

## 1945–1959 The post-war period and the beginning of the European venture

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The Second World War was an undeniable watershed in 20th century Portuguese history which also left an indelible mark on the other countries that were directly or indirectly affected by the conflict, as it did on the international order in general. This should not be forgotten, particularly the extent to which wartime brought about the first political crisis for the Estado Novo (Salazar dictatorship), and, by changing the terms under which national economic activity took place, interrupted the progress and landscape of monetary and financial stability and led to a shift in the direction and pace of the country's economic management.

Portugal's ambiguous neutrality had initially placed the country in a rather fragile position in the international arena, but its subsequent neutrality in cooperation with the Allies ultimately worked in its favour. What is more, Allied support was essential to the survival of the Portuguese political system, in particular because the victory of the Western democracies simultaneously breathed new life into the opposition, which campaigned against the Estado Novo with renewed confidence.

The upheavals of wartime were followed by a no less complex peacetime. At political level breaches opened in the regime, which was faced with a spirited and serious challenge that left scars for years to come. The Second World War undoubtedly gave rise to setbacks and major difficulties for the Portuguese authorities. Having offset its weaknesses and 'overcome' its difficulties, however, the Estado Novo survived, and when the crisis abated it emerged reinvigorated and recomposed. At the same time, when a certain hesitancy had been resolved and various obstacles had been bypassed, post-war Portugal eventually embarked on a process of economic and social development, accompanying, albeit from a distance, the air of prosperity that was to characterise the economy and society of European countries in the following two decades. Nevertheless, fundamental contradictions and imbalances were concealed between what was mooted and what was put into effect, at both of these levels. In time, and despite efforts to keep 'order' and establish consensus, that process would be compromised, throwing its own difficulties into sharp relief.

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Portuguese history has shown the extent to which Portugal, despite its neutrality, suffered the economic effects of the war and was forced to adopt a true war economy. Highlighting the national economy's strong dependence on foreign trade (particularly in terms of provisioning), this situation exposed the significance of a range of structural weaknesses that shaped the reality of the Portuguese economy with respect to the nature and make-up of its production fabric. This led to reflection on the texture of the Portuguese economy that raised awareness of the limits imposed by its poor performance in terms of production. The weaknesses in its industrial fabric were especially evident, leading to the acceptance and approval of an economic modernisation programme largely involving the adoption and implementation of an electrification plan, and acceptance of an industrialisation programme that was to be seriously compromised by a number of obstacles.

The painful revelation of external dependence, clearly shown by widespread scarcity, severe restrictions and supply difficulties caused by the war, was coupled with a complex series of internal effects with regard to inflation, the black market and contraband, together with changes in the production system in response to the fact that markets were operating in exceptional circumstances against a backdrop of growing problems.

It rapidly became evident, at least to some observers, that the war was a difficult test for Portuguese economic capacity, especially when viewed from a perspective of economic independence. What is particularly interesting is that the solution proposed was strikingly nationalist in tone, and the approach adopted was precisely intended to reinforce that principle of economic independence.

### War and wealth

The prevailing situation and the nature of the solutions that the authorities sought to impose on the Portuguese economy did not prevent the war from being a time of relative prosperity and enrichment for many economic agents, including the State.

During the war years Portugal built up exceptional gold and foreign currency reserves in the Bank of Portugal and considerable liquid assets in the Treasury account, and recorded substantial increases in bank deposits. In combination with low domestic investment, this placed the country in a favourable financial position once the war was over, in marked contrast to most of the European countries that had been involved in the conflict. This was reflected in an extraordinary expansion in the amount of currency in circulation as a result of a combination of factors, particularly inflows of capital (new, returned or brought in by refugees), foreign exchange inflows, leading to significant growth in foreign exchange reserves (particularly from purchases and investments by the warring parties), and increased invisible earnings. In addition to this, Portugal was owed some £80 million by the United Kingdom at the end of the war. In short, the financial situation was comfortable both in terms of State accounts and at private enterprise level, though the resulting inflationary pressure was a major concern for government economic and financial policy.

Added to these factors in the banking system were the positive balances from war-related business, revenue from contraband and the proceeds of 'illegal' circles such as the black market. In general the total means of payment tended to increase on a regular basis throughout the period, with a substantial proportion being retained by the banking system under Government tutelage to support its battle against rising inflation.

This State-held accumulated wealth in the banking system and in private savings represented significant spoils of war. Its application, however, remained modest and constrained as regards productive investment, and while this offered reassurance in anticipating the years to come from the perspective of State financial resources, it was ultimately insufficient and quickly ran out. Be that as it may, the essential aspects of the aims and objectives set out by Portugal's monetary policy authorities had been achieved, especially with respect to the value of the escudo and its guarantees.

The literature has underscored this fleeting image of prosperity brought about by the war. It has also indicated the importance of some of its positive effects, while pointing out that the opportunities it offered were to some extent not fully exploited for future benefit. What is more, the available economic indicators have shown that the period corresponding to World War II was a rather insignificant stage as far as growth is concerned.

On balance, the truth is that the country became very rich, yet grew very little.

Owing to circumstances and reasons connected to the war footing in combination with the fabric of the Portuguese economy, domestic output grew very little during the war, and in 1946, per capita GDP was not much higher than it was in 1939 <sup>(4)</sup>, in contrast, as Silva Lopes pointed out, to what happened in other countries that, like Portugal, remained neutral during the war.

### **From prosperity to crisis**

It soon transpired that the high expectations fuelled by the war had not fully developed or come to fruition, bearing witness to the temporary nature of the prosperity and its make-up, since a process of modernisation was still lacking in production sectors. The prosperity experienced at the end of the war was in fact more apparent than real, largely because the conflict generated riches rather than permanent self-sustaining sources of revenue.

It became apparent that the short-term measures taken to exploit these advantages and to find new 'directions' making it possible to overcome the weaknesses of the national production fabric and counter the negative impact experienced during and after the war could not have an immediate effect, since it was difficult to reverse very long-standing trends. Added to this were the reservations and constraints imposed by the Portuguese authorities (particularly with respect to maintaining the internal political and social balances), the strictures of corporate organisation, and stringent compliance with the dogmatic principles of traditional financial policy, which framed, defined the limits of and in practice outweighed that strategy.

The reassurance provided by the substantial gold and foreign currency reserves was soon called into

question by the decline in exports brought about by the war and the needs imposed by the modernisation programme in progress. The return to 'normality' to which the Portuguese authorities were so attached further emphasised the vulnerability of the national economic situation, particularly the production apparatus, once again underscoring the difficulty of exporting products traditionally produced in Portugal and confirming the country's dependence on foreign imports, particularly from its traditional European partners; this had a particularly negative effect on the balance of trade and payments, triggering a crisis that did not respond to the usual treatment and controls.

Thus in early 1948, for the first time since the Estado Novo was institutionalised, the Portuguese financial and foreign exchange situation deteriorated significantly. The economic and financial climate in the country had moreover been showing signs of fragility since 1947, and everything at the time suggested that the situation would get worse, as in fact it did. The overall effect was a sharp decline in gold and foreign currency reserves, most notably from 1947 to 1949, which threatened the financial equilibrium that was one of the cornerstones of economic policy during the Estado Novo.

### **Portugal, Marshall Plan beneficiary and member of the OEEC and EPU**

In the end, although later and under slightly different circumstances, Portugal was also involved in the international crisis that affected most European countries, and which gave rise to General Marshall's speech in June 1947 and the consequent formulation of the Marshall Plan, in which Portugal played an active and full role from the outset.

Contrary to the impression given in some quarters for many years, Portugal was in fact actively and heavily involved from the very beginning in the various initiatives to implement the Plan: its representatives attended the July 1947 Paris Conference on European Economic Cooperation, where, in response to General Marshall's suggestions, common economic needs were outlined and an economic recovery programme for European countries was drafted; the country accepted the various mechanisms introduced under the European Recovery Program (the official name of the Marshall Plan); it was a founder member of the Organisation for European Economic Cooperation (the OEEC, subsequently the OECD); and it benefited from US financial aid, despite originally rejecting it.

Through the Minister for Foreign Affairs, Caeiro da Mata, the Portuguese Government initially declined the offer of US aid. This was a time when political and ideological principles clearly outweighed the new realities that confronted them. At foreign policy level, the decision to reject the offer was a compromise of sorts between the wish to preserve the major pillars of Salazar's diplomacy and being present in Paris. The Portuguese Government wanted to ensure that the country remained economically independent, yet depended heavily on provisions from abroad to do so. Thus, despite a genuine loathing for the economic consequences of cooperation, Portugal inevitably had to develop closer links with its main trading partners. External dependence clearly imposed strict limits on the desired self-sufficiency.

Only a year had passed, however, before a deterioration in the country's economic and financial situation forced the Portuguese Government to change its original decision to forego US financial aid under the Marshall Plan, contrary to the principles underpinning its foreign policy. Portugal committed itself, albeit reluctantly, to the economic cooperation that would meanwhile lead to consolidation in Western Europe, paving the way for the increasing internationalisation of the Portuguese economy. Against a backdrop of some optimism and considerable willingness, vain attempts were made to reverse the pronounced deterioration in the national financial and foreign exchange situation. This was essentially because the tendency to overestimate the national economic fabric's capacity and potential and the results of the industrial programme (developed against a background of deep-rooted economic self-sufficiency) was paralleled by a tendency to underestimate the scale and effects that the 1947 international trade and payments crisis was to have in Portugal. Having avoided US aid as far as his negotiating capacity would allow, on 20 July 1948 Oliveira Salazar finally raised the possibility of taking advantage of the Marshall Plan. The Portuguese authorities' inability to counter the implacable financial and trade crisis affecting the country offered no alternatives. Faced with the dilemma of either US aid or monetary and financial collapse, the Prime Minister exercised the flexibility required to bring about one of the most significant changes in

Portuguese foreign policy during the Estado Novo. Despite scepticism towards the economic cooperation emerging at international level, economic and financial pragmatism ultimately prevailed over political and ideological factors.

The Portuguese Government therefore endeavoured to ensure that Portugal was considered in the distribution of American loans. It did so both directly and through its diplomatic representatives — a context in which Ambassador Rui Teixeira Guerra played a vital role, as he did throughout the events leading to Portugal's involvement in European cooperation from the post-war period until accession to the Communities, energetically lobbying the US Government, the Marshall Plan's US administration and the OEEC to obtain maximum US financial aid.

Portugal's involvement in the Marshall Plan had a significant impact on the organisation of a controlled process of economic development. In practice, the Plan offered a reason and opportunity for the formulation of a post-war economic programme that encapsulated the essential aspects of Government economic policy and guided its action up to the implementation of the First Development Plan (1953–1958). It should also be noted in this respect how Portugal's involvement in the Marshall Plan helped the country to adopt new approaches to economic policy through economic planning, exercised in the successive development plans that were to guide Portugal's economic activity until the end of the Estado Novo.

As a whole, Portuguese participation in the Marshall Plan brought in financial aid amounting to around US\$ 90 million (over two and a half billion escudos), attracting the interest of many of the country's economic operators, including the State itself. The amount is not significant, particularly when compared to other beneficiaries, yet it was important at the time for containing and overcoming the multifaceted crisis facing the Portuguese economy and society. Through the mechanisms it generated, European Recovery Program aid helped to eliminate Portugal's balance of payments deficit and facilitated the supply of essential goods that were needed to resolve and minimise the economic and social effects of the crisis. It also enabled equipment to be acquired for certain projects that could not get off the ground or continue without it (thus contributing to investment in economic activities that were included in part in the recently approved industrialisation programme), and for constructing certain infrastructure, particularly hydroelectric dams. Important studies were also carried out by foreign experts, particularly Americans, on specific aspects of the Portuguese economy. In addition, Portugal's participation in the various programmes run under the Marshall Plan helped to cultivate seeds that were to spread to some sections of the Portuguese elite, enabling links to be intensified and raising awareness of new international realities. It also led to the unprecedented arrival of foreign specialists, contributing to an increased opening up of the Estado Novo, a process that would be difficult to reverse. Portuguese participation likewise helped to intensify the country's involvement in a process of increasing internationalisation and openness to the world. Portugal was thus taking the first steps in its 'European venture'.

The history of Portugal's participation in the Marshall Plan was an integral part of a period of transition. It was a bridge out of the Second World War, between cooperation and self-sufficiency, and between the heavily agricultural Portugal and the industrial Portugal that came to outweigh the country's rural dimension. The fact that the country was included in the new international institutions arising out of the Marshall Plan (the European Payments Union, in addition to the OEEC) brought a variety of greater or lesser advantages, including the formation of a technical elite, greater awareness of the workings of international trade and active participation in this field, and knowledge of how to use the new international monetary and financial instruments that emerged in this post-war period. Albeit reluctantly, Portugal ensured its inclusion in the system of international trade and payments, and in particular its active presence in the emerging European economic cooperation that was initially to lead to integration into EFTA and, almost 40 years later, accession to the EEC in 1986.

It should be noted, however, that this rapprochement with Europe, notably throughout the 1950s, was almost inevitable, in particular because of the pressure of international circumstances. It was above all an unrelenting reaction to the weight of the 'international siege', which the authorities sought to couple with the change in relations towards the colonies. Efforts were made to preserve the essential dimensions of the existing situation and to reconcile two diverging paths: the independence coveted by the regime, and the

internationalisation imposed by external circumstances.

There is no doubt that the international situation had changed irreversibly, so the newly formulated resurgence of the potential of European cooperation, as conceived and constructed from the end of World War II, would require Portugal to reconsider its attitude towards foreign policy, at least informally, pushing it inevitably on to the European stage.

Adopting a versatile and pragmatic global approach to international economic cooperation, the country adapted to circumstances by promoting changes in direction, essentially endeavouring to balance a European or Atlantic option, from which it never wished to be excluded, with an 'African' option of unity with the colonies, which it did not wish — and perhaps was unable — to abandon.

The major lines of Portuguese foreign policy were furthermore clearly set out. The strategy put forward in post-war Portugal fundamentally involved ensuring the maintenance of traditional Portuguese foreign policy, based on its four favoured dimensions: Brazil, Spain, the UK and the African colonies. As far as the colonies were concerned, the principles of a future project embodying the idea of creating a unified Portugal that would bring the mainland and the colonies together, which was to emerge some years later with the embryo of a plan to establish the would-be Portuguese Economic Space, began to take shape in the early 1950s.

A strong antipathy to communism and a distinct lack of trust in the USA also coloured political thinking among the regime's senior figures in the post-war period. In the context of the Cold War, the contradictions of these two rather incongruous positions tended to spread throughout Europe, and while the former aversion did not have a significant effect on Portuguese foreign policy, it was able to enforce a rapprochement, bringing pressure to bear for a gradual shift towards the other side, driven by the need to defend the Western world from the USSR. The turn of events was in fact to lead to increasingly close relations between Portugal and the USA.

In addition to the Marshall Plan and everything associated with it, in February 1948 the Portuguese Government signed an agreement with the US Administration that granted America a military base in the Azores, and in a broader context Portugal was admitted as a founder member of NATO on 4 April 1949. This meant that in the 1950s, at the height of the Cold War, Portugal was openly accepted, particularly by Western countries.

Meanwhile, the winds of decolonisation that had already shaken the European empires were building up and would very soon cause Portugal serious difficulties.

(1) José da Silva Lopes, 'A economia portuguesa no século XX', *op. cit.*, p. 311.