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Why was Belgium so late in adopting Keynesian ideas and devising regional development policies?

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Why was Belgium so late in adopting Keynesian ideas and devising regional development policies?

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Samenvatting

In deze bijdrage analyseren we de redenen waarom Keynesiaanse ideeën zo moeilijk wortel schoten in het Belgische naoorlogse economische beleid. Parallel daarmee liet ook de start van een regionaal ontwikkelingsbeleid erg lang op zich wachten. In de jaren 1940 en 1950 was het contrast met buurlanden als Frankrijk, Nederland en het Verenigd Koninkrijk bijzonder groot. Een belangrijke oorzaak was het trauma dat Belgische economen en beleidsmakers opliepen bij de begrotingscrisis in het midden van de jaren 1920. Ons land ontsnapte toen ternauwernood aan hyperinflatie en een staatsmoratorium. Bijgevolg bleven wisselkoers- en prijsstabiliteit samen met begrotingsdiscipline decennialang de hoekstenen van het economische beleid. In die context was 'deficit spending' geen optie, zelfs niet ter bestrijding van de Grote Depressie van de jaren 1930. Ook tijdens de naoorlogse wederopbouw bleef inflatiebestrijding centraal staan, zoals de beruchte Gutt-operatie aantoont.

Ondertussen vertoonde de Belgische economische structuur steeds meer verouderingsverschijnselen. Productie en export bleven gericht op traditionele sectoren als steenkool, staal en textiel. In Vlaanderen leidde dit tot relatief hoge werkloosheidscijfers, waar noch academische economen, noch beleidsmakers veel oog voor hadden. Een belangrijke uitzondering was Gaston Eyskens die in de jaren 1950 studies liet uitvoeren om het probleem te beleidsmatig kunnen aanpakken. In 1958 vormden zij de inspiratiebron voor de zogenaamde expansiewetten. Met veel vertraging kreeg België eindelijk een regionaal ontwikkelingsbeleid die naam waardig. De expansiewetten legden mee de basis voor de snelle groei tijdens de jaren 1960 en een grondige modernisering van ons economisch weefsel.

1. Introduction

In this paper we analyse the influence of economists on post-war economic policy in Belgium, both as producers of theoretical schemes and as advisors, commentators or critics of public policy. In some instances economists became minister or even prime minister and therefore played a key role in decision-making processes. The term 'economist' is preserved for academic scholars. Persons working at research departments of central banks, ministries or at planning offices are considered as policy-makers.

We focus on two related issues. First, the very slow penetration of Keynesian ideas in Belgian economics and policy-making. Second, the late adoption of regional development policies. Both issues are connected because in classical theory spatial inequality is only a temporary phenomenon. In highly developed areas labour will become scarce and expensive, while it remains relatively cheap in 'backward' regions. Consequently a capital flow will emerge from strong to weak areas, so that spatial income differences will automatically decline and perhaps even disappear. Keynes however showed that poor regions can get stuck in a downward spiral as unemployment encourages emigration. This undermines local demand and makes an area uninteresting for new investment. Keynes did not propose specific remedies to reduce spatial inequality but it was clear that in his view only the government could enhance such a process (Richardson, 1973).

Several general overviews investigate Belgium's post-war economic development (e.g. Van der Wee, 1987; Vandeputte, 1993; Cassiers et al., 1996) but they usually devote little attention to spatial inequality. There are a few useful biographies, but concerning the history of economic thought the harvest is fairly limited (Sirjacobs, 1997; Buyst et al., 2005). We integrate this material and confront it with a substantial number of detailed contemporary studies following largely a chronological approach. First we analyse the legacy of the interwar period. Next the economic ideas developed during World War II on reconstruction and their implementation are investigated. More specifically we look at the reasons why Keynesianism penetrated so slowly in Belgium. Next the focus is on the emergence and effects of regional development policies.

2. The legacy of the interwar period

For a long time both economists and policy-makers in Belgium were marked by the severe budgetary and monetary crisis that struck the country in the mid-1920s. What had happened? After the Armistice of November 1918 the Belgian government expected large-scale reparations from Germany and therefore paid out generous compensations for war damage. As the German reparations arrived much later than anticipated, Belgium ran huge budget deficits – almost 20 per cent of GDP in 1920 – and public debt skyrocketed. The government issued one loan after another but soon had to accept ever shorter maturities as confidence in public finances faded away. Eventually the Belgian state ended up issuing three and six-month treasury notes on a continuous basis. But even these proceeds were insufficient to satisfy the public sector's insatiable appetite for money. The government had to turn to the international money and capital markets which provoked an additional spiral of foreign debts (Buyst, 2004).

Belgium's reckless budgetary policy undermined confidence in the BEF (Belgian franc) on international exchange markets, especially when the desperately needed German reparations turned out to be much smaller than anticipated. As a result, the franc almost continuously lost ground vis-à-vis the British pound and inflation soared. In 1925 pound sterling was pegged to gold again. As most European countries followed the British example, Belgium could not stay behind. Therefore a coalition government of socialists and the Catholic Party's labour wing launched an ambitious program to stabilize the BEF. The plan failed however so that investors, including the Belgian private banks, panicked and refused to renew the treasury notes at maturity. Unable to refinance its huge floating debt in a conventional way the government turned to the National Bank of Belgium (NBB) for massive advances. Not surprisingly these measures caused severe turmoil on the exchange markets. The nightmare scenario of hyperinflation, a collapsing currency and a state moratorium loomed. Ultimately a new government could fend off this threat by taking draconian budgetary measures, consolidating the floating debt and pegging the BEF to gold at a substantially lower level than originally planned (Janssens, 1976).

Both policy-makers and economists were traumatized by this painful episode for decades to come. Currency stability, low inflation and budgetary discipline became the corner-stones of economic thought and economic policy. In such a mind-set it is not surprising that in the late 1930s Keynesian ideas such as deficit spending did not receive a warm welcome. Moreover Keynes himself was a controversial personality in Belgium. The Belgian establishment never forgave him that he had downplayed wartime damage (Keynes, 1919) and thereby had weakened the Belgian demands for German reparations. That Keynesianism did not gain

ground became very clear during the Second World War when plans were made to restore economic life after the Nazi-occupation.

3. Preparing post-war Belgium

In 1941 the Belgian government in London set up a think tank – *Commission pour l'Etude des Problèmes d'Après-Guerre (CEPAG)* – to investigate reform of the country's post-war institutional, social and economic structures. Already in the 1930s policy-makers and other observers complained that Belgian manufacturing bore too much the characteristics of early industrialization. Coal, steel, glass and textiles still dominated production or exports, while promising new sectors such as petrochemicals, electrical engineering and consumer durables were underrepresented (Svennilson, 1954; Hogg, 1986). These structural weaknesses undermined the country's growth potential and made it extra vulnerable to international cyclical downturns. Nevertheless in its final report the economics section of CEPAG devoted little attention to devising a dynamic growth policy. Planning or direct government intervention in economic life was barely discussed (Rapports CEPAG, 1941-1944). Not surprisingly, the major element of concern was the high inflation in occupied Belgium.

In academia we observe largely the same line of thought. Léon-H. Dupriez, the leading Belgian economics professor at the time and head of the *Institut de Recherches Economiques et Sociales (IRES)*, was an internationally recognized expert in business cycle analysis. Nevertheless he dismissed Keynesian recipes to tackle recessions because of their lack of microeconomic foundations. Therefore his theoretical work remained in the tradition of Hayek's general equilibrium approach (Hayek, 1928; Dupriez, 1947). In policy issues Dupriez stressed that Keynes' framework was set up in the context of a closed economy, and thus not very suited for a country highly dependent on foreign trade. Moreover he doubted that public works could pull an economy out of recession for instance because of the substantial time-lag between decision and implementation. He also feared that government intervention in economic life would create a bureaucracy that only pursued its own interests. So planning could only involve the public sector in the broad sense, including the public companies. Concerning Belgium's structural problems he emphasized the importance of labour mobility via appropriate education and training. Last but not least, he insisted that a successful post-war reconstruction could only be based on a fixed currency and stable prices (Dupriez, [1942] 1946).

An important exception to this general picture was Paul van Zeeland. He was part-time economics professor at Leuven/Louvain University and thus a colleague of Dupriez. When van Zeeland was prime minister of Belgium between 1935 and 1937 he pursued a policy of more government intervention. Living in the United States since 1939 he became influenced by Keynesian ideas and gave them an interventionist turn. Early 1944 he wrote a draft coalition agreement for a new government that aimed at direct public control over banks and holding companies. In his view the nationalization of coal mines, transportation and the insurance sector would complete the transformation to a mixed economy. Low interest rates and budgetary deficits during recessions should spur economic growth. With these ideas the Catholic van Zeeland came close to the economic program of the socialist party. He failed however to play an important role in Belgian politics before and immediately after the Liberation, so he could not put his convictions into practice (Henau, 1995).

4. The monetary reform of October 1944

CEPAG's major element of concern in economic matters was the high inflation in occupied Belgium. The advisory committee rapidly came to the conclusion that the money supply had to be reduced immediately after the Liberation, but the fundamental question was by how much. Experts of the NBB, inspired by the traditional quantity theory of money, advocated a drastic cut in the money supply reducing it to the pre-invasion level of May 1940. As a result, domestic prices would fall and a sharp devaluation of the franc against gold could be avoided. Paul van Zeeland however opposed deflationary policies. Influenced by Keynesian ideas he favoured an exchange rate that would bolster rapid post-war economic recovery. Therefore he accepted the price level prevailing at the time of the Liberation and a corresponding devaluation of the BEF against gold. In van Zeeland's scenario removing the hoarded cash would suffice to ward off post-war inflation (Henau, 1995; Van der Wee and Verbreyt, 2009).

Finance Minister Camille Gutt was much in favour of a hard currency policy. Nevertheless he sought advice of financial and monetary experts in occupied Belgium before selecting one of the two options. Léon-H. Dupriez and other economists fully supported the idea of a radical currency reform. In October 1944, shortly after the Liberation, the so-called 'Gutt operation' was launched. All banknotes of 100 BEF or more ceased to be legal tender and had to be deposited. In exchange people received the same quantity in new banknotes up to a maximum of 2.000 BEF per person. Old banknotes declared in excess of this maximum were transferred to a

special, frozen account. The amount of bank money was reduced in a similar way. Holders of current, savings or time deposit accounts had free access to no more than 10 per cent of their assets or to the whole of their balances available on 9 May 1940. In this way the total money supply was reduced by almost two-thirds (Janssens, 1976).

Nevertheless, prices did not come down. This was in part due to military events: in the fall of 1944 the Allied offensive came to a standstill along Belgium's northern and eastern borders. Being a frontline area, military transport received priority which created severe shortages of products for civilian purposes. Moreover, the Belgian government continued to run large budget deficits. As the money and capital markets were still paralyzed these deficits to a large extent had to be financed through advances from the NBB. Late 1945 the money supply approached again the level at the eve of the Gutt operation, so in the end van Zeeland's scenario became reality. Meanwhile rising imports of food and other products curbed price increases. Ultimately the Gutt operation reached its primary goal: restoring the public's confidence in the purchasing power of money. Exchange rate and price stability paved the way for a vigorous recovery of the Belgian economy (De Ridder, 1947-1949, Eyskens, 1955).

5. The late 1940s: inflation control at the forefront

Under the impetus of Dupriez the neo-classical tradition in economic theory remained strong in Belgium during the early post-war period. Orthodoxy also prevailed in economic policy. Shortly after the Liberation, Finance Minister Gutt appointed Maurice Frère as governor of the NBB. Not surprisingly, both men very much shared the same ideology: a strong currency and a free market economy. Gutt soon disappeared from the Belgian scene to become the IMF's first managing director, but Frère remained governor until the late 1950s (Crombois, 2000).

In the early post-war years Frère – supported by Dupriez – fought vigorously against the system of maximum prices, rationing and exchange controls. With success, Belgium was a pioneer in Europe regarding the liberalization of prices, product markets and international trade. Frère stressed that these reforms stimulated competition and therefore had anti-inflationary effects. Belgium was able to pursue this so-called policy of abundance because it suffered less from the post-war dollar shortage than neighbouring countries. The port of Antwerp had escaped devastation and became the main gateway of American troops and equipment to Europe. These activities generated substantial dollar revenues which were used to buy American raw materials

and machinery. Consequently, Belgian manufacturing was soon operational again. Exports of steel, glass and cement soared, giving rise to the 'Belgian economic miracle' (Baudhuin, 1958; Kindleberger, 1987; Brion and Moreau, 2005).

Interventionism was not dead however. The floating debt had mushroomed during the war and policy-makers feared a repetition of the 1926 scenario. If financial institutions would refuse to renew treasury certificates at maturity, the government would be forced to obtain advances from the NBB with all the risks involved for currency and price stability. Therefore the Banking Commission, the prudential control authority, decided in January 1946 to impose a cover ratio. It required the big banks to invest at least 65 per cent of their deposits in short-term public debt (Commission Bancaire. Rapport 1945-1946).

Maurice Frère welcomed this type of forced investment also because it offered him the opportunity to seal off other potential sources of inflation. First, the reconstruction effort would lead to an expansion of deposits which through the cover ratio system gave the government automatic access to additional credit. In these circumstances Frère managed to convince the government to reduce the ceiling of automatic advances from the NBB to the State from 50 to 10 billion BEF. Second, the deposit banks tried to escape the cover ratios by reviving the traditional discounting of bills of exchange. By manipulating the discount rate the NBB could easily keep a lid on that source of credit. It is very difficult to estimate the precise impact of these measures, but in a context of rapid liberalization of price controls and strong economic growth, inflation remained low during the late 1940s (Buyst et al., 2005).

Quantitative liquidity management was not the only form of interventionism during the immediate post-war years. Communists, socialists and some left-wing Catholics demanded the nationalization of coal mines, the electricity sector, transport, and the finance and insurance sector. Due to continuous political turmoil – Belgium counted six coalition governments between September 1944 and March 1947 – these plans never materialized. After March 1947, in the wake of the Cold War, the communists were no longer welcome to join coalition governments and almost simultaneously the nationalization issue disappeared from the political agenda. In contrast with most other West-European countries even the NBB was not nationalized. In 1948 the State took a share of 50 per cent in the NBB's capital and its directors were no longer elected by the general meeting of shareholders but appointed by the government. At the same time the NBB became involved in the Belgian model of social consultation: the main unions and employers organizations joined the council of regents, a kind of advisory committee within the

NBB (Brion and Moreau, 2005). Somewhat surprisingly, the NBB's shares remained quoted on the Brussels stock exchange.

In 1949 the devaluation of the British pound against the American dollar with 30,5 per cent triggered off a spiral of parity adjustments in Western Europe. The scale of the devaluation took the Belgian monetary authorities by surprise and a vivid discussion about the new parity of the BEF emerged. Maurice Frère was of course in favour of a hard currency policy. He proposed the BEF to float within certain limits, hoping that once calm had returned the old parity could be restored again (Dupriez, 1978).

Prime Minister Gaston Eyskens, an economics professor at Leuven/Louvain University, disagreed. He noticed that the post-war 'Belgian economic miracle' had faded away for various reasons. In the 1945-1947 period rapid economic growth had created labour shortages which provoked substantial real wage increases: Belgium became a high wage economy. Initially foreign demand for Belgian exports was price inelastic because the other Western European countries needed Belgian steel, glass and cement to reconstruct their devastated economies (Camu, 1960-1961).

By 1948 however most neighbouring countries were back on their feet and domestic production replaced imports. In these circumstances especially the labour intensive industries, such as textiles and clothing, felt the chill winds of international competition. From a geographic perspective these sectors were highly concentrated in the Flemish part of the country. Combined with a considerable growth of the labour force in Flanders, a serious regional unemployment problem emerged. In this context the Dutch-speaking Eyskens advocated a devaluation of the BEF by 15 to 20 per cent. Such an exchange rate would allow Belgium to pursue a policy of cheap money in order to stimulate the economy. Ultimately a typically Belgian compromise was reached: the BEF was devalued with 12,34 per cent against the dollar (Brion and Moreau, 2005). Nevertheless the decision met fierce resistance in Parliament from the socialist opposition. Somewhat surprisingly they argued that the devaluation was a brutal attack on the savings of ordinary people (Bismans, 1992). It shows that the merits of a stable currency were deeply enshrined also among left-wing politicians.

6. The 1950s: from deflation to Keynesian policies?

In the early 1950s economic policy remained very much in line with classical orthodoxy. It soon became clear that the 1949 devaluation of the BEF with 12,34 per cent against the dollar was much too limited in a context where most of Belgium's trading partners devalued with about 30 per cent vis-à-vis the dollar. So the BEF appreciated substantially against most European currencies. As a result, corporate competitiveness received another blow and profits were squeezed. Fixed capital formation remained low and focused more than ever on the substitution of labour for capital to reduce unit labour costs. Not surprisingly the industrial structure of the country sclerotized further and unemployment went up considerably (Lamfalussy, 1961).

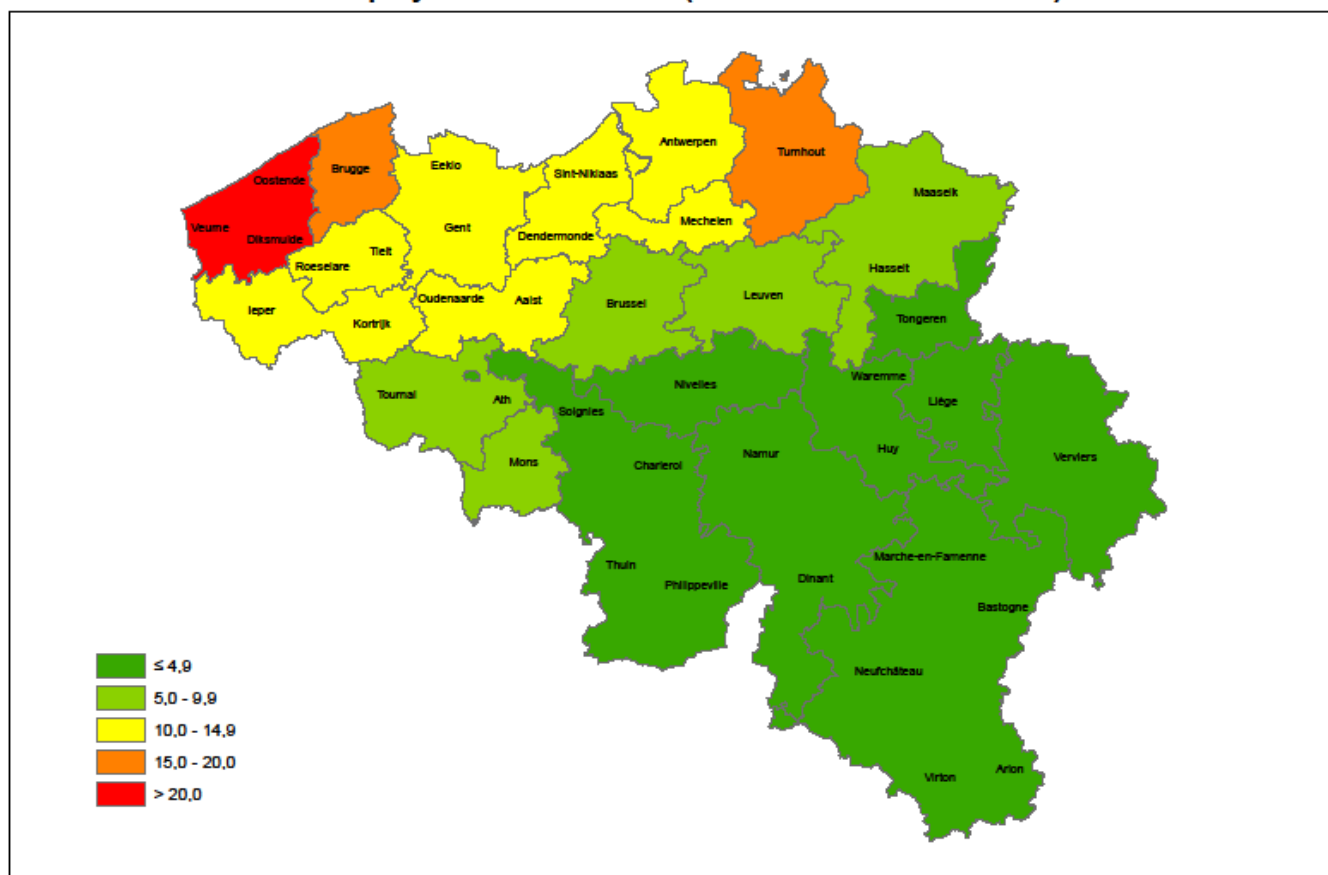
Despite these problems no debate ever emerged to correct the BEF's overvaluation. Even more strikingly, in the early 1950s no measures were taken to stimulate investment or economic growth. Maurice Frère remained obsessed with inflation – although prices usually stagnated – and therefore kept short-term interest rates relatively high. Firms complained that they had difficult access to capital as the cover ratios drained most deposits to the public sector. Although the Banking Commission was willing to relax the cover ratios, Frère blocked such a move (Commission Bancaire, 1960). The government also showed little dynamism: public investment remained low compared to other European countries. Belgium's deflationary policies in a context of relatively high unemployment worried the Organization for European Economic Cooperation (OEEC, predecessor of present-day OECD). The OEEC recommended the government to use traditional Keynesian recipes to tackle unemployment (OECE, 1952). As expected, the NBB and most economists reacted negatively to this suggestion (Banque Nationale de Belgique. Rapport, 1954; Baudhuin, 1958).

Nevertheless Dupriez's influence on Belgian economics started to diminish as a new generation came to the forefront. Etienne Sadi Kirschen of the University of Brussels was one of them. In the late 1940s he became familiar with Keynesian ideas as a Belgian representative at the OEEC. The absence of reliable Belgian national accounts statistics proved a serious problem to develop a Keynesian inspired research agenda. Therefore he assembled a team that managed to fill up this gap (Kirschen et al., 1953).

Among policy-makers the publication of Kirschen's GDP figures had the effect of a bomb shell. His national accounting data for the 1948-1951 period confirmed that both economic growth and the investment ratio in Belgium were unusually low compared to other European countries (Brion and Moreau, 2005). In 1954 a new socialist-liberal coalition government launched a

program of public works to stimulate economic growth. It focused on the extension and the modernization of the port of Antwerp and on the construction of highways and canals. Although the initiative managed to improve somewhat Belgium's growth performance it also showed major drawbacks. First, Antwerp and Brussels – relatively prosperous areas – benefited disproportionately from the infrastructure works at the detriment of poor, peripheral regions such as West Flanders (see map). Second, after a couple of years the program ran into budgetary difficulties (Ryckewaert, 2011).

Unemployment ratio in 1952 (in % of number of insured)



Source: Leroy, 1962

Meanwhile, important developments took place at Leuven/Louvain University. As indicated earlier, unemployment was mainly a problem of the more peripheral areas in Flanders. In search for remedies the Dutch-speaking economists at Leuven/Louvain University, including Gaston Eyskens, came in contact with Keynesian ideas. However the Dupriez dominated

research institute IRES was not interested in analysing regional unemployment issues and downplayed their policy relevance (Baudhuin, 1958). Linguistic quarrels further poisoned the atmosphere, so that in 1955 the Dutch-speaking economists set up their own research institute within Leuven/Louvain University, the *Centrum voor Economische Studiën* (Centre for Economic Studies, CES). In a few years CES carried out a number of detailed regional economic studies. From a theoretical-methodological perspective economists and economic geographers such as Stanley R. Dennison (1939), Edgar M. Hoover (1948), Walter Isard (1949) and later François Perroux (1955) were highly influential. The policies proposed to tackle regional unemployment found their inspiration in the British Special Area Acts of 1934 and 1937, and in Roosevelt's New Deal (e.g. Declercq and Vanneste, 1957; Van Rompuy, 1957; Charels et al., 1957).

In 1958 Eyskens became prime minister again and in that capacity he did not hesitate to push through important economic reforms. His approach differed considerably from that of the previous government. Priority was to stimulate *private* investment in a broader policy of economic expansion. First, Eyskens passed a Regional Development Act (1959) very much based on the recommendations of the CES. Private investments in 'developing regions' received direct financial support from the government in several forms, such as interest rate subsidies, state guarantee for loans and tax relief. It is important to point out that these benefits were not aimed at 'national champions' but open to all investors whatever their nationality. The establishment of new industrial zones was also encouraged.

Second, he set up the Bureau voor Economische Programmatie/Bureau de Programmation Economique (1959). The agency should work out five-year plans to make the government's long and medium term economic goals explicit, coordinate public investment and investigate economic policy issues. Towards firms the main purpose was to provide a coherent policy framework and not to steer private investment (Smits, 1993). Its role was advisory in all respects and therefore could not be compared with that of the powerful Dutch and French planning bureaus. Third, the Eyskens government took the initiative to establish a Nationale Investeringsmaatschappij/Société Nationale d'Investissement (NIM). Again the public holding company's task was to support private initiative. The NIM was not allowed to set up new enterprises on its own. Only when requested by the founders or by a company's general meeting could the NIM participate in the share capital of a firm. And being a shareholder the NIM was not supposed to intervene in the company's management (Buyst et al., 2007). Fourth, Eyskens removed a variety of anti-competitive regulations. Partly under pressure of the European Coal and Steel Community subsidies to the coal mining industry were reduced

significantly. As a result, dozens of loss-making mines had to close down (Milward, 1992). In retailing small shopkeepers lost much of their protection as it became much easier to set up or extend supermarkets. In banking the controversial cover ratios finally disappeared.

How did the NBB, traditionally the watchdog of orthodoxy in economic policy, respond to these measures? When Maurice Frère retired in 1957 the NBB's obsession with inflation also came to an end. His successor took a much more favourable stance towards Keynesianism (Banque Nationale de Belgique. Rapports, 1958-1960). In the 1960s the NBB took a very active role in official committees that investigated how the performance of the Belgian financial markets in financing private and public investment could be improved. Even in times of strong economic growth the NBB pursued a cautious interest rate policy. Only when a boom threatened to create excesses the NBB took decisive action to maintain the internal and external stability of the BEF (Buyst et al., 2005).

At the French-speaking economics department of Leuven/Louvain University the influence of Dupriez declined rapidly in the 1960s, while different varieties of Keynesianism blossomed. So we can conclude that economic thought among both academics and policy-makers converged again. But did it generate an improvement in Belgium's growth performance and spatial income inequality?

Eyskens' measures certainly came at the right time. The Treaty of Rome (1957) had given birth to the European Common Market. Attracted by that dynamism many multinationals were eager to build new production facilities in the European Economic Community (EEC). The Flemish provinces with their reservoir of relatively cheap labour, easy access to the sea and located in the densely populated heartland of the EEC received large inflows of foreign direct investment. These investments not only modernized the country's industrial structure through the development of new sectors, such as petrochemicals, pharmaceuticals and consumer durables. They also proved an important conduit for new technologies and new forms of organization which rejuvenated domestic firms (Kervyn de Lettenhove, 1968). As a result, economic growth in the 1960s accelerated substantially and even surpassed the Northwest-European average (Cassiers et al., 1996). Within Belgium the income gap between Flanders and Wallonia disappeared.

Whether Eyskens' Regional Development Act contributed much to these successes remains a matter of debate. Some scholars argue that the Act was indeed pivotal (e.g. Van der Wee, 1987), while others maintain that the aid was not large enough to really influence the investment

decisions of multinational firms (e.g. De Brabander, 1981). Microeconomic research tends to confirm the last view, but also brings other elements to the forefront. First, the Act provided financial incentives that in one way or the other already existed in neighbouring countries. So the Act improved Belgium's competitive position by providing a level playing field concerning subsidies. Second, the Act had a pronounced psychological impact on economic and political decision-makers. It provoked a wave of enthusiasm in which local, provincial and central authorities, private organisations and banks tried to lure as much foreign investment as possible (e.g. Soete and Van Doorslaer, 2006).

Some other initiatives proved less successful. The Bureau voor Economische Programmatie/ Bureau de Programmation Economique never gained much influence over economic policy. In 1970 the agency was transformed into the Planbureau/Bureau du Plan and received more financial resources. In principle the five-year plans became binding for the government, but again this did not materialize. Among Belgian politicians the fear that technocrats would dominate economic policy-making was very much alive. The same attitude explains why academic economists were kept at a distance (Van Waterschoot, 1975). In a context of strong growth and rapidly disappearing unemployment most politicians lost interest in the NIM. Of course the resistance of private holding companies, such as the powerful Société Générale de Belgique, also played a role. The NIM would only wake up more than a decade later (Brion and Moreau, 1998; Buyst et al., 2007).

In the 1970s it became clear that regional development policies were not a miracle solution. Their propagation all over western Europe had overstimulated investment in some sectors (Buyst et al., 2003). Moreover during the economic crisis after the 1973/74 oil shock, regional policies quickly lost focus in many countries including Belgium. They became an important instrument to keep ailing industries alive which seriously distorted competition within the EEC. The European institutions responded to the challenge by gradually transferring large parts of regional economic policy from the national to the European level.

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