

ON THE EVOLUTION OF THE PORTUGUESE ECONOMY DURING THE COLONIAL WAR (1961-1973)

DA EVOLUÇÃO DA ECONOMIA PORTUGUESA NO PERÍODO DA GUERRA DO ULTRAMAR (1961-1973)

Luís Carlos Falcão Escorrega

Infantry Major

Integrated CISDI Researcher

Lecturer in the Strategy Teaching Area

Institute of Higher Military Studies

Lisbon, Portugal

luisescorrega@gmail.com

Abstract

The main focus of this article is the evolution of the Portuguese economy in the period of the Colonial War. The article briefly examines the overall economic context in that period and describes the evolution of the Portuguese economy, summarizing the most relevant aspects for the timeframe under analysis; the main reasons for the Portuguese economic success are also analyzed, and the country's expenses with the war are briefly addressed. The global economic environment of the period in question was marked by dynamics such as attempts of economic integration, the liberalization of trade in goods and services and the growth of backward economies, but also by rising inflation and exchange rate problems. Given these dynamics, Portugal abandoned its postwar isolationist stance, becoming part of the global economic system and developing a set of measures and economic policies that enabled it to achieve remarkable levels of economic growth. The increase in expenditure on the defense sector, particularly extraordinary expenditure, represented the national financial response to the operational needs of war. “

Keywords: Portuguese economy, Colonial War, “Golden age” of Portuguese economy growth.

Como citar este artigo: Escorrega, L., 2015. On the Evolution of the Portuguese Economy During the Colonial War (1961-1973). *Revista de Ciências Militares*, maio de 2015 III (1), pp. 431-450.
Disponível em: <http://www.iesm.pt/cisdi/index.php/publicacoes/revista-de-ciencias-militares/edicoes>

Resumo

O principal enfoque deste artigo é a evolução da economia portuguesa no período em que decorreu a guerra do ultramar. Faz uma breve análise ao contexto económico global nesse período e descreve a evolução económica portuguesa, resumindo os aspetos mais relevantes em cada um dos anos em causa; analisam-se ainda as principais razões do sucesso económico português e, de forma sucinta, as despesas do país com a guerra.

O contexto económico mundial no período em causa foi marcado por dinâmicas como as tentativas de integração económica, a liberalização das trocas de bens e serviços e o crescimento das economias atrasadas, mas também pelo aumento da inflação e problemas cambiais. Perante tais dinâmicas, Portugal abandona a sua postura isolacionista do pós-guerra, integra-se no sistema económico mundial e desenvolve um conjunto de medidas e políticas económicas que lhe permitem atingir níveis de crescimento económico notáveis. O aumento das despesas com o setor da Defesa, principalmente as extraordinárias, traduziam a resposta financeira do país às necessidades operacionais que a guerra suscitava.

Palavras-chave: Economia Portuguesa, Guerra do Ultramar, “Período de ouro” da economia Portuguesa.

Introduction

The period between 1961 and 1974 can be considered, for all effects and purposes, a remarkable demonstration of the Portuguese strategic military capabilities. In the words of John P. Cann, a renowned US military and academic, it is “a remarkable achievement that Portugal, in 1961, was able to mobilize an army, transport that army to their colonies in Africa, many thousands of kilometers away, and there establish multiple logistic bases (...) to support it, providing weapons and special equipment and training it for a very specific type of war” (Cann 1998, p. 19).

During this period, the Portuguese economy played a key role in achieving the political goals through two main attributions: 1) as a strategic tool to exert influence with certain countries; and 2) as a genetic system generating national strategic potential. With regard to the first attribution, its operationalization was made clear, for example, in the Third Development Plan (1968-1973) through three major courses of action: a) taking advantage of the predisposition of South Africa to make major investments in Angola and Mozambique, thus accommodating the Portuguese goals of defending the colonies; b) using the economy to strengthen Rhodesia’s influence on Ian Smith, pressuring him to decide to declare unilateral independence and to ensure political survival; c) with Zambia and Malawi, using the economy to seduce them into an effective collaboration against liberation movements (cfr. III Development Plan 1968-1973). However, the main purpose of this article is linked in particular to the second attribution, with the main goal of: i) contextualizing the Portuguese economy in the framework of global economy; ii) characterizing the Portuguese economy in its general dimensions; and iii) identifying the main causes of the economy’s behavior, thereby contributing to increase the knowledge of the national strategic potential during the period of 1961-1973. Once the relevance of the theme under analysis is briefly highlighted, it

should also be noted that, for reasons of access to primary sources¹, the scope of the study was restricted to the Portuguese economy of the mainland, without, however, necessarily and in certain aspects, linking it to other areas of the Portuguese territory of the time.

This article is thus structured into four separate, but complementary parts. In the first part, a brief analysis is made of the global economic environment for the period in question; afterwards, the Portuguese economic evolution is described, summarizing those aspects which are deemed most relevant for each of the years analyzed; subsequently, the main causes of the Portuguese economic success are analyzed; finally, in the conclusions, the most relevant aspects to enable solutions for the established goals are summarized.

1. The Global Economic Situation

Given the topic under consideration, it is essential to begin by briefly analyzing the global economic environment for the period, a period of strong global growth, especially in Europe and Asia, with the GDP *per capita* growing on average 2.9% per year and exports progressing at around 7% (Matthew 1998, p. 79).

When the war began in Angola, in 1961, the international economic environment was characterized by varying movements among the major political and economic blocs, an understandable situation due to the differences in structure and state of development of those economies. Western Europe was witnessing a slowing down in the overall pace of global production of goods and services, especially due to the relative scarcity of skilled labor. The United States had achieved significant economic recovery that year, mainly thanks to the effects of the expenditure policy of the public sector and of restocking; however, the high level of unemployment and the imbalance in international payments, prevented it from further recovering from the crisis of the previous years. In the rest of the world, from Africa to Latin America and Asia, the economic environment was characterized by persistent problems related to the intensity of inflationary pressures, the need to accelerate the process of economic growth and the reduction in gold reserves and foreign currency, problems which had worsened that year due to the breakdown in the prices of raw materials and food in the major international markets (Bank of Portugal 1962, pp. 9-10).

Moreover, three deep dynamics mark the global economic context of the time: economic integration, liberalization of trade in goods and services, and growth of backward economies. Europe, Latin America, Asia and Africa saw unprecedented dynamics of economic integration, in the form of free trade areas and customs unions; associated with these integration dynamics, there was a clear demand for the liberalization of trade in goods and services and of transfers, an aim which economic organizations insistently pursued; finally, the issues of economic development and aid to underdeveloped economies had natural and significant impacts on the global economy (Bank of Portugal 1962, p. 11).

In the period between 1961 and 1966, the main features of the global economy may be summed up as: international efforts towards the liberalization of trade in goods, services and capital and the stabilization of the major commodity markets; the improvement of conditions

¹ Of which we underline the annual reports of the Bank of Portugal, between 1961 and 1973.

for technical and financial assistance to underdeveloped structures; the fear of inflation and of certain currency imbalances; and the issue of liquidity. In Western Europe there was a curbing of the economic growth due to the adoption of measures to curb the increase of inflationary pressures and, in the US, despite the rise of the gross domestic product and the increase imbalance of trade surplus, deficits continued to accumulate on the overall balance of international payments, which provided a justification for the concerns of US authorities and fueled the discussion of the need for a review of the international monetary system based on the dollar (Bank of Portugal 1965, pp. 41-42). In the so-called “developing economies”, growth was more regular and, in most cases, free from significant inflationary pressures. On the contrary, the underdeveloped structures continued to struggle with situations of “open inflation”, or serious political and social instability, simultaneously exacerbating their external debt (Bank of Portugal 1966, p. 37).

From 1967 onwards, inflationary pressures subsided and, to combat them, most countries adopted less expansionist or even deliberately restrictive guidelines (Bank of Portugal 1967, pp. 41-42) that had, however, the natural effect of braking economic growth in many countries, thus contributing to a global situation characterized by a more or less pronounced slowdown of economic activity (Bank of Portugal 1968, p. 43). Despite the economic growth in the joint OECD² countries, the economic policies adopted by most countries had a clearly restrictive stance, in that they aimed to contain the rise in domestic prices within reasonable proportions and eliminate the imbalance of foreign payments. The entry into force that year in certain Common Market countries of the so-called “value added tax”, contributed to a rise in consumer prices; however, the strong increase in private consumption and the generalized environment of expansion and higher yields was one of the main causes of inflation in Europe (Bank of Portugal 1970, pp. 43-45).

In 1970, the global liquidity was rising at a more adjusted pace than in the years preceding the expansion of trade and international payments - also due to the first distribution of “special drawing rights³” - mainly benefiting the creditor countries, so there remained a situation of insufficient external liquidity in many countries. The economies of the “third world” maintained the same structural problems and political instability and nationalizations refocused the problem of creating a multilateral system of guarantee of investments and foreign assets (Bank of Portugal 1971, pp. 41-43). From 1970 onwards, however, direct constraints on prices, wages and other income were put into effect, more extensive and widespread than hitherto,

² O produto interno bruto do conjunto dos países europeus da OCDE registou em 1969 um aumento de 6 por cento, em comparação com 5 por cento em 1968. Na maior parte das nações da Europa Ocidental verificou-se uma aceleração nítida do ritmo da atividade económica, em particular no sector industrial. Entre os fatores que mais contribuíram em 1969 para a intensificação da atividade económica na Europa salientaram-se a procura externa, a formação de capital fixo e o consumo privado, apesar de este último ter sido objeto de medidas restritivas em vários países (Banco de Portugal 1970, pp. 43-45).

³ “A form of international financial asset created by the International Monetary Fund (IMF) in 1970, which is managed by the same entity. It was intended to be a means of international payment to supplement the role of gold and the US dollar in settling the balance of payments between countries. SDRs can be exchanged for national currencies with the IMF or be held by a country as part of its reserves. They are only exchanged between central banks, not used in commercial transactions. They are also used as an international unit of account, and their value is determined by the weighted average of the five major currencies in international trade “(Sierra 2003).

at the same time as the monetary, fiscal and budgetary policies took on an expansionist action to stimulate the economy, especially as the slowdown in production and unemployment became more pronounced. For that effect, there were in particular successive reductions in the official discount rates, the elimination or easing of quantitative and qualitative restrictions on the granting of bank loans, and an increase in public spending. It should be noted that, in countries with greater monetary and financial projection, inflationary pressures were exacerbated in 1971 through the effects of the international monetary crisis, largely due to the rapid increase in the imbalance of foreign payments of the United States. In fact, imports of speculative short-term capital reached unprecedented proportions in certain economies, causing a large general increase in liquidity in the monetary markets of economies, which led to special measures being taken regarding exchange rates, such as the simultaneous and practically widespread adoption, for several months, of a free floating regime of exchange rates and the introduction, or enhancement, of restrictions on imports of short-term capital (Bank of Portugal 1972, pp. 47-49).

In 1972 and 1973, the evolution of the international economic environment was characterized mainly by the fact that the considerable intensification of economic activity in the participating OECD countries, particularly in those more industrialized, was accompanied by strong inflation, well above the pace of previous years, while unemployment levels of hand labor remained relatively high in some countries; despite some concerted action, especially within the EEC and OECD, the fight against inflation in industrialized countries was, as a rule, still partial and limited. Because of the sharp increase in the deficit of the US trade balance - which triggered a wave of distrust and speculation against the dollar - that year witnessed more or less severe disturbances in foreign exchange markets. Thus, support operations to the dollar took on unprecedented importance, resulting in an intensive use of swap⁴ credits in agreements between central banks. The less developed nations of Asia, Africa and Latin America benefited to some extent of the aforementioned expansionist environment in industrialized countries, but the situation as a whole had not improved significantly compared with previous periods. In Europe, economic cooperation registered marked progress in 1973, with the completion of the accession process of three new members (United Kingdom, Ireland and Denmark) to the European Economic Community (Bank of Portugal 1973, pp. 45-47), which would have implications for Portugal, as will be demonstrated.

2. Annual Evolution of the Portuguese Economic Environment

The Portuguese economic situation in the period may, in general, be characterized by significant economic growth, thus a brief annual review of its evolution is warranted.

In 1961, the economic environment in the country was marked by complex factors, including: the urgent need for the defense of national territories and the objective of accelerating the process of economic development; the trend in the framework of external

⁴ "Swap" is a financial transaction in which two parties agree to exchange payment flows over a period according to a predetermined rule. A "swap" is often used to transform exposure (risk) associated with a loan or obligation undertaken on the basis of a currency or exchange rate (fixed interest or floating rate) to another (Serra, 2003).

transactions, facilitated by the increasing liberalization of trade in goods; the increasing pressure on the monetary market and the large swings in the stock exchanges; the relative downsize in savings and the inadequacy of national capital markets; the evolution of public spending and the demand from the State of medium and long term capital (Bank of Portugal 1962, p. 37). In this framework - both internal and external - the “particularly delicate and exceptionally important” situation of the Portuguese economy (Bank of Portugal 1962, p. 38) was acknowledged.

The growth rate of the domestic production of goods and services had been lower in 1962 than in 1961, due, in particular, not only to the weak recovery shown by agricultural production, but also to the slowdown in activity in the industrial sector. Regarding the foreign trade, imports were reduced but the export of goods and services remarkably increased. In an environment characterized by the urgency in defending the territorial integrity and by the efforts to stimulate the economic development of the Country, mention must be made of the set of laws passed on the elimination of customs duties and the abolition of quantitative restrictions on trade in goods between national territories, thus seeking to ensure domestic financial stability and raise the level of external solvency of the local currency (Bank of Portugal 1963, pp. 35-36).

In 1963, the national production of goods in Portugal had been lower than in the previous year, due, primarily, to the poor results of agricultural production and insufficient progression of the manufacturing industries. Meanwhile, global supply increased, due, on one hand, to the increase in imports and, on the other hand, to the increase in exports of goods and services, which also translated into an increase in domestic demand. As in the previous year, the overall balance of payments in the *escudo* zone once more showed a surplus (Bank of Portugal 1964, pp. 77-78).

In 1964, there was a drop in the farming sector (cfr. Table I) and, despite the progress in the manufacturing and construction industries and in most tertiary activities, the pace of economic growth had slowed in comparison with the previous year. Nevertheless, the overall supply increased due to the increase in import and export of goods and services, with particular focus on tourism merchandise and income. The higher volume of revenues formed internally was joined by a significant increase in private transfers from abroad. The overall balance of payments in the *escudo* zone showed a new surplus in 1964, much larger than the one achieved in 1963, which had an influence on the gold and foreign exchange reserves (Bank of Portugal 1965, pp. 89-90).

Table I – Agricultural production index (Base: 1947=100)

	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Cereal	133,1	160,2	151,4	139,1	145,6	114,9	156,2	170,4	134,1	146,2	171	147,5	132,9
Tubers and Vegetables	111,7	96	117,8	117,1	90,6	97,2	127,7	109,5	110,7	118,2	111	109,7	99,3
Wine	73,4	151	128,4	134,5	145,9	88,3	96,3	115,6	107,8	112	87,4	81,1	102,6
Olive oil	123,5	57	106,5	44,2	77,4	40,7	86,4	57,1	67,2	72,2	45	57,8	38,9
TOTAL	109,1	125,3	129,3	118,3	120,9	92,1	121,7	122,2	121,8	118,4	113,2	105,7	101,9

Source: Bank of Portugal Reports 1961-1973

1965 witnessed a dynamics of expansionism in the economy, reflecting the impulses resulting from the growth in domestic demand and in external demand for goods and services. The use of foreign markets to satisfy the global demand for consumption goods and production grew, meanwhile, also stimulated by the effects on available income of the increase in private transfers and in the financial capacity of large capital imports. But the overall balance of current external transactions nevertheless showed a considerable increase in surplus, to which was added another, much more substantial in the balance of capital transactions, externally and with the colonies. However, the balance between global supply and demand were operating at a higher level of average prices of goods and services than in previous years, intensifying pressure on prices (cfr. Table II), with price indexes showing stronger highs than previously, thus revealing an inflationary pressure (Bank of Portugal 1966, pp. 85-88).

Table II – General index of wholesale prices in Lisbon (Base: 1948=100)

1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
118	119	120	121	125	130	135	140	145	150	153	162	180

Source: Bank of Portugal Reports 1961-1973

In 1966, the Portuguese economic expansion was relaxing to a certain degree. The increase rate in the national production of goods and services decreased as a result, mainly, of the drop in production in the agricultural sector and the slowdown in the increase of production of the manufacturing industries. The global demand for goods and services in the domestic market was considerably marked, due to an increase in the average income of the majority of the population, the influx of foreign tourists, the costs associated with the defense of territorial integrity, an increase in foreign demand for certain Portuguese products, a high propensity for consumption and a change in patterns. Consequently, the global demand pressures intensified, causing a sizable increase in the imports of goods and services. However, the

overall balance of current transactions of the mainland economy, externally and with the colonies, amounted to a major liquid surplus, in addition to an even greater balance of capital transactions (Bank of Portugal 1967, pp. 255-260).

The following year, in 1967, the economic situation improved slightly. In the year the Third Development Plan came into effect, the increase rate in gross domestic product was higher than that of the previous year (cfr. Table III), as a result not only of the recovery of the production from the agriculture and fishing sectors, but also of the continued production growth of tertiary activities. On the other hand, the rise in global demand for goods and services in the internal market persisted. This evolution of global demand was mainly expressed in terms of consumer goods and services, as, despite the significant influx of capital from external sources, gross fixed capital formation decreased. Inflationary pressures were mitigated and exports of goods and services exceeded imports, which resulted, along with the sharp rise in the balance of private transfers and despite the contraction of the positive balance of capital operations, in a considerable rise in the global surplus of the balance of external payments in relation to the previous year (Bank of Portugal 1968, pp. 256-260).

Table III – Gross Domestic Product (production perspective) – current prices
(Millions of escudos)

	1961	1962	1963	1964	1965	1966
	92648	103987	107438	116626	135681	144812
1967	1968	1969	1970	1971	1972	1973
162217	175432	188229	212358	245768	289955	342817

Source: Séries Longas para a Economia Portuguesa (Long Series for Portuguese Economy)

In 1968, in the wake of previous years, the economy was characterized by a “relative lack of domestic supply,” by its failure to respond, more or less immediately and proportionately, to the requests, both quantitative and qualitative, of global demand. In that context, the balance between demand and global supply continued to operate at the highest price level, denouncing the persistence of inflationary pressure. The combination of movements of imports and exports of goods and services with private transfers and capital transactions resulted in a decrease in the surplus balance of external payments for the mainland and in a drop in the surplus of the overall balance of international payments in the *escudo* zone (Bank of Portugal 1969, pp. 231-236).

The global production of goods and services did not see significant changes in 1969, which also indicated that the mainland economy had not yet resumed the evolutionary trend that had been interrupted in 1966, even with the increase in investment in the public sector. The relative insufficiency of domestic supply and national production, contrasted with a larger, growing demand. The final balance between demand and global supply was set in 1969 at a

higher price level than 1968, which contributed to the inflationary pressures in the domestic economy (cfr. Table IV). As a result of the changes in the values of imports and exports of goods and services, private transfers and capital transactions, the surplus balance of external payments of the Mainland decreased in 1969, as did the surplus in the balance of international payments in the *escudo* zone (Bank of Portugal 1970, pp. 241-244).

Table IV – Evolution of inflation (*rate of change*)

1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
1,9	2,6	1,8	3,5	3,4	5,3	5,3	6	9	6,4	11,9	10,6	13,1

Source: PORDATA

In 1970, due to factors such as a higher expansion of production of the manufacturing, construction, transport and communications and other service industries, the value of the gross domestic product grew at a stronger pace than in the previous year, and even exceeded the increases obtained on average in the 1967-1969 triennium; thus, the mainland economy resumed the evolutionary trend interrupted in 1966. Relatively unfavorable behavior persisted, however, in several sectors, with emphasis on the primary activities sector, either due to their representation within the whole or to the extent of their direct and indirect repercussions. Inflationary pressures were lightened in comparison with the previous year and the balance of foreign payments of the Mainland had a further drop in overall surplus (cfr. Table V). The continued imbalance in the external payments of the provinces of Angola and Mozambique contributed to an appreciable extent for this evolution. However, mainly due to the behavior of transactions between the Mainland and other countries, the balance of international payments in the *escudo* zone in 1970 had a higher final surplus than in the previous year (Bank of Portugal 1971, pp. 239-243).

Table V – Balance of Payments (in millions of *escudos*)

	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Current transactions	-7870	-1192	-1317	56	-460	1924	4866	1193	4693	1713	3894	8627	6550
Capital movements	5493	6233	3184	3082	1002	3244	2403	2644	-794	-104	1733	-3779	6550
Monetary transactions	2377	-5041	-1867	-3138	-2226	-4028	-4589	-4416	-2490	-2225	-9244	-7665	-9834

Source: Estatísticas Históricas portuguesas(Portuguese Historical Statistics), Vol.II, INE, 2001

The evolution of the Portuguese economy in 1971 did not significantly diverge from what had been seen throughout most of the previous decade. The balance between global supply and demand was operated at a higher level of average prices, and was proof of the persistence of an inflationary process and lead to new pressures for higher wages.

Domestic demand increased considerably, mainly due to the expansion of consumer spending on goods and services and of the current expenditure, both civilian and military, of the State, but also due to the increase in exports of goods and services. Domestic production increased at a sensitive rate, through an expansion in production of the manufacturing and construction industries and in most services, in conjunction with the improvement of results of the agricultural activity. With the growth of domestic production, disposable incomes increased in 1971, joined by foreign transfers and funds from imported capital. The overall balance of international payments presented a large surplus, contributing to an expansion in

the total of the internal means of payment. The report of the Bank of Portugal for that year presented the following objectives, of particular relevance to the economic policy:

- a. Faster growth and greater diversification of the national production of goods and services;
- b. Sensitive increase in the pace of fixed capital formation, with improvements in the distribution by sector;
- c. Refining of the domestic marketing channels and development of procedures relating to expanding foreign markets for national products;
- d. Promotion of the formation of domestic savings, more extensive and appropriate mobilization of the existing resources and influx of foreign capital, especially for financing, directly or indirectly, the expansion and improvement of certain sectors and the creation of new ones;
- e. Improvement in the vocational training of the workforce, and of its productivity;
- f. Intensification of the efforts to adapt the structures and operating mechanisms of the monetary and financial markets, especially with regard to medium and long term capitalization funds. (Bank of Portugal 1972, pp. 242-246)

These objectives intended to show that “economic policy should result in a set of inter-relational measures regarding different areas of economic activity,” i.e., an overall strategic vision (Bank of Portugal 1972, pp. 242-246).

The evolution of the metropolitan economy did not significantly diverge, in 1972, from what had been witnessed in recent years. An upward trend in consumer spending was noticeable, and, due to the needs of the civil service and the defense effort, the current expenditure of the State increased again in 1972, contributing to a sense of rising global consumption. The final balance, in monetary terms, and in terms of demand and global supply, operated at a level higher than that of average prices, showing the persistence of a sensitive inflationary pressure (Bank of Portugal 1973, pp. 240-244).

In 1973, the evolution of the economy remained in the same course as in previous years. Consumer spending and the current expenditure of the State in goods and services continued its upward movement; on the other hand, gross fixed capital formation and gross investment also showed a substantial increase, contributing to an increase in the gross national product, but also in global demand. The balance between global supply and demand was again operated at a level higher than average prices, and there was even an intensification of inflationary pressure. Due to the effect of the evolution of exports and imports of goods and services, combined with transfers of production factors income, private transfers and capital transactions, there was again a surplus that year in the general balance of external payments, which was reflected, directly and proportionately, in the stock of domestic means of payment, which provided the liquidity crucial for fueling economic growth (Bank of Portugal 1974). In

1974, with the events of April 25, nearly everything changed in the country; and the economy was no exception.

3. Of the Reasons for the “Golden Period” of the Portuguese Economy

In the different literature on economic history, the period under review is repeatedly dubbed the “golden period” of the Portuguese economy (cfr. Silva Lopes 2005 or Mata and Valerio 1994). Of the various reasons that contributed to the Portuguese economic growth, those that seem more significant and of greater interest to better understand the evolution of the economy will be enumerated.

One of the most important factors was the increase in productivity, which grew on average around 4.2%, between 1961 and 1972, reaching levels exceeded only by the “Asian tigers”. In this context, the most dynamic sectors were the chemical (oil refining, fertilizer and synthetic fibers) and metalworking industries, as well as the production of machinery, electrical material and transport, especially for ship and aircraft repair activities (Matthew 1998, p. 79). Related to this increased productivity, there was a transformation in production structures, and, in the 50s and 60s, a sharp reduction in the proportion of the primary sector workforce can be verified (49% in 1950 to 34% in 1973), and this reduction is also linked to the significant increase in schooling; in this context, the reforms in technical education operated in the late 40s had natural repercussions in the following decades, contributing to a significant increase in number and quality of the supply of workers and technicians with elementary and secondary education. The increase in schooling rates for secondary education was no less important, rising from 12.9% to 28% between 1960 and 1974, the rate in higher education rising from 5.5% to 13.5% in the same period (Matthew 1998, p. 84).

Another key aspect for economic success was, naturally, the creation and promotion of economic links with Europe and the rest of the world. Portugal was not present at the most important conferences which prepared the new international economic order of the post-war period, particularly the Bretton Woods Conference of 1944⁵. The country began abandoning its postwar isolationism and participating in political and economic movements of internationalization in 1948, as a founding member of the OEEC (Organization for European Economic Co-operation), at the same time as it was integrated in the clearing house scheme of the European Union of Payments (EUP) in 1950.

With the division of the OEEC in 1960 into two trading blocs - the European Economic Community (EEC) and the European Free Trade Association (EFTA) - Portugal opted for the second. The main reasons for the choice were linked to the most restrictive rules of the EEC regarding the possible formation of a different free trade area - which included Portugal and its colonial provinces; the fear of the economic shock that could result from joining a Customs

⁵ Where the new international monetary system was organized, based on the foreign currency-gold standard system, and where the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) were created, out of the Havana Conference of 1947, which prepared the never applied Havana Charter on international trade, and of the Geneva negotiations in 1947, which led to the General Agreement on Tariffs and Trade (GATT).

Union (EEC) that included the major developed European economies; and some fear of the non-economic (i.e. political) objectives of the European Community and its implications for the internal political life. The option for the EFTA also allowed Portugal to be included in the European integration process, thus avoiding potential problems for Portuguese exports due to the tariff policy of the European trade areas. This was an important choice, because Portugal's participation in the EFTA was one of the most important factors underlying the growth in exports, at a rate of 19% per year in the period 1960-1972 (Mata and Valério 1994, p. 206).

As two of the EFTA countries, Britain and Denmark, left this organization in 1973 to become, along with Ireland, members of the EEC, Portugal had to negotiate a treaty of association with this organization in order to preserve trade ties with its former EFTA partners, a treaty that was signed in 1972. In the Portuguese economy internationalization framework⁶, it should be noted that Portugal's participation in the IMF and the World Bank was approved in November 1960, and in April 1962, the protocol was signed for the country's accession to the GATT, which had been institutionalized in January 1948. The use of other external capital (in the form of loans to foreign bank unions, or through the public issuance of Eurobonds, etc.) was most dynamic from 1967 onwards, with the State's guarantees policy, which allowed it to finance joint works with the Cahora Bassa dam (Matthew 1998, p. 83).

The Promotion Plans⁷ were undoubtedly a crucial tool for the performance of the economy in this period, and one of the most important elements of economic policy. They consisted in investment plans⁸ and in a set of mandatory measures for the public sector⁹, but were also indicative for macroeconomic projections and framework measures for the private sector. Of the five plans¹⁰, the Third Development Plan, directed to the need for export promotion policy, was of most relevance, abandoning the growth model based on inward orientation for a vision based on comparative advantages and on international competition. It was a clear attempt to develop the Portuguese economy through the application of the "export led growth model". During the execution of this plan, the investment rate rose from 27% to 36%, close to the historical peak reached in 1974 (37%), and it was also during the implementation of this plan the Sines industrial center was launched, the first experience in integrated regional development attempted in Portugal (Matthew 1998, pp. 88-89).

⁶ The late 1950s and the early 1960s witnessed the reorganization of the European institutions directly linked to the Marshall Plan. Between 1955 and 1960, the UEP gave way to a full convertibility scheme of the European Monetary Agreement (EMA). In 1961, the OEEC was transformed into the Organization for Economic Cooperation and Development (OECD), which now included non-European members: Australia, Canada, the United States and New Zealand; and later also Japan. Portugal continued as a member of both the AME and the OECD (Mata and Valério 1994, p. 206).

⁷ The plans were drawn up by a department that was successively extended until it formed the Secretariado Técnico da Presidência do Conselho (Technical Secretariat of the Council Presidency). There was vast participation by employers' associations and public companies, and it was discussed in the National Assembly. Its annual execution was coordinated with the preparation and execution of the State Budget (Matthew 1998, p. 88).

⁸ Of these, the most noteworthy are the public works (e.g. ports, airports, and road and rail networks) and the formation of companies jointly with private capital (e.g. TAP, National Steel, RTP, Metropolitano de Lisboa) (Mata and Valério 1994, p. 210).

⁹ In this context, and regarding the benefits of investment in infrastructures, the perspective of Aghion and Schankerman is of interest (cfr. Sousa 2010).

¹⁰ First Development Plan (1953-58); Second Development Plan (1959-64); Interim Plan (1965-66); Third Development Plan (1967-73); and Fourth Development Plan (1974-79), which was only implemented for one year.

Another aspect that accounts for the Portuguese economic growth was the impact of emigration. The total number of emigrants increased from 34.000 in 1957 to a maximum of 180.000 in 1970. The impact of that great migratory flow in the balance of payments was essential to finance the deficit of the balance of goods and services. Private credit transfers (remittances from emigrants) rose from around 2.5 billion French Francs in 1960 to 11.7 billion in 1973. While in the period 1960-1963, remittances only covered around 54% of that deficit (due to costs with the colonial war), from 1966 onwards remittances begin covering the entire deficit. The GDP increase went from 3% in 1960 to 8.2% in 1972 (Mat 1998, pp. 99-97). Naturally, emigration, associated with the human need to feed the huge military contingent required by the war, also contributed to keep unemployment rates low, which in turn contributed to the Portuguese economic expansion.

Table VI – Population and unemployment

	1961	1962	1963	1964	1965	1966	1967
Resident population	9031	9020	9082	9123	9129	9109	9103
Unemployment rate	3,0%	3,2%	3,3%	3,4%	2,6%	1,8%	2,5%
	1968	1969	1970	1971	1972	1973	
Resident population	9115	9097	9044	8990	8970	8976	
Unemployment rate	3,1%	2,6%	2,7%	2,4%	1,8%	1,4%	

Source: Séries Longas para a Economia Portuguesa (Long Series for Portuguese Economy)

In spite of its debatable contribution to the growth of the Portuguese economy, reference must be made to the legislation for the organization of a free trade area and a monetary union between Portugal and its provinces. This legislation envisaged the abolishment of customs duties and quantitative restrictions on inter-regional trade by the end of 1971¹¹. At the same time, the intention was to create a clearing house system to ensure unitary parity between the currencies of each parcel of the country. In this framework, the Portuguese *escudo* was the currency in all parts of the Portuguese territory, but there were different monetary circulations, with the Bank of Portugal the as the issuing bank in Portugal, the Bank of Angola the issuing bank in Angola and the Banco Nacional Ultramarino (National Ultramarine Bank) the issuing bank in the other colonies. However, according to Mata and Valerio, the scheme as a whole was a failure (1919, 207) and by the end of the 1960s the amount of late payments was becoming unsustainable. Political reasons associated with maintaining the colonies justified

¹¹ Even though each territory kept its own tariffs when trading with other countries

that this economic area remained. However, the losses piled up significantly, which had a negative impact on the economy and prevented seizing more attractive conditions in other markets (e.g. lower prices of tropical products from other markets, or other destinations more advantageous for Portuguese exports, with greater purchasing power).

Table VII – Mainland special trade (in million escudos)

	IMPORTS			EXPORTS			TOTAL		
	Colonies	Foreign	Total	Colonies	Foreign	Total	Colonies	Foreign	Total
1961	2367	16496	18863	2176	7197	9373	-191	-9299	-9490
1962	2122	14708	16830	2391	8241	10632	269	-6467	-6198
1963	2701	16165	18866	2858	9166	12024	157	-6999	-6842
1964	3229	18652	21881	3756	11058	14814	527	-7594	-7067
1965	3651	22902	26553	4140	12433	16573	489	-10469	-9980
1966	3942	25464	29406	4197	13615	17812	255	-11849	-11594
1967	4155	24980	29135	4954	14731	19685	799	-10249	-9450
1968	4615	26265	20880	5342	15709	21051	727	-9556	-8829
1969	5065	30318	35383	5998	17651	23649	933	-12667	-11734
1970	6506	383219	44725	6676	20515	27191	170	-17704	-17534
1971	6802	44135	50937	6431	23258	29689	-371	-20877	-21248
1972	6720	52835	59555	5146	29915	35061	-1574	-22920	-24494
1973	7394	65789	73183	6611	38148	44759	-783	-27641	-28424

Source: Bank of Portugal Reports 1961-1973

During the period under review, the Portuguese public finances managed to keep their balances steady, which was important, despite the increase in expenses (cfr. Table VIII and IX). Several factors contributed to this increase. In addition to a natural increase in civil service salaries in the face of rising prices, and the large military costs of war, the highest levels of economic development caused a rise in costs due to the increasing demand for State services.

Table VIII – Final results of the public accounts (in millions of escudos)

	REVENUES			EXPENSES			BALANCE
	Ordinary	Extraordinary	Total	Ordinary	Extraordinary	Total	
1961	10812,3	3130,0	13942,3	8005,1	5935,7	13940,8	1,5
1962	11355,4	3827,9	15183,3	8295,7	6885,7	15181,4	1,9
1963	12002,0	3850,2	15852,2	8886,5	6963,9	15850,4	1,8
1964	13111,8	4386,7	17498,5	9594,7	7902,3	17497,0	1,5
1965	15173,5	2984,3	18157,8	10424,4	7630,6	18055,0	102,8
1966	16942,5	2793,7	19736,2	11585,9	8035,2	19621,1	115,1
1967	19896,6	3564,3	23460,9	13078,6	10279,9	23358,5	102,4
1968	21827,9	3939,9	25767,8	13887,3	11306,0	25193,3	574,5
1969	24631,3	4093,1	28724,4	15107,7	12605,8	27713,5	1010,9
1970	29729,3	3022,0	32751,3	17633,5	14102,1	31735,6	1015,7
1971	32285,3	4644,4	36929,7	19650,1	16997,7	36647,8	281,9
1972	36214,3	5889,0	42103,3	22990,8	17876,8	40867,6	1235,7
1973	40341,7*	538,6*	40880,3	20834,0*	15166,5*	36000,5	4879,8

*Provisional results (January to November)

Source: Bank of Portugal Reports 1961-1973

In contrast, the tax base was widening as the volumes of transactions and income grew, and there were profound changes in taxation, notably the creation of a transaction tax in the first half of 1960, to offset the drop in customs collections and the reform of direct taxes, which came into effect between 1958 and 1965 (Lopes 2005, p. 273).

Finally, in this context of public finances, a brief analysis of the costs of national defense is warranted, given the period in question. The cost of the colonial war translated into a huge financial effort supported by the country, and there was a gradual increase in government expenditure over that period, as well as the natural increase in expenditure, ordinary and extraordinary, related to the defense sector (cfr. Table IX). The increase in expenses in this sector resulted from the priority given to defense costs, in particular those aimed at “safeguarding the territorial integrity of the Nation”, which always appeared first in the established order of precedence (cfr. OE 1961-1973).

Table IX – Evolution of the (budgeted)¹² national public expenditure on the defense sector
(in thousand escudos)

	Ordinary Expenditure			Extraordinary Expenditure ²			% Total State expenditure on the Defense sector
	State	Defense Sector ¹	%	State	Defense Sector	%	
1961	8126,9	1865	22,95%	3654	1658,4	45,4%	29,9%
1962	8238,7	1899,5	23,06%	4222,1	2190,2	51,9%	32,8%
1963	9034,9	1980,3	21,92%	5115,2	2587,9	50,6%	32,3%
1964	9596,2	2116,2	22,05%	5186,9	2600,8	50,1%	31,9%
1965	10712,1	2256,3	21,06%	6027,2	3515,6	58,3%	34,5%
1966	11026,5	2284,2	20,72%	6383,8	4005	62,7%	36,1%
1967	12605,4	2524,7	20,03%	7598,9	5341	70,3%	38,9%
1968	13663,7	2678,7	19,60%	8671,3	5607	64,7%	37,1%
1969	15286,9	2881,8	18,85%	10038,3	6332,4	63,1%	36,4%
1970	17846,6	3452,3	19,34%	10947,7	6363,4	58,1%	34,1%
1971	19617,9	3733	19,03%	12431,7	7035,1	56,6%	33,6%
1972	22065,8	3968,3	17,98%	14809,3	7587,9	51,2%	31,3%
1973	26498	4180,4	15,78%	17098,8	7720,3	45,2%	27,3%
Média	12605,4	2524,7	20,0%	7598,9	5341	56,6%	33,6%

¹ Involving the Department of Defense, the Secretaria de Estado da Aeronáutica (Aeronautics Secretary of State) and the Army and Navy Ministries.

² Defesa Not including the funds from various Promotion Plans related to the defense sector.

Source: State Budgets 1961-1974

Different conclusions maybe inferred from the analysis of the data collected (Table IX). Comparing the percentage of State expenditure on Defense, there was an increase in expenditure in this sector until 1967, followed by a decrease; in percentage, in 1973, the country spent less on the Defense sector (27.3%) than at the beginning of the war, in 1961 (29.9%).

¹² We were unable to collect data on the effective expenditure on the defense sector, for which reason only fiscal data are presented. However, as can be seen from the comparison with the table VIII, during this period, with regard to the State, the average annual expenditure was lower (-2.2%) than the budgeted expenditure, while the extraordinary expenditure was higher (+ 17%) than the budgeted expenditure.

Comparing the ordinary and the extraordinary expenditures, we found that, for the State the prior was higher than the latter (40%), and that this did not occur in the defense sector, where the extraordinary expenditure was higher than the ordinary (by about 53%). This increase in extraordinary expenditure in the defense sector was found mainly in the parcel attributed to the Forças Militares Extraordinárias no Ultramar (Extraordinary Military Forces Overseas) (OFMEU), corresponding to 63.1% of the total outstanding expenditure on the defense sector in the war period. Of the parcels receiving extraordinary expenditure, the most noteworthy were the extraordinary re-equipment of the Army and of the Air Force (11%), the acquisition of four escort ships and four submersibles (5.6%) and the construction of Air Base 11 and the respective residential district (4.69%).

The increase in extraordinary expenditure on the defense sector was a reflection of the Nation's financial response to the operational needs imposed by the war, thus contributing to the realization of the adaptive capability of the national strategic decision, a crucial requirement for successfully conducting any military confrontation.

Conclusion

Finally, conclusions will be inferred regarding what could be determined. The global economic environment in the period between 1961 and 1973 was characterized, in general, by important dynamics, such as attempts at economic integration, liberalization of trade in goods and services and the growth of backward economies, but also by rising inflation and exchange rate problems. The various economies responded differently to those dynamics. In the various regions of the world, large economic areas were created, with the most developed countries creating measures to liberalize trading in goods and services, to support the underdeveloped or developing economies, to curb inflation and calm the disruptions of exchange markets. The results of these answers, however, were influenced by the political events, domestic and internationally, and were also varied, with successes and failures: the inflation soared, the liberalization of trade in goods and services did not reach the desired expansion and a financial crisis broke; however, the world economy noticeably grew, economic integration was extended and there was development in the poorer economies. Portugal, abandoning its isolationist postwar posture, integrated smoothly and advantageously in the global economic system, which also contributed to the remarkable growth of its economy.

This increase was naturally due to a set of factors. The Portuguese economy left behind the outdated "growth model" based on low wages and registered a growth higher than the average growth of the economies of industrialized countries in Europe. Productivity reached some of the highest levels in the world, only exceeded by the "Asian tigers". The national workforce developed technically and specialized in new areas, translating into significant increases in revenue. Schooling rates at different educational levels experienced an unprecedented increase. As a full member of several economic organizations, Portugal managed to maximize its integration, safeguarding its national interests, both political and economic, mainly associated with the maintenance of the multi-territorial political project and

the export and import of goods and services. It managed, through a new and effective model of economic planning - based on promotion plans -to build key infrastructure for national development, increase exports and promote private economy. It was able to attract investment and emigrant remittances. It also had the merit of keeping balanced public finances, mainly from the mid-60, which allowed it to feed the great efforts required by the war.

As mentioned earlier in this article, the War of Africa represented, most likely, the greatest military effort in the History of Portugal, developed simultaneously in three different theaters of operations and with varying degrees of resistance. It was based on the rule of law and customs of the time, which was the prerogative of the Portuguese State, it had a strategic basis, was economically and financially bearable, diplomatically complex and sustainable militarily; the solution to the war was mainly political, but also military, psychosocial and economic. In this “golden period”, the Portuguese economy both fueled the war and fed on it, but it also greatly contributed to the national strategic potential and, consequently, for the realization of the Portuguese military effort.

Bibliographical References

- Afonso, Óscar & Aguiar, Álvaro. 2005. A internacionalização da economia. In Pedro Lains (org.). *História Económica de Portugal, 1700-2000*. Lisboa: Imprensa de Ciências Sociais.
- Banco de Portugal. 1962-1974. *Relatórios do Conselho de Administração: Gerências de 1961 a 1973*. Lisboa: Tipografia do Banco de Portugal
- Banco de Portugal. 1999. *Séries Longas para Economia Portuguesa: Pós II Guerra Mundial Volume I - Séries Estatísticas*. Lisboa: Departamento de Estudos Económicos.
- Cann, John P. 1998. *Contra-insurreição em África, 1961-1974: o modo português de fazer a guerra*. São Pedro do Estoril: Edições Atena.
- Costa, Leonor Freire & Miranda, Susana Munch & Lains, Pedro. 2011. *História Económica de Portugal: 1143-2010*. Lisboa: Esfera dos Livros.
- Ferreira, Manuel Ennes. 2005. O Império e as relações económicas com África. In Pedro Lains (org.). *História Económica de Portugal, 1700-2000*. Lisboa: Imprensa de Ciências Sociais.
- Instituto Nacional de Estatísticas (INE). 2001. *Estatísticas Históricas portuguesas, Vol. II*. Lisboa: INE.
- Lopes, José da Silva. 2005. Finanças Públicas. In Pedro Lains (org.). *História Económica de Portugal, 1700-2000*. Lisboa: Imprensa de Ciências Sociais.
- Mata, Eugénia & Valério, Nuno. 1993. *História económica de Portugal: uma perspetiva global*. Lisboa: Ed. Presença.
- Mateus, Abel. 1998. *Economia portuguesa desde 1910*. Lisboa: Ed. Verbo.
- Ministério das Finanças. 1961-1973. *Orçamento Geral do Estado*. Lisboa: Imprensa Nacional.
- Nunes, Manuel Jacinto. 1990. A economia portuguesa: anos 60-anos 90. *Documentos do IESF*, n.º 1. 39-49.

- Serra, António Almeida. 2003. Glossário de termos. Consultado em 07FEV14. Disponível em <http://www.iseg.utl.pt/disciplinas/mestrados/dci/dcipedgloss.htm>.
- Sousa, António Rebelo. 2010. Das Economias de Transição aos Novos Desafios da Integração. *Tempo Livre*.
- Sousa, António Rebelo. 2011. The Theory of Economic Relativity Applied to the International Economy and to Cooperation Policies. *Lusíada: Economia & Empresa*, n.º 13.
- Sousa, António Rebelo. 2013. Das limitações da aplicabilidade de um “export led growth model” a Portugal. *Lusíada: Economia & Empresa*, n.º 17.
- Weingast, Barry & Wittman, Donald (ed.). 2006. *The Oxford handbook of political economy*. Oxford: Oxford University Press.