1947 budget provides for expenditure of 700 million francs on reconstruction. The whole reconstruction program will be spread over four years and the total cost will be 5 billion francs or more.

The greater part of the extraordinary budget will be met from extraordinary revenues. A capital levy of 2-1/2 to 7 per cent has been imposed on all fortunes and a special tax on war profits has been enacted. There is also a considerable amount of enemy property that will be liquidated for the benefit of the State. These three extraordinary sources of revenue will yield approximately 3 billion francs.

The remainder of the reconstruction budget is to be met from loans. Last year, a 500 million franc loan for 50 years at 4 per cent was issued. Much of it was taken up by the State Savings Bank. A new 250 million franc loan will be open for subscription by holders of dollar and sterling assets. The loan will be denominated in these currencies. It will be issued with a maturity of 20 years and will bear interest at 3 per cent. In addition, the Luxembourg Government may request the International Bank for a reconstruction loan of \$20 million.

These loans together with the extraordinary receipts will be almost enough to meet the entire reconstruction program.

Balance of payments

In effect, Luxembourg does not have a balance of payments problem. The customs union with Belgium places on that country the burden of providing the foreign exchange needed in connection with Luxembourg's external transactions.

4. Netherlands

Special difficulties

The restoration of the international economic position of the Netherlands is hampered by certain difficulties peculiar to the Netherlands. In the first place, the liberation was longer delayed than in other parts of Western Europe. The progress of reconstruction has, therefore, been handicapped by a late start. In addition, the external relations of the Netherlands were closely tied with the Netherlands East Indies. This area is still a drain on Dutch resources. The disruption of the German economy, on whose trade and transit the Dutch economy was considerably dependent, also has delayed recovery in the Netherlands.

Industrial production

In the two years since the liberation, industrial production in the Netherlands has risen steadily, with only minor interruptions, until it is now about 90 per cent of the 1938 level. This level of output is maintained with an industrial labor force that is approximately 10 per cent above the pre-war level.

The further expansion of production is retarded by the lack of equipment, and, to some extent, raw materials. The great difficulty in reconstruction at present is the need for more steel. Imported steel is available in limited amounts, far below the normal imports of the Netherlands.

Agricultural production

Agricultural production in the Netherlands can be restored only slowly as livestock population is increased. This in turn depends upon adequate fertilizers and the availability of imported feedstuffs.

Crop production in 1946 was only 50 per cent of the 1938 level. Despite an unfavorable winter and spring, it is hoped that production this year will be close to 90 per cent of pre-war.

Prices and wages

The cost of living has been kept relatively stable since July 1946 despite the rise in import prices. This has been done by absorbing marketing expenses at home, by the grant of large subsidies amounting to a half-billion guilders annually, and by freezing rents and public utility prices. Unless

a further rise in prices takes place in world markets, there is no great danger of a rise in the cost of living.

Wholesale prices have been rising steadily, largely because of the effect of high world prices on the Dutch economy. There is little that the Netherlands authorities can do to keep down wholesale prices in the face of pressure exerted from outside.

Wage rates have been kept almost unchanged for more than a year. So long as the cost of living can be kept at present levels, no great demand for higher wages will be felt. There seems to be a good understanding, formed during the war and continuing today, between labor and management. A general council representing labor and management advises on wage policy. A case was mentioned of an industry where, as often happens in a seller's market, the industrialists and the union were agreed on a wage increase. Nevertheless, even labor representatives on the council opposed the proposed increase on the ground that it would disrupt the wage and price policy of the government.

Budget

The ordinary budget of somewhat over 2 billion guilders is balanced. The extraordinary budget (comprising emergency and military expenditures, as well as public capital outlay) shows a deficit of close to 2 billion guilders, but will be reduced next year to well under 1 billion guilders.

Heavy extraordinary taxation has been voted in the form of a capital levy, ranging from 5 per cent to 25 per cent, which should yield 2 billion guilders and a tax on capital increase, the yield of which is assessed at 3-1/2 billions. Together, they would be equivalent to the amount of frozen currency to the paying of which the revenues are allocated. The situation would be very simple if the people owning the currency were the same as those owing the taxes. But it is not so, to a considerable extent.

Balance of payments

The estimates of the deficit of the balance of payments for the years 1947-1949, made by the Fund staff on the basis of data supplied by the Netherlands, have to be modified as they were based on a reconstruction plan which--the Finance Minister told me--was too ambitious and foresaw a more rapid recovery than is deemed possible at present. It was too ambitious for several reasons, including the non-availability of all the necessary imports.

The total deficit to be incurred for these three years might be somewhat less than 3 billion guilders. The big deficit of 1-3/4 billion guilders foreseen for 1947 should stand, however, and might even exceed that sum, as during that year the greatest effort will be made to start the economic revival. The restoration of minimum of inland transportation facilities, the rebuilding of the merchant marine and purchases of machinery and raw material to replenish stocks, which are still at a very low level, cannot be deferred and will require substantial expenditures abroad this year.

The Dutch intend to cover this deficit of nearly 3 billion guilders during the next three years as follows:

- (1) Unused part of loans amounting to 400 million guilders;
- (2) International Bank loan of \$535 million (1400 million guilders);
- (3) New loans from the U.S. and Switzerland, not large in amount, but significant in determining further borrowing from private sources;
- (4) Consolidation of the short-term loan of \$200 million from the Export-Import Bank.

The balance, after these credit operations, would be covered by the liquidation of foreign assets. The Dutch Government thinks a voluntary liquidation can yield quite a large amount, for the two following reasons:

- (a) Originally 40 to 50 per cent of the proceeds of the liquidation were blocked. According to a new decree, they will now be free.
- (b) There is a great need for internal funds to finance reconstruction and to pay the two levies which, as said above, correspond only in total figures to the amount of currency blocked.

Apart from the big deficit with the dollar area, the Netherlands will have a sizeable deficit with Belgium and the U.K. As far as the balance of payments with Belgium is concerned, no equilibrium may be expected for some years as the Netherlands will have to import more from Belgium than she will be able to export to that country. After the conclusion of the recent trade-agreement with the U.K., the outlook for an equilibrium in the balance of payments with that country is more favorable. The civilian imports from England will be covered, to a large extent, by Dutch exports and the balance will be paid by liquidation of Dutch assets in England. Other exports from Britain, however, will have to be met through credits in one form or another.

5. Norway

Industry and mining

Industrial production in Norway now exceeds the 1938 level. Since August 1938, production has remained constantly above the 1938 level of output, which reached a peak of 119 per cent in February. The average for the past six months has been 110 per cent of 1938. There are obviously great differences among industries in this respect. Unfortunately some of the important export industries lag behind in production. This is particularly true in paper and pulp, one of the major export industries of Norway.

Mining has been considerably below pre-war, largely due to the fact that some of the iron mines were destroyed by the Germans. However, the electro-metallurgic industry has been working with imported concentrates, and operates close to the pre-war level. The metal fabricating industry, working for home production, is far above the pre-war level.

Agriculture and fisheries

Agricultural production is considerably below the pre-war level, although 1946 crops were nearly normal. Present estimates place production for this year at about 80 per cent of the 1938 volume. As in most other countries the output of milk and butter has been especially seriously affected because of the lack of imported feedstuffs. Another handicapping factor has been the lack of labor, which is general. The great demand for labor in industry has attracted most of the supply that normally would have been available for employment in agriculture and forestry.

The supply of timber is unusually good, but there is a labor scarcity, and timber cutting is not an attractive occupation. Furthermore, much of the timber that is produced is needed for construction at home.

Fisheries play a major part in Norwegian production. The catch has been unusually large and prices have been quite good. The Norwegian fishing industry is still not at a high level of efficiency, but plans are being carried out aiming at raising its productivity. There is great need for trawlers and for the building of modern fish processing factories. The reconstruction of the fishing industry is an important part of the Norwegian reconstruction program.

Shipping

Prior to the war, Norwegian shipping earned an important part of the country's foreign exchange receipts. War destruction reduced the merchant marine by approximately one-half. The reconstruction of this fleet has been given top priority by the Norwegian authorities. Approximately half the funds needed for reconstituting the fleet have been available from insurance proceeds paid in sterling and in dollars. Some shipbuilding takes place in Norway, but most of the orders have been placed abroad, in England, Belgium, Sweden, Denmark, Italy and the Netherlands. By the end of the year the volume of shipping is expected to be about 68 per cent of pre-war. With present level of freights, the real earnings of the fleet, in terms of purchasing power over imported goods, is very little below pre-war.

Prices and wages

Prices have been kept remarkably stable.

Cost of living has been kept almost constant since the fall of 1945. There has been a good deal of pressure from higher import prices, but this has been absorbed without a rise in the cost of living, partly through subsidies, which amounted to 480 million kroner during the fiscal year 1946-47, and which are estimated at 400 million kroner for the following year. Since the middle of last year, the rise in prices abroad has been of some consequence for the consumer price index in Norway. But for all items it has risen by less than 3 per cent since the fall of 1945.

Wholesale prices rose during 1946 very little more than the cost of living. The rise was slightly above 3 per cent. Despite this, wholesale prices are now somewhat lower than in 1945.

Wage rates have been kept under control. In the fall of 1946, there was a general grant of a rise in wages, by approximately 6 per cent, to become effective in three equal installments of 5 ore per hour on September 1, 1946 and on March 1 and September 1, 1947. Stabilization of the wage level is based on the policy of maintaining a stable cost of living. This increase in wages has been distributed over time in order to permit a rise in output to offset the very moderate rise in wages, so that the effect would not be to increase production costs.

Labor efficiency has increased in recent months, although it is still below the pre-war level. There has been comparative freedom from strikes, and no labor difficulties are expected.

Real wage rates are about 5 per cent above the 1938 level. Consumption however, is at best only at the pre-war level. A recent estimate for 1946 places consumption at 91 per cent of 1938, and at 96 per cent for 1947. The supply of basic foods is approximately the same as before the war. The supply of meat, milk, butter and eggs is considerably below the pre-war level. Fish supply is plentiful, and fish is the general substitute for meat and eggs in European areas. Consumption of tobacco, alcohol and general amusements is above pre-war. Other consumption, particularly textiles, is still below the pre-war level, but is improving.

Budget

While the budget estimate for the 1946-47 fiscal year contemplated a deficit of 500 million kroner, the actual deficit will be considerably below this, because tax collections have been unusually high. It is quite likely that for the past few months cash receipts have in fact been exceeding cash expenditures. Receipts from taxes and similar sources were 300 million kroner higher for the first 8 months than for the same period last year. There is no doubt that the budget will be fully in balance for the next fiscal year and will probably show a small surplus, mainly because of a reduction in military expenditures.

Balance of payments

The present resources of the Norwegian Government are wholly adequate to meet the balance of payments deficit for this year, estimated at 955 million kroner (\$190 million). Official gold and exchange resources amount to approximately \$250 million. In addition, unused credits available on January 1, 1947, or extended since then, amount to some \$130 million, including the whole of the Export-Import Bank credit of \$50 million, a new private loan in Sweden of 50 million Swedish kroner, and the \$10 million loan, recently floated in New York. Of the Export-Import Bank loan, the intention is to use only \$5 million this year. Sale of gold and foreign securities during 1947, is estimated at 430 million kroner (\$86 million).

Despite these reserves and unused credits, Norway will need additional credits in 1948, primarily to meet obligations already incurred for reconstructing the merchant fleet, and for the placing abroad of new contracts. The recent loan in New York has been less for the purpose of securing now the additional \$10 million, than to attempt to establish Norway's credit position in the New York market, with a view to further loans to be placed in 1948.

Gutt
E. M. Bernstein

6. Belgium

Industrial production

Industrial production in Belgium has been increasing steadily. In 1946, the rise averaged approximately 2-1/2 per cent per month.

At present, according to the Louvain index, production is just about at the 1938 level. There is some reason to believe that this index underestimates industrial production. A new index recently published by the Agence Economique et Financiere is intended to be a sensitive index. Even making allowance for its composition*, it is probably a better indication of the level of industrial activity than the older index. According to the Agence index, industrial activity has been at a level above 110 per cent of 1938 during the first four months of 1947.

An important reason for the rapid recovery is the relatively good supply of coal. In the first three months of 1947, domestic coal production was just under 90 per cent of the monthly average for 1938. The supply of coal for domestic use, however, is above the pre-war volume. Before the war, Belgium exported and imported an equal amount of coal. At present Belgium is importing about 180,000 tons per month (net). In addition, domestic use of coal is severely restricted. Coal available for industrial use, therefore, is just above the pre-war volume.

Nevertheless, the supply of coal is not adequate to the growing needs of industry. Steel production to some extent is being held back by inadequate supplies of coal and coke. While steel production is nearly 90 per cent of pre-war, much of the steel capacity is presently not being used. Despite the enormous unsatisfied demand at home and abroad for Belgium steel, production is increasing at only a moderate rate. About 40 per cent of Belgium's steel is now being exported.

In the lighter industries such as metal manufactures, textile production and paper, output is well ahead of pre-war. It is not unreasonable to hope that if further improvement can be made in domestic coal output,

* Coal (20), Steel (10), Steel manufactures (20), Construction (10), Textiles (20), Cement (10), Paper (5) and Electricity (5).

industrial production will continue to expand in Belgium in 1947. In the meantime, the rate of increase has slowed down considerably since October 1946.

Agricultural production

Agricultural production in 1946 was approximately 85 per cent of the 1938 volume. This was the situation for all of the major crop classifications--bread cereals, 85 per cent; forage crops, 84 per cent; root crops, 86 per cent; and industrial raw materials, 88 per cent.

No significant increase in agricultural production is planned for the future. To adapt itself to the customs union with the Netherlands, agricultural production in Belgium will continue at the present level. The labor withdrawn from agriculture has found ready employment in industry and commerce.

Prices and wages

The available indices of prices in Belgium are far from satisfactory. The official index of retail prices is at present 329 on a 1936-1938 base. Prices have been relatively stable since September 1946. Black market prices (not included in the index) are now nearer the official prices than they have been at any time in recent years.

The general index of retail prices can hardly be regarded as a satisfactory measure of the cost of living. Not only does it exclude rents, a major item in a working class budget, but the index itself is an unweighted average of price relatives for a number of commodities. If some rough weighting were applied to the principal consumer commodities, and allowance made for expenditure on rent and utilities, the cost of living index would probably be not far above 280. Even so the cost of living in Belgium, as compared with the pre-war level after adjustment for exchange rates, is considerably higher than in most other countries of Western Europe.

Wholesale prices in Belgium have risen considerably during the past few months. This is in large part due to the rise in raw material prices in world markets. Raw material prices in Belgium were 20 per cent higher in February 1947 than July 1946. On the other hand, wholesale prices of finished products were only 12 per cent higher. In February 1947, the index of all wholesale prices was not far from 335 on a 1936-1938 base.

Wage rates in Belgium have been rising steadily. At the end of 1946, the index of general wage rates was approximately 20 per cent above the level at the beginning of the year. There is no indication that the rise in wage rates has slackened. Probably, real wage rates in Belgium are 15 per cent above the pre-war level, despite the fact that per capita output is no greater than before the war. The only economic basis for the higher real wages is the freezing of rents and utilities at levels from 40 to 75 per cent above pre-war.

Budget

The combined budget for this year, including the ordinary budget, the budget of expenditures resulting from the war, and the extraordinary budget, as originally presented, showed a prospective deficit of approximately 10 billion francs. The ordinary budget was expected to show a surplus of 5.3 billion francs. The budget of extraordinary expenses, excluding receipts and payments connected with the monetary purge was estimated to show a deficit of the same amount. The overall deficit of 10 billion francs, in the original budget, was equivalent to the excess of special expenses growing out of the war. The Minister of Finance has now stated that this deficit will be avoided by cutting expenditures by 5 billion francs and increasing receipts by an equal amount.

Exports and imports

Belgian exports and imports have been rising steadily with the increase in industrial production. No satisfactory index of the volume of exports and imports is available. The customs data in terms of tons can hardly be regarded as a good indication of the quantity of exports and imports, since all tonnage is weighted equally.

A rough adjustment of the value data for higher prices would seem to indicate that Belgian imports are now running at a rate considerably more than twice as high as the corresponding period in 1946. From the beginning of 1946 to the first three months of 1947, the volume of imports has risen from less than 50 per cent of 1938 to just about the 1938 volume. A recent estimate of Belgian imports in 1947 places the volume for the year at about 80 per cent of pre-war. This may be increased if imports of special equipment for reconstruction are available and the necessary finance can be secured.

The expansion of exports has been exceptionally rapid. At the beginning of 1946 Belgian exports were little more than 20 per cent of the pre-war volume (value data adjusted approximately for the price rise). In February and March 1947 the volume of exports was probably close to 70 per cent of the 1938 level. A recent estimate of prospective exports places the 1947 volume at approximately 75 per cent of pre-war. The export volume at the year end should probably be well above 80 per cent of pre-war.

Foreign trade is carried on with relatively few controls, other than through exchange. Import controls are exercised only on goods allocated to Belgium by international boards and on goods which must be rationed at home to assure equitable distribution, particularly of raw materials. On the export side, controls are exercised almost exclusively for the purpose of assuring adequate domestic supplies and to fulfill export obligations under trade agreements.

While Belgian prices are high there is no indication as yet that export markets have been seriously affected. Belgium is exporting increasing amounts of goods in highly competitive fields, apparently unaffected by domestic prices and wage rates. An inquiry as to the resistance that Belgian exports are meeting in foreign markets brought the observation that in fact little resistance is being felt either because of prices or scarcity of exchange. Export trade with Italy was mentioned as an exception to this general rule.

Balance of payments

The balance of payments for 1947 shows a prospective deficit, including scheduled credit operations, of approximately 20 million dollars. This is based on expected imports of 61.5 billion francs and exports of 49.2 billion francs, and a net excess of receipts on other account of approximately 11.5 billion francs.

The gold and foreign exchange resources of Belgium have been rising steadily. During 1946 the increase was approximately 60 million dollars and a further increase of 20 million dollars in official gold and foreign exchange resources occurred during the first two months of this year. In addition, the foreign exchange holdings of Belgian banks have in the same fourteen-month period risen by some 35 million dollars. The net balance in Belgium's favor under the various financial agreements also rose in 1947.

It would appear that the Belgian balance of payments position is relatively strong and that unless a major expansion of the import program for reconstruction is undertaken, Belgium will not need new loans or credits from abroad. In fact Belgium is expected and is apparently prepared to provide some credits to neighboring countries.

E. M. B.