

# EUROPEAN STUDIES

teachers' series

## 11

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# Europe's currencies 1914 to 1932

*What happened to the national currencies of a divided Europe after the first World War is full of lessons for our own time. This first paper describes how the instability of the German mark and the French franc became after 1918 a major political pre-occupation, paving the way for Hitler and the Nazi dictatorship in Germany and leading straight to the renewal of force and bloodshed in 1939. A second paper will explain the rise of Fascism in Italy and the working of the totalitarian economies, both in Italy and Germany.*

## **Before the war**

Before the first World War, Europe's currencies were stable, tied to the value of gold, and in effect fixed in value in relation to each other. The system of international exchange worked smoothly; political drama, in a monetary sense was mercifully lacking. If Europe's overseas investments were excessive, her prosperity could easily absorb the strain. France, for instance, could sustain the losses which followed large but imprudent loans to Imperial Russia, even if French industrial equipment was largely out-of-date and social investment lacking. Social injustice, the poverty of the masses, even the rising armaments race with its accompaniment of rising taxes, went generally unheeded in the general race for short-term profit. It was—at least for a few—"La Belle Epoque", the golden age.

## **The aftermath of the war**

The First World War wrecks Europe's economies. European nations marched exultantly to battle, expect-

ing a short war and little foreseeing the mass slaughter and the years of painful struggle ahead. That struggle not only bled Europe white, it wrecked financial structures in every country. The vast European credits built up overseas were transformed into debts. Germany and Austria were especially hard hit, cut off by the naval blockade. But the allies suffered too; taxes rose to unprecedented heights; vast loans had to be raised. Above all, the war was financed by inflation. Freed from the gold standard, a flood of paper money was accompanied by rocketing prices and wages; and currencies steadily depreciated.

When the fighting stopped, the effects of inflation could be measured. To take one example, the German mark, 4.2 to the dollar in 1913, was down to 8 in 1918.

Weighed down by debts, largely short-term, both internal and external, cut off from the financial aid the Americans had been willing to give during the war itself, industry disrupted, France and her allies were in a desperate condition. Where was the money to come from to pay for reconstruction and the heavy

cost of war pensions? Fatally for their own long term interests, the victors turned to what they thought would be a simple remedy: "The Germans must pay".

## Germany's inflation: the first round

### The cost of defeat

The plain fact was that Germany was in no position to pay anything. She had lost her colonies, her merchant navy, her investments abroad and her patent rights. Her waterways had been internationalized; her ports opened to all-comers. The reparations demanded amounted to 132 billion gold marks plus two billion gold marks a year. This was equivalent to two-and-a-half times Germany's pre-war national income. By contrast, in 1871, France had been forced to pay only a quarter of a year's income. Furthermore, Germany was supposed to pay not in goods but in gold, which she had no means of earning. However, the fall in the value of the mark was due to causes other than reparations since Germany actually paid over very little. But the psychological shock was enough to cause a devaluation of the mark of over 50 %, driving down its exchange rate against the dollar from 60 to 92 in June 1921, which led to a serious flight of capital. On top of this, the Weimar Republic had political troubles, for although the Spartacists of the extreme left had been defeated in January 1919, the Social Democrats had a policy of radical reform involving the nationalisation of industry, the setting up of cooperatives and the confiscation of all non-cultivated land, all of which led to even more speculation in capital.

This, together with the expenses of demobilisation, the conversion of short term debts and the difficulties of collecting taxes, forced the government, which was unable to borrow, to seek to balance the budget by increasing the amount of paper money in circulation. But by a paradox that was to be repeated elsewhere, the mark's loss of value led to a remarkable economic recovery, even if this recovery in the end turned out to be a hollow one. Internal demand became insatiable, forcing every kind of production to its full capacity. Foreign trade began to boom, aided by the low cost of German exports in foreign currency. Unemployment fell; big business prospered and established ever-larger empires. By 1922, production had surpassed that of 1913. Few realized that all was built on sand.

### Collapse of the mark, 1923

The last straw was the occupation of the Ruhr by French and Belgian troops in January 1923. Raymond Poincaré, who had just taken up office as French Prime Minister, thought that this action would compel the Germans to pay reparations although the other powers

wanted a moratorium. The Germans responded with passive resistance and a general strike throughout the Ruhr. France was forced to import not only police but also large numbers of workers. In the end, the cost of occupation was little less than the gains. For the Germans, the results were catastrophic. Deprived of industrial heartland, German production was drastically reduced, while at the same time the state had to pay out enormous sums in strike relief. There was panic buying in the shops and all financial confidence disappeared with unprecedented speed. At the beginning of 1923, the mark was valued at 18,000 against the dollar. In August, the figure was 4.6 million, in November 4,300 billion. A sinister forecast of what was to come politically was provided by the abortive Nazi putsch at Munich in November 1923.

Though its end was to be delayed, the stage had now been set for the demise of the Weimar Republic. The bankruptcy of the middle classes left them seething with discontent, ready to take a collective revenge on society. Big business had survived, but was obsessed with fears that monetary failures might lead, as in Russia in 1917, to a communist seizure of power. Many capitalists were ready to finance any organisation seemingly strong enough to prevent this. The army thought only of blotting out the shame of Versailles.

The economic recovery that followed concealed these dangers, but it did not exorcise them.

### Apparent recovery 1924-1929

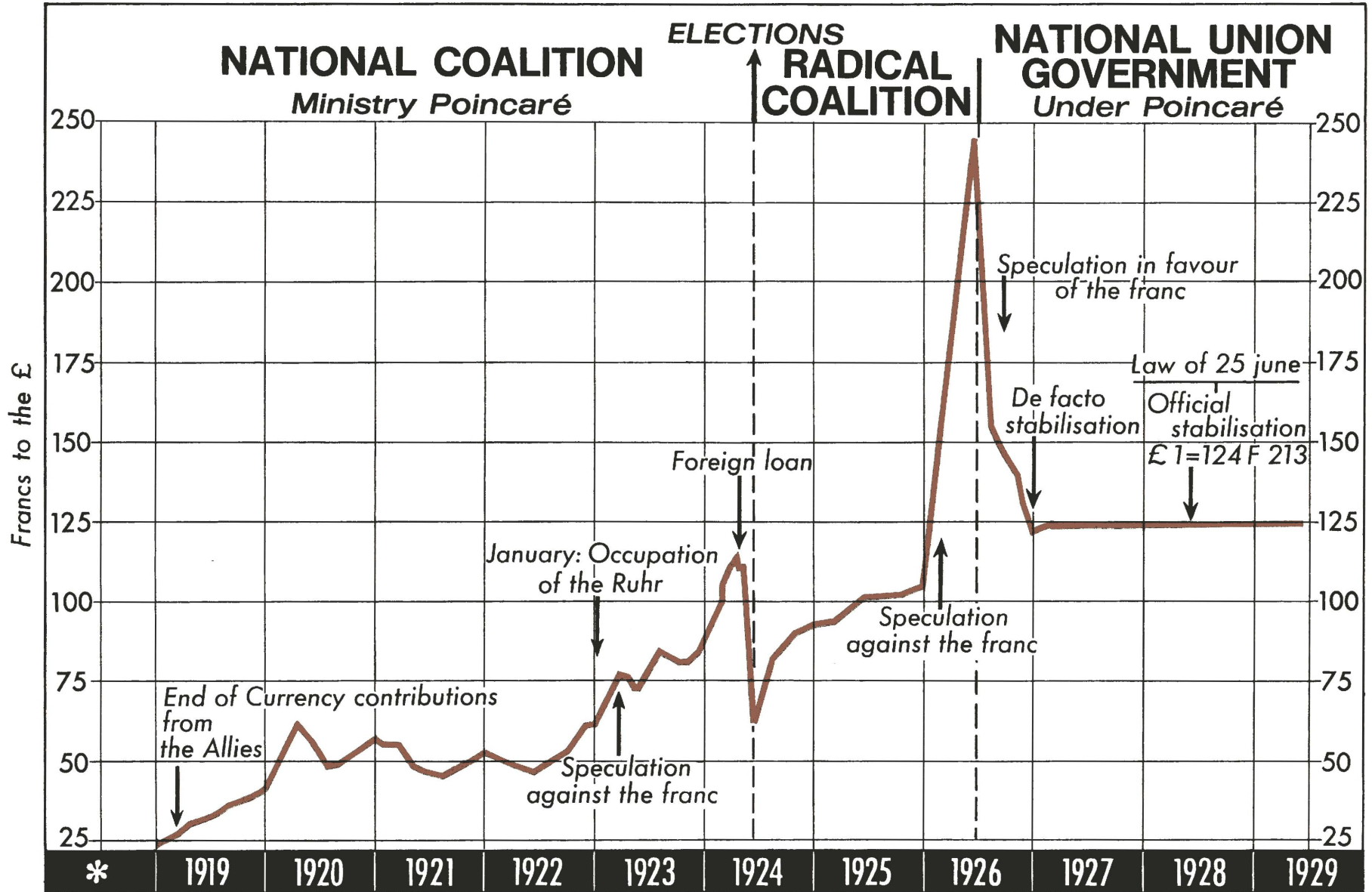
In October 1923 Raymond Poincaré was forced to yield, in face of the obvious failure of the Ruhr occupation, to Anglo-American pressure for a more lenient approach to reparations. Under the *Dawes Plan*, it was agreed to reduce the burden on Germany and spread out the payments due. The situation at once improved. Luther, the Finance Minister, and Schacht, director of the Reichsbank, were given full powers to tackle the crisis. They did so by the creation of a new temporary currency, the *rentenmark*, one of which was exchangeable for 1,000 billion old marks. Universally determined to re-establish their currency, the Germans demonstrated a remarkable solidarity in accepting this new currency, although it had no real basis. A stringent financial programme was put in hand which included a balanced budget, deflation, great increases in taxes, drastic cuts in expenditure and restriction of credit. When the *Dawes Plan* was followed by the even more lenient *Young Plan*, which allowed payment of reparations in goods, Germany found her financial credit restored for the first time since the war.

From 1924 to 1931, the Germans had to pay only 11 billion marks in reparations, while they were able to borrow 25 billion marks from abroad. In August 1924, the *rentenmark* was successfully withdrawn and replaced by the *Reichsmark*, backed by gold.

### Germany once more respectable

The election of Hindenburg to the presidency in 1925 seemed to set the seal on Germany's reinstatement. Social and political calm reigned once more. Financial

# THE DEPRECIATION OF THE FRANC 1918 - 1929



\* Pre-war exchange rate £1 = 25 F 24

stability had returned. Industry was well organised and production was much higher than in 1913. Germany entered the League of Nations in 1926 and signed the *Briand-Kellog pact* in 1928 (see *European Studies* No. 9). With industrial production high and increasing, it would seem that Germany had recovered from her difficulties. In reality, her position was rather weak, for her seeming prosperity rested very much on foreign capital and if this were to be withdrawn the whole economic structure would be likely to collapse; and the Wall Street crash meant just that.

## French difficulties

### 1919-1924

French finances in 1919 were also precarious. With no prospect of further aid from the allies, France faced an urgent need to pay for war damage, national reconstruction, and the expenses of demobilisation. There was an internal debt of 152 billion francs, of which 121 billion were on short-term loan. In the vain hope of receiving German reparations on a large scale, taxation was not sufficiently increased to make up the deficit. The state failed to inspire confidence and the French preferred to invest their funds out of the country. In 1920, the franc fell in relation to the pound sterling, which became worth 60 francs as against 25 before the war. After a slight recovery, there was a further fall beginning in 1922.

The occupation of the Ruhr in 1923 against the wishes of Great Britain and America meant that France was politically isolated, and there was a flight not only of foreign capital but also of French capital from France.

Early in 1924 Raymond Poincaré tried to relieve the situation: he agreed to the *Dawes Plan*, raised the Bank-rate to 7 %, increased taxes by 20 %, and borrowed from Britain and American banks. He had some success vis-à-vis the pound sterling: at 116 to the pound at the beginning of 1924, the franc strengthened to 65 francs by May. In spite of this the parties of the Left triumphed in the elections.

### Towards a collapse 1924-1926

The left-wing coalition in France had eased the rapprochement with Germany, but its inexperienced handling of state finance and excessive issues of paper money, together with the lack of confidence of investors, resulted in a massive departure of capital and the collapse of the government after less than a year in office. The succession of short-lived ministries which followed failed to find any solution to the monetary problem. By June 1926 the franc had fallen to 240 to the pound despite a relaxation of British and United States' demands for payment of France's debts. On July 21, 1926, Raymond Poincaré was given a second chance at the head of a national coalition government of which E. Herriot was a member but which was dominated by the parties of the Right and Centre.

### The re-establishment of the franc

The situation in July 1926 was summed up by Emile Moreau, Governor of the Bank of France at the time. *By keeping the country in ignorance of the truth, it has been ruined without even knowing it*, he wrote of the politicians' conduct since 1918. Information prepared by the Bank showed that the small saver, whose apparent income doubled between 1918 and 1925, in reality had lost through inflation more than 60 per cent of the amount saved. *Once the mass of the people realise this*, Moreau wrote, *the incentive to save will be gone. This drift to bankruptcy must be stopped without delay if the whole basis of the economic and social order in France is not to be destroyed.*

### Raymond Poincaré's policy

Raymond Poincaré's first aim was to balance the budget but some of his measures could have been associated with a left-wing government, for taxes were sharply raised, a wealth tax on landed property at 7 % was introduced, and although income tax was reduced, the tax on unearned income was increased. A sinking fund was established to liquidate the national debt. The result was that from 1926 onwards there was a budget surplus and France's balance of payments' position was much improved. Much was due to confidence in Poincaré but also to the realisation by French speculators that for once France's interests coincided with their own, and so they were ready to make the long-term loans that the Government needed. The pound sterling fell from 240 francs to 199 within three days of Poincaré taking office, within two days of the budget to 186 francs and by December to 122 francs. There were those who thought that the franc should be revalued back to its pre-war value so that, for example, those who had lent money to the government during the war would not be paid back in depreciated currency, but on the other hand such a revaluation would have had a bad psychological effect through the nominal drastic reduction of wages. Poincaré decided instead to stabilise the franc at a level of 120-125 to the pound sterling with the arrangement that the Bank of France would buy if 125 looked like being exceeded.

By the law of June 25 1928, the franc was stabilised at 124 to the pound sterling, gold reserves were to be 35 % of the value of currency in circulation, and France went off the Gold Standard, taking in gold from England the value of her accumulated stocks of pounds. To stabilise at 124 was realistic but the new franc was worth only 65 mg of gold compared with the 322 mg of gold of the pre-war franc.

The massive transfer of gold from England to France contributed to the later international crisis and gave the French a false sense of security. Indeed prosperity was more apparent than real, for although she had huge gold reserves, a budget surplus, an industrial production index of 140 (1913: 100), no unemployment and no obvious problems, the industrial structure was weak and geographically industry was badly distributed, agriculture had not yet reached the pre-war level of production and there was no mobility of labour. The French took for lasting prosperity what was nothing more than a fortunate circumstance and they were moving, uncaring, towards crisis.

## The storm breaks

### The crisis in France

In 1928 the franc was devalued, giving France a strong position in world markets. But Prime Minister Tardieu's high expenditure on social benefits and an over-ambitious plan for re-equipping the nation's industries soon converted a budgetary surplus into a deficit. For a time, a basic decline in prosperity was masked by the successful maintenance of full employment. But in 1931 crisis struck France as other countries devalued (Britain for instance going off the gold standard) and robbed France of her competitive advantage. The United States started to protect its markets, to the swift disadvantage of France. Germany instituted a system of import licences and France also lost trade when in 1931-1932 Britain set up the system of imperial preference.

The French could have followed the policies of Britain and the USA by devaluing and then boosting the economy but the Government would not do so, arguing that France had devalued first, the others merely having imitated her, and that in any case she did not need to devalue when she had such large stocks of gold. At the World Monetary Conference held in London in 1933, France appeared as the leader of the "gold block" countries which included Belgium, Luxembourg, the Netherlands, Switzerland, Italy and Poland, all of which refused to devalue. In fact Poincaré's franc was regarded as sacred and in the end the economy was sacrificed to it, and devaluation still had to come.

France put import duties on goods which came from countries which had devalued and sought bilateral trade agreements but with little benefit. In particular agriculture was being badly hit, finding it very difficult to export, and with little reward in the home market, the French people were having to eat less.

Although industrial prices were reduced by 20 % and farm prices by up to 60 %, these reductions were not enough to give back the advantage to the French producer or to build up the level of home consumption. As a result, the more inefficient businesses went bankrupt and others only saved themselves by cutting back production. In 1932 the index of industrial production fell to 60 % of the 1929 level and the full employment of 1929 gave way to a figure of 270,000 unemployed in 1932. As usual, crisis nourished crisis and falling revenues meant bigger budget deficits. The crisis may have come late to France but, in time, nowhere were its effects more felt.

### Political collapse in Germany

From 1929 onwards the effects of the Wall Street crisis began to reveal the fragility of Germany's apparent prosperity. The balance of payments showed a deficit, although this was at first small, and in 1930 the influx of foreign capital virtually ceased, while the Americans began to recall their loans. The Weimar Republic began to show once again all the political instability of its early days.

Lacking a majority firm enough to govern in the difficult times he was facing, Chancellor Brüning was forced to dissolve the *Reichstag*. In the elections that followed (September 1930) the Nazis gained an unprecedented 107 seats, and the Communists, 77. The result was an acceleration of the flight of the foreign capital so urgently needed by the German economy. The reserves fell from 3.1 billion gold-marks to 2.6 billion.

In 1931, the outflow of money became a cataract. As political street-fighting grew, a major Austrian bank, the Kreditanstalt of Vienna, failed (May 1931). Panic infected neighbouring Germany, and was aggravated by foreign fears of an *Anschluß*. The reserves fell again to 1.4 billion gold marks.

Despite the suspension of reparations through the Hoover moratorium in June 1931, the situation continued to worsen. In July, Germany blocked the exit of foreign capital and introduced exchange control.

Aggravated by a banking system ill-adapted to difficult times, the crisis nevertheless continued to deepen. Past events had made it politically impossible to accept inflation. For the same reason, the Government could not restore the balance of payments by devaluing the mark. Using executive decrees which by-passed and so demonstrated the failure of the Parliamentary system, the Government pursued a policy of vigorous deflation. The balance of payments was restored by cutting imports by two-thirds. Exports were also cut, but to a smaller degree.

On a social and economic level, the results were disastrous. Deprived of credit and of raw material, depressed by a lack of internal demand, industrial production collapsed, being in 1932 only 59 per cent of the 1930 level. Steel production had fallen to 5.5 million tons from 16 million tons. Most industries were worked at a fraction of their capacity. In 1932 there were six million unemployed, with another eight million on short time. And, as always, the crisis fed on itself.

### 1933: Hitler comes to power

Under these pressures, the Government was forced to abandon liberal practices and become more and more authoritarian. The state intervened in banking, external trade, and a large part of industry and agriculture. But while the government concentrated more and more power into its own hands, it remained the ineffective prisoner of a financial orthodoxy unsuited to the emergency.

The elections of 1932 were a triumph for the Nazis; the number of their deputies increased from 112 to 230 and they became the largest party in the *Reichstag*. In the vote for the Presidency, Hitler forced Hindenburg to a second round and gained eleven million votes.

Two ministries, led respectively by Von Papen and Von Schleicher, failed to show that Germany could be governed effectively without the Nazis. Fearful of the communists, big business and the army were willing to take a dangerous gamble on the unknown political force. On January 30, 1933, Hindenburg summoned Hitler to power.

*To follow.*

# Economic problems in Belgium's Wallonia

*Belgium's Walloon area is typical of areas heavily marked by early 19th century industrialisation which have difficulties in adjusting themselves to the decline in their traditional industries. It can in this respect be likened to many areas of Western Europe and in particular to Britain, since Belgium and Britain were both involved in the first industrial revolution several decades before most other countries. The adjustment to present day conditions had to be made sooner or later. It is interesting to see how, in Wallonia, the process of European integration, first with the Coal and Steel Community, then with the EEC, hastened it, and to some extent, facilitated it.*

## I. The economic structure

Wallonia has in common with northern France, the Ruhr, the British coalfields and other similar regions the problems of revitalising a "Black Country" founded on coal.

The difficulties facing Wallonia are more than the average in Western Europe. If we take as a yardstick electric power consumption, we find that between 1953 and 1964 Wallonia showed an increase of only 73 %, while the rate of increase was 96 % in northern France, and 143 % in Rhineland-Westphalia, all neighbouring and comparable regions.

How far the region has dropped behind becomes especially clear when it is compared with the Flemish provinces of Belgium, which almost give the impression of being "new country". In the four Walloon provinces gross domestic product (GDP) per head of population rose between 1958 and 1966 from Bfrs. 50,800 to Bfrs. 75,400, and in the four Flemish provinces from Bfrs. 45,200 to Bfrs. 76,700; thus we see that the Walloon GDP was overtaken by the GDP of the Flemish provinces in 1966 for the first time in Belgian history after being far outstripped by that of Brabant (which includes the Brussels metropolis), although it had been higher than the national average until the beginning of the 1950s.

### Industrial decline

#### COAL

Coal-mining bulked largest in the region's industrial strength and still dominates in the present-day economic difficulties.

As far back as the Middle Ages, opencast production was already providing coal for use in the numerous forges which gave the rich bishopric of Liège its high reputation as a metal-working area. By 1850 Wallonia was producing nearly six million tons of coal, when France was producing under five million. On the eve of the 1914 War, Belgian

coal production, still exclusively from Wallonia, was around 24 million tons brought up by 271 firms; in proportion to population Belgian production was at that time higher than Germany's.

Walloon coal mines had problems of irregular seams, often with geological faults and irregular steep slopes and poor thickness. These drawbacks were not a great worry when coal was mined by hand and pick. However, the seams nearest the surface started to be used up, by the beginning of this century. The range of qualities had however been considerably extended; there was now anthracite for domestic use, mainly from the Liège field, semi-bituminous coal for industry, gas-coal and bituminous coal for metallurgical coking plants, the latter coming from the Centre and Borinage fields.

After World War I, Walloon coal output levelled out and increases in Belgian production came only from the new Flemish Campine mines. After the 1930 crisis and World War II and up to 1952 when the European Coal and Steel Community was set up, Belgian coal production reached a peak of more than 30 million tons, but of this only 68 % came from Wallonia. Then, to help Belgium reorganise her mining industry, a special five year clause was inserted into the ECSC Treaty, giving protection against free competition from the other members.

### The reasons for this decline

*Technical reasons.* Inherent in the nature of the deposits, the problem of the Belgian coalfields referred to above, increased with mechanisation and the narrow coal seams were used up more quickly.

*Economic reasons.* Until 1957 there was coal shortage and profits in coal mining were high. Then came the sudden impact of competition from oil and natural gas, followed by competition from cheaper coal (from the USA and to a lesser extent from Poland). This sounded the death-knell for marginal collieries such as the majority of the Walloon mines, coinciding with the end of the ECSC transitional period.

*Structural reasons.* In addition to these inevitable difficulties there were defects in the organisation of the coal industry. Although many collieries formed part of powerful financial groupings (Launoit and Société Générale controlled 50 % of production), the industry was too fragmented, with too many small firms. In 1938 there were 163 firms, in 1952 there were still 136.

### The crisis

Thus production per miner in Wallonia at the beginning of the ECSC was the poorest in the Community. Wallonia produced 1,052 kg per manshift in 1952, compared with the average of 1,443 kg for the Community. In spite of advice and warnings from the ECSC High Authority the necessary adaptations were not made during the transitional period.

This made the coal crisis of 1958-1959 all the more brutal. The verdict for most of the Walloon mines was closure. Although their prices were the highest in the ECSC, and despite costly public subsidies many were losing money. Industrial consumers like steel and electricity complained at high coal prices which cut their own ability to compete. But for an area like the Borinage, which made its living out of coal, the whole economic, social and even political situation was menaced. So a new government subsidy system was authorised by the Community authorities to soften the gradual closure of the majority of Walloon mines. A Coal Industry Directorate was set up in 1961 to coordinate this.

In 1963, wholesale closures of the worst mines and the first rationalisation measures briefly re-established profits, but by 1967 all the southern mines were in the red: despite the drop in the number of firms from 100 at the end of 1958 to 22 at the end of 1969, and a rise in productivity from 1,147 kg per underground manshift in 1958 to 1,956 kg in mid-1968.

Production was down to 6.3 million tons in 1968, while the number of miners fell from 115,300 at the end of 1957, to 30,500 at the beginning of spring 1968.

The pits of the Charleroi-Namur districts were hit less hard than the others (down by 54 % from 1952 to 1968), while the Borinage and Central fields, which had been the only ones to produce more in 1952 than in 1910, were hit harder and earlier; for a long time the Liège field put up as good a resistance as the Charleroi field and then collapsed after 1964, shrinking by more than two-thirds between 1952 and 1968 (see insert).

### STEEL

The Charleroi and Liège areas (see insert) were better able to meet the coal-mining crisis because they have other industries; these are primarily metal-working areas based on a powerful steel industry. The Belgian steel industry, for long the monopoly of Wallonia, is still mainly concentrated in south Belgium despite the recent establishment of the big Zelzate plant north of Ghent. Out of a total production of close on 11.6 million tons of crude steel in 1968, Wallonia supplied more than 10 million tons, which can be compared with the figures for the north of France (5.5 million tons) and Lorraine (12.8).

But this huge steel-making concentration has weak points. Belgium is proportionately (with Luxembourg) the biggest exporter of steel in Europe and in the world. In 1965, 11.4 million tons were exported out of a total production of 13.75 million tons. To meet international competition, the Belgian steel industry, despite reduced profit margins, has invested heavily in modernisation. The reorganisation and rationalisation of the last ten years has greatly increased output per worker and, as a result, the numbers employed in Walloon steel making has shrunk by several thousand since 1960.

But there are other, more specific dangers. In 1953, the Walloon blast furnaces obtained their coke inside Belgium and four-fifths of their iron-ore from the Lorraine-Luxem-

bourg area; this ore known as minette, easily brought by rail, had still hardly any competitors and, despite its poor quality, was still one of the most economical. In the last ten years, while Belgium was having to turn for its coking-coal to imports from Germany, the USA and the Netherlands, the production of high-grade ore rich in iron content was growing rapidly outside Europe, particularly in Latin America and Africa. Coastal districts became better placed both for receiving the cheapest raw materials and for exporting on the best terms. Recognising these trends the inland steel companies joined together in the SIDMAR group to build the new coastal plant at Zelzate which began operations in 1966. This could be the start of a switch by the Belgian steel industry to the ports in the Flemish part of the country. No doubt the concentration of steel processing industry in Wallonia will keep the best part of Belgian steel plants there for several more years but the area is very likely to find itself condemned to a lower growth rate, which means relative decline, with all the disagreeable consequences that involves for employment.

### Other industries

Relative stagnation in steel making and the closing down of the collieries would cause less concern if they could be offset by growth in other industries, but this is not the case. Mechanical engineering is well established but dominated by traditional and relatively stagnant branches such as tramcars and "heavy machinery." Similarly there is a long established chemical industry, with world famous names like Solvay, but this too is based on sectors where demand is not rising fast, such as soda and other basic elements of inorganic chemistry. More seriously the coal-chemical industry is condemned to decline in the face of competition from petro-chemicals based increasingly in Antwerp. The strong growth of the new chemical industry in this Flemish part of the country has a stifling effect on its ageing Walloon rival.

Some Walloon industries are thriving. Industries producing glass, ceramics, cement and other building materials, all of them big consumers of energy and for that reason heavily concentrated on the coalfields, are still prospering. But localisation of industry is also changing. The increasing replacement of coal by petroleum products in every field is making for a real revolution in industrial geography. The trend is for factories to be brought nearer the consumer, which, in the case of building materials for instance, favours the Flemish provinces and the Brussels area. All these factors mitigate against the Walloon industrial corridor.

### Outdated infrastructure

In the past, high praise was lavished on Belgium's remarkable transport and communications system, in particular the extremely high density of rail and waterway networks (see insert). But in the last 50 years this infrastructure has not developed at a rate to match the spectacular changes in means of transport and this has contributed to stagnation in Wallonia.

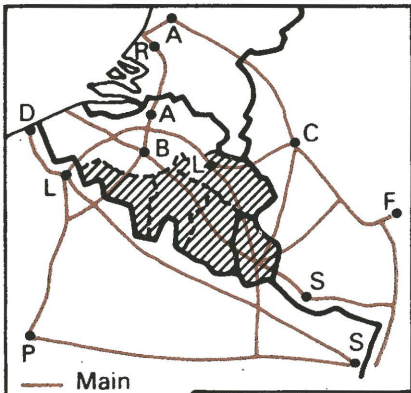
## II. Demographic stagnation

As in France before the Second World War, demographic stagnation in Wallonia is at once a symptom and a cause of lowered economic growth in the region. The following table shows the extent of the decline:

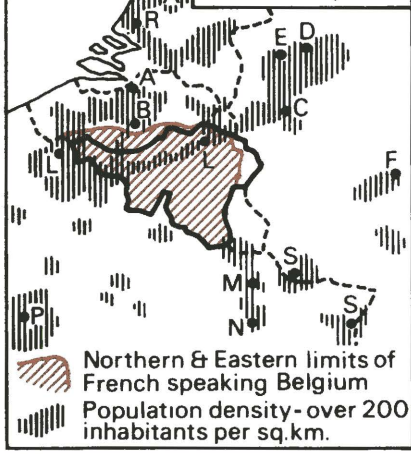
	1900	1930	1961
	('000s)	('000s)	('000s)
Population of the Walloon region	2,703	3,001	3,039
= % of population of Belgium	40.4	37.1	33.1



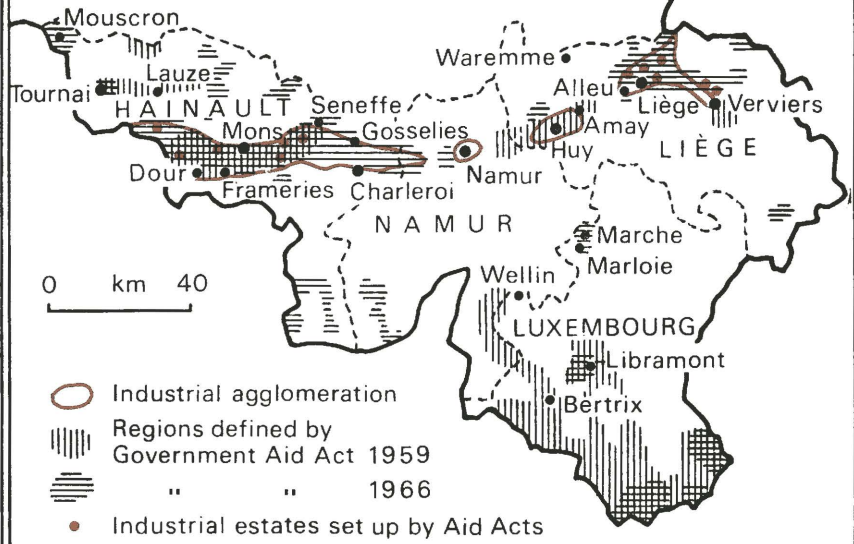
# WALLONIA-GEOGRAPHY



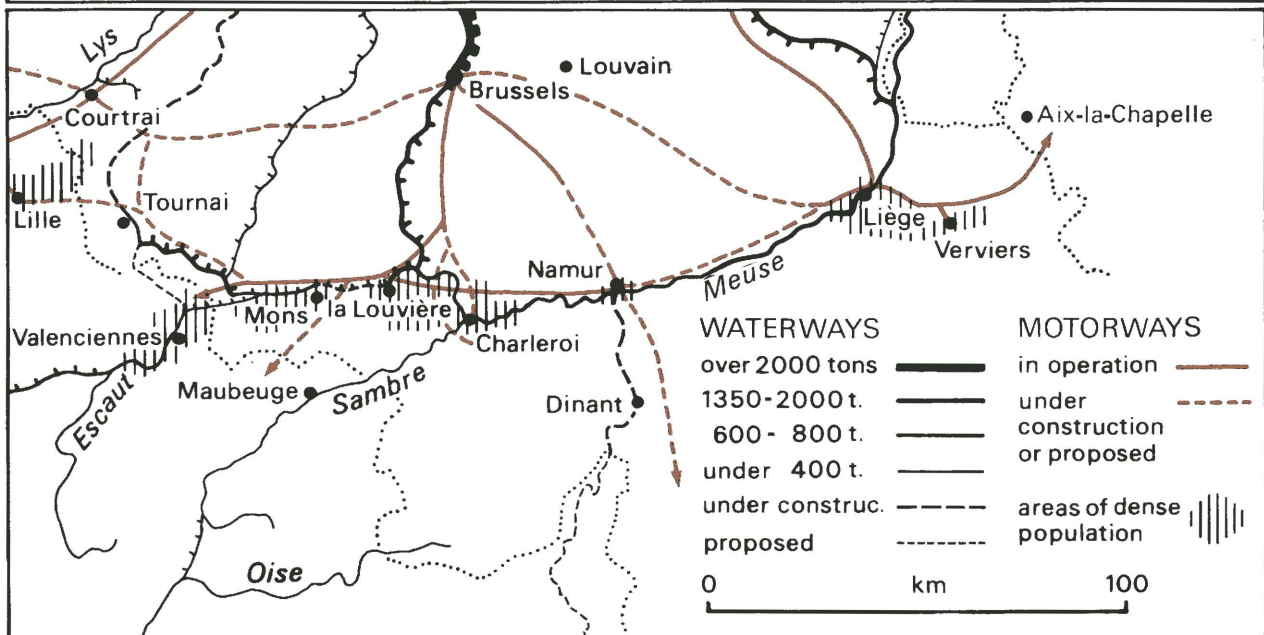
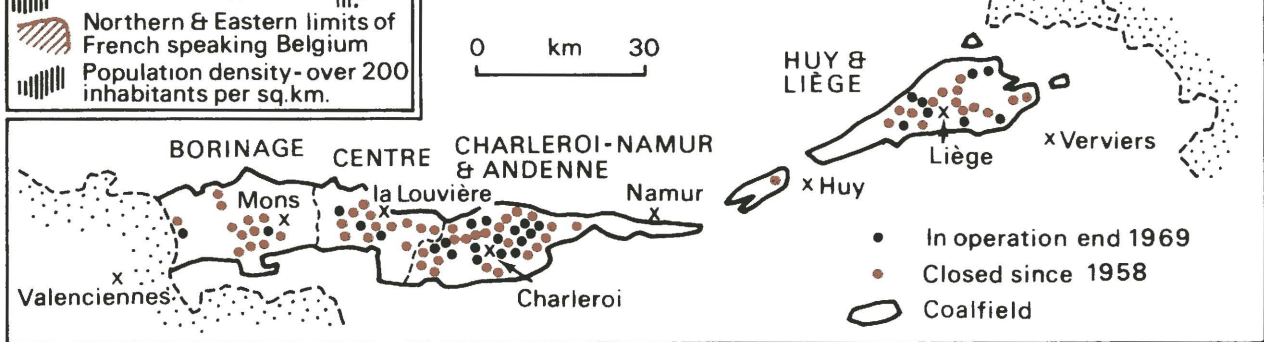
Wallonia in Europe



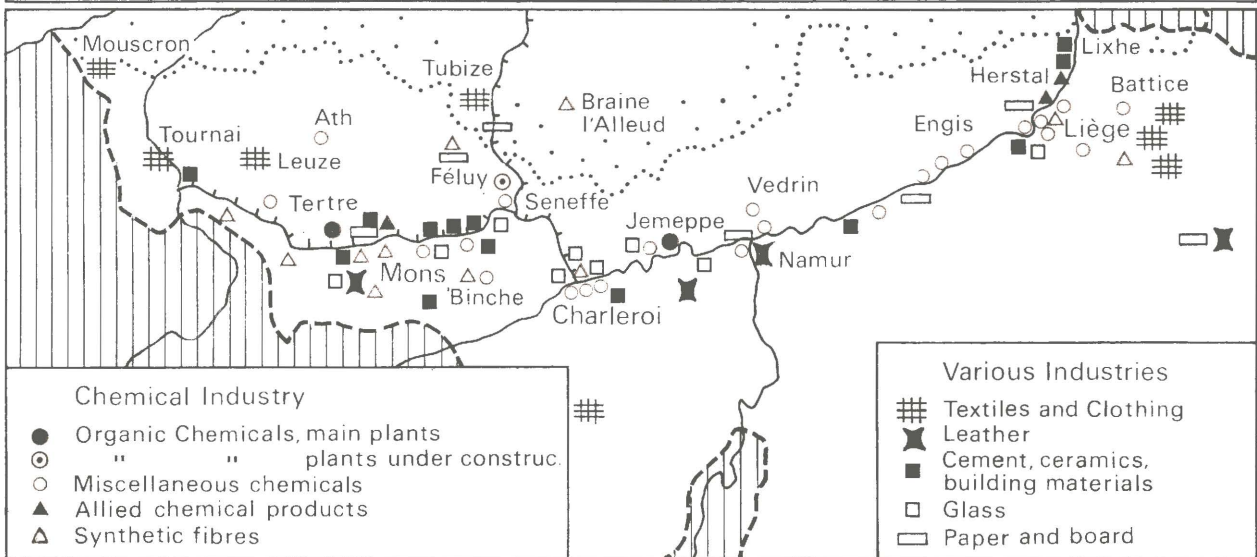
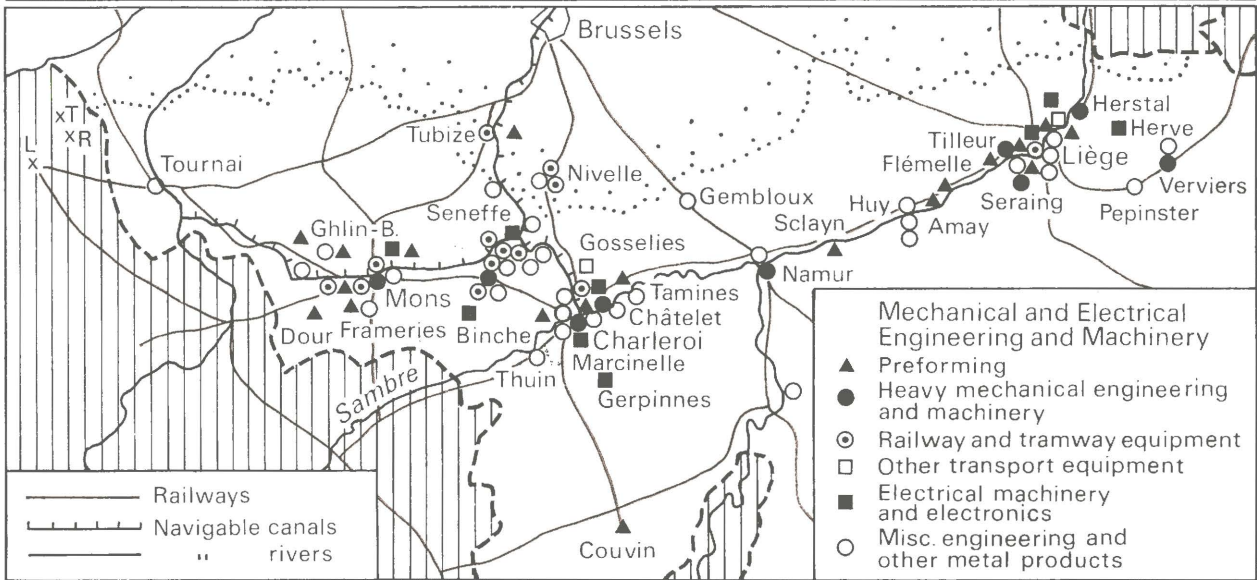
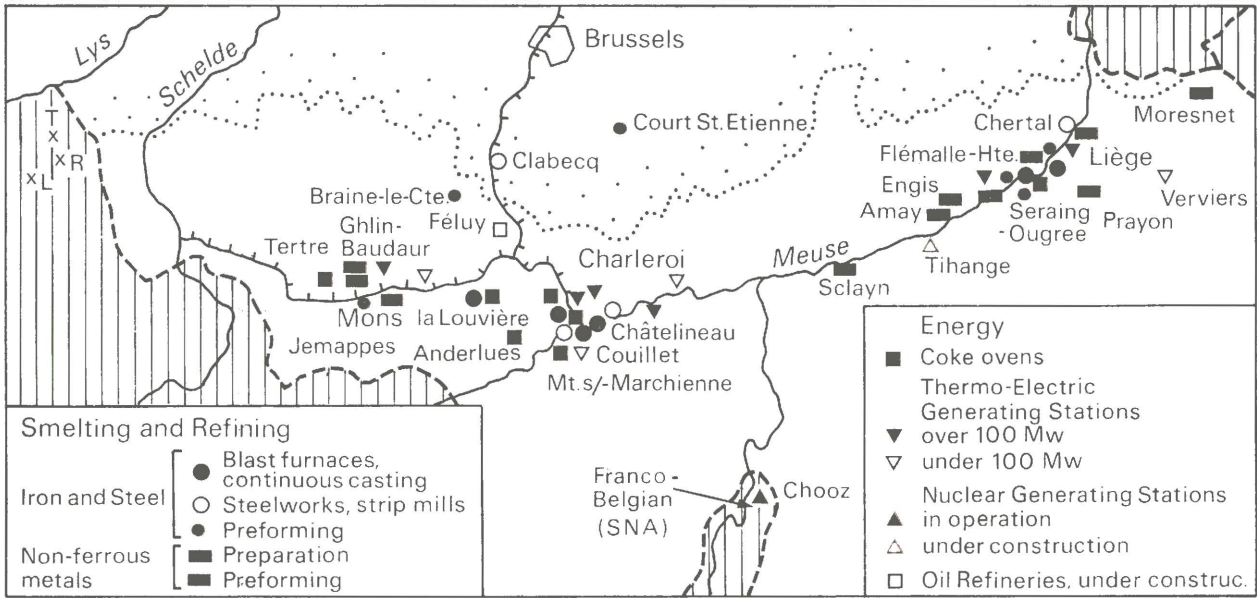
## INDUSTRIAL REGIONAL POLICY



## COALFIELDS



# WALLONIA-LOCATION OF INDUSTRY



Since the 30's, the birthrate has rarely been above 16 per thousand; in 1963, an average year, it stood at 15.5 per thousand. The percentage of young people has thus fallen to a low level (less than 23 % under 15 years of age), while those over 65 in 1964 accounted for 14 % of the total figure for the region. The deathrate hovers persistently around 14 %. The rate of natural increase consequently is now only 1 to 1.5 per thousand (and was as low as 0.2 per thousand in 1951).

### Migration

From 1958 to 1966 there was a net immigration into Wallonia of 22,000 inhabitants. This was entirely the result of arrivals from abroad, since over the same period a net total of 25,000 Belgians left for other parts of the country. The result is that the 358,000 foreigners make up 11.5 % of the region's population, more than half (54 %) of the foreigners living in Belgium. The majority are Italian. The newcomers are on average younger and have a higher birthrate than the native population.

### The working population

Population stagnation and the rising average age of the labour force hamper economic expansion and industrial renewal. The working population fell from 1,204,000 in 1947 to 1,094,000 in 1961. Since then a minor revival has begun but the increase hardly amounts to more than around ten thousand and the prospects from now to 1976 show only about the same sort of increase, if the employment rate remains constant. The number of jobs has already diminished; it fell by 5.6 % in the Charleroi and Liège areas between 1948 and 1962 and there was a much sharper drop in the western part of the industrial corridor, reaching 38.5 % in the Mons district.

### Unemployment

The pernicious effects of economic semi-paralysis show themselves in increased unemployment. The Walloon percentage of the total of Belgian unemployed stood at 20.5 % in 1959, rose to 27 % in 1963, and to 50 % in 1967. In that year, for the first time, there were more unemployed in the Walloon provinces than in the Flemish provinces with their higher population.

### An outmoded urban network

The shortcomings of the Walloon towns is shown up by the age of their buildings. In 1961 almost 80 % of the houses and flats dated back to before 1918 (compared with 57 % for the Flemish provinces) and a too slow building rate (only between a fifth and a quarter of new dwellings put up in Belgium for a third of the population of the country) gave no hope of seeing the unfavourable situation relieved.

Urban renewal is not merely a question of rebuilding old dwellings, it means also the restructuring of the "urban fabric" and its traffic.

The Walloon urban area is made up of ancient cities, like Binche and Nivelles, which have grown slowly since the pre-industrial era, or of newer towns sprung up in haste and disorder last century at the call of industrialisation—these include La Louvière and even Mons and Charleroi, which were of modest size before the age of coal. These latter towns consisted of new working-class quarters—often an inorganic collection of little houses—around the mines and factories which were planted here and there. So we have a motley cheek-by-jowl arrangement, not a coherently planned town. The infrastructure and services in these towns are inadequate.

The low-density urban sprawl stretching from the Borinage to Liège and the valley of the Vesdre explains the functional inferiority of the Walloon urban network and the increasingly crippling inability of services to cover this

area. Some old-established towns like Tournai and Namur sustain a local role but there is only one real regional metropolis: Liège, and it is too far off-centre. Even so, the Liège built-up area, like the others, is too scattered.

This poor urban infrastructure results in relatively low employment in the tertiary sector, i.e. less than 32 % of the working population in 1947, against 38.8 % for the rest of the country. By 1961, with general progress in tertiary employment, the percentage had gone up to 40.6 in Wallonia but it was still below the figure for other parts of the country, which stood at 44.4 %.

Does the Walloon industrial corridor exist as a regional reality? There are certain factors making for unity and solidarity inside the bounds of a territory stretched out from East to West as this one is. The most obvious is the strong French-speaking linguistic cultural bond. There is also a common industrial history. Nonetheless, the Walloon industrial corridor, taking up a limited portion of the national territory and irrigated by only a feeble share of large-scale trans-European communications, has become increasingly introspective and dependent on Brussels. Consisting of a string of specialised and similar small industrial centres, it shows an apparent unity composed of similar features rather than an organic unity reinforced by dynamic economic activity.

## III. Future prospects

### The effects of the EEC on Wallonia

The progressive removal of tariff barriers required by the Treaty of Rome inevitably means for Wallonia—a crossroads in the heart of western Europe—closer integration into a more extensive area. This is a great opportunity but at the same time a risk.

On the one hand, the pressure of foreign competition is strongly on the increase, and uncompetitive firms and industries will either have to introduce radical reforms or close down. This was the case with the collieries. But, on the other hand, Walloon industry can benefit from the larger market of 185 million consumers which is now open to it.

### Trade

The European Economic Community has brought a spectacular increase in trade between Belgium and its partners. Foreign trade statistics refer to the whole of the Belgo-Luxembourg Economic Union, but there is no reason to believe that the foreign trade of the Walloon part of the Union has not benefited. If 1958 is taken as the base year (= 100), the index of intra-Community imports and exports stood at 312 and 381 respectively in 1968, intra-Community trade accounting for over 64 % of all exports from Belgium and Luxembourg.

Account must also be taken of the stimulating effect of the increased flow of trade through the Walloon region: the passage of the bulk of goods in Belgium's trade with Germany and France (including those in transit to and from the Flemish provinces and Brabant), trade between Belgium and Luxembourg and a portion of the goods traded between France, Germany and the Netherlands. As a whole the volume of Wallonia's own trade plus goods in transit to and from other parts of Belgium and other countries must be at least four times as large as in 1958. The area is also gaining importance as a transit area.

### Infrastructure

Thus infrastructure improvement is necessary to meet the new, rapidly increasing demands of this situation. The Community's Transport Committee supplies government with information on degrees of urgency and the means of integrating their national systems in a European system.

For a long time work in Belgium proceeded rather slowly but, with pressure from the Committee, the rate of progress has been improved in the last three or four years. Thus, for example, after a lot of setbacks, it is now certain that the Wallonia motorway will be completely open to traffic in 1972. Rail, water and road communications between Wallonia and the rest of Europe are now being improved.

### Industrial reconstruction

Apart from aid to agriculture from the European Agricultural Guidance and Guarantee Fund (EAGGF) and useful studies by the Community's Transport Committee, the ECSC High Authority has contributed to conversion costs in the coalfields and redeployment of workers in the coal and steel industries. At the beginning of 1967, loans for conversion measures in Walloon coalfields were in excess of 1,200 million Bfrs. (23 % of the total granted by the ECSC) and at the same date aid for redeployment benefited 59,000 workers and cost a sum approaching 1,000 million Bfrs. The Community has, in fact, played a pioneer role in redeployment. There are also several regional studies which have been financed by the Community. Other assistance, including that from the European Investment Bank, is still at a very low level.

The Community's principal role is that of a catalyst. Direct action by the Community plays a secondary part, but the indirect effect of encouragement and guidance, not to speak of pressure, has been in the case of coal, and will no doubt be in other sectors in the future of great utility in instigating local initiative.

### Foreign investment

Investment from other Community countries still lags behind that of non-member countries, which in the main means the USA. Belgium has given a warm welcome to foreign capital. It is a valuable supplement to local financing and can enjoy the same regional assistance as granted to domestic capital. It has not, however, brought much benefit to Wallonia itself. Out of nearly 80,000 million Bfrs. invested in Belgium between 1959 and 1968, the four provinces under study have received only 16,000 million Bfrs., about 20 %.

### Belgian government aid

While valuable, foreign investment is thus not a key factor and the economic future of the region must lie principally in the hands of its inhabitants.

Belgian government aid (Acts passed in 1959-1966) consists of interest rebates, i.e. subsidies to cover part of the interest on loans to firms; a supplementary, state guarantee for loans raised; capital subsidies which may take the place of interest rebates for an equivalent amount, the subsidies being proportionate to the investing firms' own capital contributions, so as to avert the temptation of a dangerous degree of indebtedness; various tax concessions.

From 1959 to 1967 inclusive, Wallonia received credits amounting to nearly 32,000 million Bfrs. (over 38 % of the national total), and 68,600 million Bfrs. (39.5 % of the total) was invested with contributions from various state regional aid schemes. With approximately two-fifths of state aid, Wallonia received a slightly larger share than the proportion it represents of the population.

### Modernisation

Better backing from the public authorities does not do away with the need for firms to modernise themselves, making better use of the space available to them, realigning production on new requirements and merging assets.

More space has been provided for industry on new industrial estates. About twenty of these have been opened in the Walloon industrial corridor and in the adjacent part of western Hainaut (see insert). They provide better con-

ditions for industrial expansion, with extensive acreages and better transport facilities.

Modernisation of production is very marked in the matter of fuel and power. Power consumption is adapting itself to the decline of the collieries, with oil and natural gas, the main successors to coal. Antwerp refineries are still the main suppliers of petroleum products but in two years time the new refinery built at Feluy by Standard Oil of California will come on stream. This and the French refinery at Valenciennes will bring down power costs in the whole of Hainaut. Dutch natural gas, which by the first quarter of 1969 was supplying 40 % of gas consumed in Belgium, is available in western Hainaut and in the Namur and Liège areas.

Belgium is also turning to nuclear energy (see insert). The Franco-Belgian power station at Chooz, with a Belgian share of 130 MW, is already supplying the power grid in southern Wallonia. A big new 800 MW atomic power station at Tihange near Huy on the Meuse is due to begin supplying electricity at the end of 1972.

This looking to the future is to be seen also in manufacturing industry. In non-ferrous metals, Wallonia is now adding aluminium to its other metals and the new trend will be strengthened when the smelter at Amay, east of Huy, comes into operation around 1972 with a capacity of 60,000 tons a year. Still more important is the turning of capital goods manufacture towards new lines like nuclear engineering. Belgian electrical engineering, now as before centring around Charleroi, is beginning to move into the field of electronics. In aerospace the recent link-up of the French firm Dassault and Fokker of the Netherlands, with German and US interests automatically involved, in the joint control of the Belgian SABCA, will upgrade the modest Gosselies workshops (near Charleroi) into a centre capable of making an important contribution to a wider western European group.

In chemicals too, changes are taking place. Solvay plants are getting ethylene from Antwerp by pipeline. The new refinery at Feluy will considerably improve the prospects for the petro-chemical industry in Wallonia, and allied industry—rubber manufacture for instance—is also surging ahead.

### Relations between regions

Traditional ideas on the exclusive nature of competition have become obsolete, and Wallonia today is benefiting from the dynamic growth of the neighbouring regions.

Fortunately the facts are becoming better known, although the antagonism between Walloons and Flemings continues to raise passions and consequently confuses the issues. Economic development in Wallonia will create trade for Flemish ports; a quarter of the goods handled in the port of Antwerp comes from Wallonia and the fates of Liège and Antwerp are linked. Furthermore, industrialisation in the Flemish provinces can mean for the Walloon industrial corridor not only the supply of new raw materials but also new orders for capital goods.

Even the rural areas of the Ardennes and the surrounding countries could acquire a new *raison d'être* both as a reserve supply of water—the last remaining in Belgium—for the towns and industries and as a recreational reserve of greenery, quiet and unpolluted air for those living in congested areas round about. But here again, developing natural resources in the Ardennes will need to be planned not just in the Belgian context but in that also of the neighbouring French and Luxembourg areas. The project for a town to house atomic scientists at Wellin is an example of what could be done.

Present-day Wallonia is living through a crucial period of its history. The region's past is both a liability and a source of wealth. There are big delays to be made up for, but a new awareness is arising, giving grounds for hope that the necessary efforts will be forthcoming. Wallonia can win a future as brilliant as its past if it can overcome its provincial and national confines and look upon competition not as a danger but as a stimulus.

# The textile industry in Britain and the EEC

*The textile industry is one of the oldest and largest industries in Britain and the European Community. The textile work force in the EEC of almost 1,600,000 people and in the UK of over 600,000 people represents about 8% of total employment in the manufacturing industries of these countries. The EEC is the world's largest exporter of textiles and clothing whilst the UK, after Japan, is the third largest. However, the industry is coming to face increasing problems, the result of the outdated organisation of production, a deteriorating foreign trade position and the slow growth of domestic consumption of textiles.*

*Consequently it is increasingly characterised as a declining industry.*

## Composition of the textile industry

The support branches of the textile industry are classified either by the main fibre they use, for instance the cotton, wool and jute industries, or by the main process they employ, for instance knitting and textile finishing. There are however two main forces which are gradually blurring the distinctions between branches.

Firstly there has been wide spread substitution of man-made for natural fibres. Artificial and synthetic fibres<sup>1</sup>, very often more versatile and cheaper than natural fibres, are produced in long continuous filaments which can either be directly woven or knitted into cloth or first cut up and then spun into yarn. They can also be mixed with natural fibres as for instance in polyester cotton. Secondly, the leading firms in the industry are now thinking more in terms of markets than production; they might be for instance active both in weaving and knitting in order to be able to react swiftly to fashion changes.

As barriers between branches are eroded, so, too, though to a lesser extent, they are becoming less clear between textiles and its principal supplier industry: man-made fibres and customer industry clothing. These three industries have a close identity of interests since nearly all man-made fibre production is destined for textiles and about half of the textile industry's output of cloth goes into clothing. Another quarter of this output is made up into household textiles, whilst the remaining quarter goes to other industries for uses such as conveyor belting or upholstering and sacking.

## A brief history

The inventions in eighteenth century England of Hargreaves, Crompton and Arkwright in spinning and Kay and Cartwright in weaving paved the way for the transformation of the cotton and wool industries from domestic to factory production and for the industrial revolution in Britain. By the mid-nineteenth century, when the industry had spread to Europe, Britain dominated world textile and clothing exports (mostly in cotton). At the turn of the century textiles accounted for about 20 per cent of manufacturing production in Europe and 40 per cent of world trade in manufactures. Of world textile exports Britain accounted for 50 per cent and France, Germany, Italy, Belgium and the Netherlands for about 35 per cent.

The volume of British exports, at its highest ever just

<sup>1</sup> Artificial (or cellulosic) fibres such as rayon and acetate are produced from the base of vegetable matter such as wood pulp. The newer and often more expensive synthetic fibres such as nylon and polyester are made from a petrochemical base.

before the First World War, began to decline as the development of textile industries in Japan, China and India began to affect export markets in Asia. Exports from mainland Europe continued to grow until the late 1920s, even though collectively they never approached Britain's 1913 level. The depression years of the 1930s, followed by the Second World War, caused a violent contraction of world trade in textiles, as in other products, and a further impetus for developing countries to achieve self-sufficiency in textiles.

There was a brief post-war boom in world trading conditions from which the British textile industry was better able to profit than the badly-damaged industries of Western Europe. After the 1952 trade recession, British production and exports resumed their long decline. Conversely the EEC countries-to-be, less dependent on the declining market provided by developing countries and with more modern machinery, increased production and exports during the 1950s. By 1957 they accounted for 19 per cent of world exports of textiles and clothing against Britain's 18 per cent. Though reduced from the levels of sixty years before, these shares were still impressive.

## Developments since 1958

### Output and employment

In 1958, the year of the creation of the EEC, textiles accounted for about 7 to 8 per cent of the value of output (value added) and 10 to 11 per cent of the total employment of the manufacturing industries of the EEC and UK. By 1968 these shares had fallen to about 6 and 8 per cent respectively.

*Employment in the textile industry, 1958 and 1968*  
(thousands)

	1958	1968
Germany	607	489
France	518	402
Italy	481	466
Belgium	172	138
Netherlands	103	73
Total EEC	1,881	1,568
UK	815	659

Source: OECD, Labour Force Statistics 1957-1968; UK Report of the Census of Production for 1958; Board of Trade Journal, December 31, 1969.

These small percentage falls in employment are very large in absolute terms: more than 300,000 jobs were lost in the EEC and more than 150,000 in the UK in ten years, a loss representing about one quarter of the jobs available in 1958. Employment losses have been in the spinning and weaving branches: about two-thirds of the reduction in jobs is accounted for by the cotton industry; in the UK the cotton industry's labour force was reduced by 47 per cent in ten years. Knitting on the other hand made some modest employment gains during the period, due to some shift in demand from woven to knitted clothing. Employment gains have however probably come to a halt in this branch.

Improvements in the productivity of the labour force since 1958 have meant that production trends have not been as poor as employment trends. However, the picture is one of stagnation in several branches.

*Indexes of production of some major textile goods in 1968 (1958=100)*

	EEC	UK
Fabrics: Cotton	82	51
Wool	110	85
Man-made <sup>a</sup> fibres	187	94
Jute	71	82
Knitwear	203	171
Carpets	164	151

<sup>a</sup> Excluding Italy.

Source: UK monthly digest of statistics.

In the EEC since the early 1960s there has been a marked decline in production of yarn and cloth of cotton and hard fibres (jute, linen, etc.); the decline in wool textile production has been less marked and, in Italy, it has even increased. The only spun and woven fibres to experience sustained production growth have been synthetics; artificial fibre production has generally remained stagnant. The growth in synthetics virtually equals the decline in cotton.

In the UK there has been an extremely rapid decline in spun and woven cotton production; wool textile production has remained more or less stagnant whilst in man-made fibres the rise in synthetic production has failed to offset the fall in artificial production. In both the EEC and the UK, production in the knitting and carpet industries has risen appreciably; the volume of knitted output doubled approximately in ten years. The following sections discuss some of the factors underlying the performance of the textile industry.

### Structure

The textile industry is characterised by the small average size of its firms and production units. One in five of the EEC's textile firms employs less than ten workers. The ten largest textile firms in Germany, France, Italy and Belgium account for only about 10 per cent of the industry's work force. The Dutch and British record, at about 30 per cent, is rather better and commensurate with the US; it reflects a real development towards large firms operating in several textile branches simultaneously.

The small-firm structure is largely a historical legacy. (This is particularly true of cotton as the oldest and largest former exporting branch of textiles.) Production for export to distant, often fairly primitive markets, meant specialisation in production whilst marketing was handled

by outside merchants. Today the markets are generally in high-income countries, where the volatility of fashions requires quick reactions from all stages of the industry. This can best be achieved by united decision-making of firms in which several stages of manufacture, for instance spinning, weaving and finishing, are "vertically integrated" in one company. There are further advantages from integration, this time "horizontal integration", or the size of firms at a given stage of manufacture. Only the larger units can achieve the scale of production necessary with modern methods to achieve lowest costs. Moreover, large firms, whether horizontally or vertically integrated, have greater financial strength and investment resources, and greater bargaining power with supplier or customer industries.

### Production problems

Improvements in efficiency and technology in the textile industry have matched those of the rest of the manufacturing industry. Nevertheless, serious problems of inefficiency and threats to the continuance of this improvement remain, largely, yet again, the result of the historical legacy. Large numbers of small firms using outdated equipment prejudice the health of the rest of the industry. A particularly high proportion of British machinery is outmoded as there was less physical destruction during the war than in the EEC, and as the cotton industry's comparatively rapid rate of contraction has made the climate for new investment particularly unfavourable.

In this way the larger firms have not always been able to use their newer equipment to full capacity—profitability requires the operation of most modern machinery for 24 hours a day and 5 to 7 days a week. The consequent effect on their profits means fewer funds available for re-investment and the failure to re-invest gives the small firms an extra lease of life. Large scale imports of low-cost textiles can also, the industry maintains, reinforce this vicious circle of low profits and low investment.

The industry also has, paradoxically, labour problems. Its bad employment record has led to difficulties in attracting young recruits. It is also experiencing more and more competition for labour from new industries which are moving into textile areas. There is a particular problem of manning the nightshift and some companies rely extensively on immigrant labour to assure the round-the-clock operation of equipment.

### Foreign trade

*UK and EEC: Foreign trade in textiles and clothing 1958 and 1968 (\$US millions)*

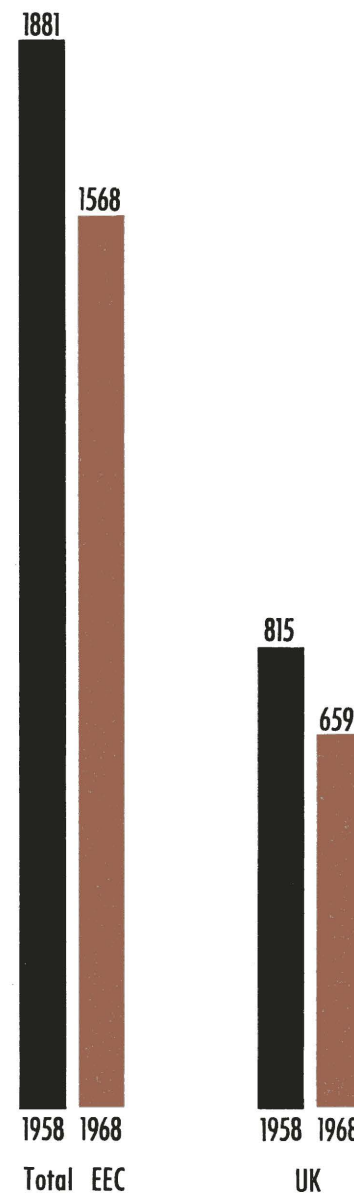
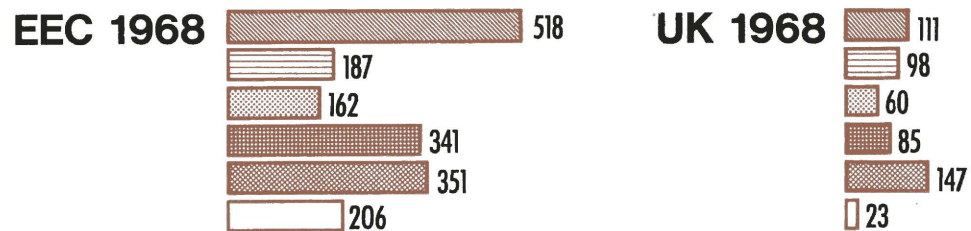
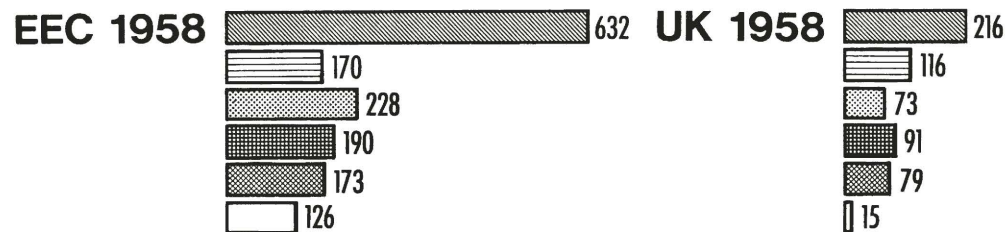
	EEC <sup>a</sup>		UK	
	1958	1968	1958	1968
<i>Textiles</i>				
Imports	722	2,635	238	555
Exports	1,550	3,814	714	712
Balance	+828	+1,179	+476	+157
<i>Clothing</i>				
Imports	164	1,210	55	258
Exports	320	1,508	85	195
Balance	+156	+298	+30	-63

<sup>a</sup> Including trade amongst EEC countries.

Source: UN Statistical Yearbook of International Trade, 1958 and 1968.

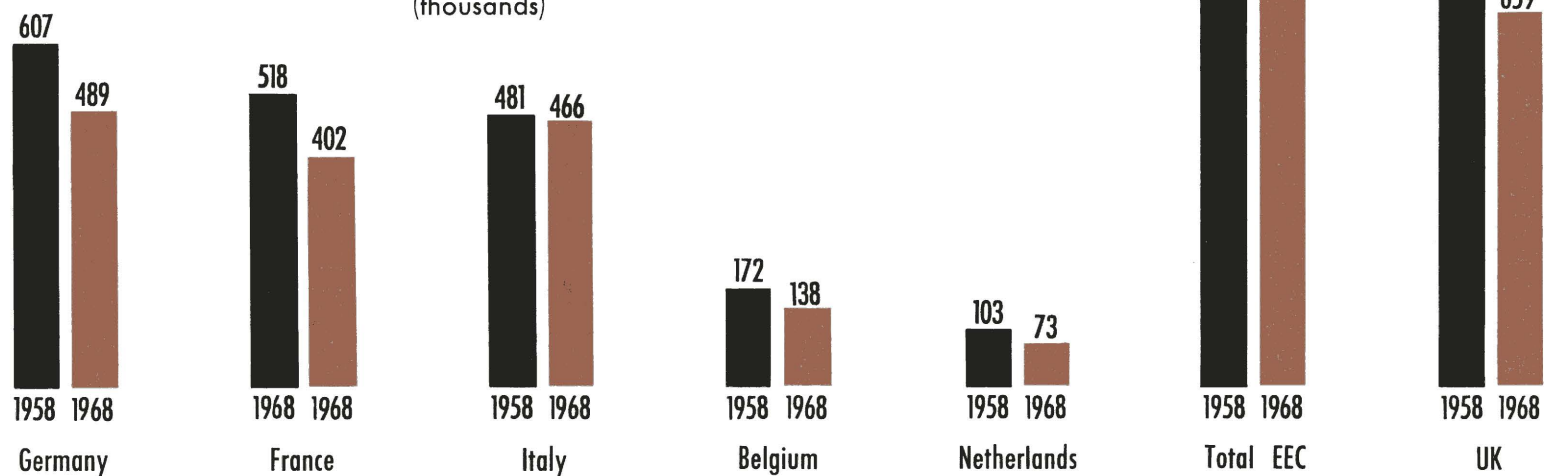
# EEC AND UK: PRODUCTION OF SOME MAJOR TEXTILE GOODS, 1958 AND 1968

(thousand metric tons)



## EMPLOYMENT IN THE TEXTILE INDUSTRY 1958 AND 1968

(thousands)



There are several common features in the development of textile trade in the UK and the member countries of the EEC. Firstly, most imports have been growing 50 to 100 per cent faster than exports. In the UK this has meant declining trade surpluses, though lately UK clothing exports have found a new dynamism. In the EEC, especially Italy and France, the low level of imports in 1958 has meant that, in spite of their higher growth rates than exports, overall trade surpluses have grown; but imports are becoming increasingly large and the surplus is already beginning to decline. Secondly, trade in clothing is growing about twice as fast as trade in textiles. Thirdly, the deteriorating trade situation is most marked in the "problem" sectors, cotton and hard-fibre textiles. Wool and man-made fibres, especially synthetics, have maintained their position better.

In 1958, trade between EEC member countries accounted for much of their total trade in textiles. The subsequent reduction of internal tariffs meant that, by the end of the 1960s, the share of intra-EEC trade in total trade had attained its maximum of about 75 per cent for imports and 60 per cent for exports. Three-quarters of its remaining trade is with other industrialised countries.

Developments in British trade have been very extreme. From about 1958 to 1962 imports of cotton textiles and clothing of all fibres increased enormously. The increase was mostly due to growth of imports from Commonwealth developing countries, particularly, India, Hong Kong and Pakistan, in the late 1950s. Since 1932 Britain's cotton textile imports from the Commonwealth have, under the Commonwealth (formerly Imperial) Preference system, been admitted duty-free. Because of the growth in imports, Britain gradually began to impose quantitative restrictions on imports from developing countries, until by 1966 all such imports were so controlled. This has contributed to a virtual stagnation of cotton textile imports in the last few years. Even so, such imports from developing countries represent 30 per cent of domestic consumption as against only 2 per cent in the EEC.

### **Textile consumption**

Clothing is, after food, a basic necessity of life, and, as incomes rise, such basic needs are usually satisfied by a smaller proportion of expenditure. Recent experience in the UK and the EEC suggests that clothing expenditure is not growing quite as fast as total expenditure and that, moreover, this relative decline may become more marked. Whilst the clothing industry has been able to minimise the fall in its share of consumption by making a more sophisticated product, the textile industry is less able to do this as its product is largely standardised. It has for instance been estimated for the EEC that the demand for textiles is only rising at three-fifths of the rate of total consumption.

Within the textile industry this situation varies between different branches and fibres. Demand in most branches catering for the clothing market is hardly growing, with the major exception of knitted products. Rising demand for spun and woven synthetics to some extent offsets the stagnation in consumption of yarns and cloths of natural fibres but, since these gains are increasingly at the expense of natural fibres, prospects for growth in consumption of spun and woven textile products are poor.

In industrial textiles there have been some setbacks to consumption. The poor performance of the jute industry is largely attributable to the use of plastic bags or woven polypropylene fabrics. Hospitals, for instance, have replaced

some woven textiles by paper products. In other industrial uses, such as tyre cord, and in household uses, especially carpets, the consumption outlook is however considerably brighter.

### **Geographical location**

The requirements of the early mechanised textile industry, proximity to coal and to ports, the need for certain humidity conditions, have led to a strong regionalisation of the industry. In the UK the bulk of the cotton and wool industries is found in East Lancashire and the West Riding of Yorkshire respectively. In Italy the cotton industry is centred on Milan, silk on Como and wool on Prato. Belgian textiles are concentrated around Ghent and Courtrai and Dutch textiles in the East Central part of the country, especially around Enschede. In Germany most of the industry is situated in three of the eleven Lander: Rheinland-Westphalia, Baden-Württemberg and Bavaria. Overall concentration in French textiles is less, yet the traditional branches are themselves highly concentrated, silk for instance around Lyons and cotton in Normandy, the Vosges and the North.

Where the main industrial employer in a region is a declining industry it is hardly surprising if the whole area reflects this decline. North-East Lancashire for instance has some areas where, despite contraction, the cotton industry still employs half the industrial labour force. The unemployment rate has never reached that of some depressed areas in the UK because people have left the area and women have left the labour-force; nevertheless the decline of the region involves a certain cost to its inhabitants: the young tend to leave the area whilst the old remain, and much of the area looks like a grim relic of the industrial revolution.

### **Textiles: a declining industry?**

An extrapolation of employment, output, and trade and consumption trends suggests very poor prospects for the oldest branches of the industry at least. A continuation of the past decade of decline in the British industry might mean 100,000 more jobs lost by the end of the 1970s. The more recent decline in the EEC textile industry might mean another 300,000 jobs lost by the end of the decade.

The developments of the 1960s have caused much public concern and government intervention. In addition to the restrictions applied to certain imports, there have been several schemes of public financial aid for industrial reorganization, in the cotton industry especially. The largest of these was the UK Cotton Industry Act of 1959 which set up a five-year scheme, jointly financed by government and industry, to scrap and replace obsolete and idle equipment. All the EEC countries, except Belgium, have had, or plan, similar though less ambitious forms of government aid. France, for instance, has levied a very small tax on textile products which has helped finance textile research and structural improvement.

There is no great conviction that such outside aid has been very successful in arresting decline. However, there are several developments in the industry's structure, techniques and products which may slow up decline; others conversely may hasten them. These developments are discussed in subsequent sections.



# The future of the industry

## The role of man-made fibres

The versatility of man-made fibres, especially synthetics, and their falling price relative to natural fibres has helped them maintain levels of production in the textile industry in the 1960s. However, many developing countries are beginning to produce or buy man-made fibres at competitive prices, and it is foreseeable that they could export man-made fibre textiles as competitively as cotton textiles. This is already happening on North American markets. Even so, it is still reasonable to suppose that the major developments in man-made fibres, a sophisticated, science-based product, will tend to be monopolised by industries in industrialised countries and that for reasons of proximity it is the textile industries in these countries which will process the newest fibres.

In Britain in particular the man-made fibres industry is exercising a vital influence on structural development. The contraction of much of the textile industry since the early 1950s has forced the two largest man-made fibre companies, Courtaulds and Imperial Chemical Industries (ICI), the latter to a lesser degree, to become financially involved in the industry in order to secure their fast dwindling outlets. This has led to a spate of mergers and acquisitions, largely centred on the cotton and knitting industries and either directly prompted by the man-made fibre companies or as a defensive response by independent textile companies. As a result there are now four large firms—one of them is Courtaulds and two of the others are at present merging under the aegis of ICI—accounting for about half the cotton industry's capacity, and almost one third of knitting.

The consequences of this development are far-reaching: the British textile industry is becoming increasingly market-oriented and rationalised; the larger firms are confident of their future ability to hold their own against imports. The failure of the man-made fibres' industry to intervene on a comparable scale in the EEC, or indeed in any other industrialised country except Japan, reflects the fact that there has not been a similar contraction in textile output elsewhere. If such a contraction were to occur, the man-made fibres' industry might yet intervene in those countries.

## Technological improvements

As in most other industries, there is a continued effort to improve machinery output in the textile industry. Part of this effort is concentrated on improving work organisation. It has for instance been calculated for the UK that a reduction of the range of products within a mill and longer runs of production could as much as triple labour productivity.

There are also important labour-saving machinery developments. Some of these consist in improving traditional techniques; the latest looms, for instance, weave three times as fast as conventional looms. Others consist in new techniques. Perhaps the most successful of these has been carpet tufting, the technique of inserting fibre tufts on to a preprepared backing instead of actually weaving the carpets. This has greatly cut costs for cheaper carpets and helped increase production. However, in many cases much of the improvement is swallowed by rising wages. In the traditional spinning and weaving branches, therefore, the prospects for most of these improvements of radically altering the competitive position of high-wage vis-à-vis low-wage countries must be accounted as small.

## Developments in trade

Several developments, actual or potential, in the commercial policy of the UK and EEC may greatly affect the amount of their textile imports, especially from low-cost sources. Firstly, developing countries have recently begun to export large amounts of man-made fibre textiles. At the moment, though UK and EEC tariffs on these goods are high, there are no quotas, but the great pressure for quotas from the textile industry, especially in the US, could quickly alter this. Secondly, the UK in its application to join the EEC, poses a problem for the harmonisation of the member countries' trade policies in textiles; this they have yet to achieve amongst themselves. The UK has already solved part of the problem: it has decided to end Commonwealth Preference in cotton textiles and replace quotas by a tariff from 1972. However, the problem will then be posed of harmonising Britain's lack of quotas with the EEC's often very restrictive quotas.

## A continued decline?

Increased advertising and fashion consciousness might increase textile consumption: the textile industry is very happy to see the Midi and Maxi replace the Mini! However, there is little evidence that advertising can provoke a dramatic rise in the long term in the amount of textiles consumed per person. Given this, levels of employment in textiles will clearly continue to fall simply through continued technological advance. If the rate of advance speeds up or if, in the case of the EEC, imports are admitted more liberally, employment will decline even faster and output will be seriously affected. Along side these portents of decline there are signs that part of the industry at least has a healthy future. The creation and enlargement of the EEC may eventually lead to rationalisation and structural improvement in the industry along American lines: an industry catering for a very large domestic market can cut costs drastically through methods of standardised production of textiles. Even if imports come to monopolise the mass production market, the domestic industry would at worst continue to survive in a reduced size to cater for fashion markets and exploit new products.

The EEC in particular has to choose how much it should protect textiles. The defenders of protection argue that it preserves the jobs of lower-paid workers. Its opponents argue that increased international specialisation leads to increased wealth: lower-cost imports mean cheaper prices and the extra earnings of the exporting countries mean extra purchases from the importing countries. The strength of either argument rests on the ease with which labour released from textiles is able to move into other employment. The experience of Lancashire suggests that increased imports have not been catastrophic, though they have caused some problems. The cotton area of Lancashire has gradually diversified its economy with little government help and there has been the long-run advantage to this that many former textile workers have been able to move into better paid occupations.

Clearly, however, the most socially acceptable and least disruptive kinds of adaptation to new patterns of production and trade may require public policies to encourage new job opportunities in declining areas and to retrain labour. This aspect of public policy may become more important as increased trade and economic integration lead to increased international specialisation which in turn leads to further declining industry problems.

# The European Community, the United Kingdom and world population trends

*In every country, population growth is an essential element in the development of consumption, employment, schooling, the burden carried by the working population, etc. That is to say, it is a determining factor in the structure of any society at any given time. It is therefore necessary to undertake certain minimum forecasts in this field. Politically, also, the size of population is a basic factor in the balance of power. Thus, it has been argued, in favour of the United Kingdom's entry into the Common Market, that with the UK population of 55.6 million (1969 figures) and the Common Market countries' 188.1 million, plus a further 11.4 million in Denmark, Norway, and Ireland, the other three applicants for membership, the community thus constituted would have a population of 255 million, greater than that of the United States of America (201.2 million) or the USSR (235.5 million). But will these proportions still be the same in 1980? or in 2000? Will the Community of ten countries remain comparable to the two present "super powers"? And if we also take into account China, which already has a population of some 750 million—i.e. more than the United Kingdom, the EEC, the USA and the USSR put together—, and the Third World in general, what place is the Common Market likely to occupy in relation to world population as a whole at the end of the century?*

*It is not possible to give an exact answer to these questions but merely to set out the various elements at our disposal for arriving at an evaluation. Since methods of calculation are of prime importance in this field, we shall first analyse the working hypotheses employed by the experts engaged in forecasting population, and the results to which they lead, before proceeding to attempt a critical evaluation of them.*

## Basic hypotheses

### Projections and forecasts

Three fundamental studies, the first published by the United Nations<sup>1</sup> and the other two by OECD<sup>2</sup>, establish projections for the years 1980 and 2000 based on analysis of population trends in the various countries. A *projection* is not a *forecast*: the former gives the figure which a population should reach by a given date if certain hypotheses are realized, but it is not concerned with whether or not these various hypotheses are in fact likely to be realized. A *forecast*, on the other hand, attempts to combine the hypotheses which are regarded as most likely. It is, of course, much more arbitrary than a projection, but a projection as it stands is quite useless and is only of interest insofar as it provides a basis for a forecast.

On the basis of these UN and OECD projections, the French INSEE (*Institut National de la Statistique et des Etudes Economiques*) has attempted to establish forecasts, completing wherever possible and with all necessary care, the hypotheses used in establishing the projections<sup>3</sup>. Care is all the more necessary in this operation in that demographic phenomena are influenced by a very great number of factors: rates of birth, fertility, mortality, abortion, infant mortality (neonatal and perinatal), marriage and divorce, the effects of migration and psychological changes which, contrary to what is sometimes supposed, may be very

rapid: thus, in Japan it took only fifteen years from the promulgation of the 1948 "eugenic" law to halve the crude birthrate.

### Range of estimates

Taking into account these various factors, the United Nations draw up four projections: the first assumes a constant fertility rate and no migration: this is the so-called "reference" projection and obviously has no predictive value. The three others are known as the high, medium and low estimates respectively and are established on the basis of certain hypotheses regarding the various rates; it must be emphasized that the medium estimate is only one of a number of hypotheses and that it is not more likely of realization than the high or low estimates. However, where it is impossible to decide, the medium estimate is referred to as being the least ambitious forecast. The medium estimate is established on the basis of the following hypotheses:

- *mortality*: it is supposed that, in the developed countries, recent trends will continue much as hitherto. In the developing countries, it is postulated that between 1960 and 2000, life expectancy will rise by 2.5 years every five years up to the age of 55, rather more rapidly up to 65, a little more slowly up to 74 and not at all after 75.

- *fertility*: the experts are unanimous in regarding an average decline as certain. In the developed countries, as with mortality, recent trends are expected to continue; in the developing countries, the problem is more complex: fertility, according to the experts, may decline by 50 % in the course of thirty years; but when will this decline begin? The United Nations study recognizes its weakness on this point: "It is quite obvious that to estimate the decline in fertility at

<sup>1</sup> United Nations, *Future world population trends as estimated in 1963* (New York).

<sup>2</sup> OECD, *The development of population 1965 to 1980 in Western Europe and North America*.

<sup>3</sup> INSEE: *The prospects of the Common Market and the United Kingdom in relation to the development of world population. Prospects in 1980 and 2000. In Etudes et conjoncture*, April 1968 (Paris, PUF).

50 % is arbitrary... It is also open to argument whether the phase of decline in fertility will last thirty years; ... (But) this is unavoidable."

## Results

The results obtained on the basis of these hypotheses are given in the table below.

Medium estimate for 1980 and 2000.

	1980		2000	
	millions	% <sup>a</sup>	millions	% <sup>a</sup>
West Germany	60.5	0.45	65	0.35
Belgium and Luxembourg	10.4	0.50	11.4	0.45
France	53.2	0.75	62	0.75
Italy	56.4	0.65	64	0.65
Netherlands	14.0	1.00	17	0.95
EEC total <sup>b</sup>	194.5	0.60	219	0.60
United Kingdom	57.2	0.45	62	0.40
United States	240.9	1.45	319	1.40
Eastern Europe	113.6	0.80	128	0.60
USSR	278	1.30	353	1.20
China	843	1.30	1,035	1.23
Developed areas	1,194	1.00	1,441	0.95
Undeveloped areas	3,136	2.20	4,688	2.00
World	4,330	1.85	6,129	1.75
% of world population:				
EEC		4.5		3.5
Developed areas		27.6		23.8

<sup>a</sup> Mean annual growth rate compared with the preceding 20 years.  
Source: *Etudes et conjoncture*, No. 4, April 1968.

## Crude figures

In the year 2000, the populations of France, Italy, West Germany and the United Kingdom will be essentially the same (62 to 65 million).

At that date, without mentioning China which will have passed the 1,000 million, the EEC will have a population of only 219 million (281 million with the United Kingdom) whereas the USA will have 319 million and the USSR 353 million. The importance of these figures for the Common Market's role in world affairs at that time is obvious.

To be more precise, compared with the USA and within its present boundaries, the population of the EEC was 20 % higher than that of the USA in 1920, 10 % higher in 1940, while in 1960 it was only 95 % of the US figure; if the forecasts are correct, in 1980 it will be only 81 % and in 2000 only 69 %.

Compared with the USSR, the decline will be even more serious. Again within its present boundaries, the population of the EEC was 83 % of the Soviet figure in 1920, 75 % in 1940, 80 % in 1960 (which is in no way due to the vitality of the Common Market population but is explained by the vast Soviet losses during the Second World War); in 1980 it will be only 70 % and in 2000 only 62 %.

Compared with China, the decline is less spectacular: the populations of the present Common Market countries represented 27 % of the Chinese population between 1920 and 1940 and 26 % in 1960; in 1980 the proportion should be 23 % and in 2000 21 %.

Thus in the year 2000 the population of the present six Common Market countries will be 31 % below that of the USA, 38 % below that of the USSR and 79 % below that of China.

## Growth rates

If we examine growth rates on a table covering the period 1920-2000, bearing in mind the territorial changes that have taken place, we see that the world rate rose from 1.05 % between 1920 and 1940 to 1.85 % between 1960 and 1980 and that it is expected to fall to 1.75 % between 1980 and 2000. In the developed countries, however, this rate remains static at about 1 % and is even expected to fall to 0.95 % between 1980 and 2000; but the EEC, which belongs to this group, shows even lower rate: 0.6 % between 1960 and 2000.

This does not apply in the case of the developing regions: these experienced what has become known in classic terminology as a "population explosion" around 1950; their mean growth rate rose from 1.6 % between 1940 and 1960 to 2.2 % for 1960-1980 and is expected to slow down to 2 % for 1980-2000. The mean growth rate of the EEC will therefore be only one-third that of the developing countries. Thus, while it represented 7 % of world population in 1920, in 2000 it will represent only 3.5 %.

Finally, even within the EEC considerable differences are observable in the estimated mean annual growth rate for the period 1960-1980:

Netherlands	1.0 %
France	0.75 %
Italy	0.65 %
Belgium-Luxembourg	0.50 %
West Germany	0.45 %
EEC average	0.45 %
United Kingdom	0.60 %

Source: *Etudes et conjoncture*, April 1968.

We see, finally, that between 1920 and 2000 world population will have trebled, the population of the developing countries will have increased four times, while the population of the developed countries will only have doubled and that of the Common Market will have increased only by two-thirds.

Such at least is the outlook which emerges from the given hypotheses. They should of course be treated with considerable caution, given the extent of errors in past estimates and the difference between estimates made at nearly the same time relating to the same date in the future. One of the elements most difficult to estimate is the balance of migration: migration is in fact quite directly linked with the economic state of the country migrated from, that of the country migrated to, and that of other countries insofar as their offers either of employment or labour influence emigrants.

## Critique and revisions

### USSR and the Eastern countries

The present fall in the crude birth rate is more rapid and extensive than was estimated; the rates used in establishing the medium estimate are therefore higher than those we may expect if very recent rates are maintained. For these countries, the low estimate would

therefore have a higher degree of probability than the medium estimate. Thus in 2000, Eastern Europe would have a population of 120 million and not 128 million, and the USSR would have 316 million instead of 353 million. This difference of 37 million is negligible for the purposes of comparison with the Third World, where the population figures are so very approximate, but it brings the USSR much closer to the USA.

### The Common Market countries

In the case of the six countries belonging presently to the European Economic Community the correction should be made in the reverse direction: the birth and growth rates may exceed those postulated by the United Nations in establishing the medium estimate.

*Recent development of crude birth rates in the EEC, the UK, the USA and USSR.*  
(live births per 1,000 pop.)

Country	1950	1955	1960	1966
Netherlands <sup>a</sup>	22.7	21.3	20.8	19.2
Italy	19.6	18.0	18.3	18.9
United States	23.5	24.7	23.7	18.5
USSR	26.7	25.7	24.9	18.2
United Kingdom	16.3	15.5	17.5	17.9
West Germany	16.5	16.0	17.8	17.7
Mean EEC + UK	18.1	17.3	17.9	17.5
France	20.5	18.5	17.9	17.4
Belgium	16.9	16.8	16.9	15.9
Luxembourg	13.9	15.3	16.0	15.5

<sup>a</sup> Countries are listed in decreasing order of rates for 1966.

Source: *Etudes et conjoncture*, April 1968.

Examination of the crude birth rates given above confirms a downward trend. This has disturbed the various governments concerned: what will be the effect of the efforts made by the public authorities to check this phenomenon? Obviously, one must proceed with caution. It would also be necessary to find means of determining whether or not there is any connection between expansion and unemployment on the one hand and population trends on the other. Some, like Simon Kuznets, hold that there is no connection between birth rates and *per capita* income; but many are of the opposite opinion. Mr. G. d'Hérouville, at INSEE, having deplored the lack of advanced economic and socio-psychological studies on this point, proposes that we distinguish between "the short term, in which unemployment and stagnation inevitably make their effects felt (this was the case in the United States after the great crisis of 1929-1930 and other examples abound) and population trends in the strict sense, where the influence of economic factors appears to be less certain". In the same line of thought, Alfred Sauvy places the accent on mental habits and psychological reactions: he considers that the mind opposes population growth by a kind of defence reflex against the rising tide of youth everywhere, a reflex connected psychologically with the fear of unemployment in the widest sense.

But this decline, it must be noted, is only observable from a starting level higher than that forecast by the United Nations: in fact, the forecasts for 1960-1965 were 17.1 % for Western Europe: now the actual rate was some 18 % and even 18.40 % for the Common Market (18.2 % for France and the United Kingdom). These discrepancies between the forecast and the fact are due in large measure to migration, "no allowance having been made for this factor".

In the case of growth rates, a fall in the birth rate has not the same significance in the industrially developed countries as it has in the developing countries, owing to the decisive effect on their development of migration. Migration, in fact, explains most of the difference between the rates observed and the rates forecast. There are, it is true, certain exceptional cases:

- without the numbers repatriated from Algeria in 1963, the growth rate in France would be 1 % and not 1.35 %.

- similarly, in West Germany, immigrants from the German Democratic Republic were very numerous up to 1961.

But immigration to the EEC countries can be expected to remain high; since the Common Market is wealthy in comparison with its neighbours, it should normally continue to attract Spanish, Portuguese, Greek, Algerian and Turkish labour in particular<sup>4</sup>. In normal years the number of foreigners settling in France is about 210,000; allowing for estimated emigration, the surplus balance is some 160,000 per annum. In recent years foreign immigrants account for one third of the growth in population.

We may therefore definitively correct the original estimates from 0.6 % between 1980 and 2000 to a suggested bracket of 0.7 % to 1 %.

In the case of the three largest EEC countries and the United Kingdom which are closely comparable, certain interesting details deserve mention.

### FRANCE

*Estimates of total population (million).*

	without migration	with migration
1965	48.2	48.6
1970	49.8	50.9
1975	51.7	—
1980	53.8	(57.7)

Population growth is in the region of 450,000 to 550,000 per annum and the figure for 1970 is therefore in all likelihood a close approximation to the real figure. More detailed forecasts for 1980 and 1985 were made in 1964 by INSEE. First without migration; then combining two basic hypotheses (declining mortality and constant mortality, the latter having a reference value only) and three secondary hypotheses: increased, constant and declining fertility. The results are as follows:

1980 between 51.9 and 54.7 million;  
1985 between 52.9 and 57.6 million.

INSEE then included migration, forecasting a net immigration figure of 150,000 between 1964 and 1969, and 130,000 in 1970; combined with a hypothesis of declining mortality and constant fertility, this forecast yields a figure of 51.43 million for 1971.

The national planning department forecasts a population of between 65 and 70 million, and closer to 70 million, for 2000 and the land distribution authority has used a figure of 75 million for the purposes of an opinion poll. In fact, in order to have a population of 75 million by 2000, France would have to have a growth rate in excess of 1 % (it is currently 0.7 %) and a migration balance of 200,000 per annum (it is around 160,000 at present); it is therefore not very likely that this figure will be reached (moreover the land distribution department has not published its working hypotheses).

<sup>4</sup> See *European studies No. 8*, Migrant workers in the EEC.

Here below are the figures for the population of France in the year 2000 on the basis of the various hypotheses:

Natural growth rate (%)	Without migration	With a net migration per annum in million		
		of 0.1	of 0.13	of 0.20
0.6	60.5	63.7	64.7	66.9
0.7	62.5	65.7	66.7	68.9
0.8	64.5	67.7	68.7	70.9
1.0	68.5	71.5	72.7	74.9

## ITALY

For Italy the medium estimates of the United Nations and the OECD projections are as follows:

Year	by UN	by OECD	actual population (million)
1960	49.6	—	49.6
1965	51.2	—	51.6
1980	56.4	58.4	—
2000	64	—	—

Italian estimates present similar figures: Livi Bacci's study published in 1964 in fact forecasts a bracket of 55.9 to 58.4 million for 1980 based on birth rates of 1.84 % in 1961 and 1.46 % in 1981 and mortality rates of 0.93 % in 1961 and 1.07 % in 1981.

*The Centro di statistica aziendale* in Florence, in a study made in 1967, produced new mortality tables and new hypotheses of fertility and mortality: its projection for 1981 proposes a bracket of 59.4-60.4 million which approximates to the figure suggested by OECD.

For the year 2000 the Italians have no projections: if we allow 60 million in 1981 and a growth rate of 0.65 %, the figure of 68 million should normally be reached in 2000, but the rate may be as high as 0.8 % and in this case 68 million would be a minimum.

## WEST GERMANY

*Estimates of total population (million)*

	UN estimate	OECD forecast	Actual population
1960	55.42		55.42
1965	57.75	57.86 <sup>a</sup>	59.04
		58.24 <sup>b</sup> 58.22 <sup>c</sup>	
1980	60.50	60.68 <sup>a</sup>	59.04
		62.45 <sup>b</sup> 61.45 <sup>c</sup>	
2000	65		

<sup>a</sup> natural growth

<sup>b</sup> with migration hypothesis (1).

<sup>c</sup> with migration hypothesis (2).

It can be seen from the above table that in 1965 the actual figure even exceeded the various forecasts made by the OECD.

The experts have therefore been led to raise their figures as follows (excluding migration):

1970	: 60.27 million
1980	: 62.79 million
1990	: 65.80 million
2000	: 69.88 million

The breakdown by age-group gives the following table (in %):

	1965	1980	2000
under 15	22.5	23.8	25.4
15 to 65	65.7	61.7	62.6
over 65	11.8	14.5	12.1

It will be noticed that there is a steady rise in the percentage of children; the variations in the proportion of old people are due to the war. What disturbs the German authorities is the fact that, while the figure for the population as a whole shows an increase, the working population will apparently continue to decrease up to 1975. The economic repercussions may be considerable; the main effect will no doubt be the disappearance of marginal enterprises.

## UNITED KINGDOM

The main forecasts relating to the population of the United Kingdom are:

	Actual population	Estimated population (million)		
		without migration	with migration I	with migration II
1960	52.37		52.51	
1965	54.44	54.37	54.00	54.40
1980		59.92	57.25	60.48
2000			62.0	

As in the case of West Germany, the 1965 figure exceeds the high estimate. In the same year, therefore, the *Central Statistical Office* published the following forecasts, including migration: 56.79 million for 1970, 61.42 for 1980, 74.66 for 2000. It should be noted however that a 1966 poll gave a figure for Great Britain of 52.3 million, i.e. 53.77 million including the 1.47 million for Northern Ireland, "or almost one million less than the figure forecast on the basis of the 1961 census". But "this difference of some 2 % is attributable to incomplete lists of addresses for England and Wales".

Against the 75 million forecast for the year 2000, it is argued that the mortality rate has risen in recent years (11.3 in 1964, 11.5 in 1965, 11.6 in 1966) and that instead of a net migration surplus, a slight migration deficit may be expected up to 1972. Against this, it is pointed out that the birth rate is falling less than in France and West Germany and that the marriage rate is rising (7.5 % in 1961-1963, 7.6 % in 1964, 7.7 % in 1965, 8.0 % in 1966). It appears therefore that there is a chance that the figure for the year 2000 will be closer to 75 million than to the 62 million forecast by the United Nations.

## Conclusion

Such are the present forecasts; it goes without saying the *Central Statistical Office* published the following that figures are constantly under revision in this field. On the other hand, we must not lose sight of the fact that the growing awareness of population problems both in government and among the population at large itself affects the manner in which the various rates evolve.



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