

## THE ROLE OF THE GOVERNMENT IN PORTUGUESE ECONOMIC GROWTH 1851-1939 (\*)

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### Introduction

This paper deals with the role of the government in Portuguese economic growth during the second half of the 19th century and the years of the 20th century before the Second World War. It will try to answer two questions:

- 1st — What did the government try to do to foster economic growth?
- 2nd — Which were the results of such an action?

Each question will be dealt in a separate section.

### 1 — Government action

Government action to foster economic growth changed over time, according to the indicators of table A.

#### 1.1 — The regeneration period

The fifties, sixties, seventies and eighties of the 19th century were the epoch of the implementation of what may be called the *liberal* or *regeneration* (1) blueprint. As a matter of fact, the first quarter of the 19th century saw the end of the Brazilian Empire that had been the main source of economic prosperity for Portugal during the 17th and 18th centuries (2). This meant Portugal had to live by itself and to find a new place in the international economy. To provide an adequate institutional framework, free from traditional restrictions to production and trade, and transportation facilities, to ease economic relations between the various regions of the country, were the main concerns

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(1) The «regeneration» was a *coup d'État* in April 1851 that took to power the Regeneration Party that was the first to implement successfully the policy to be described below.

(2) Brazilian ports were open to non-Portuguese vessels in 1808. The political independence of Brazil was proclaimed in 1822 and recognized by Portugal in 1825.

of the governments of Constitutional Monarchy from 1834 on<sup>(3)</sup>. However, things did not improve in these fields very much until the middle of the century because social unrest, political instability and even civil war plagued the country during some decades after the loss of Brazil<sup>(4)</sup>. In 1851, stabilization came at last, and this allowed an important effort during the following four decades. In the institutional field, the main measures were the introduction of uniform weights and measures according to the metric system in 1859, and the abolition of entailments in 1863. In the transportation field, the main achievement was the construction of more than 2000 km of railways until 1891. Anyway, it is clear that during these years economy received a proportion of government expenditure not to be equaled until the *Estado Novo* period.

All these efforts to create a national economy did not prevent some measures that aimed at a higher integration of Portugal in the world economy. The most important of these measures were perhaps the adoption of gold-standard in 1854<sup>(5)</sup>, and the attempts to link Portuguese railway network with the Spanish one<sup>(6)</sup>. However, a free-trade policy was not adopted. It is not clear whether this was the result of an intentional policy or of government financial problems. These financial problems consisted of budget deficits and overwhelming weight of debt service in government expenditure. Official reports explained them as a consequence of the high level of public investment needed to build transportation facilities and showed an optimistic view of the increase of economic prosperity and public receipts these transportation facilities would bring. Unfortunately, at least public receipts did not grow fast enough to prevent serious problems in the early nineties.

## 1.2 — The transition period

On July 9, 1891, Portugal abandoned the gold-standard<sup>(7)</sup>; on June 13, 1892, Portugal decided a partial suspension of the service of external public debt<sup>(8)</sup>. The regeneration blueprint seemed to lead to a dead end. There was a need for new ideas. To increase public instruction and to construct a colonial empire were the republican answers.

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<sup>(3)</sup> Some important measures in these fields had been already taken by the governments of Absolutist Monarchy. For instance, feudal immunities had been abolished in 1790.

<sup>(4)</sup> The abolition of tithes and feudal taxes and the promulgation of a Commercial Code in 1834 were the main measures taken during the second quarter of the 19th century.

<sup>(5)</sup> Monetary regime until 1854 was based on bimetallism.

<sup>(6)</sup> The Portuguese part of a Lisbon-Madrid line was the first part of Portuguese railroad network to be built (1863), together with the Lisbon-Oporto trunk line (1864, except for the bridge over the Douro, open to traffic only in 1877).

<sup>(7)</sup> Banknote convertibility was never reestablished. The exchange rate fluctuated until July 1931, with more or less important controles and interventions of monetary authorities from 1914 on. For a short description of the evolution during the thirties see note 12.

<sup>(8)</sup> This led to a conversion with a reduction of capital and interest ten years later.

To promote citizenship was the main concern of the republicans when they supported more expenditure in education. However, to eradicate illiteracy, or to spread technical knowledge, had an economic meaning everybody recognized at the time.

To provide a basis for a place in international affairs similar to the one Portugal had lost with the independence of Brazil was the main concern of the republicans when they supported the construction of a colonial empire. However, the economic importance of such an empire was also clear to everybody at the time.

Though the Republican Party came to power only in 1910, the last two decades of the Monarchy were already a transition to the *republican* blueprint. There was a slight reduction in the proportion of the government expenditures in the economic field, and slight increases in the proportion of government expenditures in educational and colonial fields. The overseas territories of Angola and Mozambique were also defined those years.

The withdrawal from gold-standard and the partial suspension of the service of external public debt cut some links with the world economy in the financial field, because Portugal ceased to be a credible debtor. At the same time, the new 1892 tariff made a slight reduction in protectionism. Anyway, a balanced budget seemed to be a *sine qua non* condition to set a «republican» policy in a firm basis, to alleviate the debt service burden. However, superavits were not obtained until the eve of the First World War.

### 1.3 — The First World War

Unfortunately, there was no opportunity to implement a full «republican» policy before the First World War. The war brought higher expenditure in the defense and colonial fields, because of German attacks on Angola and Mozambique since 1914 and the Portuguese cooperation in the west front since 1916<sup>(9)</sup>. At the same time there was a scarcity crisis, because of the reduction of external supplies and submarine war. Needless to say, budget deficits rose to unheard heights, not only because expenditure increased, but also because receipts decreased. It was, for instance, the case of specific import duties in a time of inflation.

### 1.4 — The «republican» period

As far as long-term economic policy is concerned, to return to normalcy in Portugal meant to try again to implement the «republican» blueprint. It may be said this was the main fact of the twenties, as the increased expenditures in educational and colonial fields prove. However, short-term back-ground was

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<sup>(9)</sup> In March 1916, Germany reacted to the Portuguese requisition of German vessels harboured in Portuguese ports with a formal declaration of war.

highly unfavorable, because economic crisis and budget deficits went on <sup>(10)</sup>. By the late twenties, economic situation improved, but then new men came to power.

### 1.5 — The *Estado Novo* period.

The long-term economic policy of the so-called *Estado Novo* was mainly a revival of the «regeneration» blueprint. As a matter of fact, its most important measures were: higher public investment <sup>(11)</sup>, together with stagnation of education expenditures and reduction of colonial expenditures; adoption of gold-exchange standard <sup>(12)</sup>; and higher import duties in the 1929 tariff.

## 2 — The results of government action

The per capita GDP estimate presented in the appendix suggests a trend of mild growth in Portugal during the years under consideration. Was this performance a consequence of the economic policies described in section 1, or of other unavoidable factors? To answer this question the hypothetical effects of alternative policies should be tested. However, formal counter-factual analysis is impossible, not only because data is scarce, but also because estimates are too inter-related, what arises the risk of circular reasoning. Hence, any comments must be very cautious.

The rates of growth of real per capita GDP are higher in the «transition» period and in the *Estado Novo* period than in the regeneration period and in the First World War + «republican» period (these periods are taken together because an important part of the growth of the twenties was certainly just a recovery from the short-term recession of the war years) by a factor of near 2 to 1. These higher rates of growth cannot be explained by more favourable international environments — it would be a plausible idea for the *belle époque*, but certainly not for the thirties. They cannot be explained also by the originality of the long-term policies pursued — it is possible to find periods of lower growth with similar policies and even with clearer policies. On the contrary, the periods of original and clearer policies, the «regeneration» and «republican» periods, knew lower rates of growth. This may not be a proof of failure. I would suggest it is only a proof its effects upon economic growth were very slow (probably much slower than its supporters expected). As a result, the following

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<sup>(10)</sup> For a general view of short-term fluctuations and short-term economic policy in Portugal during the inter-war period see reference (7).

<sup>(11)</sup> For a detailed analysis of the main investment plan of the early years of the *Estado Novo* see reference (3).

<sup>(12)</sup> Gold-exchange standard was adopted in July 1, 1931. 82 days later the pound sterling was allowed to fluctuate and Portuguese monetary authorities preferred to peg the escudo to the sterling, to an attempt to sustain its gold parity.

periods — the «transition» period after the implementation of the «regeneration» blueprint and the *Estado Novo* period after the implementation of the «republican» blueprint — reaped what its predecessors had sown.

It is perhaps worth repeating this is a mere suggestion. I hope other papers presented at this meeting and the discussion it will allow will give me an opportunity to improve my understanding and even my description of the reality I tried to present.

TABLE A

The main indicators of government action

Period	1851 to 1891	1891 to 1914	1914 to 1919	1919 to 1928	1928 to 1939
Number of fiscal years . . .	40	23	5	9	11
Budget superavits . . . . .	0	2	0	0	8
Budget deficits . . . . .	40	21	5	9	3
Average ratio receipts/ex- penditure . . . . .	0.75	0.93	0.57	0.64	1.03
Percentage of government expenditure devoted to:					
Debt service . . . . .	42	42	16	22	18
Traditional functions (a)	17	17	15	21	25
Defense . . . . .	18	18	39	24	26
Colonies . . . . .	2	4	10	5	1
Economy . . . . .	17	14	15	16	17
Education . . . . .	3	4	3	9	9
Social expenditures (b)	1	1	2	3	4
Average ratio import duties/ imports . . . . .	0.31	0.29	0.09	0.20	0.28
Monetary regime . . . . .	Gold- standard (c)	Floating exchange rates			Monetary unit pegged to the sterling (d)

(a) Traditional functions include fiscal collection, administration, justice and diplomacy.

(b) Social expenditures include health service and social security.

(c) Bimetalism until 1854.

(d) *De facto* since 1924; *de jure* since 1931.

Sources: References 2 and 4.

APPENDIX

Portuguese economic growth 1851-1938

How fast was Portuguese economic growth during the period under consideration? Available estimates of per capita GDP are scanty and sometimes contradictory. However, data about four macroeconomic variables that are usually supposed to be related to GDP may provide a good basis for a credible guess.

TABLE 1  
Macroeconomic variables

Year	Exports	Imports	Fiscal receipts	Public consumption and investment
1851 .....	8	12	10	10
1891 .....	21	40	34	30
1913 .....	35	89	54	35
1918 .....	83	178	57	171
1928 .....	1 029	2 679	1 257	1 256
1938 .....	1 139	2 300	1 752	1 744

Unity: 10<sup>3</sup> contos.

Source: References (2) and (4).

TABLE 2  
Rates of growth per year

Period	Exports	Imports	Fiscal receipts	Public consumption and investment	Geometrical mean
1851-1891 .....	2.4	3.1	3.1	2.8	2.8
1891-1913 .....	2.3	3.7	2.1	0.7	2.2
1913-1918 .....	18.9	14.9	1.1	37.3	17.3
1918-1928 .....	28.6	31.1	36.3	22.1	29.4
1928-1938 .....	1.0	-1.5	3.4	3.3	1.5

Unity: Percentage.

Source: Computed from data of table 1.

I think the geometrical mean of table 2 is a slightly optimistic estimate of the rate of growth of nominal GDP, for two reasons:

- a) It is based on a general hypothesis of stability of the ratios of foreign trade and public receipts and expenditure to GDP, and it is likely these ratios grew;
- b) It is based on data drawn from the commercial part of the economy and not from the self-sustained one, and it is likely the former grew faster than the latter.

Anyway, I used that geometrical mean as a guess of the rate of growth of nominal GDP. However, to avoid a decrease in the ratio of exports to GDP, I replaced the geometrical mean by the rate of growth of exports when the geometrical mean was higher. This led to the following estimates.

TABLE 3  
Aggregate and per capita GDP

Year	GDP current prices — 10 <sup>3</sup> contos	Price index	GDP 1913 prices — 10 <sup>3</sup> contos	Population — Millions	Per capita GDP 1913 prices — 10 <sup>3</sup> réis or escudos
1851 .....	107	0.55	195	3.8	51
1891 .....	276	0.90	307	5.1	60
1913 .....	446	1.00	446	6.0	74
1918 .....	990	2.90	341	6.0	57
1928 .....	12 247	22.50	544	6.7	81
1938 .....	13 528	20.20	670	7.5	89

Note on Portuguese monetary units: 1 conto = 10<sup>3</sup> escudos = 10<sup>6</sup> réis. Until 1891 the par was £ 1 = 4.5 escudos; after 1931 the par was £ 1 = 110 escudos.

Sources:

- a) Nominal GDP—computed from table 2 as explained in the text; 1938 estimate from reference (5).
- b) Price index—reference (6) and estimates by David Justino, used by courtesy of the author.
- c) Real GDP—computed as nominal GDP/price index.
- d) Population—estimate by Ana Bela Nunes, used by courtesy of the author.
- e) Per capita GDP—computed as real GDP/population.

TABLE 4

## Rate of growth of real per capita GDP

Period	Rate of growth
1851-1891 .....	+ 0.4
1891-1913 .....	+ 1.0
1913-1918 .....	- 5.1
1918-1928 .....	+ 3.6
1928-1938 .....	+ 0.9
1851-1938 .....	+ 0.6
1913-1928 .....	+ 0.6

Unity: Percentage.

Source: computed from table 3.

## REFERENCES

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- (3) NUNES, Ana Bela; VALÉRIO, Nuno, «A Lei de Reconstituição Económica e a sua execução — um exemplo dos projectos e realizações da política económica do Estado Novo», in *Estudos de Economia*, vol. III, n.º 3, Abr.-Jun. 1983.
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**VALÉRIO, Nuno — O papel do Governo no desenvolvimento económico português 1851-1939.**

A acção governamental para promover o desenvolvimento económico em Portugal durante a segunda metade do século XIX e os anos do século XX antes da Segunda Guerra Mundial pode dividir-se em cinco períodos: o período de regeneração, durante o qual a preocupação principal foi a abolição de restrições tradicionais à produção e ao comércio e o melhoramento dos meios de transporte; um período de transição para a implementação de uma política republicana devotada à instrução pública e à expansão colonial; um abandono com a Primeira Guerra Mundial; um período de total aplicação da política republicana; o período do Estado Novo de regresso à política de regeneração. Os resultados destas políticas foram lentos e insuficientes para lançar o País no moderno crescimento económico.

**VALÉRIO, Nuno — The role of the government in Portuguese economic growth 1851-1939.**

Government action to faster economic growth in Portugal during the second half of the 19th century and the years of the 20th century before the Second World War may be divided into five periods: a 'regeneration' period during which its main concern was the abolition of traditional restrictions to production and trade and the improvement of transportation facilities; a 'transition' period to the implementation of a 'republican' policy devoted to public instruction and colonial expansion; a First World War break; a full 'republican' policy period; and a 'Estado Novo' period of revival of the 'regeneration' policy. The results of these policies were slow and not sufficient to push the country into modern economic growth.