Socialist Economic Policy in the Crisis: The Case of Portugal

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1. Economic crisis management by socialist-led governments

With the worldwide economic crisis the policy of the socialist or social-democratic parties in Europe also entered into crisis. Economic growth, required if social reforms are to be financed by the redistribution of increased income, is largely absent today. These parties face great problems in combating the crisis. On the one hand, if the economy is to be revived, they must promote the ability and willingness of private enterprise to invest; on the other hand, too sharp a reduction of private consumption and public spending on social programs endangers the electoral success of these parties. The dilemma they face with respect to the struggle to control foreign trade deficits is similar: since exports cannot be increased at will, imports must be limited if the deficit is to be reduced. This, however, implies reduced economic growth together with increased labor-market problems. Finally, a weakening of economic growth can also result in slower modernization of the national economy. One of the causes of the foreign-exchange deficit, the limited ability to compete on the international market, will thus be further accentuated, leading to a vicious circle.

How have socialist or social-democratic governments responded to these problems?

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The British Labour governments of 1964–70 and 1974–79 were confronted with decreased international economic competitiveness and declining rates of investment. They responded by controlling labor costs in order to strengthen business's ability to invest and thereby also to achieve a structural modernization of the productive forces. Since the government began to develop job-creation programs very late in the game, it failed to get durable collaboration in this approach from the trade unions, which were faced with falling real wages and growing unemployment. The upshot was a condition of combined stagnation and inflation.

The Swedish and West German Social Democrats had to deal not with the recovery of a lost competitiveness but with safeguarding the high level of international competitiveness their economies had achieved. As a result they clearly had more leeway for an expansionist economic policy, and therefore for a minimization of the social costs of economic modernization, than was possible in Great Britain. They wished to avoid stagflation on the British model, in which neither stimulation of the economy nor control of unemployment could be achieved. Both followed a policy of active promotion of structural economic change, in the Federal Republic specifically with the "Future Investments Program."

In Sweden until 1976 this strategy was accompanied by an expansionist state-spending policy, which was supposed to safeguard the level of employment. Its cost was a growing national debt, inflation, and the depreciation of the krone.

The West-German Social Democrats wished to avoid this situation as well as the British one, and therefore combined the encouragement of economic modernization with a restriction of private demand. They did not intervene directly in the labor market, but relied on the job-creating effects of their strong international competitive position and of additional investment on the part of business. Although the level of unemployment was higher than in Sweden, this middle way between Swedish expansionist policy and British austerity appeared to function well until 1980. With the transition to a restrictive spending policy after that year unemployment rose sharply, and the economy went into stagnation.

All three strategies were in agreement not only in their affirmation of private ownership of the means of production as the dominant production relation, but also in their orientation toward exports: the growth or maintenance of international competitiveness was seen as the central task.

On exactly this question the strategy of the French Socialists after 1981— that is, three years after the Portuguese Socialists' participation in the government came to an end—contained some novel aspects. For the French too international competitiveness was an important goal. But "recapturing the domestic market" took precedence. The modernization of the economy was to be achieved with substantial state participation, in which—as opposed to the Swedish or West German cases—nationalizations were also to play a part. Unemployment was to be fought by means of extensive measures to support demand.

Under the pressure of an increasing national and foreign debt, and with only limited economic growth, important aspects of this program were cut back rather quickly. Increasingly, elements of an austerity policy were adopted.

It seems to me too early to make a definitive judgment on this approach, as in the case of the attempt of the Spanish Socialists to modernize their national economy in anticipation of a speedy entry into the EEC. But the social conflicts that such modernization brings with it were increasingly clear in Spain, for here—unlike in France—modernization was not accompanied by the creation of new jobs. The Spanish Socialists distinguished themselves clearly from their French comrades by opting for intensifying their economy's orientation to the world market.

All the strategies described so far provided no solution to the central problem of socialist or social-democratic economic policy under capitalism: how to stimulate private enterprise to increase investment—and not only rationalization investment—needed to overcome the crisis, without this being at the cost of their own electoral base of wage-earners. If in doubt, socialists and social-democrats have so far shown (temporary) preference for the interests of business, making a greater effort at social-political compromise than the bourgeois parties.

Perhaps the Swedish Social Democrats have now found a solution to this problem with their concept of the Labor Fund, which is supposed simultaneously to eliminate the problem of insufficient capital formation and to represent an important step in the direction of the democratization of the economy. The experiences of the coming years will show us how well this idea can be put into practice.

How did the Partido Socialista (PS) behave in Portugal during its period in office of 1976–78? Did the far-reaching social and political changes following the fall of the dictatorship on 25 April 1974 give rise to new strategies in the struggle against the economic crisis, which also affected Portugal, or did the PS orient itself by the concepts already tested by its companion parties?

2. Portugal's position in the international division of labor and the changes of 1974–75

Since the end of the 1950s Portugal had abandoned the policy of "orgulhso só" ("proud to be alone"), which was supposed to have been the basis for Salazar's aspiration toward autarky. There were two decisive reasons for this. First, Great Britain's entry into the EFTA (European Free Trade Area) forced Portugal also to enter this economic community in order to safeguard its chief market in Europe. Even if Portugal were to be given a long transitional period for the reduction of tariffs, it now had to modernize its industry in order to be a match for its future competitors. The second reason was the outbreak of the colonial wars which tied up state capital, making it unavailable for economic development. Its place was taken by foreign capital, for which access was made easier.

In this way developed the well-known process of dependent industrialization, in which Portugal as a low-wage country could attract simple industrial manufacturing processes. Instead of Port wine, sardines, and cork, now textiles and simple electrical goods became important exports. Since the equipment needed for the production of these new goods had to be imported, imports grew more rapidly than exports.

The endeavor to construct its own heavy industry (shipyards, steelworks, petrochemical complex) did not decrease Portugal's reliance on imports, especially since even less capital was available for the development of its backward agriculture, and Portugal therefore became a net importer of foodstuffs.

Agricultural backwardness and the expensive colonial wars proved to be ever heavier millstones around the neck of economic development. A first attempt to open up the Portuguese economy to the EEC failed in 1972, thanks to the resistance of big landowners, colonial capital, and Old Salarazists, as this attempt would have required, among other things, an agrarian reform and a political solution to the colonial wars. (For developments between 1960 and 1974, see Poulantzas [1978].)

The fall of the dictatorship on April 25, 1974, brought, in the course of an increasingly rapidly accelerating process of radicalization, the attempt in 1975 to base economic development not on colonial profits or on ties to the EEC, but on the strengthening of the domestic economy and the diversification of external economic relations. Ideas came into vogue of a new Portugal as a bridge between Europe and Africa, as a favored trading partner of the Third World, as the initiator of a bloc of Mediterranean economies in concert with the OPEC countries. Important structural reforms were accomplished. The landed property characteristic of Portugal's south was expropriated; the raw materials sector and the infrastructure were nationalized (with the exception of those elements then owned in partnership with foreigners); the standard of living of wage-earners was clearly improved. Among the aims of this policy were greater satisfaction of basic needs and the modernization of the economy. What was lacking was a coherent plan for the coordinated pursuit of these goals. There were certainly drafts of such plans but in 1975 none of them could be carried through durably because the balance of power within the successive provisional governments was constantly changing.

The strategy of the relative delinking from the world market could, however, also not achieve lasting hegemony, since for the small peasants in the north and center of the country as well as for small businessmen the concrete economic measures taken during 1974–75 brought only disadvantages. Their income declined and their social position as private owners of their means of production was called into question. As these groups allied themselves in protest with the opposition to a supposed threat of a Communist seizure of power, the advocates of fundamental structural reform suddenly found themselves in the minority. (On the development between 1974 and 1975, see Schröder [1975–76]; OECD [1976].)

3. The European option of the PS

Since its foundation in 1973 the PS campaigned for Portugal's economic cooperation with the EEC as the best way to overcome that country's backwardness (*Partido Socialista* [1974]: 63). What concrete forms this cooperation was to take remained unclear. The party's Executive Committee failed in an attempt to push through

Portugal's EEC membership as a long-term goal of PS policy in the sessions preparatory to the Party Congress of December 1974 (*Portugal Socialista* [5 December 1974]; *Partido Socialista* [1975a]: 61). So it was left with the general assertion that "Portugal's future lies in Europe," with which that country should be economically, politically, and culturally linked.

All attempts to free Portugal from the international division of labor were sharply rejected. The PS described this idea as that of a "socialism of poverty," like that reigning in Albania (*Partido Socialista* [1975b]: 47). The PS accepted the economic structural reforms of 1975 only under protest, as it saw them as precipitate (*Partido Socialista* [1979]: 19).

In the beginning of 1976 the General Secretary of the PS, Mário Soares, succeeded in imposing his demand that Portugal should attempt to enter the EEC as fast as possible. This goal was included in the electoral platform without previous discussion within the party (*Partido Socialista* [1976]: 21). The desire to enter the EEC was determined mainly by political considerations. With inclusion in the European Community the young democracy would be strengthened and a bolt would be thrown to lock out antidemocratic tendencies on the Right and on the Left (Lewis and Williams [1982]: 11). Economic effects of entry into the EEC were not discussed by the PS. In any case it was hoped that there would be financial help from the Community (see the discussion of EEC entry in *Portugal Socialista* during 1977).

After the formation of a minority government by the PS in July 1976, two points of dispute soon arose within that government as to how the economic crisis, which by 1973 had begun to affect Portugal, should be dealt with beyond the general context of the orientation to the EEC. One point concerned the handling of the structural reforms of 1975. The other concerned the disagreement between the Ministry of Finance, which called for an austerity policy in the interest of reducing the external deficit, and the Ministry of Planning, whose priority was to promote the satisfaction of the population's land hunger by way of an expansionist domestic policy.

4. The economic policy of the PS, 1976–1978

Private enterprise controlled the largest part of the Portuguese economy even after the nationalizations. In 1976 state enterprises accounted for 12.2 percent of value creation, 8.3 percent of employment, and 27.4 percent of gross investment in plant and equipment (Instituto das Participações do Estado [1978]: 54f.). They not only represented a minority of enterprises but were capital-intensive, so that they could contribute little to the solution of the employment problem—the unemployment rate was 11 percent in 1975 (Weber [1980]: 122). In addition to this, the PS regarded the nationalized sector with mistrust, as an offspring of the revolutionary process. The PS had also taken a negative stance in regard to the agrarian reform of 1975, given the dominance of the Communists among the rural labor force.

Under changed political circumstances the PS once again took up the attempt made by Caetano between 1968 and 1971 to modernize the Portuguese economy with an eye to membership in the EEC. As under Caetano so now the agricultural sector was to be completely neglected. Export industries and foreign investments were to be the essential vehicles of modernization. Investment plans from the period of the dictatorship, such as the extension of the deep-water port at Sines with additional petrochemical installations, were continued.

In order to strengthen business's ability to accumulate and to attract increased foreign investments again, but also to reduce the power of the Communist-dominated trade unions, social gains achieved by the workers were steadily cut back. Temporary labor contracts were introduced, which soon became the rule for a considerable part of labor relations (Decreto-Lei 781/76 of 28 October; see *O Jornal* 13 May 1983); dismissals were made easier (Decreto-Lei 841-C/76 of 7 December); economically weak enterprises were permitted to abrogate wage contracts (Decreto-Lei 864/76 of 23 December); new wage agreements were required to run for a minimum period of 18 months (Decreto-Lei 887/76 of 29 December); wage agreements were no longer to exceed regulations, for example with respect to the length of vacations (Decreto-Lei 887/76 of 29 December); the obligation of employers for automatic dues check-off from wages was abolished (Decreto-Lei 841-B/76 of 7 December). The culmination of these measures was the limitation of wage increases to 15 percent (Decreto-Lei 49-A/77 of 12 February), and this with a minimum contract life of 18 months and an inflation rate of 18.2 percent in 1976 and 27.3 percent in 1977 (Banco de Portugal [1982]:4).

Given the structure of the productive forces in Portugal, the strategy of increased investments, whether by the state or by private enterprise, meant increased imports. As a countermeasure the regime extended into 1977 the 30 percent supplementary tax on the importation of goods also manufactured in Portugal, and introduced a new 60 percent supplementary tax on imported luxury goods (Decreto-Lei 720-B/76 of 9 October). The 30 percent tax applied to 29 percent of imports in 1976, the 60 percent tax to 1 percent. For 7 percent of imports the regime introduced a requirement for an advance deposit of half the value of the goods (Decreto-Lei 720-C/76 of 9 October). Finally, limits were set on debt-financing of imports (OECD [1978]: 20).

The government budget and annual plan for 1977 also provided for the continuation of the policy of growth. The cover of state expenditures by revenues was to fall to 62.4 percent, while in 1974 there had been a cover rate of 84.3 percent, in 1975 of 68.9 percent, and in 1976 of 63.4 percent (Banco de Portugal [1981]: 186; Decreto-Lei 952/76 of 31 December; OECD [1976]: 34). Public investments were supposed to rise sharply, the gross domestic product (GDP) to grow by 5 percent, the balance of payments deficit (which by 1976 had reached 38.8 billion escudos) to fall to 22 billion escudos (*Portugal Information* [1977]: 26–30). This expansion was to be financed by the growth of government debt and by higher indirect taxes. Moreover, the exemption limit on direct taxes would not be indexed to the developing inflation (Mateus [1982]: 340).

In the beginning of 1977 the inherent contradiction of this path to development became increasingly clear: economic growth with high levels of investment, which in the long run was supposed to decrease the international dependence of the Portuguese economy, in the short run worked to increase this dependence, since in its current form it entailed increased imports of semiprocessed and capital goods.

A first savings package in February 1977 sought to preserve the growth strategy while limiting imports through the restriction of consumer demand. This aim was served by increasing the purchase tax by 20 percent and raising postage rates, by measures encouraging saving, and by setting import quotas for nonessential consumer goods.

To compensate for the effect of these measures on living standards, the government defined a "market basket" of goods meeting basic needs, whose prices were frozen for the rest of the year, after a 20 percent increase (Resolução 51-D/77 of 28 February). This market basket included 11.5 percent of the expenses of an average family (Rosa [1978]: 121f.). Further economic growth was to be safeguarded by a 15 percent devaluation of the escudo relative to the dollar (which was intended to increase exports), exchange rate guarantees for the export economy, and the lifting of price controls (Decreto-Lei 75-Q/77 of 28 February). Since the unions had been given narrow limits for wage increases, the end of price controls meant a further strengthening of business's power to accumulate capital and so of its ability to invest.

Depreciation and decontrol of prices led to a considerable acceleration of inflation. Between February and March 1977 alone consumer prices rose by nearly 9 percent (OECD [1980]: 490).

The economic crisis was not overcome by these measures. Since the rate of depreciation was generally understood to be too low, the demand for imports rose instead of falling, as stocks were built up (OECD [1978]: 36). Exports did not grow to the degree hoped for, as their prices were relatively inelastic (Essner et al. [1977]: 138–40).

The trade deficit continued to grow despite the savings package. The government now sought foreign capital, in order at least to finance the deficit, which was not declining. Already by the end of 1976 the idea was raised of a loan of $1.5 billion from a group of western industrial and oil countries under the leadership of the United States (Hammond [1977]: 46). In May 1977 this loan was reduced to $750 million and was made dependent on the conclusion of an agreement between Portugal and the IMF on a stand-by loan. Since the Portuguese government was aware of the tough conditions on such a loan, it had sought, in vain, to be able to substitute the OECD for the IMF as "controller" (Stallings [1981]: 114; interview with Constâncio, 18 November 1982). As a first sign of its willingness to oblige the IMF and as a further measure against the trade deficit, on 25 August 1977 the government announced a new savings program. Prime Minister Soares explained that to reduce the deficit in the coming years the Portuguese economy would have to be alternately accelerated and braked, again and again, because a continuous expansion of investment increased the external trade deficit. Such a policy, he said, would be unpopular and might weaken just those social groups that support the government, but was a precondition of economic recovery (Soares [1977]: 24–31).

In order to slow the growth of the economy, the government raised interest rates by an average of 4 percent and cut public spending by 10 to 20 percent (Decreto-Lei 439-A/77 of 25 October). It increased the prices of liquid fuels; made firings even easier (Decreto-Lei 353-H/77 and Decreto-Lei 353-I/77 of 19 August); and devalued the escudo by 1 percent during each of the following six months. In order to attract larger direct investments from abroad, Portugal liberalized the relevant regulations (Decreto-Lei 348/77 of 24 August, Decretos Regulamentares 51–55/77, Portária 536/77 of 24 August; Ferreira [1977]).

In the summer of 1977 a series of laws came into force which were supposed to regulate the basic structure of the Portuguese economy. One of their tasks was, according to Soares, "to bring the economy into line with a view to joining Europe" (Soares [1978]: 9). In these laws the Socialists finally took the structural reforms of 1975 as their objective, recognizing and strengthening the dominance of the private sector of the economy. The laws dealt with the nationalizations, the compensation paid for them, the agrarian reform, and the planning mechanisms. They made it clear to potential foreign investors that they need fear no tendencies toward nationalization. It had already become clear that the government had no intention of strengthening the trade unions.

The agrarian reform law was particularly controversial. In November 1976 Minister of Agriculture Cardoso, a member of the left wing of the PS, had resigned in protest against the government's refusal to support him in continuing the land reform process. In return he was reproached by the majority of the government with not having proceeded with sufficient energy against the influence of the Communists in the agrarian reform zone. After the ratification of the agrarian reform law, which in reality put an end to the land reform, Cardoso left the PS with a small group of other dissident members of Parliament (Vester et al. [1982]: 12f., 20f.).

In March 1977 Marcelo Curto was relieved from his post as Minister of Labor, because he had been unsuccessful in his fight against the Communist dominance of the unions (Thomashausen [1981]: 186f.). In September 1977 the Secretary of State for Planning, Manuela Silva, resigned, because the draft four-year plan oriented toward a strategy of meeting basic needs was withdrawn by the government (*Neue Zürcher Zeitung* 18 September 1977). Things never went as far as a coordinated action on the part of the opposition within the party, or even the drawing up of an alternative conception of economic policy by this opposition.

Despite all the measures taken by the government, 1977 did not see an agreement with the IMF, because the PS was not willing to be solely answerable for the conditions set by the fund and Soares did not receive the necessary backup support from the other parties. When in early December 1977 Soares called on Parliament for a vote of confidence covering, among other things, the agreement on negotiations with the IMF, the other parties were not ready to share the accountability with the PS without an equal share in governing as well. By a vote of 159 to 100 all the other parties denied Soares the confidence he sought, whereupon he was forced to resign.

The policy of planned recession had up to this time still not caught hold. The GDP grew by 5.7 percent in 1977, imports by 9.6 percent (3.5 percentage points more than exports), the balance of payments deficit from $1.3 billion to $1.5 billion (Banco de Portugal [1982]: 6; OECD [1981]: 6). Foreign indebtedness, equal at the end of 1976 to 95.6 billion escudos, had risen by the end of 1977 to 192.1 billion escudos, the equivalent of 29.8 percent of GDP. Interest and repayment of the foreign debt in 1977 absorbed 18.4 percent of the income from exports, tourism, and payments sent home by emigrants (Mateus [1982]: 115, 124f., 132). It is true that in September 1977 gold reserves still weighed in at a proud 862 tons (OECD [1978]: 25); but 48.6 percent of this was pledged to cover debt (*Tempo* 24 January 1980).

Nevertheless in the course of the year the rate of coverage of expenditures by revenues in the state budget was successfully increased from the planned 62.4 percent (Decreto-Lei 952/76 of 31 December) to 70.7 percent (Banco de Portugal [1981]:186). The share of the budget deficit in the GDP fell from 9.6 percent in 1976 to 7.3 percent (Banco de Portugal [1981]: 186; OECD [1981]: 38).

At the end of December 1977 and the beginning of January 1978 a new government was formed under the leadership of the PS. The only party that was prepared to enter a joint government with the PS was the very conservative Centro Democrático Social (CDS) which in 1976 had cast the only parliamentary vote against the new constitution. For this party, participation in the government offered a chance to overcome the label of opponent of the constitution. For the PS this coalition presented the only possibility to govern again. But both parties suffered numerous resignations in protest against their cooperation.

The coalition of the two parties was based primarily on economic policy. In their governing agreement they declared that the Portuguese economy must be opened to the outside, because the domestic market was too small. Import restrictions would only lead to price increases and production declines and were inconsistent with Portugal's international obligations. But since in the short run exports could not be increased to the critical degree, the trade deficit would have to be narrowed by slowing economic growth (Lopes [1978]: 67f., 144, 153). Portugal would simply have to accept the continuation of high unemployment, the continued decline of real wages, and the endangering of small and medium enterprises highly dependent on credit. As it was recognized that this policy did not touch the structural causes of the economic crisis—low productivity, low utilization of national resources, and a backward agricultural sector (Silva [1982]: 8)—the weaker economic growth was supposed to last for only three years. In the medium term the economy was supposed to expand again (Lopes [1978]: 174).

Vítor Constâncio, previously vice president of the Bank of Portugal and a leading economist of the PS, combined the posts of minister of planning and of minister of finance in the new government. This was intended to prevent the internal conflicts of the previous government, in which the two ministries had blocked each other's action. Constâncio saw his main task as achieving an agreement with the IMF, in order finally to have access to large-scale credits. At the beginning of May 1978 the agreement was reached. Portugal engaged itself to shrink its balance of payments deficit from \$1.5 billion to \$1 billion within one year, to raise interest rates by 5 percent, to set restrictions on bank loans, to limit the growth of the money supply, and to devalue the escudo. The import restrictions were to be sharply reduced until the beginning of 1979. There was to be an increase of 20 percent in the cost of basic foodstuffs in the "market basket," and some other fees and prices were to increase, while wage increases were to be limited to 20 percent, the same amount by which inflation was supposed to decline (Rosa [1982]: 339–49).

According to this agreement Portugal would receive a loan of \$750 million and could obtain on the international financial market two additional loans totaling another \$450 million for the refinancing of public investments, which would take pressure off the national credit market (Banco de Portugal [1979]: 241, 345; McCauley [1979]: 157).

The budget announced by the government on 26 April 1978 foresaw

72.4 percent of expenditures covered by income (Decreto-Lei 75-A/78 of 26 April), thus a further increase in the covering rate compared to that in 1977. Nominal stagnation of public investments and tax increases served to reduce the deficit. With respect to private investment, the annual plan nevertheless still allowed for a growth rate of 5.9 percent; foreign trade was also expected to increase (Lei 26/78 of 8/6). Investment and trade remained the support of economic growth, however reduced.

In 1978 economic growth was reduced to a mere 3.2 percent (Banco de Portugal [1981]: 6). Inflation sank to 22.1 percent; the balance of payments deficit fell more than planned to $826 million. Decisive in this regard was the fact that while the trade deficit was slightly reduced, income from tourism increased by 61 percent and money sent home by emigrants by 42 percent (in dollars; Banco de Portugal [1979]: 147f.). An essential lever for the restriction of economic growth was the restoration of positive real interest rates, which reduced borrowing and strengthened saving. This may also have had the effect of lessening capital flight abroad (Banco de Portugal [1979]: 147f.).

In contrast to 1976–77, in the new government the PS attempted to balance budget-cutting with improvements in social benefits and to cooperate with the trade unions and the collectives in the agrarian reform zone. But on this last issue the government fell apart. The CDS feared for its clientele among the conservative rural population in the North. As just then the right wing around Sà Carnero was gaining ground in the liberal Partido Social-Democrata, the CDS demanded the withdrawal of the non-party minister of agriculture, who was refusing to speed the return to the former owners of land now farmed by collectives (Thomashausen [1981]: 292). When the PS rejected this demand, the CDS ministers resigned. President Eanes thereupon dissolved the government on 28 July 78. The chapter of socialist-led governments had come to an end, until 1983.

A survey taken in 1978 showed that Eanes won overwhelming support for his dissolution of the government: 36 percent found it good or very good, while only 9 percent found it bad or very bad (Bacalhau [1979]: 45; the remaining 55 percent: no answer). In the parliamentary election of December 1979 the PS's share of the vote fell from 36.6 to 28.1 percent, while that of the bourgeois party coalition Aliança Democrática (AD) rose from 42.9 to 46.5 percent, and that of the electoral front of the PCP, the Aliança Povo Unido (APU), grew from 15.9 to 19.3 percent.

5. Summary

The PS came to power in 1976 intending to balance the budget and eliminate the payments deficit, to modernize the economy with a view toward entry into the EEC, and to satisfy progressively the basic needs of the population (Programa do Governo [1976]: 19f., 27, 34, 72). Of these goals only the first was achieved, and that only near the end of the party's period of office. The decline in investments bound up with it slowed the modernization of the economy; the budget cuts affected exactly the socially weak groups. Possible alternatives, such as support directed specifically to economic sectors with a lower proportion of imports and greater effects on social well-being, like in the construction industry or even particular areas of agriculture, in order at least approximately to coordinate the three goals, were, as has been explained, not explored (Silva [1982]).

But this—if one is to believe the commentators of the Portuguese and international press (full use was made of the archives of *Diário de Notícias*, *Expresso*, *O Jornal*, the Otto-Suhr Institut, and the Ibero-Amerikanisches Institut)—was not the decisive reason for the decline of public support for the PS. According to these commentators, broad groups of the Portuguese public were ready in 1976 to accept budget-cutting measures.

However, the first PS government, in particular, put the burden of these measures exclusively on wage earners, and failed to enter into dialogue with those affected by particular measures—not even with its own parliamentary group—before putting them into practice (interview with Reis, 17 November 1982). In addition, the government was unable to provide a perspective on the development of the Portuguese economy from which sacrifices in the short run could appear as sensible means for achieving a better future in the long run. The one-sided burden placed on wage-earners was also not compensated for by non-material reforms to their advantage (such as reforms of the justice system, greater effectiveness in administration, or safeguarding the rights of workers in the workplace). Finally, on the basis of particular examples doubt grew as to whether the government was even "technically" in a position to put its decisions into action.

In sum, the PS governments were reproached with refusal of dialogue, with lacking perspective, and with technical incompetence. These difficulties of the PS had the following causes:

First, the structural reforms of 1975 were not utilized as instruments for the development of the Portuguese economy but were forced into retreat, on account of the influence of the PCP in the sectors of the economy affected by the reforms. This was visible in particular in the PS government's moves against the land reform, which had been positively evaluated by the World Bank (Friedrich-Ebert Stiftung [1981]: 21). Economic losses were accepted for tactical political reasons.

Second, the struggle against the PCP was not the only motive for the abandonment of structural reforms. The first Socialist government did not consider structural problems to be the cause of the crisis of the Portuguese economy, but blamed the oil shock and overdone reforms during 1975 (Programma do Governo [1976]: 9). The PS did not consider Portugal's productive structure to be generally problematic. Instead, the only long-run perspective taken on the economy was the hope for financial help from the EEC after entry into it.

Third, both quantitatively and qualitatively the PS was badly prepared to govern (*Partido Socialista* [1979]: 36f.). The rotation of many party cadres through governmental posts so weakened the party organization that, for example, the PS newspaper *Portugal Socialista* could not appear regularly for half a year. The party rapidly lost influence over the regime. The qualitative aspect was—and still is—the lack of party cadres trained in economics. Both of these aspects make the "technical" incompetence of the PS governments somewhat understandable.

If these problems are analyzed, the central deficiency of the PS seems to have been its lack of any conception of how socialist policy should look in an economic crisis. One short-run stabilization measure after another, increasingly influenced by the IMF, was supposed to overcome the crisis; but the latter was anything but a purely conjunctural problem. The victims of these stabilization measures were precisely the social groups that preeminently supported the PS (on the electoral base of the PS, see Gaspar and Vitorino [1976]). In 1979 the PS paid the price for having undermined its own social base.

When the economic policy of the Portuguese Socialists is compared with those of their European comrades, the incomparably weaker position of the Portuguese economy in the international division of labor must always be kept in mind, for it afforded them a much narrower space for an autonomous economic policy. But the Portuguese Socialists did not make use of the possibilities they had to reduce this international dependency—for example, by developing agriculture. As soon as the foreign debt had become massive they embraced a short-winded stabilization policy, whose basic elements, as in Great Britain, were the raising of prices on imports by devaluations and wage controls to increase business's power to invest. The structural origins of the trade deficit remained undisturbed by these measures. Because this policy of planned recession was begun from a low level of economic development and living standards, the burdens put on wage earners in Portugal were a great deal higher than in Great Britain. Together with the already tense relations between the Communist-dominated trade unions and the Socialist party, this led to a very rapid erosion of the electoral base of the PS. Consequently the electoral defeat of 1979 was a heavy one.

The PS made no new contribution to socialist strategies in the face of economic crisis. Without an adequate analysis of Portugal's problems it adopted measures that had also had no success in Great Britain. In both cases these strategies led to impressive electoral victories by conservative parties.

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