PORTUGAL AND THE QUEST FOR EUROPE, 1947-2007

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1. Introduction

Portugal's formal integration in European institutions dates back to the period of the *Estado Novo,* when the country was under dictatorship, and pursued steadily through the following decades, peaking with the adhesion to the European Economic Community (EEC), in 1986, and to the Economic and Monetary Union (EMU), in 1992. The analysis of such long run commitment to European integration is illuminating of Portuguese political history as well as of the many ways through which European integration proceeded, particularly in the western periphery of the Continent. Portugal accepted the Marshall Aid (after having firstly refused to do so), in 1948 it was a founding member of the Organisation for European Economic Co-operation (OEEC), and in 1950 joined the European Payments Union (EPU). In 1959, Portugal was a founding member of the European Free Trade Association (EFTA) and in 1972 signed a free trade agreement with the EEC. When Portugal finally joined EEC in 1986, after a long period of negotiations, most trade barriers with the rest of Western Europe had already been dismantled, with the exception of barriers on agricultural goods and fisheries and, more importantly, on trade with Spain (although a partial commercial agreement was signed in 1980). When the EMU was launched, in 1992, Portugal was a full member of integrated Europe. Such long run and persistent commitment to European integration had domestic implications, as it shaped economic policies within the country and the pattern of economic growth. This paper assesses those implications. The paper also assesses the implication of Portugal's quest for Europe on the history of European integration. The analysis of the commitment of a peripheral and backward country, even when under dictatorship, also enlightens the history of European integration outside the core of industrialized and more developed countries.

The main contention of the present paper is that economic policy in Portugal followed patterns quite similar to those that we may find elsewhere in continental Europe, even before the democratic revolution of 1974-1976 and the accession to the European Union in 1986. Throughout the period here analyzed, the driving force of economic policy in Portugal was a combination of state intervention with measures to increase the exposure of the domestic economy to international market forces. This clearly was a European pattern. Those common driving force helps explaining the relative easiness of the formal integration after 1986. And it also helps clarifying the true relevance of formal integration in the European context, which under this light appears relatively less important.

Portugal's experience shows that European integration was not fostered only by EC/EU membership, but it could be favoured also by other European institutions such as OEEC, EPU and EFTA, and by international institutions as GATT. In this sense, the Portuguese case seems to suggest the relevance of an history of European integration beyond the history of the EC/EU.

The paper proceeds with the analysis of economic policy followed by Portuguese governments from the end of World War II to the present day. We will pay particular attention to understanding how policies that promoted domestic institutional development and stimulated the national economy were related to the measures that increased the degree of openness of the economy. That analysis is then related to what was happening contemporarily in the process of European integration led by the creation of the EEC and the EU.

2. The OEEC years, 1947-1958

The reconstruction of the European economy after World War II was associated with the establishment of conditions that favoured economic growth with full employment, to achieve social and political stability, and to give a new role to Germany, which had been in the past a major engine of European growth. These two objectives were achieved by international cooperation which allowed state intervention in the economy as well as openness to international market forces. The aim of the Marshall plan and of the institutional framework of the Organization for European Economic Co-operation (OEEC) and European Payments Union, established respectively in 1948 and 1950, was to provide a solution to Western European reconstruction by assisting the recovery of European trade and help solving the German question by assisting to its democratic and economic reconstruction in a peaceful context. The OEEC and the EPU had to secure co-operation between the member states with a view to removing quantitative restrictions and to contribute to the re-establishment of multilateral payments. State intervention and trade liberalization could thus be pursued within a European regional framework.[1].

Initially, the Portuguese dictatorial government, led by Salazar, refused Marshall Aid and showed an ambiguous position towards European co-operation. The official view remained that the country's development did not require any external assistance[2]. However, as a result of the difficult situation in which the country found itself in 1948, the government had to reverse its initial position. World War II had a positive impact on Portugal's balance of payments as exports increased and imports dwindled. Yet, a large share of the gold and foreign exchange reserves thus accumulated had to be spent in 1947 because the government had to allow large imports of foodstuffs due to the bad agricultural production of that year. The pressing need for dollars made the government change ideas regarding Marshall Aid.[3]

More importantly, the fact that Portugal joined OEEC since its commencement and then the EPU implied the abandonment of the autarkic policies of the pre-war, the participation in the new European economic order, and the endorsement of the same economic policy of the other Western European countries.[4] Crucially, that change in strategy was not announced publicly, as the government pursued with an imperial rhetoric, which was presented as incompatible with European integration.[5]

The Portuguese government was not unprepared to the opening of external market forces and to the economic integration with the other European countries. By then, economic policy was essentially contained within the 1935 Law of Economic Reconstitution, scheduled to remain in force until 1950. That law was the Portuguese state's first economic plan and the keystone of the many economic intervention tools created or reinforced by the state during the period of autarky in the 1930s. It detailed the new functions that the state sought to exercise, those it was permitted to exercise following the financial recovery for which Salazar was

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[1] The literature on the Marshall Plan, the OEEC and the EPU and the reconstruction of Western Europe is quite large. For their contribution to the reconstruction of Western Europe and European integration see Milward (1984).

[2] See Rollo (1994).

[3] See on this Ferreira (2003), Leitão (2001 and 2007), Pinto and Teixeira (2005) and Alípio (2006).

[4] For an analysis and comparison of the economic policy of Western European nations, Portugal included, see Crafts and Toniolo (1996). The commitment of Portugal to integrating with Europe is described also by Eichengreen (2006), pp. 204-205.

[5] This rhetoric was very successful, as it survived the dictatorship and was absorbed by most historians, even those that were not connected to the regime. The acceptance of Marshall Aid was only fully studied by Rollo (1994) and the fact that the Empire was compatible with European integration was only fully expressed by Leitão (2001 and 2007).

responsible during his first years in government.[6] The economic reconstitution law outlined the government's priorities and sought to establish a framework for public and private investment. It promoted the construction of infrastructures and the creation or strengthening of those industrial sectors that were considered of strategic importance for the national economy.[7]

The reconstruction of Western Europe required giving a solution to the Franco-German confrontation over the natural resources of Ruhr and Saar. The Treaty of Paris (1951), which established the European Coal and Steel Community, resolved this problem signalling the end of the reconstruction period of Western Europe and, at the same time, the beginning of European integration within the Six. The ECSC went a step further in the international cooperation which allowed opening up the frontiers amongst the signatory countries.[8] Government intervention proceeded in these countries in other sectors, as well, as it did in the case of Portugal.[9] In 1952, a new economic plan was published, concerning the years from 1953 to 1958. The I Development Plan consolidated the state's will to intervene in the construction of infrastructure and to promote manufacturing as well as the agricultural sector.[10]

The participation in the OEEC, the economic Reconstitution Law and the First Development Plan represented the framework of what would be the economic policy of the New State practically until its fall. The first represented the beginning of Portugal's association with the institutions of economic co-operation and international trade regulation, framing the opening to the outside without threatening other policies over the country's economic specialisation. The Law and the Plan gave the state the necessary levers for influencing this economic and industrial specialisation. This higher framing of economic policy was accompanied by other measures that proved to be of equal help. They were policies relating to the control of inflation and of the prices of some essential products, as well

[6] The country's financial recovery was one of the *Estado Novo*'s earliest successes. However, it should be noted that it was not only a result of political will, but also of the favorable circumstances in the international markets and of the resulting economic recovery. The growth of Portugal's economy was much stronger precisely until the mid-1930s, and there was some deceleration until the end of the Second World War (Lains 2003a).

[7] More than half of the expenditure anticipated in this law was destined for the armed forces; however, the remainder also reached levels higher than the country had ever known.

[8] On the creation of the ESCS see Gillingham (1991) and Milward (1984).

[9] Crafts and Toniolo (1996) and Eichengreen (2006).

[10] Agriculture had previously been controlled through the Wheat Campaign, which was established in 1929.

as policies to ensure the public accounts were balanced and to maintain the value of the currency (escudo).[11]

3. The EFTA years 1959-1974

For the six government which signed the Treaty of Rome in 1957, the EEC was an instrument to guarantee what was seen as essential for their economic growth: the maintenance of the dynamism of the flow of exports to an area the hub of which was the Federal Republic of Germany, by means of a regional trading area protected from international competition. In this regional and protected area trade barriers could be eliminated and exports, considered essential for the economic growth, increase.[12] Peripheral nations were excluded from the EEC because of their limited potential for integration, as rapid integration implied some similarities of economic structures. In case of Portugal, political questions were also important given the difficulty of allowing a dictatorship to join institutions ruled by democratic principles. Nevertheless, it was economic matters that determined Portugal's exclusion from this more advanced level of European integration.[13]

Small country size made exporting essential and Portugal had the chance to benefit from the reaction to the EEC of the more industrialised OEEC countries that in 1959 established the European Free Trade Association (EFTA) as a means to dismantle customs tariffs on industrial products. Portugal's membership of this new international organisation was exceptional since it was the only non-industrialised country allowed to join. Governments and producers of the United Kingdom and the EFTA members could have resisted the incorporation of a low-wage country into their free trade area. Though, because of the small size of the Portuguese economy, they were willing to make an exception. By becoming a member of EFTA, the Portuguese government was obliged to proceed with the dismantling of its customs barriers, although it did negotiate special clauses that allowed it to proceed more gradually, thereby giving its emerging industrial sectors some time to adapt. In addition to this, it managed to secure the opening of markets to the export of some processed agricultural products that Portugal succeeded in having defined as industrial products and benefit from

[11] The imperial policy initiated with the 1930 Colonial Pact also warranted closer attention, but in this field, the number of failures exceeded the number of successes.
[12] Milward (1992).
[13] On Portugal and the creation of the EEC see Leitão (2007).

lower tariffs in the markets of its EFTA partners. Taking on additional obligation to liberalise, in 1962 Portugal joined GATT.[14]

Thanks to the trade opening achieved with EFTA and GATT, the share of exports in GNP increased from 15 percent in the 1950s to 26 percent in 1973. Moreover, the opening stimulated the development of Portugal's industrial structure as textile and other light industry started to penetrate western European markets. While the sharing of agricultural products decreased after 1960, the share accounted for by textile, apparel, and footwear increased from 16 percent in 1958 to 30 percent in 1973. The same trend was followed by exports of chemicals and machinery. Despite the import role of the EFTA had enhancing Portuguese exports, the growth of exports to EEC countries became even more important as a consequence of the fact that both the Federal Republic and France were, at that time, the motors of Western Europe's economy thanks to their size and rapid growth.[15]

Agriculture in Portugal continued to enjoy strong state protection via the regulation of markets, price controls and public investment on infrastructure, following the policies established during the 1930s. Nevertheless, these supports were not sufficient to enable the sector to respond to the loss of labour to industry, the service sector and emigration. It was during the 1960s, a period of strong industrialisation and the growth of industrial exports that, for the first time, Portugal's agricultural sector experienced a population loss, which was accompanied with a sharp decline in production.[16] The growth of industrial exports, remittances from emigrants and capital imports allowed Portugal to maintain its external balance with low levels of inflation and a relatively stable exchange rate. And such favourable external balance of payments enabled the government to continue with its policy of low interest rates and a balanced budget, which encouraged growth of both private and public investment. Opportunities for private investment in industry followed closely the structural transformations in internal demand that was the result of improvements in living standards and of the increase in external demand. The service sector grew in the same manner, primarily in banking and other financial services, commerce, health and education. On the side of the state, the finances made available as a result of the favourable macro-economic situation were applied to industrialisation programmes through direct intervention or the application of powerful protection mechanisms. The fact that the country was in a phase of greater openness

[14] Lopes (1996).
[15] Eichengreen (2006, pp. 205-207) and Xavier (1970) which remains the most complete analysis of the commercial affects of EFTA.
[16] Lains (2003a).

to the outside world did not prevent the prosecution of these policies. As we shall see, the agreement with EFTA gave the government flexibility and space for these interventions, although in the end, the country did follow policies similar to those followed by the majority of the other of western European countries.[17]

The intervention of the Portuguese state in industry was mainly channelled to those sectors that were considered basic, such as energy production and transport. Without this intervention, the country's electricity grid would not have expanded so rapidly, it would not have been able to develop a cement industry, a national iron industry, fertilisers or chemicals in general. These sectors were not new to the country, and their expansion depended—to a large extent—on accumulated experiences, particularly during the inter-war period. However, none of them would have grown at the rate they did without state support. It must be stressed that this support was not merely indicative or marginal; on the contrary, it involved substantial financial assistance and guaranteed market controls. In some sectors, the existence of colonial markets—particularly for the sale of goods—was a distinct advantage, especially now that there was no advantage in the supply of colonial primary resources.[18]

Salazar government's economic policy during these years continued to be framed by the development plans. Two other plans followed after 1958.[19] These plans were important instruments that served as references for the actions of not only the government and its ministries, but also the corporative infrastructure that was being formed, as well as helping banks and industrial and agricultural companies make decisions. The *Estado Novo* revealed itself not so much through the definition of a corporatist regime, but by the fact that it had successfully managed to have its directives followed by a large network of public and private institutions, with the peak of this entire organisation being occupied by the development plans.

Portugal's high level of state intervention was not unique in continental Europe, and it was also compatible with the gradual opening of economies to external trade: indeed, it was an element that facilitated the opening of the borders to foreign products. Portugal's membership of EFTA represented a phase of internationalisation of the Portuguese economy that also allowed state intervention in the economy. For that reason, the period of EFTA

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[17] Menon and Wright (2001) and Hayward (1986).

[18] Lopes (1996).

[19] There were development plans for 1959-1964, the interim plan of 1965-1967, and for 1968-1973. There was a fourth plan, covering the years 1973-1978, which never came into force. These documents, which also contained sections dealing with the colonies, are extremely useful for analyzing of the Portuguese economy.

membership can be described as a period of controlled opening, during which the state maintained—and even increased—its role in the management of the economy and of the effects of economic opening. This happened in Portugal, just as it happened in other European countries whether or not they were members of the EEC. The result of this intervention was largely positive up to 1973.

The Estado Novo economic policy entered a period of decline during the final phases of the regime, and in particular during Marcello Caetano's consulate. This decline owed much to increases in the degree of political debate and to the problems the Portuguese economy began to face at the end of the 1960s. Among these problems were the increasing budget difficulties caused by the colonial wars, previously unknown increases in inflation levels and the impact of the international recession. However, the economy continued to grow at a good rate.

It is against this framework that Portugal had to face the first enlargement of the EEC in 1973 that incorporated the EFTA members, the United Kingdom and Denmark, and Ireland. The enlargement of the EEC to the United Kingdom and Denmark undermined the role of EFTA as these two countries had to leave this organisation. At this point it became essential for Lisbon to look for a solution that would enable it to strengthen its trade preferences with the enlarged EEC. The solution to this problem was represented by the bilateral Free Trade Agreements (FTA) the EEC signed with the countries that remained within EFTA. The agreement with Portugal was signed in 1972 and revealed itself crucial in enabling the dismantling between Portugal and the EEC in the industrial sector, a process practically completed—with the important exception of trade with Spain—by the time of Portuguese joining the EEC in 1986. In this sense, the EFTA membership and then bilateral FTA with the EEC played a key role in integrating Portuguese economy with that of the other western European countries.[20]

4. Revolution, crisis and recovery, 1974-1986

The end of the Bretton Woods agreement over the exchange-rate policy in 1971-1973 and the hike in oil prices during the winter of 1973 dictated the end of two decades of international economic growth and monetary stability. The Seventies was a period of economic crisis, during which mostly all countries suffered from inflation, deficit in the balance of payments and sluggish rate of economic growth. In this period, the EEC tried to

[20] On the EEC-Portugal agreement see Sampedro and Payno (1983).

adapt to the international economic and financial turbulence and assimilate the first enlargement.[21]

The governments of the EC members reacted to the contraction of the international economy and increasing rates of inflation and unemployment through the introduction of national economic protection measures. This re-emergence of state protection was possible because the EEC lacked effective powers to intervene in many aspects of market regulation and the provision of state subsidies to businesses. At the same time, the EC members reacted to the monetary crisis trying to move from transatlantic co-operation to EC co-operation with the creation of the Snake agreement in 1973 and then with the establishment of the European Monetary System (EMS) in 1979.[22]

The decisions taken in the 1970s proved to be crucial for the subsequent development of the EC. The institutionalization in 1975 of the European Council, which brought together the European heads of state and government; the signing, in the same year, of the Lomé Convention with the countries of Africa, the Caribbean and the Pacific; the first direct election of members to the European Parliament and the creation of the EMS, both in 1979, the implementation of the EC regional policy and the increasing important role of the European Court of Justice in the control of national governments' application of EC law had a fundamental importance in the future evolution of the EC.[23]

The development of the EEC regional policy was favorable to Portuguese membership and deserves some more attention here. In the 1960s there had been little progress within the EEC in respect of regional policy. The Treaty of Rome allowed national state subsidies to be paid to the poorest regions—the only mechanism that existed to provide such support – and set up the European Investment Bank to favour investments in lagging-behind regions of the EEC. The support base for regional policy was enlarged following The Hague Summit of 1969 and the 'completion, 'deepening' and 'enlargement' objectives that, by foreseeing the entrance of members with backward regions and the implementation of the monetary union, was favourable to those who supported the existence of a EC regional policy as a means to reduce regional disparities and favour balanced development at the regional level.

Even before the first enlargement, the United Kingdom, Ireland and Denmark supported the creation of a Regional Development Fund (as it came to be known) and were

[21] The literature on the monetary problem is quite large. See, among the others, James (1996). For the EEC in the 1970s see Griffith (2006, pp.169-190).
[22] On the EMS system see Eichengreen (2006, pp. 225-251).
[23] Griffith (2006, pp.169-190).

joined by Italy, by France and Germany, which were interested in monetary union.[24] During these years, the more liberal attitudes that were associated with the negotiations adhered, in theory, to the idea of the need for a fund of that type, even though they may have had disagreements over the means by which it was to be financed. Also important is the recognition of the principle that the implementation of the monetary union had to be accompanied with of financial compensations to the weaker economies. A small fund was finally created at the end of 1974 that opened the door to future developments that, however, would have to await a more favourable climate.[25]

The military coup of April 1974 and the inauguration of the democratic period with the first constitutional government two years later raised the possibility of Portugal becoming a member of the EEC—although, as we shall see, it was a very long shot. Yet Portugal's democratisation and the transformation of the EEC as a result of the 1973 enlargement opened the field of possibilities. EEC was no longer a small group of countries with close per capita income levels, with a large degree of interdependence and important political affinities. This paved the way to more enlargements, and especially to Spain, which was supported by the French government. Moreover, internal EEC development as the implementation of a common regional policy seemed to further increase the advantages that Portugal could enjoy from EEC membership.[26]

In 1977, Portugal's Prime Minister, Mário Soares, called for negotiations to be opened on Portugal's membership of the EC. Formal negotiations began in October 1978, but it was not until 1980 that discussions of substantive matters got under way to finally end in 1984[27]. The long road to membership occurred from the fact that the Portuguese economy was not in any condition to bear rapid membership and the fact that Portugal — and the world — had entered a recession.[28] Portugal's economic problems were not born with the 1974 revolution, and neither were they brought about by the 1973 oil shock. There had been inflationary tendencies, albeit moderate, in Portugal since the end of the 1960s. These tendencies reflected some of the Portuguese economy's main problems, which, in no particular order of

[24] Dinan (2004, pp. 149).
[25] Griffith (2006, pp.169-190).
[26] On the EEC enlargement see Avery and Cameron (1998).
[27] For brief descriptions of the negotiations, see Vallera (2000), Vilaça (2000) and Ferreira (2003). According to Dinan (1999, pp. 105), substantive negotiations between Portugal and the European Commission only began in 1980.
[28] The Portuguese economy experienced it period of most rapid growth between 1950 and 1973, which suggests that in that final year the country was closer to the richest European countries than at any other time in its history. See Lains (2003b).

significance, included: the country's involvement in colonial wars and the consequent difficulties of military finance, a profound crisis of agricultural production, with knock-on effects for the country's trade deficit, the slow-down of industrial growth, and the difficulties of financing the emerging social security and state controlled price subsidies.

Between October and November 1973, oil prices quadrupled, aggravating the inflationary tendencies that had been felt since the beginning of the decade. For the first time in decades the rate of inflation in Portugal reached 20 per cent in 1974. The *Estado Novo*'s institutional framework was rigid, and very soon demonstrated its unsuitability to deal with a situation of inflationary pressure. For example, the government maintained price controls over a number of essential items, which resulted in transfers being made from the state budget to producers, largely into a Food Fund. Despite becoming extremely onerous with the increase in the inflation rate, the policy remained unchanged because Marcello Caetano's government did not have the room to manoeuvre.

The rigidity inherited from the New State was not challenged by the governments that followed after the 1974 coup. The first provisional governments, which were not yet openly Marxist or collectivist, were far too weak to confront the discontent that the necessary price increases would bring. The populist governments that followed in 1975 were happy to retain the measures controlling both prices and salaries, as they formed part extreme-left's model of governance. The governments that emerged after the coup had yet to come to terms with the fact that public sector wages had not been adjusted along with increases in prices, and were forced to make extra-ordinary increases to these salaries as well as introducing a national minimum wage. Other significant sources of disequilibrium resulted from the huge influx of Portuguese nationals coming from the former African colonies and the reduction of remittances from Portuguese emigrants in Europe, as well as the decline of exports and capital imports.

Portugal's economic problems did not differ much in their essence from those that affected the rest of Western Europe. The other countries also felt the need to make important changes to the structure of their economies as a consequence of the reduction in the external competitiveness of some industrial sectors, particularly the more traditional ones connected with basic industries. Throughout the rest of Europe, these changes were less rapid than necessary, largely as a result of political and union resistance, but were going to have implications for the economic policies and relations between the governments, the unions and the business association.

Taking an important step towards their future EEC membership, both Spain and Portugal signed a bilateral trade agreement in 1980. The trade agreements made by the two countries with the EEC in 1970 and 1972 respectively had effectively contributed towards important reductions in customs tariffs with the European partners, but had done nothing to advance the liberalisation of trade relations between the two Iberian countries. However, the 1980 agreement did not extend to cover the three principal areas of intervention dealt with in the 1985 membership treaties, notably the reduction of trade barriers between Portugal and Spain, the fisheries agreement and the reduction of agricultural tariffs.[29]

While negotiating with the EC, Portugal was involved in profound changes that were moving in a direction clearly favorable to the country's integration into the EC. Nonetheless, just as the EC-9 had to confront the problems before them on the road to a deeper European integration, so too did Portugal had to confront its own problems on the road to EC membership.

5. EEC membership, 1986-1992

The economic crisis and the monetary instability of the 1970s led the EEC member states to take moves that would deeply influence the development of the EC. Moreover, like the 1970s, the 1980s too were characterised by the combination of enlargement of the Community and deepening of the existing policies or launching of new policies. As we will see, these developments favoured Portuguese membership. By the end of 1970s the aim of establishing a common market had not been achieved. As tariff barriers were being phased out, EC members began to erect new barriers among themselves, causing the fragmentation of the European market. Against the combination of extremely poor macroeconomic performance and the failure to achieve a real common market, pressures started to mount within the EC and the private sectors to address in a comprehensive and systematic way the problems created by the "incomplete" Europe and resolve what became known as 'Eurosclerosis' by altering the paradigm of economic policy and of the type of state intervention in the economy. The arguments in favour of the completion of the community market were supported by the idea that the abolition of existing barriers to the free circulation of labour, capital, goods and services, together with lower intervention of the state in the economy, would lead to productivity gains and economic growth.[30]

[29] Hibou (2005, pp. 237).
[30] Sapir et al. (2004).

The change of political economy of the EC was signalled by the agreement between the EC members on the way to stimulate their economic growth, an agreement built around three elements: market integration and liberalisation at regional and multilateral level, and further enlargement of the EC market. While at multilateral level in 1986 the Uruguay Round of GATT negotiations was started to enhance the liberalisation of international trade, in the same year at regional the EEC member signed the Single European Act (SEA) which formalised the commitment to the implementation of a single market by December 1992 through reforms leading to the free circulation of goods, capital, services and people. In the same year, Portugal and Spain became new EEC members.[31]

The SEA established an open link between the creation of the single market and the need to promote economic cohesion within the EC. The first Delors package for 1988 -1992 increased the amount available for structural funds for investment in physical infrastructures, as well as in human capital. Therefore it connected the creation of the single market with the increase in transfers to the poorer countries or regions, in order to help them enhancing competitiveness.[32] The enlargement of the EC towards Greece, Spain and Portugal, was thus associated with the development of the idea that rich countries should contribute to compensate the short-term negative effects of opening up in the less developed economies, in order to allow the EC economy to grow in a balanced way.

Thus, EC economic policies favored Portugal at a time when considerable political and economic transformations were occurring at a great speed. These transformations took place through the convergence of the interests of the two principal parties in the 'central bloc' governments. Stabilisation had been associated with changes in some of the political fundamentals inherited from the most intense revolutionary period. The 1982 revision of the constitution abolished the Council of the Revolution, which up until that moment had a declining role in the political system. It was also necessary to revise the Constitution, which stated that the 1975 nationalisations of the banking sector were irreversible. National stabilisation still had to pass an important test in Portugal. This was the balance of payments crisis provoked by the second 1979 oil shock and the European recession that followed. In 1979 and in 1983, the Portuguese governments signed agreements with the International Monetary Fund (IMF), which allowed the restructuring of the external debt and provided assistance to the restoration of external equilibrium. Such loans went along with budget cuts and tax increases, during the "bloco central" government led by the socialist Prime Minister

[31] See Dinan (2004) and Eichengreen (2006).
[32] Beach (2005, p. 56).

Mário Soares. In 1985, Cavaco Silva was elected president of the Social Democratic Party (PSD—Partido Social Democrata) and began to plot the end of the Central Bloc and the calling of early elections. However, his plans were temporarily suspended in order to allow the Accession Treaty to be signed at a special political ceremony in June 1985.

Negotiations between Portugal and the EEC was eased by the fact that Portuguese negotiators made relatively few demands, centred on the matter of financial compensation for agriculture and fisheries and those related to necessary internal institutional changes. The Portuguese negotiators gave no significant importance to the matter of the EC's political direction: they accepted the EC as it was, as that was the rule of adhesion. The fact that the Delors packages were developed was more an unexpected bonus than the result of national concerns. This attitude of passivity was accompanied by gains resulting from the opportune times through which the EC was living at the moment Portugal became a member.[33]

Portugal's membership of the EEC was followed by economic policy measures that, in some way, sought to compensate for the eventual negative effects of opening its relatively backward economy to its more developed partners. These measures financed by the community budget sought to stimulate public and private investment in priority areas, which included the restructuring of agriculture; investment in infrastructure and communications; and investment in the education of the workforce. They were more generic action areas than had been the subject of attention during EFTA membership, which preferred indirect stimulation whilst giving individuals and companies a greater role in decisions. It was certainly an evolution in the design of economic policy. Such policies enabled Portuguese agriculture to adapt to external competition, furnished the country with a modern transport and communications infrastructure and improved the qualifications of the country's human resources. The same policies have also had an effect at the level of macro-economic balances, since the unilateral transfer of structural funds has contributed towards financing the balance of current transactions. Truly, it is necessary to be aware that not everything has been positive in respect of the application of the CAP and use of structural funds; however, the probability that the benefits have exceeded the drawbacks is very large.[34]

[33] Hibou (2005, pp. 213-2).

[34] For a description of the structural funds, see Allen (2000, pp.243-66). For an assessment of Portuguese membership see Royo and Manuel (2005).

6. Convergence and divergence, 1992-2007

The deepening of the level of integration of the European economies was given another push with the signing of the Maastricht Treaty in 1992, the Growth and Stability Pact of 1997 and the introduction of Economic and Monetary Union (1999-2002). The new European Union (EU) was consolidated on the implementation of the common market and with the launch of the single currency. Under the Spanish lead, the launch of the single currency was accompanied by an increase of the EU's economic intervention capacity, through the introduction of cohesion funds in the II Delors Package.[35]

Economic and monetary union resulted in a considerable increase in the intensity of economic relations between the EU member states, particularly in respect of the trade in goods and services and capital transactions. This new framework aligned the EU with the developments of greater opening to the outside through the globe and was, for this reason, a fundamental step in the Union's history. However, monetary union took place during a period of strong recession and of declining economic growth in the EMU countries, and in particular in Spain and Portugal. The worsening of the economic situation in two of the countries that were beneficiaries of cohesion funds must not be associated only with the deepening of integration for the reason that there were many other factors that were also intervening. Nevertheless, the ability of the governments of these countries to respond was ever more limited. In 1992, the Spanish government devalued the peseta by 22 per cent and the EMS currency fluctuation band within which the peseta operated was increased from 3 per cent to 15 per cent. Portugal adopted the same tactic, although the Portuguese government decided to make smaller scale adjustments, as it wished to free itself of the memory of a recent permanent devaluation (crawling peg). At the time, these adjustments were viewed positively—although they were to be the last of their nature. In 1995, the new socialist government in Portugal gained the confidence of the markets by declaring Portugal's complete acceptance of the Maastricht criteria, which imposed budgetary rigour and public debt reduction.[36]

Since the 1986 enlargement and the concomitant expansion of the CAP and of structural policies towards the poorer countries, there has been little development in the EU's public policies. In other words, growing economic integration has been accompanied only by the continuation of already existing compensation policies. This is negatively reinforced by the fact that national governments are less able to intervene in the economy since they can no

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[35] Powell (2005, pp. 200-1).
[36] Jones, Frieden, Torres (1998).

longer control their own exchange rates to effect short-term changes to international competition and since they are obliged to keep the state deficit within the limits imposed by the Stability and Growth Pact.

For Portugal, membership of the EEC, the signing of the Maastricht Treaty and participation in the euro are all greatly important developments that have permitted the anticipation of improved perspectives for economic development over the medium- to long-term. Portugal's economy is small, and its development involves strong and increasing integration into the international economy and its participation in the EU's euro is the best guarantee of just this. However, participation in an economic and monetary union composed of wealthier countries has considerable effects on the Portuguese economy. Opening the country's trade to the outside has led to a series of fundamental changes to the structure of Portugal's economy, changes that are not unequivocally linked to improvements in productivity and, therefore, in the country's ability to compete with the other countries of the EU.

The international specialisation of the Portuguese economy in 2005 was less favourable to the increase in the country's economic growth than the situation that existed in 1992, since the importance of those sectors with lower levels of labour and capital productivity has grown. These are the clear and inevitable costs associated with the adaptation to a more competitive world. In the history of the European Communities, these costs of growth have tended to be compensated for by policies of public support to mitigate the negative effects, help less-developed countries to increase their competitiveness and allow the a balanced growth of the EC/EU economics. These support mechanisms are, however, worth little, not only because they reached levels that were too low in the context of the EU budget, but also because the enlargement of the EU to number 25 member states in 2004 increased the number of regions and countries that were competing for funds. Additionally, it is possible that the results of similar policies may have been less impressive nowadays than they were two or three decades ago, precisely because the modern economics is more competitive.

As such it is difficult to conceive an immediate solution to the problems of adaptation by a poor country to the growing integration in a community composed of countries that are richer and more developed in industry, services and market capital. It is also possible to conclude that there can be no solution and that any attempts to correct the processes that are underway will only serve to aggravate Portugal's situation. The fact that there is no immediate solution does not devalue the advantages European integration has brought a country like Portugal. However, we must take into consideration the problems that this integration has brought to the Portuguese economy while we criticise the operation of the EU or the national government. Also, we have to be aware that the possibility of a solution to the problems in the short-term will inevitably be measures for making existing norms more flexible. This was certainly what the European Commission was thinking when it allowed Portugal some leeway in proceeding to reduce the state's budget deficit with the extension of the deadline until 2008. The strengthening of pan-European projects, such as those contained in the Lisbon Strategy or those related to the development of communications may also have a role in the mitigation of the disadvantages that integration has brought to the less developed countries and regions.

The role of the member states in EU policy formation has always been important, particularly since governments and other domestic institutions have the capacity to set the EU's decision making process. This role diminished in some way with the enlargement of the EU and with the reduction of the areas which requires unanimous agreement. There have been significant variations in the ability to influence community decisions at any given time. As an example, the position of strength that Greece had in the negotiations on the Single European Act, which resulted in it receiving greater financial transfers in exchange for supporting enlargement to include Spain and Portugal — an enlargement it could have delayed or vetoed. Nevertheless, the ability for member states to exert influence depends on many factors there exists large margins for maneuver for different options that it is a game with uncertain results. That the poorer states within the EU may return the problems of 'cohesion' to the top of the European agenda is not implausible, although it would be difficult as a consequence of the more limited ability to organize and act.[37]

7. Conclusion

Economic integration has been a central characteristic of western European history since the end of the Second World War. The intensity of this integration has varied considerably during this time, particularly in respect of the extent of different countries' involvement and the intensity of the areas in which the mechanisms of integration occur. The involvement of each country has depended on national political conditionalism and the actual integration dynamic.

This paper has illustrated the economic policy of Portugal since the end of World War II and has showed that it was grounded on domestic intervention and the opening of the

[37] Borzel (2005, pp. 62-4).

economy to international market forces, a key factor for a small country for whom exporting became essential. This policy grounded on openness and intervention was pursed with the joining of European institutions as the OEEC, the EPU, EFTA in the 1950s and GATT at the beginning of the 1960s. In this sense, Portugal followed the same economic policy of the other western European countries. A peripheral and backward country, run by a dictatorship, emulated the economic policy of the democratic, industrialized and more developed European countries.

Moreover, Portugal opened up as much as it could under these institutions and then under the bilateral free trade agreement with the EEC in 1972. The participation to the OEEC, the EPU and above all the membership of EFTA allowed Portugal to advance progressively to the internationalisation of its economy and to adapt to the European competition and. As a result, when the country eventually joined the EEC in 1986, the main part of its trade had already been opened up and the membership was above all crucial for integration with Spain. With the membership, Portugal continued with its policy grounded on intervention to favour economic growth, now through the structural funds of the EC/EU, and greater openness, through Single Market Program and then the EMU. Thus for Portugal the joining of the EEC did not represent a breaking point, but simply the continuation of an economic policy pursued since 1947.

The analysis of the quest for Europe of a poor, peripheral and relatively recent democratic country like Portugal seems to suggest the importance of studying the history of European integration going beyond the formal history of EC/EU and its institutions.

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