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Catching up to the European core: Portuguese economic growth, 1910–1990☆

Pedro Lains*

Instituto de Ciências Sociais, Universidade de Lisboa, R. Miguel Lúpi, 18 r/c, 1200-725 Lisboa, Portugal

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Abstract

This paper analyses the causes of Portuguese catching-up to the European core, in the 20th century, within a growth accounting framework. It concludes that investment in human and physical capital was the main driving force of economic growth and that variation in output growth rates are attributable to changes in total factor productivity growth. The paper explains the decline in TFP growth after 1973 in terms of structural change in the industrial sector.

Keywords: Portuguese economic growth; Convergence; Total factor productivity growth; Structural change

1. Introduction

The 19th century saw the levels of income per capita of the poor economies of the western European periphery diverge from those of the first industrializers. Then during the 20th century, there was a convergence of incomes per capita within the whole continent, though this was concentrated in the years 1950–1973.[1] This last period has been intensively examined in cross-country comparative studies. Yet, our understanding

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* Fax: +351-21-392-0615.
E-mail address: pedro.lains@ics.ul.pt.

[1] See Tortella (1994) and Maddison (1995). See also Lains (2002).

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of the causes of convergence can be improved by looking at a longer period and the experience of individual countries.

Portugal had a particularly good performance in the 20th century and caught-up to the levels of income per capita of the European core, although there was a substantial reduction in the rate of convergence after 1973.[2] Traditional explanations of the growth and slowdown of the Portuguese economy have put more emphasis on internal factors. Changing policy options, Government deficits, rapid monetary expansion, and the inflation that characterized the Republican period (1910–1926) have been held responsible for economic stagnation. The accession of Salazar to the ministry of Finance, in 1928, following the military coup two years before, marked the emergence of the authoritarian Estado Novo and greater monetary and financial stability. Yet, according to some authors, that stability did not lead to higher levels of economic growth because the government imposed a rigid control of the economy through agricultural and industrial policies aimed at controlling investment, output and prices. This mirrored similar policies in contemporary fascist Italy. The industrial policies under the designation of *condicionamento industrial* and the wheat campaign (*campanha do trigo*), introduced in 1926 and 1929, as well as the first national plan for 1935–1950, are the best examples of the interventionist stance of the *Estado Novo*.[3]

The standard explanation for the resumption of growth after World War II is that the dictatorship government imposed a 'strategy aimed at economic growth and structural change.'[4] Higher growth of the post-World War II period is traditionally attributed to Portugal being a founding member of the European Free Trade Association (EFTA), created in 1960, which implied a shift towards open trade policies and liberalization of domestic prices.[5] However, according to the same perspective, the economy did not expand as much as it could have because the government kept the budget balanced and markets were not fully liberalized.[6] The slowing down of economic growth that followed is attributed to the aftermath of the revolution that ended the dictatorship, in 1974, and the nationalization spree in 1975. The privatization of major financial and industrial firms, starting in 1982, and Portugal's accession to the European Economic Communities (EEC), in 1986, would appear to have set the economy on the path of renewed growth again. Joining the EEC meant an intensification of the liberalization procession, and the level of state intervention in the country would have been finally brought into line with the rest of Western Europe. However, the relationship between changes in economic policy, changes in economic growth, and convergence is weaker than it is often posited.[7]

[2] See Maddison (1995, 2001) and country studies in Crafts and Toniolo (1996). For Portuguese economic growth in the 20th century, see also Mateus (1998) and Lains (2003b, Chapter 6).

[3] See, among others, Rosas (2000, Chapter 2). For the analysis of agricultural growth in this period, see Lains (2003a).

[4] Marques (1988, pp. 23–26). See also Rosas (2000, Chapter 2).

[5] Lopes (1994).

[6] Moura (1973).

[7] See Lobo (2000).