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# CONTROL AND REGULATION IN THE PORTUGUESE ECONOMY (1945-1973)

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## **Resumo**

As políticas económicas implementadas em Portugal no período 1945-1973 foram condicionadas pelo enquadramento institucional criado pelo Estado Novo a partir do início dos anos 30, pela conjuntura económica da guerra e pela evolução e meios de integração da economia portuguesa na ordem económica internacional do período.

Em comparação com outras economias da Europa Ocidental, as políticas económicas conjunturais foram receosas, as políticas de crescimento, os meios e os resultados foram idênticos e a implementação do estado de bem-estar muito lenta.

## **Abstract**

The economic policies implemented in Portugal during the period 1945-1973 were conditioned by the institutional framework created by the *Estado Novo* since the beginning of 1930s, by the economic environment of the Second World War, and by the evolution of the integration of the Portuguese economy in the international economic order of the period.

Short-term macroeconomic policies were mild in comparison with other Western Europe experiences.

Structural policies, in terms of growth, the means to achieve it and its performance, followed the Western European trend. In what concerns the schemes for welfare-state, their incidence was slow to spread.

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"If corporatism is inseparable from this system of contingencies - where industrialists march with a rhythm like a regiment, where coordination is as rigid as a strickle - I detach myself from everything I have just written in its defense."

Ferreira Dias (1945)

## 1. Introduction<sup>1</sup>

It is usually considered that the economic role of the State encompasses two independent strands: that of provider of public goods, which corresponds to its traditional role in the economic sphere, and that of responsible for the definition and implementation of economic policy. In this latter, most recent, strand, it is also usual to distinguish, on one hand, the intervention with short-term macroeconomic purposes from the intervention with structural objective and, on the other hand, the intervention at the level of demand from the intervention at the level of supply.

The purpose of this paper is precisely that of identifying the fundamental characteristics of the economic role of the Portuguese state - and to assess its impact on the economic system - during the first three decades after the end of the second world war; that is, during the period in which the Portuguese economy achieved sustained growth<sup>2</sup>, recorded a very low rate of unemployment with external equilibrium, and, if we exclude the latter years of the period, with price stability.

## 2. Factors conditioning the economic policy after the War

Among the factors conditioning the economic policy of the *Estado Novo*<sup>3</sup> during the period under analysis, we must consider, because of its impact and/or durability, the institutional framework, the economic environment of the Second World War, and the degree and the means of integration of the Portuguese economy in the international economic order of that period.

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1 A preliminary version of this paper was presented at the conference Portugal and Europe - 50 years of integration held in Lisbon in May 1995.

2 Unquestionably, the greatest cumulative average annual rate of growth of real Gross Domestic Product (GDP) in Portuguese history was reached during this period with approximately 5.5%, without having recorded a negative rate of growth in any single year. During the second greatest period of growth, 1974-1990, a rate of approximately 3% was recorded. See MATA; VALÉRIO: 1994.

3 Term applied to the regime installed in 1933 by their own founders, whose main characteristics would actually prevail till 1974.

## 2.1. The institutional framework

The economic policy of the first half of the period under analysis, which gave expression to the process of economic development, as well as the means used to its implementation - many of which persisting, at least formally, until the end of the *Estado Novo* - were being defined throughout the first two decades of the regime in a pragmatic way<sup>1</sup>. The majority of those instruments, were consigned in a very clear way, in its fundamental texts. The Constitution of 1933 and the *Estatuto do Trabalho Nacional* - ETN - (National Statute of Labour) would legitimize the economic intervention of the State, define the corporatist economic organization and express the objective of economic nationalism<sup>2</sup>. In this context, the industrial conditioning was introduced and implemented. It would constitute a device to control the process of industrialization crystallized in the *Lei do Fomento e Reorganização Industrial* (Law of Industrial Development and Reorganization) of 1945, and would define the role of the Colonies. The priority given to the monetary and financial stability, one aspect which would remain as a structural guideline of action of the political leaders of Portugal in this period, also dates from the early thirties.

As we shall see, the inevitability of a larger international economic integration (felt at the turn of the 1950s to the 1960s) meant a greater vulnerability to external shocks. As a consequence, adjustments in certain aspects of the policy, hitherto implemented, and of their means, as well as the pragmatic overcoming of certain indecisions, were triggered. To maintain financial and monetary stability would also become a difficult task towards the end of the period, nevertheless, no sufficiently active policies of adjustment were implemented, as we will explain below.

## 2.2. The environment of the Second World War

The recovery from the war environment was relatively fast and little dramatic, mainly when compared with that of the European belligerent countries, despite some inevitable difficulties and some less consistent actions on the part of the State<sup>3</sup>.

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<sup>1</sup> For a synthetical view of the economic policy of the *Estado Novo* during the 1930s and 1940s, see NUNES; BRITO: 1992 and VALÉRIO: 1994, specially pp. 469-476.

<sup>2</sup> In the constitutional text of 11th April 1933, articles 14th, 16th, 18th, 19th (corporatist organization), 30th (economic nationalism) and 31st ("rights and obligations [of the State] of superior coordination and regulation of the economic and social life") stand out; in the text of the ETN, approved by D.L. (decree-law) no. 23048, of 23rd September 1933, articles 2nd (economic nationalism), 7th (legitimacy of the economic intervention of the State), 40th (trend for integral corporatist organization), are prominent.

<sup>3</sup> "[Adding to] the role of the exogenous conditionalities of the Portuguese economic conjuncture of war (...), the structural vulnerability of the Portuguese economy to which inadequate economic policies were added, taken at the wrong time or hesitant in their implementation" ROSAS: 1990, p. 289. The agricultural policy and its negative effects in output and agricultural productivity and in the scarcity of goods on one hand, and the late rationing of certain products on the other

To this situation, the following made a significant contribution:

- i. The Portuguese neutrality in the conflict and the absence of destruction of factors of production;
- ii. The overall prosperity as a result of exports of tungsten and of the increase in the flow of capital and remittances<sup>1</sup>;
- iii. The absence of an external depreciation;
- iv. The absence of an impact of the deficits of the public sector accounts in monetary terms<sup>2</sup>.

Thus, it was not necessary to use drastic economic policies of stabilization as elsewhere in Western Europe, where, for example, monetary reforms and prolonged rationing, besides a massive external assistance, were vital.

With the lifting of the restrictions imposed by the war, it was possible to import again. The government decided to use the reserves accumulated during the war, resulting from the positive balances of the balance of payments, to return supply to normality through the increase in imports, especially during 1947. Imports rose in real terms by 52.4% in 1946 and by 34.3% in 1947. This measure made possible the rapid reduction in inflation (from 11.2% in 1946 to 2.5% in 1947 and to a negative rate of 1.2% in 1948), notwithstanding being associated to a significant increase in the deficit of the public sector accounts, namely in 1947 and 1948. Inflation would remain thereafter at a low level (1.8% on average until 1958, according to the GDP deflator), whereas during the same period the consumer prices index would have grown at an annual average rate of 0.6%.

The reduction in the deficits of public accounts to insignificant levels was achieved already in the 1940s and public accounts would show surpluses just by the beginning of the 1950s, a situation which would prevail until the end of the decade. The exchange rate remained stable with the exception of a devaluation of only 15% in 1949, at the time of the devaluation of the pound sterling by approximately 30%.

This stance also proves the absolute priority given by the regime to nominal stability, which should be made compatible with "progress".

hand, seem to provide an example of some of the least successful measures. See again ROSAS: 1990, pp. 187-192 and 288-198.

1 These factors of prosperity did not result in high rates of inflation, at least in relative terms; prices only doubled and the money supply trebled, despite the surpluses in the balance of payments, and even in the balance of trade, between 1941 and 1943.

2 This fact was due to the possibility of financing the mentioned deficits by resorting to the domestic public debt - even in excess of needs - as an instrument of anti-inflationary policy, as opposed to what had occurred during the First World War, when loans from the Bank of Portugal were used with a consequent boost to the money supply.

### 2.3 The accommodation within the international economic order

The end of the war and its immediate aftermath, within the context of an effort to stabilize and recover brought an effort to the creation of an international economic order capable of achieving those objectives.

The participation of Portugal in this effort was limited. By the end of the 1950s, Portugal was not yet either a member of the IMF, or of the IBRD/World Bank (both off shoots of the Conference of Bretton Woods held in 1944), had not participated in the Conference of Havana to attempt to create the ITO in 1947, and was not even a member of GATT. Significantly, Portugal would only become a member of these institutions at the beginning of the sixties.

Nevertheless it would accept the help of the Marshall Plan<sup>1</sup>, and for that, it was one of the earlier members of the Organization for European Economic Co-operation - OEEC (1948) and of the European Payment Union - EPU (1950), institutions undertaking the cooperation among countries which benefited from the Administration for Economic Cooperation.

From the political and geo-political points of view, Portugal, despite being a founder member of North Atlantic Treaty Organization - NATO - in 1949 only joined the United Nations - UN - in 1955.

In what concerns the relationship with its colonies, Portugal moved away from international trends, remaining a colonial empire until 1974. This fact, regardless of the constitutional (1951) and legal (1961) reforms having altered some aspects of the colonial statute<sup>2</sup>, would provoke a colonial war of important economic consequences.

### 3. The short-term macroeconomic policy

The near absence, and the inefficiency, when implemented, of short-term macroeconomic measures during the second half of the 1940s and the first half of the 1970s, seem to be good examples of the economic policy of the *Estado Novo* after the Second World War. Only on rare occasions did this turn to be potentially adverse to the Portuguese economy.

The limited intervention of the government at this level may have been due to two sets of factors<sup>3</sup>:

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<sup>1</sup> Despite the reluctance which made the Portuguese government to refuse the amount of assistance relating to the first year.

<sup>2</sup> The constitutional reform of 1951 renamed the colonies as "overseas provinces". In 1961 the indigenous populations, until then subject to legal discrimination, were considered Portuguese citizens of full rights. See MATA; VALÉRIO :1994, p. 201.

<sup>3</sup> There are also other reasons given for the limited action of the political leaders in this context. Among these it is worth noting the weight of agricultural activities in gross domestic product - GDP - during the first part of the period under analysis, and as a consequence, the effects of short-term crisis represented above all, the result of natural causes conditioning bad agricultural years. See AMARAL: 1986 p. 50.

i. To the fact that the objectives usually aimed at, namely to fight and control unemployment on the one hand, and the external imbalance on the other hand, did not really represent serious economic problems in Portugal. During nearly the entire period under analysis, the legal emigration, and mainly the clandestine emigration, added to the military conscription after the beginning of the 1960s, solved the potential problem of unemployment. Actually these variables would become a push factor over the general levels of wages and prices which were felt in the last phase, particularly after 1964. Also the sustained surpluses of the balance of payments, despite the chronic deficits in the balance of trade, eliminated any concern with this matter. The concerns were going to be, as we shall see, of a structural nature: the financing of the development and industrialization policies, and of the colonial war. Year after year, from the 1960s on, in the definition of the criteria of priorities for public expenditure included in the *Lei de Meios* (Law of Resources - the parliamentary guidelines for the state budget), those two concerns were expressed. Their importance was confirmed both in the structure of the public expenditure (of which they represent approximately 80%), and in the extraordinary expenditure (of which those items weighted approximately 95% of the total), as shown in the reports of *Conta Geral do Estado - CGE - (Public Accounts)*<sup>1</sup>.

ii. The ideological conviction of governments of the indispensability of financial<sup>2</sup> and monetary orthodoxy, and consequently the distrust of Keynesian policies. This idea is repeatedly underlined by the various Ministers of Finance throughout the entire period under analysis<sup>3</sup> and confirmed in

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1 As an example, we quote what is referred on this subject in the report of the CGE of 1971 p. LIV: "According to the basic principles of financial administration defined in the successive *Leis de Meios*, the first place in the determined order of preference encompasses the expenditures with national defense, namely those aimed at safeguarding the territorial integrity of the Nation, and the public sector investments anticipated in the priority section of the *III Plano de Fomento* (Development Plan III). As second and third priorities to comply with, when making public expenditures, the economic and financial assistance to the overseas provinces and other investments of economic, social and cultural nature followed. In connection with other criteria of priorities established, the expenditures with defense and the expenditure with total investments assume (...) particular relevance in the fiscal year of 1971 (...), respectively 41.8%, and 28.8%, of the global value (...)".

2 One of the objectives of this policy is to cover a significant portion of extraordinary expenditure (basically incurred to maintain the colonial war, and to a lesser extent, public investment) with ordinary revenue thanks to the tight control of ordinary expenditure. This capability increases significantly after 1965, when that cover rises from slightly over 2/5 to approximately 2/3 in 1966, entirely financing the costs of war.

3 Regarding the world economic climate of 1953 and the Portuguese performance, Águedo de Oliveira wrote in 1954: "In the meantime, the financial policy capable of being up to what was happening and facing the emergence of a lagging or depressed context, was the stimulation of employment, the development of public construction work, and the acceleration of the internal circulation including that of the overseas territories. For that, resources earned when times were good had to be used to help when times were difficult [...]. One should not aggravate fiscal charges, unless in exceptional circumstances, which, nevertheless, in this country could never have been said to be heavy. Credit facilities to the construction industry should have been maintained. It was natural to work on the implementation of the *Plano de Fomento* whose aims concurred with the counter cyclical policy [...]." And a little further down comments: "Mr. Colin Clark placed too much trust on a policy of administration deficits [...]; he recommended the revulsion instead of the remedy. But in this particular case, we had the lesson of history, we had a firm idea and an experience that could not be shaken". [CGE: 1953, p.IV]. The memory of the financial and monetary disturbances of the *Primeira República* (the regime installed between 1910 and 1926) lasted a long time. The partial bankruptcy of the State in 1891 is also present in another aspect of the exacerbated concerns with the stability of the finances of the State, namely the control of debt, especially the external debt. In 1968 Ulisses Cortez congratulates himself for, since 1964, having increasingly moderated the resort to the capital markets notwithstanding the increase in the costs of public investment and of the war [CGE: 1967, p.LIX]. However, the evolution of the total public debt, particularly the external debt, shows a first significant jump in 1958, a fact which will be linked to the beginning of the implementation of the *II Plano de Fomento* (Development Plan II) and another much more



the more recent analysis about Keynesian ideas and their introduction and dissemination in Portugal<sup>1</sup>.

This did not prevent, during the 1960s and early 1970s, after a decade of high surpluses, the recording of considerable deficits in the public accounts, well above those of the years of normalization after the war. The financial demands of maintaining the war in the colonies are the main cause of this situation, and the fiscal reform, gradually introduced between 1958 and 1964, may not have helped. The reform and the intensification of international economic relations have altered the tax structure in terms of its relative importance (the weight of custom duties diminished and that of taxation over production and domestic transactions increased by more than that of direct taxes) but the overall fiscal burden did not increase, which may have remained between 1957 and 1965 within the range of 9.5% to 10.3% of GDP, with a slight rise to 11.5% until the beginning of the 1970s<sup>2</sup>. Besides, it failed in some essential aspects such as the taxation of the effective real profits of large companies and the limitations of tax evasion (RIBEIRO: 1990, pp. 31-32).

Regarding the monetary and exchange policy, the intervention of the State was governed by objectives of stability of domestic prices and equilibrium of external payments, and consequently the maintenance of a strong currency. The second of these objectives was fully achieved, whereas the first would slip away after 1964-1965. Any of these objectives was conditioned by the sustained surpluses (or small deficits, with the exception of the years of normalization immediately after the war and of 1961) of the balance of payments already being accrued during the war.

The exchange rate of the *escudo* remained unchanged between 1949 and 1971. This does not surprise because Portugal behaved from an early stage in accordance with the rules of the international monetary system - IMS - defined in Bretton Woods - despite having only joined the International Monetary Fund - IMF - and the World Bank in 1961, as stated above. It is nevertheless significant that during the more serious crises of that system, the *escudo* had increased in value relatively to the currencies with an anchor role within the international monetary system, namely in 1949, in relation to the pound sterling, and in 1971, in relation to the dollar<sup>3</sup>. As we shall see, the

pronounced jump in 1962 when the colonial wars began. See for detailed information MATA; VALÉRIO: 1994, pp. 273-274.

1 In the Seminar of the Department of Economics of the ISEG to commemorate the 50th anniversary of the publication of the *General Theory of Employment, Interest and Money*, of J.M. Keynes, Ernani Lopes in his communication relating to the modernization of the Portuguese economy, and J. Ferreira do Amaral in his related comments, have underlined this fact. The former mentioned: "[...] the Portuguese State [...] was rather out of focus with the global outlook of Keynesianism in terms of concept and instruments of economic policy, namely in what relates to budgetary policy. To exemplify, the use of a systematic budget deficit as a means of short-term regulation, was not an unequivocal element of economic policy" (LOPES: 1986, p. 43); the latter underlined: "[...] the policy of public finances [...] was a rather orthodox policy, turning out to be an instrument of economic policy which was not suitable to be used from a Keynesian point of view" (AMARAL: 1986, p. 50) In this context also see BASTIEN: 1989 especially pp. 452-456.

2 For systematic quantitative information on the public accounts see the appendices on MATA; VALÉRIO: 1994. The same conclusions are drawn in NUNES: 1990, p. 41, but with values of a different magnitude: "the reform did not increase the fiscal burden. Discounting the contributions to social security, taxation amounted in 1960 to 15.5% of GDP and 15.7% in 1965.

3 As a matter of fact, at the time of the devaluation of the pound sterling of 1949, despite the large weight, still existing at that time, of Great Britain in the trade relations of Portugal, the government has decided to accompany only partially the

behaviour of the exchange rate at the beginning of the 70s was not opposed in due time, bringing adverse results to the national economy.

As regards the control of increases in domestic prices by means of the control of money supply, and particularly of credit, it was extremely ineffective. The existence of structural causes for the phenomenon<sup>1</sup> may not have facilitated the success of macroeconomic policies in this context.

The measures introduced throughout this period, either the increase in the discount rates of the Bank of Portugal after 1965, first from 2% to 2.5%, in 1969 to 2.75%, reaching 5% by the end of 1973, or the alteration in cash reserves<sup>2</sup>, did not allow the control of monetary expansion<sup>3</sup>. This was mainly conditioned by two factors of a structural nature: the increase in the availability of gold and foreign exchange at the issuing bank, which had an accentuated expansionary effect, and the banking credit which, in view of the structure of the financial market and the operation of the capital markets, forced a persistent dislocation of the demand for funds to the money market and induced the increase in its supply<sup>4</sup>. It should be noted that the levels of liquidity and solvency of the commercial banking sector were always, or most of the time, rather high.

Surprisingly, the great passivity of the macroeconomic policy - budgetary, monetary or exchange - took place at the beginning of the period as well as during the months preceding April

devaluation of that currency (approximately 30% in relation to the dollar) by devaluing by only 15% against the dollar. When the IMS collapsed in 1971, the gold and currency reserves accumulated as a result of persisting surpluses in foreign payments, forced a revaluation of approximately 13% in relation to the dollar in the following two years.

1 Among the structural causes for increasing prices after 1964, on the side of demand, are noted: the increase in GDP *per capita* (related to the increase in wages and salaries), the increasingly growing level of foreign remittances (mainly as a consequence of the accumulation of high emigration flows), and the increase in tourism revenues. On the side of supply, besides the increase in wages and salaries - over and above the levels of productivity - are noted the insufficiency of some sectors such as food and construction and, after 1967, the insufficient productive investments.

2 D.L. n°46492 of 18th August 1965 and D.L. no. 47910 of 7th September 1967.

3 According to a statement of professor Jacinto Nunes in *Público* of 25th April 1994, p.12, despite the belief of the Bank of Portugal that it was necessary to increase interest rates, the guidelines were for not doing so as a means of continuing the inducement of economic growth. The option may have been for a non-inflationary incomes policy, Though it turned out to be insufficient.

4 Both the reports introducing the public accounts and, above all, those of the Bank of Portugal, repeatedly complain about the inoperability of the financial and capital markets and its consequences, and regularly announced the introduction of ample measures deemed efficient for the solution of the problem, but, except in the 70s, without producing the desired effect. Reading the reports of the Bank of Portugal and BARBOSA: 1990 a very precise and comprehensive idea is gained of the sequence of the legislation introduced in relation to the financial and banking systems. On the 7th September 1967, some measures to complement and substitute others dated from 1965 were introduced: see D.L. no. 46302 of 27th April 1965 on the activity of quasi banking institutions, and especially D.L. no. 46492 of 18th August 1965, which regulates the operations of the banking system and of the capital markets, and includes dispositions to complete the D.L. no. 44432 of the 29th June 1962 towards the formalization of the Bank of Portugal as a true central bank and, as such, with direct responsibility for the functioning of the monetary and financial systems. In the CGE of 1967, p. xxv, is stated: "With the purpose of promoting the improvement of the monetary-financial mechanisms, [...] with prominence to the [legal documents] aimed at regulating the credit system and the insurance of export credits [D.L. no. 47908], the creation of the *Serviço de Centralização de Riscos de Crédito* (Service of Centralization of Credit Risks) [D.L. no. 47909], the adjustment of the legal framework of cash reserves and the guarantees of the responsibilities of commercial banks [D.L. no.47910] and the discipline of the framework of interest rates. [Port. no. 22876]". Also the year of 1969 would introduce measures in this context worth noting, for which we refer: the D.L. no. 48948 of the 3rd of April, which regulates credit transactions of medium term with a special regime for the commercial banks, the D.L. no. 48953 of the 5th of April, which alters the structure of the *Caixa Geral de Depósitos Crédito e Previdência* - CGDCP - towards the reinforcement of its autonomy through its transformation into a public company, and the D.L. no. 49273 of 27th September which creates the *Sociedade Financeira Portuguesa* (Portuguese Financial Society). Also in that year, the Bank of Portugal has started to quote preferential rates of rediscount for credit transactions.

1974. This type of intervention denoted on the one hand, a great detachment from, or a lack of sensitivity to the international environment (even when explicit references are made to the existence of problems and some cautious measures are attempted) and, on the one hand, an adherence (sometimes exaggerated) to the financial, monetary and exchange orthodoxy.

Let's consider as examples, two situations in well differentiated phases of the period under analysis which prove what we have been saying.

In the first decade after the second world war, it has occurred the loss of control of the sustained and increasingly creditor position of Portugal within the European Union of Payments, since its creation and until the first two months of 1952. Such a situation would require drastic measures to curtail exports and generally, to control the exchanges of goods and capital<sup>1</sup>. The effects of the Korean War, mainly in the increase of demand and on the rise of prices of certain raw materials, including those of the colonies, has implied the significant reduction of the trade deficits of Portugal with countries of the EPU<sup>2</sup>. This state of affairs was further aggravated by the movement of invisibles and by the parallel free market's transactions (outside the control of the Bank of Portugal), forcing two enlargements of the quota initially attributed to Portugal. The accumulation of credits to the EPU, given that they are not convertible credits, has reduced our imports from other regions but did not prevent the Bank of Portugal from placing means of payment in circulation in accordance with the "favourable" behaviour of foreign trade inducing inflationary pressures. At the beginning of 1951, the fact that the leaders of the EPU called attention to the need to introduce measures to control (and reverse) the situation<sup>3</sup> did not produce practical results.

The changes in the economic environment and in the international economic order during the first few years of the 1970s had a negative impact on the Portuguese economy leading to the clear aggravation of the economic problems still before the middle of 1974. Particularly the effect of the rise in the international prices of raw materials, especially the price of oil, created inflationary pressures, the worsening of external imbalances, the deceleration of the economic activity. This recession and the fall in emigration increased unemployment. The contraction of external markets has reduced exports, the economic recession of developed countries has reduced tourism (also discouraged by the higher prices of transport), the remittances and the demand for labour (resulting in the significant reduction in the Portuguese emigration); the rise of oil prices, and of raw material

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1 The D.L. no. 38659 of the 28th February 1952 ended up by prescribing measures opposed to the very objectives of the EPU (the liberalization of transactions of goods and invisibles under the principal of non discrimination, and as a consequence of the increase in the number of transactions and employment). The decree establishes restrictive measures of a monetary nature (retaining partially or totally the amounts exported according to the cumulative position of Portugal and their liberation according to the reversal of the trend towards the growth of credits to the organization) and direct control of exports, despite Portugal being a country with deficits in foreign trade with countries of the EPU and of the need to increase imports to feed the process of industrialization and economic growth.

2 The colonies were included among the countries of the EPU; the fact that the balance of trade with the colonies was positive has reduced the trade deficit even further.

3 "it was then apparent to the Committee [managing the EPU] that some measures internally undertaken, such as the policy of restricting credit, which made imports more difficult, the rise in custom duties, the low level of imports of our overseas territories and the absence of measures aimed at curtailing the capital flight in our country, were not of a nature as to induce the change in direction of our balance, neither, at least, to slow down the pace of its rise". LEAL: 1952, p. 35.

and food, meant the rise in prices of our imports which, besides being directly reflected in the external disequilibrium, had repercussions in the level of domestic prices.

The negative effects of this state of affairs in the monetary and capital markets as a result of the reactions of the commercial banks and of the collapse of stock market prices, was reflected in the expansion of and demand for credit, in unfavourable expectations, with negative consequences in the rate of savings, in negative passive interest rates and in the preference for less liquid assets. Therefore, "during this period following the oil crisis, the monetary policy appears to have been too passive. Three reasons may explain this attitude: [...] the statistics of the situation at that time were still poorer and later than they are now [...], the political situation was tense and therefore difficult [...], a powerful tradition of prudence had been inherited and the very instruments of intervention legally available were not too many" (SOUSA; 1989, pp.149-150). There was no direct control of the volume of credit, and the rise in the active rate of interest may not have dampened the demand for credit. On the other hand "the outbreak of the oil crisis apparently did not have, any effect on the budgetary policy. The pace of growth of public expenditures does not appear to have been affected, neither, their nature" (SOUSA: 1989, p. 151). Finally, the capital flight apparent after December 1973 also did not trigger any kind of reaction, namely, no alteration (devaluation) of the exchange rate or the direct control of the sale of currencies took place.

#### **4. The structural economic policy**

The preoccupation with industrialization as a means of achieving modern economic growth, clearly assumed after the war<sup>1</sup>, was accompanied by the concern of the State with control and regulation of the means and the results of this process, both at the economic and social level, so that a development allegedly "harmonious and prudent" could be guaranteed. The centralized way in which this intervention was undertaken would, nevertheless, be conditioned in view of the greater complexity of the economy and of the social and political environment generated after the middle of the 1960s (SILVA: 1984, p. 28 and MOURA: 1973, pp 37-40)

It is reasonable to break down the structural intervention of the State during this period into three main lines: the limits to competition, the planning, and the external integration of the economy<sup>2</sup>.

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<sup>1</sup> Law no. 2005 of 11th March 1945 marks the assumption of industrial development as a vital need for the country. On the subject of the decisive role of the environment of the second world war to "free the obstructions in the way of industrialization" see BRITO: 1989, p. 160-163 and ROSAS: 1994, pp 451-455.

<sup>2</sup> See LOPES: 1996, specially pp. 267-283, for a good short survey of this matters.

#### 4.1. The limits to competition

The regulation of the economic activity, characteristic of the policy of the *Estado Novo* after the war, rested on pillars defined in the very peculiar context of the thirties which, as already mentioned, would be maintained until the 1970s notwithstanding some minor alterations. Out of these pillars, are noticeable the corporatist organization and the industrial conditioning on the one hand, and the protectionism on the other. Initially they were considered to be vital (BRITO: 1989, p. 24-25) to achieve sustained economic growth and development, however the internal and external circumstances and events would end up by placing those pillars under question throughout the 1960s (MOURA: 1973 pp. 37-39).

This aspects mentioned represent institutional means to limit competition, considered to be detrimental to the social and economic development, if "unregulated"<sup>1</sup>.

##### 4.1.1. The corporatist organization

The corporatist organization appears as the general format for state economic regulation which, replacing the market, would be capable of "disciplining" competition through "its regulation"(BRITO: 1989, p. 99-105) within a wider ideological context in which the participation of the state is reserved to "important functions of orientation, direction and supervision of economic activities" (BRITO: 1989, p. 51). From a doctrinal point of view, the construction of the Portuguese economic corporatism would be based on the free association of economic agents - the so called self-direction or corporatism of association - considered to be the best way to guarantee the compatibility of interests potentially more conflicting, either at the level of sectorial structures or at the level of class. Actually, as it would be recognized by the formulators of the ideological and legal framework of the system, it was the State that has ended up by imposing it. This has reduced the participation of the corporatist institutions and of economic coordination to a mere consultative role<sup>2</sup> and to the activities of "typical employers and trade unionist associations, whose function is the defense of the respective interests through the regular negotiation of adjustments to prices and wages (BRITO: 1989, p. 134), and led to the use of alternative mechanisms to fulfill the other

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<sup>1</sup> This attitude relating to competition is already evident in the explanation given by Salazar for the crisis of 1929 (NUNES; BRITO: 1992 p. 316 and especially note 22), mainly in basic texts of the corporatist State, namely in the Constitution of 1933, (art. 31 and 34) and in the ETN, art. 7. The constitutional revision of 1971 (Law 3/71 of 16th of August) had already included in the economic model enforced at the end of the 1960s, modifications in the format of the initial position taken in relation to competition when it refers among the objectives for the action of the State: "To stimulate private enterprise and effective competition, whenever it contributes to the rationalization of productive activities". FRANCO; MARTINS: 1993, pp. 120-132 presents an interpretation of the corporatist economic constitution.

<sup>2</sup> About the criteria underlying the integration of economic activities in corporatist organizations, hierarchy and causes for the difference between formal and real participation in the determination of economic policy, see LABISA; GARCIA: 1966, pp. 75-78.

functions formally attributed to these institutions. This is the case of acting in the context of the control and organization of production, in which industrial conditioning is noted, and even in the establishment of administrative prices (despite price fixing being considered "a core function of the corporation")<sup>1</sup>.

Notwithstanding the foregoing, the "harmonization/conciliation of interests undertaken through the corporatist organization has generated a climate conducive to specific or tacit agreements of all kinds with the purpose of reducing or eliminating whatever little competition might still exist" (SOBRAL; FERREIRA: 1985, p.15). It has even created "centres of power which, circumscribed in the direction of the guilds of the corporations (...) in some important sectors (...), tended to perpetuate situations of power which thrived more on the plots of political and administrative influence than on the social and economic values of the companies they represented" (BRITO: 1989, pp. 104-105).

#### **4.1.2. The regulation of industry**

Despite some ministers<sup>2</sup>, with direct responsibility for the economic action of the State during the period under analysis, having expressed their views on the negative effects of domestic protectionism, and especially on the regulation of industry<sup>3</sup>, it would formally remain in place until the 1974.

The regulation of industry was created in the economic context of the depression of the early thirties as one aspect of the policies to fight the crisis<sup>4</sup>. It was justified mainly by the need to avoid unregulated and potentially adverse competition, in the sense of both its economic consequences (overproduction and the breakdown of prices) and its social mechanisms (especially unemployment<sup>5</sup>). Nevertheless, far from being a temporary rule, this mechanism has ended up by being one of the pillars of the State to regulate the process of industrialization, as it came to be

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1 Corporatist prices were partially replaced by the direct intervention of the State in some markets, particularly the agricultural market, where prices were set by the administration. The integration of various funds existing in several corporations and institutions of economic coordination, led in 1957 (D.L. no. 36501 of 9th September) to the creation of the *Fundo de Abastecimento* (Supply Fund) with the main objective of supporting part of the cost of some essential consumer goods as a means of reducing their prices. Among these goods we count cereals, fertilizers, dried cod, and certain cattle breeding products which, together with the corporatist control of trade unionist activities, has ensured until the middle of the sixties the maintenance of low wages. The effort to contain prices also led to the intervention in various non-agricultural markets. The practices of internal and external protection are, naturally, an indirect means of state intervention in the determination of prices.

2 Namely the cases of Daniel Barbosa and Ulisses Cortez; see BRITO: 1989, pp. 175-176.

3 Mainly because of the lack of incentive to technological and organizational innovation which it would induce.

4 In reality, specific legislation for some industries in a situation of crisis during the late twenties (such as milling in 1926, resinous in 1927, canned fish in 1928) preceded the Dec. no. 19354 of 14th February 1931.

5 The other aspects mentioned as objectives of the regulatory action are those of avoiding the "de-nationalization" of the industry and its inadequate geographic distribution.

defined by the Law no. 2005, *Lei do Fomento e Reorganização Industrial* (Law of Industrial Development and Reorganization) of 15th March 1945.

Whilst being a mechanism of economic rationality - and consequently of modernization of industrial structures, either through the incentive to redimension units of production, or to stimulate the spread of technical and organizational progress - only with the legislation of 1952 (Law no. 2052 of 11th of March), which introduced the "technical regulation" to substitute the "regulation of production, did the mechanism undertake that role.

The last significant alteration to industrial regulation took place in 1965. Dec. Law no. 46666 of 24th November has enlarged and adapted its application to the Portuguese economic space, and simultaneously liberated and restricted the scope of its application.

The evaluation of the application of the industrial regulation is made in detail on the basis of case studies in BRITO: 1989 and CONFRARIA: 1992. Naturally, it is not appropriate to reproduce here their analysis, which otherwise reveals important sectorial and chronological peculiarities in terms of policy instruments and their consequences. It is only worth noting the fact that those conclusions point to the regulations having, generally speaking, tended to limit competition and protect the least efficient producers, with consequences in terms of corporate and sectorial structures, and naturally, on the overall behaviour of the economy.

#### **4.1.3. Protectionism**

Protectionism would constitute, together with the industrial conditioning at the domestic level, a mechanism of intervention and state regulation in the implementation of the industrialization policy and in the fostering of economic modernization, as delineated after the war.

The objective of economic nationalism defined and implemented in the depressed context of the beginning of the thirties, led to very high levels of protectionism throughout that decade. The import duties represented then between 1/4 and 1/3 of the volume of imports. This project would stand until the *III Plano de Fomento*<sup>1</sup> associated to policies of import substitution and of creation of basic industries. Only then, for the first time, was the clear option for the opening of the economy expressed, within the scope of the "new economic policy" and was the protectionism (in parallel with the industrial conditioning and with the agricultural situation) considered to be one of the main factors responsible for the unfavourable development of the Portuguese economy.

However, the results of this policy in terms of level of real protection, according to the analysis and the figures in FONTOURA; VALÉRIO: 1994, fall short of the strong protectionism of the thirties.

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<sup>1</sup> Actually, until the admission of Portugal to the EEC in 1986, and with the exception of the turning from the 1960s to the 1970s, the stance of the defence of import substitution may have been maintained, even though during the seventies pragmatic reasons linked to the severe external deficits are to be blamed. See FONTOURA; VALÉRIO: 1994, pp. 84-85.

In the context of war, and during the period after the war, the levels of protection were reduced. The ratio of import/export duties was reduced to values of approximately 1/8 or lower during most of the forties, stabilizing slightly below 1/7 between 1949-1962/63. Despite these levels of protectionism still being relatively high, particularly in relation to the size of the Portuguese economy, the admission of Portugal to the OEEC (1948) implied the significant reduction of the non-tariff schemes. This measure was partially compensated by the rise in import duties for other economies. Even so, the protection against foreign competition given to some basic sectors (such as the steel sector), in line with the policy of import substitution, may have been secured largely by non-tariff mechanisms (administrative quotas and other restrictions). The protectionism of this period typically fits into this model<sup>1</sup>. Even export oriented sectors, such as those of textiles and clothing, have been protected.

After 1964, the levels of protectionism rapidly decreased to much lower levels. Ten years later duties represented less than 1/15 of total imports.

It should be noted that, notwithstanding, the trend towards the reduction in the limits to competition - either by the reduction of tariff protectionism or by restricting the application of industrial conditioning after the middle of the 1960s -, would remain throughout this period since the defence of competition was not effectively regulated. As a matter of fact, the attempted legislation was never introduced during this period<sup>2</sup>. If, on the one hand, at least in theory, the membership of the EFTA, at the minimum may have pushed in that direction, on the other hand, it has provided an escape from it with the special conditions granted to Portugal regarding the introduction of new products and sectors, and the extended time frame allowed to accomplish trade liberalization in what concerns Portuguese industrial products. Moreover, the principles defined in the Stockholm Convention, should not interfere with particular economic instruments of the member countries, to whom it was given the freedom to define the legal frameworks appropriate for specific circumstances. Only in special cases, difficult to assess, in which the causal relationship between a specific behaviour and the contraction (or stagnation) of trade in the area covered by the EFTA could be established, could that organization coerce or interfere.

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<sup>1</sup> High levels of protection for consumer goods but relatively low levels for capital goods.

<sup>2</sup> The draft Law no. 508/VIII of 23rd December 1964 ended up by being withdrawn by the government itself; the Law no. 1/72 published on 24th March 1972 was the result, on the one hand, of the introduction at the time of the constitutional revision of 1971, of paragraph no.6 of article 31 of the Constitution regarding the power of the State to create incentives to private enterprise and to competition, and, on the other hand, the agreements with the European Economic Community - EEC - and the European Coal and Steel Community - ECSC - which came to be signed in 1972 (and would come into force on the 1st January 1973); this Law, nevertheless, would never be implemented. For more details, see SOBRAL; FERREIRA: 1985 especially pp. 105-112.



## 4.2. Planning

The introduction of the Portuguese planning during the period under analysis was the result of three factors:

i. the very positive assessment, both at the economic and at the financial levels, of the achievements of the investment projects made under the *Lei de Reconstituição Económica* (Law of Economic Reconstitution), which covered the period from 1936 to 1950<sup>1</sup>;

ii. notwithstanding, the clear perception of the insufficiency of its results in terms of standards of living and modernization of the economic structures (to which the availability of the very first set of national accounts data has contributed);

iii. the fact that, within the context of the reconstruction and recovery of the European economy after the war, planning experiments were also introduced in countries with market economies<sup>2</sup>.

In the analysis of the Portuguese planning experiment in this period, as a mechanism of regulation and rationalization of the economic activity, some aspects deserve special prominence.

i. Both plans introduced until the mid sixties (the first implemented between 1953-1958 and the second between 1959-1964) were actually a combination of public investments of a partial and sectorial nature, much in line with the Law of Economic Reconstitution, but capable of being organized by ranking. In the Development Plan II, for the first time, general objectives were defined and quantified and quantitative analysis of the macroeconomic behaviour of the Portuguese economy between 1950 and 1958 were introduced. The investment policy still gives a significant emphasis to the area of infrastructures (transport, communications and electricity), notwithstanding the doubling of the weight of basic industries in the Development Plan II. In the Development Plan I, the weight of classified investments in the agricultural sector was still considerably larger than that of the industrial sector, where the steel, oil refining, nitrate fertilizers, tin, and cellulose and paper were prominent<sup>3</sup>.

Despite the fragility of the technical means and the partial nature of these initial plans, this is the phase where the state showed both capability to implement and control those means and "political determination". With the *Plano Intercalar de Fomento* (Intermediate Development Plan) - 1965-1967 -, when it is really possible to talk about true indicative planning since, we are already facing an integrated and global plan, however, the political control has diminished concomitantly with the increased complexity of the economic and social situation. The colonial war, on the one

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1 For a detailed analysis of this Law, and particularly of its implementation, see NUNES; VALÉRIO: 1983.

2 According to ROLLO: 1994, pp 265-269 the membership of Portugal of the OECE and the resort to the Marshall Plan, with the inherent need to develop economic cooperation, led to the preparation of plans of economic development between 1947 and 1951, which may have had a positive influence in the preparation of Development Plans after 1953.

3 In NUNES; BRITO: 1992, pp. 323-330, and in ROSAS: 1994, pp 455-470 a more detailed analysis of the Development Plans, of their links with the industrial policy and with the models of economic growth implemented throughout this period, can be found.

hand<sup>1</sup>, and the increased power of some economic and financial groups on the other hand, have unleashed contradictory economic interests and reduced the effective capability to act upon and articulate the plan which "was reduced to an exercise of mere macroeconomic coherence with some sectorial development, provided it did not undermine other interests"<sup>2</sup>.

Besides the methodological and technical innovations already mentioned, the *Plano Intercalar de Fomento* introduces some aspects worth noting. As regards its objectives, it shows for the first time the apparent concern with inequalities of income distribution, reflected in the inclusion of sections connected with social needs (the cases of housing and health). It nevertheless explicitly recognizes the subordination of the objective of narrowing the uneven regional development (despite being sensitive to the question of location of industrial plants); this was only going to be included in the *III Plano de Fomento*. As regards industrial policy, changes in the means of its implementation are revealed. The announcement of the revision of industrial regulations (taking place in 1965) and of the measures to protect competition (never introduced) on the one hand, and the increased opening to foreign capital (resulting in the approval of the Code for Foreign Investment) on the other hand, represent the main changes to the setting towards the reinforcement of the role of private enterprises, the strengthening business structures, and the demands of foreign competition.

The *III Plano de Desenvolvimento* reinforces the inclusion of social sectors, the concern with inequalities of income distribution, and with the uneven regional development, leading to the creation of the administrative organization of regional planning, and specifically, to the definition of plan-regions<sup>3</sup>. On the other hand, it encompasses the turning assumed in the model of economic development towards the opening of the country, drawing a negative balance of the consequences of protectionism and of industrial conditioning (as well as of the agricultural performance).

ii. The real impact of economic planning in the Portuguese society, outside the scope of this analysis, was limited by some uncoordinations, namely between the plan and the public budget, between the plan and the economic situation (NUNES: 1968), between the "technical structure" responsible for the preparation of the plan and the institution responsible for its funding (the Ministry of Finance). The absence of control of its execution, of long term planning, and of effective social participation and harmonization are also important qualifications.

iii. During this period, the planning did not count with an entrepreneurial public sector in the productive sphere. The corporatist organization, despite accepting and defending the intervention of

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1 In the *Plano Intercalar de Fomento* (1965-1967) p. 6, when the reason for a shorter life span plan is explained (uncertainty of the economic, social context), it is also stated as the first priority for the "nation", over and above any other of its needs and "aspirations", the "defense of the country".

2 See SILVA: 1984 pp 28-29 where, on this subject, she says: "it is equally evident that the articulation with the plans of large companies and the effective interference in domains as fundamental as scientific and technological investigation has been left out of the national plan". More specifically about the political context, see ROSAS: 1994 pp. 539-551.

3 Dec. Law no. 48905, of 11th March 1969.

the State in the economy, did not accept its operation directly in the productive spheres<sup>1</sup>. As a matter of fact, the entrepreneurial public sector of the State during the period ranging from 1945 to 1973, with the only exception of the creation of the *Banco de Fomento Nacional* (National Development Bank) - Dec.Law no.41957 of 13th November - , was made up by the a savings bank, the *Caixa Geral de Depositos* and by the post office, *Administração dos Correios e Telégrafos*, created in the 19th century; it should be noted that both these institutions were linked to the services sector.

Nevertheless, during this period, companies of a mixed nature came into being in several sectors (including some industrial sectors) with a significant participation of the State. The National Steel Industry ("Siderurgia Nacional") is probably the most prominent<sup>2</sup>.

#### 4.3. The external integration of the economy

The restraining of competition, mentioned above, has developed within the more comprehensive context of the external integration of the Portuguese economy. It is for that reason also important to analyze the foreign economic policy, its options and its conditionalities.

In what concerns the political choice for the integration of the national economic into much wider spaces three alternatives were feasible:

i. the imperial preference, defined during the 1930s when the depressed international environment did provide incentives for such an option, and of which the Colonial Act of 1930<sup>3</sup> was its most clear expression;

ii. The linkage with Europe, whose integration process had started within the context of the reconstruction after the war, namely with the creation of the OEEC and of the EPU, and would accelerate and deepen still during the 1950s with the creation of the EEC and the EFTA;

iii. The integration in the world economy actually existing since the turning of the century and potentially assumed to be the only relevant supranational space.

Throughout this period, the indecision was only incident over the first two alternatives, that is, between the assumption by Portugal of its inevitable peripheral condition in the European space, and the affirmation of its position at the centre of a smaller economic space - its colonial empire.

Actually, the decision in favour of Europe was forced by pragmatic and economic reasons, but only in 1971.

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1 Art. no. 6 of the ETN states that "the State must renounce the commercial and industrial exploitation, even when it is designed to, partially or totally, be used to provide public services, whether competing with private enterprises, or being of an exclusive nature".

2 *Transportes Aéreos Portugueses* (Portuguese National Airlines), *Metropolitano de Lisboa* (Lisbon Underground), *Rádio Televisão Portuguesa* (National Television Network) are other important cases in point.

3 Dec. no.18570 of 7th July. As for its objectives its social and economic context in general, see SILVA: 1992, pp. 359-367 and ROSA: 1994, pp. 283-287.

Until the beginning of 1960s, the objectives and means of coordinating and integration of the economy in the Portuguese imperial space did not suffer important changes in relation to what had been established in the 1930s<sup>1</sup>. It is only worth mentioning the reinforcement in some of the colonies of the public investment, channeled mainly to transport infrastructures and to hydroelectric equipment, after 1953 (simultaneously with the Development Plan I) keeping pace with the private sector investments (of protected groups), in some sectors such as food, cement, transport and banking.

In the 1950s trade with the colonies reached 20% (its maximum) of the total foreign trade of Portugal. This shows the inevitability of the importance of trade relations with the OEEC and the OECD - more developed economic spaces - in the context of the effort towards industrialization and growth.

As a matter of fact, the membership of the Economic Free Trade Association - EFTA - may not have been the favorite choice, but it was the recognition of the impossibility of disregarding European markets, especially, at that time, the British market. Actually, EFTA was the least demanding option (probably, for that reason, the only one feasible from the economic point of view) and meant financial assistance to the process of industrialization and modernization of Portugal. On the other hand it was compatible with the desire to maintain economic control over the colonies<sup>2</sup>.

If this could have been doubted, the beginning of the 1960s would confirm such a choice. Firstly, by the decision to formally maintain the colonial empire, implying the financial effort of the colonial war; secondly, by the decision to build up the "Portuguese economic space"<sup>3</sup>, namely a free trade area and a monetary system for the area of the *escudo*. This effort lasted, however hard, approximately ten years. It was the impossibility to keep it working that has clearly led to the choice for Europe<sup>4</sup>.

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1 Notwithstanding the D.L. no. 34643 of 1st of June 1945 regarding the establishment of industries in the colonies, changes were mainly in the administrative, judicial and financial areas. From them stands out: the constitutional reform of 1951 (Law no. 2048 of 11th June), which extinguished the "Portuguese colonial empire" in an attempt to disguise its existence and avoid the political isolation of the regime facing an international consensus for decolonization; the *Lei Orgânica do Ultramar Português* (Organic Law of the Portuguese Overseas Territories) of 1953 - Law no. 2066 of 27th June -, which rationalized the financial administration of the colonies; and the *Estatuto dos Indígenas Portugueses das Províncias da Guiné, Angola e Moçambique* (Statute of Portuguese Indigenous Populations of the Provinces of Guinea (Bissau), Angola and Mozambique) of 1954 - D.L. no. 39666 of 20th May -. Further details in ROSAS: 1994, pp. 487-489.

2 For more details about the creation of the EFTA and the causes for the membership of Portugal of that association, see NUNES; BRITO: 1992, p. 329 and FONTOURA; VALERIO: 1994, p. 84.

3 D.L. no. 44016 of 8th November 1961. The D.L. no. 44703 of 17th November 1962 sets out the system for compensation and territorial payments in the Portuguese space.

4 The monetary system was characterized by the formal adoption of one single currency - the *escudo* - and for distinct monetary circulation in each space - "metropolitan" Portugal and each one of the "overseas provinces" - which, in this way, configured truly separated national economies. In practice, this really implied different monetary units, but the exchange rates fixed at the parity of 1 to 1, without the possibility of a devaluation even in the case of structural problems, preserves the fiction of one single monetary unit. In order to face short-term problems, the *Fundo Monetário da Zona do Escudo* (Monetary Fund of the Zone of the Escudo) - a clearing among the nine national economies - was created. To face structural problems, that is, the structural deficits of the balance of payments of some of the "overseas provinces", since the use of devaluations was not possible, the solution was the limitation of free and automatic convertibility with payments staggered by order of priorities. In practice, this situation created a tunnel of exchanges and ended the fixed parities of 1 to 1 - since money payments were only made with long delays and consequent costs (promoting schemes of corruption).

## 5. Conclusion

Besides the macroeconomic policies of stabilisation, the effort of reconstruction after the war in Western Europe led to economic policies which have unleashed structural changes. The increase in non-market forms of economic regulation, namely indicative planning, the nationalisation of some companies and sectors, and schemes for retirement and social security implied more State intervention. Those means were presented as both a way of channeling investments, altering the sectorial structure of the economy and thus enhancing growth, and of undertaking a more equitable redistribution of income.

Portugal followed those trends in what relates to the concerns with growth and the means to achieve it. There are now many studies drawing the balance of the economic policy (or economic policies) introduced during the approximately thirty years following the Second World War. Some recent studies produce a detailed quantitative analysis, either in aggregate terms or in structural terms, of the evolution of the Portuguese economy during that period. NUNES; MATA; VALERIO: 1989, NUNES; BRITO: 1992, NEVES: 1994, FONTOURA; VALÉRIO: 1994 are some of them. Being unreasonable to repeat the analysis given in those studies, we simply leave some fundamental conclusions.

It seems to be beyond doubt that the period after the war brought sustained economic growth, that is, high average annual rates of growth of GDP and GDP *per capita* (during the period under analysis, approximately 5.5%), associated with an increase in trade liberalization (average rates of growth of exports and imports of 7% and 8% respectively and the significant reduction in the levels of tariff protectionism).

During almost the entire period, this growth was compatible with financial stability (only exceptionally the deficit of public accounts has reached values above 1% of GDP, and, despite the trend towards the increase in public debt after the beginning of the 60's, the average for the period may not have reached 25% of the product); with external equilibrium - actually a minimal revaluation of the *escudo* against the pound sterling and mainly against the dollar - and with low levels of unemployment (below 2%).

This growth induced a clear process of convergence towards the most developed economies of the world economy (MADDISON: 1990).

In 1971, for political reasons, a solution for the accumulation of payments in arrears was found: protectionism (provisional at the beginning, but ending up by being definitive), which implied the significant rise in the prices of "metropolitan" Portugal goods and, as a consequence, the fall in the imports of the "overseas provinces". It was an economic solution for a financial problem.

The problem of the "arrears" was the outcome of the accumulation of the chronic and growing deficits of the colonies, particularly of Mozambique and mainly of Angola. This situation was created by two types of factors: a) the increase in imports coming from "metropolitan" Portugal as a result of the emigration of "metropolitan" Portuguese to those territories; b) the transfer to "metropolitan" Portugal of part of the salaries of military personnel stationed there and of part of the savings of the settlers.

As regards the schemes for social security and retirement, health and education, their incidence and scope was slow to spread in Portugal<sup>1</sup>. It is today clear that the distribution of wealth and income and the general concerns with unevennesses, including those among regions, was sacrificed to the objectives of growth until very late. The evolution of the structure of demand and income clearly demonstrates that assertion<sup>2</sup>. Anyway, there are signs of actions taken towards the implementation of social policies - CARREIRA: 1996. In the structure of public accounts, between 1946 - 1958 the weight of social expenditures may have increased from 4% to 10%, decreasing to 8% between 1959 - 1973. On the other hand, the *Ministério da Saúde* (Ministry of Health) and the *Ministério das Corporações e Segurança Social* (Ministry of Corporations and Social Security) were established.

Nevertheless growth did not overcome the many persisting inefficiencies and imbalances, reflected particularly in terms of the pattern of specialization, of inequalities in the distribution of incomes, and in the regional unevenness, leading many to believe that growth and the mechanisms that fed it, were insufficient "to eradicate poverty, to achieve acceptable standards of living, to reduce inequalities, and to assure employment and social security to the citizens in general"<sup>3</sup>.

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1 The differences among the regimes which, immediately after the war, have thought out and implemented these measures may have certainly influenced this aspect. The democratic regimes of Western Europe came out of this process stronger, and socialist and labour governments took control, whereas Portugal has maintained an authoritarian conservative regime.

2 Out of the components of demand, private consumption has diminished during the period under analysis from 77.9% in 1952 to 69.3% in 1973. The weight of salaries in national income, never raise above 50% during the same period (NEVES: 1994, p.71 tables 18 & 19).

3 SILVA: 1984, p. 26.

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