

# “As small events may have large long-run effects on business perspectives (Portugal, 1940s)”

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| ARTICLE INFO | Maria Eugenia Mata (2010). As small events may have large long-run effects on business perspectives (Portugal, 1940s). <i>Problems and Perspectives in Management</i> , 8(3) |
| RELEASED ON  | Friday, 04 June 2010   |
| JOURNAL      | "Problems and Perspectives in Management"  |
| FOUNDER      | LLC "Consulting Publishing Company "Business Perspectives"   |



NUMBER OF REFERENCES

0



NUMBER OF FIGURES

0



NUMBER OF TABLES

0

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## As small events may have large long-run effects on business perspectives (Portugal, 1940s)

### Abstract

Literature on the Marshall Plan is quite abundant and presents competing views on its effects on the economic performance of national economies. This is not what prevails in Portugal, though, where scholarly work is scarce that deals with the decisive influence it had on firms and businesses. This paper on the Marshall Plan considers Portugal's hesitations based on strong fears about geopolitical effects. Although Salazar's government emphasized an alliance with Britain, a non-involvement attitude toward Europe, sympathy toward Spain, and a strong Atlantic vocation to preserve the colonies, the Marshall Plan was the beginning of reinforced ties to the USA and closer business ties with European partners, thanks to an increasing co-operation.

**Keywords:** European Recovery Program, Marshall Plan funds, European Economic Integration, Cold War, Economic growth in Portugal.

**JEL Classification:** N44, F13, F15, F52, O19, P11.

### Introduction

The tremendous success of the European Recovery Program in pushing the national economies beyond the threshold of pre-war years is a dominant opinion expressed in economic history literature devoted to economic growth and welfare<sup>1</sup>. Setting aside the soviet propaganda and anti-American political opinions, some works may be seen as less favorable, by stressing the small amount of the aid in terms of the GDP of the European partners<sup>2</sup>. Many others, on the other hand, recognize that it was decisive in stimulating certain industrial sectors and the labor market, and in bringing normalcy to the international monetary system<sup>3</sup>. In short, the macroeconomic consequences are more or less established. Regarding business views, however, the available knowledge is still much more controversial.

Portugal was neutral in the Second World War. Even so, the American administration included the country in its offer of the *European Recovery Plan* (ERP) from the Marshall Plan aid, along with the rest of Europe (although Spain was excluded). Can the Portuguese case show how patriotism was not prone to internationalism? Were anti-American feelings sufficient to prevent Salazar from seizing the opportunity to participate in the European movement of cooperation that resided in the Marshall Plan? Did the tensions in the Portuguese hesitation to accept the Marshall Plan reflect the tensions of a more general imposition of a united Europe on the part of the United States of America, including decolonization and democracy, two aspects that were not cultivated in Portugal before the end of the Second World War?<sup>4</sup>

The main reason for ignoring Portugal's participation in the ERP may be related to misgivings of the Portuguese government *circa* 1947/1948. This paper shows that although it is often overlooked, Portugal's acceptance of the Marshall Plan was a crucial move in the country's long-run foreign policy. Of course, it was also important for improving energy production, mining, transportation, industry, irrigation and agriculture. However, its main impact was in defining a new track for the Portuguese long-run strategy on the global scene. The details of the reversal of the Portuguese position that came about between 1947 and 1948 are, therefore, very important aspects of the events that have raised the present-day standards of living in Portugal, as well as the moral and geopolitical aspects that define business opportunities and strategies. They cannot be studied properly without considering the decisions of the 1940s.

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I am grateful to Nuno Valério, António Labiza, Geoffrey Jones and Walter Friedman for discussion and bibliography, the staff of the Historical Archive of the Bank of Portugal and Laura Peimer from the Harvard Business School Historical Archive for data and information, and John Huffstot for correcting my English.

<sup>1</sup> For a summary, see Temin, Peter (1997), "The golden age of European growth: A review essay", *European review of Economic History*, I, 127-149. Ritschl, Albrecht, "The Marshall Plan 1948-1951", *EH.Net Encyclopedia*, edited by Robert Whaples, (2004). <http://eh.net/encyclopedia/article/Ritschl.Marshall.Plan>.

Van der Wee, Herman. *Prosperity and Upheaval: The World Economy, 1945-1980*. Berkeley: University of California Press, 1986.

<sup>2</sup> Milward, Alan S. *The Reconstruction of Western Europe, 1945-1951*. London: Methuen, 1984.

Eichengreen, Barry and Marc Uzan (1992). "The Marshall Plan: Economic Effects and Implications for Eastern Europe and the USSR." *Economic Policy* 14 (1992), 14-75.

<sup>3</sup> Kaplan, Jacob and Gunter Schleiminger. *The European Payments Union: Financial Diplomacy in the 1950s*. Oxford: Oxford University Press, 1989.

De Long, J. Bradford and Barry Eichengreen. "The Marshall Plan: History's Most Successful Structural Adjustment Program". *Postwar Economic Reconstruction and Lessons for the East Today*, edited by Rudiger Dornbusch et al, 189-230. Cambridge: MIT Press, 1993.

Eichengreen, Barry. "Institutions and Economic Growth: Europe after World War II". *Economic Growth in Europe since 1945*, edited by Nicholas Crafts and Gianni Toniolo, 38-70. Cambridge: Cambridge University Press, 1996.

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<sup>4</sup> Leitão, Nicolau Andresen (2007), *Estado Novo, Democracia e Europa, 1947-1968*.

## 1. From the British Alliance and the co-operation with the Allies during the War to accepting the Marshall Plan

Portuguese neutrality during the Second World War had been carefully preserved, while bad memories persisted from the country's participation in the bloody 1914-18 conflict. In fact, neutrality was achieved through a difficult and precarious balancing act. On the one hand, there was the Alliance with the UK, while on the other, the authoritarian character of the Salazar government contained some ideological sympathy toward the other belligerent side. Moreover, the military occupation of some regions in the Portuguese colonial territories could have easily demanded Portugal to abandon its middle-of-the-road position and come to the defense of those territories, as the experience of the First World War urged. Since 1935, the colonial empire had been seen as guaranteeing both the longevity of the Portuguese political regime and the country's independence on the global stage<sup>1</sup>.

Portuguese society and overall political leanings (and consequently, its war-time sympathies) were sharply polarized at the time, with cleavages in the government, the army and the upper classes – some supporting the Allies, and others, the Germans. If Spain had entered the war, Portugal would have certainly allied itself with Germany, and thus, Salazar was keen on maintaining Spanish neutrality – something that also alarmed Great Britain, who supported Salazar's neutrality because of the Iberian context.

Because Portugal straddled the fence, two very real dangers existed. One was the possibility of a German invasion, striking through Gibraltar (because Portugal's neutrality was supported by Britain). German Panzer units were poised on the Spanish border with occupied France, in the Pyrenees, and in December of 1940, the UK promised assistance to Portugal, should the Portuguese government need to withdraw from Lisbon to the Azores. The other danger was an Allied occupation of the Portuguese Atlantic islands for strategic military purposes. To protect the country against this possibility, the Portuguese government tried to placate the Germans by turning a blind eye to the smuggling of tungsten ores for military purposes against receiving steel and pharmaceuticals. This led to an Allied blockade against both Spain and Portugal, a situation that lasted from 1940 to 1942.

Portuguese diplomacy struggled to deal with this dilemma, but the international game was quite com-

plex; it reflects the cognitive and informational limitations on political optimality when direct experience bounds rational learning. Only when Germany found it necessary, in 1943, to divert its attention to Eastern Europe did the German-invasion possibility disappear. As German troops no longer threatened Iberia, and the Allies invaded North Africa and defeated Mussolini in Italy, Salazar definitively took sides with the Allies.

The smuggling of tungsten to the Germans came to an end on June 3<sup>rd</sup>, 1944<sup>2</sup>. The concession of the Azores military bases to the UK and the USA was accepted, rather than wait for their occupation by the Allies – something that illustrates how the historical past influenced current decisions. The terms for the agreement with the UK were hastily negotiated and signed on the 17<sup>th</sup> of August, 1943 (for Lages), as Salazar feared that a British presence would remain at the Azores even after the end of the war, as occurred after the civil war in mainland Portugal in the 1830s.

From 1943 on, it was possible to foresee the German and Japanese defeat. Salazar wished to preserve the Portuguese neutrality, but also to be on a good footing with the future victors at the same time. In game theory the identity of the players, their cultural experiences, historical precedents and retrospection are crucial aspects in bargaining, and bounded rational behavior is a major issue in competitive interactions of non-cooperative games<sup>3</sup>. Britain was not only the oldest but also the strongest Portuguese ally. However, this alliance lost weight during the first half of the twentieth century, as British economic importance declined around the world, while American hegemony was on the rise, a fact that influenced the Luso-British diplomatic relationships.

The Portuguese government also feared that Russia would become a great power in the world in stretching its influence from the Baltic to the Balkans. In the vocabulary of the economist, we can say that optimal responses to models that are updated as more and more information becomes available comprise a strategy combination converging toward a Nash equilibrium. The strategy for stability within the dynamic context of the 1940s called for establishing an important role for Portugal in the Atlantic world, thanks to good relationships with the UK. In his speech for the opening of the 2nd congress of the sole political party in Portugal, the *União Nacional*, Salazar defended an equilibrium position between

<sup>1</sup> Oliveira, César, "Oliveira Salazar e a política externa Portuguesa", in Fernando Rosas, *Salazar e o Salazarismo*, Lisboa, D. Quixote, 1984, 74.

<sup>2</sup> After the British Ambassador in Lisbon, Ronald Campbell, demanded it in January 1944, and supported a military movement of officers connected to President Carmona to dismiss Salazar. António José Telo, *A neutralidade Portuguesa e o ouro nazi*, Lisboa, Quetzal, 69.

<sup>3</sup> Roth, A. and Schoumaker, F. (1983), "Expectations and Reputations in Bargaining: An Experimental Study", *American Economic Review*, 73: 362-72.

Russia and a Western World headed by the UK, supported by the USA and based on the Portuguese colonial resources from the African territories.

Domestically, the hope that democratic adjustments would be made to the Portuguese Constitution was widespread. The government, therefore, did its best to demonstrate that Portugal had excellent political connections to Britain, France and the USA, using the visit of vessels from their navies to Lisbon in 1946 as evidence of these splendid relationships<sup>1</sup>. An attempt in January 1947 to establish a plan with the UK to defend Portugal failed. The British position emphasized that selling weapons was a business issue, and a triple alliance of Portugal, Great Britain and the United States would be a better defensive plan than a partnership between Portugal and Great Britain only. As always “the up-date procedure is heuristic”<sup>2</sup>. The triple agreement on the military bases was achieved in May 1946, the official ceremony took place on June 2<sup>nd</sup>, 1946, accepting the American rights for 18 months. This position represents an “improved” point, as the government was gathering new information to update the short-run model. A large wedge was also driven between the Portuguese and British positions with regard to the colonial issue. In fact, Britain would lose colonial India in 1947, while Portugal would preserve her possessions on the Indian subcontinent as well as large territories in Africa – and as the War wound down, Salazar did not want to lose control over these possessions.

When the Marshall aid was offered in 1947, the initial thought of Salazar’s government was to approve the American initiative of providing help for European reconstruction after the war. In this way, the Portuguese government could secure an international role and prestige, participating in the ERP meetings. With this in mind, the French-British invitation to the Conference of Paris to discuss the reconstruction was promptly accepted. Recall that Portugal’s first attempt, in 1946, to join the United Nations had been rejected, but this time Portugal could participate at the highest level of the international commissions in this important European Conference.<sup>3</sup> However, while the Portuguese government wished for its voice to be heard on the project of European cooperation, it refused to accept the actual ERP funds from the United States.

Portugal first presented a position to the United States similar to Switzerland’s, consisting of balancing the exchanges with Europe, rejecting the American financial aid, and refusing the transfer of the available dollar credits, in favor of European countries that were short of them. The refusal of American aid was a singular position of identity and resistance that Salazar pushed for approval at a meeting of the Board of Ministers on the 27<sup>th</sup> of January, 1948. The reason for the refusal of the Marshall Plan funds was based on the argument that the American financial aid was not needed for the Portuguese economy, and on the additional suspicion of the true nature of America’s intentions. The official Portuguese position emphasized the sizeable credit of the Portuguese economy in the sterling area, the absence of physical war-related destruction, and the new opportunities for Portuguese exports following the war (which would result from the reconstruction of the belligerent European partners)<sup>4</sup>. According to this position, the American funding should be left for other countries that were in greater need of such support. With all of this in mind, it was decided that the aim of the governor of the Portuguese central bank at the Conference should be to enlarge the market shares for Portuguese exports, such as wine, cork and canned fish, which were the main items of trade balance. Portugal, thus, preferred bilateral trade agreements to multilateral negotiations.

At home, the Minister of Finance, João Pinto da Costa Leite, and the Prime-minister Salazar, were skeptical about the results of the Conference, fearing that available Portuguese credits in dollars might be diverted toward those European countries that were short of dollars. They pursued a domestic policy of budgetary and trade equilibrium. However, they were working with unreliable statistical data on the Portuguese balance of payments. (Note that the first estimates of the Portuguese GDP by the National Institute of Statistics were produced only for the year of 1947). It is also not clear if they feared foreign objection to the legitimacy of the gold that Portugal had received from Germany during the war<sup>5</sup>.

As the Portuguese government was not entirely comfortable with the American presence in the Azores (fearing a threat to Portugal’s sovereignty over these islands), a solution calling for international airports in the Azores was preferred, to be paid for and supported by the British and the Americans. This was the short-run “optimal” choice of ac-

<sup>1</sup> Castaño, David (2006), *Paternalismo e cumplicidade: As relações Luso-Britânicas de 1943 a 1949* (Lisboa, Associação dos Amigos do Arquivo Histórico e Diplomático), 55.

<sup>2</sup> Kreps, David M. (1990), *Game Theory and Economic Modelling*, Clarendon Press, Oxford, 155.

<sup>3</sup> Gaspar, Carlos (2000), “Organização das Nações Unidas (ONU)”, in António Barreto and Filomena Mónica *Dicionário de História de Portugal*, vol. 8, (Lisbon, Figueirinhas), 672-678.

<sup>4</sup> Castaño, David (2006), *Paternalismo e cumplicidade: As relações Luso-Britânicas de 1943 a 1949* (Lisboa, Associação dos Amigos do Arquivo Histórico e Diplomático), 85-86.

<sup>5</sup> Castaño, David (2006), *Paternalismo e cumplicidade: As relações Luso-Britânicas de 1943 a 1949* (Lisboa, Associação dos Amigos do Arquivo Histórico e Diplomático), 88-90.

tion within the international framework. The USA rejected this idea and Salazar's decision was to recover exclusive Portuguese control of both bases, fearing a possible invasion from a future communist France or a future communist Spain. According to his wishes, unless the USA was committed to defending Portugal, the Azores should have no American presence. The UK could not pay for and support the airports and counter-proposed support for Salazar's idea of preserving Portuguese airports, but using an American firm to manage them (and allowing the Americans to use them in case of emergency). However, the USA was more interested in a permanent presence. As a result, Salazar's decision became complex. The focal point corresponds to some reasonable adaptive learning, thanks to the heuristic limitations. As the Portuguese government feared American hegemony over the world, the terms for the agreement with the USA were also very difficult and cautiously disguised as negotiations with a private American Company for construction of an airport on *Santa Maria* island. Short-run choices were taking into account the value for the future, but the government was unable to deal with the complex political maneuverings that were involved. The agreement with the USA, including facilities at the British-used military bases at Lages, was signed only in February 1948.

This official position, thus, sought to mitigate the perceived urgency of accepting financial assistance under the Marshall Plan. In one way or another, this first official Portuguese position revealed a great sense of pride, and even a national vanity that would very shortly evaporate. The possibility of belonging to a European federation had to be weighed against the prospects of belonging to an Iberian-American community (to be made up of Brazil, Spain and Latin-America) to deal with the British Commonwealth in the global context.

This was a difficult game, indeed. Moreover, 1948 was an economically disastrous year for Portugal. Three years of adverse weather, poor crops, low exports, higher imports, the demand of equipment for industrialization, and difficulties in the balance of payments (resulting in a dollar shortage) illustrated all too clearly the arrogance of the policy of opposition and terror that led to refusing the Marshall Plan funds. To save face, the Portuguese government presented its standing credit position in the sterling area and proposed a transfer of those credits into the dollar area. However, the USA refused this credit transfer, obliging Salazar to openly recognize the need for Marshall Plan assistance on the 20<sup>th</sup> of July, 1948, and the agreement was signed on the 27<sup>th</sup> of September, finally and officially accepting America's original offer<sup>1</sup>.

This was the agreement that was signed in Lisbon with the American Ambassador, Lincoln MacVeagh. The slow political drift toward the USA and the Allies in signing the agreement on the bases and preserving the national territories intact coincided with the decision about subscribing to the American Marshall Plan. Portugal had no other options available.

## 2. The American perspective on the Marshall Plan, according to Portuguese sources

Portugal was a small and underdeveloped country among giants. Note that the United States viewed Spain with suspicion, as it had showed a good deal of sympathy toward Germany during the War. The San Francisco Conference conferred criticism on Franco's political regime and at the Potsdam Conference it was agreed not to support any of Franco's intentions to integrate with the UN, thus isolating Spain to quite an extent<sup>2</sup>. On the one hand, Salazar needed to distance Portugal from Franco, in order to avoid any comparisons. On the other hand, Salazar always recommended Spain for British support, namely, for inclusion in international organizations. Not only did Salazar sympathize with Franco's regime, he also feared that if Franco were to be removed, communism, a new civil war, or attempts to unify Iberia could also arise (The only possible alternative to Franco should be the restoration of the Spanish monarchy. D. Juan was welcomed to live in Portugal, and meetings in Lisbon with leading military figures could be planned, but Britain did not want Portugal to take a hand in determining Spain's future). Later, the cold war environment would transform Spain and Portugal into important countries for the US from a geopolitical perspective, as they were safe regions to oppose any possible communist invasion of Europe. From then on, Spain had a new role on the international scene<sup>3</sup>.

This new view may explain how Spain came to be accepted in the Paris meeting of the OEEC (in July 1947). The Portuguese representative at the Conference, Ruy Teixeira Guerra, was convinced, one year later, that the Marshall Plan was an American scheme for exporting American goods – by providing the necessary financial resources to Europe to buy them (although he also acknowledged all the work in the technical commissions aimed at improving the European industrial production until 1952, in order to recover to pre-war levels)<sup>4</sup>. Such a fearful position had nothing to do with suspicions coming from the Soviet opposition.

<sup>1</sup> Castaño, David (2006), *Paternalismo e cumplicidade: As relações Luso-Britânicas de 1943 a 1949* (Lisboa, Associação dos Amigos do Arquivo Histórico e Diplomático), 87, quoting the AH-D, MNE.

<sup>2</sup> Griffiths, Richard T., ed. (1997), *Explorations in OEEC History*, Paris.

<sup>3</sup> Gimbel, John. *The Origins of the Marshall Plan*. Stanford: Stanford University Press, 1976.

<sup>4</sup> Report to the Portuguese Foreign Office, on the 29 June 1948, reproduced at Valério, Nuno, (ed.), (2000), *Ruy Teixeira Guerra*, Lisbon: Cosmos, 29.

Teixeira Guerra reports them to Lisbon in saying that the Russian Idanov, from the Politbureau, saw the Plan as an attempt to transform England and France into “a kind of a 49<sup>th</sup> state of the American Confederation” and comments that “The violence of the Russian diatribes shows that the soviet politicians, from the start, saw in the Marshall Plan a serious obstacle to the development of the strategy that should allow them to dominate Western Europe, without either firing a shot or risking nuclear warfare”<sup>1</sup>.

At the same time, in Teixeira Guerra’s opinion, President Truman’s documents were quite sincere in saying that if Europe could not recover, European people might become desperate and accept the control of a totalitarian government, while also stressing that money should not be thrown into a bottomless pit. Recall that before 1947 the American aid to Europe was framed on the United Nations Relief and Rehabilitation Administration UNRRA, and benefited the most affected areas according to criteria that favored regions subjected to growing communist influence, particularly the Balkans and Eastern Europe, without promoting a safe structure and lasting recovery of markets. According to Teixeira Guerra, this was the main reason for the American move toward a different strategy through the new ERP (European Recovery Program), which was announced at Harvard University on June 5<sup>th</sup>, 1947 by George Marshall. Dealing with common issues, the European Cooperation Administration ECA was a managerial agency to operate and implement it in Europe, and had an agenda to provide a complex framework to the European partners in designing a real political infrastructure in the aftermath of the War. Although fearing American hegemony and that country’s presence in the Azores, a learning-rational-expectations equilibrium suggested that the USA could pay and protect Portugal in the context of a North-Atlantic military alliance<sup>2</sup>. Today it is believed that Teixeira Guerra’s opinion strongly influenced Salazar to accept the Marshall aid<sup>3</sup>. Thus, not only was the agreement with the USA on the concession of military bases in the Azores signed in February 1948, but also reinforced in April 1949 with Portugal’s entrance into NATO<sup>4</sup>.

<sup>1</sup> Report to the Portuguese Foreign Office, on the 29 June, 1948, reproduced at Valério (2000), 31: “A violência dessas diatribes russas mostra bem que os dirigentes soviéticos vêm no Plano Marshall, desde a 1ª hora, um sério obstáculo ao desenvolvimento da estratégia que devia permitir-lhes o domínio da Europa ocidental, sem disparar um tiro, nem se arriscarem a conhecer de perto o efeito das bombas atômicas”..

<sup>2</sup> Foster, James E., Frierman, Michael (1990), “Learning Rational Expectations: Classical Conditions Ensure Uniqueness and Global Stability”, *Economica*, 57: 439-53.

<sup>3</sup> Valério, Nuno, (ed.), (2000), *Ruy Teixeira Guerra*, Lisbon: Cosmos, XIII-XXIX.

<sup>4</sup> Note that as soon as Portugal joined NATO, an agreement on the tungsten mining was reached and signed with the British government on July 11<sup>th</sup>, 1949, after two years of negotiations.

### 3. A glimpse of Portugal in the European panorama

In a European perspective the Marshall Plan was an exogenous opportunity, as the general consensus among the European partners was to accept the American offer. The result of information exchange and political co-operation came from the global power of the United States and became a trans-national imposition, as domestic funding was necessary in bargaining at international meetings among all the OEEC members<sup>5</sup>.

At the beginning, the OEEC had 17 members, outlined in Table 1. These countries differed greatly in size, degree of development, and short-term situation (especially as a consequence of World War II)<sup>6</sup>. There were four big economies, eleven medium-size economies, and two small economies, whose main indicators are also included in Table 1. This was the economic background confronting the European Recovery Program.

Table 1. The founding OEEC countries in 1950

| Country                                 | GDP (million USD G-K, 1990) | Population (million) | Área (km <sup>2</sup> ) |
|---|-----------------------------|----------------------|-------------------------|
| <b>The four big economies</b>           |                             |                      |                         |
| United Kingdom                          | 348                         | 50.4                 | 245                     |
| France                                  | 220                         | 41.8                 | 552                     |
| Western Germany <sup>7</sup>            | 214                         | 50.0                 | 249                     |
| Italy                                   | 165                         | 47.1                 | 301                     |
| <b>The eleven medium-size economies</b> |                             |                      |                         |
| Netherlands                             | 60                          | 10.1                 | 37                      |
| Belgium                                 | 47                          | 8.6                  | 31                      |
| Sweden                                  | 47                          | 7.0                  | 450                     |
| Switzerland                             | 43                          | 4.7                  | 41                      |
| Turkey                                  | 38                          | 21.1                 | 779                     |
| Denmark                                 | 30                          | 4.3                  | 43                      |
| Austria                                 | 25                          | 6.9                  | 84                      |
| Portugal                                | 18                          | 8.5                  | 92                      |
| Norway                                  | 18                          | 3.3                  | 324                     |
| Greece                                  | 14                          | 7.6                  | 132                     |
| Ireland                                 | 10                          | 3.0                  | 70                      |
| <b>The two small economies</b>          |                             |                      |                         |
| Luxemburg                               | 2.5                         | 0.3                  | 3                       |
| Iceland                                 | 0.8                         | 0.1                  | 103                     |

Source: Maddison, Angus, (2001) *The World Economy, a Millennial Perspective*, OECD, Paris.

Profound differences separated Portugal from the other partners regarding the degree of development. In fact, per capita GDP was above 5,000 dollars (G-K, 1990) in ten high-income economies (the two

<sup>5</sup> Kindleberger, Charles P. (1987), *Marshall Plan Days* (London: Allen&UnwinC<sup>o</sup>).

<sup>6</sup> Data for 1950 from Maddison, Angus, (2001), *The World Economy, a Millennial Perspective*, OECD, Paris.

<sup>7</sup> Originally represented by both the combined American and British occupation zones.

Scandinavian partners, the UK, the small Northern countries and Switzerland). In spite of its high per capita GDP, Iceland was considered as a non-industrialized country, and usually grouped with medium-developed countries. Behind this leading pack, four medium-income economies were above 3,000 dollars (G-K 1990), including the two defeated German-speaking countries, as well as Italy and Ireland. The two first, Germany and Austria, were both highly-developed and industrialized economies, but were still suffering from the effects of WWII<sup>1</sup>. In spite of its relatively high per capita GDP, Ireland was considered as a non-industrialized country, and usually grouped with less-developed countries. As for Portugal, with a GDP per capita of 2,000 dollars its closest partners were two more Mediterranean countries – partners in a group of relatively low-income countries.

Table 2. The per capita GDP ranking of the founding OEEC countries in 1950: dollars (G-K, 1990)

| High-income economies    |       |
|--------------------------|-------|
| Switzerland              | 9,064 |
| Luxemburg                | 8,382 |
| Denmark                  | 6,946 |
| UK                       | 6,907 |
| Sweden                   | 6,738 |
| Netherlands              | 5,996 |
| Norway                   | 5,463 |
| Belgium                  | 5,462 |
| Iceland                  | 5,336 |
| France                   | 5,270 |
| Medium-income economies  |       |
| F.R. Germany             | 3,881 |
| Austria                  | 3,706 |
| Italy                    | 3,502 |
| Ireland                  | 3,446 |
| Less-developed economies |       |
| Portugal                 | 2,068 |
| Greece                   | 1,915 |
| Turkey                   | 1,818 |

Source: Maddison, Angus (2001), *The World Economy, a Millennial Perspective*, OECD, Paris.

Note that the short-term situation was dictated not only by the structural long-run level of development, but also (and especially) by the performance in the War. Among the countries affected by WWII, one victor was not occupied but had military operations (strategic bombing) in its territory: the United Kingdom. Seven other victors were temporarily occupied during the war, (Belgium, Denmark,

France, Greece, Luxemburg, Netherlands, and Norway) and deeply affected by the conflict<sup>2</sup>. Most of these even suffered “German extractions” and the Netherlands also lost “its most valuable colony, Indonesia (whose independence was proclaimed in 1945 but not recognized until 1949)”<sup>3</sup>.

In most of the victors there prevailed the Keynesian belief in the value of government activism<sup>4</sup>. Among those countries seriously ravaged by WWII, one must recall one that had been defeated but was no longer occupied, Italy, two defeated and still occupied, Austria, and F.R. Germany. According to Toniolo (1994), “The war left Italy so devastated economically that in 1945 its product per capita had fallen back in real terms to the level of thirty years earlier. An entire generation’s productive efforts had gone up in smoke”<sup>5</sup>. The five countries relatively unaffected by WWII were the five neutral partners: Ireland, Portugal, Sweden, Switzerland, and Turkey. Austria was part of Germany during the war and was only freed from foreign occupation in 1955, while Germany remained divided and partially occupied by victors until 1990<sup>6</sup>.

International meetings devoted to sharing the Marshall aid among the European partners required statistical indicators on the national economies to establish common rules for claims. Portugal had not yet published any regular national accounting data and the Marshall Plan was, thus, a strong motivator to produce data and close the gap regarding the foundations of statistical indicators for macroeconomic variables.

One of the Portuguese economists who participated in the European Economic Conference of Paris in 1949 recounts how difficult it was to discuss the short-run performance of the Portuguese economy without the support of data.<sup>7</sup> He was a recent graduate in economics from the Technical University of Lisbon, going to this meeting to replace a senior economist<sup>8</sup> (and was later a professor of economics, minister of finance and governor of the Portuguese Central Bank). The vice-governor of the Central Bank, Fernando Emydio da Silva, headed the Portuguese

<sup>1</sup> Berger, Helge and Albrecht Ritschl (1995), “Germany and the Political Economy of the Marshall Plan, 1947-1952: A Re-Revisionist View”. *Europe’s Postwar Recovery*, edited by Barry Eichengreen, Cambridge: Cambridge University Press, 199-245.

<sup>2</sup> Iatrides, J. (1984), *Greece in the 1940s and 1950s: a Nation in Crisis*. Athens.

<sup>3</sup> Van Zanden (2004), 389.

<sup>4</sup> Hirschman, Albert O. (1998), “Fifty years after the Marshall Plan: Two posthumous memoirs and some personal recollections”, Albert Hirschman, *Crossing Boundaries, selected writings* (New York: Zone Books), 35.

<sup>5</sup> Toniolo, Gianni (1994), *One hundred years 1894-1994*, Milan, Banca Commerciale Italiana, 87.

<sup>6</sup> Wallich, Henry. *Mainsprings of the German Revival* (1982), (1955) New Haven: Yale University Press.

<sup>7</sup> Nunes, Manuel Jacinto (1986), “Algumas notas sobre a introdução do Keynesianismo em Portugal” in Instituto Superior de Economia, *Cinquentenário da Teoria Geral de Keynes, 1986*, Lisbon, Instituto Superior de Economia, 53-60.

<sup>8</sup> José Gonçalves Correia de Oliveira.

team of economists, but the eldest members of the Portuguese team ignored national accounting: “the English Professor, who was one of the examiners (as there was something like an interview) used the expression ‘Net Product’. When the session was over, Fernando Emydio da Silva looked at us and said: Net Product, Net Product, what does he mean by that? When I get back to Portugal I will talk with Dr. Salazar and tell him that we must learn to speak these peoples’ language, otherwise it is useless to come here”<sup>1</sup>.

Today, this story seems like a joke. It shows how important national accounting was for the Marshall Plan bargaining, the international responsibilities and the national interests in global strategies. GDP estimations were soon made available for 1953 with a retrospect to 1948, by the Portuguese National Institute of Statistics. In the USA, Simon Kuznets had long developed the theoretical background and the empirical methodologies for GDP estimation. His empirical efforts at the NBER provided time-series to cover the USA period from 1919 to 1938, as well as historical GDP estimations going back to 1869<sup>2</sup>. In a global perspective, the methodological notice for the statistical procedures for measuring economic activity and national income was spread from Simon Kuznets (1933)<sup>3</sup>.

Macroeconomics has come a long way in Portugal, but it is a fact that at the time there was a scientific gap in national accounting estimation and teaching in the country. In this same year of 1949, a large academic reform was introduced in the school of economics of the Technical University of Lisbon. This reform simultaneously implemented Marshallian economics and introduced the Keynesian macroeconomic approaches<sup>4</sup>. Note that academic connections with American universities did not exist at all, and the Technical University of Lisbon had the only school of economics and finance in Portugal (although schools of law provided some courses in

economics)<sup>5</sup>. This isolation contrasts with other small countries in Europe. In Belgium, for example, the Leuven/Louvain Institute of Economics maintained close links with the USA in the 1930s<sup>6</sup>. The same lag occurred with sending Portuguese students abroad for training<sup>7</sup>.

#### 4. The impact of the Marshall Plan on financing the entrepreneurial recovery

Intergovernmental solutions resulted from bargaining equilibrium in considering the networks of interaction, the divergent-natural interests among the OEEC members and their international catalytic consequences. Peace, scarcity, war devastation, recovery, energy, and industrial recovery comprised the major interplay of variables and policy issues<sup>8</sup>.

It is curious that some national economic history studies for European countries do not even mention the Marshall Plan in their treatments of this period. This is the case with Bergier (1983) and Fritzsche (2007) for Switzerland, Buyst (2007) for Belgium, Johansen (2007) for Denmark, Dritsas (2007) for Greece, Ó Gráda (2007) for Ireland, Wicken (2007) for Norway, Krantz (2007) for Sweden, or Pamuk (2007) for Turkey, and Van Zanden (2007) for the Netherlands, although van Zanden (2003) recognizes that after WWII “the reconstruction of the economy was rapid” and “this high growth regime continued after reconstruction was complete”. Curiously Ritschl (2007) notes that France and Britain absorbed 50% of the American aid because of the need of convincing these two countries about the American designs to force them to accept the aims of American policy, while Caron (2007) also omits any mention of the ERP in the recovery and growth in France. If Johnson (2007) briefly assesses its positive character in turning the corner from austerity to growth in Britain, Matis (2007) prefers to present the perverse aspects of the Allied military occupation of Austria until 1955<sup>9</sup>.

<sup>1</sup> Nunes, Manuel Jacinto (1986) “Algumas notas sobre a introdução do Keynesianismo em Portugal” in Instituto Superior de Economia, *Cinquentenário da Teoria Geral de Keynes, 1986*, Lisbon, Instituto Superior de Economia, 56.

<sup>2</sup> Kuznets, Simon (1941), *National Income and its composition*, 2 vols, New York, NBER.

Kuznets, Simon (1946a), *A summary of findings*, New York, NBER.

Kuznets, Simon (1946b), *National Product since 1869*, New York, NBER.

Kuznets, Simon (1952a), *Income and wealth, of the USA, Trends and structure*, New York, NBER.

<sup>3</sup> Kuznets (1933), “National Income”, *Encyclopedia of the Social Sciences*, vol. 11, New York, Macmillan: 205-24. Although his two masterpieces leading to his nomination for the Nobel prize in 1971 were Kuznets (1966), *The modern economic growth*, Yale University. Kuznets (1971), *Economic growth of nations*, Cambridge Massachusetts, Harvard University Press.

<sup>4</sup> Mata, Maria Eugénia (2002), António Horta Osório, Pareto’s Portuguese disciple *Research in the History of Economic Thought and Methodology*, vol. 20A.

<sup>5</sup> For the understanding on the late introduction of theoretical cannons in Portugal see Almodôvar, Cardoso, (1988).

<sup>6</sup> Young researchers such as Charles Roger, Charles Demeure, Robert Triffin, Emile Mallien and Gerard Baptiste went to American Departments. Two of its main initiators were in touch with Princeton and Harvard Universities, to where many young researchers were sent for training: Paul van Zeeland was a C.R.B. fellow at Princeton, Léon Dupriez was visiting Professor at Harvard during the First World War; See Maes, Ivo; Buyst, Eric; Bouchet, M. (2000), “The post-1945 development of Economics in Belgium” in Coats, A. W., *The development of Economics in Western Europe since 1945*, London, Routledge: 94-112.

<sup>7</sup> Before the 1970s one only student attended the Harvard Business School (in 1951). Historical Archive of the Harvard Business School.

<sup>8</sup> Borchardt, Knut and Christoph Buchheim. “The Marshall Plan and Key Economic Sectors: A Microeconomic Perspective”. In *The Marshall Plan and Germany*, edited by Charles S. Maier and Gunter Bischof, 410-451. Oxford: Berg, 1991.

<sup>9</sup> See also Hogan, Michael J. (1987), *The Marshall Plan, America, Britain, and the Reconstruction of Western Europe, 1947-1952*. Cambridge: Cambridge University Press.



In the Italian case, Zamagni (2003, 2007) has an optimistic view, even recognizing that in 1948, “Italy then could take full advantage of the Marshall Plan”. Toniolo (1994) stresses the connections between major companies<sup>1</sup> and financial institutions between 1945 and 1948 – the *Banca Commerciale Italiana*, for example<sup>2</sup>. There is no consensus, however, regarding ERP influence on banking for investment in Portugal.

In Portugal, the American grants and loans genuinely underpinned the national strategy for economic growth. The government assumed a central role in electing which sectors received the Marshall aid and which firms should be targeted for the distribution of direct help<sup>3</sup>. The identity of the actors involved, thus, included the government, firms, and the financial source of decision and support. Co-ordination of this distribution to public works and private firms gave rise to a specialized agency for the purpose (the *Fundo de Fomento Nacional*, FFN) and to planning<sup>4</sup>. Co-operating links between the agency and the development plans throughout the 1950s were the preferred means for implementing the governmental development policy<sup>5</sup>.

All in all, the Marshall aid was very useful for funding public works, transports and infrastructures, and stimulating agricultural and industrial production, as its applications illustrate (Table 3).

<sup>1</sup> Fiat, Edison, Montecatini, Sip and Ilva.

<sup>2</sup> Bergier, Jean-François (1983), *Histoire Economique de la Suisse*, Zurich, Cologne, Benziger Verlag.

Buyst, Eric (2007), Belgium, in Joel Mokyr, *ibid*, volume 1, pp. 251-253.

Caron, François (2007), France: Modern period, in Joel Mokyr, *ibid*, volume 2, pp. 366-372.

Dritsas, Margrita (2007), Greece: Modern Period, in Joel Mokyr, *ibid*, volume 2, pp. 475-478.

Johansen, Hans Christian (2007), Modern Denmark, in Joel Mokyr, *ibid*, volume 4, pp. 100-101.

Ó Gráda, Cormac (2007), Ireland after 1922, in Joel Mokyr, *ibid*, volume 3, pp. 161-163.

Van Zanden, Jan Luiten (2007), Northern Netherlands since 1815, in Joel Mokyr, *ibid*, volume 3, pp. 388-390.

Wicken, Olav, and Kristine Bruland (2007), Modern Norway, in Joel Mokyr, *ibid*, volume 4, pp. 103-105.

Krantz, Olle (2007), Modern Sweden, in Joel Mokyr, *ibid*, volume 4, pp. 105-107.

Fritzsche, Bruno (2007), Switzerland after 1815, in Joel Mokyr, *ibid*, volume 5, pp. 44-49.

Pamuk, Sevkett (2007), Modern Turkey, in Joel Mokyr, *ibid*, volume 5, pp. 135-138.

Ritschl, Albrecht (2007), Modern Germany, in Joel Mokyr, *ibid*, volume 2, pp. 409-417.

Zamagni, Vera (2004), “United Italy”, *ibid*, 183.

Zamagni, Vera (2007), United Italy, in Joel Mokyr, *ibid*, volume 3, pp. 181-185.

Matis, Herbert (2007), Modern Austria, in Joel Mokyr, *ibid*, volume 1, pp. 189-191.

<sup>3</sup> Rollo, Maria Fernanda (2007), Portugal e a Reconstrução Económica do Pós-Guerra. O Plano Marshall e a Economia Portuguesa dos Anos 50, Lisboa: Instituto Diplomático.

<sup>4</sup> The Decree n° 37354 created the Fund on 16-03-1949 and the economic policy on growth and planning is explained in the decree n° 39164 (14-04-1953).

<sup>5</sup> The first Development Plan (*Plano de Fomento*) covered the 1953-58 period, and the second period of 1958-63.

Table 3. The applications of the Marshall Plan funds (millions of USD)

|  |        |
|--|--------|
| <b>In mainland Portugal</b>                          | 47.173 |
| 1. Energy  | 0.593  |
| 2. Irrigation  | 2.339  |
| 3. Agriculture                                       | 0.197  |
| 4. Transports  | 3.312  |
| 5. Industry  | 6.181  |
| — Mining   | 0.103  |
| — Textiles   | 0.502  |
| — Chemical   | 0.187  |
| — Paper  | 4.340  |
| — Other  | 1.049  |
| 6. Machines  | 1.370  |
| 7. Raw materials                                     | 3.176  |
| Equipment  | 17.168 |
| 1. Grains  | 18.837 |
| 2. Oil   | 8.6    |
| 3. Pharmac   | 0.179  |
| Consumption goods                                    | 27.616 |
| Transportation                                       | 2.389  |
| <b>In the colonies</b>                               | 2.643  |
| 1. Energy  | 1.232  |
| 2. Agriculture                                       | 0.025  |
| 3. Transports  | 1.037  |
| 4. Industry  | +0     |
| 5. Machines  | 0.125  |
| Equipment  | 2.419  |
| Consumption goods (Grains)                           | 0.224  |
| <b>TOTAL</b>   | 49.816 |
| <b>Special loans to the colonies</b>                 | 2.732  |
| <b>Technical assistance to mainland and colonies</b> | 1.511  |
| <b>DIRECT HELP</b>                                   | 54.0   |
| <b>INDIRECT HELP</b>                                 | 18.3   |

Source: Fernanda Rollo, *Portugal e o Plano Marshall*, Estampa, Lisboa, 1994: 285-287.

Much of the aid was as allocated to public investment in building hydraulic plants for power generation and irrigation, road and rail infrastructure, and in launching the modernization of sectors dominated by state-owned firms, in both the homeland and the colonies.

Public investment and the government's discretionary power of directing scarce Marshall funds to alternative aims, including choosing private industrial actors and trusting in certain firms and companies that were selected for achieving the government's targets and purposes, were surely the most important factors for the spread of planning. According to the reports of the Technical Commission of the ECA, Marshall funds privileged public-owned firms such as the rail CP, the electrical CPE, the oil refining SACOR, the oil-distribution derivatives SONAP, the oil prospector CPP or the airline TAP. The Marshall aid may be seen as an American impulse to firms' commitment with

the governmental authorities and planning, as it occurred in other small European partners<sup>1</sup>. By this time, planning was quite common throughout Europe<sup>2</sup>. Not only central planning was a top-fashion because of the Soviet experience, but also indicative planning was a widely spread practice in terms of the establishment of aims for growth rates, and goals for creating jobs in the welfare state. Swedish planning is usually cited for its technical forecasting abilities; the British corporatism and planning through cartels was very typical; the German industrial planning could even implement a punitive decartelization; while the Austrian and French planning were more devoted to harmonized regulations, inter-regional linkages or integration and neighbor policies<sup>3</sup>. It is possible to say that planning was a consequence of the War (a response to the need for efficient reconstruction in the shortest time), something that does not apply as much to neutral countries, such as Portugal.

According to a national philosophy based on the Corporatism doctrine, Government was a main actor in guiding the catching-up process in economic growth that would bring welfare to the Portuguese population through higher per capita production and consumption<sup>4</sup>. To understand why state-owned firms were considered as a good-governance strategy to pursue some of the development aims, one should consider that there were worrying pitfalls in some sectors that were considered crucial for modernization. Although firms might be considered non-profitable, it was intended that they should provide decisive social services, such as transportation, including rail, shipping and the emerging new sector of air transportation services. Although some other firms could be profitable, it may be that regulation and governmental supervision or surveillance were necessary if they were “natural” monopolies, such as electricity, or were strategically decisive for the country’s economic growth or security, such as the production of military goods and arms, or oil refining or prospecting/drilling.

There are several theoretical arguments regarding these issues in economics. The case of transporta-

tion and electricity firms is quite clear. The universal service obligation may fully justify the public provision or, at least, the allocation of subsidies. If they are considered necessary in a specified quality or standards, at an affordable price and made available to everyone, this calls for an enforcement of production and investment. The case of transports, mentioned above, to connect all regions on the mainland, the Atlantic islands and colonial territories throughout the empire was an example of a “natural” monopoly, as they were considered vital for implementing public administration and political sovereignty and/or recognized as decisive for labor mobility, thus, contributing to growth. Of course, government intervention might assume the form of public provision, regulation, or financial intervention through Pigouvian taxes or subsidies. Note that a price-regulatory monopoly might need subsidy support, and the principal-agent problem might be constrained by asymmetric information because of adverse selection or moral hazard<sup>5</sup>. Moreover, for the development of infrastructure in the long run, contracts with private providers are “inherently incomplete”<sup>6</sup>. Recall also that auctioneer mechanisms are more difficult to implement in less-developed-business countries than in densely-sophisticated-business environments. Electrical power might be considered another example. In such a case, regulation also faced congestion consumer problems. The use of these arguments may be helpful in revealing the rational understanding of historically assumed options for the application of the Marshall funds.

As subsidies always translate into a stimulus to increase production by lowering the cost of investment, the possibility of lobbying is not out of the question, but no records of corruption are available in the Portuguese historiography and no reports of fraud exist in the sources on the distribution of the funds among the distribution proposals presented to the European Cooperation Administration. Of course, lobbying was a different aspect to be considered. For example, it is quite clear that shipping companies complained about international competition and the fixed rates established by the American government for the transportation of the goods included in the Marshall Plan (at \$2 above the maximum price from other nationalities<sup>7</sup>). As transports were a decisive element of connecting the homeland

<sup>1</sup> For the philosophy on the advantages of indicatif planning for Portugal see Barbosa, António Manuel Pinto, “O Banco de Fomento Nacional, factor basilar de desenvolvimento da economia Portuguesa, Discurso Proferido pelo Ministro das Finanças, Prof. Doutor António Manuel Pinto Barbosa em 4 de Agosto de 1959, na posse do Governador do novo instituto de crédito”, Imprensa Nacional, Lisbon, 1959, p. 5-6.

<sup>2</sup> Arkes, Hadley. *Bureaucracy, the Marshall Plan, and the National Interest*. Princeton: Princeton University Press, 1972.

<sup>3</sup> Jytte Klausen *War and Welfare* (N. York, St. Martin’s Press, 1998), 45, 47, 101, 102, 108, 114-16, 149, 178, 195, 199, 251, 253, 255, 258.

<sup>4</sup> José Maria Brandão de Brito, “Estado Novo: Discursos e Estratégias de uma Industrialização Tardia”, in Manuel Heitor, José Maria Brandão de Brito, Maria Fernanda Rollo. (eds.) *Momentos de Inovação e Engenharia em Portugal no Século XX* (Lisboa, Dom Quixote, 2004).

<sup>5</sup> Mark Lijesen, and Victoria Shestalova, “Public and Private Roles in Road Infrastructure: An Exploration of Market Failure, Public Instruments and Government Failure”, *CPB Document*, No 146, June 2007, available at <http://www.cpb.nl/eng/pub/cpbreeksen/document/146/doc146.pdf>, 37.

<sup>6</sup> Ibid, 52.

<sup>7</sup> Historical Archive of the Bank of Portugal (AHBP), Companhia Colonial de Navegação, Annual Report of 1948.

to the colonies, the large amount of aid allocated to transports can be interpreted as an additional good reason for the decision.

The eligibility rules for benefiting from the subsidies were certainly based on trust in entrepreneurs and firms' commitment to the government policy. This trust may correspond to a theoretical approach that considers supposed probability distributions of expected success and feasibility for the projects presented by the firms at work in the market, the clarity of the proposals, and political rhetoric. According to the reports of the Technical Commission of the ECA, Marshall funds were also made available to the cement CCT (*Companhia de Cimentos Tejo*), shipping companies (CCN and CNN), chemical units related to the chemical CUF (*União Fabril do Azoto and Amonáco Português SARL*), the paper CPC (*Companhia Portuguesa de Celulose*), the water provision CAL (*Companhia das Águas de Lisboa*), or even small firms such as the *Compamhia Portuguesa de Fornos Eléctricos*.

The post-war period was the most successful growth period in Portugal's history until the present day. It allowed the country to catch up to the developed European countries<sup>1</sup>. It is recognized as the take-off of a sustained economic growth at 2-5% annual rates in the 1940s and 1950s and at 5-7% annual rates in the 1960s, following Portugal's participation in the European economic integration process. A genuine economic modernization and urbanization have occurred.<sup>2</sup> Subsidies were very important, because they supported production expansion, and other business dimension issues. It is important for facing risk and for market competition, in both domestic and international markets. Co-operation with the government and a strategy of growth that included cross-participation with other firms provided safety and more robust opportunities, because individual aggressive competitiveness behavior only pays off when the expected benefit exceeds the expected cost, which is a difficult condition to match when dimension is small. The period witnessed a formation of conglomerates through firms' affiliation under the government development policy. The most important were the CUF (Mello family), the Sommer group (Champalimaud family), the Foncescas & Burnay and the Espírito Santo family groups<sup>3</sup>. Such a policy may have been a critical survival

mechanism for small firms if they were able to gain benefit from homeland and colonial markets, in a wild and inhospitable international business environment. Case (2007) observes that the virtues of competition were preached throughout decades of indoctrination, but, contrary to Adam Smith economics, he concludes that "the study of his own advantage" needs not lead an entrepreneur "to prefer that employment which is most advantageous to society" and state intervention may be required<sup>4</sup>.

## 5. European integration as a Marshall Plan heritage

Portugal benefited enormously from the OEEC, because the organization was not a collection of states, but an international forum promoting alert mechanisms, co-operation, a European system for international payments under the EPU, stages of association, and economic integration<sup>5</sup>. These benefits not only included the political aspects resulting from peace and stability from belonging to a vast and safe Europe that was imposed by the Marshall Plan<sup>6</sup>, they also included the challenges posed by the desire to build an economically integrated space.

These advantages were not evident for Portugal in the 1940s, or even in the 1950s. The European partners were wealthier and economically stronger, and the Portuguese firms benefited from protection in the international markets because of tariffs and entry barriers<sup>7</sup>. Moreover, Portugal preserved a large colonial empire: in Africa, two Atlantic archipelagoes (Cape Verde and St. Tomé e Príncipe), Guinea, Angola and Mozambique, and in Asia, Macao and East Timor. The empire was a natural market for Portuguese products, entrepreneurship and businesses. As the United Kingdom was also an imperial power wishing to preserve the usual imperial preferences, joining a free trade zone rather than a trade union was a shared preference for these two countries<sup>8</sup>. From a geopolitical perspective, Queen Elisabeth's visit to Lisbon in 1957 was presented as proof of a mutual alliance to support a military defensive alliance, and Britain became the

<sup>4</sup> Case, James, *Competition* (N. York, Hill and Wang, 2007), 113.

<sup>5</sup> Pinto, António Costa; Teixeira, António Severiano (2005), *Portugal e a Integração Europeia, 1945-1986*.

Hirschman, Albert O. (1951), "The European Payments Union: Negotiations and issues", *Review of Economics and Statistics*, 33, 1: 49-55, reprinted in Eichengreen ed. (1996): 323-29.

<sup>6</sup> Ellis, Howard (1950), *The Economics of Freedom: The Progress and Future of Aid to Europe*. New York: Harper & Row.

Eichengreen, Barry. *Reconstructing Europe's Trade and Payments: The European Payments System*. Manchester: Manchester University Press, 1993.

<sup>7</sup> Condicionamento Industrial. See José Maria Brandão de Brito, "Estado Novo: Discursos e Estratégias de uma Industrialização Tardia", in / Manuel Heitor, José Maria Brandão de Brito, Maria Fernanda Rollo. (eds.) *Momentos de Inovação e Engenharia em Portugal no Século XX* (Lisboa, Dom Quixote, 2004).

<sup>8</sup> Hogan, Michael J. (1987), *The Marshall Plan: America, Britain and the reconstruction of Western Europe, 1947-52* (Cambridge: Cambridge University Press).

<sup>1</sup> Baptista, Dina; Martins, Carlos; Pinheiro, Maximiano; Reis, Jaime, *New Estimates for Portugal's GDP 1910-1958* (Lisboa: Banco de Portugal, 1997).

<sup>2</sup> Amaral, Luciano (2003), *How a Country Catches Up: Explaining Economic Growth in Portugal in the Post-War World (1950s to 1973)*. Maddison, Angus (2001), *The World Economy, a Millennial Perspective*, OECD, Paris.

<sup>3</sup> Martins, Maria Belmira, *Sociedades e Grupos em Portugal*. (Lisboa: Estampa, 2<sup>nd</sup> edition 1975) pp. 21-65.

main source of arms to modernize the Portuguese army (artillery and infantry units)<sup>1</sup>. Both countries led the movement to create the European Free Trade Association in 1959, where Portugal negotiated a special statute in Annex G of the final convention to guarantee a slower abolition of protection, particularly for “emergent industries”.

At the same time, Portugal built another free trade zone, including the homeland and the colonies under Portuguese sovereignty, to pursue the alternative long-run geopolitical strategy of an Iberian-African-Brazilian Atlantic community that survived the end of the Second World War. Curiously, Portugal’s participation at EFTA was very successful and reinforced the economic catching-up process with the European partners throughout the bipolar political system of the Cold War<sup>2</sup>. Meanwhile, the Portuguese free trade zone with the colonies led to an impossible monetary union, because the strong differences of development levels in the territories could not be overcome. Portugal’s average annual economic growth rate throughout the 1960s was 6% and the average annual industrial growth was above 10%, while a strong financial effort was necessary to fight colonial wars in the three major Portuguese colonies (Angola, Mozambique and Guinea), without any success for the economic integration of the empire<sup>3</sup>. Such dismal results in the colonies led to the fall of the authoritarian political regime in the revolution of the 24<sup>th</sup> of April, 1974, which sought decolonization and greater democracy at home. The successful opening of the country to Europe dictated such a path for the Portuguese nation, proving that the fears of the Marshall aid were unfounded<sup>4</sup>.

As it would have been impossible to attain such a positive economic growth for Portugal without the liberalization of trade and business with reliable European partners, the decision to join the Marshall Plan was the pivotal decision in Portugal’s economic development and political democratization, by joining the Portuguese economy and businesses to the OEEC umbrella in the Cold War period<sup>5</sup>. It provided a safe process of economic com-

petition and integration in co-operation with the European partners and the global economy in general, as well as a new ambience for business intelligence and strategic partnerships in a macro-democratic environment for entrepreneurship and corporate initiatives. A new geographical definition, a legitimized political scope and a wide range of expertise in a multi-polar geopolitical system were made available for firms, markets and businesses<sup>6</sup>.

As the commitment with Europe was strengthened in 1986 in deciding to join the European Community, the single Market provided cohesion funds and supported a new phase of economic growth that lasted until the end of the millennium, paving the way to join the liberalization of capital markets thanks to the single-currency strategy of the European Monetary Union<sup>7</sup>. From the end of the millennium to now a hesitation seems to be at work. The next steps toward a European constitution to formalize the Union, calling for citizenship for businesses and production, and a self-governance strategy, tend to vanish, which seems to match a threat to the euro-centrist concept of the world civilization under coercive military policies.

## Conclusions

By the end of the War, despite its neutrality, Portugal had a closer tie with the Allies in general, thanks to the decisions of the government regarding the embargo of tungsten exports and the concession of the Azores military airbase facilities to the Allies. These two decisions were crucial for Salazar’s political survival after the end of the war. A European victory implied a strong contradiction in Portugal, resulting from the sympathy towards Spain (the so-called Iberian Pact) and the strong will to preserve the colonies. Clinging to its fears of American economic and financial hegemony of Europe, the African colonies, and ultimately the globe, Portugal approved the principles of the Marshall Plan while rejecting its financial support. Portugal, it was also argued, had emerged from the war intact and independent, and its interests could be best served by cultivating its traditionalism and the relationships with Spain, Britain, the African colonies and the ex-colony of Brazil.

Current views explain that the Marshall Plan presented “the economic recovery of allies and former

<sup>1</sup> Castaño, David (2006), *Paternalismo e cumplicidade: As relações Luso-Britânicas de 1943 a 1949* (Lisboa, Associação dos Amigos do Arquivo Histórico e Diplomático), 61.

<sup>2</sup> Alípio, Elsa Santos (2006), *Salazar e a Europa. História da Adesão à EFTA 1956-1960*.

<sup>3</sup> Lains, Pedro (1994), “O Estado e a industrialização em Portugal 1945-1990”, *Análise Social*, 128.

<sup>4</sup> Neves, João César. *The Portuguese economy: a picture in figures, XIX and XX centuries long-term series*. Lisbon: Universidade Católica Editora, 1994.

<sup>5</sup> Mata, Maria Eugénia and Nuno Valério (1994) and (2003), *História Económica de Portugal*, Lisbon, Presença. Amaral, Luciano (2003), *How a Country Catches Up: Explaining Economic Growth in Portugal in the Post-War World (1950s to 1973)*. Ph.D. dissertation, Florence: European University Institute.

<sup>6</sup> Wexler, Immanuel (1983), *The Marshall Plan revisited: The European recovery program in economic perspective* (Westport, Conn.: Greenwood Press).

<sup>7</sup> Cohesion funds represented 0.6% of the Portuguese GDP in 1986, 3.3% in 1992 and 4.5% in 1993. Torres, Francisco, “The European Periphery” in J. Williamson (ed.) *The Political Economy of Policy Reform*, Institute for International Economics, Washington, DC: 141-152.

enemies”<sup>1</sup>. For many years Portuguese propaganda suggested that the ERP had been a minor episode, and many people ignored the fact that in receiving the aid, Portugal also gained admittance to the Organization for the European Economic Co-Operation (OEEC). This is a striking fact, as the Marshall Plan represented a very important step in the definition of Portugal’s long-run alliance with the USA, NATO and overall European integration<sup>2</sup>. The Portuguese view expressed in contemporary sources was based on fears that supranational commitments would compel Portugal to co-exist with great powers by accepting “collective” decisions without having the capacity to oppose them. As a major power by the end of the Second World War, the United States undertook to change European realities.

As in physical laws of the Universe, small events may have large effects. For good or bad the Marshall Plan was the beginning of a complex mosaic of reinforced ties to the unquestioned supremacy of the USA among the Allies, as Americans assumed themselves to be the leaders and civilizers of the world. Not only did financial connections allow for increased trade flows at an especially difficult moment for Europeans, but also geopolitical and cultural connections became much closer thanks to an increasing co-operation among politically reliable partners<sup>3</sup>. This last aspect must be studied not only considering the Soviet opposition but

also the hesitations based on strong fears about the effects of such a powerful instrument of a geopolitical policy for the international system, which is proved to have been founded and reasonable, on the part of a small neutral European partner such as Portugal.

Thanks to the internationalization introduced by the Marshall Plan, the Portuguese participation in OEEC led to the economic and political integration in Europe under an increasing cosmopolitan citizenship conception for a positive, global, unified vision and extension of the concept of a world civilization. The increasing cosmopolitan internationalism through international trade in the European Free Trade Association led Portugal to the new geopolitical vision based on the values of decolonization, political democracy and supranational institutionalism that prevail in Europe. In bringing the seeds for a transnational action against pitfalls and threats, the Marshall Plan was the instrument of a regulation activity in the ongoing internationalization, and paved the way toward a new operative scope for the Portuguese economy and businesses in Europe. The increasing globalization was a set of multilateral privileged partnerships and opportunities for producers and employers, free of geographical conditionality or destabilizing policies, at least until the end of the millennium. Europe’s failure would be the failure of the whole Portuguese post-WWII policy.

Sources: *Diário do Governo*, official journal, several issues. Historical Archive of the Portuguese Central Bank, *Bank of Portugal* (AHBP).

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