

Data concerning the economic development and reconstruction programmes of Luxembourg (June 1947)

Caption: In June 1947, the Grand Duchy's Ministry for Economic Affairs conveys to the United Nations Economic and Social Committee (Ecosoc) data on the economic recovery work undertaken in Luxembourg.

Source: Archives Nationales du Luxembourg, Luxembourg. UNO. Département des Affaires économiques. Reconstruction économique des pays, AE 7804.

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Data concerning the economic development and reconstruction programmes of the Government of Luxembourg requested by the United Nations, Economic and Social Council (June 1947)

I. Name of the National Governmental organization dealing with the national economic development of the country.

The Cabinet (conseil des ministres) determines the general policy for the national economic development and reconstruction of the country. Specific economic problems are dealt with by the Ministry of Economic Affairs, 19, avenue de la Porte Neuve, Luxembourg.

For the reconstruction of the war devastated areas a special organization has been created: "l'Office pour la reconstruction des régions dévastées", place de la Gare, Luxembourg.

II. Programmes for reconstruction and modernization.

1. Objectives of the economic policy of the Government.

The economic policy of any government is necessarily determined mainly by local conditions. The Government of Luxembourg believes that the immediate objectives of its economic policy should be to assure:

- a) that the fullest possible use is made of the country's human and material resources of production, so as to raise the national output and efficiency, and attain a higher standard of living;
- b) that in the use of these productive resources, the provision of goods and services to meet the essential needs of reconstruction is a prime consideration.

The Government is under no illusion about the difficulties of attaining these objectives. The rapidity with which the objectives can be attained will largely depend on the availability of the necessary financial means. The Government feels that it is under moral obligation to make good the damage wrought by war as far and as quickly as it is humanly possible.

2. Government reconstruction plan.

Unfortunately, a detailed plan to improve the productive apparatus of the country could not be devised yet. The magnitude of public and private expenditures presumably necessary for modernization, and especially for the general economic rehabilitation have however been roughly estimated. These estimates give a fairly accurate idea of the program, and a basis for judging how large the financial requirements will be.

It is estimated that a period of five years (1947–1951) will be required for the execution of the program. The program will be executed according to the degree of urgency, according to the financial means, and according to the supplies of materials and manpower available. Normal public works will be delayed so far as possible until the more pressing work of reconstruction is completed.

Although, as said before, no detailed plan can be submitted at this stage, it is felt that the following figures give a good over-all picture of the situation, and of the fiscal requirements necessary for the execution of the contemplated five-year reconstruction plan.

3. Fiscal requirements for the reconstruction period.

The extraordinary fiscal requirements for the five-year reconstruction period (1947–1951) can be roughly

estimated as follows:

I. Total damage to property

a) Destruction caused directly by the war Million francs at current prices

1. Damage caused to privately owned dwellings, to other buildings such as schools, churches, factories, stables, etc., and to producers' goods	5.250.-	
2. Damage to roads and bridges	490.5	
3. Damage to Government buildings	177.9	
4. Damage caused to privately owned semi-durable consumers' goods, such as furniture, etc		1.913.-
5. Damage to Government owned semi-durable consumers' goods	100.-	
6. Damage caused to agriculture	140.-	
7. Damage to the forests	533.5	
8. Damage caused to railroad bridges, tracks and railroad equipment		<u>1.146.6</u>

Total 9.751.5

b) Net depletion as a result of failure to make repairs, and provide for obsolescence

1. Residential and other buildings	280.-
2. Privately owned producers' goods	<u>240.-</u>
	<u>520.-</u>

Total damage to property 10.271.5

II. Requirements of the modernization plan and other necessary expenditures

a) Requirements of the modernization plan Million francs at current prices

1. Iron and steel industry	2.700.-
2. Other industries	110.-
3. Railroads (locomotives, rolling-stock, etc.)	<u>839.4</u>
	3.649.4

b) Other necessary expenditures

1. Requirements for the construction of new dwellings	1.000.-
2. Requirements for the purchase of motor vehicles	240.-
3. Requirements for agricultural development: machinery, improvement of soil productivity, rural social welfare, improvement of livestock, etc.	<u>250.-</u>
	<u>1.490.-</u>

Total 5.139.4

Plus total damage to property as shown on preceding page 10.271.5

Total damage to property, requirements for modernization and the other expenditures 15.410.9

III. Part presumably to be supported by the Government

Ia items 1-8 9.751.5

IIa items 2 and 3 949.4
 IIb 100 millions of item 1 and item 3 350.-

Total damage to property, requirements for modernization, and other expenditures, presumably to be supported by the Government **11.050.9**

The civilian program envisaged will cost approximately 4.360 francs at current prices.

IV. Additional expenditures presumably to be supported by the Government and not yet included

Million francs at current prices

1. Corporeal damage (casualties, infirmities, pensions, etc.) 2.000.-
2. Indemnity for losses of wages of deported persons 350.-
3. Damages to persons deported on account of their religion 100.-
4. Removal of mines and munition 15.-

Total 2.465.-
 Plus total as shown on preceding page 11.050.9

Total extraordinary expenditures which the Government presumably will have to support 13.519.9

Less: Extraordinary revenues presumably available and amount already paid up by internal means.

1. Extraordinary taxes (capital levy and war profit tax) 1.500.-
2. Extraordinary revenue (reparations) 500.-
3. The amount already paid up by internal means is in the neighbourhood of 1.300.-

Total 3.300.-

V. Extraordinary expenditures which the Government will have to bring up during the five-year reconstruction period

1947-1951 10.219.9

Less: Payment of war damage presumably to be made in Government securities 2.000.-

Extraordinary expenditures which the Government will have to bring up during the period 1947-1951 by internal and external loans **8.219.9**

The above mentioned figures reveal the magnitude of the financial obligations that the carrying out of assisting commitments and policies will involve. It is impossible to foresee just how far internal means will go towards these obligations. But it is certain that the internal means will not go the whole way. The amount of aid that may be needed over a five-year period is estimated at 40 to 80 million dollars. This aid, if it is to be most effective, should be prompt.

The financial situation of Luxembourg is further complicated and aggravated by the existence of large railroad deficits. For it is quite certain that the railroads, which are owned by the State, will show a deficit in the years to come. In addition, demands will be made for social security and possibly for water-power projects.

It must be emphasized that the above mentioned figures comprise only extraordinary expenditures. Consequently, it is assumed that all ordinary expenditures can be met by taxation and other revenues of the

Government. For the sake of clarity it may be well to mention that ordinary expenditures include in particular expenditures for the orderly functioning of Government, maintenance and operation of public buildings, national defense, social welfare, debt service, foreign relations, and all other normal expenditures.

4. Expenditures and Finance.

For the execution of the provisionally established program of expenditures, two preliminary conditions must be met. First, it must be shown that the money necessary to finance the program can be found; secondly, adequate quantities of the physical goods required as well as the necessary manpower must be available.

It was shown above that the State's total extraordinary expenditures in 1947–1951 will be in the neighbourhood of 8200 million francs on the basis of 1946 prices. In addition, private demand for capital expenditures will be about 4400 millions. It is quite impossible for Luxembourg, to provide from her internal resources, the investments required on so large a scale. The war has left her prostrate and the amount of indigenous production she can devote, either directly or through exports, to investment is inadequate. The prospectively available supplies appear likely to be between 2000 and 4000 millions. It is clear therefore, that Luxembourg is dependent on external loans in order to make appreciable progress towards rehabilitation and modernization within the next few years.

Luxembourg's national income in 1947 is provisionally estimated at about 5000 millions. On the other hand, the total ordinary and extraordinary governmental expenditures will amount to about 2500 millions, or 50 per cent of the national income. These figures express adequately the gravity of the situation.

Regarding the second condition, it can be said that a sufficient supply of materials and manpower is assured, if the necessary financial means can be found.

Nothing can be hoped from a possible increase in taxation. Direct taxation together with local government taxes are on the whole already about 4 times as heavy as in 1938. As a matter of fact, the burden of taxation is so heavy that some relief will probably prove a psychological and political necessity.

III. Obstacles to economic development experienced by the Government of Luxembourg.

The main obstacle encountered up to now in the restoration of war damage has been the lack of the necessary funds. It has been shown clearly that it is quite impossible for Luxembourg, to provide from her internal resources, the funds necessary on so large a scale. It is evident, that a budget of 2500 millions cannot be met by taxation and from internal savings if the national income is only 5000 millions. The contraction of consumption (lowering of the standard of living) to such an extent is impracticable in a democratic country. The Government of Luxembourg has therefore made an application for a loan of 20 million dollars to the International Bank for Reconstruction and Development in Washington. Although a 20 million dollar loan is by no means adequate, it would help, for the time being, to satisfy the most pressing needs for reconstruction.

Conclusion

At the beginning of this note, it has been stated that the primary economic objective of the Government is to increase the national output, to improve the efficiency of agricultural and industrial production and distribution, and thus raise in the long-run the general standard of living. For paramount social considerations, the immediate objective is to repair, step by step, the physical damage in the devastated areas, and thus restore in these areas the standard of living now seriously depressed.

Whether these objectives will be attained depends not only on the efforts and sacrifices made by the people of the Grand-Duchy of Luxembourg but also, and primarily, whether the necessary financial resources can be found abroad. It is believed that the figures and arguments presented in this note will help to made the position clear in that respect.

There remains to be added that, as a result of the war, the national wealth of the country had decreased, at the time of liberation, by not less than one-fourth to one-third of the prewar amount.

In view of the variety of factors, which have to be taken into account in estimating future fiscal requirements, it is obvious that the estimates cannot be precise. But it is not likely that possible errors will be so serious as to affect materially the general picture. It is therefore difficult to see how the conclusion can be altered, that the gap between the planned expenditures during the reconstruction period and the domestic resources available, can only be filled by foreign loans.

Luxembourg, June 24, 1947.

A. SCHWINNEN.