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The Political Economy of Portugal's Later *Estado Novo*: A Critique of the Stagnation Thesis

Eric N. Baklanoff

The military coup of April 1974, which ousted the long-lived authoritarian regime, was rapidly transformed into a social revolution that has profoundly recast Portugal's polity and economic system. The revolutionary leadership undercut the old elite's economic base by nationalizing the commercial banks and most of the country's heavy and medium-sized industries, as well as by expropriating landed estates in the central and southern regions. Furthermore, the dismemberment of Europe's oldest colonial empire in the aftermath of the revolution, eliminated the substantial economic holdings of Portuguese business groups in the *Ultramar.*

The revolution has also generated a large and growing body of literature dedicated to an assessment of the Salazar-Caetano regime. Two important studies published since the 1974 coup suggest that the old regime should be indicted not only for its authoritarian politics but for its lack of economic dynamism as well. Thus, the British author, Mark Hudson, in his work titled *Portugal to 1993: Investing in a European Future*, asserts that "Portugal's economic problems since 1974 can to a great extent be laid at Salazar's door."[1] Hudson wrote the report for The Economist Intelligence Unit, of the (London) *Economist.*

Hudson believes that foreign investment was shunned by the dictatorship and thus "in marked contrast of neighboring Spain, Portugal did not benefit from the direct and 'demonstration effects' advantages of multinational investment to any great extent during the boom years before 1974."[2] He also writes that the old regime's growing budgetary outlays in support of its colonial wars from 1961 onwards led to Portugal's further isolation from the rest of Europe.[3] Furthermore, he contends that "the stifling of most domestic entrepreneurial activity and exclusion of the stimulus of outside competition severely retarded Portugal's economic development."[4] As Douglas L. Wheeler points out in his review of *Portugal to 1993*, Hudson fails to consider certain problems of Portuguese society that were not necessarily regime-specific but were historic or traditional in character.[5]

The other volume which supports the stagnation thesis, titled *Employment and Basic Needs in Portugal,* was published by the International Labour Office (ILO) in 1979. In Annex 1, "The Economic and Social Development of Portugal to 1975," the ILO report reaches the following conclusion regarding Portugal's economic condition during the Marcello Caetano administration (1968-74):

> At the end of the 1960s entrepreneurs ceased to invest and launch projects because labour was more expensive, they lacked markets, infrastructure support and firm directives from the State and they did not

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> believe in the permanence and viability of the economic policy. This threw the national economy into confusion and decline.
>
> The replacement of Salazar in September 1968 made it possible to introduce technocrats into the Government, but still the situation grew steadily worse.[6]

Although both works present useful and valid insights into Portugal's economic problems and prospects since the revolution, they fail to provide any empirical foundation for their altogether negative economic assessments of the old, pre-revolutionary regime.

This paper analyzes the economic strategies, policies, and economic outcomes of the later *Estado Novo* or "New State" period, from 1959 to the beginning of 1974. This period includes Salazar's final decade in the twilight of his protracted rule (1959-68) as well as the five-year administration of his successor as prime minister, Marcello Caetano (1968-1974). In my reexamination of the political economy of the later *Estado Novo,*[7] I have relied not only on data supplied by various agencies of the Portuguese government, but also on statistics and interpretation of Portugal's economic experience from the International Monetary Fund (IMF), the World Bank, and the Organization for Economic Cooperation and Development (OECD).

A major conclusion of my analysis is that during the final decade and a half of the old regime, Portugal experienced an exceptionally high rate of economic growth and structural change. What is particularly surprising is that, notwithstanding the regime's massive fiscal commitment to the defense of its African colonial system after 1961, Portugal's economic performance was as impressive as that of its larger Iberian neighbor during this period.

This paper is organized as follows. Section I presents the background of the early *Estado Novo* under the intellectual leadership of Salazar in the context of the political and financial turmoil of the First Republic. In Section II I discuss the regime's shift (around 1959) from a moderately inward-looking to a moderately outward-looking trade and industrial strategy. This section also focuses on the circumstances leading to and the results of the regime's abandonment of its autarkic financial posture in favor of greater reliance on both direct investment and credits from abroad. In Section III I discuss the economic policy initiatives under the Caetano government toward economic liberalization and European integration set against Portugal's growing economic and military involvement in the African territories. The fourth section brings into focus the salient economic changes in Portugal from about 1960 to 1973, particularly the dynamic contributions to overall growth of exports, industrial production, and emigrant worker remittances. I compare Portugal's experience with that of other newly-industrializing countries (NICs), including patterns of income distribution in the early 1970s. Section V summarizes the paper.

I. *The Organization of Salazar's "New State"*

Portugal's First Republic (1910-1926) became in the words of historian Douglas L. Wheeler, "midwife to Europe's longest surviving authoritarian system."[8] The sixteen-year parliamentary regime of the Portuguese Republic with its forty-five governments

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has been characterized by Stanley Payne as the "most turbulent and unstable in modern European history."[9] The extreme political corruption and irresponsible fiscal management of the parliamentary regime resulted in financial excesses and economic stagnation. Growing fiscal deficits financed by money creation and foreign borrowing climaxed in hyper-inflation and a moratorium on the country's external debt service. The cost of living around 1926 was thirty times what it has been in 1914![10] Fiscal imprudence and accelerating inflation gave way to massive capital flight, crippling domestic investment. Burgeoning public sector employment during the First Republic was accompanied by a perverse shrinkage in the share of the industrial labor force of total employment.[11] Although some headway was made toward increasing the level of literacy under the parliamentary regime, 61 percent of Portugal's population was still classified as illiterate by the 1930 census.

The First Republic was ended by a military coup in May 1926, but the newly installed government failed to solve the nation's precarious financial situation. When the authoritarian regime requested a stabilization loan from the League of Nations, the latter agreed to the loan on the condition that Portugal's fiscal affairs would be supervised by a resident "liaison officer" appointed by the League. Because the government regarded this condition as offensive to national sovereignty, it withdrew its request.

Instead, President Carmona invited Dr. António de Oliveira Salazar to head the ministry of finance and the latter agreed to accept the position provided he would have veto power over all fiscal expenditures. At the time of his appointment as finance minister in 1928, Salazar held the Chair of Economics at the University of Coimbra and was considered by his peers to be Portugal's most distinguished authority on inflation.

For forty years, first as minister of finance (1928-32) and then as prime minister (1932-68), Salazar's political and economic doctrines were to shape the Portuguese destiny. Richard Pattee describes the professor's mind-set as it would be carried into public action:

> Salazar has never promised Portugal anything but hard work, rectitude, tenacity, and the kind of daily homework in economics that he imposed on his students at Coimbra. Salazar is first and foremost an extremely competent housekeeper and he has conceived of Portugal as a menage which was in dire need of being put in order, lest it fall apart.[12]

Salazar regarded both parliamentary democracy and market capitalism with great misgivings and viewed public indebtedness as a temptation to be shunned. In his work *Doctrine and Action*, he wrote that "one of the greatest fallacies of the nineteenth century was that English parliamentarism and English democracy were adaptable to every European country."[13]

In the perspective of the financial chaos of the republican period it is not surprising that Salazar considered the principles of a balanced budget and monetary stability as categorical imperatives. By restoring equilibrium both in the fiscal budget and in the balance of international payments, Salazar succeeded in restoring Portugal's credit worthiness at home and abroad. Because Portugal's fiscal accounts from the 1930s until the early 1960s were almost always in surplus on current account, the state had the wherewithal to finance public infrastructure projects without resorting either to inflationary financing or to borrowing abroad.

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At the bottom of the Great Depression Premier Salazar laid the foundations for his *Estado Novo,* the "New State." Both the political constitution, which incorporated the Colonial Act of 1930, and the National Labor Statute were promulgated in 1933. The spirit of the 1933 constitution, according to H. Martins, was thoroughly "anti-liberal, anti-parliamentary, and antidemocratic."[14]

Neither capitalist nor communist, economic life in Portugal was cast into a quasi-traditional mold. The corporative framework within which the Portuguese economy evolved combined two salient characteristics: extensive state regulation, and predominantly private ownership of the means of production. Leading financiers and industrialists accepted extensive bureaucratic controls in return for assurances of minimal public ownership of economic enterprises and certain monopolistic (or restricted-competition) privileges.

Under the Portuguese corporative system, employers and workers were organized in guilds and syndicates, respectively, in commerce, industry, banking, and transport. Similar organizations existed for farmers, rural laborers, fishermen; special organizations (*ordens*) existed for professional groups. Within this framework the state exercised extensive de facto authority regarding private investment decisions and the level of wages.[15] A system of industrial licensing (*condicionamento industrial*), introduced by law in 1931, required prior authorization from the state for setting up or relocating an industrial plant.[16] Investment in machinery and equipment designed to increase the capacity of an existing firm also required government approval.

While ostensibly a corporatist political system, as Howard J. Wiarda makes clear, "In reality both labor and capital—and indeed the entire corporate institutional network—were subordinate to the central state apparatus."[17] The 1933 Constitution divided executive power between the President of the Republic, who was Head of State, and the President of the Council of Ministers, or Premier, who was head of the Government. A corporative chamber, or upper house, was supposed to be chosen on the basis of functional representation to speak for various economic groups, cultural associations, and municipal bodies. Notwithstanding, Salazar's emphasis on corporatism as the regime's official ideology, the chamber had only advisory powers. Paul H. Lewis in his analysis of Salazar's ministerial elite concluded that Salazar, as prime minister, "was the undisputed center of the political system and he exercised his dictatorial powers chiefly through the medium of the Council of Ministers."[18] The patterns of recruitment for the council or cabinet show the regime evolving away from its military and semi-fascist beginnings in the direction of a modern technocratic state.[19]

Under the old regime, Portugal's private sector was dominated by some 40 great families.[20] These industrial dynasties were allied by marriage with the large, traditional landowning families of the nobility, who held most of the arable land in the southern part of the country in great estates. Many of these dynasties had business interests in Portuguese Africa. Within this elite group, the top 10 families owned all the important commercial banks, which in turn controlled a disproportionate share of the national economy. Because bank officials were often members of the boards of directors of borrowing firms in whose stock the banks participated, the influence of the large banks extended to a host of commercial, industrial, and service enterprises.

In the late 1950s, Portugal shared certain common features with the less developed, semi-industrialized nations of Southern Europe and Latin America: a relatively low per capita income (estimated at under $300 per year), low worker productivity, a pre-

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dominance of unskilled workers, a large fraction of the labor force in agriculture and other primary activities, and comparative technological backwardness. The system of land tenure was anachronistic, very large estates in the south-central region coexisted with peasant farming in minute, fragmented plots in the north.[21] Salazar kept Portugal neutral during World War II, but in September 1943 he granted Britain and the U.S. the use of military bases in the Azores. Portugal, unlike Spain, was accepted into the Marshall Plan (1947) and the North Atlantic Treaty Organization (NATO), of which it became a charter member in 1949. During the immediate post war decade, Portugal was never as politically and economically isolated as its Iberian neighbor, and her trade policy compared to Spain's was only moderately inward looking.

II. *Salazar Changes Course*

Portugal's shift toward a moderately outward looking trade and financial strategy, initiated in the late 1950s, gained momentum during the early 1960s. A growing number of industrialists as well as government technocrats favored greater Portuguese integration with the industrial countries to the north as a badly needed stimulus to Portugal's economy which they recognized as lagging far behind the rest of Europe. The rising influence of the European oriented technocrats within Salazar's cabinet was confirmed by the substantial increase in the foreign investment component in projected capital formation between the first (1953-58) and second (1959-64) economic development plans. The first plan called for a foreign investment component of less than six percent, but the plan for 1959-64 period envisioned a 25 percent contribution. The newly influential European oriented industrial and technical groups persuaded Salazar that Portugal should become a charter member of the European Free Trade Association (EFTA) when it was organized in 1959. Subsequently, Portugal also added its membership in the General Agreement on Tariffs and Trade (GATT), the International Monetary Fund (IMF), and the World Bank.

Under the Stockholm Convention, which established EFTA, Portugal was accorded the status of a "young economy" allowing it to enjoy a more gradual removal of its protective tariffs than the other more industrialized member countries.[22] While Portuguese products could enter EFTA duty-free, the timetable for the progressive reduction and complete elimination of Portuguese duties on EFTA products was extended to January 1, 1980, allowing Portugal a two decade adjustment period.

In 1958, the year the Portuguese Government announced the 1959-64 Six-Year Plan for National Development, a decision had been reached to accelerate the country's rate of economic growth—a decision whose urgency grew with the outbreak of guerrilla warfare in Angola in 1961 and in the other African territories thereafter. Salazar and his policy advisers recognized that additional claims by the state on national output for military expenditures, as well as for increased transfer of official investment to the "overseas provinces" could only be met by a sharp rise in the country's productive capacity. Salazar's commitment to preserving Portugal's "multiracial, pluricontinental" state, led him reluctantly to seek external credits beginning in 1962, an action from which the Portuguese treasury had abstained for several decades. In that year the Portuguese government concluded a number of agreements with the U.S. Export-Import Bank, the German Federal Republic and with private banks in the U.S., France, and

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the Union of South Africa to secure long-term loans totalling nearly $160 million.[23] The Portuguese treasury that year also successfully floated a $20 million bond issue on London—the first such foreign issue in 50 years.

Beyond military measures, the official Portuguese response to the "winds of change" in the African colonies was to administratively and economically integrate them more closely with the metropole through population and capital transfers, trade liberalization, and the creation of a common currency, the so-called "escudo area." The integration program established in 1961 provided for the removal of metropolitan Portugal's duties on imports from its overseas territories by January 1964. The latter, on the other hand, were permitted to continue to levy duties on goods imported from the metropole but at a preferential rate, in most cases 50 percent of the normal duties levied by the territories on goods originating outside the escudo area.[24] The effect of this two-tier tariff system was to give the mother country's exports preferential access to its colonial markets. The Portuguese Government also encouraged the flow of direct private investment to the African territories, both from Portuguese mainland and foreign sources.

Against the opposition of protectionist interest, the Portuguese government succeeded in bringing about some liberalization of the industrial licensing system, as well as in reducing trade barriers in conformity with EFTA and GATT agreements. The last years of the Salazar era witnessed the creation of important privately organized ventures, including an integrated iron and steel mill, a modern ship repair and shipbuilding complex, vehicle assembly plants, oil refineries, petrochemical plants, pulp and paper mills, and electronic plants. As economist V. Xavier Pintado observed: "Behind the facade of an aged Salazar, Portugal knew deep and lasting changes during the 1960s."[25]

III. *The Caetano Administration: "Evolution With Continuity"*

The liberalization of the Portuguese economy was given further impetus under Marcello Caetano who succeeded Salazar as prime minister following the latter's incapaciting stroke in September 1968. At 63, upon assuming the premiership, Caetano was considerably younger than Salazar had been at the twilight of his rule, and compared with his mentor, Caetano had considerably greater international experience. In his first broadcast speech to the nation, the new prime minister said on September 27: "fidelity to the doctrine brilliantly taught by Dr. Salazar should not be confused with obstinate attachment to formulas or solutions which he once might have adopted."[26]

Although the Third Development Plan for 1968-1973 was drafted during the final two years of Salazar's government, Caetano decided to adopt the plan and implement its provisions. Indicative in design, the 1968-73 plan provided guidance for the whole development of the nation's economic and social life. The massive 2,300 page document attempted investment forecasts and growth projections for "all Portuguese territory."[27] The goals of the plan were three: (1) Acceleration of the rate of economic growth, (2) a more equitable distribution of income and revenue, and (3) progressive correction of regional imbalances in development. More significant than these cited goals was the observance of certain "essential conditions" in the plan's implementation: (a) Coordination with the defense effort to maintain the wholeness of national territory, (b) maintenance of internal financial stability and the foreign solvency of

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Portuguese currency, (c) balance in the labor market, and (d) gradual adaptation of the Portuguese economy to the special conditions arising from its integration into vaster economic blocs. In elaborating on point "a", da Motta Veiga observed that "if it is true that this mission takes precedence over anything else, then it cannot be denied that economic development is the best possible support to maintain a defense effort."[28] With respect to the "balance-on-the-labor market" condition, the plan envisioned growth in the residential labor force by 18,000 from 1967 to 1973, anticipating emigration to fall off from an estimated 60,000 in 1967 to 28,000 in 1973. Accordingly the labor force was projected to grow at an average annual rate of 0.5 percent.[29]

Caetano brought a new group of technocrats into government. He appointed Dr. Valentim Xavier Pintado, the able economic advisor to the Banco Português do Atlântico, as secretary of state for commerce, and Dr. Rogério Martins as secretary of state for industry. Ever since he published his basic 1964 work, *Structure and Growth of the Portuguese Economy,* Xavier Pintado had been a critic of Salazar's earlier introverted financial policies and argued for fundamental reform of the domestic banking system.

Rogério Martin's greatest contribution was to steer the new industrial development bill through the labyrinthine process of study, revision, and ratification. The long-awaited Industrial Development Law, promulgated in 1972, provided for the elimination of industrial licensing except in special cases, allowed tax holidays and other incentives for new businesses, and furthermore offered official financial support for selected industrial projects.[30]

The Caetano government also concluded a free trade agreement with the European Economic Community (EEC) which, as in the case of the earlier EFTA agreement, recognized Portugal's economic underdevelopment. As a member of EFTA, Portugal benefitted from the EEC's decision to make free trade in industrial products the central provision of its offer to noncandidate EFTA countries. In 1972, with the impending realignment of Great Britain, Denmark, and Ireland from EFTA to the EEC, the Portuguese negotiators pressed for two major points: continued access particularly to the crucial British market under conditions of minimum discrimination against Portuguese exports, and an extended timetable for the dismantling of tariffs by Portugal against the industrial products originating in the EEC. Under the free trade agreement with the EEC which became effective in the beginning of 1973, Portugal was given until 1980 to abolish its restrictions on most community goods, and until 1985 for certain sensitive products amounting to some 10 percent of the EEC's total exports to Portugal.[31]

The period of the Third Development Plan, corresponding roughly to the years of the Caetano administration, saw exceptionally rapid economic growth. Led by industrial production, real GDP advanced at a yearly rate of 7.4 percent and both private and public consumption grew at annual rates of just under 7 percent.[32] Contrary to the assertion made in the ILO report, real fixed investment increased at a yearly rate of 11.2 percent which was supported by import expansion of 9.5 percent annually and a rise in the savings coefficient between 1968 and 1973. The actual performance of the economy superceded most targets, for the third plan envisaged annual growth of total output and fixed capital formation in metropolitan Portugal at 7 percent and 8.2 percent, respectively.[33] Contrary to the plan's projection of a decline in the rate of emigration, the actual net population outflow increased to about 140,000 a year on average during the 1969-73 period. As a result, the residential labor force, which had been projected to grow, unexpectedly declined during the plan period.

Notwithstanding the emergence of a small European-oriented technocratic cadre

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within the Caetano government, it is important to point out the tenuousness of their position. In contrast to their counterparts in Spain—the *Opus Dei* group that dominated the commanding heights of the Spanish economy and held cabinet rank—none of the Portuguese technocrats enjoyed full cabinet rank. By early 1973 these development-minded technocrats had left the government, and Caetano was moving back to a more traditional stance that stressed continuity (rather than evolution) between his administration and that of Salazar.

During the later *Estado Novo* period rapid economic change did not lead to significant political change. As Bruneau argues, the Caetano regime "was 'fixed' or unmoving on the colonial issue: indeed, it was non-innovative on domestic political issues largely because of the colonial issue."[34] Against the advice of the highly decorated General António Spinola who had made it clear to Caetano as early as 1972 that the African wars could not be won militarily, the latter "either could not or would not bend on the issue of the *Ultramar*."[35] In trying himself so closely to the old edifice of the New State with its imperial manifestations, Caetano had alienated the developmentalist cluster and, according to Lawrence Graham, "foreclosed the possibility of permitting the military to find a way out to cut its costs and to save face in what had become disastrous campaigns in Guinea and Mozambique."[36]

IV. *Accelerated Economic Growth and Structural Change*

Compared with the 1950s, the growth rate of the economy advanced rapidly during the 1960s and early 1970s. The period of the Third Development Plan, 1968-73—corresponding to the Caetano administration—saw accelerated growth, as GDP advanced by a yearly rate of 7.4 percent and industrial production by 9 percent. As in Spain, Portugal underwent a profound restructuring of its economy as evidenced by the changing sector distribution of her labor force and the changing composition of output.[37] Between 1960 and 1973 the share of the labor force in the primary sector (agriculture, fishing and mining) fell from 44 percent to 28 percent, while that of the secondary sector (manufacturing, construction and electricity, gas and water) rose from 29 percent to 36 percent, and of the tertiary sector (including transport and communications) rose from 28 percent to 35 percent. The decline in the metropole's resident labor force associated with worker emigration and the military draft coincided with a vigorous increase in labor productivity in all three sectors.

The Portuguese economy changed significantly by 1973, when compared with its position in 1961. Total output (GDP at factor cost) grew by 120 percent in real terms; the secondary sector was over three times greater; the size of the tertiary sector doubled; but the primary sector, chiefly agriculture, advanced by only 18 percent. Manufacturing, the major component of the secondary sector, was three times as large at the end of the period. In 1973 it contributed 41 percent of GDP, accounted for the lion's share of merchandise exports, and provided employment for 27 percent of the labor force. Industrial expansion was concentrated in large-scale enterprises using modern technology.

Using GDP per capita as a growth indicator, Portugal's economic performance from 1960 to 1973 fully matches the other dynamic newly-industrializing countries (NICs) of Southern Europe, Spain and Greece, as well as the three "Asian Tigers," Korea, Singapore, and Taiwan (Table 1). Portugal's per capita output was 2.3 times larger

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Table 1

PORTUGAL AND SELECTED COUNTRIES: INCREASE IN GROSS DOMESTIC PRODUCT PER CAPITA, 1960-1973
(Dollars in 1975 prices)

Country	1960	1973	1973/1960
Portugal	1,137	2,615	2.30
Spain	1,737	3,841	2.21
Greece	1,385	3,334	2.41
Japan	1,674	5,025	3.00
Austria	2,764	4,837	1.75
Italy	2,313	3,971	1.73
Korea	631	1,356	2.15
Singapore	1,054	2,689	2.55
Taiwan	733	1,691	2.31
Mexico	1,401	2,170	1.55
Brazil	912	1,624	1.78

Source: Bela Balassa et al., *Toward Renewed Economic Growth in Latin America*. Washington, DC: Institute for International Economics, 1986, 52-53, Table 1.2.

in 1973 than in 1960, and that of the other countries mentioned above increased between 2.15 times for Korea and 2.55 times for Singapore. Only Japan, among all the countries, significantly exceeded Portugal's performance, while Austria and Italy, although experiencing a strong advance in per capita output, lagged behind Portugal in relative performance. Two of the most rapidly growing economies of Latin America, Mexico and Brazil, lagged behind the more dynamic economies of East Asia and Southern Europe.

Acceleration of the pace of economic growth during the later *Estado Novo* period is partially associated with the greater investment effort (gross domestic investment's share around 19 percent of GDP) compared with an investment coefficient of 15.3 percent during the 1950-60 decade (Table 2). But even more important than the larger investment coefficient was "investment productivity" as a determinant of accelerated economic growth during the 1960-73 period. As Table 2 shows, investment productivity—the ratio between the growth of total product (GNP or GDP) and the investment coefficient (the proportion of total product invested in capital stock)—rose from 28 percent in 1950-60 to 37 percent and 40 percent during 1960-70 and 1968-73, respectively, and collapses to 11 percent during the postrevolutionary period 1978-87. Among the elements that explain the rise in Portugal's investment productivity were (1) improved allocation, i.e. shifting resources from low productivity to higher productiv-

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Table 2

PORTUGAL: INDICATORS OF ECONOMIC GROWTH, GROSS INVESTMENT AND INVESTMENT PRODUCTIVITY, 1950-60, 1960-70, 1968-73, AND 1978-87

Time Period	(A) GNP growth rate (percent)	(B) Gross domestic investment (percentage of GDP)	ICOR (B/A)	Investment productivity (A/B)
1950-60	4.3	15.3	3.6	28 percent
1960-70	7.1	18.9	2.7	37 percent
1968-73	7.4(a)	18.8	2.5	40 percent
1978-87	2.8(a)	24.5	8.8	11.4 percent

(a)Gross domestic product (GDP) at market rates

Sources: World Bank, *World Tables*, 3rd ed., Vol. I: Portugal (N.P.)
OECD Economic Survey: Portugal. Paris, 1976, p. 11, Table 2.
OECD Economic Survey: Portugal. Paris, 1989, p. 102.
Hans O. Schmitt, *Economic Stabilization and Growth in Portugal* (Washington, DC: International Monetary Fund, Occasional Paper No. 2, April 1981), p. 18.
Bank of Portugal, *Economic Indicators*, 1978-1983, July 1984, p. 6.

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ity uses; (2) improved technology, mainly through direct foreign investment inflows; and (3) greater competition in the product markets.

With the rapid advance of industry and the growth of cities, new channels of upward mobility were opened. Harry Makler's (1969) study of the industrial elite revealed that the typical businessman (manager or owner or large firm) was drawn from a middle-class background.[38] The great majority of these elite managers or entrepreneurs were sons of businessmen or professionals and were highly educated. During the period of accelerating growth, the industrial elite gained in power and prestige; the landed gentry, by comparison, was losing social prestige and influence. A subsequent empirical study by Makler of the Portuguese industrial elite highlights the central role of education as a vehicle for upward mobility into the world of business.[39] Before the 1974 Revolution, the largest, more technologically advanced (and recently organized) firms offered the greatest opportunity for management careers based on merit rather than on accident of birth.

Attracted by growing investment opportunities and favorable domestic legislation, foreign private capital became a significant factor in the establishment of new industries after 1960. Foreign-controlled firms supported expansion and diversification of Portugal's burgeoning industrial sector: By the early 1970s, foreigners held 81 percent of total equity capital in the electrical machinery industry, 72 percent in rubber products, 62 percent in transport equipment, 48 percent in chemicals, 43 percent in paper and products, and 28 percent in clothing and shoes.[40] Significantly, foreign direct investment was responsible for an estimated 41 percent of Portugal's merchandise exports during 1970-74.

The progressive 'opening' of Portugal to the world economy was reflected in the growing shares of exports and imports (both visible and invisible) in national output and income. Further, the composition of Portugal's balance of international payments altered substantially. From 1960 to 1973, the merchandise trade deficit widened, but owing to a growing surplus on invisibles—including tourist receipts and emigrant worker remittances—the deficit in the current account gave way to a surplus from 1965 onward. Beginning with that year, the long-term capital account typically registered a deficit, the counterpart of the current account surplus. Even though the nation attracted a rising level of capital from abroad (both direct investment and loans), official and private Portuguese investments in the overseas territories were greater still—hence the net outflow on long-term capital account.

The Portuguese merchandise export growth rate during the period 1959 to 1973 was 11 percent per annum as against 8.9 per annum for the industrialized countries.[41] In 1960 the bulk of exports was accounted for by a few products—canned fish, raw and manufactured cork, cotton textiles, and wine. By contrast, in the early 1970s, Portugal's export list reflected significant product diversification, including both consumer and capital goods. Several branches of Portuguese industry became export-oriented, and in 1973, over one-fifth of Portuguese manufactured output was exported. The most dynamic categories in terms of rates of growth were: metallurgy, machinery and transport equipment (18.4%), pulp and paper (17.5%), clothing and footwear (15.4%), and chemicals (11.7%). These four product groups, which made a negligible contribution to Portuguese export earnings at the beginning of the period, contributed jointly 43 percent to the nation's total value of exports in 1972.

Association with EFTA and close affiliation with multinational companies, which provided venture capital, advanced technology and market outlets, contributed much

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Table 3

PORTUGAL AND SELECTED NEWLY INDUSTRIALIZING COUNTRIES: MANUFACTURED EXPORTS PER CAPITA, 1960-1973

(U.S. dollars)

Country	1960	1973
Portugal	19	143
Spain	4	92
Greece	2	60
Argentina	2	29
Mexico	3	20
Brazil	0	12
Singapore	14	456
Taiwan	5	238
Korea	0	79

Note: Excludes processed foods, beverages, and tobacco, as well as nonferrous metals.

Source: GATT trade tapes. Cited in Bela Balassa et al., *Toward Renewed Economic Growth in Latin America*. Washington, DC: Institute for International Economics, 1986, 54, Table 1.3.

to Portugal's export performance. Among the NICs Portugal had notable success in penetrating the global market of manufactured goods. As Table 3 shows, Portugal's dollar per capita manufactured exports in 1973 exceeded by a substantial margin those of Spain and Greece, as well as those of Brazil and Mexico. Although Portugal ranked above Korea in manufactured exports per capita, the other Asian Tigers, Singapore and Taiwan, had significantly moved ahead of Portugal by 1973, a reflection of their strongly outward-oriented trade and industrialization strategies.

Analysis of the direction of trade from 1960 to 1972 shows two major trends: the relative decline in importance of the overseas territories (even though *absolute* values grew) and the growing importance of the European Free Trade Association in the composition of exports and imports.[42] EFTA's share in Portuguese exports nearly doubled from 21 percent in 1960 to 41 percent in 1972; the overseas territories' share in metropolitan Portugal's exports fell from one-fourth to 15 percent during the same period. EFTA's share in Portugal's imports increased from 20 to 24 percent between the two years, but the overseas territories' share in the metropole's imports declined from 14 percent in 1960 to 9 percent in 1972.

Portuguese emigration undoubtedly provided a safety valve for open and disguised unemployment, particularly in the rural areas. Emigrant workers' remittances, of negligible importance in the early 1960s, exploded to $1.1 billion on average in 1972-1973, equivalent to over one-half of the value of Portuguese merchandise exports or about 10 percent of national income. Thus, one major benefit to Portugal derived from the ample flow of funds remitted by the migrants to their families and relatives back home.[43]

The second important benefit relates to the opportunity cost of Portuguese labor.

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As Ian M. Hume made clear, migration of workers from southern to industrialized Europe represented the equivalent of a huge effort in the development assistance rendered by the countries receiving labour to those sending it. The latter countries "are provided with a volume of employment abroad which would require very large capital outlays to duplicate at home."[44] Thus, the massive export of Portuguese labor during the 1960s and early 1970s was a substitute for a huge capital inflow from the industrialized nations.

During the later *Estado Novo* period wages increased significantly, but their growth lagged behind the rise in labor productivity. The growth in real wages for industrial workers between 1961 and 1967 was around 4 percent a year and that of farm laborers somewhat higher.[45] Responding to acceleration of economic growth and greater labor emigration flow, real annual wage gains increased to about 6 percent in both the agriculture and manufacturing sectors in the 1965-73 period.[46]

One approach to measuring income distribution is to compare the household income share received by the poorest 40 percent of the population with the share received by the richest 20 percent. Table 4 compares Portugal's income distribution profile at the end of the Caetano period with that of other selected countries. Comparing Portugal's profile with that of Spain, Italy, and the three East Asian NICs indicates that Portugal's income distribution was relatively less equal than the countries cited. On the other hand, a comparison of Portugal with Latin American countries shows the Iberian nation's income distribution pattern similar to that of Argentina, but relatively more equal than that of Venezuela, Mexico, and Costa Rica. In Brazil the ratio of the income share of the richest 20 percent to the poorest 40 percent was 9.5 compared with only 3.5 for Portugal.

Another approach to measuring a country's income distribution is the so-called Gini ratio: the higher the ratio, the greater is the degree of inequality. ILO estimates for Portugal indicate that the Gini ratio changed little between 1967-68 (0.423) and 1973-74 (0.431), corresponding the end of the Salazar and Caetano administrations, respectively.[47] As an example, in 1970 France's Gini ratio was 0.416, similar to Portugal's, and Sweden's was 0.346 in 1972, a reflection of that nation's extreme income-levelling measures.

V. *Summary and Conclusions*

Contrary to the assertions of some revisionist writers, this study concludes that the 1974 Portuguese revolution was preceded by a decade and a half of exceptionally rapid economic growth and structural change. Using GDP per capita as a growth indicator, Portugal's economic performance between 1960 and 1973 fully matched that of its dynamic, larger Iberian neighbor as well as that of the three "Asian Tigers"—Taiwan, Korea, and Singapore.

Beneath an authoritarian political regime committed to the defense of Portugal's African colonial empire, the national economy became increasingly market oriented and integrated with industrialized Europe through trade, foreign direct investment, emigrant worker remittances, and tourism. Portugal became a charter member of EFTA when that organization was formed in 1959 and thereafter became a member of GATT, the IMF, and the World Bank. Official policy encouraged the inflow of direct foreign investment and Prime Minister Salazar's commitment to the *Ultramar* in the

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Table 4

PORTUGAL AND OTHER SELECTED COUNTRIES: INDICATORS OF SIZE DISTRIBUTION OF INCOME*, 1970s

Country	(A) Income share of poorest 40 percent	(B) Income share of richest 20 percent	Ratio of B/A
Portugal (1973-74)	15.2	49.1	3.5
Spain (1974)	17.8	42.2	2.4
Italy (1969)	15.6	46.5	3.0
France (1970)	14.1	46.9	3.3
U.S. (1972)	15.2	42.8	2.8
Taiwan (1971)	21.9	32.2	1.5
Korea (1976)	16.9	45.3	2.8
Venezuela (1970)	10.3	54.0	5.5
Mexico (1977)	10.3	54.4	5.3
Brazil (1972)	7.0	66.6	9.5
Argentina (1971)	14.1	50.3	3.6
Costa Rica (1971)	12.0	54.8	4.6

*Distribution of total household income accruing to percentile groups of households ranked by total household income.

Source: World Bank, *World Development Report 1979*, 172-173, table 24 and World Bank, *World Development Report 1987*, 253, table 26.

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context of military insurrections in the overseas territories led him reluctantly to seek external credits beginning in 1962.

Beyond military measures, the official Portuguese response to the "winds of change" in its African colonies was administratively and economically to integrate them more closely with the metropole. Notwithstanding the substantial rise in the absolute value of trade within the so-called *escudo* area, the overseas territories' share in metropolitan trade steadily shrank between 1960 and 1972 while EFTA's share in Portuguese exports and imports grew.

The liberalization of the Portuguese economy was continued under Salazar's successor, Prime Minister Marcello Caetano (1968-1974) whose administration abolished industrial licensing requirements for firms in most branches, and in 1972 signed a free trade agreement with the newly-enlarged European Community (EC). This agreement committed Portugal to a free trade posture in manufactures within the Greater European Space (EC and EFTA combined) by 1985. EFTA membership and a growing foreign investor presence contributed to Portugal's industrial modernization and export diversification. Among the newly industrializing countries (NICs), Portugal achieved notable success in penetrating global markets for manufactured exports.

On the eve of the 1974 coup, Portugal was poised between industrial Europe and Africa and between a fading corporatism and an emerging market capitalism. The requirements of the defense budget together with larger public investment in the *Ultramar* placed a considerable burden on what by West European standards was still a low income economy. A high level of worker emigration and military conscription gave rise to critical shortages of skilled manpower by the early 1970s. Notwithstanding the concentration of the means of production in the hands of a small number of family-based financial-industrial groups, Portuguese business culture permitted a surprising upward mobility of educated individuals with middle class backgrounds into professional management careers.[48] Despite the absence of independent trade unions under the authoritarian regime, the relative distribution of household income in the early 1970s was similar to that of France—a consequence of rising wages associated with an acute and pervasive labor shortage, as well as the funds remitted by Portuguese workers living abroad to their families back home. These massive emigrant remittances partially reflected the emigrant workers' confidence in Portugal's prudent monetary-fiscal policies.

During the Caetano administration from the end of 1968 to the first quarter of 1974, both the current fiscal budget and the current account in the balance of international payments showed surpluses. As a result, Portugal's external reserves (which included 860 tons of gold) doubled to $2.7 billion—a generous legacy to the fledgling revolutionary regime.

NOTES

[1]Mark Hudson, *Portugal to 1993: Investing in a European Future* (London: The Economist Intelligence Unit, Special Report No. 1157, 1989), 12.

[2]Hudson, 62.

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[4]Hudson, 11.

[5]Douglas L. Wheeler, Review of *Portugal to 1993* in *Portuguese Studies Newsletter*, No. 22 (Winter 1990), 44-45.

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[6]*Employment and Basic Needs in Portugal* (Geneva: International Labour Organization, 1979), 184.

[7]For a more complete economic analysis of Portugal's authoritarian regime see Eric N. Baklanoff, *The Economic Transformation of Spain and Portugal* (New York and London: Praeger Publishers, 1978) and "The Political Economy of Portugal's Old Regime: Growth and Change Preceding the 1974 Revolution," *World Development* 7, Nos. 8/9, 1979, 799-811.

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[19]Paul H. Lewis, 639.

[20]Michael Harsgor, *Portugal in Revolution*, The Washington Papers, 3, No. 33 (Beverly Hills, CA: Sage Publications, Inc., 1976), 44-46.

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[22]V[alentim] Xavier Pintado, *Structure and Growth of the Portuguese Economy* (Geneva: European Free Trade Association, 1964), 198.

[23]OECD, *Economic Survey: Portugal*, June 1963, 33.

[24]Department of State, *Background Notes: Republic of Portugal*, November 1972, 4.

[25]V[alentim] Xavier Pintado, *Portugal's Economy and Profit Opportunities* (Lisbon: Banco Português do Atlântico 1973), 7.

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