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CONFERENCE ON THE PORTUGUESE ECONOMY

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THE PORTUGUESE ECONOMY:

RECENT DEVELOPMENTS AND CURRENT SITUATION

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Preface

This report is the third in a sequence of studies of the Portuguese economy that have been written over the last eighteen months by economists associated with the Massachusetts Institute of Technology.

It has been prepared by a group of doctoral candidates of the Department of Economics. Like the previous reports it is concerned mainly with macroeconomic issues, though it differs somewhat in its policy suggestions. It represents an advance over the earlier reports in its more detailed treatment of the issues and in the development of an explicit analytic model which can be used to investigate alternative policy packages.

Consistent with the earlier economic situation and the information then available, the first two reports took an expansionary view of policy requirements. They argued that the inflation which Portugal has been experiencing was caused primarily by wage increases secured in the process of income redistribution rather than by excessive monetary growth or by excessive budget deficits. Given the decline in world demand and the slack in private investment because of domestic uncertainty, the earlier reports recommended a substantial increase in government spending on real investment in order to maintain domestic income and employment and create more productive capital. They also stressed the increasingly urgent need to restore external competitiveness, through better price-cost relations and productive investment.

Throughout most of 1975 the large foreign exchange assets owned by Portugal made it feasible to stress short run policy recommendations which gave primary emphasis to the maintenance of aggregate demand and employment. However, this program is no longer possible because the substantial reduction in the price of gold and the continuance of large deficits have led to a rapid decline in foreign exchange assets without corresponding improvements in the prospects for the recovery and subsequent

growth in exports.

The present report differs from its predecessors mainly in emphasis. It recognizes explicitly that the deficit of the public sector has arisen primarily from transfer payments rather than employment or productivity-enhancing investment. While the policy package recommends restraint in public sector transfer payments, these must be maintained in such high social priority areas as the food subsidy programs. Nevertheless, the report also notes that consumption standards, as they now prevail now, cannot be sustained. The redistribution of real income which has been achieved over the last two years has been financed to a substantial degree by the use of foreign exchange assets and by foreign borrowing but this cannot continue in the future at the same rate as in the past. The redistribution has come about largely via a somewhat arbitrary process of wage increases and changes in domestic and foreign prices. Increased use of the fiscal system can speed the readjustment from the existing difficult situation and help achieve greater equity within a framework of increased stability.

This report stresses again the need to improve Portugal's international trade position. Both the export sector and domestic industry competing with imports have been handicapped by large increases in costs relative to prices. Restoration of competitiveness is thus one requirement for improvement in Portugal's external position. Vigorous use of government credit policies to make funds available to the traded goods sector --private and public-- will also contribute to the achievement of this goal.

The only sustainable policy package for Portugal lies along the lines indicated here: (1) Effective demand to be expanded through increased net exports and private and public investment, the latter especially in areas of social capital with a low

import content and a large employment effect. (2) The foreign trade balance to be improved, although not by excluding imports of capital goods essential to maintaining and expanding production in key sectors. (3) The public sector deficit to be reduced through increased taxes, reduced transfers and reduced public consumption with increases in public as well as private saving.

The effective economic policy of the Portuguese government over the last two years has been one of patience. Doing nothing was, in fact, recognized as an active alternative to a structured economic program. Such inaction was feasible only so long as external assets were plentiful. That is no longer the case. If there is no policy change in the near future, it must be expected that, as foreign exchange assets and loans become less and less available, the country will either undergo high inflation and disarray or be forced into a serious depression of economic activity.

No doubt the policies which need to be implemented place a major burden on the authorities. With determination and external help these burdens can be managed. Indeed, they provide the opportunity for long neglected investment in social capital in the villages and the cities and for removal of backwardness and inefficiency in such major sectors as agriculture and fisheries. If these opportunities are properly addressed the economy of Portugal in 1980 will be healthier and more equitable and, thus, more effective in achieving the hopes of the revolution of April 25, 1974.

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THE PORTUGUESE ECONOMY:
RECENT DEVELOPMENTS AND CURRENT SITUATION

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Introduction and Summary

In the spring of 1974 an observer might with good reason have predicted a severe downturn in the Portuguese economy. Portugal had begun to undertake a political and social revolution just as a world economic crisis worsened her external position. With investment depressed by uncertainty about the domestic situation, exports cut by reduced demand abroad and difficulties at home, and the prices of imported raw materials soaring, a slump in Portugal was inevitable. Yet the Portuguese economy has remained, in the phrase of an earlier MIT report, "surprisingly sound". Increased private and public consumption has sustained demand, so that output has fallen only modestly and employment has fallen hardly at all. In these respects Portugal has done better than most countries in the last two and a half years.

It would be a mistake, however, to conclude that Portugal has successfully weathered the storm. The favorable short-run performance of the economy has been accomplished at the cost of a steady worsening of Portugal's long-run position. Low investment has meant a visibly deteriorating capital stock, while persistent balance of payments deficits have consumed a large part of the country's foreign exchange reserves. These problems would have become increasingly pressing simply through the passage of time; they have been magnified by the failure to restore the competitiveness of Portugal's export sector and the tendency of current spending to crowd out investment in the government budget.

In this report we endeavour to provide an analysis of Portugal's current situation and of the alternatives remaining open to the Portuguese government. We begin, in the first chapter, with an analysis of the recent past, then proceed to project and compare the effect of alternative policies in the near future. In order to carry out our analysis we have attempted wherever possible to place economic questions in a quantitative framework. We believe that this exercise is

valuable in itself, and we hope that Portuguese economists will in the future extend and improve upon our admittedly rough methods.

The principal focus of our report is on the short run, but short-term policy must always be conducted with long-run aims in view. For this reason, we provide in this introduction a brief overview of Portugal's longer run prospects, and of the relationship of economic policy in the next year and a half to goals in the more distant future.

Medium- and Long-Term Prospects

Although many Portuguese industries now have excess capacity, in the not-too-distant future a large expansion in Portugal's productive capital will be necessary. The inflow of refugees has increased population and labor force. To house and employ the additional population will require extensive investment, while the longer-run solution of balance of payments problems will require investment in the export sector and in import-competing industries. All of this will require high rates of capital formation, perhaps on the order of 20 percent of gross domestic product. By contrast, in 1975 investment is estimated to have been only about 10 percent of GDP.

It would be unrealistic to expect all of this investment to be financed out of domestic savings. For some time in the future, Portugal will need to run a deficit in its external current account, borrowing to ^{help} pay for investment goods. But domestic savings must cover a large part of the investment. It is one thing to borrow to pay for productive investment, which creates the ability to repay the loan. It is a different matter to borrow for consumption. If, over the next several years, Portugal pursues a policy of expanding investment and exports rather than consumption - and if it can be seen by its creditors to be following such a policy - financing a balance of payments deficit will not be difficult. If, on the other hand, investment is increased without a corresponding increase in saving, the burden of debt will grow rapidly and it will become increasingly difficult and expensive to borrow.

If Portugal can surmount its short-run economic difficulties, there is no reason to be pessimistic about the long-run. Other countries suffering from capital shortage have recovered rapidly, and Portugal should be able to resume steady growth in a few years. But first the country must deal with some short-run obstacles.

The Short-Run

Portugal's short-run economic problem is, in brief, that measures to increase her ability to earn foreign exchange will take time. Even if a decision to invest in export capacity is made in the next few months, it would be unlikely that much of the new capacity could be operating before 1978. Thus, for something like two years, Portugal must rely, essentially, on the current productive base. At the same time, if an effort is made to increase investment it will lead directly and indirectly to substantial increases in imports. This means that even with recovery in the world economy which increases the demand for Portugal's exports, the balance of payments deficit will remain large.

The problem is how to pay for the deficit. For the last two and a half years Portugal has been able to cope with an adverse balance of payments fairly easily, initially by using reserves of foreign exchange, more recently by borrowing with gold reserves as security. These favorable conditions will not last indefinitely. The task of short-run policy is to extend them until medium and long-run measures, especially investment in export industries, can take effect. If the external deficit can be reduced it will bring a double benefit: it will stretch Portugal's reserves further, and by making the country appear more credit-worthy it will make unsecured loans easier to obtain.

There are two main ways in which Portugal can improve its external position in the short run. First, many export industries still have unused capacity. Increased costs and

organizational difficulties have left the volume of exports well below what could be attained. If these problems can be overcome, a substantial increase in exports can be achieved quite quickly. Second, a large part of the import bill is directly or indirectly related to consumption expenditures. By curbing the growth of consumption Portugal can free foreign exchange for investment. It may also be possible to shift some consumption from imports to domestic goods; but since the great bulk of Portugal's imports are capital goods or inputs to production, discouragement of non-essential imports can have only a limited role. It must also always be kept in mind that in a very open economy like Portugal import restrictions, unless accompanied by a restriction of domestic demand, are likely to be less effective than one might expect. For a given level of demand, restrictions on some imports cause offsetting increases in other imports, especially intermediate goods used as inputs in domestic production.

The goals of a reasonable short-run policy, then, must be to expand exports and investment while restraining consumption. Achieving these goals will require some austerity on the part of the government - economy in expenditures, higher taxes, less support to firms in deficit. Austerity is never pleasant, and it is tempting to delay action while the reserves last. But the consequences of allowing the situation to drift can be predicted, both from common sense and the experience of other countries: At some point it will become prohibitively expensive to borrow abroad, and the country would have to bring the current account into balance without being able to expand exports. The government's only option would then be severe contraction of the economy to reduce imports. There is no way of avoiding austerity; the choice is between a moderate program now and harsh measures later.

CHAPTER I: ECONOMIC DEVELOPMENTS IN PORTUGAL SINCE 1973

A. Overview

In this chapter we analyse, in aggregate terms, the changes in Portugal's economy since 1973. Any aggregation is, in some sense, a falsification, and we are well aware of the limitations of an analysis based on averages. But the changes in the Portuguese economic situation in the last few years have been so far-reaching that most sectors are bound to have had certain basic experiences in common.

In particular, one will not go far wrong in analysing Portuguese macroeconomics if three overriding factors are kept in mind: (i) the world economic crisis, with increases in commodity prices followed by the recession in industrial countries; (ii) a very rapid rise in wages inside Portugal; (iii) a drastic reduction in Portuguese domestic saving (partly as a result of the increase in wages and the accompanying redistribution of income). The counterparts of this fall in saving in the national income identity are reduced investment and a balance of payments deficit.

In the sections that follow we attempt to quantify these factors and trace their impact on various aspects of the economy. We have not tried to give a complete account of all the forces at work. Instead we have been content to provide an analysis, quantitative wherever possible, of the most important aspects of recent developments. The result is a sketch rather than a full portrait of Portugal's economy; but we believe that it accurately represents the basic features.

B. Income and Spending since 1973

The basic numbers on income and spending, 1973 to 1975, are presented in Table B-I. Real income and product were fairly stable over the period, rising somewhat in 1974 and falling modestly in 1975. (Many observers believe the actual decline in 1975 was larger than Planning Department figures indicate, but we have not been able to improve upon the Planning Department estimates.) This stability in the aggregate, however, masks a

substantial shift in composition. A sharp deterioration of the external current account and a very large fall in investment were offset by increases in private and government consumption.

Perhaps the most important point to note is the decline in saving. By definition,

$$\begin{aligned}\text{Domestic Saving} &= \text{External Current Account} + \text{Investment} \\ &= \text{Private Saving} + \text{Government Current Surplus}\end{aligned}$$

The counterpart of the deterioration in external current account and fall in investment was a reduction in domestic saving from 21.3 percent of GDP in 1973 to 4.7 percent in 1975. The fall in savings was about equally divided between reduced private saving, on the one hand, and a shift from a substantial government surplus to a large deficit, on the other.

There appear to have been several reasons for the decline in private savings. Income was redistributed from groups with high propensities to save to groups with low saving; we estimate that the labor share in income rose from 59.9% in 1973 to 70.3% in 1975. At the same time, reduced profitability discouraged firms from retaining profits for investment, and inflation discouraged acquisition of financial assets.

TABLE B-I: Income and Spending

(millions of contos of 1975)

	1973	1974	1975
Private Consumption	285.4	306.5	315.9
Government Consumption	48.3	56.0	64.7
Investment	83.5	91.3	38.2
Balance on Goods and Services	- 39.4	- 64.8	- 45.3
Equals: Gross Domestic Product (GDP)	377.8	389.0	373.5
Net Transfers from Abroad + Net Interest Payments (from abroad)	40.2	36.2	24.1
External Current Account	+ 0.8	- 28.6	- 21.1
Current Government Surplus	11.3	1.5	- 21.7
Private Saving	73.0	61.2	38.8

Source: Planning Department Figures

C. Wage and Price Development Since 1973

The central factor in wage and price development in Portugal, 1973-1975, was the large increase in nominal compensation of workers, which substantially exceeded wage increases in Portugal's trading partners. This increase in compensation had differential impacts on different sectors of the economy. In those parts of the economy producing traded goods, output prices have been determined by world prices rather than by domestic costs. Thus in this sector - which is the one covered by the wholesale price index - there has been a reduction of profit margins and a redistribution of income to the workers. In those parts of the economy which are sheltered from the world market, such as services or retail trade, however, increased labor costs have been passed on in higher prices. Consumer prices, which are a weighted average of prices in both sectors, have therefore risen less than compensation but more than wholesale prices.

Our major finding on wages and prices is that total compensation of workers has risen substantially faster than scale wages. This confirms an impressionistic judgment that the wage increases indicated by official indexes are not large enough to explain the deterioration of Portugal's competitive position in world trade or the fall in profits of firms.

We may briefly summarize the developments under three headings:

(i) Compensation of workers: Portuguese wages, even as measured by official wage indexes, have risen more rapidly than wages in Portugal's trading partners, but these indexes understate the rise, because non-wage compensation has increased relative to wages. When adjusted for changes in exchange rate, compensation of Portuguese workers has increased nearly 24% more than in her trading partners since 1973, with the deterioration occurring mostly in 1974, as shown in Table C-I.

TABLE C-I: Portuguese and Foreign Wages (1973 = 100)

	1973	1974	1975
(1) Wages of industrial and technical workers, Lisbon	100.0	132.1	157.0
(2) Total compensation of industrial workers	100.0	139.5	174.3
(3) Hourly compensation in trading partners, escudo basis	100.0	117.3	141.0
(4) (2)/(3) × 100	100.0	118.9	123.6

Source: US International Economic Report of the President and Ministry of Labor

(ii) Wholesale prices: Wholesale prices in Portugal have followed prices in her trading partners fairly closely, when adjustment is made for exchange rate changes, as shown in Table C-II.

TABLE C-II: Wholesale Prices (1973 = 100)

	1973	1974	1975
(1) Foreign wholesale prices, escudo basis	100.0	122.3	138.2
(2) Portuguese wholesale prices	100.0	125.2	134.1
(3) (2)/(1) × 100	100.0	102.4	97.0

Source: IMF, International Financial Statistics

(iii) Consumer prices: Both traded and non-traded goods enter into consumption; based on 1973 data we would assign traded goods a weight of 52%, non-traded goods a weight of 48%. If the prices of non-traded goods increased in proportion to labor costs, while traded goods followed foreign wholesale prices, we obtain a predicted increase in consumer prices. As Table C-III shows, this predicted increase corresponds fairly well with the actual rise in consumer prices excluding housing; we exclude housing because of rent control.

TABLE C-III: Explanation of Consumer Prices (1973 = 100)

	1973	1974	1975
(1) Foreign wholesale prices, escudo basis	100.0	122.3	138.2
(2) Compensation per worker, all sectors	100.0	137.6	168.9
(3) Predicted consumer prices = $.52 \times (1) + .48 \times (2)$	100.0	129.6	152.9
(4) Actual consumer prices excluding housing, Lisbon	100.0	129.2	155.5

Source: Table C-II, Bank of Portugal Report, Ministry of Labor

D. Balance of Payments Since 1973

Before 1974, Portugal's traditional deficit on goods and services account was normally balanced by emigrants' remittances. In the last two years, however, the current account has been deeply in deficit, in spite of the decline in imports in 1975. Reserve loss was aggravated in 1975 and early 1976 by capital outflow.

We consider the balance of payments by its components:

(i) Exports: Like other nations at a comparable level of development, Portugal has suffered a loss of exports as a result of the world recession. But the decline in Portugal's exports has been exceptionally great. Reasons for this poor performance are the increase in labor costs discussed in the last section; disruption of production schedules and personal contacts and the loss of protected markets in the former colonies. By comparing Portuguese experience with that of a reference group of nations not experiencing its special problems, and estimate of the importance of these problems can be derived. In Table D-I such an estimate is presented. Line (1) shows the Portuguese share of industrial country imports. Line (2) shows the share of non-industrial European countries as a whole in industrial country imports. Line (3) shows what Portugal's share would

have been if it had matched the average experience of this group. Finally, line (4) takes the ratio of Portugal's actual market share to this hypothetical share to get an index of the deterioration in competitive position.

TABLE D-I: Evidence of Market Shares (Percent)

	1973	1974	1975
(1) Portuguese share in industrial country imports	.38	.33	.29
(2) Share of non-industrial Europe in industrial country imports	4.16	3.70	3.69
(3) Hypothetical Portuguese market share	.38	.34	.34
(4) Competitive position: (1)/(3) x 100	100.0	99.0	87.4

Source: IMF, Direction of Trade

On the basis of this and similar calculations, we estimate that Portuguese exports to industrial countries would have fallen 12-16 percent even if world demand had remained at 1973 levels.

(ii) Imports: Imports have moved erratically since 1973, rising sharply in 1974 and then falling even more sharply in 1975. One would ordinarily expect imports to be approximately proportional to real final demand, defined as the sum of private consumption, government consumption, investment, and exports. The fluctuations in Portuguese imports, however, have taken place in the face of relatively stable final demand.

To some extent changes in imports were due to government policy. In May 1975 a special surcharge was levied on about a third of imports, with the aim of discouraging consumption of imported goods and encouraging the use of domestically produced substitutes. But the principal source of fluctuations in imports does not appear to have been substitution between domestic and foreign goods in consumption. The most important reason for

changes in imports appears, instead, to have been a shift in the composition of final demand between consumption and investment. Calculations based on the 1970 input-output table show that investment (particularly additions to inventories) and exports are import-intensive, while both private and public consumption have low import content. Thus the shift in composition of spending from investment to consumption tended to reduce imports at any given level of demand. Of particular importance was the role of stocks of imported goods, which were built up during 1974 but drawn down in 1975.

The effect of changes in composition is illustrated in Table D-II. The first line records changes in real final demand; the second changes in final demand weighted by import content; the third actual changes in imports.

TABLE D-II: Changes in Final Demand and Imports (Percent)

	74/73	75/74
(1) Change in real final demand	5.2	- 9.0
(2) Change in final demand, weighted by import content	6.5	- 22.7
(3) Actual change in real imports	9.2	- 24.6

Source: Figures from GEBEI, Ministry of Industry and Technology.

It appears from these numbers that it is not unreasonable to assign the principal role in import fluctuations to changes in the volume and composition of final demand (although we would not want to place too much weight on the calculation - it depends heavily on estimates of additions to inventory which are highly unreliable). The components of final demand are themselves, however, determined in part by government policy. This is especially true of investment inventories. There is reason to believe that the import surcharge was a major factor in the reduction in stocks of imported goods in 1975, and that the surcharge did, therefore, have an important role in the fall in imports that year.

(iii) Remittances: Emigrants' remittances fell sharply in real terms in both 1974 and 1975, after rapid growth in previous years. This fall can be attributed both to European recession and to political and social events in Portugal. Some of the relevant figures are presented in Table D-III.

TABLE D-III: Remittances

	1970	1971	1972	1973	1974	1975
Total remittances (excluding those from the former escudo zone) in billions of esc.	14.3	18.8	22.4	26.5	26.8	21.6
Foreign unemploy- ment (weighted average)	2.57	2.96	2.95	2.80	3.28	4.88
Emigration of workers	110,466	80,281	44,187	64,180	23,866	9,000
Real remittances (deflated by CPI, 1970 escudos) per accumulated (since 1960) worker	25.7	26.5	26.5	25.4	19.9	13.8

When we try to untangle the evidence on remittances, two facts stand out. First, the rate of emigration is affected by unemployment in destination countries, as attested both by Portugal's experience and by that of other countries. The impact of recessions is aggravated by the "last hired, first fired" status of emigrant workers. On the other hand, before 1974 remittances per worker did not show any such dependence on foreign economic conditions. In fact, real remittances per worker were remarkably constant.

This and other evidence, while far from conclusive, lead us to attribute the decline in emigration to the European recession, while attributing the decline in remittances per worker primarily to lack of confidence in Portugal. However,

some of this latter decline may be permanent since emigrants have now developed the habit of putting their foreign exchange earnings in foreign bank accounts (or selling them to Portuguese tourists) rather than sending them home.

(iv) Capital Account: Capital mobility in Portugal is limited by restrictions on the acquisition of foreign exchange, which is made available only for imports and certain other transactions such as repayment of foreign loans. Nonetheless, considerable private capital outflow can take place, through repayment of loans and shifts in the timing of commercial payments. Inflow of capital can, of course, take place freely.

The capital account was in near balance in 1973. It shifted to a surplus of 4.8 million contos in 1974. This may have been because the deficit on current account and increased currency holdings by households created a condition of monetary tightness. In 1975, with an easing of monetary conditions, the capital account moved to a deficit of 5.9 million contos. Provisional figures show a somewhat accelerated outflow in the first quarter of 1976, of 2.4 million contos, apparently largely due to repayment of credits from suppliers. (It should be noted that capital movement is calculated as a residual. To the extent that trade figures are distorted by under- and over-invoicing, e.g. as a means of capital flight, the capital movement figures are biased). Reserve losses by the Bank of Portugal have been larger than this, 5.1 million contos, as a result of increased holding of foreign currency by financial institutions. The accelerated reserve loss of the Bank of Portugal seems to be largely caused by public expectations of devaluation.

E. Money and Credit Since 1973

As Figure E-I indicates, monetary growth declined substantially after 1973. Measured as a yearly average over the preceding year, the growth rate of M2 declined from 28% in 1975 to 19% in 1974 and 14% in 1975. Because of income redis-

tribution, and the inflow of refugees there may have been some upward shift in the demand for money since April 25, 1974. If we take inflation in 1974 and 1975 to be largely the result of exogenous wage increases, we can judge the adequacy of monetary growth by the extent to which it accomodated the increase in prices and real income:

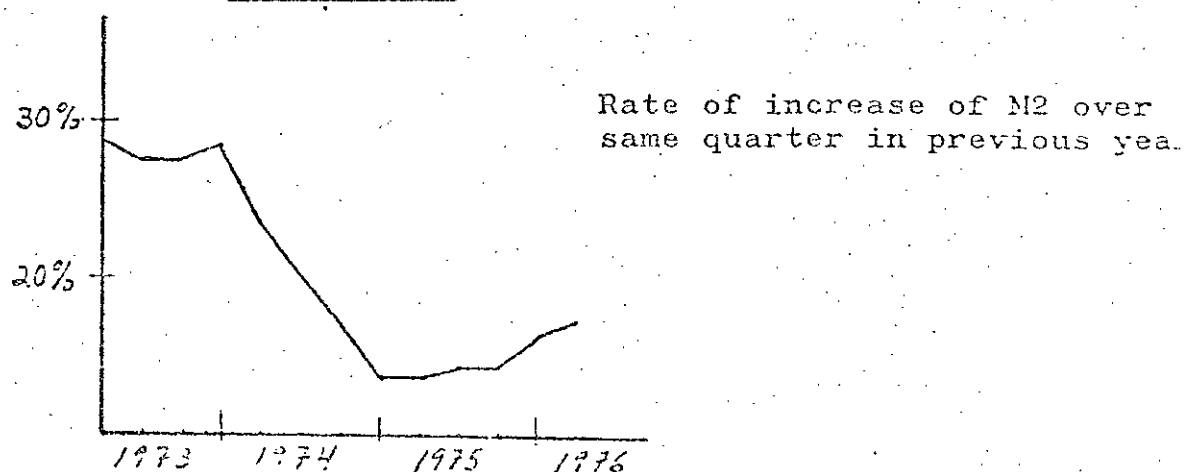
	1974/73	1975/74
Inflation (GDP deflator)	16%	14%
Real Growth	4%	- 3%
Change in M2	19%	14%

If there was, in fact, an upward shift in money demand monetary growth appears to have been fairly restrictive since 1973, although easing considerably in late 1975 and the first quarter of 1976. This tightness is reflected in the velocity of M2 which, in contrast to an earlier declining trend, rose slightly in 1974, in spite of the postulated rise in money demand

	1970	1971	1972	1973	1974	1975
GDP	177	198	231	281	338	374
M2*	141	167	206	264	314	457
Velocity of M2	1.25	1.18	1.12	1.07	1.08	1.05

* Average M2 over the year.

FIGURE E-I



Before 1974 the principal source of money creation in Portugal was the balance of payments surplus. In 1974 the increase in money demand, combined with the shift of the balance of payments into deficit and a sharp increase in the holdings of currency relative to other categories of money, required offsetting expansionary action by the Bank of Portugal. This action took the form of a relaxation of reserve requirements and a policy of near-automatic rediscounting. Lacking the opportunity for open-market operations, the Bank of Portugal can increase the money supply only if banks are willing to submit loans for rediscount and if firms and households increase their demand for credit. The slow growth of the money stock in 1974 and early 1975 can be explained by lags in the process of credit creation, due, especially, to the lack of a tradition of borrowing by the banking system from the central bank. As rediscounting and the central government deficit (which is almost entirely converted into high-powered money) increased in 1975, the tight monetary situation evolved into one of relative ease.

A substantial part of the Bank of Portugal's credit was passed on through the banking system to support the current operations of de facto bankrupt firms. However, the Bank of Portugal's liberal credit policy did not necessarily ensure that credit was universally in easy supply throughout Portugal. Given the uncertain economic situation and administered interest rates, concern by the banks to minimize losses may have made credit difficult to obtain by smaller firms and firms without political impact, in spite of the liberal rediscount policy.

F. Government Current Account Since 1973

We have already noted that about half of the decline in real savings from 1973 to 1975 can be attributed to an increase in the government current deficit. (By "government" we mean the traditional public sector; the so-called productive public sector of nationalized firms is counted here as part of the private sector.) The increased deficit was principally a result of increased spending rather than lower revenue; government revenue as a percentage of GDP actually rose from 22.6 percent in 1973 to 25.2 percent in 1975.

The development of the public sector current account, in current prices is shown in Table F-I. The most rapidly growing major component was transfers (to households) and subsidies (to firms). Presumably government efforts to redistribute income caused transfers to grow; much of the increase in subsidies was a result of government efforts to hold down the prices of consumer staples.

TABLE F-I: Government Current Account, Current Prices

	(million contos)				
	1973	1974	(% change)	1975	(% change)
Expenditure					
1) Wages, salaries	22.6	26.7	(+ 18.1)	31.8	(+ 19.3)
2) Transfers + subsidies	16.7	25.1	(+ 50.3)	46.7	(+ 86.1)
3) Interest on debt	1.2	1.6	(+ 33.3)	3.0	(+ 87.5)
4) Other	14.3	23.1	(+ 61.5)	34.2	(+ 48.1)
Total	54.8	76.5	(+ 39.6)	115.7	(+ 51.2)
Revenue					
5) Direct taxes + SS payments	28.6	35.7	(+ 24.8)	41.0	(+ 14.8)
6) Indirect taxes	30.5	37.3	(+ 22.3)	46.6	(+ 24.9)
7) Other	4.4	4.8	(+ 9.1)	6.6	(+ 37.5)
Total	63.5	77.8	(+ 22.5)	94.2	(+ 21.1)
Current Saving	+ 8.7	+ 1.3		- 21.7	

Source: 1973 and 1974, National Institute of Statistics
1975, our estimate

In Table F-II we present the same figure deflated by the public sector deflator. Since that deflator is essentially the wage rate in government, wage and salary growth is small. (Although some wage increases may be concealed in "other") The deflated figures reveal even more clearly the crucial role of transfers and subsidies in producing the deficit.

TABLE F-II: Public Sector Current Account - 1975 Prices

	(million contos)				
	1973	1974	(% change)	1975	(% change)
Expenditure					
1) Wages, salaries	29.4	30.5	(+ 3.7)	31.8	(+ 4.3
2) Transfers + subsidies	21.7	28.7	(+ 32.3)	46.7	(+ 62.7
3) Interest on debt	1.6	1.8	(+ 12.5)	1.2	(- 33.3
4) Other	18.6	26.1	(+ 40.3)	34.2	(+ 31.0
Total	71.3	87.4	(+ 22.6)	113.9	(+ 30.3
Revenue					
5) Direct taxes + SS payments	37.2	40.8	(+ 9.7)	41.1	(+ .7
6) Indirect taxes	39.7	42.6	(+ 7.3)	46.6	(+ 9.4
7) Other	5.7	5.5	(- 3.5)	6.0	(+ 9.1
Total	82.6	88.9	(+ 7.6)	93.7	(+ 5.4
Current Saving	+ 11.3	+ 1.5		- 20.2	

Source: Table F-I

A. Methodology

In the last chapter we analyzed recent Portuguese economic events in some detail; the purpose of that analysis was to provide a background for consideration of the possibilities open to policy makers in the near future. We go on, in this chapter, to make quantitative estimates of the consequences of alternative policies for important economic variables over the next year and a half.

Our estimates are based on a simulation model of Portugal's economy; the model is described in Appendix I. Construction of such a model may seem, at first glance, like an excessively ambitious project for an economy in which behaviour is still changing in response to drastic changes in the economic and social environment, and about which our information is in any case incomplete. We would be the first to agree that our projections, viewed solely as predictions of what will happen, are likely to be inaccurate. But constructing a model has an additional function besides prediction. By explicitly writing down a complete model of the economy, we are able to "exploit the identities": that is, to improve our analysis of individual sectors by requiring that the basic equations of national income accounting be satisfied. We thus limit ourselves to making internally consistent estimates, a discipline which is of enormous value when our direct information is fragmentary.

In the next two sections we project the consequences of two possible courses of action for Portugal through the end of 1977. The first projection is one in which no measures are taken to stimulate exports, reduce imports, or curb the growth in consumption. We consider two variants of this policy, differing in their assumptions about investment. The second projection assumes a more forceful policy. It assumes that policy measures enable Portugal's export sector to recover part of its recent loss of world market shares, while reducing the import content of consumption. These measures are accompanied by a restriction of domestic demand. Even this policy leaves

the external current account in deficit, but it produces a substantial improvement. The remaining sections are concerned with providing guidelines for incomes, monetary, and fiscal policy to support the macroeconomic policies.

Although producing these projections requires a large number of assumptions, we believe that our conclusions are, in qualitative terms, not very sensitive to the particular assumptions. This is true even if, as some believe, the figures we use for 1975 output are overstated. Our most important conclusion that the external current account deficit is likely to remain large, and indeed to worsen, unless the growth in consumption is curbed, depends on only two suppositions: (i) Investment must rise from 1975 levels even in order to maintain the current capital stock intact; (ii) In the absence of a major change in policy, neither public nor private savings can be expected to increase very much over the next year and a half. These seem to be reasonable assumptions. But since the current account deficit is, by definition, equal to investment minus savings, these assumptions are enough to justify our pessimism about the balance of payments.

B. Economic Prospects in the Absence of Major Changes in Policy

We begin our analysis with a set of "baseline" projections of macroeconomic variables in 1976 and 1977. The projections are shown in Table B-1. In these projections it is assumed that there is a moderate increase in investment over 1975 levels. This increase takes the form of an end to disinvestment in stocks. private fixed investment is unchanged in 1976, and in 1977 fixed investment either remains constant (1977A in the Table) or rises modestly (1977B). Exports grow in 1977 in response to increased world demand. No strong measures are taken to increase exports or domestic saving. This exercise serves both as a possible account of what would happen under such a policy, and as basis of comparison for alternative policies.

The results of the projections are, in brief, that some growth in output can occur in 1976 and 1977, but only at the expense of continuing large deficits on external current account. In 1976 growth will occur chiefly via increased consumption; the source of growth in the projection is increased government spending in the form of transfer payments. In 1977 growing exports will provide a stimulus to demand, along with increased investment in our alternative (1977B) projection. We assume that real government spending does not increase from 1976 to 1977.

Our impression is that the projections of this section are optimistic in many respects since they imply that several important trends will cease even without a change in policy. In addition to our assumption of constant real government current spending from 1976 to 1977, our projection implies that there is no further decline in the competitive position of Portugal's export industries and no further decline in the rate of private saving. In addition we may also have projected too high a rate of growth for real income, although slower growth will mean smaller deficits in the balance of payments - unless it comes at the expense of exports. The results of even this optimistic projection, indicate that, due to aggravated reserve loss, a policy of this kind cannot be maintained. The external current account deteriorates in 1976 and improves only slightly in 1977, even

though exports are projected to increase substantially. Portugal balance of payments remains deeply in deficit because domestic savings do not grow enough to finance even a moderate growth in investment. This places the government in a dilemma: any effort to raise investment from its current inadequate level will be reflected in a further worsening of the balance of payments.

The quantitative estimates in constant prices are presented in Table B-I; in Table B-II we present estimates in nominal terms under the assumption of 25 percent wage inflation in each year. As mentioned above the column labelled 1977A assumes no change in investment from 1976 to 1977. The column labelled 1977B assumes a 10 percent increase in investment.

TABLE B-I: Projected National Accounts

(millions of contos of 1975)

	1976	1977A	1977B
Private consumption	328.4	340.8 +3.1%	345.2 +5%
Investment	52.6	52.6	57.9
Government consumption	64.7	64.7	64.7
Exports of goods and services	68.7	80.7	80.7
Imports of goods and services	124.0	130.7	134.1
Gross domestic product	390.3	408.0	414.4
Net transfers from abroad	25.0	25.0	25.0
Current account balance	- 30.3	- 25.0	- 28.4

TABLE B-II: Projected National Accounts

(millions of contos of each year)

	1976	1977A	1977B
Private consumption	410.5	532.5	539.4
Investment	65.8	82.2	90.5
Government consumption	80.9	101.1	101.1
Exports of goods and services	85.9	126.1	126.1
Imports of goods and services	155.0	204.2	209.5
Gross domestic product	487.9	637.5	647.5
Net transfers from abroad	31.3	39.1	39.1
Current account balance	- 37.9	- 39.1	- 44.4

Saving, Investment, and the Current Account. The heart of our analysis is the relationship between savings, investment, and the current account. The numbers which emerge from our simulations are presented in Table B-III.

TABLE B-III: Sources and Uses of Saving

	1976	1977A	1977B
Sources of Domestic Saving			
Private Saving	44.8	46.5	47.1
Government Saving	- 23.3	- 19.7	- 18.3
Domestic Saving	21.5	26.8	28.7
Uses of Domestic Saving			
Investment	52.6	52.6	57.9
Current Account	- 30.3	- 25.0	- 28.4
Public transfers and Interest paid abroad	- 0.8	- 0.8	- 0.8

The savings identity in Table B-III illustrates the dilemma we have already mentioned, in which investment is too low and the external current account unfavorable. Any gain in one must have as its counterpart a loss in the other, unless domestic savings can be increased.

Perhaps the most surprising aspect of these projections is that the substantial increase in exports which we forecast for 1977 does not produce a comparable improvement in the current account. On examination, however, this is a very reasonable result. An increase in exports, unaccompanied by other policy changes, tends to produce an offsetting increase in imports. Production of export goods will require, directly or indirectly, considerable quantities of imported inputs. Furthermore, increased earnings in the export sector will lead to increased consumption, much of it eventually spilling over into imports. We calculate that when all such repercussions are taken into account, an increase in export earnings of 100 million dollars will cause imports to increase by 56 million dollars, so that the resulting improvement in the current account is only 44 million.

The lesson to be learned from this is that the world economic recovery will not by itself solve Portugal's economic problems. A policy of waiting for increased demand in industrial nations to stimulate exports will lead to unacceptably large balance of payments deficits.

C. A Sample Policy Package

It is apparent from the results of the last section that in the absence of measures to reduce Portugal's balance of payments deficit the cumulative deterioration of the reserve position in the next year and a half will be unacceptably large. In this section we outline a policy package designed to reduce the deficit in 1977. It does not aim at eliminating the deficit; rather, as explained in the introduction to this report, the package is intended to buy time while medium-term policies of reorganization and investment expand Portugal's ability to earn foreign exchange. Thus the policy package is, in fact, fairly modest in its objective; yet to achieve this objective the Portuguese government will have to make major and possibly painful changes in policy.

In attempting to reduce a balance of payments deficit, a government can take measures of two kinds: direct measures to stimulate exports and reduce imports, and measures designed to restrict domestic demand. Either kind of policy, used by itself, has severe limitations. Direct measures produce offsetting tendencies which rob them of much of their effect - these tendencies are discussed at some length in Appendix I. Demand restriction, on the other hand, is costly in terms of output and employment. It is therefore common for countries experiencing balance of payments difficulties to combine direct measures on exports and imports, frequently referred to as expenditure-switching measures, with expenditure-reducing policy.

The model described in Appendix I allows us to examine a policy package which follows this approach. In Table C-I we present a projection of what would happen if the government were to pursue what we believe are realistic policies to curb the growth of consumption and improve the current account. The assumptions used for the projection represent no unique set of measures but in general terms we assume that the following steps are taken:

(a) Measures are taken to restore the pre-1974 competitive position of Portuguese exports. We assume that this improvement allows the recovery by 1977 of one-half of the loss in market share which has occurred since 1973 (as discussed in Chapter I). In addition, restrictions are imposed on non-essential imports of consumer goods. We believe that these can reasonably be used to exclude imports with a value of 5 million contos (in 1976 prices).

The estimated effect of these policies is an increase of exports of about 8 percent over the baseline 1977 projection and a reduction of 4 percent in the import content of consumption.

(b) The current deficit of the public sector is reduced from 29.1 million contos in 1976 to 12.3 in 1977. When combined with the measures designed to improve the current account, this program of fiscal restraint leaves aggregate demand virtually unchanged. As we have seen, a major part of the decline in domestic saving since 1973 has been due to the increasing current deficit of the government, especially because of the increased volume of subsidies and transfers. This suggests that economizing with respect to subsidies and increasing some indirect taxes would be a reasonable way of reducing the government deficit. For the projections of Table C-I the rate of net indirect taxation was assumed to increase from .1032 to .1121. At the same time, it is assumed that the rate of direct taxation is increased from .1437 to .1612. This could be accomplished in a variety of ways such as increased income taxes, or higher social security contributions.

We would urge and hope that something like our sample policy measures be adopted in the late summer of 1976, but we have refrained from trying to predict their very short-run impact. The effect in late 1976 would come largely through the capital account and increased exports as exporters sold off excess stocks, effects difficult to quantify in advance.

The estimates for 1977 are summarized in Tables C-I and C-II. In Table C-I we give the simulation results in real terms. In C-II the results are given in nominal terms under the assumption of a 25 percent increase in wages in 1976 and a 25 percent increase in 1977.

TABLE C-I: 1977 National Accounts Under Policy Package

(millions of contos of 1975)

Private Consumption	334.6
Investment	57.9
Government Consumption	64.7
Exports	87.3
Imports	130.8
<hr/>	
Gross Domestic Product	413.7
Net Transfers from Abroad ^{a)}	25.0
Current Account Balance	- 18.5

a) Deflated by traded goods prices.

TABLE C-II: 1977 National Accounts Under Policy Package

(millions of contos of 1977)

Private Consumption	541.3
Investment	94.7
Government Consumption	101.9
Exports	150.8
Imports	225.9
<hr/>	
Gross Domestic Product	662.8
Net Transfers from Abroad	43.1
External Current Account	- 32.0

These estimates are made using a relatively high investment figure, though one well below pre-1974 levels. Comparison with our high-investment baseline projection (in Section B above) shows that the current account in constant prices is estimated to improve by some 9.9 million contos, or about 435 million current dollars. The deflationary effects of higher import prices and increased tax rates are roughly balanced by the expansionary effects of increased earnings in the export sector and switching of consumer demand to domestic goods, so that the effect is to leave real gross domestic product about the same. As noted above we chose the fiscal policy so as to bring about this result.

The key element in our policy package is, necessarily, an increase in domestic saving: investment rises while the current account deficit is reduced. For technical reasons there is no unambiguous definition of real saving when relative prices change: in Table C-III we present estimates of saving deflated by the implicit GDP deflator for 1976 and 1977 if our policy were adopted. (These figures are not consistent with those of Table C-I because of the different deflators used).

TABLE C-III: Sources and Uses of Savings

	(millions of contos of 1975)	
Sources	1976	1977
Sources of Domestic Saving:		
Private Saving	44.8	46.5
Public Saving	- 23.3	- 6.6
Domestic Saving	21.5	39.9
Uses of Domestic Saving:		
Investment	52.6	62.0
External Current Account	- 30.3	- 21.3
Public Transfers and Interest from Abroad	- 0.8	- 0.8

It can be seen, then, that the policy involves a large reduction in the government current deficit. This appears to be needed to increase domestic savings. The only way this necessity can be avoided is if private saving can be increased by policies such as increased deposit interest rates or forced lending. We propose a tax increase rather than forced lending because it is simpler and more certain in its effect. Higher deposit interest rates would surely encourage private saving, and depositors should be protected from inflation, but the increase in saving is too uncertain to serve as a main support of a policy.

D. Prices and Incomes Policy

We found in the last Chapter that between 1973 and 1975, total compensation of industrial workers rose 23.6% faster in Portugal than in her trading partners (while traded goods prices rose no faster in Portugal than in her trading partners). We also found that after correcting Portugal's decline in exports for the effects of the world recession and the loss of the African colonies, there remains a 12.6% loss in competitive position, which is partially attributable to a decline in export supply resulting from the higher wage costs. Reliable wage and trade data are not available for 1976, but an extrapolation of wage trends leads us to conclude that moderate effective depreciation of the escudo which has taken place since 1975 has only approximately kept pace with Portuguese relative wage growth, so that Portugal's competitive position has not improved.

If policy measures are taken by the government to restore Portugal's competitive position these measures will raise prices in Portugal. It is crucial to the balance of payments that these price increases not be immediately and fully passed on in the form of higher labor costs, which would again erode the restored competitive position.

Using data on the size distribution of wages, we have performed a quarterly simulation of the effect on wages and prices of a policy under which all workers earning less than 10 contos a month receive percentage wage increases equal to the increase in the most recently reported consumer price index. All workers earning more than 10 contos a month receive an absolute wage increase equal to the maximum of those received by the first group.

We have assumed that a steady increase of consumer prices will be disturbed at the beginning of the fourth quarter of 1976 by an autonomous increase in the prices of imports, after which import prices increase at the world rate of 6%

a year. We also assume that wages are determined at the end of each quarter, using the percentage increase in the consumer price level prevailing at the end of the previous quarter (due to the inevitable lag in the collection of the consumer price index of the Bureau of Statistics), and that the consumer price level is simultaneously determined as a weighted average of wage level (.75) and the import price level (.25).

The results for the levels of average wages and prices through the end of 1977, are given below, indexed by 1975 = 100. (percentage changes from the preceding quarter are shown in parentheses).

For end of quarter	Average wage level (incomes policy taking effect 76IV)	Consumer price level
1976 II	1.250 (5.7%)	1.250 (5.7%)
1976 III	1.322 (5.7%)	1.322 (5.7%)
1976 IV	1.393 (5.4%)	1.464 (10.7%)
1977 I	1.532 (10.0%)	1.576 (7.6%)
1977 II	1.637 (6.9%)	1.660 (5.4%)
1977 III	1.713 (4.6%)	1.722 (3.8%)
1977 IV	1.767 (3.2%)	1.769 (2.7%)

E. Money and Credit - 1976/1977

Recent events: The recent behavior of the money stock provides a useful background for discussing monetary policy in the year ahead. The March 1976 money supply figures show an increase in M2 of 11.2% over June 1975 (from 351.0 to 393.0 million contos). If real income had not changed between June 1975 and March 1976, and we use Lisbon consumer prices as our measures of inflation, then velocity had risen by about 5% by March:

Increase in M2, June 75/March 76	11.2%
Increase in Lisbon CPI	16.8%
June 75 velocity	1.06
March 76 velocity	1.11

According to more recent, but not entirely reliable data, M2 was virtually constant from March to May. In order for this data to be consistent with the income projections of section C of this chapter, velocity must now be much above its level of June 1975. If we guess that M2 had risen slightly by June 1976 to, say, 400 million contos, and we use the nominal GDI figure of section C (487.9) then velocity was above 1.20.

The best explanation for such a shift in money demand would be expectation of devaluation and increased inflation. Of course, an alternative explanation is that the projections of section C overestimate either inflation or real growth. Information about industrial production and expenditure convince us that real growth since mid-year 1975 cannot be much below the projected amount. Published price indices do indicate that inflation is somewhat less than the 25% figure used in section C but is at least in the neighborhood of 20%. We conclude, then, that velocity has increased, but not by as much as our income projections combined with May monetary data would indicate.

Monetary Policy: Monetary policy in 1976 and 1977 must operate in an environment of uncertainty about future (1) investment

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demand (2) money demand (3) growth of nominal income. The Bank of Portugal's present policy is to grant all requests for rediscount at a fixed rate. In effect, this is a policy of pegging the loan rate and allowing the money supply to be determined endogenously by household demand for real balances and firm demand for loans. In the current economic environment, continuation of such a policy is more appropriate than attempting to forecast and then achieve a fixed target for the money stock.

The principal risk of relying on a target for the money stock is that, if inflation from wage settlements is higher than anticipated or if money demand increases, then the resulting monetary tightness is likely to have a considerable impact on the already depressed level of investment. By allowing the money stock to be endogenous one runs the opposite risk that a large rise in income due to a strong recovery of investment will be accommodated with adverse effects on the balance of payments and the rate of inflation. This second risk appears to be more acceptable since the recovery of investment - while worsening the balance of payments - is a major economic goal. In any event the Bank should be prepared to "lean against the wind" if signs of a boom in output and investment materialize. If, instead, investment demand falls even further, the Bank may not be able to "lean against the wind" in the opposite direction. The only means of easing credit in the face of falling loan demand is a reduction of the loan rate. It is unlikely that a further decline in the loan rate (from its current negative level in real terms) would have much impact on investment.

The Money Supply: There is no reason to expect a reduction in the recent variability of the money multiplier. The currency/money ratio fell sharply in the first quarter of 1976 and remains far above its pre-1974 level. The excess reserve holding of commercial banks will be a somewhat smaller source of uncertainty, especially since reserve requirements were strictly enforced after December 1975. If the money supply continues to

be determined endogenously, the instability of the multiplier is of little importance for monetary policy. Even with a target money stock, deposit surveys, available with a short lag, are likely to be more reliable indicators than forecasts of the multiplier.

Projections for 1976 and 1977: In table E-I we give some plausible projections for base and M2 targets through 1977. Even more than the income figures of the preceding sections, these are not intended to be predictions. Rather they are intended to be reasonable illustrations of the future relationship among income, money, and base creation.

In the near future velocity will not be independent of the economic policy the government chooses. In table E-I Projection 1 is associated with the "no change" policy. Velocity remains at its current, relatively high level. Projection 2 assumes the alternative policy is adopted. The rate of inflation associated with this projection is slightly higher, but the accompanying policy measures are assumed, nonetheless, to increase the demand for money. Velocity falls by 3% in each half-year from June 1976 to June 1977 (probably not quite offsetting its rise since last year). For each projection nominal income grows at the rate suggested in section C. In both projections the balance of payments deficit effectively offsets the public sector deficit as a source of high-powered money. Two boundary paths for the multiplier are given so that the possible range of credit creation by the Bank of Portugal can be inferred. At the extreme end of the range, the level of rediscounting (and other central bank credit) must increase by about 58% from June 1976 to June 1977. This would be a large change but smaller in relative terms than the average annual growth since 1974. Note that these projections do not take into account a program of forced lending. The required rediscounting by the Bank of Portugal would rise to the extent that such a program finances the government cash deficit.

TABLE E-I

(except where noted, numbers
are millions of contos)

	June 76	PROJECTION 1		PROJECTION 2	
		December 76	June 77	December 76	June 77
Change in Nominal GDP (from June 76)		14.3%	15.2%	14.3%	16.6%
M2	400	457.2	526.7	470.9	565.3
Sources of Changes in Base other than Rediscount (from June 76) :					
D.O.P. Deficit		- 21.2	- 24.3	- 19.2	- 18.0
Public Sector Cash Deficit		29.8	24.9	29.8	17.8
Treasury Bond Sale		- 3.0	- 3.0	- 3.0	- 3.0
		5.6	- 2.4	7.6	- 3.2
Multiplier (A)	3.2	3.6	4.0	3.6	4.0
Base	124.6	127.0	131.7	130.8	141.3
Change in Base from June 76		2.4	7.1	6.2	16.7
Change in Rediscount		- 3.2	9.5	- 1.4	19.9
Multiplier (B)	3.2	3.2	3.2	3.2	3.2
Base	124.6	142.9	164.6	147.2	176.7
Change in Base from June 76		18.3	40.0	22.6	52.1
Change in Rediscount		12.7	42.4	15.0	55.3

Notes: (1) M2 figure for June 1976 is the guess mentioned in the text.

(2) BOP Projection for 1976 is first semester figure adjusted for inflation. Projection II assumes 2 million contos improvement in capital account.

(3) Public sector deficit figure for 1976 is total current deficit plus investment less net credit advanced through June 30, 1976. In 1977 government investment increases at same rate as private investment and real deficit is assumed equal in both halves of year.

(4) Treasury bond sale compares to 5.9 million contos in first semester 1976.

F. Government Sector

Our model treats the expenditure and revenue sides of the public sector in different ways. The levels of the main spending items are exogenous, while tax revenues are determined by income and consumption, given the rates of direct and indirect taxes (net of subsidies). This implies (see Appendix I) that government savings are an increasing function of gross domestic product and (private) consumption.

The figures used in the 1976 simulations were obtained in two ways: we attempted to estimate directly the values of public consumption (G) and transfer payments (T) and we used the direct (t) and (net) indirect (k) tax rates implied by our 1975 estimate of the public sector current account. Public investment was included in total investment, and was also estimated directly.

Public consumption (G) was assumed equal to the 1975 figure, in real terms. We were not able to produce a more reliable estimate of this item. This procedure can be justified by noting that the major component of G is salaries and the deflator for G is, therefore, essentially the index of government employees compensation. Public consumption should therefore not change substantially in real terms, in the absence of major hirings (or firings) of government employees. Note that our figure closely resembles the Planning Department estimate: we used 64.7 million contos, versus 65.9 of the Planning Department (this figure is their 82.4 in current prices deflated by our 25% price increase).

Government transfer payments (T) were estimated directly

Transfers from Social Security (direct information)	36.0
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Plus:

Aid to Refugees (3.5 from Central Government, OGE, and 4 from "Fundo do Desemprego")	7.5
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Other	6.0
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Equals:	49.5
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Using a 25% rate of inflation we arrive at the 39.6 figure used in the simulation.

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The figure for public investment, which is included in total investment (I), is the Planning Department estimate adjusted downward by 15%. The Planning Department figure was based on figures for the public sector investment plan, and the adjustment comes from Ministry of Finance estimates that no more than 85% of planned investments will actually take place.

The remaining (minor) spending items were also obtained directly. Interest on public debt is 3.5 million (OGE figure), of which 3.3 is internal and .2 external payments; the estimate of transfers to foreigners is the Planning Department's.

An important aspect of our policy package is the reduction of the public sector current account deficit. In order to analyse what growth in revenue would automatically be produced by economic expansion, we made tax revenues endogenous. Given the structural changes that prevent econometric estimates of tax revenue functions, we decided to use simple tax rates, based on the figures we obtained for 1975. The major inconvenience is that this procedure cannot take into account any tax changes that occurred in 1976, namely the transactions tax rate change, the surcharge on imports that did not cover all 1975 and the recent changes in several direct taxes. We hope that the increases in subsidies in 1976 tend to compensate for the indirect tax increases and think that the other changes will not substantially alter the picture.

The direct tax rate we used is the ratio of 1975 direct taxes plus SS contributions plus "other revenue" to GDP at factor cost. "Other revenue" is mostly transfers of households to the government and public sector's property income. These reduce private disposable income out of a given GDP (at factor cost) and so were included in direct taxes.

The net indirect tax ratio was also obtained as a ratio of two 1975 figures: indirect taxes proper minus subsidies to consumption. We used consumption as the implicit tax base as most indirect taxes are levied on consumption goods. This may not be entirely correct because some indirect taxes (e.g. custom duties) and subsidies are levied on intermediate goods; however,

our model has a fixed-coefficient technology in the background that can be justified by the short horizon it covers. This procedure should therefore not cause any major errors.

The basic 1976 simulation produces a public sector current deficit of 23.3 million contos, in 1975 prices. We can check this figure indirectly using independent budget estimates of the Central Government and Social Security system, as follows:

Central Government (CGE)

Current spending (1976 prices)	96.9
Minus:	
Current revenue (1976 prices)	75.6
Equals current deficit	21.3
Social Security deficit	11.0

Assuming that "Fundos e Serviços Autônomos" and local governments have a balanced budget we have a current deficit (1976 prices) of 32.3, or 25.9 in 1975 prices. We believe the 2.6 million contos difference we obtain this way is well within any reasonable confidence interval around the results of our model. Note that as shown in Section B, our basic simulation involves some growth in 1976. This will imply an increase of tax revenues, as accounted for by our model, which may not have been considered in the government budget estimates. Since our main spending figures are exogenous, a higher GDP than previously thought will mean a lower current deficit. We emphasize, however that given the nature of our calculations the difference above seems small enough for us to consider our projected deficit reasonable.

The assumptions underlying both 1977 baseline simulations are identical. We assumed no real growth over 1976 in all categories of government spending, and no change in direct or (net) indirect tax rates. Note that the former assumption already assumes some deliberate action: indeed the recent trend of increased government spending on transfers and subsidies must be halted in 1977, or the current deficit will be above our baseline figures. Due to this fact perhaps we should call our baseline figures somewhat optimistic.

The two different current deficits we arrived at are simply the result of the endogeneity of government revenue. Since both 1977A and 1977B simulations have the same levels of spending, higher income and consumption in the latter mean a lower current deficit.

	(1975 million contos)	
	1977A	1977B
Current spending	108.4	108.4
Minus:		
Current revenue	88.7	90.1
Equals current deficit	19.7	18.3

In prices of 1977, the deficit figures become 30.8 and 28.6 million contos. Note that a lower current deficit is perfectly compatible with a higher level of investment, even if part or all of it is public: higher investment leads to higher income and consumption, thus higher tax revenue, which is current revenue, while spending for capital formation is of course spending on capital account.

There is no way, at this point, to perform any check on the 1977 figures. We believe it is worth emphasizing that these "no change" in fiscal policy simulations do involve some spending restraint: if the trend of increased spending of the last two years is continued the current deficit will be much higher and so will presumably be the external current account deficit. Note also that some direct taxes are collected on incomes whose nominal growth is sluggish - rents, for example. Many firms will presumably be allowed to deduct part of their losses from their taxable earnings, so that taxes on profits cannot be expected to increase substantially even if the profits picture improves substantially. This means that some tax rate adjustments may have to take place just to keep the overall direct tax rate constant.

The basic aspects of the policy package are described in section C above. They are: a) No real increase in spending,

therefore maintaining the 1977 baseline hypothesis; b) Increase in net indirect tax rate by approximately 1%. Possible ways to achieve this goal are increases in indirect taxes, or economization in subsidies, allowing inflation to reduce the effective rate of subsidization; c) Raising direct taxes, from approximately 14.4% of GDP to about 16.1%. This could be achieved by raising direct taxes or contributions to SS. The latter, in particular, appears eminently reasonable since SS benefits have increased very substantially without any matching growth of SS revenue.

Our sample policy package simulation produces a very substantial reduction in the public sector current deficit: from 23.3 million contos in 1976 (in 1975 prices) to about 6.6 million. Even in current prices of each year, the reduction is dramatic: from 29.1 to 12.3 million. It may appear this is too large a reduction, and that realism prevents us from believing it can be achieved. Note, however, that with our policy package we will still have a substantial external current deficit, even with restored competitive position - and without increased domestic saving we cannot reduce the external deficit.

Appendix I: A Macroeconomic Model of Portugal

In order to produce the forecasts and policy evaluations of Chapter III, we developed a mathematical model of the Portuguese economy. We implemented this model on the Bank of Portugal's computer in order to be able to simulate the consequences of a variety of different policy combinations. In this appendix we give an exposition of the model, together with parameter values and some results of simulations. This exposition is intended to serve two purposes. In the first place, others may wish to see how we arrived at our projections and what the effect of changes in assumptions would be. Beyond this, however, we believe that our model is worth presenting in its own right. Although it is at best a rough approximation to the real economy, our model does make explicit a number of the aspects of the Portuguese economy which are now only implicit in discussions of policy.

Structure of the Model

The model works in terms of five aggregates: private consumption, investment, government consumption, exports and imports. Of these, investment, government consumption, and exports are treated as autonomous. Private consumption is a function of disposable income. Imports are a linear function of the other aggregates. Thus the model is in effect an open Keynesian system in which output, consumption, and imports are jointly determined given the level of autonomous spending.

In one major respect, however, our model differs from the standard Keynesian model in that it does not assume a single price level. The production price of each category of final demand is composed of wages, profits (determined as a markup on wages), and the cost of imported intermediate goods. (All imports are treated as if they were intermediate goods.) The price of consumption goods differs from the production price by indirect taxes less subsidies. The effect is to allow changes in the relative prices of different categories of demand whenever

subsidy rates, tax rates, or the price of imported goods relative to wages change.

Another special feature of the model is that the government current deficit is determined inside the model. The government decides on the levels of government consumption and transfer but it decides on rates of subsidy, direct taxation, and indirect taxation. The effect is to make the government deficit a decreasing function of gross domestic product, and consumption. In our model the tendency of domestic saving to increase with output is more a matter of increased tax revenue than of increased private saving.

Variables and Parameters

Our model has 13 equations, determining the same number of endogenous variables. To create a projection one must specify the values of 6 exogenous variables. In addition, there are 7 parameters whose values we have estimated from historical data. We list below the variables and parameters of the model:

Endogenous variables:

C	=	private consumption
M	=	volume of imports
PCONS	=	price of consumer goods, relative to wage level
PINV	=	price of investment goods, relative to wage level
PGOV	=	price of government consumption, relative to wage level
PXPORT	=	price of export goods, relative to wage level
PMPORT	=	Price of imported goods, relative to wage level
YD	=	Disposable income of private sector
GDPFC	=	Gross domestic product at factor cost
GDPMP	=	Gross domestic product at market prices
GDEF	=	Government deficit on current account
B	=	External current account balance in escudos
BFM	=	External current account balance in foreign money

Exogenous variables:

I =	Level of investment
X =	Exports
G =	Government consumption
T =	Government transfer payment
R =	Net private transfers from abroad
E =	Exchange rate, escudos per unit of foreign money

Parameters (and assumed values):

m_c =	Import content of consumption	\equiv	.250
m_i =	Import content of investment	\equiv	.450
m_g =	Import content of government consumption	\equiv	.068
m_x =	Import content of exports	\equiv	.325
s =	Private savings rate	\equiv	.12
t =	Rate of direct taxation	\equiv	.1437
k =	Rate of indirect taxation net of subsidies	\equiv	.1032

The import content figures are based on the 1970 input-output table, normalized so as to match the actual figure for total imports in 1975.

Taxation rates are based on average 1975 rates. The assumed savings rate is somewhat higher than the 1975 rate; we found it necessary to assume a slightly higher rate to produce output and balance of payments results consistent with available data for the first half of 1976. One reason for a rise in the savings rate may be a falling-off in the demand for consumer durables following a stock adjustment in recent years as a result of increased income of workers.

The Equations

In order to reduce the number of symbols in the model we have performed a normalization, so that all prices net of indirect taxes are initially equal to one. This includes the exchange rate. One consequence of the normalization is that

import content coefficients initially are in value terms: that is, m_i represents the number of contos of imports produced by one conto of investment expenditure, and similarly for other parameters. The system of equations is far less complicated than it may seem to be. Because of a simplified structure in which prices depend only on costs, not on demand, most linkages between variables are one-way. I.e., PCONS affects C, but not vice versa. This means that only two variables - GDPFC and C - must be determined simultaneously.

We now present the equations, grouped by major subsections.

Prices:

- (1) $PCONS = (1 - m_c + m_c * PMPORT) / (1 - k)$
- (2) $PINV = 1 - m_i + m_i * PMPORT$
- (3) $PGOV = 1 - m_g + m_g * PMPORT$
- (4) $PXPORT = E$
- (5) $PMPORT = E$

Income:

- (6) $GDPFC = (1 - m_c) * C + (1 - m_i) * I + (1 - m_g) * G + PXPORT * (1 - m_x) * X$
- (7) $GDPMP = PCONS * C + PINV * I + PGOV * G + PXPORT * X - PMPORT * M$
- (8) $YD = (1 - t) * GDPFC + T + R$
- (9) $GDEF = PGOV * G + T - k * PCONS * C - t * GDPFC$

Demand:

- (10) $PCONS * C = (1 - s) * YD$
- (11) $M = m_c * C + m_i * I + m_g * G + m_x * X$

External Balance:

- (12) $B = PXPORT * (X + R) - PMPORT * M$
- (13) $BFM = B/E$

How the Model works

The chief advantage of a model of this kind is that it allows one to take account of the indirect as well as the direct effects of a policy action. To illustrate why this may be important, we give verbal accounts of the consequences of two possible policy actions: the application of import restrictions, and a program of increased public investment.

Suppose the government of Portugal were to prohibit the import of certain non-essential imports. The initial effect would be to divert demand to domestically produced goods. Indirectly, however, the effect would be to increase other imports. Production of domestic goods requires imported inputs. Furthermore, increased domestic production means higher private income, which will cause increased spending on consumption, further increasing imports. The end effect of import restrictions, then, if not accompanied by restriction of domestic demand, is to create partially offsetting increases in other imports.

Now suppose a program of public investment were undertaken. Initially both employment and imports would increase, due to direct labor and material requirements. Again, however, the increase in private incomes would lead to higher consumption, further increasing both employment and imports. Thus the working of the whole economic system acts to magnify both the favorable and unfavorable effects of increased investment.

Among the most useful aspects of a model like ours is that it allows us to compute the size of the direct and indirect effects of policy. In the table below we show the effect of a change of 5 million contos in a number of variables on gross domestic product and the external current account.

Appendix Table -I : Effects of a 5 million contos Change in Exogenous Variables

Exogenous Variable Changed	Change in GDP at Factor Cost	Change in External Current Account
Government Consumption	+ 9.4	- 2.0
Investment	+ 5.6	- 3.2
Exports	+ 6.8	+ 2.2
Remittances	+ 6.0	+ 3.0
Imports ^{a)}	+ 7.2	+ 2.4

a) Import restrictions applied to 5 million contos of consumer good imports.

The numbers in the table reveal two important features of Portugal's economy. First, the indirect repercussions of increases in demand (the so-called "multiplier" effects) are fairly small. The total changes in gross domestic product shown in the first column of the table are not much larger than the impact change in demand. On the other hand - and this is crucially important to remember - the final effect of policy changes on the trade balance is often very different from the direct effect. In particular, factors tending to improve the balance of payments such as increases in exports or restrictions on imports, produce strong offsetting tendencies which rob them of much of their effect. For this reason policies which aim at improving the balance of payments without attempting to curb domestic demand are likely to have disappointing results.

APPENDIX II: Projections of the External Current Account
for 1976 and 1977

In this appendix we give estimates of Portugal's external current account, disaggregated into a few major categories, under the assumption that no strong policy action is taken to improve the balance. These are our estimates, in 1975 prices (billions of escudos); we give actual 1975 figures as a point of reference.

	1975	1976	1977A	1977B
<u>Exports</u>				
Merchandise	49.5	50.5	55.5	55.5
Tourism	9.5	6.9	12.8	12.8
Other Services (excl. interest)	14.5	11.3	12.5	12.5
Total Exports (X)	73.5	68.7	80.7	80.7
<u>Imports</u>				
Merchandise	90.6	102.6	103.3	111.2
Tourism	5.8	4.0	4.0	4.0
Other Services (excl. interest)	22.0	17.4	18.4	18.9
Total Imports (M)	118.4	124.0	130.7	134.1
<u>Remittances</u>				
Received	25.3	26.0	26.0	26.0
Sent	.9	1.0	1.0	1.0
Net Remittances (R)	24.4	25.0	25.0	25.0
<u>Interest Pay- ments Abroad</u>				
Net	.3	0.0	0.0	0.0
<u>Public Transfers</u>				
To A.Z.E.	.8	-	-	-
<u>Current Account Balance</u>				
Billions 1975 esc.	-21.4	-30.3	-25.0	-28.4
Millions current \$ (assuming 6% U.S. inflation)	837.	1237.	1099.	1248.

Derivation of the Projections

The projections were arrived at in three stages:

(i) Projections of exports of goods and services and of remittances were made, attempting to take account of political stabilization in Portugal, world economic recovery, and the end of special relations with former colonies.

(ii) These estimates of exports and remittances were substituted, along with the other exogenous variables, into our macroeconomic model to derive a projection, along with the other endogenous variables, of total imports. As explained in Appendix I, under our model imports (M) simultaneously satisfy two equations:

1) The external current account equation (12) $B = X + R - M$ where the balance B in turn must satisfy the savings-investment identity

$$B = sYD + GDEF - I, \text{ and}$$

2) The import-content equation (11)

$$M = m_c \times C + m_i \times I + m_g \times G + m_x \times X$$

(iii) The composition of the import total was then estimated, again based on special domestic factors and the end of special colonial ties.

Exports

We have found it necessary, in projecting exports of goods and services, to make a distinction between exports to the traditional escudo zone (A.Z.E.) and exports to the rest of the world. Former colonies inflate the export total for 1975 in three ways: through state-related transfers, through transfer and "tourism" associated with retornados, and through protected goods and services exports which will not continue. Thus we produced estimates of exports to the A.Z.E. by assuming that in

1976 state-related transfers and tourism from that area cease; while merchandise exports fall to their first quarter 1976 level and other service exports (largely transportation and insurance) maintain their 1975 ratio to merchandise. For 1977 A.Z.E. exports of merchandise and "other services" are treated the same way as exports to the rest of the world, described below.

Exports to former escudo zone (billions of escudos of 1975)

	<u>1975</u>	<u>1976</u>	<u>1977</u>
Merchandise	4.1	1.9	2.1
Tourism	2.6	-	-
State	3.3	-	-
Other services (excl. interest)	<u>1.1</u>	<u>0.5</u>	<u>0.6</u>
	11.2	2.4	2.6

For exports to the rest of the world in items other than tourism, the dominant factor is the world recovery. We assume that this recovery causes a growth of 7% in merchandise and other services in 1976, followed by 10% in 1977. Tourism is a special case; two factors currently discouraging tourists are the political situation and the scarcity of hotel rooms due to the presence of retornados. We assume that in 1976 tourism from non-escudo area countries remains at its 1975 level, but that in 1977 it returns to 1974 real level.

Exports to foreigners (billions of escudos of 1975)

	<u>1975</u>	<u>1976</u>	<u>1977</u>
Merchandise	45.4	48.6	53.4
Tourism	6.9	6.9	12.8
Other services (excl. interest)	<u>10.1</u>	<u>10.8</u>	<u>11.9</u>
	62.4	66.3	78.1

Adding these two tables and placing "State" under "Other services" produces the overall table for exports.

Remittances

Remittances from the former escudo zone are assumed to fall (from a 1975 level of 3.7) to zero in 1976 and 1977. Remittances from the rest of the world are assumed to recover to 26.0 billion 1975 escudos (almost halfway between the 1974 level of 30.9 and the 1975 level of 21.6) in 1976 and 1977. The recovery is attributed to expected recoveries both of the economies of the host countries and of confidence in Portuguese political stability. It is not expected to be a full recovery because of the small number of recent emigrants, and because emigrants have now learned how to put their foreign exchange earnings in foreign bank accounts (or to sell them to Portuguese tourists) rather than sending them home.

Interest Payments Abroad

Net private interest payments abroad in 1975 were only .3 billion escudos. Setting them equal to zero in 1976 and 1977 is reasonable, and avoids any possible confusion of GNP and GDP, since the two are then equal.

Imports

Our total import figures are derived from the macro-economic model. To allocate the total, we assumed that service imports of the state from the former escudo zone cease, that tourism is reduced by the current government measures to 4 billion 1975 escudos, and that merchandise and remaining service imports remain in 1975 proportions to each other.

Imports (billions of escudos of 1975)

	<u>1975</u>	<u>1976</u>	<u>1977A</u>	<u>1977B</u>
Merchandise	90.6	102.6	108.3	111.2
Tourism	5.8	4.0	4.0	4.0
State A.Z.E.	6.6	-	-	-
Other services (excl. interest)	15.4	17.4	18.4	18.9
	<u>118.4</u>	<u>124.0</u>	<u>130.7</u>	<u>134.1</u>

It may seem surprising, at first, that we predict a large increase in merchandise imports in 1976, even though we expect only a moderate increase in GDP. The reason is that the demand for importables last year was partially met by drawing down stocks. These stocks are now reported to be very low; hence an increase in imports seems inevitable.

Appendix III: Projection of the External Current Account under
Sample Policy Package

In Section C of Chapter II we presented estimates of the effects of a sample policy package which combined measures to stimulate exports and reduce imports with demand restriction. The demand restriction via tax and subsidy changes is described in the section. In this Appendix we describe the estimation of policy effects on the external current account and its components in 1977.

Exports: In Chapter II of our report we estimated that Portugal has suffered a loss of export market share due to domestic causes of from 12 to 16 percent. For the sample policy package we assume that exchange rate adjustment and other policies allow Portuguese export industries to recover half of a 14 percent loss in market share. This would increase the baseline estimate of exports of 80.7 million contos to 87.3 million contos.

Imports: Portugal's imports are primarily intermediate and capital goods not produced at home, the demand for which would be little affected by price increases in the short run. Where policies that raise import prices could be effective is on consumer good imports. We have no good estimate of price effects on such imports, but in any case under the assumed policy this is not a problem. It is assumed that those goods which would be affected by import price increases are in any case placed under quantitative restrictions, and that these restrictions remain binding. Specifically, we assume that imports with a value in 1976 of 5 million contos are excluded by restrictions. It is further assumed that all of these are consumer goods.

We then revise the import content coefficient of consumption as follows. In our baseline projection for 1976, consumption expenditure net of indirect taxes generates imports of $.250 \times 375.3 = 93.8$. We divide the imports into 5 million contos of non-essential direct imports and 88.8 million contos of other direct and indirect imports. Similarly we divide consumption into 5 million non-essential direct imports

and 370.3 million other consumption. The import content of the part of consumption not subject to restriction is thus $88.8/370.3 = .240$. We use this as the overall import content of consumption figure in the policy projection.

Current Account: We assumed that, regardless of any exchange rate change, remittances remain constant in foreign currency (an optimistic assumption for the balance of payments). As described in Appendix II for the baseline case, the estimates of exports, remittances and other exogenous variables for the 1977 policy package case are substituted into our macroeconomic model (with the modified import-content of consumption coefficient to derive projected imports. The total figures for exports and imports are then disaggregated under the assumption that the components respond equiproportionately to the policy measures, as indicated below. Our 1977B baseline projection is also indicated, in current dollars, for purposes of comparison.

Current Account Policy Projection for 1977

	1975 escudos	Current \$ (assuming 6% US inflation)	Baseline projections current \$
Exports			
Merchandise	60.6	2,638	2,440
Tourism	13.8	607	563
Other services	<u>13.5</u>	<u>594</u>	<u>550</u>
Total exports	87.3	3,839	3,550
Imports			
Merchandise	108.5	4,775	4,890
Tourism	3.9	171	176
Other services	<u>18.4</u>	<u>810</u>	<u>831</u>
Total imports	130.8	5,757	5,897
Remittances^{a)}			
Received	26.0	1,143	1,143
Sent	<u>1.0</u>	<u>44</u>	<u>44</u>
Net	25.0	1,099	1,099
Current Account Balance	- 18.5	- 814	-1,249

a) Implicitly deflated by traded goods prices

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INDUSTRIAL AND TRADE POLICY IN PORTUGAL

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* The paper expresses the author's personal views and should not be construed to represent those of the World Bank.

(Restricted Circulation)

INDUSTRIAL AND TRADE POLICY IN PORTUGAL

Bela Balassa

The purpose of this paper is to make recommendations for industrial and trade policy in Portugal, with a view to stimulating economic growth and development while maintaining balance-of-payment equilibrium. The paper will take as its point of departure the situation existing at the time of the publication of the programme of the newly-elected government in August 1976, which marks the end of the two-year period of transition that followed the Revolution of April 1974.

The paper will examine the role of the manufacturing sector in the process of economic growth in Portugal and consider alternative strategies as regards the trade orientation of this sector. Next, recommendations will be offered on policies concerning public, private, and foreign firms, the volume and the allocation of investment, as well as the promotion of exports. The paper will further deal with the implications of Portuguese membership in the European Common Market and examine the interrelationships of short-term and long-term policies.

The Role of Manufacturing in the Growth Process

Productivity levels in Portuguese agriculture are among the lowest in Western Europe. Productivity could be increased by introducing modern methods of cultivation, expanding the production of fruits and vegetables, and transferring marginal land to forestry. A variety of measures have been suggested to pursue these objectives. They include modifying relative prices, improving extension services, providing credit and marketing facilities, increasing the area under irrigation, and settling agricultural property and tenure conditions.

The implementation of these measures is highly desirable as they would bring productivity improvements in agriculture, contribute to increased exports, and permit reducing food imports. Notwithstanding potential improvements, agriculture can hardly become a major source of economic growth and foreign exchange receipts, however, largely because poor soil conditions limit the possibilities of increasing output.

It can be expected, therefore, that the share of agriculture in the gross domestic product will continue to decline in Portugal. The combined share of agriculture, forestry, and fisheries in GDP fell from 22 percent in 1963 to 15 percent in 1973, the last year before the Revolution, while the share of manufacturing increased from 30 percent to 36 percent. Also, in line with its poor resource endowment, Portugal has a lower share of agriculture, and a higher share of manufacturing than it would be expected for a country at its per capita income level (\$1410 in 1973).^{1/}

These conclusions are supported by information on the composition of exports. Between 1963 and 1973, the share of agriculture and processed food (including fish processing) in merchandise exports fell from 26.2 to 18.9 percent and that of forestry products declined from 18.9 to 14.9 percent, whereas the share of manufactured goods increased from 54.9 to 66.2 percent.

Among the principal agricultural exports, the possibilities for increasing the exports of wine are circumscribed by marketing arrangements in the EEC as well as by the relatively high domestic production costs of

^{1/} The relevant shares, 17 percent for agriculture, forestry and fishing and 30 percent for manufacturing, have been estimated from relationships derived for small countries in Hollis B. Chenery and Moises Syrquin, *Patterns of Development, 1950-1970* London, Oxford University Press, 1975, p. 205.

vin ordinaire. In turn, the prospects for the exports of canned tomato have been adversely affected by the partial loss of the U.K. market following British entry in the EEC and by the emergence of new competitors. Thus, despite its potential for increased exports of fruits and vegetables, agriculture's contribution to foreign exchange receipts is bound to be limited.

The possibilities are more favorable for expanding the exports of fishery and forestry products. This would however require considerable investments in new equipment (principally ships) and in reforestation, in the two sectors, respectively.. Also, expansion is constrained by fishing limitations and foreign competition in the first case, and by the availability of suitable land in the second.

Gross receipts from tourism reached \$0.5 billion in 1973, compared to merchandise exports of \$1.8 billion. The subsequent decline in tourist receipts will be reversed with the stabilization of political conditions, and tourism can be expected again to become a major source of foreign exchange in Portugal. At the same time, prospective contribution of tourism to the balance of payments and to economic growth should not be exaggerated. To begin with, foreign exchange expenditures in the form of equipment and tourist spending on imported goods should be deducted from gross receipts. Furthermore, the introduction of minimum wage legislation has increased costs to a considerable extent, thereby reducing the competitiveness of Portuguese tourism. Finally, tourism is largely limited to a few regions and the potentially adverse social repercussions favor reliance on quality rather than on mass tourism.

Emigrants' remittances surpassed \$1.0 billion in 1973, equalling three-fifth of the value of merchandise exports. Remittances declined in

subsequent years, in part because of the decrease in the number of emigrants during the world recession and in part because of the fall in remittances per emigrant due to unsettled conditions in Portugal. With political stability, remittances per head can be expected to regain their earlier level. If the number of emigrants, too, were to return to earlier levels, by 1977 emigrants' remittances would again surpass \$1.0 billion. This would compare to an expected doubling of imports and it is much below the earlier trend.

Nor can it be assumed that the earlier trend could eventually be re-established. France, the largest recipient of Portuguese emigrants, does not presently admit new foreign workers and, for political as well as for social reasons, it plans reducing reliance on them even after economic conditions improve. Germany, the second most important country of emigration for Portugal, also wishes to reduce its dependence on foreign workers and will increasingly shift to importing goods, in particular parts, components, and accessories, rather than workers. Thus, it is doubtful that earlier levels of emigration can be reached for some time to come.

The Trade Orientation of the Manufacturing Sector

These considerations point to the need for Portugal to increasingly rely on the manufacturing sector in order to ensure rapid economic growth. Manufacturing is also called upon to importantly contribute to balance-of-payments equilibrium, and, directly and indirectly, it is a major source of potential employment.

For Portuguese industry to fulfill this role, it would have to become increasingly export-oriented as the possibilities for import substitution are limited by the size of the domestic market. The market for manufactured goods, measured as production plus imports minus exports, in Portugal is only

one-third of that of Belgium and Sweden, and two-thirds of that of Denmark and Norway. At the same time, these countries have reached high levels of manufacturing production and consumption in the framework of an open economy, by maintaining tariffs at low levels and eschewing the use of quantitative import restrictions. Conversely, import substitution behind high protective barriers eventually became an obstacle to continuing industrial growth in Argentina and Chile, and, among socialist countries, in Hungary and Czechoslovakia.^{1/} As noted below, Hungary has subsequently reformed its system of economic decision-making in large part to increase its export orientation.

In the European area, particular interest attaches to the experience of Norway that had relied largely on the exports of primary commodities and simply-processed goods until the early postwar period. The adoption of outward-looking policies has subsequently led to the rapid expansion of industrial output and exports, and the exports of manufactured goods have become the major source of economic growth.^{2/} In turn, in the Far East, Korea has maintained rates of economic growth exceeding 10 percent a year, based largely on the expansion of manufactured exports,^{3/} although its larger population (35 million) provides a greater potential market than for Portugal (9 million).

^{1/} Bela Balassa, "Growth Strategies in Semi-Industrial Countries", *Quarterly Journal of Economics*, February, 1970, pp. 24-47.

^{2/} Bela Balassa, "Accounting for Economic Growth: The Case of Norway" Discussion Paper No. 16, World Bank Development Research Center, June 1976.

^{3/} Larry E. Westphal and Kwang Suk Kim, "Industrial Policy and Development in Korea", study prepared in the framework of the Development Strategies in Semi-Industrial Countries research project, directed by Bela Balassa and sponsored by the World Bank, February 1974, ch. 4.

Access to the markets of the EEC and EFTA augments Portugal's possibilities for increasing the exports of manufactured goods. At the same time, exploiting this potential would require improvements in the international competitiveness of Portuguese industry. Such improvements are also necessary in order to confront foreign competition in domestic markets that would intensify following reductions in tariffs, scheduled to lead to the free entry of manufactured goods from EEC and EFTA countries by 1985.

In fact, apart from their favorable effects on exports, improvements in the competitiveness of Portuguese industry would permit efficient import substitution in the framework of an open economy. By contrast, import substitution behind protective barriers would have adverse consequences for the Portuguese economy by drawing resources into high-cost industries, failing to provide inducement for improvements in technology, and limiting the application of large-scale production methods.

It follows that industrial policies in Portugal would have to aim at improving the international competitiveness of the manufacturing sector. This is not an easy task since, despite advances made in recent years, much of Portuguese industry lags behind European standards. Firms tend to be small, they often operate with outdated equipment, and are in their large majority oriented towards the domestic market.

To support the structural transformation necessary to make Portuguese industry internationally competitive, the government would have to adopt appropriate policies with regard to the public sector, the private sector, and foreign investments. It would also have to provide incentives that contribute to increased investment, channel investment into industries where it is socially profitable, and ensure the best use of resources. These policy requirements will be examined in the following.

Policies towards the Public Sector

Following the nationalizations undertaken in the wake of the Revolution, 9 percent of Portuguese manufacturing output is produced in publicly-owned firms. With the subsequent nationalization of banks and insurance companies, the state has acquired a controlling interest in firms producing another 2 percent of output, and it holds shares in firms accounting for 5 percent of output, in the manufacturing sector. Also, there is practically total government ownership in electricity, gas, water, railways, and, with the exception of foreign-owned enterprises, banking and insurance.

The nationalized industries in manufacturing include beer, tobacco, pulp and paper, cement, steel, and non-ferrous metals. By contrast, there are practically no nationalized firms in industries producing textiles and clothing, leather, leather products, and footwear; metal products; and electrical and nonelectrical machinery. The nationalized sector would extend further, however, with investments undertaken and planned, especially in firms to be established in the Sines complex.

Before considering the proposed establishment of new public firms, questions relating to existing public enterprises need to be dealt with. Particular interest attaches to the process of decision-making in public firms and to the objectives of these firms.

According to Decree-Law No. 270-76, promulgated on April 8, 1976, "there exists an organic relationship between public enterprises and the State that manifests itself in the fact that the Government designates and removes the members of the firm's administrative organs and orients its activity according to the national plan, just as it creates the firm and decides on its liquidation" (Para. 4). The Decree-Law decries "excessive intervention

by the Ministry or Ministries concerned in the management of public enterprises /which/ destroys initiative and responsibilities of its managers which, on the contrary, would need to be encouraged" (Para. 7). It is added that "a better solution appears to be if the supervising Ministry and the interested Ministries participate in defining the general orientation, and authorizing or approving acts of major importance, in the life of the firm ..." (Ibid).

In particular, while firms would prepare the first version of their production and investment plans, the final determination of these plans would take place in the framework of the national plan. The government would also determine guidelines for price and wage setting by public enterprises (Article 13), the aim being that prices generally cover costs and provide adequate levels of self-financing and the remuneration of invested capital (Article 21).

These regulations seem to consider public enterprises as monopolies that can set their prices without regard to domestic and foreign competition. In fact, following the nationalizations, the government established sector-wide public firms in maritime transport, the production and distribution of energy, petroleum, paper and pulp, and cement, and plans to do so in road transport and the production of beer.

Apart from the case when economies of scale so dictate, the desirability of establishing monopoly positions is questionable, however. For one thing, this would generally increase the administrative bureaucracy; for another, it would not permit competition within the sector.

The decentralization of decision-making in the public sector has been undertaken with favorable effects in Italy (IRI) and Spain (INI). Among the socialist countries, the Soviet Union and several other East European

countries repeatedly centralized and decentralized decision-making, the general tendency being in the direction of decentralization. This is the most apparent in Hungary that has come to place increased reliance on market forces while maintaining social ownership in industry.

The Hungarian experience also has relevance for Portugal in regard to the objectives of public enterprises. According to the Decree-Law, these objectives would not be limited to profitability but would also include political and social considerations, such as employment and income distribution (Para. 8). It would be preferable, however, to pursue political and social objectives through general economic policies rather than using public enterprises for this purpose. One may then avoid that inefficient operations be rationalized on the basis of noneconomic objectives and that excess employment or lower productivity be accepted in the public sector.

Such considerations, together with the need to directly link responsibilities and performance, have led the government to decentralize decision-making on the firm level in Hungary. Hungarian firms essentially determine their product composition while, with few exceptions, producer prices are set on the market. Producers compete with each other and with imports in domestic markets, and with foreign firms in export markets.^{1/}

The principal motivation for the Hungarian economic reform has been the importance of foreign trade and the increased sophistication of the economy. A country with few natural resources and limited domestic market, such as Hungary and Portugal, has to rely to a considerable extent on foreign trade. At the same time, decisions on the composition of trade cannot be

^{1/} Bela Balassa, "The Economic Reform in Hungary", *Economica*, February 1970, pp. 1-22.

made centrally. Rather, the firm has to take responsibility for adjusting to the ever-changing conditions of world markets and it should benefit from, and bear the burden of, its decisions. The increased sophistication of the economy, too, calls for the decentralization of decision-making which is conducive to the acquisition of new techniques.

The above considerations point to the need for decision making on the firm level to respond to profit incentives. This conclusion is however subject to the condition that prices are not distorted, so that profitability on the firm level (financial profitability) reflects profitability on the national economy level (economic profitability). This condition is not presently fulfilled in Portugal as prices are distorted by protection, price control, and limitations on competition. In order to remedy the situation, steps would need to be taken to rationalize the system of incentives, to take appropriate organizational measures, and to introduce thorough economic evaluation of new investment projects.

The question of rationalizing the system of incentives will be taken up subsequently. At this point, reference is made to the need for liberalizing price control. Apart from distorting price relationships in the economy, the control of prices practically excludes self-financing by public as well as by private firms and necessitates considerable government subsidies.

Apart from price control, the existing system of import tariffs is an important source of distortions. As long as such distortions exist, temporary measures of intervention may be warranted on a case-by-case basis. This may involve subsidizing (taxing) a particular activity that has a higher (lower) economic profitability than indicated by calculations made

at existing prices. Such actions would take the place of the indiscriminate subsidization of public firms that provides no inducement for cost reductions.

At the same time, one should avoid creating a large bureaucracy for the purpose of central interventions. As indicated by the example of Eastern European countries and that of developing countries, such as Egypt, the administrative bureaucracy tends to perpetuate itself and becomes an obstacle to progress. And while the managers of public enterprises need to go through a learning process, responsibility for decisions cannot be divided between the firm and the government administration. Last but not least, establishing a top-heavy ministerial structure would drain off managerial resources that would otherwise be available to firms.

Correspondingly, it would appear desirable to separate the regulatory and the supervisory functions of the government. The latter function may be entrusted to a board of directors, on which the government, consumers, workers, and the managers themselves may be represented. This board would make the principal investment decisions and would hire as well as dismiss managers.

The government will have to decide, however, on major investment projects that entail the establishment of new plants and firms. Such decisions would need to be based on calculations of economic profitability that involve making estimates at world market prices. This is because Portugal needs to exploit its comparative advantage as indicated by domestic cost and world market price conditions.

Economic project evaluation is of particular importance in regard to the Sines industrial complex. This complex was conceived prior to the Revolution and it may have given expression to a desire for grandiose projects

one often finds in totalitarian regimes. Projects of this sort often tend to develop a life of their own, with purely technical considerations dominating the economic ones. Also, with scarce decision-making capacity, there may be a tendency to concentrate on a few large projects for which technical plans exist, rather than develop new ones which would however be more desirable from the point of view of the national economy.

At the same time, the loss of markets in Portugal's former colonies as well as the quadrupling of oil prices have adversely affected the economic profitability of the Sines complex since the original plans had been prepared. And while decisions taken to build the refinery and the first stage of the port serving the refinery are not reversible, as they are being implemented, all other decisions could be reconsidered and subsequent phases of the complex be subjected to rigorous economic analysis.

Delays experienced in the construction of the refinery provide an opportunity for such a review while this is made necessary by the danger of a serious misallocation of Portugal's resources. For one thing, investing in highly capital-intensive industries would limit the creation of employment opportunities in the national economy. Thus, the creation of a new job in the Sines complex reportedly involves a capital expenditure of \$150 - 200,000 while capital requirements per worker are only a fraction of this figure in labor-intensive manufacturing industries such as textiles and machinery. For example, capital requirements per worker are \$20 - 30,000 in an integrated textile mill, \$4 - 5,000 in clothing manufacturing, and \$8 - 10,000 in electrical engineering.

For another thing, the demands of the Sines complex for skilled and technical manpower reduce its availability to other industries

which utilize relatively more unskilled labor that is in surplus in Portugal. In fact, shortage of skilled workers and technicians has been experienced in the construction of the Sines refinery.

The large size of the Sines complex in relation to available investment resources gives special urgency to an economic evaluation of planned investments.^{1/} At the same time, the availability of suppliers' credits should be considered in terms of the burden of interest costs and repayment charges on the availabilities of funds and foreign exchange in subsequent years.

Among individual projects, the first stage of the port serving the refinery is nearing completion at a cost reportedly exceeding the original estimate several times and the desirability of the second stage would need to be reviewed. There would also be need to reconsider the decisions made for building a new railway line between Lisbon and Sines while proceeding with the construction of the general cargo port as these are to a large extent substitutes. At the same time a review of major projects that are users of transportation services would further reduce the need for these investments.

The proposed petrochemical, fertilizer, and steel plants could fully utilize their capacity only if a substantial part of their output was exported. It is highly doubtful, however, that Portugal would be internationally competitive in exporting these products. Apart from their large capital requirements, the cost of the principal inputs does not favor Portugal.

In particular, the petrochemical and fertilizer industries conform to the resource endowment of the Middle Eastern oil producing countries rather than that of Portugal. The advantages of these countries derive from the capital-intensive nature of the industries in question as well as from

^{1/} Investment in the Sines complex, if implemented in full, may reach as much as one-third of total investment in Portugal in the next few years.

utilizing as basic material either natural gas that has no alternative uses or petroleum that could not be sold in the framework of OPEC. At the same time with the investments planned in the Middle East and elsewhere, one can expect an oversupply to develop within a few years.

In turn, domestic demand for steel in Portugal can be supplied from existing plants for some time to come. And, any rate, questions relating to the use of domestic ores of high phosphorous content and the choice of technology would have to be resolved before decision is taken on new investments. On the basis of existing information, it does not appear that Portugal could export steel at competitive prices.

These considerations underlie the need for a thorough economic evaluation of proposed investment projects at Sines. Such an evaluation would have to include a study of foreign demand and supply prospects, with emphasis on possible price developments in the world market. An economic evaluation of projects is called for also in regard to other proposed public investments which too, have very high capital requirements.

The Private Sector

As noted earlier, the share of nationalized enterprises and of firms where the state has a controlling interest is 11 percent in the output of the manufacturing sector in Portugal. While strictly comparable data are not available, from existing information it would appear that this share is

lower than in Italy and the United Kingdom and it may be comparable to that in Austria and France. Thus, in absolute as well as in relative terms, private enterprise continues to play a substantial role in Portuguese industry.

The dominance of private firms is even greater in regard to the exports of manufactured goods, where their share reaches 93 percent. This is explained by the fact that the major exporting industries, such as food processing, textiles and clothing, wood and cork products, and electrical and nonelectrical machinery, are largely in private hands. At the same time, these are the industries where Portugal has the best possibilities for increasing exports in the future and the increased exports, in turn, would contribute to higher employment.^{1/}

This conclusion follows since Portugal has to find a middle ground between the highly capital intensive and technologically advanced industries of the developed European countries and the unskilled-labor intensive industries of the countries of the Lome Convention and of North Africa which can export manufactured goods duty free to the European Common Market. Despite recent increases in wages and social charges, labor costs in Portugal are substantially below costs in the developed European countries while exceeding labor costs in Africa by a considerable margin.^{2/} At the same time, capital is relatively scarce in Portugal.

^{1/} In this connection note that private firms provide about 94 percent of employment in the manufacturing sector.

^{2/} In 1975, industrial wages in Portugal were about one-third of wages in Germany and two-fifths of wages in France

It follows that capital-intensive products, such as petrochemicals, fertilizers, steel, and cement, offer few opportunities to export to the EEC countries whereas traditional labor-intensive exports of textiles, clothing, and processed foods would need to be upgraded. But the best possibilities appear to lie in industries producing machinery and equipment, where skilled and semiskilled Portuguese workers can utilize modern techniques. Some of these industries, such as machine tools, may produce final goods for the European market; others may engage in subcontracting. Portugal could thus benefit from the tendency of shifting from the importation of labor to that of parts, components, and accessories by the more developed European countries.

For the private sector to fulfill its role in creating exports and employment, several conditions would need to be fulfilled. These include limiting government intervention in the private sector, regulating labor relations, providing inducements for the restructuring and reconversion of industry, and encouraging private investments. They will be considered in turn.

In application of the August 1976 programme, it would be necessary to limit the powers of intervention of the government in the private sector under Decree-Law No. 422/76, promulgated on May 29, 1976. The conditions stated in the Decree-Law that may lead to state intervention, in particular "management negligence" and "failure of management to meet social responsibilities towards workers, the state, social well-being and local authorities", are very broad and create uncertainty for private enterprise.

Government intervention in the case of firms that are in a difficult financial situation also create uncertainty. More generally, the role of the Ministry of Industry should be defined in a way that it regulates the conditions under which private industry operates rather than intervening directly in other than exceptional circumstances.

The functions of the Institute for State Participation (IPE) would also need to be circumscribed. In cases where the state is a minority shareholder, IPE cannot aspire to determine the firm's policies without creating conflicts that would have undesirable effects for the Portuguese economy.^{1/} In fact, efficiency in the public sector would be served by the sale of small participations -- and of small public enterprises -- which have come into state ownership through the nationalization of banks and insurance companies. Such participations and ownership represent a burden for the state apparatus, leading to the growth of bureaucracy, without commensurate benefits.

The unsettled nature of labor relations provides another source of uncertainty for private firms, which impedes their operations and makes it especially difficult to accept and to fulfill export orders. To reduce this uncertainty, it would be necessary to circumscribe the role of workers'

^{1/} It has been reported that through the appointment of the representatives to the Boards of the companies in which IPE has minority participation, IPE plans to exercise fairly close supervision of the companies' activities.

commissions and to introduce compulsory arbitration with a view to avoid strikes. These measures would further be strengthened if illegal strikers and absentee workers were to lose certain privileges they enjoy in the form of seniority rights and fringe benefits.

The introduction of the proposed rules should not be considered to represent a loss of the rights the workers have acquired with the Revolution, but rather as measures necessary to normalize the situation. In particular, Portuguese firms can hardly compete in the European Common Market if they are subject to considerable uncertainty and to a more onerous regime as far as labor relations are concerned than their counterparts in the EEC member countries.

Similar considerations call for re-establishing the possibility of firms dismissing workers under certain conditions. Precluding this eventuality, while done with the best of intentions, has been detrimental to the national economy and to the workers themselves. For one thing, it has led to absenteeism and a decline in productivity; for another, it has made it practically impossible for firms to hire new workers. In this connection, it should be recognized that sales on both domestic and foreign markets vary over time and continually maintaining a labor force necessary for peak periods would be very costly to the firm.

The conditions for dismissing workers should be strictly defined, however. Dismissal could be done for cause (absenteeism, serious infractions on work rules) or if economic conditions affecting the firm change. At the same time, unemployed workers should receive compensation from a fund established from the contributions of employers, with the state creating opportunities for retraining workers whose jobs have become obsolete in the

process of structural change.

The last point leads to the question of structural transformation of Portuguese industry. At present, one observes a certain duality in the industrial structure, with larger, more efficient firms producing for exports and smaller ones for the domestic market. In fact, the majority of Portuguese firms are too small for efficient operations, with three-fourths of the firms employing 10 persons or less and only 3 percent having more than 100 employees. The situation is especially unfavorable in the textiles, clothing, and footwear industry that has nearly 10,000 firms and has been subject to recurrent crises.^{1/}

Apart from inefficiencies in production due to small size, Portugal has relatively few enterprises which have the capacity to undertake large investments, to break into export markets, and to carry out research. By contrast, in small European countries, such as the Netherlands, Sweden, and Switzerland, a substantial part of industrial activity is concentrated in a few firms which are comparable in size to those in the larger European countries.^{2/}

It should further be recalled that, following entry in the Common Market, industrial policy in France has focused on encouraging concentration by the use of fiscal and credit measures. This policy has contributed to the establishment of "European-size" companies, which could compete with their

^{1/} Portuguese National Institute of Statistics, *Industrial Census*, 1972.

^{2/} Among the three-hundred largest European firms, 25 are located in Sweden 14 in Switzerland, and 12 in the Netherlands. There are no Portuguese firms on the list while Spain is represented by 11 entries (*Fortune*, August, 1976, pp. 231-42).

German counterparts. Portugal, whose firms are considerably smaller than French enterprises were prior to the establishment of the EEC, is in even greater need to promote industrial concentration and can learn from the French example as to the application of appropriate measures to further this goal.

Portugal may also benefit from the experience of Spain and Greece as regards industrial concentration. In Spain, tax and credit measures have been used to encourage concentration over the last decade. In Greece, industrial concentration has been an important policy objective since negotiations started on entry into the EEC and tax measures have been employed to pursue this objective.

It has been objected that industrial concentration would be contrary to the spirit of the Portuguese Revolution as it would lead to the establishment of monopolistic positions in individual industries. This will hardly be the case, however; rather, freer trade with the Common Market and EFTA countries would weaken monopolistic positions in Portugal since Portuguese firms would have to compete with EEC firms in domestic as well as in foreign markets. At the same time, industrial concentration is necessary to ensure the competitiveness of Portuguese industry; otherwise, the export possibilities offered by European integration could not be utilized and domestic firms might not be able to withstand the competition of foreign companies and their subsidiaries in the home market.

This is not to say that small and medium sized firms do not have a role to play in Portugal. While such firms could not survive in industries where the exploitation of economies of scale requires large plant size, they

can produce various commodities requiring precision work and supply parts, components, and accessories to domestic as well as to foreign firms. This, in turn, necessitates modifying the policies followed by the Institute for the Support of Small and Medium Size Industrial Enterprises, which presently provides assistance to all small and medium size firms that are in financial difficulties, irrespective of their possibilities for efficient operations.

In order to fulfill its role of expanding exports and employment, private industry would further require funds for new investment. While private investment has declined greatly in recent years and there is little indication of a pick-up in investment activity, the demand for investment funds will re-emerge once conditions are stabilized. In this connection, the financing of investment from the firm's own resources and from outside sources need to be considered.

Investible funds generated internally fell greatly in 1974 and 1975 as a result of the combined effects of rapid increases in wages, decline in productivity, and price control. According to statistics published by the Departamento Central de Planemiento, wholesale prices increased 28.3 percent in 1974 and 13.6 percent in 1975 while industrial wages rose 39.5 percent and 25.0 percent respectively.^{1/} At the same time, industrial labor productivity stagnated in 1974 and decreased by 4 percent in 1975.^{2/}

^{1/} Situação Econômica Portuguesa, May 1976, pp. 63, 70

^{2/} Industrial production fell by 5 percent between 1974 and 1975 while employment declined by 1 percent (Banco de Portugal, *Relatorio do Conselho de Administracao, Gerencia de 1975*, Vol. 1, 1976, pp. 64-65.

With depreciation allowances based on historical values, under the rapid inflation experienced in recent years even firms showing profits in their accounts may suffer from decapitalization in the sense that their funds generated internally are not sufficient to replace capital. Yet, prudent management requires the use of a mixture of internally and externally generated funds in financing investments.

Given the need to create new employment in the private sector and to increase the competitiveness of private firms through modernization, it would be necessary for the government to take measures in order to ensure the internal generation of investment funds. This will require liberalizing price control as done recently by the Labor Government in the United Kingdom. The Labor Government has also introduced "inflation accounting" for depreciation in order to avoid decapitalization and to stimulate investment. In Portugal's case, investment may be stimulated more directly by appropriate tax measures.^{1/}

One would also have to ensure that loan funds are available for private enterprise. Apart from increasing the total volume of investment in Portugal, a question to which we will return below, measures would have to be taken to avoid that the demand for investment funds by the public sector pre-empts the necessary financing of private investment. This danger exists in view of the large demand for funds on the part of public firms to invest in capital-intensive industries which create relatively few employment

^{1/} For a comparison of these alternatives, see George E. Lent, "Adjustment of Taxable Profits for Inflation", *International Monetary Fund, Staff Papers*, November, 1975, pp. 641-79.

opportunities and have less favorable balance-of-payments effects than investment in export-oriented private firms.

It would further be necessary to improve the operation of the financial institutions in Portugal. In particular, there is need to increase the availability of medium-term and long-term credit and to ensure speedier decision on requests for such loans. Finally, the export credit system would need to be extended and its administration improved.

Foreign Direct Investment

Given the large inflow of refugees from the former Portuguese colonies, the limited absorption of labor in agriculture, and the reduced possibilities for emigration to the more developed European countries, domestic capital formation in Portugal can hardly suffice to employ the country's labor force. Apart from contributing to increased employment, foreign investment is also necessary to fully utilize Portugal's export potential through its apport of technical and managerial knowhow as well as marketing expertise. Finally, subcontracting arrangements may be advantageously made by firms with full or partial foreign ownership.

The example of Ireland is instructive in this regard. After a long period of slow and inward-oriented industrial growth, accompanied by the emigration of the working-age population and by an absolute decline of the total population, Ireland adopted an outward-looking policy and granted considerable incentives to foreign direct investment. This policy has led to a substantial inflow of foreign capital, contributing to rapid industrial growth and considerable increases in employment. The emigration of the working-age population has declined as a result, and since 1961 the Irish population has been increasing again.

By providing inducements to foreign investment, Ireland has been able to utilize the opportunities provided first by special trading arrangements with Britain, subsequently by the Anglo-Irish Free Trade Area, and more recently by membership in the European Common Market. Portugal could well learn from the experience of Ireland in exploiting the possibilities offered by integration in Western Europe. It should also learn, however, from the mistakes of the Irish who may have given overly generous incentives to foreign capital and have employed certain measures which, on balance, favor capital-intensive industries.

On the whole, there appears no reason for granting more favorable treatment for foreign than for domestic investment. However, Portugal needs to provide adequate guarantees for foreign direct investment. An important step was taken in this direction by the promulgation of the Foreign Investment Code (Decree-Law No. 239/76, April 6, 1976). Nevertheless, the Code would need further clarification and elaboration in order to make investment in Portugal sufficiently attractive.

To begin with, in view of rapid inflation and reliance on fixed exchange rates in Portugal, the limitations imposed on the transfer of profits should apply in terms of foreign currency rather than in escudos. Also, the conditions for suspending transfers should be narrowly circumscribed and limited to the repatriation of capital, thus guaranteeing the free transfer of profits and royalties. The same privilege should be extended to the servicing of loans contracted abroad that is not covered by the Decree-Law.

In turn, following the example of Mexico, it would be desirable to limit the amount that could be accounted for among production costs, and

transferred abroad, in the form of royalties, management fees, and the like. In this way, it can be avoided that foreign companies circumvent the limitations on the transfer of profits and avoid paying taxes in Portugal by overstating royalties and other fees.

In view of complaints received from foreign investors, the provisions of Article 28 on technological transfer would also need to be reviewed. In particular, the clauses barring the use of foreign languages in contracts or agreements, and more importantly, the determination of prices by the transferor of technology, appear overly restrictive as far as relationships between foreign companies and their Portuguese subsidiaries are concerned.

Finally, attracting foreign capital to Portugal would make it necessary to provide guarantees both as regards labor relations and the settling of disputes with the government. Regarding the former, the recommendations made above in connection with private firms could be usefully complemented by including in the decree on the implementation of the Foreign Investment Code a clause that figured in an earlier version, but was deleted from the final version, of the Code. According to this clause, "The Control of production by workers' commissions or by any other organization of workers could not interfere with the exercise of the functions of responsible management organs".

Finally, giving the Portuguese courts the final say in the settlement of disputes with the government may not provide sufficient guarantees to foreign investors. Rather, following the example of other countries, the arbitration of disputes could be left to international fora, such as the International Court in The Hague, or the International Centre for Settlement

of Investment Disputes associated with the World Bank.

Macroeconomic Policies

We have seen that increases in the volume of investment are necessary in Portugal in order to provide productive employment for the labor force and ensure rapid increases in national income. The choice is essentially between present and future consumption when, given the high productivity of capital in the presence of unemployment, foregoing consumption today will bring high returns in the future.

A similar situation existed in Western Germany following the immediate postwar period when the alternatives were the redistribution of income favoring increased consumption by the poor and incentives to investment leading to increased capital formation. The choice was made for the latter, with favorable long-term effects for the national economy and for all social classes in Germany. Thus, the incomes of workers, and of low-income recipients in general, are substantially higher today than would have been the case if a policy favoring consumption had been adopted three decades ago.

For similar reasons, a decision to adopt policies aiming at increased investment and reduced consumption has been taken recently by the Labor Government in the United Kingdom. This decision is intended to redress a situation characterized by overconsumption, financed by reduced savings and by drawing on foreign exchange reserves.

In Portugal, too, there has been overconsumption in recent years, with total consumption (private and public) accounting for 101.8 percent of aggregate expenditure in 1975 as compared to 88.2 percent in 1968-73 (Table 1). The counterpart of increased consumption has been a decrease in domestic fixed

investment (5.3 percentage points), decumulation of stocks (2.9 percentage points), and deterioration in the balance of payments (5.4 percentage points).

In relative terms, public consumption has risen the most, with increases of 16.2 percent in 1974 and 15.3 percent in 1975 as compared to 6.8 percent in the period 1968-73. In turn, following an increase of 7.4 percent in 1974, the growth of private consumption slowed down in 1975, although still showing an increase of 3.1 percent in contrast with an absolute decline in GNP. The brunt of this decline was borne by gross fixed investment that fell by two-fifths between 1974 and 1975. At the same time, domestic production declined more (-9.0 percent) than aggregate expenditure (-3.5 percent), indicating the increased deterioration of the balance of payments (Table 2).

The rapid growth of public consumption is also apparent in the rising deficit of the government budget. Starting with an equilibrium in earlier years, the budget deficit was 11.2 billion escudos in 1974, 32.4 billion escudos in 1975, and it may approach 50 billion escudos in 1976, compared with earlier estimates of 35 billion.

The continued growth of public and private consumption at rates experienced over the past two years is unsustainable. Fixed capital and stocks have to be replaced and augmented; nor can consumption be financed from foreign loans or by drawing on the country's foreign exchange reserves. Correspondingly, there is need for simultaneous improvements in the savings-consumption balance, the balance of payments, and the government budget. Such improvements may be effected by reducing the growth of consumption and by increasing production.

As regards consumption, the first priority is to economize on public expenditure. This will require a careful review of priorities in the framework of a general budgetary exercise pertaining to public investment as well as consumption. At the same time, in financing public expenditure, increased reliance should be based on taxation as against money creation. In this connection, note that in the past year the redistribution from private to public expenditure was financed largely by money creation.

The share of private consumption in aggregate expenditure would also need to be reduced. In particular, increases in industrial real wages of 6.8 percent in 1974 and 4.6 percent in 1975^{1/} in the face of stagnating and declining productivity, respectively, would have to give place to increased productivity together with a temporary retardation and even decline of real wages.

The described changes are further necessary in order to strengthen the competitive position of Portuguese industry, which is a precondition to raising output and improving the balance of payments through increased exports. At the same time, higher output and exports would reduce the need for cutting back consumption and would increase employment. Thus, there is a trade-off between higher wages for those presently employed and higher employment.

Relative Prices and Economic Incentives

Apart from reducing the budgetary deficit, actions would need to be taken to limit increases in wages in nominal terms. This could be accomplished through compulsory arbitration on wage settlements and through the activities of the wage and prices commission, the establishment of which

1/ *Situacao Economica Portuguesa*, May 1976, p. 64

was announced in September 1976.

Pursuing the twin goals of increasing investment and exports would further require changes in the system of incentives. On the one hand, there is need to increase the demand for, and the supply of, investment funds; on the other, exporting would have to be made more profitable than heretofore. The measures that may be taken to accomplish these objectives will be considered in the following.

As noted earlier, the liberalization of price control and the introduction of tax benefits for new investment would be necessary to increase private investment from internally-generated funds. In turn, while improvements in the financial system would permit the more efficient channeling of funds to investment, domestic savings would have to increase in order to provide externally-generated funds for the private sector. In this connection, it has been suggested that savings are presently discouraged by negative real interest rates and this could be remedied by indexing savings or increasing nominal rates.

Indexing savings has the disadvantage that it contributes to inflationary psychology while Portugal would need a decrease in the rate of inflation. In turn, although increases in nominal interest rates have been effective in mobilizing savings in countries such as Korea,^{1/} it is questionable that substantially higher interest rates provide the appropriate measures at the present juncture in Portugal. For one thing, similar to the situation in the United Kingdom, the decline in real interest rates does not

^{1/} Gilbert T. Brown, *Korean Pricing Policies and Economic Development in the 1960s*, Baltimore, Johns Hopkins University Press, 1977.

seem to have appreciably affected domestic savings, possibly because savers wish to provide for their retirement. For another, under present circumstances, increases in interest rates would have adverse effects on investment.

Correspondingly, one may welcome the decision taken in August 1976 to rely on forced savings to restrain consumption. But, such a measure is necessarily temporary and, eventually, real interest rates would have to be raised. This may be accomplished by lowering the rate of inflation, with nominal rates maintained at present levels. However, if inflationary pressures continue, increases in nominal rates could not be foregone.

As a more immediate measure, it would be desirable to pay higher interest rates on the foreign exchange balances of domestic residents. This would represent extending present regulations for emigrants to other recipients of foreign exchange, and it would tend to reduce incentives to invest abroad the proceeds of current transactions and turn the operation of leads and lags on the payments for such transactions in Portugal's favor.

As regards the profitability of exports, note should be taken of the decline in the competitive position of Portuguese industries resulting from the fact that wage costs in Portugal increased substantially more than abroad, without commensurate changes in the exchange rate. Calculations made by the MIT Economic Team indicate that, adjusted for changes in exchange rates, wage costs in Portuguese manufacturing rose by about 74 percent between 1973 and 1975 as against average increases of 41 percent for its major trading partners.

1/ Wage costs have been calculated by adjusting an index of wages by an index of labor productivity; the results for Portugal's trading partners have been derived by weighting with Portuguese exports to them.

Increased wage costs, together with unsettled labor conditions, have contributed to a decline in Portugal's export share. Between 1973 and 1975, Portugal's share in the markets of the developed countries fell by 13 to 16 percent, depending on the method of calculation employed.^{1/} This is the more serious, since one would have expected the transfer of at least some of the lost export sales in the former Portuguese colonies to developed markets.

The 20 percent surcharge on imported inputs that have no domestic substitutes also increased the cost of export industries using these inputs. In turn, the 30 percent surcharge on luxury products, and the additional protective measures announced in August 1976, have benefited import substituting industries vis-à-vis exports. The measures in question include the extension of the system of import surcharges, the introduction of an advance import deposit scheme, the revision of the conditions of sale of consumer durables which are largely imported, price, credit and tax measures favoring imports, discriminatory government purchase regulations and quantitative import restrictions.

Among these measures, quantitative import restrictions, provide an immediate means of reducing Portugal's balance-of-payments deficit. But at the same time, they are bound to have unfavorable repercussions for the national economy. This is because quantitative restrictions encourage the domestic production of nonessential products at high costs; they give rise to excess profits for the recipients of import licenses; provide inducement for smuggling and bribery; and limit the availability of nonessential goods

^{1/} Krugman, "Market Shares and Exports", MIT Economic Team, Working Paper No. 17, Lisbon, July 1976.

of current consumption for foreign tourists.

The unfavorable repercussions of quantitative restrictions call for their early replacement by tax measures. Commodity taxes affect equally imports and domestic production, and the proceeds of these taxes would accrue to the government budget. At the same time, higher taxes on luxury products would limit imports and improve the distribution of incomes.

The discrimination against exports resulting from the introduction of protective measures has not been alleviated by the export credit measures announced in September 1976. Rather than favoring exports over import substitution, improvements in credit facilities are necessary to eliminate a particular source of disability vis-à-vis other countries.

At the same time, the protection of import-substituting industries and discrimination against export activities are bound to have unfavorable long-term effects in Portugal. For one thing, they postpone the time when import-substituting industries may become internationally competitive and contribute to the further development of high-cost industries. For another, they retard the development of export activities which should become the prime mover of industrial development for exploiting Portugal's comparative advantage.

Nor can the measures taken in favor of import substitution be counterbalanced by outright subsidies to exports, since such subsidies are proscribed by EEC and EFTA regulations. Rather, the exchange rate would have to be used as the principal instrument of export promotion. The use of this instrument would also permit efficient import substitution as it would replace a variety of protective measures whose incidence on particular products vary and is not even known with any confidence.

The use of the exchange rate as a policy instrument presupposes the application of monetary and fiscal policies to ensure that changes in exchange rates do not lead to an overall inflation. Exchange rate changes, monetary, and fiscal policies thus form a package designed to re-establish equilibrium in the savings-consumption balance, the balance of payments, and the government budget.

Nevertheless, as long as tariffs are applied, exports are discriminated against in favor of production for protected domestic markets. In order to lessen the extent of this discrimination and to permit exporters to enter new markets, it would be desirable to employ measures of export promotion which are admissible under agreements with EEC and EFTA. Apart from improving the existing system of export credit, it would be desirable to institute an export insurance scheme and to employ promotional measures.

Promotional measures may take the form of double tax deductions on expenditures related to exports by firms, the government financing of trade fairs, and the establishment of a network of commercial attachés. Export promotion is of particular importance in order to utilize the opportunities available in EEC and EFTA markets, to enter new markets, e.g. in the Middle East, and to redirect exports that had been oriented towards the former colonies.

It has been objected that the private sector would not be able to make use of the opportunities provided by improvements in the profitability of exports. These objections are hardly warranted, however. To begin with, the existence of substantial underutilization of capacity would permit immediate increases in exports once they become profitable. Also, private industry showed considerable dynamism in exploiting the possibilities offered in EEC and EFTA markets during the decade proceeding the Revolution, when exports grew at an

average annual rate of 18.8 percent. Note finally that much of the increase occurred in new lines of production, in particular machinery and equipment, whose share in total exports rose from 3 percent in 1963 to 13 percent in 1973. It may be expected, therefore, that private industry will make use of profitable export possibilities, provided that the conditions described earlier are fulfilled.

Membership in the European Common Market

Portugal's recent trade agreement with the European Common Market represents improvements from the Portuguese point of view in several respects. For one thing, it has allowed Portugal to delay the elimination of tariffs by transferring a number of "new" products from the 1980 to the 1985 list and adding a number of "old" products to the list. For another, EEC tariffs have been reduced on Portuguese agricultural and fisheries products and eliminated on manufactured products.

However, the concessions made on the major Portuguese exports subject to quantitative restrictions in the EEC have been relatively minor. Thus, barriers remain on exports of wine and other agricultural products, processed fish, wood and cork products, and textiles. Moreover, Portugal's possibilities to export tomato paste and textiles to Britain have deteriorated as a result of British entry into the Common Market.

Nor can it be expected that important concessions could be obtained in the framework of future trade agreements with the EEC. This is because on sensitive products advantages are given to the member countries, and the objections of a single member country may jeopardize the granting of concessions. At the same time, the list of sensitive products includes many of Portugal's

major exports and there is a danger that the Common Market would impose new barriers on imports which appear to threaten an EEC industry.

These considerations point to the desirability of Portugal becoming a full member of the Common Market. Full membership provides additional benefits in the form of financial support from the agricultural and regional funds and from the European Investment Bank. Such support can assume considerable importance, given the fact that Portuguese agriculture exhibits levels of productivity much below those in the other Common Market countries and that per capita incomes in Portugal are lower than in the poorest regions in the original EEC countries. Also, in 1973, per capita incomes in Portugal (\$1410) were lower than in Ireland (\$2150) that qualifies in its entirety for regional aid and in Greece (\$1870) that is negotiating full membership. These differences have increased further since.

Support received from the agricultural and regional funds and from the European Investment Fund would contribute to the structural transformation of Portuguese agriculture and industry. Membership in the Common Market thus appears to be a precondition for the full utilization of the possibilities the markets of the EEC countries provide for Portuguese exports.

Correspondingly, the recent initiatives on the part of the new Prime Minister, Mr. Mario Soares, for applying for full membership in the EEC are welcome. At the same time, one should be aware of the difficulties of negotiations. These are likely to be time-consuming and require the full attention of Portuguese authorities in order to obtain the best possible terms from the Common Market authorities.

The Interrelationship of Short-term and Long-term Policies

Moreover, entry into the European Common Market will not have the desired effects, if adequate measures are not taken to improve the competitive position of Portuguese industry. While the August 1976 Programme proposes some

measures aimed at improving the conditions under which private industry operates, in concentrating on short-term objectives it does not focus on the need to strengthen competitiveness. In fact, as noted above, the newly-introduced protective measures will have the opposite effect. At the same time, they will make the task of the Portuguese negotiators with the Common Market more difficult.

More generally, short-term and long-term policies are interrelated, and measures taken to pursue short-term policy targets would need to be geared to long-term objectives. This would require ensuring a high volume of investment, its efficient allocation among industries, and creating the conditions for productivity improvements in public as well as in private firms.

The need for greater domestic investment calls for providing appropriate incentives to firms while restraining the growth of public and private consumption. Improvements in labor conditions, liberalizing price control, increasing the profitability of exports, and tax incentives would provide inducements to invest. In turn, restraining consumption would necessitate establishing priorities and ceilings in the government budget and limiting wage increases. Improvements in labor conditions, together with guarantees to foreign investors would also be necessary to encourage direct foreign investment.

There is further need to ensure that the allocation of investment funds corresponds to Portugal's comparative advantage. This would involve avoiding that public investments pre-empt the available investment funds; subjecting investments in the public sector to rigorous cost-benefit analysis; providing adequate incentives to export activities; and reducing the protection of import substituting industries.

In order to ensure the long-run expansion of the Portuguese economy in the European framework, these measures would need to be complemented by actions aimed at improving productivity. They include decentralizing decision-making in the public sector, ameliorating the conditions under which the private sector operates, and encouraging industrial concentration.

It has been objected that, while pursuing long-term objectives, the proposed measures would have unfavorable short-term effects by contributing to inflation and reducing employment in Portugal. However, while liberalizing price control would have inflationary repercussions, reducing the budgetary deficit and restraining wage increases would favorably affect the principal factors contributing to inflation over the past two years. Also, attaining improvements in the balance of payments through the more flexible use of the exchange rate instrument instead of import restrictions may have deflationary rather than inflationary effects. This conclusion follows because increased exports would permit utilizing excess capacity and price increases resulting from high protection could be avoided.

Using excess capacity in export industries would further contribute to increases in employment. Also, revising investment priorities in line with Portugal's comparative advantage would make an important contribution to employment, since the capital cost of creating a new job in labor-intensive industries, including textiles, machinery and electronics, is only a small fraction of that in the proposed capital intensive industries, such as petrochemicals, fertilizers, and steel.

Table 1

The Structure of Domestic Expenditure in Portugal

Current Prices

	1968-73	1974	1975
Total consumption (private and public)	88,2	97,2	101,8
Private Consumption	74,5	82,7	84,5
Public Consumption	13,7	14,5	17,3
Gross fixed capital formation	18,8	19,3	13,5
Variation of stocks	(0)	(2,3)	(-2,9)
Exportation of Goods and Services	24,1	25,2	19,0
Importation of Goods and Services	-31,1	-44,0	-31,4
Domestic Expenditure	100,0	100,0	100,0

Source: Departamento Central de Planeamento, *Situação Económica Portuguesa*, May, 1976

Table 2

Growth Rates of Domestic Expenditure and Output

1970 prices

	1968-73	1974	1975
Consumer expenditures on goods & services	6,0	7,4	3,1
Government current expenditures on goods & services	6,8	16,2	15,3
Gross fixed capital formation	13,2	-2,8	-38,6
Variation of stocks	N.A.	N.A.	N.A.
Exports of goods and services	8,7	-11,8	-20,8
Imports of goods and services	9,7	9,3	-24,6
Domestic expenditure	6,6	3,9	-3,5
Domestic supply	7,3	5,2	-9,0

Source: See Table 1

Technical Co-Operation Service

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COOPERATIVE ACTION PROGRAMME 1976

PORTUGAL - PROJECT (76)14

INDUSTRIAL PLANNING AND THE USE OF
EXTERNAL ASSISTANCE IN PORTUGAL

by

Manfred Bienefeld and Dudley Seers
(Institute of Development Studies, University of Sussex)

The summary of the report

Mission dates: 29th March - 2nd April 1976

Industrial planning and the use of external assistance in Portugal

Section I

SUMMARY

The first section of the report deals with the strategic options open to Portugal, since the questions of industrial policy on which we were asked to comment depend on the basic strategy chosen. Although Portugal has survived the recession fairly well, the present position is serious. The symptoms are heavy unemployment, inflation and a big foreign exchange deficit, but the basic problems are to be found in severe problems of economic structure, especially the multitude of inefficient small-scale producers in both agriculture and industry, an archaic administrative system and the lack of understanding of socio-economic problems. On these were superimposed the shocks of not merely the world recession and price rises of oil and other primary products but also political instability and the return of thousands of Portuguese who had settled in Africa.

To cope with this situation there are two main options. One would be to seek economic integration with Western Europe, the other a more autarchic and planned strategy. The first raises a question about the ability of Portuguese producers to survive the full force of competition from the current members of EEC. The other poses problems of where external support would come from and what capacity the administration had to meet heavy additional demands. Some middle way seems indicated, that would increase the government's room to manoeuvre. The options being considered by the central planning office are not framed in this way, however.

Section II

The development strategy determines the planning framework. The open strategy implies "indicative" planning, much initiative being left to the private sector; the autarchic are tight and detailed controls, partly designed to correct regional imbalances. The intermediate development strategy suggested would require a planning framework between these two extremes. Perspective planning is suggested together with an emergency plan to cope with pressing short-term problems and a medium-term development plan, which should not be rushed.

Industrial planning depends in turn on the planning framework. There is at present some uncertainty as to exactly how the Ministry of Industry and Technology would participate in central planning, and whether its staff is large enough for it to make a big enough contribution.

SECTION III

This section deals with two related issues: the present and potential role of project evaluation techniques in planning, and the use of foreign aid funds.

It is noted that current project evaluation techniques are in need of considerable refinement, although it is emphasised that no amount of sophistication in techniques can substitute for an industrial, and an economic strategy from which priorities - and hence weights and co-efficients - can only be derived.

These same difficulties appeared when the utilisation of foreign aid funds was considered. This large quantity of resources, largely from EFTA and EEC sources, was in the absence of any comprehensive strategy being allocated in ways which gave grounds for concern. The donors' insistence on the application of strict commercial criteria, along with the demand that output markets for projects be virtually assured, has led to a number of undesirable consequences. These include: the thwarting of the Government's intention to give special assistance to smaller scale projects; a disturbing emphasis on capital intensive infrastructural projects; a largely undetermined foreign exchange effect; an ambiguous effect on net domestic investment since the funds were not being made available to smaller scale investors who appeared to be just the groups whose investment plans were being thwarted by a lack of funds. The total effect was probably to do little to ameliorate the chronic problems of the balance of payments and of domestic investment levels, but rather to worsen the long term foreign exchange problem; to reduce Portugal's ability to plan its economic activity; and to increase its dependence on future capital flows from abroad.

Our conclusions are: that there is an urgent need for a more flexible utilisation of these foreign funds; that the Government should establish a set of priorities which can guide the utilisation of these funds; and that the consequences of the "open economy" alternative, to which the current donor criteria are moving the economy, should be very carefully assessed in the light of their probable social, political and economic consequences.

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SOME LONG-RUN GOALS
OF
TAX REFORM IN PORTUGAL

by

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and

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(Circulação restrita)

Some Long-Run Goals of Tax Reform in Portugal

by E. Cary Brown, assisted by Luis M.C.P. Beleza*

I. Introduction

Tax structures can have a major impact on the distributional fairness of an economic system; on the efficiency with which resources are used, by consumer, business, and governmental units; on the stability of the economy through expansion or contraction of aggregate demand, and on the foreign exchange balance.

As Portugal regains economic headway, more tax reforms will be needed to aid the process. They should be undertaken in the context of an agreed balance in these goals for tax reform following debate and discussion. Short-run tax reforms can then be fitted into a long-term program. Otherwise, improvisation in the short-run, necessary as it may be for immediate policy purposes, leads over time to a jerry-built structure that meets no goals.

The following remarks, based as they are on an earlier report to OECD, should be regarded as a contribution to this suggested discussion and debate. The present structure will first be viewed broadly. Some proposals for reform follow.

II. The present Portuguese tax structure

The present Portuguese tax structure may be characterized in the following way:

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A. Impersonality of the structure

If one classifies the tax structure roughly into the following categories for recent years, one finds the following.

	<u>1975</u>	<u>1976</u>
Direct taxes on incomes and profits	16%	17%
Social Security taxes	35	31
Estate and Gift taxes	3	2
Indirect taxes	<u>46</u>	<u>50</u>
	100	100

Thus, about half of the taxes imposed in 1976 are in the form of indirect taxes: taxes on transactions, on customs, stamp taxes, excise taxes on fuel, on automobiles, on tobacco. Indeed, if Social Security taxes are excluded, as they are for some purposes, indirect taxes represent twice as large a proportion of the total as do direct.

Whatever useful purposes may be served by indirect taxes in the way of reducing the demand for particular products, they are certainly not personal, because they apply the same rate of tax to a transaction regardless of the personal characteristics of the purchaser.

Even in the area of direct taxation, there are large elements of impersonality. The separate schedular taxes on different types of income — rents of land, agricultural, industrial, professional, labor, and portfolio income — are imposed at different rates and exemptions. Even the complementary tax, the most nearly personal of the income taxes,

does not fully backstop the schedular taxes.^{1/} Moreover, it represents only about 6 percent of the direct taxes including Social Security or, perhaps, one-fifth excluding it.^{2/}

B. Weight of direct taxation on capital and labor income

Direct taxes (excluding Social Security taxes) seem not only low with respect to indirect taxes, but low with respect to income, that is, low in effective rates. For example, taxes that may arbitrarily be classified as direct taxes on property incomes have represented something over 8½ percent of property incomes in the last two years.^{3/} Taxes on labor income on this basis would run a bit over 3 percent.^{4/}

The number of taxpayers also seems to be low. Of some 2 million employees, some 575 thousand paid a professional tax in 1974, of which 149 thousand paid a complementary tax. Part of the reason for this is the questionable tax exemption of civil servants, and the understandable omission of nearly 800 thousand employees with incomes below the minimum exemption. Excluding these people still indicates that half of potential taxpayers are not reporting income tax.

^{1/} It does not adjust for the different schedular tax rates, has a separate schedule for dividends from bearer shares, raises taxes on high incomes but fails to lower taxes on low incomes.

^{2/} Comparison is made difficult by the fact that complementary taxes in 1975 included only late collections on income up to 1973, and in 1976 two years collections are reported. This may be an understatement because the full effect of the postrevolutionary tax changes have not yet been felt.

^{3/} Includes Industrial, Predial, Capitais, and Other, divided by estimated property income of 102.6 and 95.1 million contos, for 1974 and 1975, respectively.

^{4/} The combined professional and complementary tax on labor income was 3.3% of labor income in 1974 and 1975.

The corresponding figures for income reported for 1974 are 49 million contos under the professional tax and 38 million contos under the complementary. In other words, the professional tax, for whatever reasons, includes but 25 percent of the labor force and 43.5 percent of labor income; the complementary tax has a still smaller coverage.

C. Incentive exemptions

The Portuguese tax structure has a large number of tax reduction devices designed usually for incentive purposes, but also for equity purposes. The conventional wisdom favors the use of explicit subsidies as a more efficient way of providing added incentives than through deductions, tax forgiveness, or tax postponement. Moreover, subsidies must pass budget review in the context of an expenditure rather than a tax program. Multiplicity of tax devices creates problems in tax administration and compliance as well.

D. Automatic response of taxes

Substantial lags in the assessment and collection of some income and profits taxes makes them less responsive to changes in income than would be desirable from the point of view of automatic stabilization. Especially in a period of inflation, effective tax rates decrease as income taxes are postponed. Differential postponement creates inequities between taxpayers by making differential reduction in the real tax burden. Discriminatory treatment of taxes on labor or capital may be systematic if labor income is withheld currently, and taxes on capital income can be postponed.

Surprisingly, the transactions tax has substantially more sensitivity to changes in economic activity than do the income taxes. This result is a consequence of the structure of the transactions tax — a multiple bracket tax at the wholesale level, much like the old British Purchase Tax, on more discretionary forms of consumption rather than necessities. Its coverage, for example, appears to be slightly more than one third of consumer expenditure, a very limited portion of consumption. Its greater sensitivity is also the result of its current collection, as contrasted with that of the income taxes.^{1/} Even then, however, its income elasticity seems only to be around unitary.

E. Distributional equity of the tax system

Because such heavy reliance is placed on indirect taxes, it would seem almost certain that the Portuguese tax structure would be found to be regressive. We have seen studies which showed rather remarkable progression on more or less conventional assumptions.

^{1/} The transactions tax base in its various brackets may be estimated from collection data for the period 1971-74 as follows.

Tax rate in bracket	Estimated tax base (million contos)				% change		
	1971	1972	1973	1974	1971-2	1972-3	1973-4
7%	47.6	56.3	69.0	86.2	18.2%	22.6%	24.9%
12 ^{a/}	2.6	3.7	5.3	6.0	42.3	43.2	37.7
15				1.3			
20 ^{b/}	1.3	1.5	1.9	2.1	15.4	26.7	153.9
25				1.1			
Total	51.5	61.5	76.2	96.8	19.4%	23.9%	27.0%
Consumer expend.	146.0	166.0	207.4	268.9	13.7%	24.9%	29.7%
National income	165.8	189.4	242.1	296.5	14.2	27.8	22.5

^{a/} Changed to 15 percent in 1974.

^{b/} Changed to 25 percent in 1974.

This result is surprising, but if true should not be used as an argument for retaining the present structure. This progressiveness relies heavily on impersonal taxes; thus between similarly situated persons, substantial differences might arise because of differences in the form in which income was earned, or in their patterns of spending. Furthermore, some seeming progression arises at the lower end of the income scale through failure to include in income and tax nonmarket consumption, such as home grown produce and the like. The tax burden in the United States exhibits the same characteristics over a briefer income span.

If the tax structure turns out to be progressive by conventional criteria, then, it comes about through ways that are unfortunate from the point of view of both vertical and horizontal equity. Tax reform could still substantially improve interpersonal equity. A thorough-going and consistent income tax would have the advantage of providing a distribution of income after tax that was generally acceptable. It would minimize the need for direct market interference, with all its inefficiencies, to secure a reasonable distribution of income.

III. Reform of the Portuguese tax system

A. General program

1. Since the present government places heavy emphasis on respect for the individual and on fairness in economic and social policy, a major thrust of tax reform should be towards simplifying and personalizing the personal tax structure. The income tax reform should take the form of a broad, unitary income tax, supplemented by a co-ordinate business

income tax. It would also involve ultimately eliminating the schedular and complementary tax. Besides improving the equity of the tax structure and simplifying it, substantial enhancement of the automatic response of the income tax could be made, particularly if withholding of tax and current tax payment is pressed forward. In the early experience with a global income tax, we would certainly not recommend its use in offsetting short-run changes in aggregate demand through variations in exemptions or rates. Changes such as this are difficult to understand and may reduce compliance.

2. The tax on business income should be co-ordinated with the personal income tax. There could also be added a differential tax on large business, or on dividends if retention of earnings seems desirable. Accelerated depreciation could also be permitted as a means of encouraging productive investment in the event business investment was lagging below target levels. It would also be desirable to eliminate many of the more narrow incentive devices and the conversion of those that seem justifiable into controllable expenditure subsidies.

3. Indirect taxes will have a role to play in furthering stabilization or sumptuary policies. If income taxes are not to be used in stabilization policy, some other taxes must fill the breach or too heavy a burden is placed on monetary policy. Manipulation of excise and transactions tax rates cyclically might induce shifting of demand from high to low periods. Taxes on durable goods, both producers and consumers, would be most likely to induce demand shifting. Another type of policy might be toward reduction in consumption of commodities with externalities,

like tobacco or liquor, or where balance of payments considerations dictated, such as on fuel, gasoline, or on commodities with high import content.^{1/} Still, a number of the indirect taxes should be repealed and the excises that remain should be consolidated into the transactions tax.

4. It would be hazardous for Portugal to plunge into full-scale taxation of net worth, either annually or at death. In time, after development of a satisfactory income tax, this administratively difficult tax may be added to a well-functioning income tax.

B. Specific program

1. Personal income tax

a. A unitary personal income tax will permit systematic allowance for different characteristics that social and economic policy find desirable. In contrast to the present system, schedular income will be aggregated into global income for all taxpayers, not just those subject to the complementary tax. Such a step will require many administrative reforms such as centralizing the collection of income information, extension of withholding taxes, use of information returns, introduction of data processing and taxpayer identification. Hence, the full implementation of a unitary income will take some time to achieve.

^{1/}For example, the import content of edible oils is 47 percent, tobacco 40 percent, textiles other than cotton 42 percent, inedible oils and fats 51 percent, paints, varnishes, and lacquers 40 percent, oil and coal products 69 percent, and nonferrous metals, basic 48 percent.

b. The definition of income would be the one followed in most countries -- one that more or less conforms to the Haig-Simon notion of income equalling consumption plus net worth. Besides the conventional inclusion of net factor income for current services, capital gains and losses should be fully included in global income subject to tax, as discussed later.

c. Deductions from gross income (before the subtraction of family allowances that yield taxable income) raise a variety of issues. In the interests of securing a simple, viable tax structure, deductions should be minimized. First, business costs of earning income would clearly be subtracted from gross income. Portfolio income would be net of all financial costs. Interest payments on mortgages should be offset against rental income received or rental income imputed to the owner-occupier in Portugal. Interest on consumer loans may or may not be deducted.^{1/} Second, contributions to worthwhile charitable, religious, and educational activities do not reduce income under ordinary definitions. Rather these deductions are permitted in order to encourage giving to worthy causes. An alternative, which we favor, is not to allow these amounts to be deducted from income, but have the government subsidize these contributions (actually the organizations) at, say, 25 percent of the amounts contributed. In this way, the government subsidy would be independent

^{1/} The treatment is controversial in the literature. Because the value of consumption is independent of its financing, some would exclude it. Others would choose to differentiate between the financial abilities of different taxpayers.

of the personal marginal tax rate and the same for everyone. Third, medical and other "casualty" kinds of expense -- accidents, fires, thefts -- could properly be deducted under most definitions of taxable income. Nevertheless, because of our interest in keeping the tax simple, we would not recommend this expense at this time. In time, as the tax becomes perfected, this step could be taken to improve equity. It would also help to improve information on income of the medical profession, since taxpayers would be required to submit medical bills.

d. The size and structure of personal and family allowances under such a unitary tax must be decided by such considerations as the desired level of taxation of single and married persons, the incentives for family formation and growth, the relative costs of support for various family members in the desired tax differential between family units at various income levels, the need for revenue, and other factors. Various countries have made differing arrangements based on different perception and needs. In any event, the individual allowance will have to be much lower than the present complementary tax allowance of 60 contos. In our own thinking we have considered an allowance to a family of four, without making a recommendation as to how it would break down between family members, of 60 contos -- roughly half of per family (of four) national income.

e. The rate structure that would apply to taxable income should be as simple as feasible and still get the desired distributional effects. The tax rates should not be so high as to discourage reporting income

properly or receiving income in a taxable form, or to discourage work and savings efforts. Nothing is gained if high nominal rates are ineffective, or if they result in a lowering of saving or personal effort that Portugal will sorely need in the future. The present 80 percent top rate of the complementary tax is undoubtedly too high and of limited revenue productivity. A reduction in the 80 percent top rate to 60 percent in 1974 would have reduced the total income tax yield by about 2.4 percent (the complementary tax yield itself by 19 percent).

While upper tax rates should not be too high, the beginning rates should not be too low or the amount to be collected makes compliance and administrative costs ludicrously expensive. A modest number of brackets, perhaps six,^{1/} from say 10 to 60 percent would be a helpful start. Simplicity should always be sought to improve compliance of a new tax.

f. The full taxation of capital gains and losses needs further elaboration. Statements we are making here are necessarily cryptic and dogmatic and are discussed further in Annex A of this paper.

Capital gains and losses are not taxed under Portuguese income taxes at the present time despite the strong case of equity and efficiency that can be made for them. As a matter of principle, capital gains and losses are included in the most generally accepted definitions of income; it appears unfair to tax someone with labor income and not tax someone with an equal appreciation in the value of an asset. Full taxation of

^{1/}In contrast, the complementary tax had 26 brackets until reduced to 12 brackets in August 1976.

capital gains and losses would ease, in a variety of ways, the administration of the income tax. When artificial lines are drawn between types of income and this action has tax consequences, the income earner attempts to convert income into the kind that is taxed at lower rates. Moreover, full taxation neutralizes the bias toward investing in assets that appreciate rather than yield current income.

The complication with full taxation of capital gains and losses is that they must be taxed when the gain or loss is realized (in a closed transaction) rather than when they accrue. Thus, income may be bunched, pushed up in a higher bracket than would have been the case had the income been earned evenly throughout the year. Furthermore, the realization of gains is postponed because of increasingly severe tax consequences and portfolios may become frozen or locked in. The recommended procedures for these two problems is to have a simple averaging procedure for capital gains and losses which would avoid bunching, and to treat gains on assets as if they were realized at death. This latter procedure is especially important to reduce portfolio immobility: instead of being able to pass on assets at death without a tax, a tax would then be imposed, reducing the differential in tax between not selling the asset and holding it.

If inflationary pressures are present, it may become necessary to make an adjustment by a price index of the cash basis of the asset before determining the amount of gain realized on the asset. To make such adjustments is not simple but may be necessary in order to secure proper taxation of capital gains and losses. When weighed against the substantial benefits in equity and portfolio neutrality, such costs as are involved are fully justified. They would be an important step toward a comprehensive, progressive income tax.

g. An illustrative structure may now be spelled out on the following set of assumptions.

1) Replace all present taxes on income -- industrial, professional, capital, complementary, rental, and agricultural income -- by the comprehensive, unitary income tax. In 1976 these taxes were expected to yield 19 million contos.

2) The average tax rate on all taxable income should be about 20 percent. Thus, taxable income should equal or exceed 95 million contos (19 million contos of revenue, replacing the other income taxes, divided by 20 percent).

3) Estimates, which we hope are not too rash, indicate that an average exemption level per family unit of 60 contos, approximately equal to half of national product per family unit in 1975, would yield a tax base of, perhaps, 150 million contos taxable income. The figure is based primarily on United Kingdom distributions for 1959, because they had an income distribution that looks something like the present Portuguese one. The figure may be high when compared with United States historic relationship, but even substantial reduction would leave a seemingly ample base.

4) A better idea of the distribution of the burden of a simple tax structure such as this can be gained from the following estimates of the distribution of taxable income.^{1/}

^{1/}Annex B, prepared by Luis Beleza, presents this structure in the usual form for Portuguese taxation, as well as two other structures.

Percent of total taxable income distributed by size of taxable income		Percent of total taxable income distributed by tax rate brackets of						Total
		10%	20%	30%	40%	50%	60%	
		0-50 contos	50-100 contos	100-200 contos	200-400 contos	400-800 contos	800 & over contos	
0-50	contos	12.2%						12.2%
50-100	"	16.8	8.4%					25.2
100-200	"	10.2	10.2	10.2%				30.5
200-400	"	2.6	2.6	5.1	5.1%			15.3
400-800	"	.7	.7	1.3	2.6	2.6%		7.9
800 and over	"	.4	.4	.7	1.5	3.0	3.0%	8.9
Total		42.9%	22.3%	17.3%	9.2%	5.6%	3.0%	100.0%

Size of taxable income and tax rate brackets (in contos)	Tax yield as percent of total taxable income		Percent of tax yield by size of taxable income	Percent of taxable income by size of taxable income
	by tax rate brackets	by size of taxable income		
0-50	4.3%	1.2%	5.2%	12.2%
50-100	4.5	4.2	18.3	25.2
100-200	5.2	6.0	26.2	30.5
200-400	3.7	4.4	19.2	15.3
400-800	2.8	2.9	12.7	7.9
800 & over	1.8	4.2	18.3	8.9
Total	22.3%	22.9%	99.6%	100.0%

A considerable amount of redistribution is evident from a simple structure such as this. The lower taxable income classes pay a much smaller proportion of the tax than the higher; and were the comparison made with income before exemptions, it would be considerably more dramatic. Other tax structures are shown in Annex B.

2. Business income taxation

Our major concerns in the reform of business income taxation is that it become a rational and co-ordinated part of the personal income tax. In that way profits will not escape from full taxation, yet business income will be personalized. If for reasons of social or economic policy it was believed desirable to have some form of impersonal taxation of business or corporations alone, either by differentially taxing business units by size, or imposing a tax on dividends to encourage saving, it can be accommodated by treating it as the first tax layer before the co-ordinated tax. The personalized part of the business tax would be levied on the income remaining after such taxes. One reason that we urge the reform of business taxes is that the so-called double taxation of dividends becomes an argument for undertaxation of corporate income, for exemption, special provisions, lessened taxation of capital gains and losses, and similar tax reducing or distorting provisions.

a. The proposal

While there are many, many ways of co-ordinating business and personal income, we recommend a frontal assault on the problem. The tax on business income would be imposed at the highest bracket rate under the personal income tax, 60 percent in our suggestion above. From business net income, before tax, would be deducted partnership withdrawals or dividends paid and income allocated to the owners of the business, stockholders or partners, on the basis of the partnership agreement or corporate charter.

By subjecting all business income to the highest personal tax rate, there can be no avoidance through changing the form of the business,

layering businesses with multiple holding companies, or by retaining income in the business. By deducting retained income that is allocated to stockholders, this method does not force distribution of dividends. These allocated amounts would, in turn, be included in the personal income tax of the stockholder, and would be used to increase the basis of his stock in determining future gains or losses when the security was sold.

b. The major problems

1) The procedure proposed involves some complicated computations in complex financial situations. But if corporations can determine ownership shares in the corporation, they can also determine the share in income to be allocated to various parties.

2) The imposition of the tax at the top bracket rate may have a discouraging effect on business saving and investment in plant and equipment and inventories. Since this kind of investment can raise labor productivity, it is surely socially desirable. This problem may be heightened by inflation when the conventional definition of income includes inventory profits (under the first-in-first-out convention) and understates current depreciation through use of historic cost.

3) A proper adjustment for inflation is extraordinarily difficult. This problem combined with that of encouraging investment rather than consumption suggests a somewhat extreme proposal to solve both -- permit the deduction of productive investment in the year of purchase. This provides a temporary exemption of earnings when used to make productive investment, which later will be brought into income.

This proposal is similar to the British system of 100 percent write off in the first year of machinery and equipment. Similarly, income tax exemptions have been offered Portuguese business firms when particular investments were undertaken. Finally, the United States has had extensive experience with five-year write offs for a variety of purposes.

4) There are many problems that would have to be worked through in this proposal. To mention only three: Taxation of capital gains and losses would be necessary to regain the accelerated written off values upon sale; structures may have more stimulation than necessary through their write offs because of the large interest deductions they typically receive and their long economic life; and transitional revenue losses may be large if the new method is placed on top of the old one.

None of these problems are intractable. They simply require the careful working through of certain options and the choosing between them. The gains in a more systematic tax structure with the potential for tax avoidance cut down sharply should be adequate reward for this attempt.

3. Indirect taxation

The present heavy emphasis on indirect taxation cannot be reversed until a satisfactory income-tax structure has been developed. Once that movement is started, gradual dismantlement of some of the indirect taxes can be undertaken, on the basis of their interference with efficient resource use, their inequity, their haphazard basis. Rather than analyzing these prospects, we would like to consider whether or not there is a role for any indirect taxes. For this purpose, one can look at the transactions tax, the largest single revenue source (other than Social Security taxes) at the present time.

a. Transactions tax

The transactions tax is a four-bracket single stage wholesale sales tax along the line of the British purchase tax. It covers slightly over one-third of personal consumption, exempting necessities, such as food, fuel, medicines, rents, and educational materials. The four brackets are at rates of 10, 20, 30, and 40 percent, with the bottom bracket providing the vast bulk of the revenue. The higher rates apply to durable goods or more sumptuary commodities.

Such distributional studies as we have seen place the transactions tax to be essentially a proportional tax. This may mean that it is mildly regressive if there were a way of including and taxing commodities produced at home. Moreover, the notion of progression with substantially different taste means that substantial dissimilarities in taxes at particular income levels are being masked. Nevertheless, it does not appear to be the poorest tax; it could become the vehicle for playing the role that we have said can be played by indirect taxes. These taxes can discourage spending and an income tax cannot. If there are areas where it is desirable to reduce spending, these taxes can be aimed at them. Areas that we have spoken of are in stabilization activities for the economy or balance of payments, in sumptuary consumption — tobacco, liquor, jewels, and when such taxes can become a substitute for pricing, as in road use. It would be expected, therefore, that indirect taxes would continue in some way in the system, playing a reduced role as the income tax expanded.

b. Value added taxes

An obvious question to ask, then, is should the transactions tax be replaced by a value added tax (VAT)? And the next question is what

would be gained by such a shift? We see no reason for such a shift and several costs that would be incurred.

VAT is applied through the whole productive process on the value added at each stage; the transactions tax applies only at the wholesale level. VAT would bring in retailers as it moved toward consumers, and back to manufacturers and primary producers like farmers (although exemptions can be made in this direction). The number of taxpayers would be increased enormously; the thought of adding retailers and farmers chills the heart of the bravest of tax administrators.

VAT proponents believe such expansion in coverage will yield information that is not presently available. It must be emphasized, however, that the only information provided by VAT are purchases and sales. No general and satisfactory income tax can be provided information by VAT that it does not already have.

VAT improves coverage of commodity taxes by inclusion of services. It should be clear, however, that the Portuguese Government could include services in the present transactions tax if it so desired.

VAT represented a genuine improvement in some of the European tax systems when it was first introduced. Especially as a substitute for turnover taxes, it showed a clear margin of superiority. But when substituted for more satisfactory sales taxes, the benefit is not clear. In the United Kingdom, they gave up their Purchase Tax for VAT as one of the prices for entering the Common Market. Since the Portuguese tax is very close to the U.K. Purchase Tax, much could be learned by studying their experience.

We conclude, until further evidence, that VAT is not an obvious substitute for the present transactions tax.

III. Conclusion

Tax reform should be high on the agenda of economic policy in Portugal. Provided that a reasonably satisfactory structure can be secured, a number of economic and social problems could be eased. There could be a structure from which stabilizing adjustments, both of the balance of payments and aggregate activity, could be made. There could be an income tax, broadly based and equitable, that could reduce pressure for ad hoc income adjustments and general social unrest; that provided more prompt and larger response to changes in income. There could be a business tax structure that taxed income at least as highly as under the personal income tax, yet maintained incentives for productive investment. There could be a tax structure with a great revenue potential to meet the growing social needs of the Portuguese economy.

Annex A

Capital gains and losses

Some of the questions that were touched on in the text are elaborated further in this Annex.

1. The limitation of the inclusion of capital gains in income to realization through a completed transaction raises two issues of serious magnitude.

a. Postponement of recognition of a gain (or loss) until a market transaction takes place means that income accruing over several taxable periods is lumped in the taxable period in which the gain is realized. Under a progressive tax system, these gains may be taxed at a much higher rate than that which would have applied had they been taxed as accrued. There are several steps that can be taken to rectify this inequity: (1) provide a general system of averaging taxable income; (2) provide a particular averaging system by dividing the gain (or loss) by the length of the holding period, including each year's theoretical gain in the income of that year, and sum up the added tax in each year as the tax on the gain; or (3) provide a particular averaging system by dividing the gain (or loss) by the length of the holding period, include that amount in income of the current year, determine the added tax that results, and multiply by the number of years in the holding period. These are merely alternative ways of trying to ascertain the appropriate marginal tax rate to apply to the gain or loss. General averaging would

be a difficult leap to make initially; particular averaging in the current year would seem the easiest but not the theoretically most correct.

b. The postponement of the tax on capital gains until they are realized means that a tax is imposed on a transaction with resulting inefficiencies in portfolio decisions. People are locked into holding assets they no longer wish to hold. A tax on accrual would not have this disadvantage; a tax on realization becomes a tax on a sale. The lock-in effect is worst if, as in the United States, capital gains are not taxed when an appreciated asset is given as a gift (the tax is then postponed), or exempt at death when included in bequests. If there were a revaluation of assets and inclusion of gains in income at least once a generation, the lock-in effect does not get seriously large. It is strongly recommended that such a practice be followed with the taxation of capital gains. Valuation is necessary at the time both of the gift or the bequest under an estate or gift tax, so that no serious administrative burden is placed on the tax authorities with this rule rather than the present one in the United States.

Annex B^{*}

The estimates of the yield of a tax on personal income as described in the text were obtained as follows:

1) Income distribution — It was assumed that the income distribution prevailing in the U.K. in 1959 was a reasonable approximation for Portugal's income distribution in 1975.^{1/} The shares by income bracket as a proportion of average (per family) national income were obtained from the British shares, after adjusting for average family size. The ratio of personal to national income was obtained by assuming the former to be a proportion of labour's share in national income equal to the one prevailing in Britain in 1959.

2) Tax base — An exemption of 60 contos per family (approximately half the average family income in 1975) was assumed for all income brackets. The shares in total taxable income of the brackets reported in Tables A-1, A-2 and A-3 were then obtained by simple interpolation, assuming a uniform distribution of income on both sides of the mean of each bracket.

3) Tax rates — Tables A-1, A-2 and A-3 show an estimate of the average tax rates with three hypotheses for marginal tax rates. A-1 is the basic hypothesis; A-2 shows a more progressive tax; and Table A-3 has higher rates for the two upper brackets. Note that

^{*}Prepared by Luis C.P.R. Belezã.

^{1/}The source for the income distribution in Britain was: Martin Schnitzer, "Income Distribution: A Comparative Study of the U.S.A., Sweden, West Germany, East Germany, U.K. and Japan", N.Y., 1974.

A-2 results in a somewhat lower overall average rate, while A-3 changes it very little. The basic hypothesis would yield 22.2 percent of 152.8 million contos, or 34 million; A-2 yields 28 million and A-3, 35 million. These may be compared with the total of direct plus property taxes in 1975 (approximately 16 million contos).

TABLE A-1

(1)	(2)	(3)	(4)	(5)	(6)
Taxable income bracket (contos)	% of total taxable income	Marginal tax rate	Average for upper limit of bracket	Average for middle of bracket	(2) × (5)
0-50	12.2	10	10	10	1.2
50-100	25.2	20	15	13.3	3.4
100-200	30.5	30	22.5	20	6.1
200-400	15.3	40	31.3	28.3	4.3
400-800	7.9	50	40.6	37.5	3.
800-	8.9	60	50.3(*)	47.1(**)	<u>4.2</u> 22.2

(*) For 1600 contos

(**) For 1200 contos

Sources — See text.

TABLE A-2

(1)	(2)	(3)	(4)	(5)	(6)
Taxable income bracket (contos)	% of total taxable income	Marginal tax rate	Average for upper limit of bracket	Average for middle of bracket	(2) × (5)
0-50	12.2	5	5	5	.6
50-100	25.2	15	10	8.3	2.1
100-200	30.5	25	17.5	15	4.6
200-400	15.3	40	28.8	25	3.8
400-800	7.9	55	41.9	37.5	3.
800-	8.9	70	55.9(*)	51.3(**)	<u>4.6</u> 18.6

(*) For 1600 contos

(**) For 1200 contos

Sources -- See text.

TABLE A-3

(1)	(2)	(3)	(4)	(5)	(6)
Taxable income bracket (contos)	% of total taxable income	Marginal tax rate	Average for upper limit of bracket	Average for middle of bracket	(2) × (5)
0-50	12.2	10	10	10	1.2
50-100	25.2	20	15	13.3	3.4
100-200	30.5	30	22.5	20	6.1
200-400	15.3	40	31.3	28.3	4.3
400-800	7.9	55	43.1	39.2	3.1
800-	8.9	75	59.1	53.8	<u>4.8</u> 22.9

(*) For 1600 contos

(**) For 1200 contos

Sources — See text.

TAXES (except local administration)				
-millions of current contos-				
	1973	1974(a)	1975(b)	1976(c)
INDIRECT	14.9	23.4	29.3	41.0
1) Transactions	6.4	8.2	10.4	14.9
2) Fuel	4.8		9.5	13.9
3) Tobacco	1.3	15.2 (1.7)	2.6	4.6
4) Vehicles	.8		2.7	4.0
5) Other	1.6		4.1	3.6
CUSTOMS	6.3	8.9	5.5	6.5
6) Import duties	6.3	8.9	3.9	3.1
7) Surcharge	-	-	1.6	3.4
STAMP	3.9	4.1	4.9	7.5
8) Stamp tax	3.9	4.1	4.9	7.5
DIRECT	11.0	14.0	13.3	19.0
9) Industrial	2.9	4.0	3.7	3.5
10) Professional	2.1	3.0	4.0	5.5
11) Rental	1.5	1.7	1.7	1.9
12) Capital	1.6	1.6	2.1	2.6
13) Complementary	2.0	2.4	1.3	5.1
14) Other	.9	1.3	.5	.4
PROPERTY	2.9	3.1	2.4	2.0
15) Transfer tax (Sisa)	2.1	2.2	1.5	1.3
16) Gift and death	.8	.9	.9	.7
SOCIAL SECURITY + UNEMPLOYMENT FUND	20.4	22.5	30.2	34.4

(a) Not strictly comparable with 1973 and 1975-76

(b) Provisional

(c) Forecast (2nd budget revision)

Annex C

Illustrations of business income tax proposal

Consider a corporation that has a net income of 4 million escudos, equally owned by shareholders with a personal marginal tax rate of 0, 20 percent, 40 percent, and 60 percent. Assume also that they all sell their securities with a gain equal to the net increase in book value.

Case I: All income declared and paid as dividends

Corporation net income	5,000,000
Less income declared as dividends	5,000,000
	<hr/>
Corporate taxable income	0
Personal taxable income	5,000,000
Total personal tax	1,500,000

Price of shares does not increase on assumptions of no increase in retained income; therefore, no capital gain arises.

Case II: All income retainedSub Case A: All income allocated to shareholders

Corporation net income	5,000,000
Less income allocated to shareholders	5,000,000
	<hr/>
Corporate taxable income	0
Personal taxable income	5,000,000
Total personal tax	1,500,000

Share prices increase by 5,000,000 under our assumption; "cost" basis of shares increased by income allocated to shareholders, but not received as dividends, by 5,000,000; sale of shares results in no capital gain.

Sub Case B: No income allocated to shareholders

Corporation net income	5,000,000
Less income paid or allocated	0
Corporate taxable income	5,000,000
Corporate tax at 60%	3,000,000
Personal taxable income	0

(Total personal and corporate taxes on income are twice as high as in the two preceding cases.)

Under our assumptions retained income of 2,000,000 would increase share prices by that amount. Each shareholder would realize a capital gain of 500,000, and total personal taxes under our assumptions would be 600,000. The total taxes, personal and corporate, on this income would be 3,600,000, as against 1,500,000, a prohibitive price to pay. Even if all the shareholders had a personal tax rate of 60 percent and would have owed personal taxes of 3,000,000 in the first two cases, the additional taxes on capital gains would have amounted to 1,200,000, or 84 percent of net income.

Case III: Combined with impersonal tax on corporations equal to 10 percent
on income in excess of 500,000 escudos

Corporation net income	5,000,000
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Impersonal corporation tax (10% of 4.5 million)	45,000
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Corporate net income after impersonal tax corresponds to corporate net income in Cases I and II above.	4,955,000
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(5)

MONEY AND CREDIT IN PORTUGAL

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MONEY AND CREDIT IN PORTUGAL

I. Introduction

Since the revolution monetary policy in Portugal has been aimed at accommodating exogenous shifts in real economic activity. Because the accommodation has been relatively successful, aggregate monetary policy has not significantly affected the outcome of recent developments in the Portuguese economy.

In the medium term future monetary policy should continue in its passive role by allowing the growth of the money stock to support a recovery of income -- led, one hopes, by a recovery of investment ^{and exports} -- in the context of a comprehensive macroeconomic program. At the same time, policies designed to increase the availability of credit and to improve the efficiency of its allocation can have a positive effect on the recovery of investment.

1) In this first section of our paper we provide a short outline of Portugal's current macroeconomic prospects and our view of monetary policy in the near future. 2) The second section offers an interpretation of monetary events since the revolution. 3) In the third section we discuss problems of monetary targets and of interest rates and saving. Finally, we discuss the allocation of credit and suggest a number of measures which could be taken to increase the supply of loans going to the private sector.

1) Portugal's Current Macroeconomic Situation. The general outline of Portugal's macroeconomic problems will be presented in other papers at this conference. As a background to discussing monetary

policy we simply summarize the situation as we understand it.

Real GDP fell by about 3% in 1975. A fall in investment and a deterioration of the current account were offset in large measure by a rise in both private and government consumption. Although employment has been virtually constant, unemployment is now in the neighborhood of 15% because of the large inflow of population. The fall in gross fixed investment has been dramatic: from 47 million contos in 1973 to 28 million contos (in 1973 prices) in 1975. The balance of payments deficit in the first half of 1976 amounted to about 21 million contos.¹ A continuing loss of reserves at this rate would exhaust Portugal's gold by early 1978. The loss of reserves due to the decline in the price of gold and the balance of payments deficit has been:

	1973	1974	1975	1976(first half)
End of Period Reserves ²	4620	6060	3800	2760
BOP Deficit	+330	-650	-990	-740
(millions of \$US)				

In the very short run Portugal must begin to correct its balance of payments deficit and in the medium term bring about not only a recovery of investment but an expansion sufficient to absorb the enlarged labor force. Without an economic program that recognizes the macroeconomic interaction these two objectives will not be attained. Any increase in real investment, even with a corresponding reduction in real consumption will worsen the balance of payments.³ The balance

(footnotes are on following page)

Footnotes from page 2:

¹This is the reserve loss of the Bank of Portugal adjusted for the increase of foreign exchange holdings of commercial banks.

²These are rough figures estimated by taking gold at market value plus foreign exchange minus the increase in foreign indebtedness (not including non-collateralized loans such as the IMF oil facility). All values in escudos were converted at end of period exchange rates.

³Because the import content of investment is so high: .45 compared to .25 for consumption (1970 input-output table normalized on 1973 imports).

of payments must be met in part by exchange rate adjustment.

Devaluation should not be expected to bring the current account into balance in the next few years, but it will slow the loss of reserves and contribute to a recovery of investment and employment by offering an incentive to expansion in export and import competing industries. (ESVACO 1/20)

The Role of Money and Credit Policy Credit policy could conceivably be targeted to help correct Portugal's balance of payments deficit. Even in a country with capital controls, a general restriction of credit would slow the loss of reserves through the capital account.¹ However, most of the effect would only be temporary since the primary impact of restriction would be a once-and-for-all shift in the source of trade credit. A credit contraction would also directly reduce imports by forcing firms to economize on intermediate goods and to curtail investment plans. An improvement in the balance of payments which comes at the expense of output and investment would be disastrous, however, in terms of Portugal's over-all macroeconomic situation. Portugal is an economy with high unemployment and approximately zero net private fixed investment. The external current account deficit is a serious short run problem. But devaluation and not monetary policy is the proper instrument to reduce the deficit.

Instead of using a credit restriction to correct the external deficit, credit policy must be designed to support the recovery of investment and especially to support the expansion of traded goods production. Using the Lisbon CPI as a deflator, the real supply of

¹Capital outflows amounted to 8.67 million contos in the first half of 1976. This large number represents to a great extent a shift from foreign to domestic trade credit.

credit to the private (includes nationalized firms) sector was 12.5% lower in March 1976 than in December 1973. This drop in credit occurred in spite of what seems to have been a very liberal credit policy:

(a) the Bank of Portugal offers virtually automatic rediscounting, (b) on their own admission, commercial banks stand willing to supply loans to any takers, and (c) the real interest rate is certainly negative. If we accept these appearances as an accurate picture of credit availability, there is simply a failure of investment demand, and Portugal is in a situation in which the Bank of Portugal is reduced to "pushing on a string." In such a context the recovery of investment will depend in a general way on domestic stability and on the adoption of an economic program which restores confidence and takes away the penalty of an over-valued exchange rate. The role of monetary policy would be simply to support the recovery when it occurs.

This passive policy can be improved upon, however. Although investment demand is depressed, there are also significant problems on the supply-of-credit side. Banks appear to be reluctant to take on additional risk and there are a number of administrative and arbitrary legal impediments which have the effect of keeping credit tight. These problems and some proposed remedies are discussed in the last section of this paper.

II. Recent Monetary History

Since April 1974, variations in the money supply have been characterized by two principal events. 1) At the start of the revolution there was a significant change in the money supply process in Portugal. This change resulted in a period of monetary tightness which lasted until the down-turn in output in 1975. 2) Since mid-1975 there has been a puzzling decline in the real money supply. Before discussing each of these events we make the following digression:

A Note on Methodology. In an economy with fixed interest rates and rationed credit, one can only indirectly discover whether monetary conditions are easy or tight by looking at the excess reserves of banks or the historical relationship between money and income. The changes which have taken place in Portugal since 1974 have made these normal methods of inference unreliable. In Appendix I we present some econometric evidence on the demand for money. We have almost completely disregarded this information in interpreting the events of the recent past. Equations estimated on past data are very poor predictors of events in 1974 and 1975. One would expect the redistribution of income and nationalization of firms and banks to have changed the aggregate demand for money function. Furthermore, the annual variations in income, prices, and interest rates before 1974 were almost negligible compared to changes since then.

In what follows we have assumed, first, that the changes in output since the revolution were not caused by monetary events but came instead from social and political dislocations and the changes in world economic activity. Second we have assumed that after the

revolution the principal source of inflation was not monetary expansion but structurally determined wage increases. These assumptions, together with guesses about the demand for money, allow us to judge the adequacy of money creation by comparing it to the growth of nominal income. Of course, all we can conclude from this approach is whether monetary policy contributed to or helped dampen the exogenous (by assumption) changes in income and prices.

We have always used M_2 as the relevant aggregate for interpreting monetary events. In Portugal the substitutability between various forms of money is high since interest is offered on all deposits, deposits are available in gradually increasing maturities, and little household business is transacted by personal check. The demand for M_2 since 1974 has been much more stable than for M_1 , primarily because of the enormous increase in holdings of currency. This relative stability of M_2 simply reflects the fact that substitution into cash came from both time and demand deposits.

The Shift in the Money Supply Process. Prior to April 1974 the money stock in Portugal was determined by the balance of payments. The Bank of Portugal did not conduct open market operations¹ and the supply of central bank credit was rationed. Central bank lending was maintained at low levels, and was virtually constant (in nominal terms) for long periods of time. For instance, from 1970 to 1973, with a money multiplier in the vicinity of 4.0, the money stock rose from 155.7 to 301.3 million contos while central bank credit to banks changed from 10.1 million contos in December 1970 to 11.2 in December 1973.

¹The stock of privately held government debt amounted to only 2.1 million contos in 1973.

During the 1960's this policy resulted in an average growth of the money stock of about 12% per year consistent with a rate of inflation (GDP deflator) that never exceeded 5% and real output growth of 7%. By 1973, however, the acceleration in world inflation was directly transmitted to Portugal through this passive money supply policy. By the fourth quarter of 1973 the money stock was growing at a rate of 27% and inflation (of the Lisbon CPI) was also about 27%. In the first quarter of 1974, however, the balance of payments moved into deficit, with a reserve loss by the Bank of Portugal of 4.5 million contos. In the same quarter inflation of the Lisbon CPI reached its peak (a 10% quarterly change). Because bank excess reserves fell to historical lows (4% compared to, for instance, 30% a year earlier) the nominal money supply increased slightly in spite of the decline in high-powered money. If we use industrial production as a proxy, income was still growing in 1974-I. It seems clear then that just prior to the revolution, monetary conditions were extremely tight.

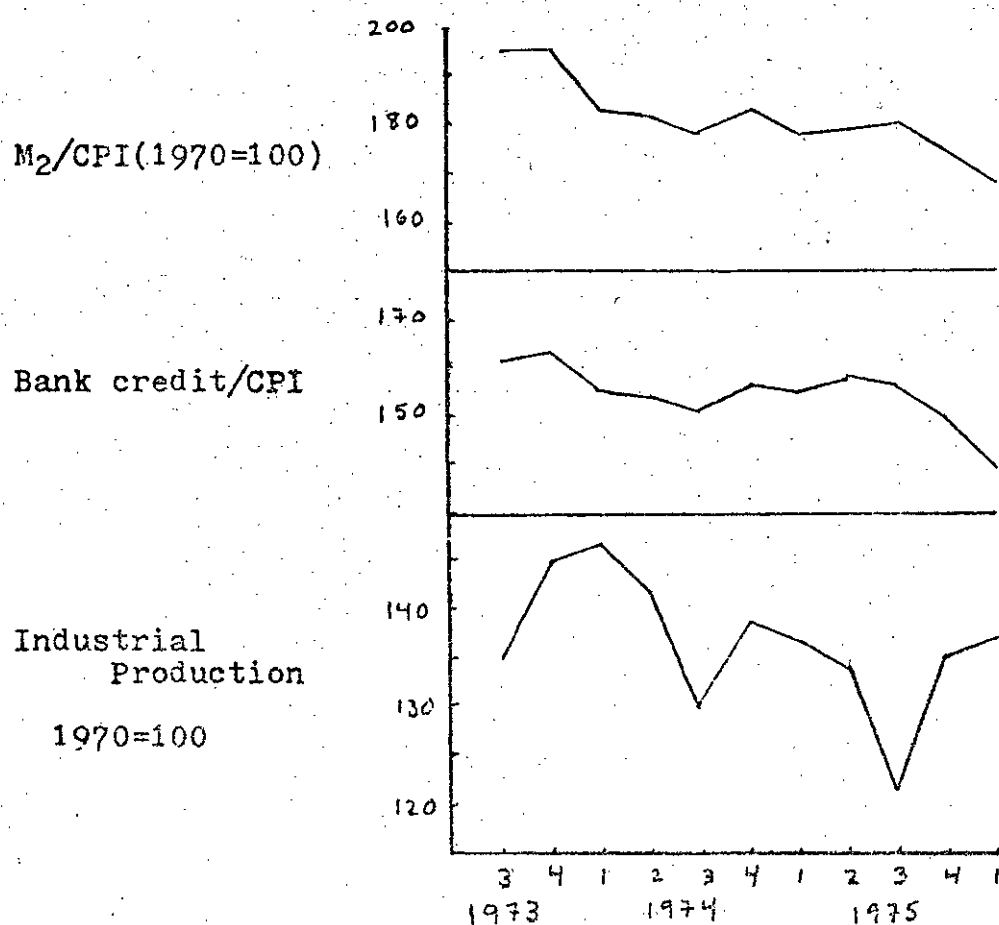
After April 1974, in order to offset the effect of declining international reserves on the money supply, the Bank of Portugal abandoned the enforcement of reserve requirements and rapidly increased its lending to the banking system. These actions also helped offset a decline in the money multiplier due to a precipitous rise in the currency/money ratio. By the end of 1974 credit to the banking system amounted to 41.3 million contos and the real money supply had begun to increase.

It seems likely that the shift in the process of money creation was responsible for monetary tightness throughout 1974. As shown in figure 1, money creation did not keep pace with inflation until the end of the year. Industrial production (and presumably income) fell after the revolution but remained higher than in the corresponding quarters of 1973.

What happened to the demand for money at a given level of income is difficult to ascertain but there are two reasons for believing that it rose. First, and probably most important, the market for all other financial instruments disappeared after the revolution. This lack of alternative assets must have increased the demand for money. At the same time, immediately after the revolution certain non-financial alternatives to money, i.e., the physical capital of firms, became very unattractive. The high rate of inflation may have partially offset these effects by encouraging a switch out of money and into consumer durables. Recall, however, that the rate of inflation was actually falling after the revolution compared to the last quarter of 1973 and first quarter of 1974. In order to have created a decline in money demand in 1974, inflationary expectations must have built up with a lag which assigned relatively low weights to the very recent past.

A second reason for supposing that money demand rose in 1974 was the redistribution of income from relatively wealthy owners of firms to workers. One would expect the former group to have a greater sophistication and wider range of possible assets and therefore to have a lower income elasticity of demand for money. Unfortunately, we have no econometric evidence on money demand by income classes

Figure 1: Real Money Supply, Real Credit and Industrial Production



(All figures are seasonally adjusted)

Source: Money, credit - Banco de Portugal

Industrial Production - OECD, Main Economic Indicators

within a single country; this explanation for rising money demand is simply conjecture.

In sum, since the money stock did not grow as fast as nominal income, and the demand for money probably rose at any given level of income, we conclude that money was tight through most of 1974. By 1975, however, the growth of the money supply was adequate: it matched the rate of inflation while real income was falling. (The fall in real income was primarily due to the decline in economic activity in the EEC and U.S.)

The Recent Decline in the Real Money Supply. From mid 1975 to March 1976 the seasonally adjusted¹ money supply grew by only about 10%. Using any reasonable deflator the real money supply has fallen. (The Lison CPI, for example, rose by 17% over the same period.) On the asset side of the banking system seasonally adjusted credit to the private sector increased by only 10.7% from June 1975 to March 1976. Furthermore, the June figures show less than one per cent growth in the nominal money stock since March. This recent decline in the real money supply has occurred despite the fact that industrial production reached its trough in late summer of 1975 and by March 1976 had risen above its level of a year earlier and was 3% higher than June 1975.²

¹The seasonal adjustment was made with a simple moving average. The unadjusted figures show a slightly larger increase of 11%.

²The fall also occurred while population was increasing rapidly because of the influx of refugees. If the income elasticity of per capita money demand is greater than 1.0 the decline in per capita income (since aggregate income was stable or increasing more slowly than population) will outweigh the effect of a larger population and cause money demand to fall. This effect was probably negligible, however. If we use the following figures:

June 1975 population = 8.4

March 1976 population = 8.7

Constant real aggregate income

Income elasticity of per capita money demand = 1.2

the fall in money demand is about 0.5%.

Did the money supply decline because money demand fell or was it because the supply of credit became tighter? We have no clear answer to this question. At best we can only say that the recognizable variations in factors affecting money demand are not sufficient to explain the fall. The most attractive explanation for a decline in money demand is that the expected rate of inflation has risen. As a consequence the expected return on money has fallen relative to that on other assets. The rate of inflation has not risen appreciably since late 1973, but it is conceivable that after a long period of relatively stable prices expectations of inflation have been very slow to change. Increased expectations of devaluation would also raise the relative rate of return on real assets. If we use 7% as the decline in the real money supply (at constant income) and 25% as the expected devaluation (and corresponding increase in next year's price level), the implied elasticity of money demand with respect to its rate of return is 0.28. This is a plausible number in terms of U.S. experience where there are alternative financial assets but rather high if one expects the shift to occur between money and real assets.

If money demand did fall, an obvious question is what other assets were acquired in its place. The trade figures show no increase in consumer durable imports (relative to, say, a year earlier). We have no data which would allow us to detect a shift into other real assets such as housing and real estate.

It is also possible that an increase in credit tightness could have caused or contributed to the decline in the money stock. There are no overt indications that the supply of credit has tightened. The Bank of Portugal has kept its accommodating re-discount policy and the effective re-discount rate has been lowered over the last year (largely, but not entirely because of preferential rates to a number of sectors). Nevertheless, in section IV we argue that credit is tighter than appearances suggest. It is also possible that the supply of credit has become tighter since last year even if there is no easily observable evidence.

One final observation is that in the U.S. economists are puzzled by a rise in velocity during the 1976 recovery while interest rates have been relatively stable. In both countries we may be observing some cyclical pattern in velocity which is independent of the degree of monetary tightness or interest rates. Since income has risen steadily in the past in Portugal, there are no previous "recoveries" which allow us to explore this hypothesis further.

III. Monetary Policy and Interest Rates

III. Monetary Policy and Interest Rates

Monetary Targets. In the near future Portuguese monetary policy cannot usefully rely on targets either for base creation or M_2 . A target for base creation makes little sense because of the recent instability of the money multiplier. Part of that instability has been due to changes in bank reserves. Now that reserve requirements are again enforced one can expect a more stable demand for excess reserves. The other cause of instability in the multiplier -- the currency/money ratio -- shows no signs of settling down. From March 1974 to December 1975 currency outside banks rose from 16.7% of M_2 to 28.5%. Apparently the peak was reached in December since the ratio declined to 25.6% in March 1976. Income redistribution may have permanently raised the demand for cash, but there is no way of knowing where the ratio will stabilize. A fall half-way back to the 1973 currency-money ratio would imply a change in the multiplier from its March level of 3.2 to 3.6. Even collecting partial surveys from banks with a lag will provide more useful information about M_2 than knowing precisely and without delay what high powered money is.

A target for the money stock itself is useful when one is uncertain about the behavior of aggregate demand. In an economy with few alternatives to money, the money demand schedule will be relatively inelastic with respect to the interest rate. As long as households and firms are on their demand for money schedules, the economy will be near its nominal income goal. (Even with interest rates administratively fixed, for a given M_2 target the degree of credit tightness will rise or fall with income in a stabilizing way.)

However, a target for M_2 in Portugal over the next year appears to be unrealistic for two reasons: (1) The recent variations in the money stock suggest that the demand for money has been unstable (at least with respect to variables we can quantify with some accuracy). There are likely to be large errors in forecasting the money demand associated with any level of income. (2) Without open market operations increasing the money supply requires a willingness to borrow by firms¹ and by banks to lend. With depressed investment demand and institutional problems on the supply-of-credit side, the Bank of Portugal may not be able to achieve desirable targets for money growth. Under these circumstances the appropriate policy is to take steps along the lines described in section IV to increase the availability of credit and to continue the policy of automatically re-discounting at given interest rates. In the future monetary targets will become important as discussed below.

Credit Limits. If we take a time horizon longer than the next year and assume that investment and income recover, then money/credit targets will become important to control inflation. Since we believe such targets only make sense some time in the future, there is little that is specific that we can say about them. Rather we discuss here the context in which they should operate.

The relatively mild decline in output in Portugal occurred because private and government consumption rates rose to offset the deflationary effects of the drop in investment and deficit of the current account. To produce non-inflationary growth in the future

¹ Even with open-market operations the non-banking sectors of the economy must increase their net borrowing. Open-market operations would allow for an exchange of assets with households which may be more effective than waiting for firms to respond to lower commercial loan rates.

when investment begins to recover, private and/or government saving will need to rise. One can characterize the appropriate policy prescription as an easy monetary policy along with fiscal restraint. From the point-of-view of controlling inflation, this also amounts to a policy of setting a limit to the total (i.e., to private and government sectors) credit issued to the economy by the consolidated banking system, including the Bank of Portugal. If aggregate demand has recovered sufficiently and the economy is operating near its potential output, the growth of total credit should be designed to accommodate some structural inflation¹ and a feasible target for real income growth. If such a ceiling is imposed it must be understood that unless the government deficit is reduced, credit to private firms will become tighter and investment will fall as a consequence. One must guard against the possibility that: (1) the government maintains its rate of spending (net); (2) the nationalized firms use their political power to maintain their borrowing; and (3) private firms bear the entire burden of the credit limit. To prevent government consumption from crowding out investment, if a credit limit is imposed it should include a requirement that the real supply of credit to the private sector not be reduced. In addition, the appropriate benchmark for measuring an adequate real supply of credit is a pre-revolution year in which investment and capacity utilization were high. A reasonable minimum for the growth of credit to the private sector should allow for (1) recovery of investment to 1973 levels,

¹While the increase in wages after the revolution was exogenous, in the future union wage demands will not be independent of expectations that the monetary authorities accommodate rising wages. This calls into question the notion of an exogenous rate of "structural" inflation. Nevertheless, Portugal is an economy with very high unemployment and little downward market pressure on wages. The largest part of wages are set in national bargaining with government participation. We believe that the outcome of such a bargaining process can usefully be treated as exogenous to the monetary mechanism.

(2) a feasible growth rate for investment, (3) the expected structurally determined increase in wages. Ideally, one would like to set guidelines for the division of credit between private and nationalized firms, (since both are treated as "private" sector for statistical purposes). No accounting is kept within the banking system which differentiates loans to the two types of firms, but the Bank of Portugal has begun to request such information.

Interest Rates and Saving Schemes. A recovery of investment and income which does not worsen the current account implies an increase in national saving. The macro-economic plan suggested in "The Portuguese Economy: Recent Experience and Future Prospects" calls for part of the saving to come from a reduction in the government deficit in conjunction with other policies assumed to maintain aggregate demand. Mandatory savings deposits and higher interest rates on voluntary deposits have been proposed as instruments to encourage higher personal saving as well. We are doubtful of their effectiveness for the reasons given below. Before we discuss these proposals, it is worth emphasizing the macroeconomic context in which they would operate.

The Portuguese economy is operating below capacity. It is precisely the low rates of government and personal saving which have kept income and employment from falling further. When a recovery of investment and income occurs, it will tend to create an increase in national saving; Government tax revenues are positively correlated with income; profits and hence corporate saving¹ will recover with income; and households will save part of every addition to their disposable income. There are two simple points we wish to make:

¹While no figures are available for Portugal, in the U.S. corporate saving is roughly three times the size of personal saving.

(1) An increase in saving, by itself, does not create a recovery of investment; the line of causation runs in the opposite direction in a Keynesian-underemployment economy. (2) Schemes to encourage saving should concentrate on the peaks rather than troughs. If there is excessive aggregate demand pressure when investment recovers then higher interest rates are obviously an appropriate policy. Even then the response to a significant change in deposit rates or a program of forced deposits will be quantitatively uncertain.

The principal obstacle to raising deposit rates in the short-run future is that either investment must be subsidized directly or the banking system must keep loan rates low and absorb the loss created by the deposit-loan rate differential. The subsidy or banking system loss represents a decline in government saving which may be as great as the rise in personal saving. Suppose, for instance, that the rate on deposits of more than one year's maturity were raised to roughly match the rate of inflation (say, from 10% to 25%). A rough guess is that the stock of these deposits will be around 80 million contos by December 1976. This implies a reduction in government saving of at least 12 million contos ($80 \times (.25 - .10)$). Private saving in nominal terms is in the neighborhood of 50 to 60 million contos, (personal saving is less, of course). From a base of less than 50 million contos it seems highly unlikely that the increase in personal saving in response to the higher deposit rate would be as great as the loss of government saving.

A second problem with higher interest rates is that they transfer income to the relatively wealthy. One solution to this problem is to limit the amount of high interest deposits available to every individual or household. This, too, tends to vitiate the effect of

higher interest rates, since the wealthy account for a relatively large share of saving. If their participation is limited they can exchange existing deposits for high interest deposits without any incentive at the margin to increase saving.

An alternative to higher deposit rates is a program of mandatory deposits taken out of wages. If such a program is successful it amounts to nothing more than a tax on personal income. Relatively wealthy households will avoid the tax altogether since they can replace voluntary saving with mandatory deposits or borrow against the mandatory deposits to maintain their consumption. Forced savings can be effective only because the many families at the lower end of the income distribution have small stocks of voluntary saving and face highly imperfect capital markets which prevent them from borrowing.

The really important question about a forced saving program is political, not economic. A program which is effective is equivalent to raising taxes. If the program is proposed because higher taxes are politically impossible, one needs to ask why a system of mandatory deposits out of wage income -- which cannot be evaded -- should be any more feasible.

IV. The Supply of Credit

The Banking System and Risk Aversion. The primary deterrent to private investment is the tremendous uncertainty that entrepreneurs face about the future course of the Portuguese economy. At the same time, the supply of capital has fallen since retained earnings are probably negative, foreign capital inflows have ceased, and no market for securities exists. Under these conditions the nationalized banks must finance a larger part of new investment than in the past. Unfortunately, they may not be prepared to do so.

The decrease in the real supply of credit observed after 1974 has been mainly due to the reduction in medium and long term credit granted. Clearly this is not just the result of a decline in demand for this type of credit. We reviewed the interest rates charged in the first half of 1975 and in the first half of 1976 (see table 1). Between these two periods the rediscount rate fell (although interest ceilings rose by about .25 per cent). However, the average interest rate charged on loans rose by .48 per cent in the case of commercial banks and 1.01 per cent in the case of Caixa Geral de Depósitos.

Further evidence of restriction in the supply of credit, affecting mostly funds for investment, can be obtained from the comparison of the behavior of different types of credit institutions. Caixa Geral de Depósitos, the bank with the largest increase in deposits (mostly more than one year time deposits) is also the bank showing the greatest contraction in credits granted: a drop of more than 40 per cent. It also shows the highest increase in the average loan rate.

As a consequence of this behavior, the increase in deposits with Caixa Geral de Depósitos has resulted mainly in its accumulating excess reserves. CGD's deposits with the Bank of Portugal are now higher than those of all the other banks put together, while it represents a little less than one third of the banking system. At the same time, commercial banks and Banco de Fomento have been increasingly resorting to rediscount. Since CGD is by far the main source of medium and long term funds and rediscount is mostly confined to the short run, this behavior has resulted in the reduction of medium and long term credit granted.

Uncertainty as to what the goals of credit institutions are, together with a traditionally conservative and risk averse behavior, must be the reasons for the present situation.

The banks are not profit maximizers and, being nationalized, concern about liquidity or the danger of their going bankrupt should have been replaced by strictly monetary policy goals. Strong criticism of their losses and "liquidity problems" (in the press and even from within the Bank of Portugal) have recently made them more risk than ever. There are several good examples of this. One is the traditional but now reinforced preference of commercial banks for short-term bill discounting despite the willingness of the Bank of Portugal to rediscount medium term credit.

Another illustration is provided by the persistence of extremely strict collateral requirements, as opposed to project appraisal criteria, mainly on the part of CGD (this is probably one important reason for the restriction of its credit).

But the best example of all must be the new rule followed by commercial banks of granting medium and long term credit

through renewing short term discounts, but collecting on them the higher medium term loan rates. In a country with a nationalized banking system and a tremendous need to increase investment, it is obviously absurd that the borrower should be made to bear the burden of both the higher cost and the uncertainty of renewal of the credit.

The presence system, with its absence of well defined goals, puts very little pressure on individual administrators to expand their portfolio of socially advantageous or even profitable loans. Disincentive for taking on additional risk is much more powerful, as the prospective embarrassment of a failed project may be much more important to an administrator than a marginal improvement in bank profits.

Generally speaking, non-nationalized firms will suffer disproportionately under such a system. Nationalized firms will have access to political power which can force banks into making loans they would not grant to purely private firms. (Although it is certainly not true that nationalized firms have had unrestricted access to credit.)

There is a general point to be made here: It is dangerous to assume that the intended easy credit policy reflected in the Bank of Portugal's rediscount policy is successfully transmitted through the other banks just because they are State-owned. Credit policy has to be based more on facts than intentions and must take into account the actual, not the hoped-for, response of banks. Indeed, even the intentions of the Bank of Portugal for credit policy may not always be clear to banks. The Bank of Portugal itself shows a considerable degree of risk aversion reflected, for example, in the fact that rediscount of medium term credit is also restricted to

successive and uncertain renewals of short term rediscounts.

Proposals for Credit Reform. Lecturing the banks on their new responsibilities will not be enough to bring about real changes, especially if, as now happens, the lectures require them to attain contradictory goals. More specific steps must be taken:

(1) Banking legislation requires profound changes. As it exists, it still concerns a privately owned banking system, with a private, "neutral" central bank (a "bank of issue" to be more precise). This is what justifies its almost exclusive concern with liquidity, the absence of auditing powers for the central bank, and the existence of rules limiting the amount of medium and long term credit that commercial banks can grant.

(2) An important step would be to increase the availability of credit other than bill discounting -- overdraft facilities for example. This will need to be accompanied by a change in Bank of Portugal policy since commercial banks can only borrow by rediscounting bills.

(3) The administrative efficiency of the rediscount mechanism can also be improved. While a set of preferential rates exists there may be long delays between the date the bank grants a loan and the date it learns the applicable rediscount rate. Clearly the higher the bank's uncertainty about the spread between the loan rate and its cost of capital, the less the incentive it has to make the loan.

(4) The rules specifying the operations eligible for preferential rates are not easy to follow and, for the system to work, they must be fully understood by most of the banks' officials and the public. The rules should be simplified and publicized better.

(5) In general, however, we question whether the preferential rate system itself should be continued. Given the current behavior of the banks and the state of investment demand, the small interest differentials are not likely to be very effective. In addition, the program's existence compounds the banking system's administrative problems and detracts from its ability to increase the total supply of credit. Especially if there is a devaluation, most of the preferential sectors (exports, agriculture, and other importing competing industries) will receive a larger share of credit simply because they will have a larger number of profitable projects.

(6) A final remedy is that the Bank of Portugal itself grant credit directly to non-banking firms. This may, in fact, be a more effective approach to increasing credit to preferred areas. A corollary to this proposal is that the consolidation of the banking system be increased with more control going to the Bank of Portugal. At present the banks operate in a no-man's land between a competitive, profit directed system and a truly nationalized system. This is an untenable position. Since it is politically unlikely that the banks return to being profit maximizing competitors, the system must move to more central control.

CREDITS GRANTED AND INTEREST RATES

By maturity of loans

(billions of escudos)

	1st quarter 1975		1st quarter 1976	
	Amount of credit	Average rate	Amount of credit	Average rate
Bank of Portugal average rediscount rate (1st sem.)		(6.56)		(5.13)
<u>Commercial banks:</u>				
Less than 1 year	151.19	7.46	166.26	7.99
1 to 2 years	6.79	9.59	4.92	*10.36
2 to 7 years	3.57	10.72	2.47	10.98
More than 7 years	.02	11.31	.07	9.30
Total	161.56	7.62	173.73	8.10
Average rate paid on deposits		(5.74)		(5.85)
<u>Caixa Geral de Depósitos:</u>				
Less than 1 year	4.23	7.69	1.59	8.59
1 to 2 years	.67	9.93	.44	9.97
2 to 7 years	.14	7.84	.71	10.15
More than 7 years	3.04	8.68	1.94	9.31
Total	8.09	8.24	4.68	9.25
Average rate paid on deposits		(5.02)		(5.24)
<u>Banco de Fomento:</u>				
Medium-term	1.47	..	1.82	..
Long-term	.04	..	.04	..
Total	1.51	..	1.86	..
<u>Total banking system:</u>				
Short-term	155.42	..	167.85	..
Medium-term	12.64	..	10.36	..
Long-term	3.10	..	2.05	..
Total	171.16	..	180.26	..

CREDIT AND DEPOSITS OUTSTANDING

(billions of escudos)

	March 1975	March 1976	Change
<u>Commercial Banks</u>			
Total credit	236.6	250.9	+14.3
Business & individuals	225.4	238.5	
Public sector	11.2	12.4	
Total deposits	211.6	223.3	+11.7
Business & individuals	209.0	220.1	
Public sector	2.6	3.2	
<u>Caixa Geral de Depósitos</u>			
Total credit	78.3	92.6	+14.3
Business & individuals	61.3	70.1	
Public sector	17.0	22.5	
Total deposits	80.3	99.7	+19.4
Business & individuals	55.5	67.8	
Public sector	24.8	31.9	
<u>Banco de Fomento</u>			
Total credit	17.6	23.7	+ 6.1
Total deposits	9.4	9.7	+ .3

Appendix I: Estimation of Money Demand Equations

This is a brief report on attempts to estimate a money demand equation for the Portuguese economy. We began with low expectations that econometrics would produce very useful results for interpreting post-revolution monetary events and, indeed, our expectations were confirmed.¹

There are two reasons why econometrics does not work well. The first is that there is little variation in the explanatory variables over a fairly short sample period (20 annual observations from 1954 to 1973), and relatively large variation in the same variables during the period we wish to predict. Income grew smoothly, the rate of inflation was low and fairly stable, and deposit and loan rates were constant for a period of 11 years. The estimated equations have high R^2 's but tell us little except that there was a strong relationship between money and income. The rate of return variables often have the correct sign but were never significant.

The second econometric problem occurs because the underlying model of money demand may have changed. Econometrics requires a series of observations on a model whose parameters are assumed

¹It is notoriously easy to "prove" with econometrics that any given model fits the data poorly. Perhaps someone without our dim expectations would have persisted longer and achieved better results. We should point out that our approach follows that of Maxwell Fry (see "Portuguese Monetary Problems, #3") and our best equation is quite close to his. His rate of return variables are not statistically significant but they are more significant than ours.

to be constant. Income redistribution and the disappearance of other financial markets may have changed both the income and rate of return coefficients in the money demand equation.

The model we used takes real per capita money demand to be a function of income and various rates of return:

$$\frac{M}{P \cdot N} = e^{a_0} \left(\frac{Y}{P \cdot N} \right)^{b_1} e^{b_2 \cdot i}$$

where

M = M₂
P = GDP deflator
N = Population
Y = Nominal GDP
i = a vector of rates of return.

The rates of return we tried were (1) the deposit rate (DR), (2) the commercial loan rate, (3) the government bond yield, and (4) as a proxy for the expected rate of inflation, the rate of change of the wholesale price index (the rate of change of consumer prices was also tried but is not in the final equation) lagged one period. This variable is (I) below. Use of the commercial loan rate may seem to confuse the money supply and demand functions. Since we have no short term interest rate series, the commercial loan rate was used to represent the cost of holding money to firms.

The coefficient of the commercial loan rate came closer to being significant than any other rate of return variable, but its coefficient and sign were highly unstable as the form of the equation and sample period varied. The government bond yield most often had the wrong sign and was insignificant. Our best equation was (standard errors in parentheses):

$$(1) \log\left(\frac{M}{P \cdot N}\right)_t = -2.45 + 1.29 \log\left(\frac{Y}{P \cdot N}\right)_t + 0.0111 \log\left(\frac{Y}{P \cdot N}\right)_{t-1} \\ + 0.00651 DR_t - 0.000599 I_t \\ (.459) (.072) (.0077) (.0205) (.0030)$$

$$R^2 = .9978 \quad D-W = 1.55 \quad S.E. = 0.024 \quad p = 0.526$$

This equation was estimated with the Cochrane-Orcutt technique to correct for auto-correlation ("p" is rho, above).

The interest and inflation rates were recorded as percentages so that the coefficient of DR implies that a percentage point change in the deposit rate will increase real per capita money demand by 0.651%. A one percentage point change in the expected rate of inflation changes real per capita money demand by 0.06%. The sum of the coefficients of the income terms (1.30) is the long run elasticity of the demand for money with respect to income.

In table I-1 we use equation (1) to forecast money demand in the years after 1973. The 1974 prediction is very accurate but in 1975 money demand is under-predicted by 6% and in 1976 over-predicted by 8%.

Table I-1: Predicted Money Demand

	Actual M_2	Predicted M_2	% error
1974	314	317	+1.0
1975	357	338	-5.6
1976	400	433	+8.3

Values of explanatory variables:

	Real GDP (1970 prices)	GDP Deflator	Lagged Inflation Rate	Deposit Rate	Population
1974	182.3	1.87	3.8	6.125	8.56
1975	175.7	2.12	11.1	6.175	8.78
1976	183.7	2.60	15.2*	6.175	9.01

*This is the CPI, not wholesale price increase.

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1974-06-30

SHORT TERM ECONOMIC PROBLEMS IN PORTUGAL

The most urgent problems

In Section I I try to survey what I understand as the most pressing short term economic difficulties in the Portuguese economy. They need not all become acute but do anyhow exist, a serious risks for things going wrong in the present first stage of post-revolution development. Certainly I may be mistaken as to my evaluation and I may have left out other serious problems presented in this first section are then the basis for the discussion of policy aims and measures in Section II. Here I may be still more mistaken with regard to the relevance as well as to political possibilities.

My main intention in presenting these very preliminary thoughts and considerations at this early stage of my consulting job, is to bring some order into my first impressions after the interviews with some few strategic persons during my three days' in Lisboa (20-22 of June). My hope is that I'll get reactions from Portuguese experts, putting me right, correcting misunderstandings and giving me new ideas. It is also important to find out how and where some statistical and economic research would be needed and fruitful.

- 1) The employment problem - there is an apparent risk for rapidly increasing open unemployment.

On the demand side there is first a long run trend of rapidly rising productivity in agriculture and industry that is not compensated for by a sufficient rise in total real demand, neither for exports nor from the home market. This trend is now aggravated by short term restriction effects from very strong increases of wage costs. The primary effect of these might be the dismissing of marginal workers in a number of firms with vulnerable financial conditions. There will in

the first phase not be time for positive effects of increased real purchasing power from increase wage payments. There is the risk that price inflation will neutralize most of the real demand effects (see below). There might also be a negative effect on private investments from the shock of big wage increases, because of stringent financial conditions at various points of the economy. The unemployment problem may also be aggravated from the supply side. Net emigration may become lower, people returning from the colonies, at the same time as hidden unemployment becomes mobilized, appearing as open unemployment due to high expectations as to the Government's ability to create new jobs.

2) Inflation may be accelerating and getting out of control.

Already before April 25th 1974, price inflation was very rapid and tending to accelerate. It seems mainly to have had the character of a demand pull inflation - caused by surplus purchasing power arising from emigrants' remittances and Government budget deficits. Wages seem to have been lagging behind during the later years, as real wages have been rising less than productivity. This must have implied a substantial profit inflation. The recent acceleration of inflation (during 1973 and the beginning of 1974) has, as in other countries, been caused by the rising prices of raw material, food and oil.

On top of this inflation now comes a wage-push spiral. The background must be not only the lagging wage development mentioned above but also the distorted wage structure in Portugal - with an unusual large dispersion between low and high wage rates. Large groups of employees have had below-subistence earnings. The increased minimum wages as well as spontaneous trade union actions to raise wages mean a general upward push of wage costs (order of size of 30 per cent per year?) with transmission effects over the whole wage structure (in spite of a temporary stop for wages and salaries above 7000 esc.) The danger is that within half a year the big wage increase in May and June will appear as frustrations as prices might be rising at a rate of 30-40 per cent (?). There will then be needs for new waves of big wage increase and there will be a serious risk for a run-away wage-price inflation spiral. Expectations of rapid inflation and

anticipation of a following depreciation of the Escudo may start a wave of speculation, also implying risk for capital flight.

3) The balance of payments will be disturbed by the internal disequilibrium.

Imports will tend to rise more rapidly than exports, at the same time as the Portuguese terms of trade have become unfavourable. This tendency is aggravated by the recessions in various export countries partly due to the rather restrictive policies being carried out in these countries in order to fight inflation. It is from this point of view a tragedy that the Portuguese revolution did not come two years earlier when there was expansion and the beginning of boom and the conditions in most of the OECD area.

A considerable deterioration of the balance of trade need not be taken very seriously over one or two years' time (especially if gold is revalued). But things might become uneasy rather quickly. When a country's exchange reserves - however big they are - start melting consistently, it is generally surprising how quickly they disappear (in Sweden the exchange reserves in 1946 were about equal to the value of imports but in one year's time they had dwindled away thanks to bad economic policy).

Imports may tend to rise very rapidly because of rising demand and costs inside Portugal. Emigrants' remittances play a large role in the balance of payments and they might start declining, perhaps partly due to the inflation and the low interest rates in Portugal. The tourist incomes might be sensitive to the rapidly increasing living costs in Portugal as well as to the risks of labour conflicts. Capital movement might also become a negative item, especially if capital flights should come about on a considerable scale. If the exchange reserves start declining at a serious rate, the confidence problem will appear serious and it might become difficult to control development.

4) The financial structure may be sensitive to the disturbances.

Inflation and concomitant speculation may have created a big expansion of short term loans implying an unstable credit situation. The previous wild speculation in shares is an indicator.

This may also refer to the financing of building and inventories as perhaps also to private speculative buying of houses and durable goods. The extremely low costs for borrowing from the bank (big negative real rates at the running inflation) must have created an unstable financial structure that might easily get disturbed by credit restrictions - and be followed by a financial crisis with negative effects on employment and trade.

5) Risks for disequilibrium between savings and investments may become acute. There is first and apparent possibility that the Government budget will show a big and rising deficit, because of rapidly increasing wage and salary payments, higher subsidies and social contributions, new claims on Government activities of many kinds. It takes longer time to get incomes from tax increases needed. The financing of big budget deficits will imply delicate policy problems. Partial financing in the Bank of Portugal (and in the banking system) will be necessary in order to create the additional money supply that corresponds to unavoidable inflation. But the danger of central bank financing of budget deficits on a large scale has been demonstrated repeatedly.

Behind these problems of financing are the eternal issues of savings - investment relations. A considerable decline of gross savings in the public sector (including social security funds) may imply a general decline of the already relatively low total savings ratio of the Portuguese economy. If gross investment (as ratio of GNP) is to be kept up or increased (as needed for development), the deficient savings resources may be supplied by higher profits or by borrowing abroad. The first alternative may be in conflict with the Government's income distribution aims. The second possibility is only a partial short term solution.

6) Production and productivity questions arise both in the short and the longer run. Underlying the employment problems as well as the development of investments and exports is of course the question how production now will develop in various sectors of the Portuguese economy.

There are risks that profitability and markets at home and abroad will seem so uncertain that investment plans are postponed and production initiatives reduced. The financial prospects and credit availability might also seem unsecure and tend to work in the same direction.

The dual type of the Portuguese economy will complicate this issue. Good profitability in the larger corporations with relatively high productivity and advanced technology goes together with low or no profits and very limited expansion possibilities in the overwhelming majority of small, low productivity firms in industry and trade. General monetary and fiscal stimulation to the economy at large will imply big surplus profits in the limited sectors with big corporations, while stagnation tendencies might prevail in other branches of trade and industry.

There is a difficult dilemma here. One of the main policy aims of the Government is to raise real purchasing power of the poor substantially. To the extent this policy is successful (and is not neutralized by price inflation), the consequence will be increased demand for consumption. This stimulus is of course welcome but the policy will be successful only if production is expanding rapidly enough (and not imports). Does there exist capacity reserves in industry for a quick response to increased demand? Low supply elasticity would mean more inflation and enlarged imports. It is also important that new investment is stimulated by the growing demand in order to create capacity for meeting demand expansion during the following years. There is otherwise a danger that there will be a considerable shift of resources from investment to private (and public) consumption that may imply a dampening of the growth rate.

7) A very strategic question refers to confidence: confidence in the future of the Portuguese economy, in the policies of the Government, in the activities of trade unions, financial institutions, big and small enterprises a.s.o. There are many sad examples how just a lack of confidence within strategic groups became the driving force of the breakdown of all good intentions that were predominant at the beginning of a new era.

There are always so many possibilities of misunderstanding intentions, of misinterpreting decisions and actions, of suspecting evil collusions etc. The risk of polarization within the class structure in Portugal must be great, making fertile working ground for agitators on both wings. Already the ominous word sabotage is heard in lisboa, implying that big industry and high finance by means of obstruction as to investment and employment try to create a political situation that may enforce a return to "law and order" approaching the old political pattern. Will this polarization of views be a great danger when the enthusiasm of the first few months after the revolution has gone?

II. The policy issues

In Section I are presented the essential short term economic-political problems as I envisage them. Perhaps I have misunderstood some and omitted others. Anyhow I use the above of the problems in order to discuss the policy questions as they appear to me.

First there are questions about the policy aims and the priorities. As I understand the situation the creation and keeping up of high employment is the number one target. The appearance of open unemployment on a considerable scale would be a catastrophe. The question is how much unemployment can be tolerated (in a year of world recession).

From this point of view any type of very restrictive policies that would be effective against the inflation cannot be accepted. Strong anti-inflationary monetary and fiscal policies have always created quite a lot of short-time unemployment; that is a universal experience.

Accepting inflation as unavoidable does not mean accepting wild or accelerating rise of prices and wages. Such a development might "in the end" mean a financial crisis and more unemployment later on. Inflation thus must be under control. But a considerable amount of one-time inflation has the function of solving problems: rectifying the wage structure and keeping up total real demand.

Certain aims as to a changed wage structure and improved income distribution should be presented as a basis for accepting a certain degree of inflation. The trouble is that all important wage and income distribution problems cannot be solved at one stroke. Look at the egalitarian ambitions of socialist Sweden. The aims are approached very slowly over the decades; and the Swedes can afford thanks to high GNP per capita quite a loss of incentives (if not too abrupt). Portugal would need more of incentives in its present stage of development and should therefore tolerate considerable wage differentiation between skilled and unskilled labour. But the long term aims - after successful attainment of higher levels of per capita income - could of course be quite ambitious.

The main effort to improve income distribution should aim at elevating the standard of the very poor on the country side and in the cities. Differentiated minimum levels of wage payments is an important means. With present inflation going on, there should be introduced cost of living index clauses for adjusting the levels more continuously. Long lags in adjustment may mean long lags and create dangerous frustrations.

After the primary wage rises over the whole field that are now going on, more general index clauses (with threshold limits) should perhaps be introduced in order to avoid new disorderly wage offensives at a later stage when prices have risen so much that the real standards have been reduced again. I know the risks of general indexation of an economy. But during a limited period with a declared "one-time inflation" the irritations should be minimized.

Improving and giving real guarantee to the lower income groups should be the main aims of income policy. During a considerable transition time tolerance should be shown to the higher income groups. Incentives are needed. Government civil servants also in higher brackets should be treated well in order to increase quality of work. But of course a lot could be accomplished by more progressive direct income taxes.

There are always delicate problems when coming to prices and profits. As stressed above the key question is to keep up and

improve employment possibilities. Periods of unemployment are most devastating just to low paid workers, who are first dismissed when profits are squeezed. Therefore sufficiently high average profitability of industry and trade should be tolerated and general real demand kept expanding. I am not a believer in extended periods of price control. After the first short price-stop period is passed - it is perhaps possible to select some key commodities (and housing) for intensive price control. But the risk for distortions are well known. Unwanted income and wealth effects from high profits should be corrected by taxation measures (easy to say, difficult to accomplish). Certain rules for a restrained dividend policy of the big corporations could be introduced during a transition period.

There are certainly more measures needed to create favourable conditions for expanding employment. Will it not be necessary to improve the knowledge about current employment trends by introducing an early warning system with regard to coming changes of employment? Each firm (with for instance more than 10 employed) should a month in advance inform employment agency about planned lay-offs (3 months when more than 100 men are involved).

As mentioned above vulnerable financial positions and unsatisfactory profitability may prevail in large sectors of medium-sized and small firms. Inflation may make life more difficult for them as they are relatively labour intensive and are severely hit by the big wage increases of low wage groups. In the longer run very large productivity rise can be gained by squeezing small unproductive firms out of existence or forcing them to become more effective - as a natural result of the higher wages. But in the short run, employment is more important than productivity and structural change. Therefore the present policy must guard against general employment failures in these sectors. The workers laid off would probably in the short run not find enough jobs in expanding branches, corporations or in the public sector.

Within the public sector there should be considerable long run expansion possibilities. They will be welcome when the military expenses and employment can be cut down. But already

now I presume that a lot of building activity, road building, infra-structure work can be created. Public services can also be expanded in various fields. But at the same time I guess that there is a lot of unnecessary and unproductive employment within the public sector that has to be eliminated in the future. As said above in Section I a rapid expansion of the public sector now meets serious financial problems with regard to the rising budget deficit. The balancing of the whole economy should imply that public sector financing or higher taxes does not have strong negative effects on the expansion incentives of the private sector.

Extended loans to firms in financial trouble will be necessary. The financial unsecurity coming from prevailing short term bank credit will have to be corrected by extending longer term loans. I understand that such measures are introduced. Much of selective credit policy can be applied in this connection, in order to favour productive activities according to certain criteria. I have never seen that such attempts with selective credit policy have been effective. Anyhow, I presume that a lot of credit rationing from the side of the banks is unavoidable, as long as borrowing is so extremely cheap with the combination of low interest rates and high inflation expectations. Nominal interest rates are on the way up and why should they not be brought up to present West-European levels? Index-loans (amortizations and interest payments tied to price-index numbers) should be considered as a possibility in order to dampen the demand for loans as well as the inflationary profits. And of course also in order to compensate lenders and savers for inflation losses. It might also be argued that such indexation would be needed especially for stimulating the emigrants' remittances. These are of course complicated problems with many arguments for and against to be considered.

By the way: is it not important that also the Portuguese price index statistics (as well as employment statistics) are improved, if and when inflation development must be followed closely and price-index clauses may be used in a considerable degree?

As stressed above private investments may turn out too low

because of financial difficulties, uncertainty or lack of confidence in the future. Credit availability, expanding markets and expected profitability are necessary conditions for increasing investments in the private sector. I know too little about present capital market conditions to have any views but activation of these markets might also be important. There are many more or less efficient ways to stimulate private investments: by means of investment funds, tax rebates, subsidies on investment costs, state guarantees of various kinds, joint ventures (Government-private) in new and risky developments. There is a danger with most of these measures, namely that they create an artificial lowering of capital costs, resulting in too capital intensive projects. It would be more natural for the Portuguese economy to search for relatively labour-intensive development - as there is underemployment and rising expected potential labour resources. Therefore the subsidies should perhaps rather relate to labour costs than to capital costs, and this might be especially needed for regional policy aims.

What I should like to see is a rather complete set of policy measures for attaining stated aims. Too often economic policy is carried out piece-meal, one measure at a time for meeting an emergency, and nobody can see a consistency of the policy measures that does not exist. Confidence could perhaps be created by presenting such a set of policies, a consistent plan of using policy instruments for attaining the strategic aims of high employment, restraining inflation, improving income distribution and resource allocation, and minimizing the disturbance of the balance of payments. The time horizon of this set of policy measures must necessarily be short - up to the coming elections. But eventual good success with the short term policy in the given respects should mean the creation of some confidence also in the longer run, implying that the lines of development successfully started, will later be followed up by a post-election Government. From this point of view I have the feeling that the short term policy plans should be at least vaguely related to the prospects of Portuguese development over the medium and longer perspectives: referring to growth, structural change, the share of the public sector, the general social and economic organization of the Portuguese economy.

ERIK LUNDBERG

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I

THE PROBLEMS OF ECONOMIC POLICY IN PORTUGAL

INTRODUCTION

There are very serious economic problems and difficulties in Portugal. They are both of short term emergency nature but also long term, referring to the unbalanced structure of the Portuguese economic system.

Before coming to the serious problems let me express a general confidence in the positive development possibilities of the Portuguese economy. In the prevailing general mess or chaos in the Western world Portugal stands out relatively well. Look at such countries as Italy, Denmark, England, U.S.A. with deep recessions, stagnations, rapidly rising unemployment, decline in real wages, inflation, exchange crisis. Against this background the economic development in Portugal since 1973 is surprisingly good: only a moderate rise in unemployment, no stagnation but some growth of production, considerable increase in real wages, no exchange crisis - but of course a serious inflation. Also looking at the longer term development there are certainly great possibilities of improving the economic and social structure and creating rapid growth. Just the very low production per capita in agriculture, industry and trade must mean great opportunities for change and growth.

However, this optimistic outlook on the development in Portugal so far after the revolution - compared with recession and crisis in other Western countries - and on the longer run development possibilities should not be taken as a proof that there is no danger. On the contrary there are great risks that things will turn worse quickly if the Government's economic policies are not being changed and improved radically. I am dealing here only with the short term problems.

1. Short Survey of the risks

The main dangers in Portuguese economic development are -as I understand the following.

- 1) There is a risk for rapidly increasing unemployment. There are signs of declining activity in several sectors (as building and constructions, industrial investment, textile production). At the same time the supply of workers looking for jobs is increasing (from demobilization, decline of emigration, people returning from Africa). It is very possible that unemployment may increase to 7% or more than 200.000 in the beginning of 1975.
- 2) Investment is tending to decline. Profits in the private sector have probably been squeezed considerably because of rapidly rising costs for wages and raw materials, lower or no rise of productivity, failing export markets and price control measures.
- 3) The deficiency of savings is and will be a strategic problem. All the three main sources of savings seem to be drying up. Household savings are being reduced as a result of the boom in private consumption; the reduction in the real value of emigrants' remittances must be an important cause of a decline in household savings. A squeeze in company profits may imply a big reduction in the total supply of savings. It is likely that savings resources inside the country to some extent are drained by capital flight abroad - nobody knows the extent of this. Lastly the savings supplied from the public sector including public funds seem to be under heavy pressure due to a rising deficit of the consolidated public budget. The only compensation for a rising deficiency of savings would come from outside (foreign) savings supplies, i.e. borrowing abroad and consuming a part of existing exchange reserves.
- 4) The balance of payments deficit is large and growing. there is much too big rise of imports especially of consumption goods during 1974. Export development will

be weak during the deep world recession during 1975 and part of 1976. The uncertainty as to the supply of emigrants' remittances makes the balance of payment situation vulnerable. A transfer of foreign exchange funds held by companies from Portuguese to foreign banks need not be regarded as capital flight; it may result from the fact that Portugal is no longer regarded as a "tax and stable exchange heaven". If during 1975 and 1976 the present good exchange reserves are consumed to a large extent, there may later appear a confidence crisis, accelerating flight of capital, speculation against the escudo, devaluation, and extra inflation.

- 5) The financial and credit system is out of equilibrium and unstable. The hoarding of bank notes, the freezing of old credits in the commercial banks, the closing of the stock exchange, the need for the Bank of Portugal to enter and supply credits to the business sector on a large scale plus a big deficit in the Government budget, all these tendencies are signs of disequilibrium of the financial system and mean severe claims on monetary policy. The results of such disequilibrium may be undesirable downward pressure on business activity and investment, still more unemployment as well as risk for extra inflation from increasing liquidity.
- 6) Inflation has reached a much too high rate in Portugal. There is a hope that the big acceleration of the price rise during 1974 is of a one time nature connected with the general boost of wages. I am afraid that there is a lot of dynamite inside the Portuguese wage system with its very uneven wage relations, containing in the longer run unacceptably big wage and salary differentials. There must be great risks for new wage and price explosions coming from wage-wage-price-spirals. A weak and passive Government policy can therefore easily create favourable conditions for a continued strong wage-price inflation.

The danger spots mentioned above may - without adequate economic policy - imply increasing pressure on the Portuguese economy. Such pressure may take the form of rising unemployment,

accelerating inflation, rising deficit of savings in relation to needed investment, increasing strains in the financial system, dwindling exchange reserves - ending eventually in an exchange crisis with devaluations. Observe that I only speak of risks for a serious deterioration of the economic situation in Portugal. Such risks need not materialize if a progressive economic policy comes about and the general socio-political atmosphere is responsive.

These dangers refer to short-term problems during 1975 and 1976. But the risk for serious crisis within this period must also be considered with regard to the inadequate or lagging economic structure of the whole Portuguese economy. Problems of stabilization policy are furthermore aggravated by the existing lack of confidence between the Government and the business communities. This means that short term stabilization policies may become ineffective when the structure of both the public and the private sectors of the economy are badly adapted to positive responses.

2. Some Background Conditions for Economic Policy

It is certainly important to pay attention to the great structural problems of the Portuguese economy even when only considering short term stabilization policies. But it is very difficult for an outsider to understand how this should be done. I can only declare that I am aware of the danger of transferring experiences from for instance Swedish policy results to Portugal.

Sweden is in most respects a relatively homogeneous economy: solidaric wage and salary policy during many decades has created a minimum of wage differentials, productivity differences between plants inside the same branch and between branches are quite limited, mobility of labour and capital is high, there are hardly any backward regions, the business community is rather well geared to the aims and methods of a Socialist Government (more than 40 years old) and responds in the main positively and cooperatively. Under all these conditions the effectiveness of (for instance) an expansive policy on employment, production and foreign trade can be estimated quantitatively.

So many of these conditions are not well satisfied in Portugal. Wage and salary differentials are tremendous in Portugal compared with Sweden. An evening-out process is made extremely difficult due to the trade union structure with numerous unions formed according to skills and place of employment implying resistance and frictions (reminding of the British system). The big dispersion in wage costs corresponds to similar large differences in productivity between plants, regions, branches. The backward regions in agriculture, trade, small industry seem to explain the average low per capita income and productivity of labour in Portugal. This means that there is a lot of concealed unemployment in low-productivity firms within trade and industry.

Conservative policies of protection during the old regime help to explain the dualistic structure of the economy and of the industry - with a very great number of very small and medium-sized plants at the side of a few larger companies (and plants) with modern technique and management. These larger modern companies are "sheltered" by the long tail of unproductive firms. In this way these companies tend to receive surplus profits. A high yield on own capital seems to have created a claim on high profitability from the side of the big companies. (This was one of my points in the study by the World Bank-Monetary Fund team of 1964.)

The dualism in Portugal's private sector has thus several dimensions. Combined with this there seem to exist rather old-fashioned attitudes from the side of the business community as to modern policy approaches by Government and trade unions. The new claims for radical changes in Government policies therefore tend to meet suspicion and resistance from the side of the private sector. There is thus a serious confidence problem.

Of course this is not only due to the backward and dualistic nature of the private sector. Also the public sector contains a lot of clashes between the old and the new. The bureaucratic and inflexible nature of the Government apparatus is well known. The level of education of the lower strata of the bureaucracies will imply great difficulties when now the needs for implementation of new policies appear. The inertia will

be big, the slowness in handling of applications, licenses and so on is documented. This inertia must stand in sharp contrast to the ambitions of new people in Government and administration, having fresh radical ideas about needed changes in policy and in the economic and social system. The many new ideas and their manifestations in policies and regulations must run the risk of bad implementation in practice. This is a serious problem as people are impatient and expect wonders from the Government in a short time.

The big structural problems of the Portuguese economy can only be solved in the longer run. No immediate solutions are possible. My job only refers to the short run stabilization questions. But of course short run solutions should be such that they at least do not prevent a much needed process of structural change and reorganization of the economy. Rather these changes and processes should support each other. This means for instance that stimuli given to the private sector or expansion of the public sector should be such that also long term aims will be satisfied. It should be added that low productivity and unbalanced structure of the economy is not only a hindrance to efficient stabilization policy. This situation must also mean that there is a big reserve of useful projects - public, social and private - needed for long term economic growth that can be called upon for expansionary policies. And the existing low average productivity at the same time should imply great opportunities for gain in efficiency and productivity. From this optimistic point of view the scarce factor to be mobilized is management talent inside both the public and the private sectors.

With these words I have just liked to show that I am aware of the tremendous problems of implementation of good policy ideas into the Portuguese economy. As pictured above the short term policy problems are very great because of all the danger spots and risks that I have tried to point out. Therefore I am very humble as to the relevance of the type of policy recommendations that I am presenting. They are necessarily of a "Swedish type", partly referring to an economy functioning more frictionless than the Portuguese economy and with less of big structural issues involved. My recommendations must be read against this background and be taken as suggestions in what directions results may be attained.

3. Some Statistical and Methodological Problems

One of the major difficulties in assessing the current situation and judging the recent trends refers to the general lack of reliable statistics. It is indeed surprising that so very little of basic improvement in economic statistics has occurred since 1964. I remember how well aware administrators and economists were already ten years ago of how slow and how poor the current statistical time series were. There is today still the same absence of such very important current statistics as: a reliable industrial production index, employment index for the main branches of activity, unemployment statistics, current statistics of investment plans and profits, sales turnover in retail trade, etc. The price indices are not very reliable and published with too long time lags. The national accounts have many deficiencies and are presented with long time lags.

The statistical basis for policy decisions is therefore abnormally weak. There are apparent risks of complete misinterpretations of current trends, for instance as to development of investments, production, employment, and productivity. Certainly the structure of the Portuguese economy - especially with regard to the great number of small plants and retail shops - implies great problems for the collection and production of reliable statistics (it is necessary to rely on small samples). Anyhow my urgent advice is that the revolution is made to comprise also Portuguese economic statistics. There is plenty of potential supply of economists and statisticians, training is needed as well as ideas and experts from abroad.

The intelligent use of inadequate statistics and unreliable indicators is an art in the ministries in Lisboa. Hunches and guesses are made with admirable courage. The restrictions on the various "guestimates" are determined by demands of a logical system of simple interrelations. Estimates and guesses must be systematic and logical.

The catalogue of danger points in the first part of this report had mainly a qualitative significance. Hardly any quantitative precisions were tried. As a background to the following account of policy changes, it is desirable to present the kind of picture of the current trends that I have

received during interviews and from statistical indicators. I like to stress the uncertainties about the situation of the Portuguese economy by giving alternatives that have been discussed.

There is considerable uncertainty about the general development of production, productivity, and employment 1973-74. For GNP in real terms I found estimates from 4.5% growth 1973-74 to guesses on zero growth. The normal trend during the last decade was around 7% per year. Taking account of the shortening of the working time and stoppages during 1974 and allowing for some slowing down of productivity growth a maximal growth rate of 4.5% is imaginable. The corresponding rate of increase for the volume of industrial production would be around 6% (to be compared with a 9% trend).

Judging from other indicators and from views and feelings of people in contact with economic life I doubt that production volume in Portugal has been expanding so much as these figures imply in a Western world of deepening recession. There is a general view that construction is declining (especially of dwellings) and investments in the private sector have been tending to fall due to postponement of investment plans. Exports are weakening and production in the textile and clothing branches is being reduced.

From the demand side these tendencies have been counteracted by rapidly increasing demand for private consumption. The real wage sum may have increased as much as 5% - in great contrast to the negative developments in most OECD countries during 1974. According to current guestimates the wage sum should have increased by some 30-40% 1973-74, say 35%, and the cost of living index by 27.5%. On the other hand incomes from independent, employers in agriculture, trade, industry has increased less than wages or even declined and the holds for emigrants' remittances. It should be observed that a large share of the increase in real disposable income 1973-74, enlarged by a decline in the household savings rate, was used for demanding imported goods. According to available statistics the volume of imported consumption goods has increased by about 15% 1973-74 (for durable consumption goods import volume

rose by three times). This means that the demand for internally produced consumption goods under these assumptions should have increased perhaps by less than 3%.

It seems as if employment has kept up fairly well, although some evidence is presented of a probable decline of around 2% in the private sector (since the end of last year). Of course guesses as to productivity changes should be conform with estimates of production and employment trends. There are apparently strong pressures from the trade union side to keep up employment even if production and markets are sagging and profit margins are squeezed. To the extent this is true productivity growth would be under pressure.

These "gangster statistics" presented above certainly give very little basis for judging the factual production and employment changes during 1974. If my own guess of GNP growth 1973-74 is 2-3% that figure is just put up as a challenge.

Apparently the Portuguese economy has been seriously brought out of balance during 1974. We can find indicator of this in the labour market, in the market for goods and services (the rapid rise of prices), in the balance of payments, and on the credit and financial markets.

Let me try to present a kind of general statistical criterium for the disturbance of the balance between savings and investments. If we take the estimated differences between savings and outlays on investments (called "financial savings") of the main sectors of the economy, the sum of these differences is identical with the deficit of the current balance of payments. According to very, very approximate statistical information and guesses the balances may look as follows:

(Milliard Escudos)

	1973	1974	Difference
Current balance of payments	10	-15	-25
Government consolidated deficit	-4	-15	-11
It follows that the consolidated "private sector" should have a total decrease in its surplus of:			-14

There is a general guess that household savings have declined considerably. The greater its share of the 14 milliard in the calculation example the less is the squeeze of financial savings of the business sector (in a wide sense). Even if household savings had fallen to zero in 1974 it seems that there is still a deterioration in the financial savings of the business sector, implying needs of larger credits to keep up activity.

This type of exercise is a challenge to systematic thinking even though the statistical estimates might be far from the truth. The main implication of this way of putting the balance problems is that the deficiency of savings in 1974 is a mirror image of the balance of payments deficit. All the OECD countries (except West Germany and U.S.A.) have the same type of problem. The increase of oil prices and the deterioration of the terms of trade have implied a drain of purchasing power going to the oil (and raw material) countries, corresponding in average to some 3% of GNP. As in Portugal there will be a corresponding decline in financial savings inside the countries, implying larger Government budget deficits and/or reductions in financial savings in the private sector. But these disturbances in the balance of payments and in the Government budget are no reasons for reducing general activity. The aim should be (but in several countries is not) to keep up activity - production, investment and employment - by means of the credit mechanism: borrowing from abroad (the "recycling" issue) and financing the increased Government and business sector deficits by expanded loans.

These considerations clearly apply to Portugal. The deterioration of Portugal's terms of trade 1973-74 of the order of size of 10-15% of course imply a general decline in productivity from the point of view of the whole economy. It has to be paid in the future by means of more export volume in relation to imports. But not now! Activity can be maintained by borrowing from abroad (indirectly surplus oil money) and by reducing the exchange reserves. Internally the corresponding savings deficits in Government and business sectors should be covered by loans. Observe that such credit expansion need not be inflationary. The credit expansion is just an expression for the increased savings deficits that necessarily

follow from the primary balance of payments disturbance.

From this point of view I find the present rate of credit expansion in Portugal surprisingly low. On top of the credit needs arising out of increasing negative financial savings in the private sector (partly corresponding to the squeeze of profit margins) there must be an increased credit demand due to the big rise in wage and raw material costs, the general rise of prices for goods in stocks. In a country like Sweden with a third of the inflation rate of Portugal bank credits have been rising at the rate of about 20% per year 1973-74. For the Portuguese commercial banks including the rapidly rising discounts of the Bank of Portugal there is a total rate of credit expansion March-October 1974 of less than 15% (annual rate). I realize that there are other supplies of credits - also for the large companies from abroad although apparently a diminishing source of supply.

It is a great problem to watch the vulnerable financial structure of the Portuguese economy. Too restrictive credit policy may create a financial crisis and reduce investments and production at the weak points of the economy. However, there is a dilemma here. The big financial needs of the Government and the private sector may if "fully" satisfied create so much liquidity that the internal inflation is stimulated. Apparently the acceleration of the price rise during 1972-73 was made possible by large injections of money and credit into the system.

4. Needs of Improved Government Policy

What really matters is the current trends and the expected results during 1975. The following forces work in the direction of increasing weakness of production and employment in Portugal:

- 1) Deepening recession and increasing unemployment in most OECD countries having negative effects on demand for exports from Portugal.

- 2) Investments in the private sector showing increasing weakness. This will depend on a general squeeze of profit margins aggravating the difficulties in financing investments and also making expectations of profitability pessimistic. The confidence factor - mentioned above - could be aggravating. To this must be added the tendencies of slower growth of stagnation reducing or eliminating needs of enlarging capacity. It is evident that these tendencies will vary a lot for different branches of activity.
- 3) Construction of houses is already in a deep recession. The demand for houses and flats has declined so much that some construction work has been interrupted. Under given conditions - without change of policy - this depression in house construction will continue.
- 4) There may also appear a slackening of consumption demand, partly as a reaction to the boost in real wages and consumption during 1974. Real wages will probably rise much less (or not at all) to 1975, independent employers' earnings may be squeezed, and emigrants' remittances may stagnate and decline in real terms because of continued inflation.

What happens to the public sector is dependent on the economic policies carried out during 1975 (see below). The conclusion from this survey of automatic tendencies on the demand side - at unchanged economic policy - is a continued deepening of the recession in Portugal during 1975.

- 5) This tendency can be enforced by financial difficulties due to profit squeeze and insufficient credit supply, effecting negatively not only investments but also the current level of activity and employment.
- 6) From this would follow a declining supply of jobs and rising unemployment. As mentioned above continued demobilization, the return of emigrants from Africa and Europe, declining rate of emigration, all this may mean rapidly increasing demand for employment. These tendencies - if not counteracted - could imply a rise of the unemploy-

ment rate above 10% during 1975.

- 7) Portugal cannot avoid the modern malaise of Western capitalist countries of stagflation, the combination of high or rising unemployment with rapid inflation. The impact from the inflation in other countries is unavoidable with the escudo being kept stable in relation to an average of OECD currencies; a devaluation would mean increasing inflationary pressure. With at least 10% rise in international prices 1974-75 it is then easy to imagine continued rise of cost of living in Portugal of 15-20%. The pressure for compensation from the side of wage earners will be strong and this tendency may be strengthened because of the needs to raise the lowest ranges on the wage scale much more. There is a risk for a strong wage-wage spiral during 1975.

When looking at these seven types of dangers for a serious deterioration in the economic situation it must be kept in mind that the dangers are closely interrelated. For instance low investments mean more unemployment and slower growth and so on.

But it is in spite of this necessary to make priorities between the aims. I put high employment and low unemployment as number one of the aims. That means of course also that economic activity both in the public and the private sectors should be kept up and stimulated. This implies that sufficient inflation and deficits of the balance of payments must be allowed. With a deep world recession around Portugal, probably lasting over the whole of 1975 and part of 1976, a considerable loss of exchange reserves and borrowing from abroad must follow when Portugal aims at keeping up activity and thus not taking full part in the world recession. But the hope is that a strong recovery of the world business cycle during 1976 will then begin to ease the strains of the Portuguese balance of payments.

I have little confidence that very restrictive monetary and fiscal policies will be effective in holding back inflation.

The necessary condition for dampening inflation is that wage costs are stabilized with the help of at least one year collective agreements. Because of unavoidable inflation (see Section 3), some cost of living index clause has to be included in the agreements. The main purpose is to attain some long run stability in the labour market.

There will be limited room for a further increase in real wages during 1975. Under given conditions GNP cannot be expected to rise along its trend line and an increasing share of the GNP growth should be used for investment and expansion of the public sector. The important aim must be to avert an internal wage-price spiral by introducing some form of declared price-income policy.

The aims should include a protection and some rise in the standard (real wages) of the lowest groups and a tolerable reduction of the standard of the higher income groups. The setting of the income policy should include a one-time adjustment of price-positions that have come badly out of balance because of price control measures and subsidies. The Government budget is loaded with an intolerably large amount of subsidies paid out for keeping down prices of public and private goods and services. On top of this I imagine that a number of prices are kept too low with regard to increased costs. (However the views as to the effectiveness of existing price controls differ.) The main aim is to restore the viability of the price-cost system without causing a cumulative price-wage spiral. Such a one-time adjustment of prices (and index-regulated wages) should be followed by relative stability (without new subsidies). Price control of standard goods and close supervision of general price development will be necessary. All this must have the character of a social contract - where trade unions and employers understand and accept the aims of the Government.

From the priority of the employment and development aims follows that both credit and fiscal policies must be sufficiently expansive. In the previous section I have tried to explain how the disturbed balances for savings and investments may lead to recession if sufficient credit expansion does not come about. I fear that the present credit policy is too

restrictive. A great number of firms are in financing difficulties. Because of the profit squeeze and rising costs and prices they need more generous credit support. At the same time severe restrictions on consumption loans must be continued. The expansive credit policy must be selective. According to my view savings and the flow of emigrants' remittances should be stimulated by higher interest rates (up to the international level) and also by index loans.

In the previous section I have discussed the dilemma of an expansive monetary and credit policy. For the time being there is according to my view more risk that a too restrictive, too slowly working credit apparatus tends to create employment problems and investments postponement. But later on a too generous monetary policy may imply too much liquidity put into the system and consequent inflationary demand pressure. It is easy but not helpful to advise on a balanced monetary policy, finding the right position between these dangers. I can only appeal to the skillful "Fingerspitzengefühl" of the Bank of Portugal management group.

Their work would, however, be made easier if the deficit of the consolidated Government budget is kept under control. That means a better coordination of fiscal and monetary policies. As is stressed below full employment policy must partly rely on a big expansion of expenditures for public works. Increased expenditures of this kind should therefore be compensated for by a radical cutting down of all kinds of subsidies paid out by the Government - as suggested above - and also by some increased taxes (see below).

The expansive credit policy should also be supported by a significant stimulus to private savings both from households and firms. Because of existing expectations and fears as to continued rapid inflation some kind of index deposits (and loans) should be introduced. This measure should be especially adapted to the emigrants' remittances; it is a moral as well as an economic issue to create good alternatives for the placement of such savings. Certainly there are many complications with indexation of deposits, loans, and also wages. Limits must be set. There are always dangers that Government

introduction of indexation is interpreted as a mistrust in the effectiveness of its own anti-inflationary policy. According to my view it need not be so, if indexation is a part of a general program of stabilization measures - a package deal of the type I am suggesting. In fact indexation may support a stabilization policy by increasing savings and eliminating needs of extra risk premiums in wage bargaining. With indexation it will also be easier to shift to a lower rate of inflation.

The suggested price and income policy contains measures for re-establishing reasonable profit margins. This should also mean a higher level of private savings and less need of expansive credit policy. This type of generosity to the business sector could - in the package deal - be combined with higher direct profit taxes (say to 50%). It would be an economist's dream to have a radical rise of the tax rate combined with exemption for spurious profits arising from miscalculation due to the inflation (on stocks and lagging depreciations). A rise of profit taxes could perhaps more easily be combined with special allowances for new investments (e.g. along the lines of the Swedish investment fund system), so that the stimulus to profit savings is combined with a stimulus to investment.

The direct expansionary policies by the Government will mainly refer to building activity. Building activity should be expanded and supported by the Government. Crash programs for increasing building of dwellings, hospital, roads, schools, etc. are needed to keep up activity. There are tremendous needs of these things in Portugal and there are resources available in labour and materials. But certainly there are restrictions in this field for attaining quick results (lack of initiative, plans...).

Therefore the public sector cannot alone solve the employment and development problems. The positive response of the private sector is very much needed. And here I come to the key concept: Confidence.

In Sweden the socialist Government in times of great economic problems seeks eagerly cooperation and advice from leading business men who till show responsibility and understanding. It should be the same in Portugal. This country has certainly a great deficiency of leadership and management talent and there is therefore a great need to mobilize all such resources.

Certainly there are different political views of what the economic and social system in Portugal should be; how much socialization, how much Government interference and regulation of private business there ought to be. But these are mostly long run issues. Now it is necessary to make the presently existing Portuguese economy work as efficiently as possible during the coming 3-4 years. The Portuguese Government is so strong that it need not be - and cannot afford to be - negative and suspicious towards leading business men in the private sector. An organization for mutual advice and cooperation should be established.

My conclusion is that the big private sector of the Portuguese economy in industry and trade should thus be given a reassurance of confidence by the Government in the form of a declaration of short term plans for operating the economy. A package of stabilization measures along the lines suggested here could be a basis for this. Private initiative must be mobilized and stimulated for production, investment and export activities under conditions clarified by the Government. The rules of the game for private enterprises must be given and I presume that these rules in the main will be the same as before the revolution. Such a declaration of aims and plans does of course not and should not exclude new deals as to Government planning with new boards and public authorities for dealing with urgent problems. I can imagine the needs of an Investment Council for coordinating big public and private investments as well as a State Holding Company for taking over a limited number of strategic private production. The spirit of this Government expansion should be positive and cooperative in relations to the business community.

As a signal of return to more normal conditions, the stock exchange could be reopened but of course only as a small part of the whole package program. The reasons and aims for such a package program with its many new measures should be well clarified to the public. The new deal should be established in good understanding both with the trade unions and the business sector.

MACROECONOMIC POLICY IN THE SHORT RUN

BY: Robert M. Solow

I

MACROECONOMIC POLICY IN THE SHORT RUN

1. The Current Level of Economic Activity

Every economist who visits Portugal comments on the inadequacy of the statistics. It is almost impossible to know with any precision what is happening currently. Annual data are not very useful in the present situation, because it is important to trace the evolution of economic events since April. Not many quarterly or monthly statistics exist, and those that do exist are available only with a long lag. Therefore, we can give only a very impressionistic survey of the current state of affairs, relying on scattered statistics and general impressions.

The data for the last months of 1974 show a decrease in economic activity as compared with spring. For example, employment (excluding agriculture and general government) was 0.7% lower in October than in April, and at about the same level as in October 1973. This is to be compared with an increase of 1% a year between 1970 and 1973. Employment in construction was 4% lower in October than in April. Manufacturing employment showed very little change.

Registered unemployment was 69,660 in December 1974, compared with 36,049 in December 1973 and 38,505 in April 1974. The December figure may be too high for comparison with previous years, because beginning in October there was a special incentive for unemployed workers to register. We are told that the coverage of this series is probably about 35% of all those employed. In that case, the true number of unemployed workers may be 200,000, or almost 7% of the labor force. That is a very substantial unemployment rate, especially since it applies mostly to nonagricultural workers.

The unemployment figure may include some effects from demobilization and perhaps some returned emigrants. But those factors would not affect the statistics for vacant jobs:

	1974	1973
April	23,708	14,254
December	5,174	20,544

The coverage of these data is unknown, but there has evidently been a substantial decrease in the demand for labor since April.

Seasonally adjusted consumption of electricity fell from April to June, rose sharply again in October and then fell 3% in November. This figure includes household consumption and is affected by the weather and the use of consumer durables. Very partial figures for the consumption of electricity by industry suggest a definite reduction at the end of the year compared with the beginning.

As for indicators of construction activity: the consumption of cement fell by 10% between April and September, then rose slightly in October and sharply in November (maybe for extra-economic reasons). The figures for building permits are available only until the third quarter. The number was lower in each quarter of 1974 than in the corresponding quarter of 1973. In total, the number of building permits issued fell 2% between the third quarter of 1973 and the third quarter of 1974; but housing was down 4% and construction for manufacturing industry was down by one-third.

Unfortunately, the only other way to judge what is happening to investment is from imports of machinery, and these are (a) in current prices and (b) subject to considerable timing errors. Moreover, the figures themselves are very irregular.

It is generally agreed, however, that total investment fell by about 4.5% in real terms between 1973 and 1974; and private investment more than that, but these are annual data, and underestimate the fall within 1974.

Unfortunately the survey data on the degree of utilization of industrial capacity are not available for 1974, and we are told not to trust the industrial production index.

To sum up, the data suggest a mild but definite recession of economic activity, probably concentrated in construction and perhaps in investment generally. Most observers think that these few series underestimate the degree of recession. We can conclude at a minimum that the Portuguese economy starts 1975 with a margin of unemployed labor and excess productive capacity.

(The existence of this margin of excess capacity does not prevent Portugal from suffering an inflation of prices. The same is true in most countries of the world. However the Portuguese inflation is in some respects different, as we will mention later. The price indexes in Portugal appear to be especially bad, but the generally accepted order of magnitude is that consumer prices in Lisbon have risen by about 30% in a year.)

11. The Underlying Factors

To understand the course of events and design an appropriate economic policy one must take into account two sets of factors: first, those matters of general economic principle that are common to all Europe and North America today, and second, those factors which are special to Portugal after the 25th of April.

A. General Principles

These are well understood by Portuguese economists, but we repeat them here for emphasis. It is a fundamental rule of economics that incomes from production are generated by expenditures on goods and services, so that the expenditure side and the national income side must balance. Thus the two following totals are the same:

Private Consumption + Household incomes after tax (including dividends and public assistance)

Public Consumption + + Undistributed Company Profits after tax

Private Investment + =

Public Investment + + Taxes

Exports-Imports

It is usual to transform this relation into the so-called Savings-

Investment Balance:

Household Saving (i.e., Household Income plus transfers from abroad - Consumption)

+ Business Savings (Undistributed profits) - Private Investment

Government Saving (Tax revenue - Public consumption) - Public Investment

= Exports + Transfers from abroad - imports

= Balance of payments surplus on current account.

When there is a change in any item in the Saving-Investment Balance there must be offsetting changes in one or more other items, because the balance is always preserved.

From this point of view, one basic fact of life for Portugal (as for other oil - and food - importing countries) is its transformation from a country with a current-account surplus to a country with a current-account deficit. The swing from 1973 to 1974 is very large, from a current-account surplus of 6 billion escudos to a deficit of some 13 billion escudos, or 19 billion escudos of difference.

Much, though not all, of this swing in the current is beyond Portugal's control in the short run. All countries that are net importers of oil, food and other raw materials have had this experience. The import bill of the first three quarters of 1974 was 22 billion escudos higher than in the same period of 1973. Over half of this increase occurred in the four categories of meat and vegetable products, mineral products (including oil) and plastics and resins. There was a further large increase in the category of metals and metal products. In some of these categories there may have been an increase in the real volume of imports, but most of the increase must represent the rise in world prices.

Exports almost stagnated between 1973 and 1974, and may have fallen in real terms. Some of this loss of exports may have occurred because Portuguese prices rose faster than prices abroad, especially after the very rapid rise in wages in spring of 1974. But the widespread and severe recession in Portugal's main export markets (EEC countries and the USA) must surely have been the predominant drag on exports. The slowdown in remittances from emigrant workers probably owes something to uncertainty about conditions in Portugal, but there too the recession in the host countries is undoubtedly an important factor.

Thus the deterioration of the current account is primarily an event beyond Portugal's control. However the Portuguese economy must adapt to this change. It is very important to realize that this is more than an event in the balance of payments; it affects the rest of the economy inevitably through the Saving-Investment Balance. One can see how this has happened by comparing the estimated figures for 1973 and 1974.

	1973	1974
	(10 ⁹	escudos)
Household Saving (residual item)	28.3	25.8
Business Saving (including depreciation)	22.6	24.7
<u>Less</u> Private Investment	45.2	50.6
Public Sector Saving (including depreciation)	10.5	-0.7
<u>Less</u> Public Investment	10.1	11.9
Current Account Surplus	6.1	-12.7

The table shows how the swing of 13.8 billion escudos in the current external balance was absorbed in 1974. There was an increase in public and private investment of 7.2 billion. (These figures are all in current prices. The increase in investment in money terms was not enough to maintain investment in real terms. Real investment is estimated to have fallen by 4 1/2% between 1973 and 1974.) The saving of households and businesses was almost unchanged: households reduced their saving by 2.5 billion and businesses increased their saving by 2.1 billion escudos. The rest of the reduction in the current account balance was absorbed by a corresponding reduction in the saving of the public sector in the amount of 11.2 billion escudos.

The public sector's contribution to the absorption of the change in the current account balance was thus 13 billion escudos (11.2 reduction in public saving + 1.8 increase in public-sector investment). If the government budget had not gone into deficit, economic forces would have caused the private sector's saving-investment balance to change instead. It is very unlikely that private investment would have been higher under the circumstances. (To affect the saving-investment balance, an extra investment would have to be financed in the capital market, or the banking system.) The normal expectation is that a recession would have been created large enough to reduce private saving by the required amount.

Such a recession would also reduce imports and (perhaps) increase exports, and thus improve the external balance. One can say, therefore, that the willingness of the public sector to maintain aggregate demand for goods and services by going into deficit protected the economy from a very severe recession. Since the deterioration of the external balance was caused largely by forces outside Portugal's control, the only available choice was between a public deficit and recession. The choice that was taken was undoubtedly the correct one.

B. Special Factors in Portugal

1. Monetary Policy

On the average, over the decade from 1964 to 1973, the Bank of Portugal has essentially monetized the increase in Portugal's foreign exchange reserves. In the three years 1970-1973, the balance of payments of the escudo area had a surplus of about 27 billion escudos; the emission of the Bank of Portugal increased by 26 billion escudos. During those years, the rate of inflation was about 12% annually.

In 1974, with the balance of payments in deficit, the Bank of Portugal quite correctly avoided a reduction in the money supply, which could only have led to a deep recession.

On the other hand, it appears that monetary policy in Portugal was extremely tight in 1974, and this may have contributed to the weakness of private investment, especially building. The basic figures are set out in the Table. (Some of them are crude estimates made by us.)

First 6 months Third Quarter Fourth Quarter Year

Change in liabilities (billions of escudos)

Change in money stock

(M₂)

1973	19.0	16.1	29.2	64.3
1974	5.5	12.0	(20.0)	37.5

Change in residual

1973	0.3	2.1	0.2	2.6
1974	1.7	-4.0	(0)	-2.3

Change in assets

Domestic Credit
Expansion

1973	16.0	14.5	28.0	58.5
1974	15.8	9.0	(29.0)	54.0

Change in foreign assets

1973	3.3	3.7	1.4	8.4
1974	-8.6	-0.5	(-9.0)	-18.0

In this table, the figures for the fourth quarter of 1974 (and therefore for the year as a whole) are guesswork, but we have tried to be on the high side. The important fact that stands out in this table is that the total increase in the money supply in 1974 is likely to have been only about 38 billion escudos of about 12 1/2%, in a year in which the GNP at current market prices probably increased by about 24%. This can only be described as an extraordinarily tight monetary policy.

The counterpart of this slow expansion of the money supply, given the fall in reserves, is the relatively slow expansion of credit extended domestically to the private and public sectors by the banking system as a whole. We estimate that net credit expansion in 1974 will be about the same as in 1973, or perhaps slightly lower, although the financial needs of the economy increased much more rapidly in 1974 than in 1973.

Naturally, with this tight monetary policy, interest rates are higher. The formal interest rates undoubtedly understate the true increase, which can show itself in requirements that borrowers absorb certain fees and costs, or keep compensating balances. In any case, credit conditions are certainly perceived as very tight and very difficult. (There are important questions about the quality of prospective borrowers, which will be touched on later.) There appears to be room for a considerably more expansionary monetary policy, and this will be discussed later on.

One important side issue needs to be discussed. There appears to have been a drain of cash from the banking system into private hoards, beginning at about the time of the revolution. Some of this undoubtedly reflected a loss of confidence in the safety of bank deposits, but there were other causes as well.

The importance of this increase in private hoards is its potential for creating a sudden and unexpected increase in the demand for goods and services if the owners should suddenly decide to dishoard. (This would amount to a rise

in the velocity of circulation of money.) The financial authorities are correctly worried about this possibility, which could conceivably happen so suddenly that it could not be properly offset.

The seriousness of the problem depends both on the size of the hoards and the motives for holding them (because the likelihood of sudden dishoarding must be related to the motives). It is, of course, impossible to measure the volume of hoarding directly. It has to be estimated indirectly from the behavior of the components of the money supply. Some estimates of the volume of hoarding, based primarily on the normal composition of the money supply (currency, sight deposits, time deposits), ran as high as 17 billion escudos. This approach assumes that the main motive for hoarding is fear for the safety of bank deposits. Another possibility is that the increase in currency in circulation results from redistribution of income, especially to the extent that it favours low-income persons who have not acquired the habit of using bank deposits. That hypothesis is very difficult to test in the absence of statistics on income distribution. We have made a first attempt in the following way. The table shows the aggregate wage bill in billions of escudos for the years 1970-1973, and a crude guess for 1974. It also gives the note circulation for each year (average of end of year and end of preceding year), and the ratio to the wage bill.

Year:	1970	1971	1972	1973	1974
Wage bill	68.2	77.5	89.3	105.8	(137)
Note circulation	27.1	30.2	33.3	36.4	51.7
Ratio	.399	.390	1373	.344	(.377)

The proportion of the note circulation to the wage bill fell from 1970 to 1973 and then rose in 1974. (The 1974 wage bill is not merely a "gangster statistic" but a "Mafia statistic"!) One can estimate the amount of

hoarding by assuming a "normal" ratio for 1974, and therefore a "normal" note circulation for 1974. The difference from the actual note circulation could be an estimate of the volume of cash hoarding. If the "normal" ratio for 1974 were the same as that for 1973, then the volume of hoarding is less than 5 billion escudos. If the "normal" ratio for 1974 were as low as .315 (as much lower than 1973 as 1973 were lower than 1972), then the volume of hoarding could be 8 1/2 billion escudos.

This is a much smaller estimate than the others that have been made. Also, if the increase in note circulation is related to the size of the wage bill, sudden dishoarding is very unlikely, though it may occur gradually as more people come to use the banking system. The whole question of the volume of hoarding should be further investigated by Portuguese economists. None of the estimates made so far seems reliable. (Some observers detect the beginning of a reflux of banknotes already.)

Under present conditions, the existence of hoarding is not so dangerous as to interfere with the conduct of a flexible monetary policy. Even in the future, a return of confidence in the banking system would probably coincide with a revival of economic activity generally, and thus with increased credit needs. In any case, since information about developments in the monetary system is available relatively quickly, the Bank of Portugal could offset even a fairly sudden return of cash to the banking system.

2. Money Wages

The second special factor to be discussed is the rapid rise in nominal wages in the spring of 1974. The increase in the minimum wage is estimated to have affected 41% of the workers (I do not know if this applies to the whole labor force or only the covered part of it.) and to have brought about a 28% increase in the average wage in nominal terms. There was presumably a further rise in the average wage as other wage rates adjusted to the increase in the minimum.

We agree entirely with the desirability of income redistribution in Portugal. However, so large and sudden an increase in wage would have destroyed many firms if prices had been rigidly controlled. In fact, prices have risen rapidly, but some increase in the real wage remains. There are different estimates of the size of the increase in real wages since April, mainly because of the unreliability of the price index, but the consensus is that the real wage rose 5-10% from September 1973 to September 1974, perhaps faster in the six months between April and September or October.

One of the by-products of this desirable rise in real wages has been a decrease in the profitability of many enterprises, including some substantial ones. No doubt the profitability of many firms has been squeezed further by the recession in economic activity. The weakness of export markets, price controls, and the tightness of credit. The problem here is not only the difficulty of reviving private investment under the circumstances, but in some cases even the survival of the firms themselves.

Many firms, including substantial ones, are said to be borrowing from banks in order to pay wages and meet other current costs. The banks in turn tend to renew such loans when they mature, because a withdrawal of credit might drive many such firms into bankruptcy. But the banks are aware of the poor quality of many of their borrowers, and of new applicants for credit. An easing of the reserve position of the banks, unaccompanied by any other policy measures, might leave the banks unwilling to acquire highly risky assets.

This is not an argument against credit expansion, which is certainly necessary. It suggests however that a more expansionary monetary policy will need to be accompanied by a policy with respect to the structure of the financial system, and with respect to the profitability of private business, subject always to the requirements of social justice.

III. Economic Policy

A. The Budget

1. The external deficit on current account will probably be even larger in 1975 than in 1974. Some forecasts run to 25 billion escudos (but this cannot be compared directly with the earlier table, because the statistical definitions are different). The main reasons for this worsening of the current account are a possible stagnation of emigrants' remittances, and continuing economic weakness in Europe and North America. It is too early to know whether Portugal's rapid inflation will be reflected in some loss of international competitiveness. The development of world food and oil prices is uncertain, but an improvement in wheat prices, for instance, is unlikely to occur before the end of the year, if at all. The main direct action to be taken here is to limit imports of luxury consumption goods as has been done--a bit too late--with automobiles.

If the current external account worsens, other figures in the Saving-Investment balance must change. Household saving will probably be reduced, especially if emigrants' remittances are approximately constant in current prices, or even if they show a small rise. Any reduction in business saving will probably be offset by a reduction in private investment. So once again, the government budget will have to be the main compensating factor, and a larger deficit will have to be accepted. This will not be a good year for a tax increase, but tax reform will still be in order. Despite the necessary deficit, there is every reason to make special efforts to eliminate wasteful expenditures, especially miscellaneous subsidies. The autonomous funds have to be brought under control and judged strictly on their merits.

2. The most efficient use of the budget deficit is the finance of productive public investments, especially those that are labor-intensive and use domestic materials. A large public housing program, in rural as well as urban areas, is ideal. Although it does not contribute directly to industrial productivity, it depends mostly on local labor

(including self-help) and locally-produced materials, and it will relieve the depressed construction industry. Moreover, it is one of the best ways in which an increase in the real income of the poorest part of the population can be achieved in current circumstances.

A related opportunity would be the construction of medical dispensaries in the villages, to be staffed with para-medical personnel. Portugal has a very small number of doctors per head of population and those are probably concentrated in the cities.

It is an interesting question whether these construction programs could find some innovative way of using the morale and organizational skill of the armed services.

Another useful opportunity for public investment would be the improvement of public transportation, again in rural as well as urban areas. This is especially important since it is desirable to be as strict as possible on the use of private automobiles and the consumption of gasoline. If there is spare capacity above export orders, the domestic shipbuilding industry could perhaps be used to improve the ferry service across the Tejo, and also for the modernization of the fishing fleet.

New industrial facilities should also be built, after careful planning and evaluation. It is possible that some industrial expansion could be financed abroad.

It is very important that agriculture not be neglected in a country that still imports a large part of its food. Irrigation, afforestation and drainage works are a possible example, even though some past attempts appear to have been badly planned. The fishing industry deserves mention again, especially as foreign investment might be available.

3. In the longer run, small variations in the rate of public investment might be used for short-run economic stabilization purposes. This would require enough advanced planning so that moderate acceleration and deceleration of public works could be achieved without loss of efficiency. Although the question has not been explored in detail, it appears possible that small variation in the rates of excise tax might also be used for shortrun economic stabilization

purposes as in Great Britain. The desirable effect of these innovations would be to remove part of the burden of shortterm economic policy from monetary policy.

B. Money and Credit

Monetary policy should be easier in 1975 than it was in 1974, when it was in fact quite restrictive. This will be necessary, in any case, to help finance the government's budget deficit. But it is also desirable to allow selective increases in the availability of credit to private industry. This raises some structural questions which will be discussed later. It is certain that the increase in the money supply and in the volume of credit extended to the economy will have to exceed last year's. It would be desirable if the appropriate experts in the Ministry of Finance and the Bank of Portugal could arrive at some agreed projections for GNP in 1975 and then set some approximate targets for the expansion of the money supply and its counterpart in the expansion of domestic credit. Provided other appropriate policies are pursued, it would be desirable that monetary policy compensates somewhat in 1975 for the tightness of 1974. That means that monetary policy should be more than merely accommodating in 1975, again provided that appropriate policies are pursued outside the monetary sphere.

C. The Role of Private Enterprise

There appears to be unanimous agreement among all observers of the Portuguese economy that the prime need of the private sector is an immediate, clear, and convincing clarification of the "rules of the game" to be observed in the future. It would be presumptuous of outsiders to suggest what those rules of the game should be. If, as appears likely, a considerable part of industrial activity in Portugal will continue to be conducted by private enterprise, if only because the necessary managerial capacity could not otherwise be found, then that must be stated authoritatively and unambiguously. Otherwise, in a climate of great uncertainty, one cannot hope for a revival of private

investment and the starting-up of new projects in the private sector. Stagnating productivity inevitably means a stagnating standard of living, for Portugal as for every country.

Apart from this clarification of the rules of the game, reasonable profitability will have to be restored in the private sector if it is to be preserved at all. This is not incompatible with a continued improvement in the distribution of income and, more important, in the distribution of consumption. Without it, even an expansionary monetary and fiscal policy will not lead to a revival of private economic activity. Bankers are aware of the fact that many of their borrowers cannot repay credits because they are squeezed for liquidity. But even if reserves were made available to the banks, they would not find many sound borrowers at the present time.

If reserves are not made available, and perhaps even if they are, there may be bankruptcies in the private sector, with calls for nationalization to keep the enterprises going. This sort of "socialism by bankruptcy" is the worst kind of socialism, because it leaves the public sector with the least efficient and least profitable firms.

The correct way to combine a profitable private sector with a socially desirable distribution of income and consumption is through a progressive tax system combined with strong incentives for firms to invest.

Along with a clarification of the rules of the game and a restoration of profitability should come a clear statement of social priorities for sectoral development. Everyone should know which sectors the government proposes to develop, and financial institutions have to be organized and developed to direct credit toward those sectors, whether they are in public or in private hands.

D. Financial Structures

The picture that emerges is of a financial system based primarily on short-term credit that is in a precarious situation, and underdeveloped mechanisms for the extension of medium-term and long-term credit for industry.

An institutional structure for medium-term credit is needed that can be responsive to social priorities--for example, export industries, building, and desirable domestic manufacturing. Because the present financial system has its own troubles, which it will take some time to unwind, the possibility exists of directing new credit expansion into a structure built on top of the existing one.

All that it is possible to do here is to describe some of the alternatives open. More specialized knowledge will be necessary to choose among them.

1. The first need is for the development of institutions which will have the expertise for evaluating investment projects, encouraging new ones, and checking up on those projects that are financed. Their capacities could be found in existing institutions--the Caixa Geral, the Banco de Fomento, or the commercial banks. (The Sociedad Financiera remains a mystery.) It is possible that the organizationally efficient solution would be to set up new divisions in some of these institutions. They are needed because, it is said, the B.F. is small and the C.G. relatively rigid and slow. A new division could be more aggressive and flexible.

One important need might best be met by an entirely new organization, namely the provision of export credits. It is said that there are some Portuguese enterprises with the possibility of doing a larger export business, except that they are unable to get the necessary medium-term credits in the present monetary and institutional situation. This suggests the possibility of a new institution specialized to the financing of foreign trade, a sort of Export-Import Bank. It is possible that such an organization might be able to obtain some of its initial finance from abroad.

2. Whatever the institutional structure, there is a question of the sources of finance.

The commercial banks might like the privilege of refinancing medium-term paper with the Bank of Portugal. That would have the effect of putting the central bank in the role

of lender of last resort to industry at medium term, which is probably not an appropriate role for it to play. Another possibility would be to permit the commercial banks to accept deposits of a term longer than one year, so that they could match increased medium-term assets with medium-term liabilities. Along with this alternative goes the possibility of opening up commercial banking to new firms.

The Caixa Geral and the Banco do Fomento already accept longer-term deposits and could extend their lending activities if they searched out deposits more aggressively. It may be that both the CG and BF have too few agencies to provide all the finance that one would like to have for the purpose of making medium-term credit more available. Those institutions could have the privilege of rediscounting some medium term paper with the central bank. This should be more acceptable to the Banco do Portugal than the extension of a similar privilege to the commercial banks.

Another possibility that has been suggested is to have the state assume part of the risk of medium-term loans by a guarantee of principal and/or interest. This seems undesirable as a routine practice, because it would probably lead to some relaxation of the standards for granting credit.

3. Reopening the stock market seems to have very low priority. It has not in the past served as a source of new equity capital for many industrial (as opposed to financial) companies. Instead it has mainly been a vehicle for speculation, especially since the market in a country the size of Portugal is necessarily thin and vulnerable to rigging.

There are two problems connected with keeping the stock market closed. One is the fact that some emigrants have invested their relatively small savings in shares of mutual funds, and these shares are now illiquid. This cannot be a quantitatively large problem, and it should be possible to find a solution to it.

The other problem is the inability of expanding industrial firms to raise equity capital in the absence of a capital market. As already mentioned, the stock market appears not to have performed this function in the past. Once the economic situation settles down, the Government

could perhaps take steps to find out whether many firms would in fact issue shares if the stock market were functioning. Until that happens, one cannot know if the problem is at all serious. In any case, whenever the stock market reopens, it should be with rules and regulations for the issue and trading of shares that are too obvious to need spelling out here.

4. On general matters of public finance and the provision of vehicles for saving, it is suggested that the Government consider two options. One is the issue of index bonds in limited amounts per person per year. These would be intended for use by small savers who can at present find no outlet for saving that is not vulnerable to the high rate of inflation.

The second option is the issue by the Government of short-term (3-month or 6-month) Treasury bills. These might be more attractive than larger-term bonds in an inflationary period. The bills could be sold at auction, provided the market for them were broad enough so that the bidding were genuinely competitive. The practice could be followed of allowing small purchases to be entered and automatically filled at the average price, whatever it turns out to be. It should be realized, however, that if expectations of inflation were such that the bills turned out to carry a very high rate of interest, the impact on time deposits carrying a substantially lower rate of interest might be very great.

E. WAGE RATES AND INFLATION

In spite of the fact that the Portuguese economy is clearly not suffering from excess demand pressure, but rather the reverse, it has succeeded in inflating even faster than the other countries with which it trades. Consumer prices were about 25-30% higher in September-October 1974 than a year earlier, having risen about twice as fast as in OECD as a whole. The causes are obvious. Part of the inflation in Portugal is a reflection of the rise in world prices of food, oil and raw materials, put as in other OECD countries.

The rest is a consequence of the large wage increase after the April revolution. The statistical material is simply not good enough to separate these two effects.

Wages have risen faster than prices, as there has been an increase in real wages, which was a very desirable outcome after the stagnation of the preceding three years, and in view of the very unequal distribution of income in Portugal. It is only too bad that the same change in real wages could not have come about with a smaller increase in nominal wages and prices.

The fact that the rise in real wages was quite sharp, and coincided with a recession (and therefore below-average productivity gain) means that many firms are not only illiquid but unprofitable.

One of the biggest problems facing economic policy in Portugal is the likelihood that 1974 will be repeated in 1975. If the workers believed that an increase of 30% in the nominal wage would bring a 30% increase in the real wage, they realize by now that they were mistaken. If the Portuguese economy were completely socialized it could not generate a 30% increase in the real consumable income of all workers in one year, let alone a year in which the terms of trade moved adversely. If there is to be a viable private sector--as a matter of necessity--then too rapid an increase in the real wage creates even more trouble. If there is another massive nominal wage increase in 1975, then, in Portugal as everywhere else, the price level will rise too. If the result is an increase in the real wage substantially faster than the growth of productivity, there will be a further squeeze on profits, and a continued recession (and loss of international competitiveness) which will make the economy even less capable of supporting higher real wages.

Perhaps this outcome cannot be avoided. One way or another, every country in Western Europe and North America has had the same problem, and none has been able to escape.

One could hope for the following scenario in Portugal. Whatever the eventual structure of the trade union movement, it would be best to have a sort of centralized

national wage bargain in which the government would participate as well as the unions and employers. The government is an important participant because part of a viable bargain will have to come from the government. Portugal could perhaps offer its workers a package consisting of

(a) a modest increase in the real wage, conditioned by what the economy is actually capable of producing;

(b) some kind of protection against inflation, in the form of periodic adjustments. Here a difficult point must be made. It must be remembered that the part of inflation that comes from increases in the real price of imports (as with food, oil and raw materials) cannot be offset. That is exactly equivalent to a tax paid by the Portuguese economy to the foreign producers of those things, and there is no way to keep it from falling on the Portuguese people;

(c) a monetary and fiscal policy, of the type already outlined, calculated to reduce the amount of unemployment;

(d) a substantial program of public investment in working-class housing, urban and rural, the improvement of streets and municipal services in the villages and urban slums, the creation of medical dispensaries and so on. This is one of the forms in which workers should be urged to accept improvement in their standard of living;

(e) real and visible social justice in the form of an effectively administered progressive tax system that leads to genuine redistribution of personal consumption, and provides sharp incentives to direct business profits into productive investments;

(f) an improved, but realistic, social security system. If, as seems likely, it turns out that the best possible

wage bargain is clearly inflationary, the Government might consider a scheme of forced saving from wage incomes. The main purpose of such a scheme would be to limit the increase in consumption, some of which would be very likely to flow into imports, as well as to preserve the volume of productive investment. If any scheme of forced saving is adopted, it should be subject to the following considerations. First, it should be equitably applied across all social and income groups, and particularly to luxury consumption. Second, the forced savings should be placed in a form protected against inflation. Third, it must be kept in mind that the object of the scheme is to funnel resources into productive investment and away from imports of consumption goods, not to reduce total demand. It is not a deflationary measure, but a way of limiting the bad effects of wage inflation.

F. Balance of Payments and the Rate of Exchange

There has not been time to do a careful study of the Portuguese balance of payments itself. The main immediate question has to do with the exchange rate, which is currently being supported by the Banco do Portugal. Only a few tentative observations can be made, since there has been no detailed study.

Firstly, it appears to be a law of nature that every country believes its own imports and exports to be insensitive to changes in their prices. This is generally false. In the case of Portugal, however, there may be some truth in this belief on the import side. It is in the national interest to maintain the level of imports of cereals, other basic foods, oil, capital goods, and intermediate products. A substantial devaluation of the escudo would show itself rapidly in domestic prices.

Second, a sharp fall in the external value of the escudo might have an important adverse effect on the flow of emigrants' remittances. Since there is already much fear and uncertainty about the safety of savings in Portugal, a sharp devaluation would probably induce many emigrants

to hold their savings in other currencies.

On the other hand, and this is the third point, if Portugal continues to inflate domestically at a faster rate than other OECD countries, an eventual devaluation of the escudo becomes simply inevitable and is hardly worth discussing.

Fourth, one would not wish to see the Banco do Portugal dissipate its foreign exchange reserves endlessly in maintaining any particular parity for the escudo.

Fifth, a danger that must be meticulously avoided is that of spending foreign exchange on luxury consumption imports, even perhaps those goods that are now being bought by the highest paid workers.

From these few observations, the following tentative conclusions can be drawn.

First, it is to be hoped that Portugal's friends in the OECD and other international organizations will permit the Government a certain amount of flexibility in this period of change and uncertainty. In Portugal's circumstances, high differential excise taxes on luxury consumption goods (such as electro-domestics and automobiles) ought not to be regarded by the international community as discriminatory against imports. It is to be hoped that, after consultation, this policy option will be available to the Portuguese government.

Second, an even neater alternative would be the imposition (without warning!) of a selective surtax on imports. It is to be hoped that international bodies and other governments would be glad to see Portugal take advantage of this device.

Third, if that turns out to be the case, then one object of policy might be to attempt to approximate the effect of a system of multiple exchange rates.

Fourth, although a major devaluation of the escudo is probably best avoided (or postponed) right now, there might be advantage in letting the escudo float downward a few percent, slowly enough not to alarm emigrants, but far enough to save some foreign exchange.

Fifth, if the differentially higher rate of inflation continues into 1976, we will have to plan for a serious devaluation, because it will in any case become inevitable.

REFORM OF THE TAX STRUCTURE

BY: E. Cary Brown

Reform of the Tax Structure

I. Introduction

The following discussion of tax reform in Portugal is focussed primarily on long-run goals. Short-run steps toward ultimate goals are highly conditioned by matters of feasibility and of short-run economic and social developments about which an outside group can have little expertise or prescience.

Tax systems, like all economic policies, are designed to meet various basic economic criteria: namely, (1) to aid in the achievement of a proper or fair distribution of income, (2) to assist in the efficient use of resources by consumers, business, and the government, and (3) to aid in achieving stability in a growing economy - in production, employment, prices, and external economic relations.

Initially, our general impressions of the Portuguese tax system are given and then more detailed long-run considerations are presented. None of these remarks are particularly novel or new. Discussions with various people in the Ministry of Finance indicate an impressive awareness of the need for alternatives to the present and difficulties of tax reform. Nevertheless there may be some utility in indicating the areas in which we believe most progress can and should be made.

II. General impression of the Portuguese tax system

In looking at the tax system for the first time, one is struck by a number of things.

A. Impersonal taxation

The tax system relies heavily on taxes that make little or no distinction between taxpayers on the basis of social or economic characteristics.

1. Indirect taxes on transactions, sales, purchases, use, and the like, are expected to yield nearly twice as much revenue in 1975 as direct taxes - 29 billion escudos as against 18 billion. By their nature these taxes cannot make personal distinctions in the rate of tax to apply to a taxable transaction, whereas, in principle, direct taxes can.

2. Even in the area of direct taxation, the Portuguese system tends to be impersonal.

a. The separate schedular taxes on different types of income - rents of land, agricultural, industrial, professional and labor, and portfolio income - are imposed at different rates and have different exemptions, as if each were the sole tax in the system.

b. The complementary tax, the most nearly personal of all the income taxes, treats individual income units in a somewhat consistent way in the taxable range over which it operates. But it does not adjust for the different schedular tax rates, has a separate schedule of its own to deal with dividends on bearer shares, and, while raising rates of tax on high incomes above the schedular amount, does lower taxes on lower incomes through tax refunds or credits.

The complementary tax represents only one-sixth of the total of 18 billion escudos in direct taxes estimated to be collected in 1975. Perhaps 60 percent of the complementary tax may be called personal. Thus, only about 10 percent of total direct taxes may be characterized as genuinely personal.

B. Weight of direct taxation on income from labor and capital

Excluding Social Security taxes and contributions, direct taxes are not only low relative to indirect taxes but also low relative to income. Although capital is perhaps taxed somewhat more heavily than labor in some absolute sense, given the size of income of family units one would expect it to be much higher than it is. No very precise statement can be made on this point on the basis of existing data, nor on the fuzzy line between direct and indirect taxes, but the following rough numbers (excluding Social Security taxes) are suggestive.

1. Taxes that may be arbitrarily classified as direct taxes on property income might represent in 1975 as much as 11 percent or as little as 7 percent of property income. Taxes on labor income, using the same basis of comparison, might run as low as 3 percent or as high as 6 percent, depending on the concept of labor income and the allocation of taxes between labor and property income.

2. While capital income may seem somewhat lightly taxed, the entire income tax seems to be a relatively light one. Of possibly 2 million people in the labor force potentially eligible to pay the professional tax, only some 360 thousand did so in 1972, and of that number only some 106 thousand filed complementary tax returns in that year.

Of 78 billion escudos in labor income that could potentially come into the income tax base in 1972, about 30 billion is reported under the professional tax and 18 billion under the complementary tax.

In other words, about 18 percent of the people and 38 percent of labor income appear in the professional tax base; about 5 percent and 23 percent, respectively, in the complementary tax base.

C. Exemption for incentive and other reasons

There is a bewildering variety of tax reduction devices created usually for incentive purposes, but also, in some cases, for equity purposes. The schemes of variable rates, exemptions, deductions, tax postponement, and the like make for added complexity and are virtually multiple tax schemes. The conventional wisdom does not generally favour narrow incentive devices by means of the tax system, because the more efficient procedure is usually through an expenditure subsidy, and because their multiplicity may heighten tax administration and compliance costs. Better control, more precise aim, can usually be achieved through budgeted expenditure programs rather than through deviations from general tax rules.

D. The determination and administration of taxes

There are serious administrative and compliance weaknesses that have been pointed out to us by present civil servants and remarked upon by many other consultants, some of whom have been brought to Portugal expressly for purposes of improving tax administration. It is not our purpose, nor within the area of our competence, to make suggestions in any systematic way about improvements in tax administration. Our suggestions in this area are aimed more at achieving certain desirable economic objectives.

1. There are substantial lags in the assessment and collection of some taxes which makes them less responsive to current changes in income than would be desirable. For example, in a period of inflation, statutory tax rates decline if assessment and payment is postponed. This creates equity issues as between different taxpayers if there are variable degrees of tax postponement on different kinds of income. For example, if labor income were taxed currently through some method of withholding taxes and taxes on capital could be postponed, the nominal tax rates would not mirror the actual effective tax rate. Moreover, it means that the deflationary effects of tax collections is blunted or reduced.

There are a number of reasons why taxes may not be responsive to current income. The tax base may be estimated or reconstructed; for example, the capital tax on the rent of owner-occupied real property and in periods of inflation may not be kept up to date. A tax on income may require partial payments to be made currently with a prompt settling up at the end of the year, or it may permit taxpayers to make returns and payments after the year is over.

For whatever reasons, a visitor cannot help being surprised that the transactions tax seemed to respond more promptly to income changes than have the various income taxes, indicating in another way how important it is to move toward more current assessment and collection of income taxes. Ordinarily sales taxes are much less sensitive to income changes than are income taxes.

1/ A careful study of the sensitivity of various taxes to income changes would be useful in highlighting where changes are most necessary.

2. One hears continuing references to the large amount of tax avoidance that may be present in Portugal. Serious equity and distributional issues are raised by tax avoidance. Steps can be taken not only through technical administrative improvements, but also through drastic simplification (and unification) of the income tax structure.

E. Manipulating the tax structure in order to manipulate total demand

Not surprisingly, the global tax structure has not been used to offset short-run changes in aggregate demand. We would certainly not recommend that the disposable income of consumers be manipulated through changes in general taxes, such as through manipulating rates or exemptions under the income tax. Such changes are confusing, especially if Portugal moves toward a unified income tax. We believe it to be far more important to extend the understanding of and compliance with such a tax structure by keeping (certainly) family and personal allowances constant and (probably) rates as well.

The tax system's contribution to economic stabilization can be made, in the visible future, in two ways. First, while keeping a given income tax structure intact, there should be continuing efforts to increase the sensitivity of collections to current income. This will automatically damp the swings in income generated by some initial shift in total demand. It makes the economy less sensitive to such shifts by reducing the income or employment multiplier.

^{1/} The transaction tax may have a classification of purchases that gives it a high income elasticity. If one estimates the taxes collected in the various brackets (7%, 12%, and 20%) in 1971-73 and estimates the tax base for each bracket, one finds the following:

Tax Bracket	Estimated Tax Base			%Change	
	1971	1972	1973	1971-2	1972-3
	(\$Billion)				
7%	47.6	56.3	69.0	18.2%	22.6%
12%	2.6	3.7	5.3	42.3	43.2
20%	1.3	1.5	1.9	15.4	26.7
Total	51.5	61.5	76.2	19.4%	23.9%

These percentage changes can be compared with the 1971-2 change in total consumer expenditures of 11.8%, and the 1972-3 change in national income of about 17%.

Second, in terms of discretionary policy, it may be possible to manipulate excise of transactions tax rates so as to stabilize demand - increasing the tax rates when there is excess demand in order to induce consumers and business firms to postpone demand to a later period. When demand becomes deficient, these tax rates could return to previous levels or even be lowered still further. If consumers and business could count on this happening, it would pay them to shift their purchases, to the extent they can, from periods of high demand to periods of low demand.

The obvious candidates for such shifts would be taxes on durable goods, both consumer and producers'. It would obviously not be fruitful or desirable to try to manipulate the demand for necessities that are currently consumed, like food and, perhaps, clothing. But there are still several cautions that must be added. (1) The amount of demand that can be shifted must be significant enough to make some contribution to stabilization. (2) This would be unlikely if the commodity were entirely imported. Such manipulation would then not reduce (or increase) demand for domestic resources except through its effect on foreign incomes and then on the demand for Portuguese exports. It would act primarily in adjusting the balance of trade. (3) Unless governmental procedures can be modified, the discussion and enactment of such a tax change, or the expectation of such a change, will induce precisely the opposite kind of behavior than that desired. If consumers expect taxes to rise they will rush in to buy before the tax and price goes up. The recent experience with the increase in the automobile excise tax is informative on this point. Adoption of the British system of initiating an excise tax change at the beginning of the day of the Budget Message is desirable if it turns out that manipulating these tax rates has a pay-off in stabilization policy.

III. Specific recommendations on the tax structure

Since the present government places heavy emphasis on the individual and on fairness in social and economic policy, the ultimate goal of tax reform should be toward simplifying and personalizing the tax system. This will require the movement toward a broader, unitary personal income tax, supplemented by a coordinate business income tax. To the coordinated business income tax may be added a differential tax on large-scale business and on dividend distributions if economic policy dictates the need for encouraging the retention of business income. The productive use of business savings should be encouraged by accelerated depreciation. Substantial simplification will be achieved through unifying the income tax system, but further steps should also be taken through reductions or elimination of the various special incentive tax provisions and the conversion of such as appear to be justified into expenditure subsidies that are more controllable. The relative emphasis on indirect taxes should be reduced except as they further other economic objectives, such as stabilization, especially where they may have serious distorting effects and inefficiencies.

A. Personal income tax

A unitary personal income tax will permit systematic allowance for different characteristics of an income unit as dictated by custom and economic and social policies. Such a step will mean aggregating schedular income into global income, and will require many administrative reforms, such as centralizing the collection of income information, extension of withholding taxes or information returns, and introduction of data processing and taxpayer identification.

1. The precise nature of the structure of allowances and tax rates needs to be worked out only after careful and systematic consideration of the present taxes on various kinds of incomes and family units. Clearly the allowances for the taxpayer and his family under such a unitary income tax will have to be much lower than under the present complementary tax. In determining their amount, consideration will need to be given to the

family relationships within the unit, the relative taxation of single and married people, the kinds of incentives created for family formation and growth, the relative costs of support, the desirable differential between various family units as income changes, the relationship to the system of family allowances, the need for revenue, and such considerations. Various countries have made different arrangements based on differing perceptions and needs.

The particular rate structure to apply to taxable income should be as simple as possible and still provide the distributional effects desired. Tax rates should not be so high as to encourage avoidance, or discourage work and saving efforts, especially in the early days of a unitary tax, when taxpayer cooperation is vital. Very high marginal rates (of 84 percent, for example) may be ineffective. If they encourage tax avoidance and are not paid, they do not provide the desired redistribution of income and result in inefficient tax avoidance activity of the (non) taxpayer. Moreover, more realistic rates may result in little revenue loss, or even revenue gain if tax avoidance is reduced. For example, reducing the top rate of the complementary tax from 80 percent to 60 percent would appear to reduce the yield of all the taxes on income by 1 percent (about 10 percent of the complementary tax on persons). ^{2/}

On the other hand, marginal tax rates on taxable income should start at a high enough level to make rewarding the detailed administrative processing needed to determine taxable income. Maximum marginal tax rates in 1974, including Social Security premiums, are 74 percent for Norway, 78 percent for Sweden, 64 percent for Denmark, 75 percent for the U.K., 71 percent for Netherlands, and 49 percent for France. See Central Bureau of Statistics, Oslo, Current Tax Data, 1974, no. 70, 1974. The establishment of a modest number of tax brackets would seem called for in the initial stages of the unitary tax to which would be applied marginal tax rates of, say 10 percent to 60 percent. ^{3/}

^{2/} The complementary tax has 26 tax brackets, a number that can surely be sharply reduced.

Again it should be emphasized that simplicity promotes understanding of and compliance with the new tax.

Finally, the matter of deduction for income before granting family allowances must also be considered. In the interest of maintaining or achieving a simple, viable tax structure, deductions should be minimized. Clearly, the business costs of earning income must be offset against the gross income that is earned. Secondly, financial costs of earning income on, for example, portfolios should be subtracted from gross portfolio income. In this sense, the "net" portfolio is the focus - interest costs should be offset against interest receipts. Interest payments on mortgages should obviously be offset against the rental income received, when rented to third parties, or when imputed to the owner-occupier as in Portugal.^{4/} The proper treatment of interest on borrowing for consumption is still a controversial issue in the tax literature. On the one hand, there is opposition to the deduction of interest on installment loans used to purchase durable goods (hire-purchase), or on unsecured personal loans used for current consumption. Since the ultimate measure of income is the amount of consumption plus savings carried out in a particular period of time, and since the measure of the value of consumption is independent of the method of financing it, some economists would not permit the deduction of interest on personal loans unless the corresponding income from the asset financed is included in income. On the other hand, another group wishes to distinguish between the financial abilities of taxpayers. They see no difference in tax consequence between the sale of bonds to finance consumption and new borrowing, and would allow interest on such debt to be used to reduce taxable income in the same way as the loss in interest receipts did. Since authorities

^{3/} The present professional tax starts at a 1% average tax rate that rises in 20 brackets to 20%. This hides the marginal rate that at the beginning of each bracket is apparently 100% as administered (it would be more than 100% if administrative adjustment were not made). One could approximate this distribution of tax burden with many fewer tax brackets - say, 2 or 3. For example, the average tax at 75 contos is 1%, at 125 contos 3%, at 200 contos 5%, at 450 contos 10%, and 20% at 900 contos. A simple system of 10% on the first 400 contos of taxable income and 25% on the balance would result in the following, respective, average tax rates: 3%, 6%, 7 1/2%, 9% and 17%.

^{4/} There might be a need for the carry-over of interest expense to offset against income of another year when current income is not large enough to absorb it.

differ on this issue, either method appears to be justifiable in terms of the equity notions or economic policies relevant to Portugal.

The second major potential category of deductions is for contributions to "desirable" or worthwhile causes of a charitable, religious, or educational character. Our view is that contributions to these organizations and worthy causes, noble as the purpose underlying them may be, should have support from the government independent of the marginal tax rate (or the income) of the donor. Where these amounts are permitted as deductions from income, the government's supporting contribution to the individual gift depends on the marginal tax rate of the taxpayer - up to 84 percent for those with high incomes, and down to zero for those without taxable income. A fairer scheme would be to provide a grant of some 25 percent, say, to the worthwhile organizations that are assisted by individual contributions, regardless of the relevant tax rate of the donor.

The third major area of deductions might be for medical or other "casualty" types of expenses. Any definition of income necessarily permits the deduction of expenditures for which no flow of utilities is received. Where we are not dealing with hypochondriacs whose greatest pleasure is medical attention, we are dealing with an outlay, particularly if abnormal in amount, that should be subtracted in arriving at income. It is an easy step to broaden this notion from abnormal medical outlays to casualty losses - the uninsured house that burns down, the uninsured car that is wrecked, the uninsured painting that is stolen. In the heavy emphasis we give to simplicity, we do not recommend the deduction of these outlays, though justifiable in terms of definitions of income. In time, perhaps, as the unitary income tax is developed and flourishes, more precise adjustments to the proper definition of income can be made. One thing, however, should be noted. If it were believed desirable to permit the deduction of (abnormal) medical expense, and if, at the same time, the deduction would encourage people to ask for receipts for medical care, and if that helped to administer a tax on that part of the medical profession paid largely by currency, a double benefit might be gained.

2. One major item in the definition of income is that of capital gains and losses. While these gains and losses are not generally taxed at the present time under the various income taxes, there seem to be strong equity and efficiency grounds on which to base a case for their taxation.

a. In terms of the most generally accepted definition of income, no distinction is drawn between income currently received and income that arises through appreciation in the value of assets. Indeed, the definition most widely used is the flow of consumption in a particular period of time plus the change in net worth. The Portuguese concept of income seems based on the British notion which in turn was developed in the 19th century. The British themselves have moved away from it in recent years.

A further, and extremely important, reason for including capital gains and losses in taxable income is the easing, in so many respects, of the administration of the income tax. When an artificial distinction is drawn between types of income and one is taxed at a lower rate (or freed of tax), the natural response of the taxpayer is to convert as much ordinary income into a form of capital gains or to press for legislation redefining forms of income as capital gains (income from timber growing in the United States). These are endless games that require much litigation, regulatory amendments, and legislation. Eminent authorities have cited the differential treatment of capital gains as the most complicating single factor in United States tax law. Portugal should avoid such a detour in its steps toward a modern income tax, if it possibly can.

Economic efficiency is also served by the proper taxation of capital gains and losses, by making the tax more neutral as between currently received income and income earned through asset appreciation.

b. These are matters of principle, however, and hold true, strictly speaking, only under a system in which capital gains are taxed as they accrue, either by annual valuation or imputation of income. Without serious exception, countries have included capital gains in income only when an objective market valuation has been established by a completed transaction, that is to say the gain has been realized. Nevertheless, property, estate, and wealth taxes require valuation without a market transaction either annually or at death, and imputations of income must be made for property taxes assessed like the British rating system of the Portuguese contribution predial. The history of these taxes, however, does not give one confidence in a prompt, current, and reasonably accurate imputation of income or valuation of assets.

c. If inclusion of capital gains in income is limited to a realization through a completed transaction, two issues of serious magnitude are raised.

(1) Postponement of recognizing a gain (or loss) until a market transaction takes place means that income accruing over several taxable periods is lumped into the taxable period in which the gain is realized. Under a progressive tax system, these gains may be taxed at a much higher rate than that which would have applied had they been taxed as they accrued. There are several steps that can be taken to rectify this inequity: (a) provide a general system of averaging taxable income; (b) provide a particular averaging system by dividing the gain (or loss) by the length of the holding period, including each year's theoretical gain in the income of that year, and sum up the added tax in each year as the tax on the gain; or (c) provide a particular averaging system by dividing the gain (or loss) by the length of the holding period, include that amount in income of the current year, determine the additional tax that results, and multiply by the number of years in the holding period. These are merely alternative

ways of trying to ascertain the appropriate marginal tax rate to apply to the gain or loss. General income averaging is a luxury a new income tax system can ill afford until the structure is more firmly established. Averaging of the specific capital gain is most easily done by reference to the current taxable year. While in principle, the spreading back of the gain over previous years is the more correct, it would mean substantially more record maintenance.

(2) The postponement of the tax on capital gains until they are realized means that a tax is imposed on a transaction with resulting inefficiencies in portfolio decisions. People are locked into holding assets they no longer wish to hold. A tax on accrual would not have this disadvantage; a tax on realization becomes a tax on a sale. The lock-in effect is worst if, as in the United States, capital gains are not taxed when an appreciative asset is given as a gift (the tax is then postponed), or exempt at death when included in bequests. If there were a revaluation of assets and inclusion of gains in income at least once a generation, the lock-in effect does not get seriously large. It is strongly recommended that such a practice be followed with the taxation of capital gains. Valuation is necessary at the time both of the gift of the bequest under an estate or gift tax, so that no serious administrative burden is placed on the tax authorities with this rule rather than the present one in the United States.

d. The taxation of capital gains is relatively simply applied to money or nominal values in a period of reasonable prices stability. When price changes are large, there is serious need for the avoidance of the inclusion of inflationary gains in income, even though one might not want to go the full distance and redefine taxable income in real terms. Especially in the case of capital gains, one must exclude gains that are purely fictitious in the sense that they represent inflationary not real gains. To make tax adjustments for inflation is not simple. But, when weighed against the benefits in equity and portfolio neutrality of fully taxing capital gains, they are a cost that can be justified. Moreover, such adjustments will reduce the lock-in effect that would otherwise impede sale of securities.

There seems only one thing that can be done here: the cost basis of the asset for the computation of gain or loss must be adjusted by a price index, so that a taxable gain arises only if the asset rises more in price than the general price level. In principle, the costs of all income earning assets should be adjusted in this way: the cost of a bond that is now redeemed or a security that is now sold should both be adjusted upward for the change in price level over the holding period. In practice it may be enough, initially, to eliminate inflationary gains without also recognizing inflationary losses arising from holding an asset fixed in money terms. There will be problems in developing a reasonable price index for such an adjustment. The adjustment will be necessarily crude. Yet crudity may be better than no adjustment at all.

In sum, the full taxation of capital gains are an important matter of equity in a movement toward a comprehensive progressive personalized income tax. It is doubtful if this change can be fairly and sensibly brought about without a specific averaging system for the capital gains and without an adjustment for fictitious inflationary gains.

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To give a mores concrete illustration of what we have in mind, the following specific personal tax structure is given as an example. It is based on the following set of assumptions.

1. Replace all presnet taxes on income - the industrial, professional, capital, complementary, rents, and agricultural income - by the unitary income tax. A yield of about 16 billion escudos in 1975.

2. The average tax rate on all taxable income should be no more than 20 percent. Thus, taxable income should equal or exceed 80 billion escudos (16 billion escudos in revenue divided by 20 percent).

3. A taxable income of 80 billion would be generated by a gross domestic product of 360 billion escudos by an average exemption level per capita equal approximately to half the per capita product. This relationship is based on a long-established one in the United States and may be questionably applied to Portugal. In some ways the income tax base in Portugal will be much larger, if the proposed program is enacted (full inclusion of capital gains, full inclusion of corporate income, no deduction for personal expenses), in other ways it will be smaller (a larger selfemployed population). For 1975, this average per capita exemption is placed at 16 contos.

4. The tax brackets, with the marginal tax rate, are as follows:

Taxable income in contos	Marginal tax rate	Guessed portion of taxable income	Contribution to effective tax rate (2)x(3)
(1)	(2)	(3)	(4)
0 to 50	10%	42%	4.2%
50 to 100	20	35	7.0
100 to 200	30	11	3.3
200 to 400	40	7	2.8
400 to 800	50	3	1.5
Over 800	60	2	1.2
		<hr/> 100%	<hr/> 20.0%

B. Business income taxation

Four aspects of business income taxation that we take up below: (1) coordination with the personal income tax; (2) reduction of the adverse effects of high tax rates on productive investment; (3) differential taxation among business units; (4) discrimination against dividend distributions.

1. Coordination with the personal income tax

The literature on the coordination of business-income taxation with the personal income tax is immense, and discusses the many alternative ways of moving toward such a goal and the many difficulties. Review of this literature would not be particularly helpful here. Instead, we state out recommendation that a frontal assault be made on the many problems by personalizing the business income tax to the highest degree. While the method proposed is somewhat novel, it appears to be no more difficult than any measure that tries to deal reasonably precisely with the awkward problem of retained business income under a personal income tax.

a. The tax on business income would be applied at the highest bracket rate under the personal income tax, say, 60 percent under the scheme discussed above. From business net income would be subtracted dividends paid or partnership withdrawals plus any remaining part of business net income (retained earnings) allocated to the owners of the firm, the allocation to be made on the basis of ownership, that is all owners would receive their aliquot portion of a total amount of retained and distributed income.

(1) By placing the tax at the maximum personal tax bracket, there is no way of avoiding the personal tax by retaining income. Followed through systematically, no individual owner, no matter how many company layers he inserts through multiple holding companies, could escape the maximum rate, except by allocating income that would be taxed at the proper personal rate to him.

(2) By permitting the deduction of allocated retained income, this proposal does not force dividend

distributions in order to secure lower personal tax rates. Any income that can be allocated to owners and taxed properly at the personal level, whether distributed or retained, would be removed from the business income tax. All firms be treated in the same way, regardless of form of ownership. The individual proprietor would be exempt from the business-income tax because this entire income whether retained in the business or withdrawn, would be subject to the personal income tax (as it is at present in the complementary tax). Partnerships would have to allocate their retained earnings to the partners to escape the business income tax, but they have been required to make such allocations in the United States since 1913 under the personal income tax. Joint stock companies, like partnerships, would have to make these allocations to shareholders. Here again, the procedure of allocating corporate income to shareholders has been followed in the United States for many years, whereby small closely held corporations under certain restrictions may be treated as partnerships for tax purposes. In 1970, for example, some 250,000 small corporations (of a total number of 1.7 million corporations) filed in this way. The proposed procedure would avoid the problem of the professional income earner incorporating to lower his tax rate. It would avoid the problem of bearer shares, although we understand they are to be dealt with in another way. There are so many advantages to tackling the problem of tax avoidance through retained business income in the way suggested above that careful attention should be give to its implementation and its administrative problems.

B. What, then, would these problems be?

(1) The allocation of dividends or partnership withdrawals poses no problems, other than bearer shares. If there were not an identifiable dividend recipient for which an information return would be turned over to the tax authorities to check for its inclusion in his personal income, no deduction would be allowed and the tax on the dividend would be at the maximum rate.

(2) The allocation of retained income would be as straightforward as are distributions. The corporation and partnership law would permit action by the board of directors to

allocate some global amount of income to all participating shareholders. These shareholders or partners would receive an information return stating the amount of income allocated to them on the basis of their share in the equity of the business. These information returns would be combined with those on dividends to determine total taxable income from business.

(3) If more dividends were paid than net income earned, a loss would be allocated to the shareholders that would be deductible in computing current income, ^{5/} provided it was out of aggregate company earnings since its initiation. In this way, the treatment would be the same as for bond interest.

(4) The retained income allocated to the shareholder would increase (or decrease, if negative) the cost basis of the ownership of the business and reduce (or increase) future taxation of capital gains. In other words, the taxpayer would be prepaying the future capital gains tax.

(5) There may be complicated computations in arriving at the amounts to allocate in complex financial structures, such as with preferred stock (sometimes participating), with various classes of shares, with revenue bonds when interest payments fluctuate with income. If management can determine to whom to pay dividends in such complicated corporate structures, they can also ascertain to whom net income should be allocated after its total amount has been determined.

(6) A major criticism of this scheme is the treatment of tax audit adjustments in the business firm's records. For example, if all the net income, either retained or distributed, were allocated to the owners, would not the later audit and finding of a large business income in a particular year require readjustment of all the shareholders' personal tax for the year in question? In principle, the tax authorities should go back and readjust the earlier records. In fact, a not unreasonable way of dealing with the problem is to permit the inclusion and allocation of the amount in the current, rather than the past, year.

^{5/} There almost surely would be a need for the carry forward of losses when they exceeded current income.

While this might mean a windfall gain or loss to a shareholder who had purchased shares in the intervening period, there is not much difference between this situation and one in which the new shareholder shares in any unforeseen reduction or increase in assets believed to be properly valued at the time of his purchase. Alternatively, a new purchaser could arrange with the seller to be reimbursed for any additional taxes imposed on income reported before he owned shares.

c. Finally, if information returns are not believed to assure compliance under the personal income tax, one could attach a withholding tax to the dividends, withdrawals, interest, and allocated income. In the United States, information returns are required for dividends and interest above a small amount, and almost complete reporting is secured without withholding. With adequate, centralized data processing, the simpler method of information returns would be recommended as a start. However, this would mean that withholding on labor income would not be matched by withholding on portfolio income.

2. Reduction of adverse effects on productive investment

By placing the tax on business income at the top personal rate, and by having a highly progressive personal tax, there may be a reduction in the ability of firms to save and make productive investment in plant and equipment and in inventories. This kind of investment, which can raise the productivity of labor and living standards, is surely socially desirable and should not be discouraged.

a. If no serious inflation were to be expected, many optional tax devices are possible, either by accelerating depreciation (shortening the length of the depreciation period), by initial allowances, or by investment tax credits (or investment allowances in British terminology). The appealing idea would be to aim at exempting that portion of income the business firm chooses to invest, rather than pay out as dividends for owners to consume or save.

b. If there is a serious inflation, however, the definition of business income becomes of even greater importance.

Under conventional accounting the depreciation of assets proceeds on the basis of historical cost and inventories are typically costed in under the first-in-first-out (FIFO) convention.

Under both of these accounting procedures, appreciation in the replacement costs of plant, equipment, and inventories, is not recognized in determining costs. Under national income accounting, for example, there is an attempt to remove these inventory profits from business income and, when possible, to similarly adjust the depreciation accounts. ^{6/}

The steps necessary to make appropriate adjustment in inventories and depreciable assets are difficult and complex. While there are standard accounting procedures for inventories, such as last-in-first-out (LIFO), they can be easily used only where the items in the beginning and ending inventory are reasonably identical. Otherwise application of the method necessarily involves index number procedures for the firm that may be costly. For depreciable assets, an index number must be developed, and serious attention would have to be given to its construction and application - on a firm by firm basis, for an industry, for a particular type of asset, and so on.

Because of this special kind of difficulty posed by inflation, it is recommended that the problem be short-cut by writing off the productive investment in the year of purchase. There is then a temporary exemption of earnings when used to make productive investment - achieving the first goal - and the method - allowing a full recovery at current prices (charging replacement cost against income) eliminates the need for complex adjustments of these costs in later years by index numbers.

While the proposal may seem to be rather extreme, it is similar to procedures that other countries have been following. It is, for example, similar to the income tax exemptions offered Portuguese business firms making particular investments. Note, however, that under our proposal the failure to continue investing in subsequent years would increase the tax base and wipe out the initial exemption.

^{6/} Of course, accelerated depreciation on an historic cost basis tends to offset this accounting deficiency and must also enter into the adjustment.

Moreover, the proposal would apply to all productive investments, not just those in selected industries or areas. The British, in recent years, have permitted 100 percent of the cost of machinery and equipment to be written off in the first year, and structures are given an initial allowance of 40 percent. Going back many years, extensive five-year write-offs were permitted in the United States and other countries for particular types of investment - defense facilities, railroads, depressed areas, pollution control, and the like. Finally, it is not very different from the allowed deductions of all purchases from other firms from sales of the particular firm under value added taxes used throughout Europe.

c. While this proposal has the virtue of achieving certain ends reasonably, there are a host of technical problems that must be worked through or decided upon. This is not the time nor place to try to deal with them. If the general proposal seems sufficiently attractive or interesting to pursue further, additional study can be made. Nevertheless, there are certain problem areas that should be indicated.

(1) There are transitional problems of revenue losses in moving from one system to another. Deductible capital costs would be higher in the transitional years than they would be under either a continuation of normal depreciation and inventory methods or under the proposed procedures applied from the beginning of the tax system. There are several ways of dealing with this cost bulge if it is of sufficient importance to warrant action.

(2) Full taxation of capital gains and losses on these assets is essential, otherwise there would be an active trading in assets to get tax deductions. If gains are taxed fully, the seller of the asset will restore to income what the buyer will remove and there will be no serious problem. Taxation of gains will also permit the extension of this treatment to second-hand facilities, often used by the smaller firms.

(3) Extending the proposed treatment to structures may cause some difficulty. In the United States, the use of accelerated depreciation for structures resulted in what were

termed tax shelters - an exemption from tax for long periods of time through deductible interest on mortgages combined with rapid depreciation. Put in still another way, one-year depreciation will provide a tax benefit measured in present value terms of a much greater relative amount for 50-year assets (structure) than for 15-year assets (machinery). The earlier focus was on the ability to invest, not the desire. It would be an open policy question whether the special stimulation of structures was desired. On the one hand, more residential structures are surely needed in Portugal. On the other, they might not be in the right place or of the right kind.

3. Effects on dividends

The attempt here has been to propose a method of coordinating personal and business income taxes in such a way as to be reasonably neutral between retained earnings and dividends. In other words, earnings need not be paid out, only allocated, in order to escape the business tax. In the preceding section the business income tax was distorted in favor of the retention of earnings and their productive investment. Whether or not the proposed system favors dividend payments more than the present system is difficult to say, given the special treatment of dividends on bearer shares and the multiplicity of present taxes. It would not be the purpose of the proposal to encourage dividends at the present time. A detailed comparison of the treatment at the present time and under the proposed structure would be necessary to form a judgment about it. Were heavier pressure for business-income retention desired, a special tax on dividends could be imposed (e.g., at a 10 percent rate), or a similar effect could be achieved by a withholding tax that the dividend recipient could credit against personal income tax at a lower rate than that at which withheld (e.g., a 30 percent withholding tax credited to the dividend recipient at a 20 percent rate).

4. Differentiation between firms

The main thrust of the previous proposals was to treat business units as means of determining what taxable income persons had. This procedure focuses on the individual

and leaves no room for discrimination among business units themselves. It is very easy to argue that monopoly gains should be taxed more heavily than competitive gains; that small business suffers as compared with big business; that some industries can be taxed more heavily than others; and on and on. The problem always comes in reasonably implementing these suggestions - in measuring monopoly gains, or size, or ability. If such differentiation is believed to be necessary, it can be achieved by having an impersonal tax on business income as such, for example, a 10 percent tax on business income above 500 contos, escudos, or some such amount. It should be believed and deducted before applying the personalized business income taxes discussed above.

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This long and rather complex proposal may be illustrated as a way of cleaning up some of the ambiguities.

Consider a corporation has a net income of 4 million escudos, equally owned by shareholders with a personal marginal tax rate of 0, 20 percent, 40 percent, and 60 percent. Assume also that they all sell their securities with a gain equal to the net increase in book value.

Case I: See income declared and paid as dividends

Corporation net income	5,000,000
Less income declared as dividends	5,000,000
Corporate taxable income	0
Personal taxable income	5,000,000
Total personal tax	1,500,000

Price of shares does not increase on assumptions of no increase in retained income; therefore, no capital gain arises.

Case III: All income retainedSub Case A: All income allocated to shareholders

Corporation net income	5,000,000
Less income allocated to shareholders	5,000,000
	<hr/>
Corporate taxable income	0
Personal taxable income	5,000,000
Total personal tax	1,500,000

Share prices increase by 5,000,000 under our assumption; "cost" basis of shares increased by income allocated to shareholders, but not received as dividends, by 5,000,000; sale of shares results in no capital gain.

Sub Case B: No income allocated to shareholders

Corporation net income	5,000,000
Less income paid or allocated	0
	<hr/>
Corporate taxable income	5,000,000
Corporate tax at 60%	3,000,000
Personal taxable income	0

(Total personal and corporate taxes on income are twice as in the two preceding cases.)

Under our assumptions, retained income of 2,000,000 would increase share prices by that amount. Each shareholder would realize a capital gain of 500,000, and total personal taxes under our assumptions would be 600,000.

The total taxes, personal and corporate, on this income would be 3,600,000, as against 1,500,000, a prohibitive price to pay. Even if all the shareholders had a personal tax rate of 60 percent and would have owed personal taxes of 3,000,000 in the first two cases, the additional taxes on capital gains would have amounted to 1,200,000, or 84 percent of net income.

Case III: Combined with impersonal tax on corporations equal to
10 percent on income in excess of 500,000 escudos

Corporation net income	5,000,000
Impersonal corporation tax (10% of 4.5 million)	45,000
	<hr/>
Corporate net income after impersonal tax corresponds to corporate net income in Cases I and II above.	455,000

C. Income tax administration and compliance

The following suggestions are of a general kind to indicate the contribution that economics and statistics can make to improved tax administration.

1. There should be a Tax Extension Service precisely like an Agricultural Extension Service. If a unified, simplified tax structure is adopted, the opportunity should be seized to explain it to the small businessman, the farmer, the laborer, the professional, the homeowner. Compliance is so much concerned with the attitude of taxpayers, whether they think the system is fair, is being enforced evenhandedly, is not being escaped by those able to pay. This particular structure would close a number of escapes from full taxation, would be fairer, and credit should be taken by the Government for it.

In addition to this general kind of explanation, the Tax Extension Service should give local talks, classes, explanations, regarding the kinds of records to keep, the notion of income, the kinds of expense deductions, the way to make out returns. These could be grouped by professional categories dealing with similar tax problems.

Finally, the Tax Extension Service should be available to deal with specific taxpayer problems. The kind of advice one can get in the United States over the telephone from the Internal Revenue Service is a very useful way of giving taxpayers advice economically.

Obviously, people would have to be trained for this service some part of it could be a travelling road show. But

But compliance fundamentally stems from belief in the system and understanding the system. Massive educational programs would be vital.

2. The Tax Service should develop detailed studies of the revenue and expense structure of industries classified by important economic variables - rural-urban, regional, size of revenue, type of activity, capital use, and others of this kind. One can also determine the variance in many items of income and expense and develop standards by which tax returns are selected for audit.

The United States in 1949 adopted an Audit Control Program, a sampling procedure for auditing, selecting at random tax returns for complete audit without reference to the degree of suspicion attached to the return. These procedures have been reported in various places and could be consulted.^{7/} The importance of the program was that it provided information on the nature and extent of errors in making tax returns, the types of income most commonly misreported, the areas where auditing would have a large payoff and where further informative effort would aid compliance.

3. These two steps provide important information to taxpayers and administrators. They are a useful backdrop for all the necessary steps of improvement in accounting practices, and data processing and gathering, as well as all the legal and administrative steps that can improve the tax laws operations.

D. Indirect Taxation

The present heavy emphasis on indirect taxation cannot be reversed until a satisfactory income-tax structure has been developed. As that structure gains strength, it would be desirable to dismantle some of the indirect taxes that are not notable in their contribution to equity taxation or to economic efficiency.

1. The sisa, or transfer tax on real property, while classified as a direct tax, seems more of an indirect one. If its

^{7/} National Tax Journal, June 1949 and March 1952, for example, and the references therein.

purpose is to discourage speculation, it would seem much more efficient to pick up speculative gains under a broadened personal income tax. The transfer tax may reduce speculation, but it does so inefficiently by reducing virtually all transfers of property to more efficient uses.

The *saló e estampa*, or stamp tax, in the absence of a more clear-cut explanation of purpose (foreign exchange control, information on payments, etc.), should be next in line for reduction or elimination. The types of transactions covered seem arbitrary to an outside observer, and the best it smacks of partial turnover taxation.

2. The excise taxes on particular commodities, such as sugar, gasoline, tobacco, liquor, sale and licensing of autos, can be justified to the extent that they relate to macroeconomic problems, balance of payments, sumptuary consumption, or reasonable pricing of road use.

3. The transactions tax is the largest indirect levy. It is a four bracket single-stage wholesale sales tax along the pattern of the old British purchase tax. Exempt commodities are necessities, such as food, fuel, medicines, rents, and educational materials; the 7 percent rate covers the vast bulk of the taxed commodities; the 15 percent rate (raised from 12 percent in August 1974) applies to commodities like sweets, confections, soft drinks and most wines, and more modest jewelry; the 25 percent rate (raised from 15 percent in August 1974) applies to a large group of consumer durables - household appliances (other than stoves), cameras, televisions, radios, expensive furniture and personal care, expensive jewelry and furs.

a. The structure of the tax is such that very little revenue is secured from the two top brackets. Our estimated for 1972 are that about 600 contos would have been lost (at 1975 rates) if these two brackets were eliminated. These brackets may, of course, make a contribution far beyond revenue. We have already referred to the possible usefulness of counter cyclical manipulation of taxes on consumer durables. Multiple brackets may also play an equity role, by taxing commodities that are consumed only by the high income groups. Casual observation indicates, however, that Portugal seems like other countries in its

consumption desires. There are no clear-cut high and low income consumer goods. The taxation of commodities rather than persons seems a very crude way of measuring taxable capacity.

b. The capitalized revenue yield in 1972 indicates a tax base of 61.5 billion escudos (see note 1/, p. II-5). This base is 37 percent of estimated total consumer expenditure in that year of 166 billion escudos.

If this tax base were revalued from wholesale to retail prices, and other consumer commodities added that are taxed under other special taxes - such as tobacco, beer, liquor, and car purchases - the percentage coverage becomes rather high for such a narrow based single -stage sales tax.

c. The distributional effects of this tax, by size of income or other social characteristics, requires careful budget studies. In the absence of them, a guess would be that they are probably somewhat regressive (represent a smaller percentage of high income budgets than low), but not alarmingly so. The bulk of the tax (90 percent) comes from the 7 percent rate.

4. The transactions tax, then, might linger on for some time without substantial cause for removal, and the natural question arises: should it be replaced by a value added tax (VAT)? Another question also arises: what would be gained by such a shift? We can detect no serious reason for such a shift, and a good many costs.

What does VAT have that the present transactions tax does not have?

a. VAT is applied, in principle, throughout the whole productive process; the transactions tax only at the wholesale level. Therefore, VAT would move towards consumers and bring in retailers, and back to primary producers through manufacturers, and then farmers. This would expand the number of taxpayers very substantially as compared with the present system. The thought of bringing in retailers and farmers strikes fear in the heart of the bravest Portuguese tax administrator.

Leaving them out, VAT only has the "advantage" of bringing manufacturers into the system. Such a move will improve the tax system if manufacturers can yield information that is not now being secured, or if a better valuation of the wholesale level results. No improvement in the tax levied at the wholesale level seems evident from sending the tax backward through the productive process. Moreover, by earlier tax collection in the production process, VAT would increase the financial costs of production as compared with the present system.

The former point must be emphasized with all force. If an income tax is to be generally and satisfactorily applied, it must contain at least as much information as a value added tax, since the latter only contains sales to others and purchases from other firms. There is no information that a value added tax reporting system can give to a properly functioning income tax that it does not already have.

b. A second area of improvement in shifting to VAT can come from the inclusion of services. There is no magic in this inclusion. If the Portuguese Government wishes to include services in the present transactions tax, they can be added as easily as under VAT.

c. Because a value added tax can represent a vast improvement over the kind of turnover taxation that many Common Market countries had before it was adopted, it does not mean that it necessarily represents an improvement over any kind of sales tax system. It clearly does not. We urge a careful study of the problems of shifting from the purchase tax to the VAT in the U.K. This shift was made in order to harmonize the tax with other EEC countries, not in order to improve the British purchase tax. Since the Portuguese transactions tax is very close to the BPT, much could be learned about the change. It would be surprising to learn that it made much difference in indirect taxation in the U.K.

d. There are complications with multiple rates under VAT, but Portugal has these complications now. Simplification of the rate structure has already been recommended, but there is nothing to preclude simplifying under the present structure or having multiple rates under VAT. Indeed, most countries with VAT have

more than one bracket.

One wit has suggested that the transactions tax be renamed value added tax, understood to mean value added to the wholesale level, and measured at one rather than many stages of the production process!

e. The general conclusion is that the transactions could be retained for some time. It is essentially the same VAT; and can stand until some improved method of taxing income is developed.

E. Death and net worth taxation

There has not been enough time to take a serious look at the present death and gift tax structure nor at net worth taxation. The recent proposals and discussion in the U.K. provide a thorough review of the estate and gift tax that should be particularly relevant for Portugal.

Net worth taxation, if it is to be done properly, is much farther down the line. The valuation problem has never been satisfactorily solved in any country where total or partial wealth is annually assessed. Since so much of Portuguese wealth has no ready market price, it would be a full-scale administrative task to attempt to keep the values up to date annually. For the present a much improved and progressive income tax, which efficiently taxed capital gains, combined with serious death and gift tax should make a big step forward distributionally when fully implemented.

SOCIAL SECURITY

BY: Peter A. Diamond

Social Security

The prime questions in the social security area are: (1) how much of the country's scarce resources to allocate to government transfer programs and (2) how to divide this amount among the different potential recipients. It is very important that cash transfers go to the poor people of the country. Nevertheless there is a major danger of embarking on transfer programs which end up costing considerably more than expected. This can happen because of inadequate knowledge of the short run costs or because of inadequate attention to the long run determinants of the costs of a system which starts small. In some cases the long run may not be very long and burdens can begin to mount rapidly. The report spells out some details of this perspective.

Cash transfers from the government will play a major role in social policy in any country concerned with helping its poor people. The first question that arises is how much of the country's scarce resources to devote to aiding the poor in this way. This is clearly beyond the proper attention of this examination, although the discussions in Chapter I on the need of resources for investment should help to develop an informed judgement on this critical question of evaluating alternative uses of the same resources. Within the limits of the resources which it is decided to make available, there are important decisions that have to be made on their allocation and administration. The current intention of the Ministry of Social Affairs to reorganize and unify the management of the various social security programs is excellent and should lead both to a more rational system and to cost savings.

Within the budget limitations of the funds available for transfer programs, there are two basic questions which must be faced:

(1) which types of benefits are important or unimportant for achieving social ends? (2) which individuals, of those potentially eligible for benefits, should be recipients and how should the level of benefits vary with the economic position of the recipient?

Taking up the first question, at present there is a large number of different types of benefits. It is clear that some of these benefits, like pensions, go to groups which, on average, have much greater need than the recipients of other benefits. Given the pressing need of the poorest segments of the population and the limits to which the transfer programs are subject, it is important to keep to a minimum the benefits being given in programs that do not go predominantly to the poorest segments of the population. Thus each of the other current programs should be scrutinized to judge whether it is as important as making more funds available for pensions. This is possible since for most other benefits, unlike wage related pensions, workers probably do not feel such a strong entitlement to benefits as a result of past tax contributions. For example, one needs to ask: is it more important to provide pensions for those that have none at all or should existing pensions be increased? Is it more important to increase pensions to the elderly or childrens allowances, recognizing that the elderly, on average, are probably much poorer than parents of children? Is it better to increase pensions or provide payments for marriages and funerals? Benefits that do not pass the test of comparison with pension needs should be eliminated if possible. They should be kept with their benefit levels frozen if elimination is not possible. This will not save administrative costs, but the ongoing inflation will severely decrease the real costs of any programs that do not have benefits increased over time.

In evaluating government transfer programs it is vital to focus on the relative needs of different classes of potential benefit recipients, rather than considering merely whether they are poor. For example, the vast majority of the population earn the minimum wage or less. Any program aimed

particularly at those people earning more than the minimum wage would help people who are better off than the vast majority of their countrymen and therefore would be a mistake.

Within the context of evaluating individual programs, it is curious that the statistics on beneficiaries show a very different sex mix of recipients of old age pensions relative to recipients of disability benefits. ¹ Since age is more easily certifiable than disability, this is suggestive that the disability program should be scrutinized to ensure that it works in practice in the same way that it is designed.

Turning to the second issue identified above, a major goal is to lessen, in some fashion, the payments within a program going to those recipients who do not have relatively large need. There are two basic ways of approaching the limitation of benefits. One is for each benefit program to identify an income level above which benefits are decreased, perhaps until they are reduced to zero. While there are sophisticated approaches to this problem which might be taken, for administrative reasons the only practical approach is simply to select an income level and give no benefits to those with higher income. This simple approach has two difficulties. First it may be difficult to set the income level which cuts off benefits at a low enough level to save substantial amounts of expenditure on the program. However, inflation and a fixed cutoff level would, over time, steadily increase the effect of the cutoff level. Secondly the method of decreasing benefits by one escudo for each additional escudo of income (until benefits are eliminated) is simply a 100% marginal tax income. With several different programs each of which has a cutoff this pattern of 100% marginal tax rates, together with the income tax structure, would be a pattern of effective tax rates which is unlikely to be very rational. It also may have some relatively important disincentive effects.

¹ In 1973, 36% of old age pensions went to women while 46% of disability pensions went to women. In 1972 the percentages were 31% and 48%.

The alternative approach to limiting benefits for the less needy in order to finance them for the more needy is to build the decrease in benefits into the income tax structure. With a change to a unified income tax as discussed in Chapter II, the various cash benefits from social security should be subject to income tax. Treating them as income is the simplest way of making the benefit pattern and income tax into a unified package. This has the effect of giving smaller after-tax benefits to those with higher incomes and so higher marginal income tax rates. It is possible to also have additional adjustments (like vanishing exemptions ¹/₂ for age or children) if simply including benefits in taxable income is not considered a sufficiently rapid decline of benefits with income. At present pensions are included in the complementary tax but family allowances are not. No benefits are subject to the professional tax. Depending on how long it will take to switch over to a unified income tax, it may be useful to consider some changes in this current tax treatment for the short run.

The discussion thus far has considered the static aspects of the pattern of benefits - that is, the division of available social security funds among different programs and different recipients. In addition, it is important to consider dynamic aspects of the design of benefit program - that is, the determinants of the changes over time in the costs of different transfer programs. There are two separate dynamic questions to consider - the dynamics of benefit program and the dynamics of the population.

The general development of the benefit programs is to move in the direction of making benefits are available to one group also available to other groups who do not differ greatly from the first group. Benefit programs have the

¹/₂ A vanishing exemption allows a deduction from taxable income of some number of escudos. The size of the deduction gets smaller the higher the income level of the taxpayer.

effect of generating expectations that result in pressures to widen eligibility and to increase benefit levels wherever they are below the levels in similar programs. For example there is an inherent instability in the current pension structure. It provides a minimum pension of one-half the minimum wage for those dependent workers covered by social security, as much lower minimum pension for rural workers, and no pension for many other workers. Increase in any of the existing pensions will create pressures for increases in other existing pensions and will affect pension levels when programs are expanded to include additional workers. Thus there may well be two reasons for caution in increasing the minimum pension for dependent workers covered by social security - (1) they may not be the pension recipients with greatest need, and (2) increased pensions for them will tend to create pressure to increase pensions for those receiving smaller pensions, some of whom may not be as needy.

The second dynamic element is the steady aging of the Portuguese population. Thus any pension program fixed in relative terms will be an increasing burden on the working population. In the 1960 census 8% of the population was over 65 years of age. In the 1970 census over 9 1/2% of the population was over 65 years old. Between the two censuses this fraction increased by more than 20%. The bulk of this change is not due to birth rates since the fraction of the population over 65 in the population over 15 has risen by a similar percentage. There are three factors affecting the trend since 1970 and the future trend in these numbers. First the large emigration in the recent past has been concentrated among young workers.¹ Therefore those older workers who will become pension recipients in the near future form a disproportionately large fraction of the current working population. That is, the working population under 65 has a very high average age. Second, while the magnitude of emigration in the future is uncertain, depending in large part on the policies of other countries,

1. For the period 1960-1973 the percentage of regular emigrants under 30 was 64%, under 35, 76% and under 45, 92%. Clandestine emigration is probably at least as young.

it is clear that there will continue to be sizeable emigration and that this will continue to be concentrated among the young.¹ The third element works more slowly but will also be significant in the not too distant future - the decline in birth rate. This in turn is the result of two influences. Portugal like much of the rest of the world is experiencing a decline in fertility rates (and simultaneously a rise in female labor force participation rates). In addition, however, past emigration of young women has also decreased the population of women of child bearing age who in turn are experiencing these lower fertility rates per women.²

Partially offsetting these three factors contributing to the aging of the population is the sharp increase in female labor force participation rates, an increase over 50% at most ages from 1960 to 1970. However, labor force participation by those over 65 has declined sharply and will decline even more with the spread of pension benefits. Net, these changes are not important enough to offset the effects of emigration, which among adults, is also concentrated in the ages which have the highest labor force participation rates. From 1960 to 1970 the ratio of the aged population to the labor force has risen by nearly 20%, even adjusting for the growth in the military.

The population changes described have the important implication that any program maintaining a steady relationship between pensions and wages will impose a steadily increasing burden on the working population. This makes the level of pensions relative to wages an even more critical variable for the future of the economy. To illuminate the way population changes affect the expenditure level

1. The large emigration of the early seventies of course significantly affects the current costs of a pension plan relative to what would have been estimated using the 1970 census.

2. The number of 0-4 year olds in 1970 was only 88% of the number in 1960. In the early 1980's this group will begin to enter the labor force.

of a pension program (ignoring administrative costs), we can consider the equation which necessarily links costs to benefits:

$$\left(\frac{\text{taxes needed to finance pensions}}{\text{total wages}} \right) = \left(\frac{\text{average pension}}{\text{average wage}} \right) \times \left(\frac{\text{number of pension recipients}}{\text{number of workers}} \right)$$

Since so many pension beneficiaries receive the minimum pension, the average pension is very nearly determined by the minimum pension. In addition the large number of workers receiving the minimum wage and the tendency of many wages in many occupations to move together means that the minimum wage is a major factor in determining the average wage. Freezing the ratio of minimum pension to minimum wage implies that the ratio of average pension to average wage will not vary too much in the short run. Therefore the tax burden of financing the pension program will move approximately proportionally with the ratio of pension recipients to workers.

Already in 1970 there was more than one aged person (i.e. over 65) for each four workers. This ratio has, no doubt, risen significantly since then. With average wages in the entire economy less than 20%¹ higher than the minimum wage, a uniform minimum pension of half the minimum wage would put an enormous burden on an economy which planned to provide other social benefits and to maintain investment for future growth and development.²

1. Probably, it is about 15% higher.

2. Since children's benefits are, rightly, so much less than dependent worker pensions, the declining birth rate will not generate savings of a comparable magnitude to offset the problem of the aging economy.

I have made a crude projection of the age structure of the population for 1980 based on the 1970 census and the 1980 projection of the Instituto Nacional de Estatística² which was based on an estimated 1970 population. No doubt there exists a more sophisticated, properly developed projection based on both the 1970 census and the recorded emigration of the early seventies. Since the trend of the age distribution is so important, I wanted to include an estimate, even if crude, as a reminder of both the importance of the problem and the importance of having up to date projections.

Assuming an average of 60,000 emigrants per year over the seventies,⁴ the fraction of the population over 15 years of age which is at least 65 years old will be approximately 15% in 1980, an increase of 9% over the ratio in 1970. Since the numerator of this fraction reflects the pension needing population and the denominator the working age population, this increase reflects the continued rise in the burden that any relative pension plan will place on the economy.

Turning to political influence associated with social security benefits, the pegging of benefits to the minimum wage, whether by law or by custom, generates additional pressures on the determination of this critical variable for the economy. The desirability of this additional pressure should be carefully scrutinized. This question arises quite apart from the question of whether one necessarily wants to change benefit levels and minimum wages at the same time. These considerations are applicable to childrens benefits, should they become pegged, as well as to pensions.

3. Estudo 45, Projecções da população residente no continente e ilhas adjacentes, Oliveira Marques.

4. Higher emigration will increase this fraction. Emigration was much higher in the early seventies, but will probably be less high on average in the mid and late seventies.

ANALYSIS AND PROJECTION OF
MACROECONOMIC CONDITIONS IN PORTUGAL

REPORT FROM AN
OECD-SPONSORED MISSION
TO
PORTUGAL

December 15 to 20, 1975

Members

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Preface

The report on "Analysis and Projection of Macroeconomic Conditions in Portugal" presented here was prepared in December, 1975 by Professors Rudiger Dornbusch, Richard Eckaus and Lance Taylor of the Massachusetts Institute of Technology, within the framework of an OECD-sponsored mission, organized at the request of the Banco de Portugal.

The report contains several valuable contributions to the analysis of the Portuguese economy and to the definition of broad guidelines for policy-making throughout 1976. Among such contributions, a special mention should be made of their analysis of the development of the Portuguese economy in 1975. One of the more important results is the estimate which was made of the decline of the Portuguese GNP in 1975. The magnitude of the decline which was widely discussed in Portuguese economic circles last December was a fall of 10 or even 15 per cent. By applying tests of consistency to the rough estimates of several national accounting aggregates then available, the authors of the report concluded that the decline had been much smaller. Their own estimate, on the basis of the scanty statistical material for 1975 which then existed, was a reduction in GNP of only 2.8 per cent. It is interesting to note that this result virtually coincides with the more recent estimates calculated by the Planning Department.

In the report, it is clearly stressed that the decline in output in 1975 was not so marked as could be expected, almost exclusively because of the increase in private consumption and Government expenditures. The growth of both types of expenditure was supported by the mobilization of exchange reserves and the expansion of central bank credit.

The second part of the report presents projections of the major macroeconomic variables in order to provide guidelines for Portuguese economic policy in 1976. The authors state that, although there is, "a dangerous potentiality for further declines in output, and income, more unemployment and inflation, there is also the potentiality for strong recovery." However - and this is one of the more important aspects of their contribution - they advise that such recovery should be based on a rapid expansion of investment and not, as in the past two years, on increases of consumption, both public and private.

The projections shown in the report imply that in order to start the growth of production and to reduce unemployment high deficits of the Government budget and of the balance of payments will be necessary. Those deficits should however be of an entirely different nature from those experienced in 1975. According to the proposals made they would be a

price worth paying for the recovery of production, the reduction of unemployment and the building of additional productive capacity through a sharp increase in investment.

The estimates for 1975 and projections for 1976 presented here suffer from the scarcity and inaccuracy of the data which were available at the time when they were prepared. Some of them could be improved by using more up-to-date and reliable basic statistical material and by taking into account recent developments in the Government's economic and financial policies. Nonetheless the original projections prepared in December are maintained in the report for two reasons: in the first place revision of basic data would not substantially change the recommendations made and the general guidelines proposed; secondly, in spite of improvements in data quality and availability since last December, the statistical information still does not provide an adequate basis for final and completely satisfactory estimates.

Among the projections in which revisions would be justified special mention should be made of those regarding public finance and the balance of payments. The projections in the area of public finance do not correspond entirely to the figures resulting from the budget of the Central Government for 1976, announced last December, and from other financial estimates concerning the autonomous funds, the social security system and the local authorities.

As regards the balance of payments, the estimates on imports and exports in 1975 used in the report diverge somewhat from the most recent official estimates which show a deficit of the balance on goods and services account which is smaller than previously envisaged. As a consequence the projections for 1976 show a higher balance of payments deficit than that which would be obtained if more recent statistical data had been used.

In spite of the probable margins of error, the strategy recommended in the report seems entirely valid and feasible in economic terms, provided there is the capacity and political willingness to implement it. The recommendations on economic policy measures suggested in the report with respect to monetary and fiscal policy, although only partial and in some cases in need of further elaboration, deserve the greatest attention.

The authors point out in the report that the Portuguese economy was not in such bad condition at the end of 1975 as is sometimes assumed. However, they stress that: "To avoid sliding with accelerating rapidity toward a much worse situation, there must be a start in cutting the steps upward toward a better position, while Portugal still has the resources with which to do so."

There is, therefore, the greatest urgency in attempting to establish viable economic policies. These must contain

the growth of increases in consumption within the limits provided by realistic guidelines which will stimulate the rapid increase of domestic savings, of investment and of exports. It is also necessary to correct disequilibria in the financial situation of public and private enterprises and in the capital markets. The decisions required are extremely complex and difficult. However, one cannot avoid a correct assessment of the economic, social and political consequences which will inevitably emerge if these decisions are evaded or postponed.

J. Silva Lopes

1. Introduction

There seems to be virtually unanimous opinion in Portugal that there was a catastrophic decline in economic activity in the last half of 1974 and during 1975. Appraisals include phrases like "verge of chaos", and "brink of disaster". In the face of such gloom, it may be regarded as unwarranted optimism to maintain that, although the situation is quite tenuous, at the beginning of 1976 the Portuguese economy is surprisingly sound. While there is a dangerous potentiality for further real declines in output and income, more unemployment and inflation, there is also the potentiality for strong recovery. The diagnosis of economic conditions in Portugal at the outset of 1976 will be detailed below as will alternative short term projections for the future. It should be emphasized that the optimism expressed is conditional, at best. The problems are profound and righting them will be a difficult operation. However, it is possible in 1976 to reduce the further economic traumas which will have to be suffered by Portugal and to place the economy on a stable footing in the medium run.

Enormous economic and social changes have occurred in Portugal since April 25, 1974. Important parts of the system of production and finance have been nationalized and reorganized. The participation of labor in decision-making has increased as has labor's share of the national product via large, though somewhat uneven, increases in wages. Price inflation, though beginning to accelerate even before April, 1974, has become an important fact of everyday life. And all of this has been accompanied by surging processes of political change.

Besides the adjustments within Portugal, there have also been international changes so profound as to provoke talk of a "new international order". Any economic diagnosis and prescription for Portugal must take these international developments into account. The Portuguese revolution coincided with an almost worldwide depression which had a particularly strong impact on Portugal's major trading partners. That and the independence of its former African colonies contributed to a sharp reduction in Portugal's exports. The depression in Western Europe, by increasing unemployment and reducing the incomes of emigrant workers, also reduced the flow of remittances. In previous years these were large enough to convert an unfavorable import-export trade deficit to a current account surplus in the Portuguese balance of payments.

Increases in oil and other fuel and commodity prices caused the same sharp deterioration in the Portuguese terms of trade that afflicted other Western European countries which are large importers of primary products and exporters of manufactures. The relative openness of the Portuguese economy made this a substantial loss of real income. These international changes have also been important contributors to internal inflation in Portugal, as in the rest of the world.

Although the depressions in the Western Europe and the western hemisphere countries have a variety of sources, they may be viewed in part as a response to the balance of payments pressures created by the unfavorable change in their international terms of trade. The economies have been depressed, creating unemployment and reductions

in consumption and investment, in order to reduce imports and pass on international price increases to domestic prices.

To an outside observer reading only the national statistical tables and not a word about social revolution, the record of the last year and a half in Portugal would not appear so different from that of the rest of Europe, with some puzzling discrepancies. While the economy is depressed, personal consumption has increased and, as noted, labor's share of the national income has also. But the major trends of reduced production and investment, balance of payments deficits and inflation would all look quite familiar and even in some respects less serious for Portugal than in some of the other countries of Western Europe.

The appearance of some statistical similarities in the developments in 1974 and 1975 in the Portuguese economy and those of some other European nations is both suggestive and potentially misleading. Thus, it is essential to have a clear diagnosis of the sources of the current difficulties of the Portuguese economy before attempting to make policy prescriptions. If the problem is really "chaos" and disruption of the organization of production and management in enterprises, then, in effect, there are "supply bottlenecks" which must somehow be overcome before a reasonable semblance of prosperity can be restored and the conditions for future growth created. If the problems are partly the result of loss of foreign markets due to international concern over the ability of Portuguese suppliers to meet delivery schedules because of labor unrest, then again there is a kind of supply bottleneck which has its origins in the economic and political

uncertainties within the country. On the other hand, suppose that the problems mainly originate abroad in losses of export markets and emigrant remittances due to foreign recessions. Then the remedies must be essentially of the aggregate demand stimulation type, with special concern for the direction of new investment to create new sources of foreign exchange earnings. And, if the problems have multiple sources of these and other types, then an appropriate mixed strategy must be developed.

It would be difficult to trace causes and effects and assign relative weights to the various influences in the best of circumstances, with timely and reasonably comprehensive and reliable data and a backlog of studies of export and import elasticities and productivity and capacity utilization and so on. There is no point in repeating the customary complaints about the inadequacies of Portuguese economic statistics, though they surely contribute to the high degree of uncertainty which is associated with any diagnosis and risk connected with any projection. These qualifications should be kept in mind in reading this report.

The first task undertaken is an evaluation of the real overall development of the Portuguese economy in 1975 and an assessment of the underlying factors. The next task is the projection of what appears to be a reasonable set of macroeconomic goals for 1976 and detailing of their implications for policy. In both the assessment of 1975 and the projection for 1976, special attention is paid to monetary policy and international financial issues. It should be emphasized that the 1976 projection is not a forecast of what will happen. To a much

greater degree than is customary, the economic events of 1976 will depend on the political decisions which are made early in the year. While the Portuguese economy is not in such bad condition at the end of 1975, it is on a steep and slippery slope and cannot possibly remain long in its present circumstances. To avoid sliding with accelerating rapidity toward a much worse situation, there must be a start in cutting the steps upward toward a better position, while Portugal still has the resources with which to do so.

2. Macroeconomic Conditions in 1975

For a country recently experiencing thorough social reform, a sea change in its foreign trade position and six revolutionary governments in the past nineteen months, Portugal enjoys unexpectedly good economic health. While real output clearly dropped in 1975, the decline was not precipitous; the best estimate is a three percent decrease in gross domestic product (GDP). By comparison with other OECD countries, the Portuguese experience does not appear to be much worse than average; in fact the economy's performance has been quite robust when the political uncertainties of 1975 are taken into account. By comparison, GDP decline in 1975 for the United States was about three percent; in West Germany it was close to four percent and in Italy almost four-and-one-half percent.

Estimates of Aggregate Real Income in 1975

To provide a basis for analyzing the current economic situation, a crude set of estimates for the national income accounts in 1975 has been prepared. As explained in the Appendix, the technique for

TABLE 1

National Accounts for 1975 (Millions of contos of 1974)*

	<u>Consumption</u>	<u>Investment</u>	<u>Government</u>	<u>Exports</u>	<u>Less Imports</u>	<u>Total</u>
Agriculture, forestry, fishing	66.9			6.4	-13.6	59.7
Manufacturing	100.4	32.1	15.3	36.4	-79.4	104.8
Construction		11.6				11.6
Services	105.5		30.7	16.5	-13.1	139.6
Indirect taxes less subsidies	31.3					31.3
Public transfers						
Totals	304.1	43.7	46.0	59.3	-105.1	347.0

* A conto is 1000 escudos.

TABLE 2

National Accounts for 1974 (Millions of contos of 1974)

	<u>Consumption</u>	<u>Investment</u>	<u>Government</u>	<u>Exports</u>	<u>Less Imports</u>	<u>Total</u>
Agriculture, forestry, fishing	62.0	2.0		8.3	- 16.5	55.8
Manufacturing	101.8	51.6	15.3	49.2	- 96.8	121.1
Construction		19.3				19.3
Services	97.3		30.7	23.6	- 20.2	131.4
Indirect taxes less subsidies	31.3					31.3
Public transfers				11.2	- 13.1	- 1.9
Totals	<u>292.4</u>	<u>72.9</u>	<u>46.0</u>	<u>92.3</u>	<u>-146.6</u>	<u>357.0</u>

TABLE 3

National Accounts for 1973 (Millions of contos of 1973)

	<u>Consumption</u>	<u>Investment</u>	<u>Government</u>	<u>Exports</u>	<u>Less Imports</u>	<u>Total</u>
Agriculture, forestry, fishing	42.7	1.3		6.4	- 9.3	41.1
Manufacturing	65.4	39.0	12.7	38.4	- 63.9	91.6
Construction		16.3				16.3
Services	71.8		25.5	22.3	- 10.5	109.1
Indirect taxes less subsidies	26.9					26.9
Public Transfers				9.1	- 11.0	- 1.9
Total	<u>206.8</u>	<u>56.6</u>	<u>38.2</u>	<u>76.2</u>	<u>- 94.7</u>	<u>283.1</u>

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constructing the accounts was to gather informed assessments of current trends in sectoral outputs and aggregate demand patterns, and exploit the identities of the accounting system to force these disparate numbers into a coherent pattern. The exercise would have been impossible without collaboration of economists in the Bank of Portugal and Ministry of Finance, who provided many insights into the Portuguese economy.^{1/}

Table 1 presents estimates for 1975, and Tables 2 and 3 present national income statistics for 1973 and 1974 on the same disaggregated basis. Associated with Tables 1 and 2 are the percentage changes from 1974 to 1975 in the sources and uses of national output, as shown in Table 4. As just indicated, estimates of many of these percentages along with the levels of economic aggregates in 1974 provided the basis for the first step in making the 1975 estimates.

TABLE 4

Percentage Changes in Important Economic Aggregates, 1975/1974

<u>Levels of value added</u>		<u>Aggregate demand by type</u>	
Agriculture	+ 7.0%	Consumption	+ 4.0%
Manufacturing	-13.5%	Investment	-40.0%
Construction	-40.0%	Exports	-35.7%
Services	+ 6.2%	Imports	-27.6%
Gross Domestic Product	- 2.8%	Trade deficit	-13.8%

The picture which emerges from these numbers is that of an economy whose overall level of activity was maintained by buoyant consumer

1/ The many people who provided information are of course not responsible for the use made of it. Also, the estimation methods have been set out in detail in the Appendix, so that people who take exception to our projections can determine the consequences of their own revisions for the overall set of numbers.

demand. Because of income redistribution under the Revolution, personal consumption rose from 73% of national product in 1973 to 82% in 1974, and continued to increase in real terms in 1975. On the other hand, investment in fixed capital (and possibly in inventories) declined sharply, and with it activity in construction and industries manufacturing building products. Exports have stagnated, from loss of markets both in the former colonies and in the recession-plagued Common Market. But due to lagging activity in manufacturing, which uses many imported intermediate inputs, imports declined as well, and the deficit on trade account actually fell from something like 54 million contos in 1974 to 51 million in 1975 (in current prices of each year).

The upshot of all these movements was an estimated decrease in real gross domestic product between 1974 and 1975 of 2.8%, a significant output loss but less alarming than some other estimates have made it. Changes in sectoral production levels, the decline in manufacturing especially, agree quantitatively with independent assessments as of late 1975. There is scattered evidence that the slowdown in economic activity may have worsened in the latter part of last year. ^{2/}

Price and Wage Changes in 1975

A good guess at the increase in a generalized price index such as the GDP deflator might be 20%. Such a magnitude is consistent with the outmoded Lisbon consumer price index, scattered information on increases

^{2/} For example, electricity production in the third quarter was 18% below its 1974 level, and showed an apparently more-than-seasonal decrease in relation to the second quarter. Capacity utilization in both consumer and non-consumer goods manufacturing seems to have fallen since March, 1975, according to preliminary results of the Inquerito de Conjuntura.

in labor and import costs, and money velocity considerations.^{3/}

Depreciation of the escudo has been modest--if indeed it has occurred at all with respect to major trading partners.

Wages also increased substantially during the year. The accompanying table presents the available price and wage index data. While skepticism with respect to the numbers is warranted, the relatively larger increase in wages than prices which is shown does appear to be valid.

TABLE 5

Indices of Recent Wage and Price Levels in Portugal*

(1970 = 100)

	Average Wholesale Prices of Domestic Production	Wages in Industry and Transportation (Lisbon)
1973/I	118	128.77
II	119	134.35
III	122	140.17
IV	131	144.33
1974/I	148	154.26
II	152	177.25
III	154	194.33
IV	160	198.58
1975/I	162	204.31
II	164	n.a.

* Sources: National Institute of Statistics, Monthly Statistical Bulletin, Bank of Portugal.

The Government Sector in 1975

Turning to fiscal issues, it is estimated that the cash deficit of the consolidated government sector ran to something like 33 million

^{3/} On the cost side, the shares of imports, wages, and payments to other factors are about 20%, 50% and 30% respectively. Nominal increases of 13% in import costs (world price increases plus the tariff surcharge) and 40% in wages together with no change in nominal payments to "capital" give a cost inflation estimate of 23%. Some of this has no doubt been contained by price controls.

contos in 1975, even with an abnormally low public investment expenditure of 13 million contos.^{4/} A deficit of such magnitude was inevitable last year, even though it was without precedent in Portugal. The fundamental rationale for the observed increase in government expenditure with respect to tax receipts is nothing other than the economy's shift into a current account deficit position in its balance of payments.

In the past, Portugal was able to run current account surpluses, making it possible for the government accounts to be in balance without having a major depressing effect on the economy. However, in the new circumstances of reduced exports and remittances and higher import prices, there is a chronic current account deficit. Such an excess of foreign exchange payments over receipts diverts purchasing power abroad and cuts back effective demand within the country. The loss in demand can be offset in various ways, but an excess of government spending over revenues is by far the most effective on a large scale. Had there not been a government deficit in 1975, the private sector would have had to adjust to the trade deficit by cutting investment and consumption with consequent reductions in imports. There were substantial, though undesired, reductions in investment. However, Portuguese authorities wisely supported personal consumption by not following "balanced budget" policies. As will be seen below, there will have to be a similar willingness to engage in deficit finance to maintain aggregate demand in 1976.

^{4/} Details on the 1975 consolidated government accounts appear in Table 13 below.

Money and Finance in 1975

The changing balance of payments situation also led to fundamental modifications in the money supply process in Portugal. Putting the matter briefly, the source of domestic money creation is no longer a balance of payments surplus and has become domestic credit creation instead. Table 6 gives the details in the form of quarterly data on the principal monetary aggregates. The last two lines show the increasing divergence between the monetary base and the net external assets of the Bank of Portugal, with international reserves falling while the monetary base (reserves plus domestic credit) increases.

The decline in the Bank of Portugal's net foreign assets is the financial counterpart of the current account deficit, the real causes of which have already been discussed. One important point to note is that the quarterly loss in reserves has stayed roughly constant in nominal terms since mid-1974. With an inflation rate of 20%, the real deficit is actually declining. This is another piece of evidence supporting the conjecture that the recession in Portugal is deepening -- real demand for foreign resources is dropping off as the level of economic activity declines.

The monetary data in Table 6 show a rising stock of currency in the hands of the public throughout 1974 and 1975. The stock of currency has been rising absolutely and relative to both M_1 and M_2 . Previous commentators have noted as two important explanations the redistribution of income toward labor and the preference for currency that arises because of the nationalization of banks and political

TABLE 6: MONETARY DATA (MILLIONS OF CONTOS)

	1973				1974				1975				
	I	II	III	IV	I	II	III	IV	I	II	III	Nov.	Dec.
CURRENCY	35	36	39	38	39	51	59	70	76	85	100 ^P	103 ^P	112 ^P
M ₁ = Currency + Demand Deposits	126	131	141	166	156	158	162	183	177	186	204*	209*	226*
M ₂ = M ₁ + Time Deposits	244	256	272	301	301	307	320	342	342	351	362*	366*	386*
FOREIGN ASSETS, net	72	73	76	78	73	69	69	63	58	55	45*	39*	37*
of which: Bank of Portugal	67	67	70	72	68	65	63	56	51	48	38 ^P	33 ^P	32 ^P
MONETARY BASE	62	65	69	71	68	72	81	95	89	95	111 ^P	116 ^P	130 ^P

* Estimate. ^P Provisional.

NOTE: The figures for currency are obtained from the numbers of currency and coin outstanding less bank vault cash. For November, 1975, bank vault cash is assumed equal to 3 billion escudos; for December, 1975, it is assumed equal to 4.7 billion escudos. The estimates of M₁ and M₂ figures for September, 1975 are obtained from a sample of eight banks and the Caixa Geral de Depositos, and those for November and December, 1975, from a sample of four banks and the CGD. Net foreign assets include gold valued at the "official" price.

14.

events that appear to render bank deposits more vulnerable to state control and supervision. While this rising trend for currency continued through November, 1975, there is some evidence that since that time some stabilization of the behavior of currency has taken effect.

The large increase in the currency to money ratio since 1973 should be of no concern to policy makers. The argument that the large stock of currency outstanding could lead to sudden and uncontrollable dishoarding or to a reflow into the banking system resulting in a credit explosion is of little substance. First, dishoarding can as much be financed by deposits as it can by currency so that there is no presumption that the stock of currency is a measure of likely changes in the velocity of circulation (the ratio of money to income). Second, a reflow of currency into the banking system, if it took place, would make the banks more liquid. Whether it would lead to a credit explosion is entirely a matter of credit demand and monetary policy. As a matter of monetary policy it is very easy to offset increased bank liquidity by reduced discounts or increased reserve requirements so that from this perspective also there is no need for concern. Perhaps, even more importantly, the current investment climate is assuredly not one where a credit explosion is to be feared.

The next question concerns the growth rate of monetary aggregates M_1 and M_2 in 1975 and the issue whether monetary growth was sufficient or perhaps even excessive. Table 6 shows that monetary growth from the third quarter of 1974 to the third quarter of 1975 was 26% for M_1 and 13% for M_2 . The increase in M_1 relative to M_2 reflects primarily the fast growth of currency that accounts for about 50% of M_1 and only

about 28% of M_2 . Using end of year monetary estimates, the growth rate of monetary aggregates for the fourth quarter of 1975 relative to the fourth quarter of 1974 is 23% for M_1 and 13% again for M_2 .

It is safe, therefore, to infer that monetary growth during 1975 was of the order of 25%, certainly not falling short of 20% and certainly not in excess of 30%. This contrasts with a growth of M_1 in the preceding year of only 10%. The adequacy of this monetary growth has to be judged relative to the essentially exogeneous increases in wages and prices. Given a rate of price increase of around 20%, the monetary growth was about adequate to finance a constant level of real income with allowance for some decline in velocity. In fact there is a presumption that velocity should have declined because of the effect of income redistribution on money demand. If this additional factor is taken into account, then monetary growth in the 1974/75 period was, if anything, rather modest and the monetary situation was tight.

To judge the extent of the tightness, it is necessary to form a judgment about the effect of income redistribution on money demand. A rough, and rough indeed, idea of the magnitudes involved was obtained by first dividing money holders into two groups that, respectively, will be identified with earners of labor incomes and the earners of income from capital and other sources. The recipients of labor income will increase their money demand by an amount equal to their income elasticity of demand for money times initial money holdings times the percentage change in their incomes. Similarly, the recipients of other types of income will reduce their money demand by

TABLE 7
MONEY MULTIPLIERS, 1973-75

	1973				1974				1975				
	I	II	III	IV	I	II	III	IV	I	II	III	Nov.	Dec.
Currency/Base	.56	.55	.57	.53	.57	.71	.73	.74	.85	.89	.90	.89	.86
M ₁ / Base	2.03	2.01	2.04	2.33	2.29	2.19	2.00	1.92	1.99	1.96	1.84	1.80	1.74
M ₂ / Base	3.94	3.94	3.94	4.24	4.43	4.26	3.95	3.60	3.84	3.69	3.26	3.16	2.97

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their income elasticity times initial money holdings times the percentage change in their income. Total demand for money will increase because the income elasticity of money demand is significantly higher for low income groups as compared to high income groups.

The magnitude of the increase in money demand will depend on three factors: (i) the difference in income elasticities, (ii) the initial distribution of money holdings, and (iii) the magnitude of the income redistribution. To obtain an estimate of this increase in demand for money, the following assumptions are made: (i) labor's share in income has risen as a consequence of the redistribution of income, from 45% to 65% of income; (ii) initially, wage earners held 60% of the stock of M_1 ; (iii) finally, labor has an income elasticity of demand for money unity as compared to 0.5 for recipients of other incomes. These assumptions yield an increase in total money demand of 24%. An alternative and very conservative estimate would assume an initial income distribution and money holding distribution for each group of 50% and income elasticities of unity and 0.5 respectively. This leads to an increase in money demand of 7.5%. If, in addition, it is recognized that the refugee inflow raised population and, therefore, money demand by 3% to 4%, it is safe to assume that these factors in combination contributed to an increase in money demand of at least 10% and perhaps as much as 25% over the period since the second quarter of 1974. Although the exact number is obviously quite uncertain, it is nevertheless safe to conclude that a significant increase in money demand resulted from these sources.

While the income redistribution served to increase money demand at each level of income, an opposing force derives from the effect of

inflationary expectations. The anticipation of inflation at the level experienced in the past year would cause substitution from money to real assets such as consumer durables. Households will attempt to evade the depreciation of the purchasing power of their wealth by holding real assets. The empirical magnitude of this factor is hard to assess. It is not unreasonable, however, to assume that the doubling of the inflation rate in 1974/75 as compared to the 1970/73 period should have contributed to a reduction in money demand by 10 to 20% at each level of income.

On balance, therefore, we would expect some reduction in velocity perhaps of the order of 5-10%. This is, in fact, borne out in a rough manner by Table 8 which shows money, income and velocity figures for the 1970-75 period.

The implication of the preceding analysis is that monetary policy was about right and perhaps even somewhat tight considering the low money growth in 1974. The analysis lends support to the view that the estimate for 1975 of a nominal income growth of about 16% (20% inflation and a 3% decline in real activity) is a reasonable approximation of events. If the inflation has been significantly higher, that would imply an unreasonably high number for velocity. Conversely, if there has been a significantly larger decline in real activity, that would imply too much of a fall in velocity relative to what can be rationalized from the effects of income redistribution.

Supply Constraints

Although this diagnosis of the factors determining the economic conditions of 1975 has, so far, stressed influences on the demand side,

TABLE 8

Money, Income and Velocity, 1970-75

	1970	1971	1972	1973	1974	1975
Income (GDP)	179	200	233	283	357	421
M ₁	93	105	122	166	183	226
Velocity (Income) (M ₁)	1.92	1.90	1.91	1.70	1.95	1.86
M ₂	156	189	235	301	342	386
Velocity (Income) (M ₂)	1.15	1.06	.99	.94	1.04	1.09

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"supply constraints" arising from labor unrest and management difficulties were also significant. Unfortunately, the evidence on these matters consists largely of anecdotes and newspaper stories which owe at least some of their wide acceptance to repetition. It is also possible that the labor and management problems of relatively large enterprises in the Lisbon region have colored the entire outlook. There is no adequate quantitative information about the degree and sources of disorganization in productive establishments. The new legal constraints on release of workers would make it difficult to use labor productivity data for this purpose in any case. Since demand and production have certainly fallen, while virtually a full complement of workers have been retained, as a matter of arithmetic, productivity has fallen.

A brief but rather wide-ranging discussion with public and private management officials gave the impression that the stories of disruption in production may have been exaggerated. There have certainly been labor unrest, an increase in absenteeism, a reduction in the effectiveness of supervision at the shop level and a slowdown in work speeds in some cases. Other situations were mentioned in which there was no decline in productivity. Where slowdowns have been observed, those were related to reduced backlogs so that workers were only extending the visible work load over a longer period. It was felt that an increase in orders would be accompanied by increases in productivity. Interestingly, there were general reports of recent reductions in worker militancy which had interfered with production.

It is difficult to draw general lessons from fragmentary and anecdotal evidence. However, the conclusions which appear warranted

from all the information available are: (i) Productivity has fallen, but at least part of the decrease is due to lack of demand and the inability of management, both private and public, to discharge workers. (ii) Labor is more active than under the ancien regime, both in wage demands and in pressing a variety of pent-up grievances. Because this is a novelty in Portugal it would, in itself, tend to create a climate of labor militancy in which the appearance is less than the reality, which might be no more difficult than in most other Western European countries. (iii) There have been substantial wage increases but these have been uneven in their spread and, therefore, inequitable to those groups which have been left behind in the inflationary process.

Prospects for 1976

The economic situation in 1976 will be affected strongly by the rate of recovery from recession of those economies which have been the major markets for Portugal's exports. Even more importantly, the economic situation over the next year will depend crucially on internal events: the outcome of farm production as affected by weather and agricultural reorganization and the effectiveness of government domestic policies to stimulate economic activity. In particular, government decisions with respect to the size and detail of its budget, especially the public investment program, and the effectiveness with which budgetary allocations are translated into concrete programs, will have a great effect on the economy.

Aggregate Real Developments

In such circumstances, economic forecasts are unusually risky. Because of this, two alternative projections are made, based on different

assumptions with respect to export trends and agricultural production. In making the projections for 1976, the procedure has been to postulate a plausible set of goals for the economy and then develop their implications for overall growth and the role of the government, using the alternative assumptions about exports and agriculture. The intention is to be as explicit as possible in describing the calculations in order to aid others who may want to rephrase the projections in terms of alternative social goals. The conditional nature of the projections should be emphasized since both may seem somewhat optimistic, though in different respects. They are not forecasts of what will happen, but rather indications of what can happen if external and internal developments and policies take the forms specified.

A major difference in the two projections is in the assumptions which they embody with respect to domestic agricultural output in 1976 and in export performance. The first projection may be regarded as somewhat pessimistic on both counts, though by no means outside the realm of what can realistically be expected. Agricultural production in 1976 in the first projection is assumed to return to the levels achieved in 1974. This is due mainly to the exceptionally favorable nature of the harvests of the major crops in 1975, but also in order to reflect to some extent the disruptions in agricultural activity in some parts of the country during the planting seasons for the 1976 crops. Exports in the first projection are assumed to grow in 1976 above their 1975 levels, but by only three percent, which would still leave them well below their 1974 levels. On the other hand, the first projection is optimistic with respect to the domestic investment targets which

could be achieved and with respect to the success of domestic policies in modulating the growth of imports and consumption.

In the second projection, agricultural output in 1976 is assumed to be less than that of 1975 by only two percent; this is still over 4.5 percent above the agricultural output of 1974 and reflects an annual growth rate of above two and a quarter percent. Exports are assumed to grow much more rapidly than in the first projection, at a rate of 15 percent, which if continued and augmented somewhat, would mean a recovery to 1974 levels by 1977. Investment in the second projection is less buoyant than in the first, assuming only that the real levels of 1974 will be reached but not exceeded.

Both projections reflect optimism with respect to the willingness of the government to utilize its gold reserves directly, or indirectly via borrowing, to cover the trade deficit. Thus it is assumed that the expansion of the economy will not be constrained in order to reduce substantially the trade deficit which should be expected to accompany that expansion. The projections are also optimistic with respect to the willingness of the government to incur an historically unprecedented cash deficit on its own accounts. It should be emphasized, however, that the objective of this government deficit is not to finance immediate additional increments in consumption, but to generate new investment. This would create capacity and improve productivity in order to regain export markets and increase domestic income. The differences in the two projections is that the first is somewhat more pessimistic than the second with respect to events which are, in large respect, exogenous to domestic economic policy, i.e., agricultural production, as dependent

on weather conditions, and exports. But the second projection is more pessimistic with respect to the levels of investment which can be attained by domestic economic policy.

The first step in making the 1976 forecasts was to convert the 1975 real GDP estimates of Table 1 from 1974 to 1975 prices. Impressionistic reading of the Lisbon cost-of-living index plus last section's considerations regarding the observed money velocity suggest that the 1975 overall inflation rate for goods utilized domestically must have been about 20%. If import and export "border prices" increased by 10%, estimates are obtained for 1975 national output aggregates in 1975 prices as shown in Table 9.

TABLE 9

Aggregate Demand Levels in 1975 in 1975 Prices (Millions of Contos)

Consumption	364.9
Investment	52.4
Government	55.2
Exports	65.2
Less imports	-116.7
GDP	421.0

In detail, the assumptions for the first projection are: (i) Real consumption will continue to increase in the aggregate. Per capita consumption will not be permitted to fall in spite of the economic difficulties which Portugal faces, but will rise slightly as a result of continued adherence to an incomes policy and push for distributional equity. Taking population growth into account, the projected rate of growth for consumption was set at 3%. It was estimated that 22% of consumption expenditures would go to agriculture and 33% to manufactures. (ii) Real investment will regain its long-term

growth path by increasing to a level equal to two year's growth at 3% from the 1974 level. This represents an increase in investment demand of 77% over 1975 and is the most optimistic of the assumptions embodied in the projection. (iii) Because of some disruption in land reform and depletion of capital, agricultural output falls back to its 1974 level in real terms. (iv) Government consumption rises 8.7% in real terms, to 60 million contos, a number frequently cited in discussions. (v) Agricultural exports remain at their 1975 level in real terms, while manufactured and service exports rise 3%. (vi) Manufactured imports are estimated by assuming that the direct-and-indirect import content of manufactures for consumption, government and export demands is 40%, and is 50% for investment goods. Service imports are held down to a level just sufficient to offset service exports. (vii) Indirect taxes (including 4.5 million paid to local authorities) are assumed to be 40 million contos, an increase of 6.5% over 1975.

These assumptions lead to the real national product estimates shown in level terms in Table 10 and in growth rate form in Table 11. The latter shows that 5.6% real GDP growth is projected for 1976, if the rather ambitious targets regarding consumption and investment increases are in fact met. The trade gap (imports less exports) increases from 51.5 to 84.0 million contos, a jump of almost 65%. With remittances remaining at their 1975 level of 23.6 million contos, the 1976 current account deficit is projected to be 60.4 million contos, an increase of 32.5 million over 1975. As discussed below, the government cash deficit consistent with the GDP forecast of Table 10 amounts to 43 million contos. If in addition, inflation continues at fifteen or twenty percent per year, all the foregoing estimates in terms of 1975 prices will have to be rescaled accordingly.

The major uncertainties associated with this projection are whether the aggregate consumption increase can be held to the assumed value of three percent by wage and incomes policy, and whether investment will return to its historical share of about 20% in GDP, from 12.6% in 1975. In both cases, government intervention may be necessary -- to restrain the wage bargain and generate investment.

This first projection, as noted, is based in part on a rather pessimistic view regarding exports. As will be seen below, more export growth could substantially reduce the foreign trade and/or government deficit, and policy should probably be directed very heavily toward export stimulation. In Projection II it is assumed that expansion of the economies of Portugal's major trading partners, plus effective domestic policy, do succeed in achieving a higher level of exports.

The detailed differences in the bases for the second projection as compared to the first are: (i) Real investment will reach but not exceed the levels of 1974. (ii) Agricultural output falls by only two percent in 1976 as compared to 1975. (iii) Agricultural exports remain at their 1975 levels but industrial and service exports each increase by fifteen percent. (iv) Manufacturing and service imports remain virtually unchanged from the levels of Projection I. (v) Some small gains are made in international transfers.

The national product figures for Projection II generated by these assumptions are shown in Table 12 and, in summary form, with associated growth rates from 1975 levels in Table 13. The real rate of growth implied in Projection II is even higher than that for Projection I and is the result of the assumed higher agricultural production and export

TABLE 10

Projection I: National Accounts for 1976 (Millions of contos of 1975)

	<u>Consumption</u>	<u>Investment</u>	<u>Government</u>	<u>Exports</u>	<u>Less Imports</u>	<u>Total</u>
Agriculture, forestry fishing	82.7	2.5		6.4	- 24.6	67.0
Manufacturing	124.0	65.7	20.0	41.2	-107.0	143.9
Construction		24.6				24.6
Services	129.1		40.0	18.7	- 18.7	169.1
Indirect taxes less subsidies	40.0					40.0
Public transfers						
Totals	375.8	92.8	60.0	66.3	-150.3	444.6

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TABLE 11

Aggregate Demand Levels Estimated for 1975 Compared With
Projection I for 1976 and Implied Growth Rates in 1975 Prices

(Millions of Contos)

	1975	1976	Growth Rates (percent)
Consumption	364.9	375.8	3.0
Investment	52.4	92.8	77.1
Government	55.2	60.0	8.7
Exports	65.2	66.3	1.7
Less Imports	-116.7	-150.3	28.8
Gross Domestic Product	421.0	444.6	5.6

achievements offset to only a limited degree by the lower investment projections. There is also a smaller trade deficit than in the first projection, 70 million contos as compared to 84 million, due to the higher level of exports and lower level of imports, the latter a result of the lower level of investment assumed. As will be noted below, the government deficit implied in Projection II is lower than in Projection I, also because of the lower level of domestic investment.

Projections I and II embody relatively optimistic assumptions, although with respect to somewhat different components of national demand and output. It should be emphasized again, however, that the optimism is conditional: skillful and forceful government action would be required within the framework of foreign and domestic constraints which shape the projections.

To help set guidelines for monetary and fiscal policy, it is useful to derive the consolidated cash deficits of the government sector which are implied by each of the projections. For each one it is done in two steps, first the income and product accounts are summarized in terms of a statement of sources and uses of saving. In national accounting terms, the standard savings-investment balance takes the following form:

<u>Sources</u>		<u>Uses</u>
Private saving		Total investment
	+	
	=	
		+
Government current surplus (Taxes + Other revenue - transfers - government consumption)		Current account surplus (Exports + Emigrants' remittances - Imports)

This accounting separates saving, from private and public entities, respectively. It shows that saving can be used to accumulate assets

TABLE 12

Projection II: National Accounts for 1976 (Millions of contos of 1975)

	<u>Consumption</u>	<u>Investment</u>	<u>Government</u>	<u>Exports</u>	<u>Less Imports</u>	<u>Total</u>
Agriculture, forestry, fishing	82.7	1.5		7.0	- 20.3	70.9
Manufacturing	124.0	61.9	20.0	46.0	-107.0	144.9
Construction		23.1				23.1
Services	129.1		40.0	20.8	- 18.2	171.7
Indirect taxes less subsidies	40.0					40.0
Public transfers	<u> </u>	<u> </u>	<u> </u>	<u>3.8</u>	<u>- 2.2</u>	<u>1.6</u>
Totals	375.8	86.5	60.0	77.6	147.7	452.2

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TABLE 13

Aggregate Demand Levels Estimated for 1975 Compared With
Projection II for 1976 and Implied Growth Rates in 1975 Prices
(Millions of Contos)

	1975	1976	Growth Rates (percent)
Consumption	364.9	375.8	3.0
Investment	52.4	86.5	65.1
Government	55.2	60.0	8.7
Exports	65.2	77.6	19.0
Less Imports	-116.7	-147.7	26.6
Gross Domestic	421.0	452.2	7.4

either domestically, through physical investment, or abroad, through a current account surplus. For complete accounting, emigrants' remittances must be included as a source of foreign exchange, and transfer payments as a use of government resources. The cash deficit of the consolidated public sector is given by the negative of "government current surplus" plus government direct investment expenditure.

Table 14 contains the estimates of the savings-investment flows for 1973, 1974, 1975 and for 1976, according to the two projections. Private saving is derived as a residual for 1973-75, and government current surplus as the residual in 1976.^{5/} The major point to be noted is the steady swing of the current account deeper into deficit in recent years. To repeat a point already made, adverse shifts in the terms of trade, lagging exports and the strong import dependence of its production structure have made it impossible for Portugal to cover its visible trade deficit by remittance flows from its workers "exported" to the Common Market and the New World. Because Projection II assumes higher exports, it embodies a lower current deficit than Projection I, but in both projections the trade deficit for 1976 is much larger than in previous years.

To maintain output steady, the decrease in purchases within Portugal which a negative trade balance entails has to be offset in some way, principally by increases in investment or government deficit spending. In 1975, both private and government saving declined sharply

^{5/} Private savings is estimated at 11.1% of GDP in 1976, or 5.8% net of emigrant remittances. Both shares are about one-half percent higher than the corresponding values in 1975, but well below their pre-Revolutionary 1973 levels of 28% and 15% respectively. The decline in overall savings effort reflects income redistribution since the Revolution, and in fact helps offset some of the deflationary impact of foreign saving flowing into Portugal via the balance of payments deficit.

to offset the trade deficit. Had investment demand remained high, more saving within the country, and a correspondingly higher level of overall economic activity, would have been possible.

Since both the 1976 projections assume a recuperation of investment relative to the trade deficit, domestic saving must increase. Much of the increment will come from private saving, if national output does grow as projected. But to maintain aggregate demand, government expenditures will have to stay high as well. In Projection I, there is no anticipated decline in the government deficit. Projection II does embody a reduced government deficit. In both projections the deficit is neither more nor less than the domestic counterpoise to a large foreign exchange gap.

As shown in Table 14, the current expenditure deficit of the government sector in 1974 was 4.1 million contos, representing a swing of 11.7 million from the surplus in 1973. The current deficit in 1975 was estimated at 20 million contos. Together with public investment expenditures of 13 million, this gives the estimated 33 million conto cash deficit mentioned in the preceding section. The details of the government accounts estimated for 1975 appear in Table 15.

From Table 14, the current expenditure deficit of the government in 1976, according to Projection I, is 17.6 million contos. When 25 million contos of investment expenditure are added to this, the cash deficit becomes 42.6 million contos, or 9.6% of GDP. Details of the consolidated government budget associated with Projection I are shown in Table 16.

TABLE 14

Savings-Investment Balances, 1973-76

(Millions of contos of each year)

	(1)	(2)	(3)	(4)	(5)
	<u>1973</u>	<u>1974</u>	<u>1975</u>	Projection I <u>1976*</u>	Projection II <u>1976*</u>
Private saving	57.5	50.9	44.5	50.0	50.0
Government saving	7.6	- 4.1	-20.0	-17.6	-10.0
<hr/>					
Total investment	56.6	72.9	52.4	92.8	86.5
Current account surplus	8.5	-26.1	-27.9	-60.4	-46.5
Exports less imports	-18.5	-54.3	-51.5	-84.0	-70.1
Remittances	27.0	28.2	23.6	23.6	23.6
<hr/>					
Totals	65.1	46.8	24.5	32.4	40.0

* 1976 estimates are expressed in millions of contos of 1975.

TABLE 15

Government Receipts and Expenditures, 1975

(Millions of contos of 1975)

Receipts		Expenditures	
Direct taxes	45.0	Transfers	57.7
Social Security	25.0	Social Security	30.0
Other central gov't.	16.5	Other	27.7
Other local gov't.	3.5	Government consumption	55.2
Indirect taxes	37.6	Government investment	13.0
Central gov't.	33.5		
Local gov't.	4.1		
Miscellaneous revenues	10.3		
Cash deficit	<u>33.0</u>		
Total receipts	125.9	Total expenditures	125.9

Although Portugal has traditionally been a country in which the government has not run a deficit, this situation probably changed permanently in 1975. The cash deficit for that year estimated here amounts to 7.8% of GDP. By the standards of most countries, particularly when they are in recession, this is not astounding. But when one considers that the deficit in 1974 -- the year of the Revolution -- was only 1.1% of GDP, the change looms large. Few countries have managed almost one year of revolutionary government with essentially a balanced budget!

TABLE 16

Projection I: Government Receipts and Expenditures, 1976

(Millions of contos of 1975)

Receipts		Expenditures	
Direct taxes	46.5	Transfers	53.1
Social Security	25.0	Social Security	30.0
Other central government	18.0	Other	23.1
Other local government	3.5	Government consumption	60.0
Indirect taxes	40.0	Government investment	25.0
Central government	35.5		
Local government	4.5		
Miscellaneous revenues	9.0		
Cash deficit	<u>42.6</u>		
Total receipts	138.1	Total expenditures	138.1

Table 17 contains the government budget implied by Projection II. In this table, government investment is maintained at the same level as shown in Table 16 for Projection I but transfers are reduced to reflect the smaller government deficit of 35.0 contos or 7.8 percent of GDP.

TABLE 17

Projection II: Government Receipts and Expenditures, 1976

(Millions of contos of 1975)

Receipts		Expenditures	
Direct taxes	46.5	Transfers	45.5
Social Security	25.0	Social Security	28.0
Other central government	18.0	Other	17.5
Other local government	3.5	Government consumption	60.0
Indirect taxes	40.0	Government investment	25.0
Central government	35.5		
Local government	4.5		
Miscellaneous revenues	9.0		
Cash deficit	<u>35.0</u>		
Total receipts	130.5	Total expenditures	130.5

As a final exercise with the accounts, a potential means of financing the estimated trade deficit of 84 million contos in Projection I is indicated in Table 18.

TABLE 18

Projection I: Financing the 1976 Trade Deficit (Millions of 1975 contos)

Trade deficit (imports less exports)	84.0
<u>less</u> emigrant remittances	<u>-23.6</u>
	60.4
<u>less</u> suppliers' credits for capital goods	
imports (one-half of such imports)	<u>-16.4</u>
	44.0

The projected 44 million conto balance of payments deficit should be adjusted for capital movements, but it is assumed that short-term liabilities of 5 million in 1976 will be more or less offset by a capital inflow of similar magnitude, for example, emigrant remittances in foreign currency as has occurred regularly for some years.

Note that the balance of payments deficit, in principle to be financed by loss of gold reserves and/or foreign borrowing, and the government cash deficit are approximately equal, leaving the money base unchanged. Since the money supply will have to expand in 1976 to ratify inflation and keep up with real output growth, some problems of money creation become apparent.

TABLE 19

Projection II: Financing the 1976 Trade Deficit (Millions of 1975 contos)

Trade deficit (imports less exports)	70.1
less emigrant remittances	<u>23.6</u>
	46.5
less suppliers' credits for capital goods	
imports (one half of such imports)	<u>-15.5</u>
	31.0

Again the projected deficit must be adjusted for capital movements, and it is assumed that short-term liabilities of 5 million in 1976 will be offset of capital inflows of a similar size. Notice that in Projection II the cash deficit of the government is greater than the reserve loss by 4.0 contos. In this event the problem of expanding the money supply would be somewhat reduced.

Balance of Payments Policy

The economy is a seamless web, and actions aimed at influencing one part of it ultimately impinge on the rest. Nonetheless, it is useful to start policy analysis at some point of extreme tension, such as the balance of payments in Portugal's case. As just mentioned, if investment recovers and there is healthy growth in real output, the current account deficit might rise to about 60 million contos as in Projection I, or 46.5 million contos in Projection II. If suppliers' credits for a substantial fraction of capital goods imports (33 million contos in total in Projection I, and 31 million contos in Projection II) are obtained, the balance of payments deficit might be around 40 million contos in Projection I or 30 million contos in Projection II. Such deficits would be financed by some combination of gold sales and foreign debt. In a small country, deficits of such magnitude cannot persist indefinitely and steps must be taken to eliminate them. But in the short run the trade gap is unavoidable, and estimates discussed below indicate that if worse comes to worse, it could in principle be financed by long-term borrowing on gold or outright sales for perhaps two years.

The essential problem is that of the relative competitive power in international trade of Portugal's industries. Increases in wages and import costs in Portugal have been substantial and as economists of all persuasions have recognized, including socialist economists from Marx on down through Sraffa and Kalecki, money cost increases inevitably get passed along in prices. With costs and prices rising more rapidly for the moment at home than abroad, Portuguese exports are losing competitiveness and so that new policies are called for. There are various

alternative mechanisms to be considered ranging from increasing the subsidies to firms now being given through the banking system to exchange rate adjustments. In choosing among alternatives, the potential advantages must be considered of providing explicit market signals to the segment of the economy mostly remaining under private control.^{6/}

The importance of foreign exchange earnings to medium term development in Portugal suggests that particular attention should be given to export-stimulation policies.^{7/} Possibilities include: (i) Generous use

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- 6/ A little-noted aspect of the now-subsided 1975 wave of nationalizations is that it largely affected sectors responding to derived demands, i.e., industries producing intermediate goods but not final products were nationalized. The sectors such as consumer goods and exports which actually give rise to intermediate demand were largely left in private hands. Paradoxically, in a highly socialized economy (a conservative estimate would put 50% of economic activity under some sort of state control) the government must still resort to incentives to the private sector to generate demand for the industries it manages. Further, since the leading export sectors--textiles and metallurgical industries--are in highly competitive world markets, the issue of price incentives becomes more crucial still. For the medium term, key sectors in the Portuguese economy are likely to remain capitalist. The government has little choice but to play the price-dominated capitalist game with their owners.
- 7/ The importance of export growth can be grasped by considering a 1976 projection which has exports of manufactures and services returning fully to their 1974 levels, instead of growing at 3% as in Projection I (Table 10). In 1975 prices such an optimistic export forecast would imply a value for total exports of 87.12 million contos, an increase of 20.82 million relative to the projection for 1976 laid out in Table 10. If, in fact, commercial policies, a devaluation and the world recovery were to raise exports to such a significant extent, what adjustments would be required? One alternative is to leave consumption and investment targets unchanged and let the improved export position be reflected in income growth. Since exports have a 40% import content, the improvement in the current account would equal 12.5 (=20.82 times .6) and so would the increase in GDP relative to the projections in Table 10. To maintain consumption constant, a reduction in transfers in the amount of 12.5 million contos would be called for. Accordingly such an export performance would imply an equal improvement in the balance of payments and the government budget. An alternative adjustment that implies larger reserve savings would involve a compensating reduction in investment spending so as to hold income constant. Such a policy would imply a reduction of investment equal to 25 million contos and an improvement in the current account of 25 million contos. The improvement in the current account is large in this instance because investment spending with an import content of 50% would be used to adjust for the current account improvement.

of tax drawbacks in favor of export industries -- a policy followed with success by South Korea and Brazil; (ii) Establishment of sub-rosa export quotas for major firms, another policy followed by those countries; (iii) Protection of exporters against exchange risk via the Bank of Portugal selling them foreign currency futures at discount; (iv) Not permitting export industries to be so heavily penalized by wage increases. In the particular case of tourism, Portugal still appears to be price-competitive, but a special exchange rate might bolster the confidence of travelers made apprehensive by recent political events.

On the import side, the first thing to recognize is that over one-half of Portugal's imports are intermediate goods, required to maintain production. Another fifth or so are investment goods, which also should not be cut back. Among the remaining imports, the case for high tariffs or quantitative restrictions against cars, consumer durables, their components and their fuels is clearcut. The quantitative restrictions cut more cleanly, can be rescinded easily in response to manufacturers' sales of Portuguese-made components to branches abroad, and are perhaps to be preferred. In any case, the share of imports affected by such measures will be small, say five or ten percent of the total. This is not an argument against restricting luxury imports, but only an observation that their reduction will not conjure away the balance of payments problem.

Some reductions are also possible in imports of agricultural and food products, especially maize for animal feeding. The value of maize

imports was substantial in 1975, in part because of high world prices which are now falling. However, maize is also a luxury good, since it is ultimately used to satisfy a taste for grain-fed beef which is apparently growing in Portugal as in the rest of Western Europe.

Scant social harm will result from cutting imports by postponing for some little time the country's acquisition of an unsalubrious taste for cholesterol and protein. Restricting meat demand by letting prices for choice cuts go up while maintaining prices for lower quality beef might be the appropriate policy device.

There is no case at all for reducing staple food imports. Even if agriculture performs badly next year, the volume of staple purchases abroad will not be great, and there is some chance of obtaining special terms from suppliers like the U.S. or France. Any restriction in staple supplies will lead to sharp price increases either in legal or parallel markets because consumers almost always bid up prices for scarce basic foods as they attempt to avoid doing without. Import restriction would save little foreign exchange, rekindle inflation, and penalize the poor who would be forced out of staple food markets by price increases much more rapidly than affluent segments of the population.

In the medium term, in order to reduce balance of payments problems, investment should be directed toward export creating and import-substituting industries. Possible new exports might be ascertained by close study of the trade patterns of Spain, Greece and Portugal's per capita income level and with roughly analogous resource endowments.

Choice of import substitution alternatives should be made on the basis of relative costs and benefits. In such projects, measuring returns in terms of foreign exchange benefits net of associated foreign exchange costs for intermediate inputs and capital goods is often convenient. Pushing exports rather than import substitutes may be less risky from the point of view of society at large, since if a new export industry cannot compete effectively in foreign markets it is likely to fail. Inefficient import substitution industries can always be kept alive by high enough tariffs and an enterprise once in operation usually comprises enough vested interests, ranging from petty merchants selling to the lowest paid employees up to the board of directors and local provincial authorities, to call protection forth.

Finally, if it chooses, Portugal should be able to borrow easily because it has a relatively small amount of foreign debt. With political stability, the country will become a more attractive credit risk, either for bankers or direct investors. Regardless of what attitudes the government may finally adopt toward foreign borrowing, steps taken now to establish contacts will create rapport with lenders should Portuguese authorities choose to utilize their services.

Fiscal Policy

It has already been noted that barring unforeseen revisions downward of food and fuel prices and an extremely rapid European recovery, which would stimulate both Portuguese exports of goods and services and emigrant remittances, the country will face a large payments deficit next year. Further, it has been argued that, since the payments deficit is equivalent to a substantial loss of purchasing power

within Portugal, the government should run a deficit to create enough demand to maintain a high level of economic activity. The operational questions are how the deficit should be implemented fiscally and the sectors of the economy it should benefit.

The rough calculations for Projection I in terms of 1975 prices indicate that expenditures of the consolidated public sector would run to about 138 million contos next year. This will be covered by 46.5 million in direct taxes, including receipts of the social security system, 40 million in indirect taxes, 9 million in other revenues, including government bookkeeping transactions via contas de ordem, and a 43 million conto cash deficit. Actual expenditures in 1976 have been projected in terms of 1975 prices. If, in fact, only about 80% of budgeted expenditure is actually made in Portugal (as we have been told), then targeted expenditures, net of social security payments, should be revised up to 135 million contos. With a 20% inflation in 1976, the target becomes 162 million.

The government budget implied by Projection II has only a 35 million conto deficit in 1975 prices which would be correspondingly higher if inflation is taken into account.

In both Projections the choice of the policy instrument by government for expansion of the economy is of great importance. Money should be spent sensibly in all ways possible. For example, an obvious area of interest is civil construction. A vastly increased program of civil works will stimulate a lagging sector, create demand for products of state-owned industries and add very little to the balance of payments deficit. The program might take the form of public works (e.g.,

acceleration of construction of the Lisbon subway and the irrigation project), investments directed to saving foreign exchange, e.g., renovating the Portuguese fishing fleet, or an attempt to re-establish private housing demand. For housing purchasers, an increase in the terms of mortgages they can obtain or a reduction in down payment requirements would probably do more to stimulate demand than feasible adjustments in interest rates.

If the government deficit is generated through stimulation of consumption directly via food subsidies or indirectly through wage increases to public employees, the effect on the balance of payments deficit would be larger. Moreover, no new capacity to produce goods and services would be created.

As pointed out above, the deficit actually required to maintain aggregate demand will depend crucially on what happens to exports. Export prospects in turn depend on the rate of recovery in Portugal's major markets. Even if the European recovery is rapid, the improvement in the current account is likely to be most significant in the second half of 1976, and some increase in taxes might then become appropriate. Plans made now for this contingency could include stipulation of the foreign trade signals that could trigger a tax increase. In order to improve the Portuguese trade position in the medium term, modernization of existing export industries and investment in new ones will be required.

A realistic appraisal of the country's export prospects is an immediate priority area of government activity. This will necessarily bring government functionaries into areas of the economy about which

they are relatively uninformed and where they can learn the myriad details of industrial operation only from people who have long experience in production, marketing and finance. To put the matter bluntly, the direction of government expenditure in Portugal will require information and expertise which must be acquired as rapidly as possible.

Wage and Price Policy

Most of the points which are relevant to wage and price interventions have already been made, and are simply summarized here.

1. The two key policy issues for 1976 are wise management of government deficit spending and establishment of some sort of control over the wage escalation. In the short and even medium term there are all kinds of maneuvers ranging from crawling peg devaluation to bond indexization which can be used to blunt the impact of inflation. But in the long run, Portugal's economic position will become intolerable if its inflation continues to accelerate, or even establishes a trend rate far in excess of that of its trading partners.

When inflation is well-established, monetary policy is virtually useless as an instrument of control, as experience in countless Latin American stabilization attempts has shown. Monetary restriction invariably acts first on real output, creating unemployment and harming the poor, while prices continue to surge upward. In these conditions, the only way that the inflation rate can be stabilized is to cut back money wage increases to a steady rate of growth, since import

costs must rise domestically in the medium run as the local currency is devalued to retain trade competitiveness and recipients of most non-wage incomes, including the government, sooner or later find ways to retain their real earnings intact.

Under such circumstances, a politically acceptable structure of payments all growing around the trend rate of inflation must be established. In 1976, those wage increases of 1975 which departed most drastically from the average will have to be dissipated by price increases, and undoubtedly some other segments of the labor force will have to be compensated for real income losses. Under these circumstances, establishment of a trend rate of inflation may be impossible, but it is a goal which must always be kept in mind.

2. Specific recommendations about wage control require political as well as economic judgments. However, it may be noted that in some cases government spending on things like housing projects for workers, local medical and recreational facilities and so on can be substituted for money wage increases. Since such spending will not be "inflationary" in the usual sense of creating excess aggregate demand, it should be utilized whenever possible. Similarly, emphasis on fringe benefits such as institutionalization of grievance procedures and better pensions may reduce the inflationary impact of 1976 wage settlements.

3. The potential role of price controls in regulating inflation in the Portuguese economy remains obscure, as it does most places. Rent controls have apparently been effective, and if they are continued some means must be found to replace housing construction activity undertaken by prospective landlords in the past. With strictly controlled rents, such small capitalist investors will simply disappear, perhaps to be replaced by real estate operators who speculate on future inflation and building depreciation. Other controlled prices, for example those of transport services, will probably have to be released sooner or later. The role of price control, if it can actually be applied, should probably be to moderate price fluctuations for staple foods and other necessities, and to permit reasonable price increases to keep government-controlled industries solvent. Widespread, active intervention would tax the capacity of the bureaucracy and divert it from efforts to increase economic productivity in the medium run.
4. Finally, one should not forget that there are surely groups in Portugal, perhaps politically important ones, whose real incomes are going down because of inflation. While it was impossible to find enough data about the personal distribution of income to make any assessment of this problem, but its political and ethical importance means that it should not long be ignored.

Financial Policies

Financial policy in 1976 should be deployed to support the real economic targets already laid out. Specifically, monetary control should not be used to fight inflation, a task better left to wage and incomes policy. Rather, the objective of the monetary authorities should be to create enough money to support the expansion in nominal income. Assuming that wage increases can be contained, an increase in prices at the rate of 15 to 20% combined with real growth of 5 to 7% will imply a growth in nominal income in the range of, say, 20 to 27%. Accordingly, if money demand remains unchanged relative to income, a corresponding growth in M_1 , currency and demand deposits, of the order of magnitude of 25% is called for.

Monetary growth at this rate may be difficult to achieve, strange as it may seem, though the problem would be somewhat less in the events depicted by Projection II than in the case of Projection I. The ordinary source of money creation is in the government budget deficits. However, in Projection I these are matched by a roughly equal balance of payments deficit. Accordingly, the net contribution of the budget to money base creation in this case would be negligible. In Projection II, the balance of payments deficit is somewhat smaller. But in both cases most of the growth in the base will have to derive from domestic credit creation in the form of retirement of public debt, to the extent that this can be significant, and primarily from increased discounting of commercial bank claims. If there is no significant change in the behavior of currency, the required increase in commercial bank liabilities to the central bank will have to be of the order of 25 million

contos, representing a dramatic change in the money supply process. The commercial banking system in turn will have to support the money expansion by credit expansion, both to the private sector and nationalized industries. The planned increase in investment spending therefore finds its counterpart on the financial side in bank credit and money expansion.

The fact that monetary expansion will increasingly derive from domestic credit expansion is already shown in Table 6. That table shows that since March, 1974, the source of domestic money creation has no longer been monetization of reserve gains but rather domestic credit creation to finance budget deficits and credit to the domestic private sector and nationalized industries. The world oil price increase, the world recession, the redistribution of income and the proposed expansionary programs will all be reflected in continued reserve losses on the part of the central bank. While historically of little precedent, this is to be viewed as perfectly normal for a country in Portugal's position.

A question arises whether Portugal will be able to provide the external finance for an expansionary macroeconomic policy of the kind proposed above via a balance of payments deficit and continued reserve losses. For that purpose it is important to recognize that the reserve item in Table 6 is primarily now made up of gold valued at \$40 an ounce. In spite of the recent decline, the actual market price of gold is much higher. Therefore, the book value of the gold reserves seriously understates the resources actually available. While it is unquestionably true that the gold reserves are somewhat illiquid because substantial

sales would cause the world price to decline, it can be safely assumed that the reserves are amply sufficient to finance the large balance of payments deficits associated with expansionary programs envisaged in either Projection I or Projection II. It is this particular fact that strongly supports an expansionary policy in 1976 and a disregard for external financing constraints.^{8/}

The external financing of the trade deficit has relied to a large extent on remittances. It would appear that a policy of the Bank of Portugal which consists of offering exchange rate guarantees on future remittances would prove very fruitful in restoring the confidence necessary to encourage remittances. While such a policy may lead to some capital losses, there is no doubt that it will exert a major effect in terms of confidence and may well prove a source of net foreign exchange savings.

The continuing high rates of inflation make it desirable to make available to savers some form of financial asset that enjoys protection against the depreciation of purchasing power. Here it would seem appropriate to create some form of indexed time deposit, again on a personalized quota basis, that allows an amount of escudos to be held with the benefit of an interest rate at least equal to the actual rate of inflation. Since this savings vehicle is primarily designed for the protection of lower income groups, the personal allowance need only be small and perhaps equal to three month income. We note that indexation of saving deposits is another of the policies that can be traded off for reduced wage bargains and thus becomes a potentially important part of the macroeconomic policy package.

^{8/} The adjustment of the escudo exchange rate and the composition of the foreign exchange and gold reserve portfolio held by Portugal are important issues which require a separate study.

In the medium term, the economic prospects of Portugal depend to a significant extent on her ability to expand the export sector, and in particular those sectors where her mix of wage costs and skill levels compares favorably with those of major competitors such as the light manufactures industries. Therefore, considerable attention should be given to the financial facilities that can be created for these industries, in particular the credit terms for investment in plant and equipment and the export credit terms that these firms can offer. It would appear useful to create an institution, perhaps within the central bank, that is charged specifically with the financial concerns of the export sector.

From a longer term perspective, it becomes important to reshape the financial structure and institutions of Portugal to match the changes in ownership and property structure. Among the questions to be addressed are the relationships between the central bank and the nationalized banking sector. From a viewpoint of monetary policy, the maximum integration is desirable. The efficiency of credit allocation on the contrary may call for a maximum of decentralization and discretion at the individual bank level. Since the objectives of monetary policy can reasonably well be implemented by reserve requirements and discounting, it would seem that a fair amount of decentralization will prove desirable. More important is the question of the creation of broader financial markets for debt and equity instruments. A satisfactory saving performance is enhanced by the availability of attractive saving vehicles. The case for some indexed saving deposits has already been noted. The financing of government deficits by debt creation in turn has the side benefit of making monetary policy via open market operations more feasible.

Appendix

In this appendix, the methods used to develop the preceding quantitative assessments of the current Portuguese economic situation are sketched briefly. The main reason for going into some detail here about the calculations is to lay bare the assumptions, heroic and otherwise, which had to be made in our attempt to force Portugal's inadequate statistics into a national accounting balance sheet. Particularly when others with better knowledge of Portugal may be in a position to improve on the guesses made, candor is a virtue. Knowledgeable persons can easily use the techniques, which essentially rely on shameless exploitation of national accounting identities, to come up with more reliable assessments of 1975 and 1976.

The real descriptions of the economy are essentially contained in Tables 1, 2, 3, 9 and 10, giving sets of national accounts for 1973 through 1976. The accounts for the first two of these years are in principle "known". The estimates appearing in the October, 1975, IMF report on Portugal were relied upon but these refer only to aggregate GDP and similar concepts. However, a good deal of what is going on in the Portuguese economy at present has differential sectoral impacts, e.g., investment demand is low, which hits the construction industry especially hard; agricultural output in 1975 was high, and so on. Therefore, some disaggregation to specific sectors seemed worthwhile.

Basically, the numbers in Tables 2 and 3 were inferred by using the national accounts estimates of value added at factor cost in each sector as exact reference points. These are given in the far right-hand column

headed "Total" in the Tables. Reading to the left, tabulated data on imports and exports permitted the breakdown of foreign trade by sectors, on a series of assumptions regarding the relationship between the customs categories and our aggregation scheme.^{9/} Government consumption expenditure was assumed to be divided one-third into manufactured products and two-thirds into services, which are typical shares in most countries, and the major part of investment expenditure not going directly into value added in construction was assumed to be directed toward manufacturing industry. Given these estimates, sectoral consumption levels in the far left-hand column were derived as residuals, as indeed is the aggregate consumption estimate in the official accounts. All indirect taxes were assumed in the final analysis to enter into consumption expenditure, a not unreasonable first-order approximation.^{10/} To obtain the Table 1 estimates of the economic situation in 1973, the following assumptions were made about the economic situation in that year vis-a-vis 1974:

1. Total consumption rose in 4% in real terms, to account for population increase plus some apparent improvement in real living standards; 22% of consumption expenditure went to agriculture, and 33% to manufactures.

^{9/} The most important assumptions were that 75% of "food" imports were agricultural products, while 25% of such exports come directly from Portuguese agriculture.

^{10/} The shares of the different sectors in total consumption show reassuring stability in the two years:

Shares in Total Consumption

<u>Sectors</u>	<u>1973</u>	<u>1974</u>
Agriculture	0.2065	0.2120
Manufactures	0.3162	0.3482
Services	0.3472	0.3328
Indirect taxes	0.1301	0.1070

2. Investment demand fell off by 40%, with investment in agriculture going to zero, construction demand falling by 40%, and the rest of the decrease affecting manufacturing. Capital goods imports appear to have fallen by 30-35% in 1975, which is consistent with the 37% decrease in investment demand for manufactures.
3. Industrial imports fell by 18% overall, while agricultural and manufactured exports fell by 23% and 26% respectively. Exports and imports of services (mainly tourism) fell by 30% and 35% respectively.
4. Agricultural output in a good crop year increased by 7% over 1974.
5. Government consumption expenditure and indirect tax receipts stayed constant in real terms.

Using these assumptions, and the accounting identities which must hold down columns and across rows in our Tables, a preliminary assessment of the economic situation in 1975 was derived.

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EVALUATING THE COSTS AND BENEFITS OF FOREIGN DIRECT INVESTMENT

SOME GENERAL NOTES

by

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(Restricted Circulation)

EVALUATING THE COSTS AND BENEFITS OF FOREIGN DIRECT INVESTMENT

SOME GENERAL NOTES

John H. Dunning

I

Studies undertaken on the consequences and policy implications of the activities of foreign owned companies in host countries usually fall into two categories. There are, first, those which attempt to empirically evaluate the effects of inward direct investment and/or suggest policies which should be pursued in the light of such effects. These are 'because then' type studies; to be successful they require

(i) a clearly defined set of criteria by which the foreign contribution of foreign investment (f.d.i.) is to be appraised.

(ii) precisely identified assumptions about what would have happened to the resources deployed by foreign investors in the absence of f.d.i. and

(iii) comprehensive data on the activities of foreign affiliates e.g. employment their capital outlays sales, value added, balance of payments transactions, purchases from local firms, research and development expenditure profits, and so on; and also about the transactions of their parent companies, which affect their contribution to the local economy. Studies of this kind may be macro or micro-oriented: they may attempt to examine a broad range of issues or limit themselves to particular effects e.g. the transfer of technology, exports

employment etc. Illustrative of this type of study are those of Steuer, (1973) Reddaway. (1968) and Streeten and Lall (1973).

The second group of studies concern themselves less with appraising the effects of f.d.i. as with providing a framework or tool-kit to assist those who may wish to do so. Attempts are made to theorise about the possible effects of direct investment and other economic variables, and suggest possible courses of policy which might be pursued if and when such relationships are established. Such studies are essentially of an 'if...then' type; inter alia they seek to identify those conditions under which f.d.i. is most likely to contribute to the goals of host countries. Research by Bos (1974) typifies this kind of approach though often the first group of studies present their own models.

A hybrid of the two approaches begins with the second, and then tries to marry up the theory with known facts in comparable situations. For example, a study on the impact of f.d.i. on employment in West Germany may be used within a particular theoretical framework to suggest the likely effects of f.d.i. on employment in the U.K. In our current context, we may hypothesise certain similarities that exist between the structure of the Portuguese and Greek economies, and suggest that some of the known consequences of f.d.i. in Greece may guide Portuguese policy towards its own foreign affiliates. Similarly data on the effects of f.d.i. in the recent past may be adapted and applied to assist current policy. The limitations of this approach are well known and need no elaboration.

Mainly because there are few data on the role of f.d.i. in the Portuguese economy, our paper must be of the second kind. We shall summarise in the following pages attempts so far made to evaluate the costs and benefits of

f.d.i. and to formulate a positive policy towards it. In doing, so we shall constantly bear in mind that two of the questions uppermost in the minds of policy makers viz. "To what extent and under what circumstances can f.d.i. advance a country's welfare" and "How can policy best be framed to accomplish this objective". As far as possible, however, we shall relate our analysis to the economic situation, in Portugal - particularly in the context of its development planning¹; and, as an Appendix to the paper, we shall present some preliminary results of an analysis of the impact of f.d.i. on output employment and the balance of payments in Greece.

1 A final draft of this paper will do this more explicitly

II

We start by briefly discussing some important methodological questions. Why single out f.d.i. for special attention? What is unique about it? How does it differ from domestic investment? What, in fact comprises the subject under discussion?

There are at least three possible interpretations of the term foreign investment. The first is simply the net increases in a country's capital stock financed from external sources - independently of its form. This is the traditional interpretation of the term. For most of the 19th century, inward investment comprised foreign borrowings or net additional to the equity capital of domestic corporations financed by foreign individuals or institutions. The transactions were conducted at arm's length between independent borrowers and lenders i.e. there was a change in the ownership of capital, but not that of the locus of decision taking, except in so far as this might be influenced by an individual shareholder. In the main, finance was obtained either from the international capital market, or through foreign brokers and finance houses. The chief lenders were individuals and financial institutions from Europe; the chief borrowers were public or private institutions from the rest of the world. Occasionally, management and technology accompanied the finance capital; usually, however, the factors of production moved independently of each other (Nurksa 1954).

Though portfolio investment has certain specific effects, notably on the balance of payments, capital formation and domestic monetary policy, of the recipient country it is not these which currently give the most concern although the germs of the main concerns are contained in it.

How far, for example does the import of foreign capital create an economic dependence of the borrowing on the lending country? To what extent may capital imports be tied to the import of goods. Are some domestic firms better able to obtain foreign capital, or obtain it on better terms than others, due e.g. to their size, bargaining power or political leverage? What of the effects of capital imports on the distribution of income between capital and labour? How far is the concentration of economic power aided and abetted by foreign investment?

The second interpretation of foreign investment is investment supplied by foreign individuals or companies over which they continue to exercise a de jure control in the importing country. Here, there is no transfer of ownership; only over the location of the use of such capital. More than this; first the capital may be used to acquire control over the use of indigenous resources e.g. of labour, and materials, or as a leverage to obtain local capital etc. Second, the capital is usually accompanied by other inputs, largely intangible assets of technology and entrepreneurship, which, when combined with the capital, and local resources effectively changes the productive capacity of the host country. This is the fundamental economic difference between direct and portfolio investment. The former implies a change in the production function: but no change in ownership of the user; the latter implies no change in the production function, but a change in the ownership of the user.

An essential feature of f.d.i. is that it switches (in the case of a take-over) or directs (in the case of a green-field investment) the locus of decision taking from inside to outside the recipient country. Whether, and how far, decisions are delegated to the foreign affiliate or taken by the investing company, varies between companies according to some fairly well defined criteria, including the strategy of the parent company towards its foreign operations; but de jure

at least, the power to control resource allocation rests with the parent company. This might not matter if the goals of the parent enterprise were the same as those of the host country, or even that of its domestic firms; but although f.d.i. may benefit both parties, there is an inevitable conflict of interest over the distribution of these benefits.

The technology and the control aspects of f.d.i. then combine to distinguish it from portfolio investment, and hence add to the distinction between domestic and foreign investment. The extent of the difference and the particular uniqueness of f.d.i. will vary between firms (according to management goals and strategies); between industries (according to type of products produced and the technologies involved); to Government policies, both in home and host countries; and to type of investment, e.g. whether it is primarily import substituting or export generating in character. It is the technology and control endowments of foreign firms which make them such a powerful influence on economic development; it is precisely because they make available resources not available locally (or make them available more cheaply) that they are welcomed by host nations; but at the same time, for good or bad, they also transfer or create new consumption patterns which affect working conditions, and industrial relations, introduce new marketing techniques, and in so doing impinge on a nation's cultural fabric. When a nation imports f.d.i., it may be importing a way of life. This is a very different state of affairs from that which existed in the 19th century.

Indeed, foreign investment per se may be a very imperfect measure of the involvement in the extent to which foreign firms control the use of local resources. For this is what one is really talking about. Where a foreign firm obtains most of its human and material resources from the country in which it

makes an equity investment, the foreign investment/total resource usage or output generated ratio will be low, and, in consequence, the foreign investment an underestimate of the true involvement of the foreign company. On the other hand, the total output of a foreign affiliate may overstate its use of local resources as a large proportion of its input may have been imported.¹ Perhaps the best measure of activity by foreign firms is value added by the foreign affiliate (= gross output less purchases from other firms = wage bill plus the return on capital invested). Net output will however, include the profits accruing to the parent company in return for the foreign investment made which is lost to the host country. What one should be seeking to explain is the total local value added generated by f.d.i.

One difficulty arises when one switches from foreign investment to some measure of the activity of foreign firms and that is the definition of a foreign firm. In the case of 100% subsidiaries or branch plants this is easy enough; the only problem arises when one tries to define a multinational enterprise (MNE). Some writers (including ourselves) adopt a threshold definition of the MNE, and include all firms which engage in f.d.i. under its umbrella. The degree to which a foreign firm is multinational then can be discussed in terms of e.g. the number of countries in which it has a capital stake, the proportion of its assets or sales accounted for by its foreign affiliate, or the extent to which its foreign activities are integrated with its domestic activities. In the case

1 It is questionable the extent to which imports ought to be included. In one sense it may be that it is the decision of the foreign company which decrees this rather than the use of domestic resources.

of affiliates in which there is some local equity participation, most authorities accept that it is reasonable to assume that control rests with the majority shareholder, and that firms which have a 51% stake or more of foreign capital should be treated as foreign. The main problem arises with minority shareholdings which are either large in value or represent an important block of equity capital. This is why statisticians often take 25% or even 10% as the cutoff point in defining a firm with foreign direct investments. Once again, it is unrewarding to try to obtain a precise definition of a firm undertaking foreign investment either for technology or control purposes. Certainly there are many examples of firms with minority shareholdings wielding a great deal of influence over their affiliates, and others in which there is a 100% involvement where the parent company treats its affiliates as autonomous units.

To recapitulate; there is a spectrum of the extent of foreign participation in resource creation or usage in a particular country, which ranges from an arms length supply of financial capital, through direct investment, involving varying degrees of technology transfer and control, to a full integration of local resources with those of other countries controlled by the foreign firm to meet some global strategy. There are no hard and fast lines between the points of the spectrum; it is up to the authorities, in the light of their particular requirements to decide which particular form of f.d.i. or which particular foreign affiliates are worthy of attention. For our purposes, we shall be concerned with the activities of foreign owner MNEs in host countries, in which there is a direct investment stake, sufficient to allow such firms to exercise some influence on the way in which these activities affect the use of local resources. This is our working definition of the subject under discussion.

III

In attempting to measure and evaluate the contribution of f.d.i. to host countries, three considerable methodological points arise which are not always given the attention they warrant. The first is to identify the criteria by which one should assess the contribution of f.d.i. This may seem obvious, but all too rarely does it appear explicitly in policy statements about f.d.i. Clearly the criteria - in the sense of what comprises a country's welfare - will vary between countries; in the same country over time; and between different groups in any country. Without a clear identification of criteria, one can never be sure that when differences arise about the costs and benefits of f.d.i. one is not using different yardsticks to appraise it. Certainly the same effects of foreign owned companies may give rise to different policies in the US, Taiwan, Mexico and Canada, simply because the criteria by which one judges f.d.i. differs. What is good for the UK is certainly not necessarily good for Portugal, what was good for Portugal in 1950 need not necessarily be good for Portugal in 1976. This would suggest that empirical studies should recognise that country-specific factors are as important in evaluating f.d.i. as the characteristics of f.d.i. itself - or the behaviour of particular foreign affiliates. Among these one might mention, the stage of economic development, cultural values, size, resource and technological capacity, administrative efficiency, political ideology, international involvement (including the extent of f.d.i.) economic expertise etc; all of these both absolutely and relative to the investing country (this suggests inter alia that attitudes towards f.d.i. may vary according to the

nationality of the foreign investor). Only now are these factors being explicitly incorporated in models designed to formulate general principles towards f.d.i. Certainly, the pattern of regulating action by some less developed countries as set out in Table 1 suggests that country specific variables are as important in determining these as the characteristics of f.d.i. itself.

Attempts to formulate general criteria for gauging the effects of f.d.i. abound in the literature. Professor J. Behrman has identified four goals - economic (which relate to the type and quantity of products supplied); equity (which concerns the distribution of income and assets); sovereignty which refers to the right to control ones own destiny; and participation (which suggests the need of people to be involved in the decision taking process). Not always may all of these goals be simultaneously achieved, and each must be set within the context of the broadest goal of all - viz. achieving a certain "way of life". Thus the volume of certain goods might be increased, but only at the cost of more pollution, a change in culture of (say) eating habits, and some loss of control over decision taking. On the other hand, too rigid an insistence on national sovereignty, might rob a country of some of the main benefits of being part of the international division of labour. It is now being increasingly recognised that the cost/benefit equation of f.d.i. is a very complex thing indeed. But prior to any assessment, a country must try and identify its goals, translate these into operational terms, and decide upon its priorities. Ideally, policies should wait until the trade-offs between the achievement of mutually exclusive goals are known. But if there is one thing which countries, particularly developing countries (ldcs) have learnt in their experiences with f.d.i. is that in the initial policy forming stages they

grossly underestimated the pervading influence of such investment and its wider implications. More than providing resources, it injected new ideas, and new ways of approaching old problems; it introduced new values and new perceptions on the role of human beings and machines in the production process; far from just marketing new products, it introduced new consumption patterns, and influenced the values people placed on both goods and pursuits. While sometimes adding to a country's resource capabilities, it sometimes locked the country in to a pattern of economic interdependence, the advantage of which was only later questioned. Foreign investment transmits a way of life from the investing country - to the home country and strengthens the economic order of which it is part, an order which may not necessarily be in the best interests of the host country. To argue ad hominem i.e. against the conduit of f.d.i. viz. the MNE, though understandable is not always helpful; the beast is only a creature of its environment. But a better appreciation of the goals of host countries; and the way in which foreign companies may impinge on these goals through the technology (including the technology of choice) they transmit and control they exercise is badly needed.

The second major methodological issue which is particularly troublesome to research workers, and which policy makers are too often apt to ignore, is the problem of evaluating the effects of f.d.i. net of those effects which would have occurred if the resources used by the investing companies had been differently deployed. To illustrate, the effect on UK exports which directly resulted from the presence of US affiliates in the UK is the actual exports of such affiliates (plus the exports of other companies generated by their activities), what we might term the gross effects, minus the exports which would have occurred had not those affiliates been present in the UK. Frequently it is implicitly assumed that the opportunity cost of f.d.i. is zero; i.e. in the above case, exports in the absence of US affiliates would have been zero. But rarely is this the correct "alternative position"; if US firms hadn't

invested in the UK, UK companies may well have invested more, if not in the same sector in a different one., although admittedly it may have taken a change in Government policy to bring this about. And it may make a world of difference which 'alternative position' one chooses. To take two examples, the effect of US f.d.i. over the period 1957/64 on the US balance of payments, in terms of the time it took for the initial outflow of capital to be recouped (in the form of both profits, interest and royalties and additional exports), varied from never to 8 years, according to whether one assumed that f.d.i. adds to or substitutes for capital formation in the host country.¹ (Hufbauer and Adler (1968)). Or again, the effect on employment in the US of the foreign activities of US MNEs over the 1960s varied from a net addition of 600,000 jobs to a loss of jobs of "an important part" of 500,000 according to the assumptions made. (Hawkins 1972). It can be seen that ones evaluation of f.d.i. depends as much on the outcome of the particular alternative methods of resource utilisation one chooses to assess as on the costs and benefits associated with the activities of foreign affiliates. Change the "alternative position" or the consequences of same, then as with changing the criteria by which f.d.i. is appraised, and its net contribution to welfare will be different.

1 The so called auto-classical assumption of Hufbauer/Adler was that f.d.i. increases plant capacity in the host country not has no effect on plant capacity in the home country. Under this assumption the outflow of capital is never recouped. The reverse classical assumption is that f.d.i. substitutes for other investment in the host country but causes no decline in investment in the home country making this assumption and using exactly the same set of data, the recoupment period for an outflow of capital is $4\frac{1}{2}$ years.

It is becoming increasingly recognised that except for estimating broad macro economic effects, the most realistic alternative position will vary between countries and industries over time, and that it is dangerous to generalise. What might happen to the production of computers in the UK in the absence of IBM may be very different to what might happen in the absence of British Petroleum in the US; the effects of a take-over investment are different from a greenfield investment; those arising from an investment by a well established and integrated MNE are not the same then from a new medium size investor. A sectoral approach is the only way out of this difficulty; alternatively, it may be desirable to classify f.d.i. by origin (is it marketing or cost oriented?) or by the strategies of investing firms. We return to this point later.

A final methodological issue is to do with policy prescription. Suppose that it has been possible to measure the contribution of MNEs to employment in a particular country (either generally or within a particular sector); and that in the light of the criteria established, this contribution may be evaluated. The questions now arise are - (1) is this the "optimum" contribution - (2) assuming it is and it is beneficial does this mean one should encourage the inflow of direct investment? Whatever the answer there is a great temptation among policy makers to direct any change perceived necessary as a result of f.d.i. to the foreign investor. If the employment effect of inward investment is negative, how can the foreign firm be made to employ more people? If the balance of payments contribution is negative, how can policy be directed to forcing foreign affiliates to export more or import less - or failing that reduce their capital stake? In some cases, such action may be justifiable, particularly where it can be established that the MNE is behaving in less than optimum fashion (e.g. by not maximising its efficiency. But in others it may not be so - for two reasons. The first is that there may be a trade off

between achieving one national goal and another. Insist that the MNE should employ more labour intensive (but more costly) production methods and exports may suffer; limit the share of an industry's output an affiliate can supply, and its costs of production may be higher than they might otherwise be; insist on more local research and development and the MNE may refuse to relinquish 100% ownership and so on. This comes back to the first of the methodological problems discussed above. The second reason (often forgotten) is that the consequences of f.d.i. reflect Government policies which give rise to it. If these are not what is desired this may be because the signals given to MNEs are inappropriate. A monopoly rent earned by foreign affiliates may be directly the result of tariff policy which inhibits competition from abroad; a capital intensive technology could reflect an unsuitable monetary policy or that labour is overpriced; an ability of companies to juggle with transfer prices may be prompted by an overvalued or undervalued exchange rate. Faulty Government policies provoke reactions by foreign firms which themselves generate undesirable effects. In these cases, the remedy may not be to force firms to behave in accordance with the policies but to change the policies themselves.

Moreover, Government policies which may have been appropriate in the absence of f.d.i. may require modifications because of it. Just because f.d.i. may cause a balance of payments deficit, it does not mean that curbing such investment is the best way to remedy such a deficit. Other ways e.g. altering the exchange rate may be less expensive in terms of the country's primary goals e.g. maximisation of real income. There is a great temptation to blame or praise MNEs firms because of the outcome of their operations requires macro policy measures, or measures adopted towards other firms which make a lower contribution towards the country's primary goals.

Enough has been written to suggest that the evaluation of the activities of foreign owned firms is a complex procedure. Which goals are to be met and in what order of priority and over what time period? In terms of what alternatives are the results of f.d.i. to be evaluated? Where action by Governments is required, to what extent should it be specifically directed to f.d.i. and to what extent to affecting the disposition of resources as a whole?

IV

We now turn to the problems of measuring the gross effects of f.d.i. We begin with the economic consequences. These can easily be identified as they are those by which the contribution of all enterprises may be assessed. They are basically to do with levels of output, productivity, output stability, long term growth and structural efficiency. Sometimes, more specific goals may be sought e.g. the employment of particular types of labour, a balance of payments surplus, increasing research and development capacity which may sometimes complement and sometimes compete with general goals.

To measure the contribution of foreign affiliates, information is needed about their activities. Sometimes this is already collected, but no attempt is made to classify firms by nationality. Examples (in most economies) include data on output employment and wages (suitably classified by skills and industry); exports, imports, research and development expenditures, capital expenditure, sources of finance, profits, advertising, origin of purchases and so on. The collection of such basic information is the first priority. In addition there are information requirements special to foreign affiliates which need collecting. Foremost among these are the transactions of affiliates across national boundaries and particularly between different parts of the same organisation. Data on the inflow of capital and technology need to be complemented by information on profits, royalties and payments for other factor services made to or by parent companies or other parts of the organisation. Separate data on goods and assets traded between the affiliate and other parts of the MNE should be collected to assist the host government in gauging the extent to which manipulations of transfer pricing and the use of leads and lags etc. are at least possible. Other relevant data may only be obtained direct from the parent companies of affiliates e.g. the geographical disposition of its capital and r and d disbursements; here the host government is at present reliant on the

goodwill of the company.¹

In addition to the quantitative data, qualitative information is needed about the relationships between parent and affiliate, especially the strategy of the MNE towards product development, technology transfer, location of r and d and on particular project appraisals. This is particularly important in the case of the larger investments and a regular monitoring service may be necessary to alert Government to any marked change in strategy. Some kind of permanent liason with the 100 or so largest investors in a country and/or with those in the most sensitive sectors would help enormously.² In some cases, existing machinery can be extended to accommodate these needs e.g. in case of planning agreements in the UK. The important thing is for the host country to be as knowledgeable as possible about everything which goes on in the organisation which may impinge on the affiliates contribution to the domestic economy.³

Given the information what does one do with it? Here some kind of model of how foreign investment may impinge on domestic economic goals is necessary. Models may vary from the extreme macro-economic (i.e. national economic) to the micro-economic (i.e. project) level; they be general or partial equilibrium models; they may be static or dynamic and or varying degrees of econometric sophistication. Most researchers have contented themselves with measuring f.d.i. in the light of fairly limited goals e.g. its effect on employment, balance of payments, output and so on. Illustrative of the more ambitious macro models is that

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- 1 It is our belief that this kind of information may be more important for host countries to obtain in the future as the activities of MNEs become increasingly integrated.
 - 2 One suggestion here is for government appointed representatives to be in attendance at local board meetings.
 - 3 Other kinds of data include those relating to the activities of MNEs in other countries, including the terms of contracts made.

of Bos, and his colleagues (Bos 1974) which both researchers and policy makers are using. (This is described in the Appendix to this paper); Somewhat less ambitious have been those of Steuer and Streeten and Lall. At a project level, the work of Little and Mirrlees (1974) stands supreme.

Measuring the (gross) economic effects of f.d.i. in the short run is essentially an exercise in estimating the local value added and/or employment generated by it, and in the long run its contribution to the growth and development of the host economy. Its impact on the balance of payments may affect the extent or speed at which these objectives might be achieved; while the possibility of f.d.i. leading to employment, output or price instability is a risk which must be taken into account. Each of these consequences is measurable, up to a point, though both the primary and secondary indirect effects of f.d.i. need to be assessed. Local value added (l.v.a.) equals the gross output of foreign affiliates (= quantity of goods sold multiplied by price) less all imports, less payments made from net output to foreigners (e.g. dividends, royalties etc.). L.v.a. is thus affected by (a) the technical efficiency of the affiliate, and that of indigenous firms from which it purchases, (b) its ability (through its market power) to influence price (or inputs and output) and the level of output and (c) the quantity and price of imported goods and services. The amount of employment necessary to create that l.v.a. will be determined by the capital/labour ratio and the efficiency of producing firms. The extent to which the balance of payments is affected (on current account) will be related to the affiliates export/import ratio, which in turn will largely depend on the type of investment and strategy of the investing company; and also the ability of the affiliate to trade across boundaries at other than arms length prices. Employment, technology, (prices) competitive structure and balance of payments are then the main ingredients affecting l.v.a.

In what way and to what extent, as we have written earlier, will differ, according to industrial sector, type of firm investing, and Government policy.

Expressed in purely economic terms then, the (gross) cost of f.d.i. is the loss in value added caused either by inefficiency of the foreign affiliates and/or the interest, profits, royalties etc. remitted to the investing company. Inefficiency might be due to foreign companies investing in the wrong sort of industries, purchasing at less than minimum prices or from the wrong firms or producing at below technical price or scale efficiency. In turn such inefficiencies may stem from a protected market structure, entrepreneurial deficiencies or technical or managerial inadequacies or inappropriate government policies. Usually, since it is the most dynamic and efficient of foreign firms which venture abroad, the costs are most likely to do with local market conditions which allow foreign affiliates to earn higher than competitive profits, or the strategy of the parent company which requires foreign affiliates to operate in such a way, which does not optimise their local net output.¹

It is important to trace through and measure the secondary effects of f.d.i. their impact on the local value added of suppliers, customers and competitors; and through the normal course of labour and managerial turnover, information dissemination etc. their effects on the economy as a whole. In the longer run their effect on competitive and industrial structure, and patterns of development are of key importance. Often the employment impact of f.d.i. may be less in terms of the numbers employed by the foreign affiliate, as the additional employment of indigenous firms supplying to it. This is why forward (domestic) integration in the case of extractive industries and backward (domestic) integration in the case of final stage manufacturing industries e.g. motor vehicle

1 Note that even maximising l.v.a. does not imply that foreign affiliates should always be encouraged to buy from local firms where it is cheaper to import the resources which otherwise might have been used would be better directed to promoting exports.

assembling is often regarded as an essential prerequisite for f.d.i.

Sometimes, as we have suggested, there is a trade-off between (short-run) goals.

The most efficient technology may be necessary to general competitive export markets; but it may do little to increase employment. A competitive market structure may only be obtained at the price of a fragmenting output among firms, such that none is able to produce efficiently. Insisting upon too high a local equity participation may rob indigenous firms of much needed capital.

Throughout the assessment process a distinction needs to be made between social and private costs and benefits. The problem basically arises because of different goals of MNEs, and the host nations in which they operate and the fact that domestic prices do not always properly reflect the true opportunity cost of the resources involved. While the pursuance of these goals by MNEs may, and often does, advance the goals of host countries, inevitably clashes do occur. These are of three kinds. First, those which are shared by all privately owned firms, independent of their nationality; since the attainment of private profit and growth do not necessarily advance public welfare. Governments must take action which are not necessarily welcome by such firms; monopoly legislation is a key case in point. Because of their parentage however, foreign affiliates may create additional problems for governments (Dunning 1974). Second the price extracted by the foreign company from the host country in the forms of loss of value added may be both destabilising and contain an element of economic rent, part of which, through transfer pricing manipulation, use of leads and lags etc. may not be easily identifiable. Third, and most difficult, both to measure and evaluate is where an affiliate is locked into a regional or globally oriented production and marketing strategy of the MNE; and decisions are taken not on, the basis of what is best for the affiliate, but what is the most profitable deployment

of resources for the group as a whole. In turn, this strategy may be affected by international market forces, or rules and regulations, which, themselves may not always operate in the interests of individual host countries.

Another problem, explored in depth by Messrs Little and Mirrlees (1974) in their work on project appraisal for the OECD, is that the domestic prices which foreign investors face, and some times influence, may not accurately reflect the social value of the resources used - either because of market distortions (tariffs, subsidies, inappropriate exchange rates); or because of implicit or explicit price control (e.g. in the labour market where there is much unemployment, wage rates may exceed the opportunity cost of labour). This means that to properly calculate the costs and benefits of f.d.i. "shadow" prices have to be imputed to domestic inputs and outputs which better reflect the social cost of resources deployed.

We said earlier that maximising local value added per unit of resources used is a convenient yardstick to measure economic welfare, but for many purposes it is deficient. Even in purely economic terms, it is possible in any one period of time, to produce more consumption goods but only at the expense of investment (including investment in human capital) and future levels of output. If foreign firms diverted resources from investment to consumption activities, l.v.a. might be increased in the short run (if productivity were greater in the latter sector) but it would be lower or not rise as fast in the long-run. The composition of output produced may thus be of as much importance as its value.

From a longer term or dynamic viewpoint, an economy's development rests on its rate of increase of output per capita. This, in turn depends on the quality and productivity of its material and human resources and the amount it is prepared to invest to add to these resources, or make them more productive.

Productivity increases result essentially from the deployment of more efficient technologies and from raising human skills, assuming other obstacles or disincentives e.g. market distortions penal tax rates etc. are removed. Small wonder that most host countries view the main benefit of f.d.i. as increasing their technological and scientific capacity and narrowing any technological or managerial gap which may exist between them and other countries. Small wonder either that the transfer of technology is a crucial issue in the foreign investment debate, - particularly as it appertains to the terms of that transfer.

There have been many studies on the technological impact of foreign firms on host countries. The general conclusion is that, while they generally introduce high technology produces and/or new processes of production (particularly at the raw material extraction or final stages of manufacturing), they have rarely found it economic to transfer high technology or skill intensive manufacturing or research and development (r and d) activities. Sometimes this is because of a dearth of the necessary resources in the host countries; although over time this may be counteracted by education and training programmes e.g. in the advanced countries and the larger and more developed l.d.c.'s. In other cases, however, as a result of the strategy of the MNE to centralise technology intensive activities in the home or in a few host countries: 90% of the r and d of US and Swedish firms for example is undertaken in their home countries.

It may be argued this, in itself, is not important as long as local firms are encouraged by f.d.i. to increase their own technological capacity. Indeed this may be preferable as the ownership of the capacity remains domestic. Here, the evidence is mixed. To take one industry - the pharmaceuticals industry. In the

larger developed countries, foreign companies - particularly the Swiss and American MNEs have, through competition and example, stimulated local firms in their r and d efforts. Certainly this has been the case in the United Kingdom. On the other hand, due to the inability of small countries to finance other than a very limited amount of technological capacity, foreign enterprises in such countries as Sweden, Australia, Canada and Ireland have tended to dominate the supply of local technology and inhibit an indigenous r and d effort. Moreover, where foreign affiliates have established r and d facilities, these have usually been either for purely developmental programmes or for specialised research promoted as part of a global r and d strategy of the MNE, to advance its world wide objectives. Again, however, this may not be to the host country's best interest in reducing dependence on foreign technology; although it may still be better than any feasible alternative.

The question of how far a country should invest in technological capacity is rarely decided on economic grounds alone. At the one extreme, it depends on the extent to which it wishes to be involved in international trade and investment, with all its consequential costs and benefits, and on what terms. Some of the broader costs of f.d.i. are those of other forms of economic interdependence; but since f.d.i. involves domestic resources being directly controlled by non-resident companies - unlike trade, which involves the exchange of goods at arms length prices between independent domestic and foreign firms - then, apart from enforcing a change in ownership, there is no way of escaping the fact that de jure, the locus of decision taking rests outside the country which is most affected by the decisions. And the more multinational the investing firm is in outlook and strategy, the more the pattern of output and growth of its affiliates will be determined by forces outside their control. Classically, the fear of many

l.d.c.s of being permanent satellites to the major investing countries rests on the proposition that the large investing firms find it in their interests to retain their main repositories at home; and that this policy is encouraged by the existing international economic order and the patent system (Hymer 19). Be that as it may, in their dealings with foreign investors, host countries are becoming increasingly interested in asking such questions as "What kind of output is to be produced? What is its local content? Who takes the decisions which will determine the affiliate's growth path" "What linkages are affiliates likely to have with other economic agents within and outside the host country" Do they aid or inhibit economic or technological independence?

While it is less easy to measure the contribution of f.d.i. to economic growth than g.n.p., it is possible to get a fairly good idea of its impact on the capacity for growth, and, with data on their productivity, a reasonable estimate of its contribution to growth itself. It is also possible to assess its effect on economic stability, both by examining the movement of output, employment and export/import ratios of foreign affiliates and their sectoral distribution (are they more or less susceptible to cyclical movements?)

The potential for instability due to economic interdependence, due to the ability of foreign firms to circumvent national economies controls; the fact they are tied in to a global system; and that their response options are often wider than domestic firms may also be appraised. Such research which has been undertaken suggests both that a country's economic policies are potentially more vulnerable by the presence of foreign firms, particularly those which are set up to supply foreign markets but that no generalisations are possible on the extent to which f.d.i. in fact, makes macroeconomic policy more difficult to implement. While they are better able than domestic firms to ride over economic difficulties and avoid some policies, they are often more sensitive to local Government needs and can be more easily persuaded to conform to policy (Dunning 1973). Perhaps the best example here is their reactions to regional policy.

Moving away from economic to sociological or political questions, we might mention a number of possible effects of f.d.i. which may or may not concern host countries, according to their goals, ideologies and values. Foremost among these are

(a) equity considerations reflected inter alia in the effects of f.d.i. on the distribution of wealth and income both between capital and labour and between different labour groups. Does f.d.i. aid or retard policy in this respect? Classical theory suggests that it lowers the marginal productivity of capital and raises that of labour; empirical studies do not generally support this contention certainly within the wage sector it tends to skew the distribution of earnings. And what of its effects on the distribution of economic power; - Does it make for a more or less concentrated distribution of output and decision taking.

(b) Cultural considerations - reflected inter alia in the type and quality of goods and services produced, the way of life reflected in business practices, dealings with labour, marketing and advertising, respect for the environment, and, the value placed upon alternative uses of resources. Does foreign investment erode cultural identity? This is certainly what countries like Canada, dwarfed by their immediate neighbours and many l.d.c.s whose economies are dominated by advanced economies with very different forms of culture are concerned about.

(c) Participatory considerations - reflected inter alia in the desire of a country's citizens to participate in the making of decisions which affect their own welfare. The 'cog in wheel' syndrome is not unique to people working in the branch plants of foreign affiliates. It is much the fate of the individual worker in any large organisation, publicly as well as privately owned; it is, however, shown in its extreme form in large MNEs partly because of their intricate organisational hierarchies, partly because they are foreign and partly because of the distance between the decision takers and those affected by the decisions.

This anxiety is especially demonstrated at the floor level, and is voiced vociferously by organised labour. But it may no less apply at a Government level, as portrayed most vividly by the disquiet the UK Government in 1974 and 1975 at being insufficiently consulted by the Ford and Chrysler car companies about their plans for future investment in the UK. The introduction of planning agreements in the UK may help remedy this particular deficiency.

(d) Political considerations, seen at the one level as the direct attempt by foreign investors to deliberately interfere with the political fabric of host countries - the Chilean case is the most spectacular example - down to the day to day attempts by MNEs to influence domestic policies to their advantage.

(e) Ethical considerations - seen inter alia by recent bribery scandals; the more relaxed policies on part of some foreign companies to safety standards, both in product content and labelling, and in labour practices; in advertising and sales techniques.

(f) Environmental considerations - seen inter alia on the effect of MNEs on pollution. Many of these considerations may be common to all large firms, but MNEs are especially spotlighted when they are seen to export certain practices which are banned in their home countries.

It is some of the above factors which many countries consider especially needful to control in the pursuit of their development goals and which it is believed are affected in a very specific way by the f.d.i. Sometimes host countries are unaware of these costs (or benefits) prior to f.d.i.; in other cases f.d.i. brings to the attention of host countries differences in practices and standards between themselves and other countries.

A final effect which will do no more than mention, concerns the MNE as an agent or even undertaker of the foreign policy of the home Government. The whole question of extraterritoriality is an exceedingly complex one; more significant are the various ways, through both legitimate and other means, the network of interrelationships between Government's and companies of the same nationality can be used, where both are in the interests of the home country, but not necessarily in those of the host country. Some of these power relationships have been well identified in a recent paper by Constantine Vaitsos (1975).

So much for measuring the costs and benefits of f.d.i. Already the issue is seen to be highly complicated - partly because of the myriad of goals which may be advanced or retarded by f.d.i., partly because of the difference in objectives between the foreign investor and the host country, and partly because the costs and benefits of f.d.i. are often so intertwined, that action taken to reduce one kind of cost may be counterproductive simply because benefits elsewhere are reduced even more. Yet the policy makers must try and identify the key issues and take steps to measure the contribution or potential contribution of f.d.i. in these terms. Where there are clashes in goals within the host country, these must be identified and accepted as such and the responsibility ^{for} ~~reconciling~~ them placed upon the host government and not on the foreign investor.

The question of evaluating as opposed to measuring the costs and benefits of f.d.i. is an even more hazardous task. Basically it comes down to the problem of attribution. It is one thing to associate costs and benefits with foreign direct investment. It is another to attribute these costs and benefits to f.d.i. Put another way to what extent would the costs and benefits associated with f.d.i. be different if there was no f.d.i.? Questions like this can only be answered by making some assumptions about the 'alternative position' to f.d.i. i.e. what would happen in its absence. Only by deducting the costs and benefits of the alternative position can one assess the net contribution of f.d.i. to a country's welfare.

Economists have approached this particular problem in a variety of ways. One has been to identify the unique features of f.d.i. i.e. those which can be attributed to its foreignness, and measure the contribution of these compared to that associated with f.d.i. as a whole. For example in evaluating the export performance of foreign affiliates, their actual exports might be compared with those of domestic firms, and any difference attributed to the nationality of their ownership. Illustrative of this approach is the study of Benjamin Cohen of the export performance of foreign affiliates in selected Asian countries. (Cohen 1975). Though attractive, its usefulness rests heavily on the choice of sample firms. Ideally, everything affecting performance, apart from that which be attributed to nationality of ownership should be identical. But this may be asking too much. Even within the same industries, firms have different product or process structures; age and size can rarely be perfectly matched; marketing strategies may reflect the personalities of decision takers and so on. Moreover, in this kind of exercise, one is usually forced to compare the operations of one part of an organisation with that of the whole of another. There is, then, a branch plant effect of f.d.i. which may be no less reflected in its performance as its foreignness per se. (This is especially likely when making comparisons of overhead costs, of the manpower disposition of companies). Finally, in some cases, it is the degree of foreignness which may be as important as the foreignness itself. In other words, the costs and benefits of foreign affiliates may as much reflect differences in the multinationality of their parent companies as the fact that they are foreign owned. Research done by the author on UK owned firms in ldc's suggests that differences between the strategies of UK parent companies are as important in explaining the behaviour of their affiliates in host countries as their foreign ownership (Dunning 1976). Some affiliates were hardly distinguishable from local firms; others were offshoots of integrated network international activities.

Treated carefully, however, the "differential" approach can be a useful device for evaluating the contribution of f.d.i. at a micro or sectoral level. More ambitious, though analytically much more difficult, is the alternative situation approach, which is favoured by economists undertaking more macro-oriented assessments of the effects of f.d.i. We have already outlined the main features of this approach and some of its limitations. Suffice to remind ourselves, that the most comprehensive of the macro-economic models, is that prepared by Bos and his colleagues (Bos 1974) which is now being used by a post-graduate student of mine to assess the results of f.d.i. on a number of variables in the Greek, Spanish and Turkish economies. Since, in many ways, the Greek economy has a number of structural similarities to that of the Portuguese economy, we give some of the preliminary results of this study as an Appendix to this paper.

The other studies have been mainly more specific in objective but they all serve to illustrate the tremendous difference the assumptions make to the outcome of the exercise. In Tables 2 and 3 we summarise some results of a selection of studies on the balance of payments and employment effects of f.d.i. They serve to underline the fact that the choice of the most plausible alternative situation and estimating its costs and benefits are as important as actually measuring the costs and benefits of the operation of foreign affiliates when estimating these costs and benefits which can be attributed to the foreignness of the investment. One difficulty here, to which we shall return in the next section, is to know what are the possible alternative situations, which might be pursued. Much depends on Government policy, the technology of which is a subject about which little is known. Yet constraints on the behaviour of Governments, through lack of knowledge or understanding may vitally affect the nature of the alternative situation and hence, the answer to the question "Does foreign investment pay"?

A third way of approaching the specific contribution of f.d.i. is to try and estimate the costs of obtaining the benefits provided by f.d.i. in other ways. This essentially reduces to "unbundling the package" of resources supplied in toto by f.d.i. and estimating both the costs of obtaining the ingredients separately and of putting them together differently. Instead of capital technology, management and entrepreneurship being supplied (and controlled) from a common source, may it not be better for a particular host nation from (say) the Oil States, technology from (say) the Germans, management from (say) the United States - and combine these with indigenous public and private entrepreneurship and control. It is surprising that so little research has been done on the costs and benefits of unbundling and repackaging the package of resources provided by f.d.i. At one time it was widely believed that the special package of f.d.i. produced special benefits over and above those which the ingredients would give if supplied separately. This may still be true in many cases, but it is now also felt that the special costs associated with f.d.i. may exceed the ingredients if supplied separately. Yet countries which have expropriated the assets of foreign companies have not always found that they could import management technology more cheaply; and that they may have underestimated the advantages of being host to part of a large integrated MNE. It is not too difficult to point to the kinds of f.d.i.'s which might be expensive, relative to other modalities, of importing resources; for example, where high monopoly rents are earned, where there is little attempt at local integration and where the MNE may be perpetuating a division of labour between home and host country which is not in the latter's long term interests.

But neither is it difficult to point to f.d.i. being the most beneficial way of obtaining capital and know how; where, for example, the intricate interrelationships between the ingredients of the package of resources, confer special benefits and where there is sufficient competition to prevent the foreign affiliate from making excessive profits. But we need much more research about the particular costs and benefits associated with alternative forms of resource transfer. This is especially so as new modalities in the exchange of capital, knowledge and management are opening up.

VI

So far, in our argument, we have been concerned with measuring the effects of f.d.i. and evaluating it net of what might have happened in its absence. We have considered the alternative situation primarily from an economic viewpoint; but again, the exercise is no less relevant for appraising cultural, political et al impacts. How often is f.d.i. held responsible for something which is not special to it? Accusations about the export of certain advertising practices or of corruption may apply equally for firms exporting to the country in quest or as those actually producing in it.

We now come to more normative issues, namely how best to relate the costs and benefits of f.d.i. to the goals or strategies pursued by host countries. To do this it is not sufficient to assess whether f.d.i. does promote, or is promoting national welfare, more than some alternative use of resources, though this would indeed be a great step forward. It is not sufficient because the actual contribution of f.d.i. may not be the maximum it could make; while the most realistic alternative position may be constrained by lack of local resources or management expertise. To illustrate, a negative contribution by f.d.i. to g.n.p. might suggest that it should be reduced; but it could equally mean that f.d.i. is not efficient, or it is extracting too high a rent from the host country. Increase efficiency and/or reduce economic rent and f.d.i. might become highly desirable.. To give another example, the most reasonable alternative situation to f.d.i. in Japan in 1976 is very different from that open to say Peru, Nigeria or even Mexico. Yet a generation ago, Japan had virtually no indigenous industry to compete with the Americans and Europeans. Now as a result of its development and foreign investment strategy of the '50s and '60s, the country is able to profit from importing the ingredients of f.d.i.

through non-equity participation quite easily. In other words, a country by its own policies can effect its alternative position, over time.

The first question prior to the formation of a policy towards (future) f.d.i. is then - "Are the benefits of f.d.i. being maximised?", "If not, why not and what can be done about it and at what cost?". Policies directed to improving the efficiency of foreign affiliates, their fuller integration with the local economy, adapting product technologies or products to better suit local resource endowments, curbing restrictive practices e.g. on exports and the transfer of technology, eliminating tax evasions by a strong policy towards transfer pricing and payment of royalties and fees, a selective encouragement of local equity participation, or gradual divestment of equity interests, ensuring that the behaviour of foreign affiliates towards employees, consumers, and suppliers conforms to local customs (or if preferred, the customs of the investing country): all these measures may be implemented to increase the benefits or reduce the costs of f.d.i.. As we have said they may be easier said than done, partly because increasing benefits in one direction may increase costs in another; partly because if the benefits are tilted too far in favour of the host country, there is a danger that future investment might be reduced or cease altogether. The factors which determine the bargaining power of countries and companies is a subject in itself (Streeter in Dunning 1974); it is certainly difficult to make any broad generalisations except assuming a range of bargaining points acceptable to both parties, much depends on the options open to the two parties.

The second normative question is the extent to which indigenous resources could be better deployed to do the job at present done by

f.d.i.. If this is so, these policies should be directed to restructuring local industry, and a conscious and selective industrial development programme and/or technological strategy aimed at strengthening the capacity of indigenous firms. To give just one example, It may be that in a particular economy, foreign owned motor car companies are more efficient than locally owned motor companies because the latter are too many and far too small to employ from the most efficient production techniques. Yet, because they are too small they may not be able to finance their own rationalisation. Government support may then be needed to promote a viable industry which, in the end may yield a higher social benefit than f.d.i.. This belief underlay the U.K. Government's financial involvement in the merger between British Motors and Leylands some years ago. More successful has been the French Government's investment in the modernisation of the Renault plants. In the promotion of science and technology the problem facing economies like Portugal is even greater. Take the pharmaceutical industry again. To what extent should policy be directed to (a) encouraging foreign affiliates to undertake fabricating and processing operations, (b) encouraging them also to produce the chemical ingredients, (c) encouraging them to set up r. and d. laboratories, or (d) encourage local firms (sometimes under licence to foreign firms) to undertake (a) to (d). Again, the decision may not be as easy as it may seem. Certainly it should not be taken on only on technological grounds. Only by relating a micro-technological decision in the context of a macro industrial and technological strategy and an appreciation of its affects on the total costs and benefits of f.d.i. - with a reasoned guesstimate of future trends and policy, can a sensible policy be framed.

The third normative question addresses itself to alternative

modes of importing resources for development. We have touched upon this in the previous section. All we would add here is that we believe the current stock of knowledge about the options open to host countries in acquiring the resources they need is very inadequate - as, even more so, are the costs and benefits of these options. We believe, similarly, that MNEs are not always as aware as they should be on the benefits of forms of foreign involvement other than a 100% equity holding. There is much ignorance and prejudice here, but as a general rule we opine that MNEs place too high a value on a 100%, or even a controlling equity stake, in their affiliates. While Governments assign too high a priority to acquiring the ingredients of f.d.i. by contractual routes. Again, a good deal more study is required on this question, even to establish broad principles of the conditions under which form of international arrangement is likely to be beneficial to the other.

In this section, we have emphasised that it is not only "what is", but also "what could be", that ought to be taken into account in evaluating the costs and benefits of f.d.i.. Besides the specific considerations we have outlined here, there are more general questions relating to the investment climate and Government policy of the host country, to which we now turn.

VII

We turn finally to policy towards f.d.i., for at the end of the day, this is what Governments are seeking guidance about. The approach in this paper has been to identify the special ingredients of f.d.i., identify its actual and potential costs and benefits and then to compare these with both the actual and potential benefits of acquiring the same resources, or producing the same or similar output in alternative ways. Policy would then be based upon these findings. It may, however, be argued that, whatever its merits, this procedure would take too much time to give useful results, particularly where there are little or no existing data on the activities of foreign companies. Perhaps, a more practical approach would be simply to design policy in such a way as to influence the behaviour of foreign affiliates in the right direction. For example, rather than commission studies to estimate the actual employment effects of f.d.i., should not policy be directed to ensuring that, as far as possible, f.d.i. does advance manpower goals; rather than evaluate the extent to which foreign affiliates do earn economic rent, should not steps be taken to minimise the possibility of rent being earned; rather than set up an enquiry into the extent to which foreign affiliates do engage in adverse transfer pricing manipulation, should not efforts be directed to outlawing this practice, and so on.

This "if ... then" approach is likely to be successful when one can reasonably appraise the contribution of f.d.i. to national goals, e.g. one may be very clear that one does not wish foreigners to have an equity participation in certain industries, or to allow them to control more than a certain percentage of the output of others. It is also more likely to work where one can draw upon the experience of other countries who have already done some research on the actual costs

and benefits of f.d.i.. But it less satisfactory in keeping to formulate long term strategy towards f.d.i., or of comparing its contribution to national goals with some alternative uses of resources.

In practice all countries, explicitly or implicitly, have some policy towards f.d.i.; this may range from no policy, or a laissez faire approach to it, to the other extreme, completely outlawing it. Even within a country responses may differ by region (according, for example, to extent of unemployment), institutions (cf. those of trades unions, suppliers to, and competitors of foreign affiliates), industrial sector, nationality of investor and extent of foreign participation. We have suggested that it is possible to identify groups of countries by such variables as size, stage of development, culture, political ideology and so on in their policies towards f.d.i., irrespective of the effects of f.d.i.. A change of Government may induce a more dramatic change in policy towards f.d.i., then any change in the behaviour of foreign affiliates. Partly this is because such investment is foreign, partly because it is private and partly because it is private and partly because the bulk of it is made by large firms with extensive interests elsewhere in the world. There is no definitive policy for all countries to follow all of the time towards f.d.i.. Policy needs to be regularly reviewed in the light of a country's goals, its capacity to meet these goals from indigenous resources, and any changes in the actual or potential costs and benefits of f.d.i.. This suggests the need for a regular monitoring of information about the activities of foreign affiliates, and an acceptance by Government, that if f.d.i. is to make its best contribution, policies which might have been appropriate in its absence require modification in its presence. For example, the more a country is internationally involved, the more important it is for its exchange rate and trade policy to be right;

if f.d.i. should cause the structure of industry to become more concentrated, the more reason for the Government to operate an effective competition policy; the more foreign affiliates invest in technologically advanced industries, the greater the need for a well defined source and technology policy. Observe that these are all general policies, i.e. not especially directed to foreign affiliates, but, which may need modification because of their activities.

When one speaks about policy towards f.d.i. however, one usually means policies which will specifically affect the behaviour of existing or prospective foreign investors. Yet almost all the surveys done on factors influencing f.d.i. stress the importance of general economic and political environment of the recipient countries. Tax incentives, tariffs, subsidies, controls on profit remittances, insistence on local equity participation all matter, but basically it is the overall environment and market prospects which count in the long run. Most MNEs are risk averse; economic and political instability are risks which such companies are only prepared to undertake (if at all) if the prospective returns are higher (i.e. the benefits accruing to the host country are lower). One way for host countries to increase their share of the benefits of f.d.i. is to create a low risk profile so that foreign firms are content with a lower rate of profit on the capital invested.

A full discussion of the gamut of specific and particular policies towards foreign affiliates which might be pursued is outside the scope of this paper. But in the context of a cost/benefit exercise they range from the provision of information to foreign investors about the objectives of host countries (such information may be general or very specific) to outright mandatory control over types of foreign firms admitted, forms of investment, the behaviour of firms one admitted

and divestment procedures. In between the "min-max" extremes are a host of policies open to Governments, the appropriateness of which will vary according to circumstances and their likely effect on foreign investors. Guidelines to behaviour are one option which has been endorsed by such bodies as the Investment Chamber of Commerce, and more recently (with somewhat different intent) by O.E.C.D.. Several countries and companies have also produced their own guidelines; essentially they are gentlemen's agreements, the success of which depends on the good will and cooperation of the parties concerned. One step - but an important step - removed from guidelines are Codes of Conduct, which are more binding on character, and to which sanctions are usually attached. The Pugwash code on the transfer of technology and the Andean Pact codes are of this kind and the Commission on Trans-National Corporations is currently thinking on the same lines (U.N. 1976). From codes, one moves to general economic inducements or constraints, to which foreign investors may or may not respond; and then to very specific rules and regulations which foreign firms must follow; e.g. with respect to extent of equity capital they may own, employment of indigenous labour, import quotas, information and reporting procedures, dividend remissions and so on. Then finally, there are more embracing policies directed specifically to foreign companies, e.g. those operated by Mexican and Indian governments.

Beyond these unilateral policies are bilateral or multilateral policies,, in which more than one government is involved. These range from bilateral tax agreements or an informal exchange of information on transfer pricing to generalised agreements between host and home countries on international investment on the lines of G.A.T.T.. Most commentators believe however, that such generalised agreements, if they

ever come about, are a long way in the future. The point of mentioning it here is that multilateral policies - between home and host or host and host or home and home Governments - and the action of such bodies as U.C.T.A.D., O.E.C.D., E.E.C. are likely to become more important in the future in effecting the behaviour of foreign investors. Such a transition from unilateral to multilateral action is not without its costs to individual Nation States. Though multilateral policies may increase the benefits of f.d.i. for the participating nations, taken as a whole, it does not necessarily mean that each and every country will benefit from them. Indeed, in some cases, the national sovereignty which countries are seeking to preserve by harmonising their actions, may be lost, not to the foreign companies but to the strongest of the group of countries framing the actions.

The point in mentioning these policy options is that, like the f.d.i. they are intended to influence, each has its particular costs and benefits. Once more, what is needed is a model or framework for evaluating such options, and some idea of the general situations in which the various options are most likely to be effective.

VIII

For reasons stated at the outset, this paper has not been of the kind the author would have liked to have written. What has been written is neither directed specifically to the Portuguese situation; nor, except in a very rough and ready sense, does it answer many of the questions which are the concern of all countries. Indeed it poses more questions than it provides answers. In the Portuguese context, when so little is known about f.d.i., this may not be a bad thing. What is needed by all Governments is a kind of tool kit, from which it is possible - given the data or a reasonable estimate of same - to build a policy framework.

But the paper does make a number of general quite important points. If I had to pick out the most important I would choose five. First, it argues for a sectoral approach to f.d.i.. It really is extraordinarily difficult to generalise about the costs and benefits of f.d.i.. The contribution of foreign affiliates in the extractive industries may be completely different from that in the manufacturing and service industries. Within manufacturing, a distinction needs to be made between import substituting and export generating industries, and between the foreign affiliates of MNEs which pursue a global and regional strategy and those which do not. True, if it were found that, in tot, f.d.i. as a whole have a negative income effect, this might suggest a policy to restrict f.d.i.; but this could be wholly wasteful if, for example, the whole of the negative effect was explained by the behaviour of one large petroleum firm.

Second, I would argue against a series of problem oriented policy measures towards f.d.i.. The contribution of foreign firms must be looked at as a whole, once one's criteria for evaluating its contribution, with all its implicit tradeoffs, have been established. Just because f.d.i. does little to contribute towards a country's technological

goals does not imply that policies should be implemented to bring this about. For it may be that this can only be accomplished at the expense of the employment and other goals, and in the end the country may be worse off than before. There is an interdependence between costs and benefits which requires a macro-approach to their evaluation.

Third, I would stress the results of f.d.i. are determined as much by general host Government policy and the local economic environment as anything to do with the behaviour of the foreign firms. Once a substantial foreign owned sector exists, Governments have a responsibility to reappraise policies implemented in the absence of foreign investment to see whether they are still appropriate. This, of course, Governments do not like doing. It is much easier (if not always in the best interests of national welfare) to force the foreign firm to mould itself to existing policies, rather than change the policies so that it can make the best of all contributions. To give an example; if a balance of payments deficit appears to be associated with f.d.i. it is tempting to force foreign firms to reduce their investments or to operate in such a way as the deficit is eliminated. But the end result may be a fall in l.v.a.. A more sensible reaction might be to try and eliminate the deficit by other means, e.g. a change in the exchange rate, or a reduction in the activity of firms which contribute less to l.v.a..

The fourth point is that Governments, while evaluating alternative routes of obtaining the benefits of f.d.i. should not presuppose these routes are necessarily preferable. Many a Government has nationalised a foreign investment in the expectancy of getting rid of the control exercised by the foreign investor, only to find that the heart of control was not in the possession of equity capital but of technology, which it

had not relinquished. The coming years are likely to witness many new forms of international involvement and Governments seeking to formulate policies should very much be aware of these (Gabriel, 1972).

A final point is to do with negotiating procedures. There is still a very large gap of understanding between Governments and enterprises over the goals each is legitimately seeking to pursue, as there is over the extent to which f.d.i. can advance these goals. This is especially evident once one moves away from the purely economic consequences (as traditionally measured) to social and cultural effects - where goals and values between investing companies and recipient countries may differ even more. So often one finds that politicians and businessmen are better not talking about the same thing or disagree with each other because their perceptions are different. To be admitted, some value systems of l.d.c.s have only been consciously identified as a result of f.d.i., which, if it has done nothing else, has helped them know what they don't want. All too easily, it has been assumed either that f.d.i. has no real impact on the social and cultural habit of recipient nations or that it is good for them to be inculcated with the economic ethic and aspirations of the home country. But, in many cases it is clear that f.d.i. has been a conduit of the way of life - or one, which for perfectly good reasons, recipient countries do not necessarily wish to embrace. No one enterprise is to blame for this - but the fact remains that it might not have occurred, or occurred to the same extent, in the absence of f.d.i.. On the other hand, host countries do not always appreciate the intricacies of the kind of a global set up, which may give f.d.i. the very advantages which are sought by it and to force it to behave like a local firm, might rob the MNE of its distinctive contribution. Clearly, the concerns of host

countries are not of the same order of those of the MNEs - and there is a tremendous lot to be learnt by both parties before full headway can be made on harnessing the benefits of f.d.i. to advance economic and social welfare.

Table 1.. Patterns of foreign direct investment regulation in
selected developing countries

Parameter	Pattern I (mostly Asia - excluding India - Africa, CACM)	Pattern II (mostly Middle East, North Africa)	Pattern III (mostly South America)
I. Administration	Case-by-case screening largely restricted to award of <u>incentives</u> (non-discriminatory)	Case-by-case screening at establishment (degree of discrimination varies)	Separate administration for foreign investment Screening at establishment
II. Investment screening criteria	Emphasis on functional contributions of investment. Little indication of extensive cost/benefit analysis Screening largely for award of incentives	Emphasis on functional contributions and conditions of investment Little indication of extensive cost/benefit analysis	Criteria formulated for cost/benefit analysis, often extensive Includes social cost criteria in some cases
III. Ownership	Few requirements. Few sectors closed to foreign investment	Joint ventures prevalent	Strict regulations on ownership and investment (exc. Brazil). A large number of closed sectors
IV. Finance	Few repatriation limitations	Few repatriation limitations	Repatriation ceilings in most areas (exc. Mexico). Screening of foreign loans. Special control of payments to parent company
V. Employment and training	Announced indigenization policies but little headway in practice	Local quotas for work force.. Few local quotas for management	Specific across-the-board indigenization requirements
VI. Technology transfer	No controls	No controls	Screening and registration of all technology imported

Table 2

'Best Guess' Estimates of Selected Balance-of-Payments Returns of UK and US Direct Foreign Investment in Manufacturing Industry

	<i>Reddlaway Data (UK 1956/63)</i> (1)		<i>Hufbauer/Adler Data (US 1957/64)</i> (1)	
	<i>Percentage of Net Operating Assets Controlled by UK Firms Abroad</i>		<i>Percentage of Total Assets Controlled by US from Abroad</i>	
	<i>Model A.C.</i>	<i>Model R.C.</i>	<i>Model A.C.</i>	<i>Model R.C.</i>
<i>Initial Effect</i>				
1. Capital equipment exports	14	10	27	3
2. Immediate 'multiplier' effect ¹	n.a.	n.a.	2½	3
<i>Specific Recurrent Effect</i>				
1. Exports of parts and components	6	4½	5	1
2. Exports of finished goods (export displacement effect)	-20°	-3	-51	2½
3. Trade propensity effect ²	n.a.	n.a.	6	—
4. Profits and interest	7½	7½	12	12
5. Royalties, fees and services	½	½	1½	1½
6. Imports by investing country from subsidiaries	n.a.	n.a.	-5	-4½
	-6	9½	-31½	12½
<i>Non-specific Recurrent Effect</i>				
1. Sustained multiplier effect ³	n.a.	n.a.	7	-3
	-6	9½	-24½	9½
Recoupment period (approximate years)	Never	8	Never	8

¹ Attempts to measure the balance of payments repercussions (to investing country) of an increase in income in the host country consequent upon the capital transfer (see Hufbauer and Adler p. 52, ff).

² This effect acknowledges the more general trade effects which accompany any expansion of overseas sales. Under anti-classical assumptions it is simply measured by the marginal propensity to import from the U.S. expressed as a percentage of the capital outflow. (See Hufbauer and Adler p. 47).

³ The sustained multiplier effect estimates the multiplier effect of the continuing influence of the various specific balance of payments effect on income flows in the host country. For the method of calculation see Hufbauer and Adler, p. 46, ff. and Table 4.3

Table 3

Summary of Studies Relating to Employment Effects of US MNCs

<u>Study</u>	<u>Type of Analysis or Source of Data</u>	<u>Estimate of Percent of For- eign Production Which Could Have Been Retained in U.S.</u>	<u>Employment Effects</u>				
			<u>U.S. Production Displacement</u>	<u>Export Stimulus</u>	<u>U.S. Parent Employment</u>	<u>Support Firm Employment</u>	<u>Net Employment</u>
Emergency Committee on American Trade	Sample Survey of 74 Companies	Not precisely estimated; can be inferred to be low	Not explicitly estimated	+300,000	+250,000	Not considered	Substan- tially Positive
Ruttenberg, AFL-CIO Study	Aggregate Official Data	Not dealt with explicitly; can be inferred to be high	500,000 jobs lost due to adverse trade movements, 1966-69, of which MNC ac- count for an "important part"	Not considered	Not considered	Not considered	Negative, by an "important part" of 500,000
Stobaugh and Associates	Combination of 9 Case Studies of individual invest- ment decisions and aggregate data	Dealt with explicitly in the case studies; was low or zero in the long-run in every case	Negligible	+250,000	+250,000	+100,000	+600,000
U.S. Chamber of Commerce	Sample Survey of 158 Companies	Not precisely estimated; can be inferred to be low or zero	Not explicitly estimated	+311,245 (based on net trade)	Not considered	Not considered	Positive

APPENDIX

Some macro-economic aspects of Private Foreign Investment (PFI): a preliminary note from the Greek experience.*

1. Aspects of Economic Development of Southern Europe⁽¹⁾

It is estimated that average Gross Domestic Product (GDP) per head in the four South European Countries in 1974 was about one-half of that in industrial western Europe.⁽²⁾ The main structural problems of the region are the familiar problems of any underdeveloped country; viz. a large concentration of the population in low productivity sectors (e.g. agriculture) and a high import dependence due inter alia to the liberalization of their economies and their industrialization policies.

During the past 10-15 years, GDP has increased in the south European countries at an annual rate of about 6.5-7.0% compared with about 5.0-5.5% in the rest of the world (see Table A.1). At the same time, important structural transformations took place within each country of the region. It can be seen from Table 2, for example, that the share of industry in GDP assumes continuous and increasing importance. To give one example, the share of industry in GDP in Portugal during the early 1950s was about 27% whereas now it is about 48%. Simultaneously, the share of agriculture in GDP shows a declining trend. Here again Portugal is the leading country of the four in succeeding to reduce its share of agriculture from 33% of GDP in the early 1950s to about 18% in the early 1970s.

It must be emphasized, however, that these sustained high rates of output have been mainly due to the rapid expansion of industrial production (and to a lesser extent the services sector) and that the agricultural sector was, and still is, considerably lagging behind (see Table 1). It goes without

(1) By Southern Europe we mean the countries of Greece, Portugal, Spain and Turkey.

(2) For detailed data, see: OECD: National Accounts of OECD Countries, 1974, Vol. I, Paris 1976.

* I am grateful to Mr. Perrakis of the University of Reading for helping me to prepare this note.

saying that for high growth rates of output to be sustained, a high growth rate of capital formation is required. The available evidence suggests that the gross investment rates of south European countries surpassed the growth rates of their output.⁽²⁾ A useful indicator for the investment performance of the region is the Gross Investment/GDP ratio, shown in Table 3. This table demonstrates that all countries (with the exception of Turkey) have a high propensity to invest and that this propensity tends to increase through time.

It must be emphasised, however, that a high gross investment rate, per se, does not guarantee a high growth of output; much depends if investment is directed towards productive activities. Thus, in Greece only about 15% of all investment is directed in the manufacturing sector whereas twice as much (about 28-30%) goes for investment in dwellings. In Portugal, on the other hand, about 30% of all investment goes to manufacturing industries whereas dwellings absorb only about 15% (See Table 4).

Early in its development process each developing country has to face an important dilemma. Given the limited availability of funds for development, the production of a certain produce mix may involve various alternative production techniques with different levels of utilization of the existing factors of production. It is generally recognized that capital is the scarce factor in developing countries, which, in maximizing output, involves minimizing the capital-output ratio. This choice of technique may not be compatible with maximizing employment. Available evidence from south European countries suggests that policy makers in these countries opted for the optimization of output rather than employment. Taking all economic activities together, employment in Greece and Portugal fell by an average annual rate of about 0.4 per cent whereas employment in Spain and Turkey increased by about 1%.⁽³⁾

(3) For detailed data, see: OECD, Labour Force Statistics, 1960-72

Given the very low labour absorption capacity of south European economies (despite their rapid economic growth) one might expect that severe unemployment problems arose during the past 10-15 years. These, however, did not take place mainly because all four countries assumed a role of net labour exporter to western Europe. During the 1970-1973 period, for example, 549.6 thousands of Portuguese emigrated (67% of these to France).⁽⁴⁾ By encouraging emigration, south European countries failed to take any serious measure to solve their labour absorption problems. There are many who argue that south European countries pursued this emigration policy with two goals in mind; first to ease their unemployment situation, and second to secure funds through workers' remittances to finance their balance of payments deficits. Thus, this policy was not accidental but quite deliberate. We must add, however, that from 1973 onwards a reverse traffic in emigration started and all four countries today find it increasingly difficult to accommodate the returned emigrants.

The foreign trade picture of the south European countries presents striking familiarities (with the possible exception of Turkey). The generally high import dependence has changed very little over the last decade and, in most cases, it actually increased. In general, the highest import dependence ratios are to be found in "heavy" industry (basic metals, transport equipment, engineering), chemicals and rubber products. Unlike the structure of imports which remained almost unchanged during the last decade, the structure of exports changed significantly. Table 5, for example, shows that manufacturing exports in late 1950s in Greece represented only 10.2% of exports of goods and services whereas in early 1970s they account for about 43% of exports. The same is true for Portugal, where more than 50% of all exports are manufacturing exports.

Apart from the increasing share of manufacturing exports in total exports in all south European countries, the composition of manufacturing exports

(4) OECD: Economic Survey of Portugal, July 1974.

among them is almost identical. Table 6 presents similar coefficients of manufacturing export structures for the two periods. [The interpretation of this coefficient is similar to that of the correlation coefficient: if two structures are identical the value of the coefficient is 1; if they are completely dissimilar, the value is zero.⁽⁵⁾] Table 6 then clearly demonstrates two things: first, a high degree of similarity between manufacturing exports of south European countries, and second a low degree of similarity between south European countries and UK or West Germany. Another interesting feature of the Table is that between the two periods, the export structure of the south European countries seems to converge or grow similar to those of UK and West Germany. This is particularly so for Spain. The close similarity of manufacturing exports of south European countries is neither chance nor inexplicable. A closer look at the manufacturing structure of these countries (see Table 7) reveals that the structure of their manufacturing output is fairly similar with one another. This similarity reflects a traditional industrialization path beginning with processed foodstuffs, textiles and other labour-intensive products. During the last ten years, however, when foreign investment started to come into these countries in a substantial volume, modern manufacturing branches (such as Chemicals, Basic metals, Oil refining, et.) assumed a much higher importance.

Analysing the Balance of Payments (BCP) data for the region one can immediately notice two opposite trends. Greece and Turkey present a continuous negative current balance trend (BCP deficit) while for Portugal and Spain the trend is positive (BCP surplus).⁽⁶⁾ The main sources of finance for this current balance deficit were the invisibles balances

(5) For a formal derivation of this coefficient, see: U.N. Economic Bulletin for Europe, Vol.23, No.2, N.Y. 1972.

(6) The situation analysed above refers to 1959-1973 period. The 1974-75 increase in the price of crude oil and the world slump, resulted in current balance deficits for both Portugal and Spain.

along with the inflow of foreign capital and public borrowing.⁽⁷⁾ For all four countries the trade balance is negative, a fact hardly surprising. The services and transfers balance for Greece, Portugal and Spain is almost always positive and significantly contributes in bridging the trade gap. Among the most important positive items of the invisibles balance are tourist receipts and worker's remittances. The reason is that all four countries are tourists' attraction places and net labour exporters to industrialized western Europe. The most important negative item of the invisibles balance is investment income (repatriated profits, interest payments, etc.). This capital outflow amounts to about one fourth of all new private long term capital inflow for Spain, whereas for Turkey, during the 1959-71 period, the outflow surpassed by \$222 mil. the inflow (\$529 mil. inflow, \$751 mil. outflow). For Portugal, during the 1959-73 period, the inflow and outflow of long term private capital was \$573 mil. and \$117 mil. respectively (outflow about 20% of the inflow).

Summarizing the above short discussion about the economic performance of south European countries we conclude that all four countries during the past 10-15 years had an enviable record with high output growth and price stability. However, in 1972 their economies began to show the first signs of overheating which eventually resulted in price instability and a substantial retardation of economic growth. No doubt, south European countries will try to reach their pre-1974 levels of growth of output as their countries come out of the economic slum, since they are committed to fast industrialization with particular emphasis in manufacturing. Many of the ingredients for success are already there; high investment and savings propensities, attraction of foreign capital on a substantial scale in the development of modern manufacturing branches, association or EEC membership, etc. There are doubts, however,

(7) For analytical BOP data for the south European countries, see: IMF, Balance of Payments Yearbook.

concerning the long-run solution of the basic structure problems of the region, such as the low productivity levels, the high import dependence of raw materials and crude oil, and the absorption of a possible return of immigrants.

2. The inflow of Private Foreign Investment (PFI) in Southern Europe

The inflow of foreign capital into southern Europe in the post-war period began in the mid-1950s but only gathered momentum towards the late 1960s. This was partly a reflection of changing conditions in the capital-exporting countries as well as legal and other changes in the recipient countries. In Turkey there was virtually no inflow of foreign investment until 1950 when the first two laws authorizing and regulating foreign investment were introduced. In 1954 new legislation was adopted to encourage more foreign investment. In Greece, foreign investment was first protected in 1953, but investment in any significant magnitude started to come just after 1960. The volume of foreign investment followed a similar time path in Spain, where the growth of investment increased after the economic reform of 1959, and in Portugal where it increased rapidly in manufacturing after the creation of EFTA in 1959. Spain has attracted the largest amount of foreign capital with an inflow of \$570 mil. of direct majority participation in manufacturing industry from 1960 to 1970. During that period, total direct foreign investment in Spain amounted to \$1168 mil. and total foreign investment (including portfolio and real estate) amounted to more than \$2 billion (see Table 9).

Before the second world war foreign investment in southern Europe was concentrated in public utilities, banking and other services with smaller amounts in sectors like mining and tobacco. Public utilities, however, since the above have been nationalized and investment in manufacturing by early 1950s was negligible. The distribution of foreign investment in more recent years has followed a fundamentally different pattern. The bulk of this

investment has been in the manufacturing sector, and within manufacturing in a few, modern, fast-growing and technologically advanced sectors (see Tables 10 and 11). As table 11 clearly demonstrates the pattern of private foreign investment in southern Europe is similar and usually two or three manufacturing branches account for more than half of all manufacturing investment. It has been estimated⁽⁸⁾ that the share of foreign investment in total investment in Greece, and for the 1961-68 period, in Chemicals and Oil refining, Transport equipment and Basic metal branches was 82.6%, 81.6% and 64.4% respectively. In other words, almost all new investments in these modern manufacturing branches were carried through by foreign investors.

In Greece about $\frac{3}{4}$ of all foreign investment is concentrated in Chemicals, Oil refining and Basic metals (steel and aluminium). These branches, in all of which foreign capital predominates, are capital-intensive and in 1974 accounted for about 14% of employment in manufacturing. A few large-scale projects in these branches have had a marked impact on the structure of exports, their joint share of total manufacturing exports rising from 22% to 42.9% between 1958-60 and 1973-74. In Spain, where more than half of foreign investment has been in the Chemicals and Food-processing branches, there seems to exist a clear association with the export growth of these branches, particularly the last few years. The spectacular growth of exports of motor vehicles and ships from the transport equipment branch provide an interesting contrast in the relative importance of foreign direct investment. Whereas most motor vehicles manufacturers are foreign the shipbuilding industry is entirely Spanish owned. The implication being, that in certain branches technological modernization and a successful export performance are attainable without direct foreign investment, provided national policy is really geared towards these goals.

(8) U.N. Economic Bulletin for Europe, op.cit.p.69

In Portugal, foreign investment has shown a strong tendency to concentrate on relatively labour-intensive branches such as food processing and textiles and to be associated with their export and employment growth. The clothing branch has increased its share of total exports from 5% to around 18.20%. The most important foreign enterprises in this branch are Swedish and British and most of their output is exported to their countries. Foreign capital is dominant in the paper and pulp branch which exports most of its output, and Dutch and Danish investments are also important in the transport branch, particularly in shipping.

Over 70% of foreign investment in Turkey in the 1960s was concentrated in rubber tyre production, chemicals and electrical machinery. Official Turkish policy until 1971 very markedly favoured import-substitution, to the extent of completely stopping imports as soon as domestic manufacture or assembly began. With few exceptions foreign investment in Turkey (until 1971) was mainly oriented towards supplying the domestic market and this is undoubtedly one of the reasons that private foreign investment and exports do not show in Turkey the same association as in the rest of the countries of the region.

There is little doubt that the inflow of private foreign investment in the region has had a marked impact on the structure and growth of its manufacturing exports. It is equally true, however, that this impact has done nothing to reduce the import dependence of the region. As a matter of fact, in most cases today the export oriented industries are more import dependent than they were in the past. Finally, the inflow of private foreign capital seems to be very closely correlated with other branches of manufacturing of the region that experienced the higher growth rates in their output during the last decade (e.g. chemicals, basic metals, transport equipment, electrical machinery, etc.). Was this high output growth the main factor which attracted the inflow of foreign capital or was the high

growth a result of the concentration of foreign capital in these branches? One tends to favour the second rather than the first explanation since the pattern of private foreign investment all over the world seems to be identical, i.e. to concentrate on the same fast-growing and technologically advanced branches, and there fore nothing was special about southern Europe. But this is a speculative thought, and nothing more.

3. A methodological framework for analysing some of the macro-economic effects of Private Foreign Investment

Much has been written about the role of Private Foreign Investment (PFI) in recipient countries. There already exists too many serious micro and macro-economic studies dealing with various aspects of the issue. The majority of these studies falls under one of the following two categories; they are either (a) abstract and theoretical, or (b) empirical but partial, i.e. they examine one or two specific characteristics of PFI. Each of these two categories, undoubtedly, has its advantages but as far as host country's policy makers are concerned one can't help thinking that apart from a set of general theoretical propositions their people need some more concrete pieces of information to base their economic policies towards foreign investors.

One such general view, i.e. taking into account the basic macro-variables of a macro-economic system, and empirically verifiable framework for studying the impact of PFI in LDCs was developed by the Netherlands Economic Institute.⁽⁹⁾ We further modified and extended this framework to account for direct and indirect employment effts of PFI.

The prime idea behind this approach is to separate the economy into two interdependent sectors (the PFI sector, which includes all foreign firms, and the rest of the economy sector, which includes the national firms) under

(9) H.BCG, et.al., "Private Foreign Investment in Developing Countries", 1974.

the assumption that the situation in time t is given and that one is simply interested in finding out what happens from time t to time $t+1$ as a consequence of the presence of PFI on some macro-variables. The variation in these variables from t to $t+1$, imputable to the presence of PFI, is called marginal effect (e.g. marginal effect on income, balance of payments, etc.). The marginal effects of PFI, in other words, refer only to the effects imputable to PFI in a given period (i.e. from t to $t+1$) assuming that PFI is present in t , and comparing the two alternative increases which would take place in the macro-variable standing for a given effect from t to $t+1$ under the assumptions of the presence and of the absence, for that period, of PFI. Since the economic model, which consists of the above mentioned two sectors, (the PFI and the rest of the economy sector), is simultaneously and over time interdependent, changes in any of the endogenous variables causes a chain reaction on the others. Or to put it in another way, the simultaneous and over time interdependence of the model makes it possible to force into account the linkage effects of one sector (or one macro-variable) on the other. (9)

Before describing briefly the main features of the model, we discuss some of its underlying assumptions. First of all, with a given situation in time t we compare a situation in time $t+1$ and try to find the effects of this transaction on some of the endogenous variables of the model under two alternatives:

the actual situation, where several firms operate in the PFI sector of the economy, and the alternative situation, the absence for that period of the PFI sector. The first alternative is quite straightforward, and is quantifiable easily by estimating the actual (observable) effects of the PFI sector on output, Balance of Payments, etc. The second alternative in turn, depends on the relations between the PFI and the ROE (Rest of the Economy) sector, as described analytically by the various equations of the

model. In other words, the technological relations of the two sectors at the point of the departure (their capital-output ratios, their investment behaviour, their import per unit of output, export per unit of output, taxation coefficients, repatriation of profits coefficients, etc.) give us the alternative situation. This is a great advantage, since we do not need to make any arbitrary assumptions about the second alternative (i.e. what would have happened if the PFI sector remained completely stagnant between period t and period $t+1$). This is so because the model is in a sense a general equilibrium model and since everything depends on everything else (neutrality factor) any change in one sector is counter-balanced by the other according to its specific technological characteristics. This is precisely the reason that this model allows for the effects imputable to the presence of the PFI sector to be estimated.

It is clear by now, therefore, that the crux of the matter is the relationship between the two sectors of the macro-economic model. These relations are much more simple than one might expect. They are based on the familiar national accounting identities, as in any other simple macroeconomic model. A set of 20 equations describes the behaviour of the PFI sector and another set of equations describes the behaviour of the ROE sector. There is, further, another set of relations which are identities, in the national accounting sense. These three sets complete a mathematically determined macroeconomic model. Needless to say that almost all the relations of the model are interdependent.

For the PFI sector, in particular, a simple production function is hypothesized which depends on the capital-output ratio of this sector. Its capital stock grows at a certain rate, determined by the amount invested annually. The amount which is annually invested, is the sum total of two parts; net reinvested profits, and a part which is domestically financed (the inflow of new capital is taken care of indirectly through the balance of payments equations). To be more precise, whenever the net annual addition of the PFI

capital stock is higher than the sum total of reinvested profits and new capital inflow, it is assumed that the excess part is financed from local savings. This is the most crucial assumption of the model and we think not an unrealistic one. This Financial Mechanism (FM) of the model has far-reaching effects. To start with, it implies that in some cases foreign investment could play a substitute, rather than an additive role to domestic investment. This is so when the economy is in a full employment situation and funds generated internally in the PFI sector firms, are less than the net increase in their capital stock. In such a case the difference is financed from local savings and local firms lose the availability of those funds. In general, however, the model assumes a less than full employment situation where the role of foreign investment can be either substitute or additive or both with respect to domestic investment. What in fact happens, depends from the growth of capital stock and investment policies of each individual enterprise of the PFI sector. But even in a less than full employment situation any local finance of the PFI sector firms have as a result to limit the investment opportunities of local firms since domestic investments are assumed to be given by available financial resources taking into account the share absorbed by the PFI sector. It is further implied that these foregone investment opportunities for local firms would have resulted in a certain level of output (depending on the capital-output ratio of the local firms) which is now foregone, thus in every such case of local finance of the PFI sector firms, a part of their output must be subtracted which in any case would have been produced in their absence, from local firms. And if the productivity of these latter firms (the local firms) proves out to be higher than that of the foreign firms, this output represents a real loss for the host country. By and large then, the role of investment of the PFI sector is assumed to be partly additive and partially substitutable to domestic investment. One of the attractions of the model is that it does not require one to get any arbitrary a priori set of assumptions. The financial mechanism is there, and in the case that PFI sector firms make use of local

finance, it starts its motion. We should further add that existing empirical evidence shows that for Greece, during the 1970-74 period, about 40% of the net increase in capital stock of the PFI sector firms was financed from local financial resources.

The next question answers the balance of payments. What would have happened to imports and exports in the absence of the PFI sector firms? The answer to this question comes indirectly and is closely related to what happens to output (value added) and investment. In the absence of foreign firms, a certain level of output will be produced by domestic firms which have certain export and import propensities (export and import propensities in the model are directly related to output levels), and therefore a certain amount of imports and exports will take place. The precise magnitudes of these variables depends upon the value of the parameters of the PFI sector firms as compared with those of domestic firms. If, for example, the export per unit of output coefficient of the PFI sector firms is higher than that of the domestic firms, in the absence of foreign firms exports will be lower. Similar considerations apply to imports, taking into account repatriation of profits, interest, etc. So, in the absence of foreign firms imports and exports will be partly replaced and partly substituted, depending on the precise relations of the export and import coefficients of the PFI sector vis a vis the domestic sector firms.

4. Marginal Effects of PFI on Output (value-added), Balance of Payments, Taxation and Savings

The model outlined above can be used to evaluate the impact of PFI on any of its endogenous variables (output, imports, exports, investment, taxation, etc.). We have chosen to quantify four such effects; the effect on output (Y), Balance of Payments (B), Government revenue through taxation (Sc) and on Private Savings (Sp). The formal development as well as the mathematical solution of the model are not presented here. We instead give a verbal interpretation of this

solution.

The marginal effect on income is given by three additive terms. The first term is, out of the total marginal effect, the share given by the increase of PFI's gross value added (output) from t to $t+1$. The second term stands for the decrease in financial availabilities for domestic investments caused by the share absorbed by the PFI sector. The third term stands for the increase in domestic investment which is caused indirectly through the operations of the PFI sector. This last term takes into account the new capital inflow, the increased government revenue through the taxation of the PFI sector firms as well as the contribution of the latter on private savings.

The marginal effects on the Balance of Payments is given by a ratio. In the denominator appears a "correction" to take into account the interest of the foreign debt of the economy. The numerator consists of two additive terms. The first stands to the direct effect of the PFI sector (import requirements, export promotion, profit transfers). The second is the indirect effect which comes through the income effect and the marginal propensity to import.

The marginal effects on private savings is directly related to the marginal effect on income and the marginal propensity to save. If the marginal effect of the PFI sector on income is positive, then its effect on savings is positive.

The marginal effect on government revenue is given by three additive terms. The first term stands for the increase in taxes on profits and wages, indirect taxes, taxes on imports, taxes on exports, and increase in public expenditure directly related to PFI. The second term gives the indirect effect of PFI for the rest of the economy on indirect taxation, on taxes on profits and on taxes on wages. The last term gives the indirect effect on taxes on imports.

These four effects give a quite good indication for the benefits and/or losses from the activities of the PFI sector firms in a host country.

5. Marginal Effects of PFI on Employment

The model just outlined above did not take into account the employment effects of PFI. Since it was thought that employment-unemployment problems are among the most frequent headaches of developing countries we extended the same model to account for them. The idea was that output is the crucial variable which determines the level of employment, and thus the basic relations of the model are based on the labour-output ratios of the PFI and the rest of the economy sector.

Employment effects are distinguished into two broad categories. Direct employment effects and Indirect Employment Effects. Direct employment effects are directly related to new jobs created within the PFI sector firms as a result of its natural expansion. Indirect employment effects, however, are created as a result of: (a) the linkages of the PFI and the rest of the economy, and (b) the induced effects that these linkages cause to both sectors.

Indirect employment effects, therefore, are distinguished in first round effects and subsequent rounds effects. The first round effects are quantified through the indirect output (value-added) changes that the PFI sector creates in its interaction with the rest of the economy. The subsequent round effects are quantified through a multiplier analysis where the import determinant (apart from output and labour-output ratios) is the PFI sector multiplier.

6. Effects of PFI in Greece: some preliminary results

The above briefly described methodology was applied in the manufacturing sector of Greece for the 1970-74 period. Each of the two sectors of the model (PFI sector, ROE sector) was subdivided in a number of subsectors, corresponding

to the manufacturing branches of the economy, and the effects of FFI in each of these manufacturing branches was studied empirically. Here are some of these empirical results (see Tables 12 and 13).

Table 12 shows that Private Foreign Investment had a positive effect on income and private savings whereas a negative effect on the Balance of Payments. Government revenue, from foreign investment as a whole, was rather negligible. To put it in another way, in the absence of foreign firms output in Greece during the 1970-74 period would have been lower by 8344 mil. DRS (about 130 mil. £). In 1974, in particular, had the foreign firms not been in Greece, the manufacturing output would have been about 5% lower.

On the contrary, the impact of foreign firms on the Balance of Payments is negative, i.e. they increase the deficit. Table 12 shows that in the absence of foreign firms the BOP deficit would have been lower by about 19919 mil. DRG. (about 306 mil. £). In 1974, for example, in the absence of foreign firms, the deficit in the trade balance of the manufacturing sector, would have been by about 27% lower. This sizeable effect of foreign firms on the BOP is higher than one might expect, but not surprising, since Greece is a very small country with very poor supplies of raw materials as inputs, particularly for the modern manufacturing branches where the bulk of foreign firms is concentrated.

The impact of foreign firms on employment seems to be substantial. Foreign firms seem to be responsible for about 24% of the direct employment increase in the manufacturing sector during the 1970-74 period. Or, in the terminology of our model, had the foreign firms not been in Greece, direct employment in manufacturing would have been by 24% lower during the 1970-74 period. Another interesting feature of Table 13 is that indirect employment effects are usually higher than the direct effects. This again suggests that

substantial benefits might be gained by the host country if she succeeds to integrate effectively the foreign firms into her economy.

The high level of aggregation of Tables 12 and 13 obscure some important features of PFI. As Table 14 clearly shows (where we have selected some extreme cases) it is perfectly possible in some manufacturing branches for foreign firms to reduce income whereas improve the BOP deficit (i.e. negative effect on income and negative effect on the BOP deficit). Such is the case of non-metallic minerals branch in Table 14. It is also possible to have the best of two worlds; the foreign firms to increase income and improve the BOP simultaneously, as in the textiles branch of Table 14. We finally have the most usual case where foreign firms increase income but worsen the BOP deficit (paper products and electrical machinery).

Why is this so? In the case of non-metallic minerals it is implied that in the absence of foreign firms output would have been higher by 1.2 mil. drg. whereas the BOP deficit worse by 1.3 mil. DRG. A closer look in this particular branch (no detailed data are presented here) reveals that it increased its capital stock in 1973-74 by 36% and $\frac{2}{3}$ of this increase was financed from domestic savings, thus limiting available financial resources which could have been partially used by domestic competitive firms. At the same time the capital-output ratio of this branch is higher than the capital-output ratio of domestic competitive at the same branch firms, which implies that had the part of domestic savings which was absorbed by the foreign firms utilized by the domestic firms, output would have been higher. Given that the increase in output (income) which was produced by the foreign non-metallic minerals firms was not high enough to compensate for the "potential loss of output" which they caused by their domestic financing, their net effect on output is negative.

Why is the contribution to the BOP deficit favourable? Two points need to be made here. First, PFI sector firms in this branch has a very much higher export propensity than the export propensities of domestic firms. In 1974,

69% of all manufacturing exports of this branch were exported by the foreign firms of that branch. In the absence, therefore, of foreign firms, even with the same level of imports, the BOP deficit would have been worse. Second, since imports are closely related with the level of output, any decrease in output will decrease imports. And in this particular branch we show already that output was reduced as a result of the operations of the foreign firms. These two points taken together explain why the effect on the BOP deficit is favourable.

Similar considerations apply to the textile branch. The only difference in this branch is that foreign firms do use a lower share of local finance than in the previous case and since their capital-output ratio is slightly lower than the capital-output ratio of domestic firms, this advantage (advantage, because in their absence a lower volume of output would have been produced from the more inefficient domestic firms) just about counterbalances their harmful effects on local financial availabilities.

7. A few concluding remarks

A preliminary examination of the effects of foreign firms in Greek manufacturing allows one to make a few general remarks:

a. It is beyond any doubt that the crucial variable which must be taken into account, when one tries to assess the effects of foreign private investment, is its contribution to output, i.e. its value-added. Other effects of PFI, like its contribution to government revenue, private savings, and to a large extent on the balance of payments, crucially depends upon the level of output. Host governments, therefore, should strive to guarantee as large as possible use of domestic inputs by foreign firms (provided, however, that their inputs are not in short supply in the host countries).

b. As the Greek experience demonstrates, foreign firms have in many cases high export propensities. This is usually achieved by an accelerated growth of imported raw materials. Despite the high export propensities of foreign firms in Greece, on the average, their impact on the BOP is negative. To complicate things further, the Greek authorities give very generous export subsidies to all firms with high export propensities. In this case, therefore, one could link their generous export subsidies to the use of domestic raw materials.

c. Usually in host countries foreign banks establish an impressive presence as soon as a number of important foreign firms start their operations. These banks accept local savings and naturally make loans. Greece is a case in point where the last 7-8 years all major international banks opened new branches. Foreign banks usually prefer, for loan purposes, foreign firms, and vice versa. We already mentioned above that foreign firms do tend to finance a substantial amount of their capital stock from local savings, which in the light of the above seems hardly surprising. One could think, therefore, that since local savings in developing countries are considered to be a scarce factor, host governments should not allow foreign banks to receive local savings. Furthermore, there might be many cases where foreign firms should not be allowed to borrow money from the local financial markets since the opportunity cost for the host country in terms of balance of payments vis a vis foregone investment opportunities of local firms could be many times lower. We think that this is a problem that developing countries must give more serious consideration.

d. The case of Greece clearly demonstrates that aggregate studies are very misleading. The operations of foreign firms have different effects on different manufacturing branches. Host countries, therefore, must follow a rather selective approach in their dealings with foreign firms. What is a correct policy for the textiles branch, is not necessarily correct for the chemicals, for example, branch.

e. Finally, although the above discussion was centred on Greece, we think that its implications are equally true for Portugal. Portugal, after all, is a country with almost the same size of population as Greece and in the same stage of development. We also saw that the manufacturing structure, as well as the export-import structure (similarity coefficients) of both countries are very much alike.

APPENDIX

TABLE A1

WORLD PRODUCTION: ANNUAL GROWTH RATES BY COUNTRY
GROUP 1961-73

(percentages)

	Average Annual Rate of Change		Change from Preceding Year		
	1961	- 1970	1971	1972	1973
GROSS DOMESTIC PRODUCT					
All Groups ⁽¹⁾		5.4			
DCs		5.0	3.3	5.6	6.5
LDCs		5.5	5.2	5.4	7.2
SE ⁽²⁾		6.9	6.4	7.5	6.4
INDUSTRIAL PRODUCTION					
All Groups ⁽¹⁾		6.7	4.4	6.6	9.8
DCs		5.8	1.7	7.0	9.8
LDCs		7.1	7.0	7.2	11.0
SE ⁽²⁾		9.9	7.7	12.3 ⁽³⁾	13.7 ⁽³⁾
AGRICULTURAL PRODUCTION					
All Groups ⁽¹⁾		2.6	3.2	-0.8	5.7
DCs		2.5	5.7	0.7	1.5
LDCs		2.8	1.6	-1.6	10.8
SE ⁽²⁾		3.3	2.7	2.0 ⁽³⁾	-1.3 ⁽³⁾

SOURCES: UN, World Economic Surveys, 1972, 1973, 1974, UN Statistical Yearbook, various issues, OECD: Economic Surveys of Greece, Portugal, Spain and Turkey, UN: Economic Survey of Europe, 1973.

NOTES: (1) Includes centrally planned economies
(2) SE= Southern Europe: Greece, Portugal, Spain, Turkey
(3) Unweighted arithmetic average.

TABLE A2

SHARES OF AGRICULTURE, INDUSTRY AND SERVICES IN
TOTAL EMPLOYMENT AND PRODUCTION

	Early 1950s		Late 1960s		Early 1970s
	Production ⁽¹⁾	Employment	Production ⁽¹⁾	Employment	Production ⁽¹⁾
<u>AGRICULTURE</u>					
Greece	34	57	24	50	20
Portugal	33	50	19	31	18
Spain	26	46	16	31	14
Turkey	48	81	34	72	32
<u>INDUSTRY</u>					
Greece	19	16	26	21	34
Portugal	27	25	42	35	48
Spain	27	27	34	36	38
Turkey	12	9	26	11	33
<u>SERVICES</u>					
Greece	47	27	50	29	46
Portugal	40	25	39	34	34
Spain	47	27	50	33	48
Turkey	40	10	40	17	35

SOURCES: UN Economic Bulletin for Europe, Vol.23, No.2, N.Y. 1972
OECD National Accounts e.t.c. op.cit.

NOTES (1) GDP at factor cost

TABLE A3

GROSS FIXED CAPITAL FORMATION AS A PERCENTAGE
OF GDP

	1958-60	1964-66	1968-70	1972-74
Greece	17.8	21.4	23.8	29.5
Portugal	17.2	17.9	17.4	20.1
Spain	19.7	22.6	21.3	22.0
Turkey	15.1	15.1	17.8	16.7

SOURCE: OECD National Accounts of OECD Countries, 1974, Vol.I, Paris 1976

TABLE A4

GROSS FIXED CAPITAL FORMATION IN MANUFACTURING AS
PERCENTAGE OF TOTAL GROSS FIXED CAPITAL
FORMATION

	1960-62	1964-66	1968-70	1970-72
Greece	9.7	13.3	12.7	14.6
Portugal	31.9	32.1	29.7	30.3
Spain	25.4	29.1	31.7	-
Turkey	-	18.0	23.2	25.7

SOURCE: OECD National Accounts Statistics, various issues

TABLE A5

MANUFACTURING EXPORTS AS A PERCENTAGE OF TOTAL EXPORTS OF
GOODS AND SERVICES

	1958-60	1964-66	1967-69	1972-74
Greece	10.2	13.1	25.3	42.8
Portugal	47.2	49.1	51.7	53.9
Spain	20.1	26.5	39.0	44.3
Turkey	9.9	10.1	8.1	18.6 ⁽¹⁾

SOURCE: UN Economic Bulletin for Europe, op.cit and OECD: Commodity Trade Statistics, Series C, 1971-74

NOTES: (1) 1971-1973

TABLE A6

COEFFICIENTS OF SIMILARITY BETWEEN MANUFACTURING EXPORT
STRUCTURES

	<u>1958-60</u>					<u>1967-69</u>				
	Portugal	Spain	Turkey	UK	W.Germany	Portugal	Spain	Turkey	UK	W.Germany
Greece.....	0.76	0.83	0.69	0.33	0.28	0.59	0.70	0.93	0.46	0.46
Portugal.....		0.76	0.96	0.37	0.26		0.62	0.64	0.39	0.34
Spain			0.87	0.37	0.31			0.71	0.72	0.68
Turkey				0.33	0.34				0.36	0.35
UK					0.97					0.99

SOURCE: UN Economic Bulletin for Europe, p.61, op.cit.

TABLE A7

COEFFICIENTS OF SIMILARITY BETWEEN MANUFACTURING INDUSTRY

	<u>1958-60</u>					<u>1964-66</u>				
	Portugal	Spain	Turkey	UK	W.Germany	Portugal	Spain	Turkey	UK	W.Germany
Greece	0.84	0.81	-	0.60	0.66	0.88	0.89	0.76	0.67	0.73
Portugal		0.91	-	0.79	0.76		0.84	0.67	0.82	0.82
Spain			-	0.85	0.86			0.68	0.84	0.86
Turkey				-	-				0.56	0.61
U.K.					0.95					0.96

SOURCE: The same as the previous table

TABLE A8

THE IMPORTANCE OF CRUDE OIL FOR SOUTH EUROPEAN COUNTRIES

	1964	1966	1968	1970	1972	1974
GREECE						
Line A	28.4	47.6	63.9	76.7	142.8	480.5
Line B	3.2%	3.9%	4.6%	3.9%	6.0%	19.5%
PORTUGAL						
Line A	32.3	39.4	47.3	9.19	100.1	450.1
Line B	4.1%	3.4%	3.7%	5.8%	4.5%	9.8%
SPAIN						
Line A	230.1	280.6	498.4	503.1	811.6	3443.1
Line B	10.2%	7.8%	13.1%	10.6%	12.0%	22.4%
TURKEY						
Line A	57.6	42.5	42.9	49.4	124.0	200.1 ⁽¹⁾
Line B	10.6%	5.8%	5.6%	5.5%	8.2%	5.3%

SOURCE: Derived from OECD: Commodity Trade Statistics, Series C, various years

Line A: Value of crude oil in mil. U.S. dollars

Line B: Line A as a percentage of total imports

NOTES: (1) For Turkey 1973

TABLE A9
FOREIGN DIRECT INVESTMENT IN SOUTHERN EUROPE

	Greece	Spain	Turkey
1954-63	113	1954-63	33
1964-74	940	1960-73 1628	1964-74 104

SOURCE: Greece: Bank of Greece and Ministry of Co-ordination 1975
 Spain: La Espania de los Anos 1970, Vol.II, Madrid 1973 and
 Business International, "Spain: Europe's view Industrial
 Frontier", Geneva 1974.
 Turkey: Ministry of Finance

TABLE A10
DISTRIBUTION OF FOREIGN PRIVATE INVESTMENT

GREECE 1954-74		SPAIN 1960-73		TURKEY 1954-74	
Manufacturing	80.1	Manufacturing	72.5	Manufacturing	87.2
Mining	2.6	Mining	5.0	Agriculture	-
Navigation	0.9	Construction	3.6	Extracting	1.2
Tourism	2.5	Miscellaneous	18.9	Services	11.5
Aviation	9.9	Total	100.0%	Total	100.0%
Fisheries	0.1				
Cattle Raising	0.1				
Miscellaneous	3.7				
Total	100.0%				

SOURCES: Same as previous table

TABLE A11

MANUFACTURING ⁽³⁾ DISTRIBUTION OF FOREIGN PRIVATE INVESTMENT

	(1)		(2)	
	GREECE	SPAIN	TURKEY	PORTUGAL
	1954-73	1960-71	1954-74	1958
Food, drink, tobacco	3.2	16.7	8.0	19.6
Textiles	2.9	3.2	1.2	9.5
Clothing	0.3	-	-	21.1
Wood products	1.3	0.5	-	
Paper products	2.1	3.1	2.8	
Chemicals, plastics and allied products	42.4	39.7	30.7	18.3
Non metallic minerals	5.5	4.7	9.4	
Basic Metals	25.1	6.1	9.0	
Machinery	8.3	14.7	30.9	6.4
Transport eq.	8.3	8.7	19.9	
Miscellaneous	0.6	2.4	-	33.0
Total	100%	100%	100%	100%

SOURCES: Greece: P.Roumtliotis, "Direct Investment and National Economy", Athens 1976, (in Greece)

Spain: U.N. Economic Bulletin for Europe, op.cit.

Turkey: Ministry of Trade, Foreign Investment Survey, and Öztel Bolum: Turkey 'DE Yabancı Sermay, Ankara 1975, (in Turkish)

Portugal: U.N. Economic Bulletin for Europe, op.cit.

- NOTES: (1) Foreign participation greater than 90 per cent
- (2) Percentage distribution of the number of foreign enterprises in manufacturing
- (3) Foreign Investment in Oil Refining Plants is not included in this table.

TABLE A 12

MARGINAL EFFECTS OF FOREIGN PRIVATE INVESTMENT
ON OUTPUT, BALANCE OF PAYMENTS, GOVERNMENT
REVENUE AND PRIVATE SAVINGS: GREECE 1970 - 74

Mil.Drs. (2)

	Output	Balance of ⁽¹⁾ Payments	Government Revenue	Private Savings	A	B	C	D
1971	-1127.6	894.8	-622.9	-263.8	-2.0%	2.1%	-1.1%	-0.6%
1972	-341.8	1160.3	-570.6	-79.9	-0.5%	2.6%	-0.8%	-0.1%
1973	4159.2	5290.3	712.1	973.2	4.7%	10.1%	0.9%	1.1%
1974	5654.1	12573.7	323.5	1323.0	4.9%	26.6%	0.3%	2.1%
Total	8343.9	19919.1	-197.9	1952.5				

NOTES: (1) Balance of Payments Deficit

- A Output of PFI sector firms as a percentage of total manufacturing output
- B Balance of Payment deficit of PFI sector firms as a % of total deficit of manufacturing
- C Government Revenue from PFI sector firms as a percentage of total Govern. Revenue
- D Change in Private savings caused by the PFI sector firms as a % of total Priv. savings.

(2) 65 DRS = 1£

TABLE A13

MARGINAL EFFECTS OF PRIVATE FOREIGN INVESTMENT ON THE
LEVEL OF EMPLOYMENT : GREECE 1970-74

	Direct Employment Effects	Indirect Employment Effects		Persons A
		First Round Effects	Subsequent Rounds Effects	
1971	4650	-4382	-5493	26.1%
1972	6903	805	- 295	23.8%
1973	4779	11674	16945	27.6%
1974	2930	-439	7385	17.9%
Total	19262	7658	18542	23.9%

NOTES: A= Average annual DIRECT employment of the PFI sector firms as a percentage of total average annual DIRECT employment increase in manufacturing.

TABLE A14

OUTPUT AND BALANCE OF PAYMENTS EFFECTS OF SELECTIVE
MANUFACTURING BRANCHES: GREECE 1974

	Foreign Firms Effect on Income	BOP Deficit ^(b)	Branch Total Income	Branch Total BOP Deficit ^(a)	(1) <u>(3)</u>	(2) <u>(4)</u>
	(1)	(2)	(3)	(4)		
Textiles	11.2	-237.4	11251	-2502	0.09	-9.5
Paper Products	725.4	697.9	1892	3582	38.3	19.4
Non metallic minerals	-1215.8	-1338.9	6895	-1365	-17.6	-98.0
Electrical machinery	277.1	529.7	5225	6675	5.3	7.8

NOTES: (a) A negative sign in this column implies that the trade balance of the branch is in surplus (i.e. a reduction in its deficit), that is, exports of the branch are higher than its imports.

(b) A negative sign in this column indicates that the deficit of the branch is reduced since this column stands for the BOP deficit. A positive sign indicates increase of the deficit.

CONFERENCE ON THE PORTUGUESE ECONOMY

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D R A F T

PROBLEMS OF OVERALL PLANNING AND COORDINATION
IN PORTUGAL

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Sept. 24, 1976

D R A F T

PROBLEMS OF OVERALL PLANNING AND COORDINATION
IN PORTUGAL

I. Introduction

This is a subject, like the discussion of the methodology of economics, to which economists may turn with feelings which combine both a certain distaste and fascination. The scope and grand scale of the issues makes convinced "marginalists" uneasy in such unfamiliar surroundings. The close relations of the issues to political problems and ideologies also creates discomfort in professionals who are fond of taking refuge in the role of a "value-free" technician.

Yet every economist must have some feelings, more or less explicit, as to the practical relevance of those models of production and exchange whose workings he has mastered. The assumptions required for those models are never met exactly but when are they "good enough"? What are in fact the limits to efficiency in markets which are created by the imperfections in those markets themselves, the effects of non-market interactions and the significance of economic objectives to which markets do not respond?

When markets are unreliable, what guides are there for economists who have relatively little theory to explain the allocative processes of institutions which are not private-profit maximizing organizations? There is the "physical allocation, dual solution" of the models of market price determination. But can that dual solution be implemented other than by markets? Who knows it and who would give the commands? Can it fall to economists to be the technicians of philosopher-kings and compute and issue the proper instructions and will the economists then stand back and let the managers do their best?

Faced with the inadequacies of private market processes there are disagreements among economists in their evaluations of the results of those processes. There are also disagreements in evaluations of the extent to which private market "failures" can be repaired either by ad hoc measures of government policy or systematic displacement of market processes by government planning and coordination. These disagreements and associated skepticisms permit each economist to create his own recipe for dealing with economic problems in the face of inadequate knowledge, imperfect markets, and unreliable incentives. That is one of the insidious attractions of the subject of overall planning and coordination.

Another source of the economist's fascination with

overall planning and coordination is that it offers him a certain legitimacy in the discussion of certain political questions. Economists, as any luncheon guest at their meals can discern, are preoccupied with politics, discuss it intensively among themselves and listen intently, though not always politely, to their political science colleagues for hoped-for insights. In the subject of overall planning and coordination there are a set of issues which, though not sharply defined, are manifestly as much economic as political, and that provides economists with license for pronunciamentos.

Therefore it is with mixed feelings that the subject is taken up. It does provide the opportunity to pronounce, but that is accompanied by feelings of inadequacy because the basis for pronouncements is more limited and inadequate than if the subject were, say, a cost-benefit study of a port facility or an analysis of the degree of overvaluation of the exchange rate. In order to deal with this unease, while succumbing to the temptation to discuss grand questions, several devices will be used. First, as much as possible refuge will be taken in the discussion of "technical questions" both in dealing with evaluations of past attempts at planning and with respect to requirements for the future. Secondly, attempts will be made to be explicit about the political ideology which is reflected but also to restrict that ideology to rather primitive expressions. The last, of

course, will limit the direct applicability of the discussion to Portugal. But it is hardly appropriate, in any case, for an outsider to make highly specific suggestions on such a sensitive range of issues.

One primitive bit of ideology which should be made explicit at the outset and which implies a self-imposed constraint on the applicability of this discussion to Portugal is the belief that the necessary functions of overall planning and coordination can be performed in a reasonably satisfactory manner by a variety of institutional structures. The arrangements which will be most effective within any particular country must reflect its own political and social-cultural conditions. "Many flowers must bloom" in order to reflect the diversity of national backgrounds and, in a free society, the preferences of the people. Commitment to this belief creates some tension. It implies that, to be most useful, this discussion of overall planning and coordination should be set explicitly in the Portuguese context. However, an inadequate personal knowledge and intimate appreciation of that context is a major constraint on the author. The audience will, therefore, be asked to be forbearing.

Interest in planning and overall coordination of an economy arises in Portugal as in other countries partly from dissatisfaction with the levels of income and output, overall growth and individual equity which have been achieved via

the operation of private, market-oriented capitalism.

Comparing the Portuguese economy with the rest of Western Europe, it is clear that there are many reasons to be dissatisfied with the system of private capitalism as it has operated in Portugal. there is no ready-made alternative in the form of government economic planning and coordination which exists in an immediately implementable form with existing expertise and tables of authority and organization and printed requisition and directive forms. While alternatives to market-dominated capitalism are clearly feasible, they must be tailored to each country's social as well as economic structure and institutions. To assist in the consideration of the alternative planning structures and policies, the experience of planning of the last thirty years will be surveyed for the insights and lessons which may be provided. In this survey the reasons for the widespread turn to planning will be contrasted with Portuguese conditions. The weaknesses or failures identified with planning and the possible susceptibility of Portugal to such disabilities will be considered. A warning is in order that the contrasts in foreign and Portuguese conditions which will be made as well as the sources, methods and degrees of success in planning which have been achieved in other countries are all matters of controversy. So this discussion will unavoidably tread on contested ground.

II. The planning enthusiasms of the fifties and the sixties as compared with contemporary Portugal

The immediate post-World War II period was a time for reconsideration of economic structure and prevailing ideology in the "winners," the "losers," and the "bystanders" among the countries of the world. Perhaps only in the United States was victory identified clearly with the form of economic organization which had prevailed in the pre-war period. But even there wartime success was associated with the complete "mobilization" of the economy. The trauma of the Great Depression had also left its mark. The Employment Act of 1946 in the United States was a commitment to government surveillance of the overall performance of the economy and a statement of preference for the maintenance of full employment. The Council of Economic Advisors which was established was not a planning commission but was expected to provide continuing advice to the executive on macro-economic policy, though it evolved slowly into something more than a group of "GNP-watchers." Perhaps in a characteristic manner for the United States there has been slow and piece-meal appreciation of the economic issues which its private capitalist system has not resolved in a satisfactory way. Correspondingly, there has been a piece-meal approach to economic reforms. These have been concentrated in areas

of equity, e.g. tax reform, social welfare, employment and educational opportunities, and, as well, in the regulation of particular aspects of private business practices and production conditions, such as pollution controls. There has been large-scale public investment in the United States, as in highways and, lately, in railroads, and private investment in certain sectors has received public support. Even as public policy toward investment has been guided mainly by considerations of short-term aggregate demand management. There has been no attempt to plan, even in an "indicative" manner, the overall evolution of the United States economy or, with some exceptions, public investment itself, to achieve particular growth targets.¹

In Europe also the Great Depression left its mark of doubt with respect to the viability and efficacy of private, market-oriented capitalism. Moreover, the destruction and dislocation of World War II seemed naturally to call for a greater degree of intervention than had, in general, existed in the pre-war period. Shifts in the ideological balance of most governments toward the left, undoubtedly induced in part by the pre-war recession, made it easier to justify those interventions. When the United States' Marshall Plan began in 1948, the European participants were asked to formulate explicit and economy-wide programs for reconstruction which would be considered jointly by teams of national

and United States "experts." After several difficult years, domestic vigor and U.S. aid set off economic recoveries in most of Europe which were to be marked by the special "miracles" of rapid German, French and Italian growth. Just how much of that was due to planned government intervention and how much due to private, market-directed investment, has never been completely untangled. In some countries, as in Italy, except with respect to special support for the Mezzogiorno, government direction seems to have been minimal and what there was did not result from an overall vision. On the other hand, in other western European countries, there has been active planning, at least in the form of target setting, but also with the scheduling of public investment, to achieve overall growth goals.²

The transformation of Eastern Europe under the occupation and tutelage of the Soviet Union was accompanied by the importation to that area of the structure of Soviet economic planning and organization. While there was, no doubt, some opposition to those imports, it is also true that there was considerable support derived from the enormous prestige with which the Soviet economic system emerged from World War II. It demonstrated that an economy which had been among the most backward on the European periphery at the end of World War I had, in twenty years, transformed itself into an industrial society. That system was able, with some help

from the United States, to stand off and then overcome the armies of one of the most advanced economies of Western Europe. Credit for that achievement must also be attributed to the remarkable courage of the Russian people, the vastness of the land and the scourge of its winters, but surely also to the the success of its economic organization marked by thorough-going planning.

The evaluation of the economic experience of the Soviet and Eastern European economies preoccupies a large group of specialists and, if there is a consensus, it is not possible to sum it up adequately in the present context. However, the judgment may be ventured tentatively that, with some important exceptions with respect to particular sectors and, perhaps, particular countries, Soviet and Eastern European planning has been more successful in achieving overall growth and public consumption targets than the improvement of private consumption.³

In the developing countries of the world there was also a search for alternative economic structures after World War II. In these countries the private capitalism which was characteristic of its most advanced sectors often left major parts of the economies untouched, especially most of agriculture and small handicraft industry. Private capitalists were often discredited by their association with the colonial power or enfeebled by what were perceived to be enervating

local restrictions imposed by the colonial administration. In these countries also the Great Depression had contributed to the discrediting of private capitalism: the advanced countries had clearly suffered greatly in the thirties. The direct and indirect effects on the poor countries of the world had been profound as the markets for their primary products had shrunk and become disorganized.

The economic lessons of World War II itself had not been lost on the developing world either. In the wartime economies of all the Allies centralized control of the economies was employed rather than the decentralized direction of markets. There were, of course, great differences in the methods of management. The power of the Soviet model in particular can be seen in the proliferation in the governmental institutions of the developing countries of such nomenclature as "perspective planning divisions," which exist in planning commissions or finance ministries.

It has also been true for the less developed, as for the Marshall Plan nations, that planning was induced by assistance-granting nations and institutions. Such agencies have wanted assurance that the resources which they convey would be 'used wisely.' And how is that assurance to be provided other than by making plans for using the resources, at the project level, or in the context of a sectoral or national program of economic development?⁴

To some degree each of the influences described above which were important in the embracing of economic planning by so many countries in the post-World War II period is even now at work in Portugal. All the reasons for which private market capitalism has come to be regarded skeptically in much of the rest of the world exist here also. The economic record of the last fifty years in Portugal is well known. The rates of overall growth and individual economic improvement have, except for a few years, been low, both in absolute and relative terms. The provision of public consumption, the levels of social welfare, the standards of equity and individual opportunity are all regarded as unsatisfactory except by the most devoted supporters of the old regime. It is also true that the revolution of April 25, 1974 brought with it a change in the dominant ideology, just as did the post-World War II elections and occupations in so many countries. Socialist ideology is not necessarily identified with centralized planning and coordination, but in practice that seems to be how it has worked out.

The discredited imperialism of the past is associated with private capitalism which has also been discredited by it. The close relationships of the interests of the great private capitalist conglomerates and the old political regime are also well known. And finally, there is no doubt that foreign nations and international agencies which might

now provide economic assistance to Portugal also want plans, although perhaps they would not insist on detailed coordination and control. That is partly a matter of ideological preference among the donors. But they do want assurance that economic policy will move coherently to satisfy the particular types of stability and viability of which they approve.

There are cross-currents flowing, however. Serious consideration of overall planning and coordination is now underway in Portugal. But just at this time there is also a growing tone of skepticism as to what can be accomplished by means of planning. With a longer and richer historical record of planning to examine, it may be possible to gain a better perspective on the enthusiasms of twenty years ago. Yet there are dangers in generalizations, partly because of the great variety of experience and, to be frank, also because relatively little of that experience has been thoroughly studied.

III. The sources of the skepticism toward planning of the late sixties and seventies and their relevance in Portugal

The increasingly common refrain, for developing countries at least, is that "planning has failed." Although

usually it is one or another particular aspect or policy which has proved inadequate, the argument is increasingly common that centralized policy-making has been shown to be ineffective and inefficient. On the other hand, there is agreement among nearly all shades of ideology that in some sectors centralized policy-making is preferred to decentralized market decisions (utilities, education, protection services). Thus, the specific sectoral planning failures are typically viewed as being concentrated in other goods producing sectors as well as in the attempts at overall direction of the economies.⁵

The "planning has failed" characterization is based on several generalizations of the experience of the last twenty-five years or so: (1) There have been few examples of developing countries committed to overall economic planning and coordination of which it could be said that the targets of their plans have been substantially achieved. (2) There are a number examples of grand projects which have paid off much less well than projected. (3) Some planning themes--import substitution, industrialization, urbanization, mass education--have been shown to be slogans whose implementation has left a residue of major problems which seem as difficult as those with which the planning tactics were intended to deal. (4) A criticism of economic planning as it has been practiced is that there has been a systematic neglect of the

distributional, equity and other aspects of development not easily quantifiable, in the emphasis on overall growth.

(5) A succession of economic crises in recent years--energy, balance of payments, food--many of which are associated with the "limits-to-growth" arguments, have not been anticipated through economic planning. (6) The difficulties of central coordination even of technically feasible plans are beyond the managerial powers of most if not all governments.

(7) The intrusion of political considerations inevitably subjects economic planning to distortions and biases.

Such a detailed evaluation of each of these characterizations is not feasible at this point. However, the problems will be identified and the experience of other countries will be related to the potential for planning in Portugal. The intention is to help provide some guidelines for judging the bases for success in planning and coordination in Portugal.

- (1) The problems of drawing up plans which are internally consistent in terms of ends and means

These difficulties may be regarded as technical ones. A common notion is that policymakers set reasonably detailed targets in terms of output and its distribution. These are delivered to the engineering and economic technicians who provide the detailed programs of resource creation, use and

output distribution which will reach the targets. Plan failure may then be identified as simply "bad planning": the plan programs are not consistent with the targets. No doubt some plan "failures" have been of this type. Technicians do make mistakes. After all, the development issues with which they are dealing are complicated. The interactions among resource creation and allocation, the generation and use of technological information, the initiatives and reactions of private and public enterprise and direct regulations are not understood any better by the technicians in planning commissions than they are by academics in their research roles. And the latter have not been notably successful. Moreover, the planning commissions have better reasons to be excused because they are typically understaffed and must work with inadequate data under greater time pressures.

But it is also possible that the problem is not the technical one of "mistakes" in finding the correct means to achieve clearly specified goals. The difficulty may be that the objectives of the plans and the means which exist to achieve them are not consistent. The targets are simply not feasible. When this happens the technicians should tell the policymakers and ask for a different set of targets.⁶

There are at least two objections to this description of plan making procedures. First it does not correspond to the reality of many situations. The setting of targets and

the formulation of the means to achieve them is usually a process of intimate interaction rather than one in which announcements are made or directives are given and then a great deal of staff work is done to determine whether they are feasible and, if so, how.

Even with interaction between target setting and the drawing up of detailed programs, however, it is possible that infeasible targets may be set. Plan infeasibility is likely to be with respect to something like overall saving or government saving out of taxes or labor and/or capital productivity. When this is pointed out, the policymaker may reply: "The next budget will call for the necessary taxes"; or, "With national will, of which I shall be an example, and when faced with ambitious goals, people will work harder and produce more." In the face of such arguments what is a technician to do?

One cannot know in many situations whether the policymakers really believe they can overcome the economic problems which are pointed out to them or find it convenient to ignore for some period the consequences of their actions.

Politicians, like engineering and economic technicians, may also make mistakes. They may commit themselves to economic policies without fully appreciating the political as well as economic implications of those policies. For example, regional investment project decisions and commit-

ments may be made without realizing that the implied local concentration of activity will arouse opposition from political leaders of other regions. Or government transfer payments for welfare purposes may be promoted with inadequate foresight. Moreover, in political life as in the economic sphere, there are unforeseen events which change the scope within which political initiatives may be undertaken.

Economic plans may be thought of as social contracts. they make demands and they offer rewards for those demands. But like many other contracts, the details of the demands and rewards are often not spelled out, and unlike private contracts, there is no more or less impartial court to determine the extent to which the provisions have been fulfilled by all parties and where responsibility lies for lack of fulfillment.

However, it may also be misleading to think of economic plans as social contracts. That implies a kind of commitment which may never be intended or understood on any side.

Rather the plans may only represent a compilation of economic issues about which there is continuing contention. They may be conceived as statements of intentions toward which policy will be directed rather than detailed programs of actions to achieve specific goals.

It should also be expected that along with the explicit targets and programs there is an implicit or hidden set of

priorities with some targets ready to be sacrificed immediately and only a few to be the object of persistent efforts. It may well not be expedient to expose these priorities or even admit the possibility of plan failure in some respect. But nonetheless they exist.

It is undoubtedly naive to believe that there is something sacred about the consistency of economic plans which policymakers will respect. Economic plans are political documents in the fullest sense. They are intended to advance national goals, the objectives of particular parties or interest groups and perhaps even the ambitions of particular individuals.

One of the most difficult problems in evaluating the success of planning is to make the distinction between the appearance of commitment to economic programs and the political reality. The plans may have only monumental or display function, may serve to mobilize domestic resources or only to justify foreign assistance. They may be intended to demonstrate centralized authority or have other political functions which may be somewhat distinct from economic goals. The problem in evaluating the economic performance of planning is to distinguish the degree of commitment of policy-makers to economic objectives in terms of the extent to which they are willing to sacrifice or risk their other goals. These trade-offs are virtually never discussed

within plan documents and seldom in the speeches or other public documents concerning economic policy. Yet they are the most important determinants of the degree to which the announced targets of plans are, in fact, achieved. The failure to appreciate this distinction between the appearance and reality of plan-making is the source of much criticism as well as confusion.⁷

Considering the conditions under which economic planning may now be started seriously in Portugal, it must be admitted that there are difficulties both technical and political of the kind discussed above. The technical problems--of organizing a cadre of planners--may be short-run but they are nonetheless quite real. There are good economists, engineers and computer programmers in Portugal, as this conference demonstrates.

But it must also be admitted that the cadre of technicians is relatively small. Thus it would simply not immediately be possible to undertake the kind of comprehensive sectoral and project planning which is carried on in the Soviet Union and Eastern Europe with any substantial assurance of success. Of course it might be argued that the social and economic costs of not doing so outweigh the short-run inefficiencies. I will not attempt to judge this for Portugal but will only argue that the attempt at comprehensive and detailed planning in Portugal in the near future would suffer from serious skill deficiencies.

These deficiencies are all the more serious if the argument is conceded that centralized planning should be conducted under the surveillance of national groups "outside" the government in order to reduce the inherent dangers of narrow bureaucratic and political pressures on economic decision-making. It may be desirable to have a "shadow planning commission" just as it is thought to be desirable for there to be one or more "shadow cabinets." The very notion of an effective opposition to the government implies that the opposition should command enough economic expertise to seriously question the official government plans.

It may be countered that the planning commissions should be non-political technocrats who would not bow to political pressures. The review above suggests the difficulties in creating the institutions which would achieve this, but at some level it may be possible. The degree to which it is possible depends on the relative strengths and the mutual adjustment of the civil service and the political groups. In the old regime it appears that the Portuguese civil service was almost completely the tool of its political masters, with some exceptions which I do not understand. How it will be in the future is another matter which I cannot judge, but I do know that the relationship is important. Rather than relying on achieving the difficult goal of technical independence in an intensely political arena,

it seems desirable to have more than one center of economic planning expertise in the country. But that runs into the problem of skill shortage.

That problem is essentially a short-run difficulty. It is not difficult to overcome the shortage with intensified domestic training programs as well as exploitation of advanced foreign educational facilities. Within five years it should be possible to generate a substantially larger group of experts than now exists.

In the near future, however, it is necessary to consider carefully how the limited existing expertise should be used. It was argued twenty years ago that centralized planning actually utilized the available expertise more efficiently than decentralized decision-making. No one, to my knowledge, has ever investigated this matter seriously.

Turning to the issue of the extent to which political influences in Portugal will actually permit rational and consistent economic planning, I can only raise more questions. Certainly there is a great deal of political contention and politicization of economic issues now in Portugal. The scope and effectiveness of government economic powers are still in the process of their first demonstration under the new Constitution. It is tempting to suggest that these conditions seriously inhibit the formulation of comprehensive plans on which there would be a broad consensus and

commitment. The difficulties of achieving such a consensus in countries effectively dominated by a single party for many years might seem to be a serious counterargument to the attempt at comprehensive planning in Portugal. But every country is different. Portugal has the advantage of being a particularly homogeneous society. It is possible that the heat of political contention could impose an economic discipline that might not otherwise exist. These matters are still to be decided and how they are decided are, to some extent, the responsibility of the political leadership.

(2) The proclivity in planning to commitments to grand projects whose economic justification is questionable

It has been argued that this proclivity is endemic to attempts at centralized planning and coordination. Without careful cost-benefit analyses it is, of course, impossible to be definitive with respect to the success or failure of projects and the reasons for either one. Such cost-benefit analyses are almost never available for the grand projects of development--just because of their political sensitivity. There has been no compilation of the successes and failures of such projects. Yet there is an underground of information which questions the economic rationale of many great projects: of heavy machinery and electrical goods plants in India; of steel plants in Venezuela; and of dams all over the world, in the United States, the Soviet Union, Ghana and Egypt.

This proclivity to make big mistakes may be considered an aspect of the general deficiency discussed above of the failure to make technically adequate programs. But it may as well be argued that the proclivity is another aspect of the continued domination of economic programming by political considerations. By comparison it may be claimed that market processes are less likely to generate grand projects and less likely, because of the constant referral to private costs and benefits and the incentives those create, to persist in great mistakes.⁸

Moreover, economists and businessmen should not fall into the trap of thinking that economic decisions even at the project level are not, finally, political decisions. If economic efficiency is to be the dominant criterion, that is as much a political decision as the sacrifice of economic efficiency to achieve some other goal.

Portugal has, perhaps, more than her share of mistakes in undertaking major projects that have not been economically justified and which impose enormous costs on its economy. But these were started in the old regime in which there was no commitment to overall planning. They may stand as examples of the degree to which public resources can be diverted to private or imperialist goals. They may be examples in which explicit public planning with decisions exposed to the light of public criticism would lead to better results than

informal and occasional government economic initiative. It is true that some of these projects were continued and supported by the post-revolutionary governments. That may be excused on the grounds that the new systems of economic decision-making are still evolving.

In spite of the mistakes of the past and the present, it may be that effective project decision-making is among the easiest of new procedures to implement. Again a cadre of skilled technicians is necessary. But many of these people are already available and the training required to produce additional analysts is not so long as that necessary for completely rounded professional economists.

More difficult than assembling the cadre of technicians is the creation of the institutions and procedures for their work which will substantially reduce the risk of pressures designed to achieve narrowly defined political goals. As noted, "purely" political goals do have a claim on projects in their evaluation; if possible, the economic sacrifices to achieve them should be explicit in order to improve decision-making.

In order to achieve economic objectivity in project analysis the institutions created for such analysis should, presumably, be as independent as possible from political pressures. The extent to which project decision-making as distinct from analysis is to be separate from political

pressures is another matter. Again, it is not an issue on which an outsider should give advice. However, it is obvious that the manner of organization of any new institution, the financial powers given to it and the means by which it is incorporated into the governmental structure will have a great effect.

(3) The domination of overall planning by simple themes

Due to inexperience, inadequate theoretical understanding of growth processes and implicit, if not explicit ideologies, economic planning strategy has been dominated by some relatively simple themes. While perhaps appropriate in some countries, their widespread application is now thought to have led to major mistakes.⁹ Several such biases may be identified. One is the predilection for industry over agriculture; a prejudicial subset of this bias is that the industry should be "heavy." The preference-for-industry complaint either in its general or more specific form has become a common one in the last ten years or so, particularly after the great droughts in India and Pakistan in the late 1960's and early 1970's. It has been argued that those exposed the weaknesses in both economies created by the undue preference in their plans for investment in industry. Some analyses have suggested that a commitment to the implied consumption targets of the Indian plans would in fact have called for a greater proportion of investment in agriculture

in the 1950's and early 1960's. Had that investment been made, perhaps there might have been somewhat less susceptibility to the droughts, which undoubtedly would have had a profound effect in any case, however.¹⁰

The preference-for-industry complaint may also be associated with an aspect of the post-World War II predilection-for-planning which has been noted above. It was pointed out that the predilection may have had some of its roots in the remarkable performance of the Soviet economy during World War II which demonstrated the interwar achievements. But the Soviet development experience took place under the tutelage of a man who took the name of "Steel" and showed his preference in the emphasis he enforced in Soviet investment in that industry and in heavy machine-building. The consistency of that particular emphasis with a relatively high rate of investment and self-sufficient economic growth has been less generally appreciated in developing countries with greater participation in trade and in which investment rates have been lower. In some countries the preference for industry has not only been a public sign of modernization but one of the few "proven" paths to the achievement of that goal.

There is, however, another source of a bias for industry in post-war planning in the emphasis on import substitution. In Latin America especially, but to some extent in most of

the developing world, import substitution has been a major theme and guide for investment allocation. The effect of the emphasis was to reinforce the preference for the allocation of resources to industry as compared to agriculture and other primary producing sectors. Although an economic rationale for this emphasis was provided by Raoul Prebisch and the Economic Commission for Latin America, the reexamination in recent years of that rationale and its effects has revealed its limitations.

It might be hoped that Portugal is so firmly embedded in the world economy that the counsel of industrial self-sufficiency would not receive a sympathetic hearing. Nonetheless the argument continues to be made that Portugal should have its own "key" industries. A "key" industry may be any sector for which a particular interest or pressure group can obtain protection from foreign competition. That has been the rationale provided for oil refinery construction which will create substantial excess capacity in Portugal without competitive advantage for its products abroad. It is the rationale provided for petrochemical construction, again without a clear local advantage.

The pressure or interest group may be a private organization desirous of increasing profits, but it can also be a public corporation whose bureaucracy wishes to justify its existence and expand its scope. In the old regime the close

cooperation of private and bureaucratic groups to their mutual advantage was often justified by a claim of national benefit based on a simple slogan. The openness of the Portuguese economy to trade does not itself provide the discipline which prevents the establishment of uneconomic industries in the country. Such industries have survived, if not by direct protection, by means of the subsidies and/or tax advantages which they have received.

The moral of this story is again the need for objective and open economic evaluations which will insure that special interests are not given special advantages at the expense of the country as a whole. It should not be surprising that either private interests or public bureaucracies tend to confuse the national interest with their own. The organizational task in achieving the advantages of planning is to find means, through exogenous competition, open decision-making and/or institutional morale to prevent such identification when it is not warranted.

(4) The alleged neglect of distributional issues in overall planning

Still another alleged failure of economic planning as it has been practiced is that it has been preoccupied with overall growth and has neglected distributional issues.¹¹ The most prominent voice of that complaint has, perhaps,

been Mr. Robert MacNamara, president of the International Bank for Reconstruction and Development. He has in recent years frequently emphasized the lack of improvement in the conditions of life for most of the people in developing countries in spite of a record of substantial aggregate growth in many cases. There are both romantic and ideological critics who have made similar points.

It is difficult to judge the extent to which neglect of distributional issues is a characteristic weakness of planning ideology or rather a more general feature of the context in which economic policy has been made in most developing countries. This difficulty arises because of the difference which prevails between the theory and practice of planning--a difference which will be taken up in more detail below. The most sophisticated of planning methods have made the growth of consumption--certainly one of the most important aspects of welfare--the central focus of planning. It is also true that the problems of unemployment in developing countries and related distributional issues were recognized quite early in the post-World War II concern with economic development. While the issues received less attention during the sixties, they were never lost. Part of the observed "neglect" of the past has arisen from the fact that there is limited theoretical and empirical understanding of the relations of size distribution, of personal income and

economic growth and development. Even now, with a great deal of attention being given to employment, distribution and the quality of life in developing countries, most of that attention is simply the repeated expression of concern rather than a contribution to knowledge.

However, while it can be argued that there has, in fact, been a continuing recognition of the essential welfare aspects of development planning, that does not fully meet the observation and criticism that development policy has in fact stressed overall growth rather than distribution. That may also be a carryover from the Soviet experience in which achievement was measured by overall growth of total national product and sectoral targets, usually in terms of tons of coal raised and tons of steel produced rather than in terms of the improvement of private consumption.

It must also be admitted that both economists and policy-makers undoubtedly found it easier to concentrate on the targets in which achievement is most obvious and easiest to measure. However, there is something of a problem in explaining why policy-makers have not been under greater domestic pressures to respond to the demands of a large proportion of the population for improvement in the conditions of their lives. Presumably the answer lies in the nature of the political development of most of the poor countries, in which political demands from the periphery and

even from some of the interest groups in urban centers are not well and effectively articulated. The demands to which policy-makers have been responding, by this reasoning, are those of groups who have benefitted from the formulation of development objectives in terms of overall growth economic targets. Such a formulation for such groups as civil servants and organized urban workers has meant an absolute and relative improvement. The recent concern with distributional questions in development policy, by this reasoning, is not primarily the result of speeches by the president of the World Bank, United Nations meetings and popular books. It is rather a mark of the character of the evolution of the political development of the country and the success of government in evoking demands and of parties and other groups in generating and obtaining responses to their demands. Such evolution in practice does not necessarily engage all parts of the national polity to the same extent. There is, for example, evidence that, in Portugal, the most effectively organized labor groups have increased their incomes more rapidly than the relatively unorganized groups.¹² This success may, in turn, reinforce the organization and political processes which have been its sources. The offsetting economic tendencies, either generated by labor market forces or through government actions, may be relatively slow and ineffective, depending again on political decisions.

There is no doubt that distributional issues have been one of the dominant questions of Portuguese economic policy since the revolution. Major shifts have occurred toward the recipients of labor incomes. It can be expected that planning in Portugal will continue to be preoccupied with distributional questions. They are now so much a part of public consciousness that it would be difficult for any planning group to avoid them. The lesson has been learned well in Portugal in the past two years--and in the preceding fifty years--that distributional issues are not "purely" economic. They are intensely political. Thus no set of planning institutions which are given the burden of dealing with distributional problems as if they were simply a matter of economics can possibly succeed. This should not be interpreted as a recommendation that distributional issues should be dealt with explicitly in the political arena of contending parties. That is an important matter of political style on which an economist--and an outsider at that--cannot give advice.

- (5) The failure of planning to anticipate major crises of recent years associated with the "limits to growth" arguments

There are a number of other problems which have moved to the forefront of public consciousness over recent years for which it can be correctly claimed that their difficult

implications for development have not been foreseen. These include the "energy crisis," rapid urbanization, labor force training, and other problems associated with the "limits to growth" arguments, including natural resource depletion and pollution.¹³

The weight of these problems varies considerably among the various developing countries. Of course the oil exporting nations have no "energy crisis." There have been delays in oil exploration in some nations in which there has been evidence of potential for oil production even before the "energy crisis." These countries include Brazil, Egypt and India. The question as to why such delays occurred is a natural one at this point and it is natural to question the decision-making processes which were responsible for the delays. It should be noted that there are few, if any, instances of successful foresight in the energy sector. The "delays" are as characteristic of market-oriented economics as planned economies. And again it is difficult to separate "technical" economic reasons for such delays from political and ideological influences. One of the major considerations in the latter category has been an antipathy to concessions to the multinational oil companies, which, however, possess most of the necessary expertise. There has also been an associated commitment in some nations to the use of national oil corporations which have suffered from management problems as well as lack of technical-engineering skills.

Other limits-to-growth arguments in addition to energy shortage, though fashionable in certain circles in advanced countries, on the whole carried little weight in less developed countries. There may be several reasons for this. First of all, opinion in the poor countries of the world may be more willing to accept whatever trade-offs there may be between pollution and the other ills associated with economic advancement in order to have more of the latter. Environmental purity is a luxury good of which the developing countries act as if they can afford rather little. Secondly, it is quite possible that policy-makers in developing countries may be more sophisticated and more critical with respect to limits-to-growth type of reasoning. In the developing countries there is an essential awareness of the structural transformations which occur in the process of growth. Perhaps, therefore, there is greater skepticism of the simple geometric extrapolations which have characterized the limits-to-growth arguments.

There may also an greater awareness among policy-makers in the developing countries of the great differences among the nations of the world in resources availabilities and land and labor productivities. Thus, although increasingly important resource constraints in the advanced countries may force shifts in the sources of their resource supplies, the developing countries may see that as an advantage rather

than as a danger. Similarly the awareness of the international differences only emphasizes both the needs and the potentials for growth.

The emphasis in the limits-to-growth literature on the dangers of population increase have generally been recognized in the developing countries, where it is appropriate.

Though it can hardly be argued that the population problem has been overlooked by planners, likewise, it can hardly be maintained that there has been much success in dealing with the problem.

There is little evidence to the casual observer that Portugal has been bitten by the limits-to-growth bug and that there will an infection which adversely affects its policy-making. Nonetheless there may be some lessons in the limits-to-growth arguments to which planning in Portugal should pay particular attention. Among the many areas of planning which have received relatively little attention in Portugal is that of urbanization. This is partly due to the high rate of international migration which at least partly relieved the pressures on the cities of population growth. Perhaps it is not surprising, therefore, that there were few planning institutions in Portugal which were prepared to give advice on the problems created by the rapid influx of the "retornados." It is more surprising, perhaps, that there continues to be so little careful attention to these

problems. Again, it is easy to blame politics for this, but there may also be important deficiencies in urban planning skills and urban investment institutions which will have to be overcome.

(6) The managerial difficulties of implementing plans

One of the most fundamental criticisms of the planning of the last thirty years or so is simply the denial of the virtues claimed for planning due to the inevitable deficiencies of management.¹⁴ The plan failures, it is argued, are failures of managerial "implementation." The criticisms of this type amount to affirmation of the claimed advantages of markets in avoiding the problems discussed above. It is difficult to separate this type of criticism from the argument which has been referred to frequently and will be taken up again separately, that economic plans are inevitable subjected to and finally voided by political influences. Yet, in principle the arguments are different.

The "managerial deficiency" argument against planning and coordination is a "technical" one, like the problem of calculating the details of resource accumulation and allocation which will make the "means" consistent with "ends" of plans. It is claimed that there are not enough good managers in government service or, if there are good managers, they do not perform well because of the wrong sets of incentives

which are created in government. Or, it may be claimed that developing countries suffer from an overall deficiency of managerial skills and that central planning and coordination rather than economizing on such skills is inefficient in their use.

One of the early arguments made in favor of planning in developing countries was just the reverse: that it would economize on managerial skills. As noted, the story which was told to justify this argument--and it was never more than a story--was that centralized decision-making required fewer managers than decentralized decision-making. There was some implicit notion of economies of scale. There has been no careful investigation of this matter, so it cannot be given much weight.

On the other hand, the converse argument--that central planning and coordination is inefficient in its use of managerial skills--has also not been studied carefully. Rather than trying to generalize, the managerial problems likely to be encountered in the Portuguese context will be considered.

It has often been observed that the Portuguese educational system, while capable in the past of producing persons of high professional quality, never produced many of them as compared to other countries. In addition, the dramatic changes in the educational system since the revolution,

while perhaps creating persons of greater social consciousness, have raised questions as to the maintenance of educational quality. Aggravating this basic problem of scarcity is the fact that since the revolution there has been a substantial outflow of professionals, whose exact magnitude and significance is difficult to judge. There may have been some gains as well as losses in this outflow as persons basically unsympathetic and unsupportive of the new Portugal must have been prominent among those leaving. On the other hand, sympathetic or not, managerial and entrepreneurial skills are essential in any economy, as was recognized by Lenin in his New Economic Plan of the 1920's.¹⁵

A revolution which displaces managers loses important skills. Although there are few helpful studies of the matter, I would venture the guess that the presumption that managers can be easily replaced by civil servants is simply not correct. For example, the creation of a cadre of managerially skilled persons to manage state enterprise is regarded as a continuing problem in India, whose excellent civil service was one of the few benefits of English imperialism. Nor is it true that social consciousness itself qualifies managers--as evidenced by the complaints from eastern Europe, where the Communist Party cadres were the original post-World War II source of supply of managers.

One feature of the old regime in Portugal may actually

be an advantage in the implementation of centralized planning and coordination. There were, in the past, relatively well-established patterns of recruitment into the higher levels of the civil service from university positions, primarily law faculties, and, in turn, recruitment into the private sector from both the civil service and academia after competence and interest had been established. Impressionistically, the movement seems to have been primarily in the directions indicated. It was, to some extent, multidirectional, although, of course, movement into academia required a kind of credentialing which could not be obtained from a successful civil service or private sector record alone.¹⁶

This past pattern indicates that the values and norms which make good managers have not, in Portugal, been regarded as antithetical or incongruous in civil servants or academics. The potential disadvantage of this pattern, which was a real disadvantage in the old regime, was that the private sector, or at least some parts of it, could, by its promises of recruitment, actively influence the government in its favor.

The problem now is to maintain the past advantages in recruitment of competent persons into public service in planning and coordination, including the management of public institutions and productive enterprise, and to create new incentives for their behavior. Thus, as part of the process of serious consideration of planning and coordination

there must be plans for civil service reform. This may take the form of the creation of a separate cadre, or specialty, and new criteria for promotion. While alternative models may be studied, the final resolution must, of course, be one which reflects the particular conditions of Portugal.

(7) The intrusion of political considerations into economic plans

The discussion above has touched--or dwelt--on this question in one form or another again and again. Thus, only some summary remarks will be made here in order to help organize some otherwise disconnected observations.

The presumption implicit in this criticism of planning is that the setting of economic goals and the choice of means to achieve them can and should be separate from political considerations. But how can such economic decision-making possibly be insulated from political considerations, political intrusions and finally political determination of economic decisions? More positively, should this be attempted? The posing of the issue in this form may suggest that in the alternative of completely decentralized market decision-making there are no "political" considerations. Yet it is impossible to argue that the personal distribution of income is solely a matter of market economics. Thus all markets, even the most atomized competitive ones or the

thorough-going monopolized, must reflect the "political" determinants of the size distribution of personal income, which, in turn, determines consumer demands.

In addition there is no doubt that the political system can be used by the private sector for its own advantage, as was the common practice in the old regime in Portugal. It is quite similar to the pervasive politicization of decision-making in economies with centralized planning and coordination. The differences are in the sources of political influences and in the manner in which these influences may find expression but hardly as to their existence. So the proper question is not how to exclude political influences from economic decisions. Rather the issue is what types of political influences will be taken into account in economic planning and how?

Yet this question presumes a model of decision-making of which economists are fond but which may not be realistic. Customarily in modeling centralized economic decision-making economists begin, "Suppose there is a social welfare function in which the arguments are quantities of economic goods and services." That is a useful device for some purposes, including some planning purposes, but it is not a useful device for organizing economic planning procedures. It presumes at least that policy-makers can and do make ex ante choices among economic goals as if no other types of objectives were relevant in the choices.

In this model of economic decision-making politics are an "intrusion," a set of values which "distort" economic decisions. Alternatively, political considerations are viewed as constraints, conditions which must be satisfied, but not as objectives against which there can be trade-offs with economic quantities and their distribution.

If there is some utility in the notion of a social welfare function, that function must depend not just on economic quantities, but also their distribution and all other political and social characteristics of the nation. Political considerations are never an "intrusion" into economic planning, they are as much of the essence as are outputs of goods and services. Yet, in a sense, all that this says is that everything depends on everything else. That is not very useful for planning either, but is better than not recognizing the essential nature of political influences in all types of economies.

Since there is neither hope nor, really, desire to exclude political considerations from planning, the only question is how they are to be included and what weights they will be given. General answers are really not possible and specific answers are not appropriate in this context, particularly by a non-Portuguese.

One important point can be made, however, It is easier to disguise the political interests of particular groups in

economic decisions, if they are made in a closed rather than in an open manner. When economic data are closely held by the government and when, in effect, skills and information are monopolized by the government or the responsibility for contributing to economic decision-making is abdicated by the opposition, then there is the greatest danger that economic planning will be subject to influences in favor of particular classes or interest groups rather than the nation as a whole. It is not true that openness and explicitness in the calculation of economic ends and means will in itself resolve political problems. But it may contribute to resolutions which reflect both the economic and non-economic goals of a pluralistic society more effectively than if the planning processes are concealed.

IV. Conclusion

Such a diffuse discussion as the above permits no simple conclusions. There are good reasons for undertaking economic planning and coordination. There are many potential pitfalls in carrying it out. But economic planning is like speaking prose; it is always done, whether it is recognized or not. It may be centralized or decentralized; it may be aggregate at the government level and highly disaggregate at the private level or to some extent aggregate or disaggregate

at both levels. There are also no ready-made models of success. By comparison with the history of past stagnation in most countries, including much of Portugal's past, however, economic planning need not be such a failure. But it will not be an automatic success either. Just as there are no simple themes or strategies of economic development, there are no simple ways of organizing successful planning. Such organization is not a task to be brushed aside in order to get on with the "real work" of computing models and making cost-benefit analyses. It requires and justifies the most careful consideration and reconsideration.

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THE AGRICULTURAL SECTOR IN PORTUGAL

CHARACTERISTICS AND POLICY MEASURES

by

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NOTE: The views and interpretations in this paper are those of the authors, who are also responsible for its accuracy and completeness. They should not be attributed to the World Bank, to its affiliated organizations, or to any individual acting in their behalf.

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1 - THE SITUATION AND EVOLUTION OF THE AGRICULTURAL SECTOR

1.1 - The situation in 1970 and evolution in the decade 1960-1970

The economic situation in the agricultural sector in Portugal already in 1970 justified most serious apprehensions with regard to its consequences for the country's development. In fact, from 1960 to 1970 there was a most complete standstill in the agricultural product and agricultural production became more and more unable to meet demand for food products, with the sector experiencing a growing number of difficulties of adaptation to a growing and more diversified demand. As a result there was a worsening of negative figures for the trade balance in agriculture, increases among the prices of products with a low income elasticity.

In summary form, the situation in the agricultural sector of the national economy in 1970 could be characterised by the following overall indicators:

Gross National Product ⁽¹⁾	125,300m	escudos
Gross Agricultural Product ⁽¹⁾	18,500m	"
Total Active Population	.....	2,992,000	persons
Active Population in Agriculture	.....	926,000	"
Average productivity of non-agricultural manpower	.....	51,700	escudos
Average productivity of agricultural manpower	.....	19,900	"

Thus, in order to supply 14.8% of the national product, the agricultural sector employed 30.9% of the active population, with an average productivity 40% that of manpower outside agriculture ⁽²⁾.

As to growth, during the decade 1960-1970 and at constant 1963 prices, the gross national product increased at an average rate of 6.15%, while for the gross agricultural product the annual rate was 1.25% ⁽³⁾.

(1) Figures at factor cost and 1963 constant prices.

(2) ESTÁCIO, Fernando, LOBÃO, Antônio Cortez de, and BARROCAS, José Manuel - Um Modelo Análise do Desenvolvimento do Sector Agrícola em Portugal (A Development Model for the Agricultural Sector in Portugal). Centro de Estudos de Economia Agrária - Instituto Gulbenkian de Ciência. Oeiras, 1976.

(3) Rates calculated on the three-yearly averages for 1959-61 and 1969-71.

In the same period, the active agricultural population fell from 1,296,600 to 925,800, or from 41.6% to 30.9% of the total active population. In comparison with the 370,800 persons who left the agricultural sector, there was an increase of only 249,200 in the non-agricultural active population, which demonstrates the importance of emigration in the absorption of the demographic increase that took place in this period and the incapacity of other sectors of the national economy to create jobs in numbers sufficient to take all the workers that abandoned agriculture.

Considering together the data on the growth of the product and that of the active population in the period under consideration, it can be seen that the product per worker in agriculture increased at an average annual rate of 4.7%, while the per capita product in the other sectors of the economy as a whole rose at a rate of 6.2%. The difference thus became more marked between the per capita product in the agricultural sector and that in other sectors of the economy; it must on the other hand be pointed out that the increase that took place in the former owed much more to the decrease in the active agricultural population (3.4% on average per year) than from expansion in the agricultural product itself, which attained an annual rate of only 1.25%, as mentioned above.

The effects of the almost complete stagnation in the product of the agricultural sector in the ten years 1960-1970 and of the difficulties in the adaptation of its supply to the growth of demand for agricultural products can be expressed quantitatively in general terms by means of increases in prices and in the quantities of agricultural products imported.

Thus, the price index implicit in the national accounts (Base Year - 1963), permits the conclusion that prices of agricultural and livestock products increased by an average of 42% in the period 1961-1969, animal products being those most subject to the increase in prices, expressed overall by an increase of 50.5%, while in the case of vegetable products it was only 34.8%. Among the latter it was fruit and horticultural products that increased most, above 100%, in contrast with cereals, where the rise in prices was only 14.5%.

As to the increase in imports of agricultural products between 1960 and 1970, we shall limit ourselves to referring, as sufficiently expressive for the purpose, to the cases of wheat (249 to 384 thousand tons) of maize (35 to 375 thousand tons) and beef (10 to 14 thousand tons).

In general, the situation and evolution in the agricultural sector as described above showed practically no significant changes until 1973, the last year for which the available statistics allow such a deduction to be made in a manner worthy of the least acceptance. As from that year, the lack of statistical information deserving the minimum of confidence does not allow a satisfactory quantitative evaluation, either of the present situation in the sector or of the most recent tendencies regarding its evolution.

1.2 - The evolution of the agricultural sector in 1974 and 1975.

Meanwhile the available information, even though in general insufficient, cannot fail to indicate a tendency for continuing heavy imports of products also produced in this country, which has made the greatest contribution towards the disequilibrium in the agricultural trade balance; on the other hand, no clear prospects are revealed of increased production in the sector.

In fact, imports of wheat, maize and beef in 1974 and 1975 were as follows: ⁽⁴⁾

	<u>1974</u>	<u>1975</u>
Wheat	338,000 tons	345,000 tons
Maize	975,000 "	1,188,000 "
Beef	35,000 "	24,000 "

(4) Instituto Nacional de Estatística (NATIONAL STATISTICS INSTITUTE - I.N.E.) - Boletim Trimestral das Estatísticas da Agricultura e da Pesca (Quarterly Bulletin of Agricultural and Fisheries Statistics), Year I, Nº 4, Oct/Dec. 1975.

On the other hand, as concerning production, the information available⁽⁵⁾ with respect to the primary sector (Agriculture, Forestry and Fisheries) shows an expansion of 3.1% in the product generated in the sector in 1974, this being a relatively substantial figure in view of the stagnation experienced in previous years, but in large part to be attributed to favourable climatic conditions, especially for cereals that were grown on non-irrigated land. On the basis of the increase in cereal production and cattle slaughtered, on one hand, and the decrease estimated in the production of for example wine, legumes and tubercous crops, and fisheries, it is expected that production in the primary sector for 1975 will be at a level very closely similar to that attained in 1974.

2 - PRINCIPAL FACTORS CONDITIONING THE PRESENT SITUATION IN THE AGRICULTURAL SECTOR

2.1 - A general view up to 1973

The general situation until 1973, described above, was due not only to the well-known and long-ago diagnosed difficulties resulting from the soil and climatic conditions of Portugal itself, but also, and to a great extent, to the inadequate structures of production in the agricultural sector

(5) BANK OF PORTUGAL - Relatório do Conselho de Administração (Report of the Board of Administration) for 1975. Volume I. Balance Sheet, Accounts, Economic and Financial Review. Lisbon 1976.

which
and to its resistance to change, in the absence of any
suitable and well-timed corrective measures, compromised the
agricultural evolution indispensable to enable Portuguese
agriculture to satisfy the pressing requirements of development
in general.

Besides this, the analyses up to then carried out on
the series of problems of the agricultural sector were above
all made from a diagnostic point of view and nearly always
with partial objectives. Very seldom did they consider the
sector as a whole, in terms of its internal coherence and of its
relations with other sectors of the national economy; even more
rarely did they propose clearly measures that might cope with
the exceedingly critical situation that existed. From this
it resulted that measures of agricultural policy were generally
introduced separately and without coordination, frequently
contradicting one another and therefore nearly always incapable
of leading to the always partial objectives to which they
were directed. The scope of such measures generally remained
limited to an attempt at solving the most serious situations
of the moment, in the hope that from the free play of ill-
defined crop adjustments and technical improvements, as
well as by the haphazard and uncoordinated granting of credits
and subsidies, would result structural transformations and
reforms that were more and more urgent and necessary.

In fact, and as was indeed to be expected, given the form in which they were being conceived, no great impact was made on Portuguese agriculture by the various initiatives taken by the Government to attain a better adjustment of soil utilisation to its natural potential and to stimulate the adoption of modern techniques of production, which included the granting of credits and subsidies, the fixing of support prices, and protective measures with respect to the external supply.

A draft version of the General Map of Crop Adjustments for Mainland Portugal made during the sixties and based on the Soil Utilisation Capacity Map showed the great maladjustment of soil utilisation to the national potential in evidence at that time, which there is no reason to suppose has meanwhile altered significantly. From the data it contains, it can be concluded that the area given over to agricultural purposes is greater by two million hectares than what is considered suitable for the purpose; this must certainly be one of the causes of low productivity with many of the crops grown in this country⁽⁶⁾.

On the other hand, the modernisation of traditional production processes has taken place at an excessively slow pace: little fertiliser is used, and that badly, acidity in the soil is not corrected, inferior quality seed is used and

(6) CARDOSO, J. Carvalho - Considerações sobre a agricultura portuguesa (Some considerations regarding Portuguese agriculture). Boletim Agrônômico (Agricultural Bulletin). Nitratos de Portugal-Agran, Nº 10, Jan/Mar. 1972.

unbalanced rotations are practised; this does not allow significant increases in productivity to be achieved.

In its turn, the fact that the long-necessary measures have never been taken towards the suitable correction of productive and institutional structures in the agricultural sector has brought it about that the great majority of agricultural enterprises have shown themselves incapable not only of ensuring to those working in them a satisfactory monetary return able to provide them with acceptable living conditions similar to those of workers in other sectors, but also of contributing effectively to the solution of the major problems of the national economy.

The survey into agricultural holdings in Portugal carried out by the National Statistics Institute in 1968 allows the conclusion to be drawn that there was still a great disequilibrium in their distribution according to individual area and by regions. More than 77% of holdings had areas below 4 hectares, half of these covering less than 1 hectare. With areas between 4 and 20 hectares there were 18.9%, and only 1.4% had more than 500 hectares, these last taking up 30.4% of the total area; holdings with less than 20 hectares occupied as a whole 38.7% of that area.

The disequilibria at regional level can be measured by considering separately the northern⁽⁷⁾ and southern⁽⁸⁾ regions of the country, the most significant for the purpose. In the former, 77.9% of the holdings, each below 4 hectares, occupied 24.9% of the total area; in the latter, only 1% of the holdings occupied practically half the total area, each consisting of 500 hectares or more.

It can thus be concluded that there has been no alteration in the conditions of extremely small physical and economic dimensions of the great majority of agricultural enterprises in the country, generally associated with the high degree of fragmentation of the parcels of land of which they are composed and the insufficient general education and vocational training of the farmers themselves. On the other hand, there still exist great areas occupied by holdings of very great size, which also certainly contributed towards the low productivities attained in the sector, and seriously hindered modernisation in the methods of production employed.

It is true that the capacity for innovation remained very limited in Portuguese agriculture, as can also be concluded from the survey carried out by the I.N.E. in 1968; only 3.3% of farmers stated that they had introduced new activities or new production techniques in the 5 previous years, and even

(7) Includes the administrative districts of Braga, Bragança, Oporto, Viana do Castelo and Vila Real.

(8) Includes the districts of Beja, Évora, Faro and Portalegre.

considering only those enterprises of larger dimensions, where one might expect an improvement in the situation in that respect, the position was very unsatisfactory, for only in 7.6% of holdings of from 20 to 100 hectares and in 15% of those of over 100 hectares were innovations introduced in the period from 1963 to 1968.

Factors linked with the generally low levels of education and the relatively advanced ages of Portuguese farmers certainly contributed also to explain this insufficient capacity for innovation. In 1968, about 43% of farmers were still illiterate and only 1.4% had a secondary, intermediate or higher education certificate; at the same date 45% were over 55 years of age and only 10% were under 35.

2.2 - Agricultural policy measures after 1973

Since 1973 also it appears that no analysis has been carried out regarding the many problems in the agricultural sector, either in terms of the whole or of its relations with the other sectors of the economy. Outstanding for their importance and significance with respect to agricultural policy are those measures concerning land reform, the nationalisation of the major irrigated zones, rural land tenure, and the granting of emergency credit for agricultural purposes, as well as various interventions at market level and the setting-up

and reorganisation of certain government departments acting under the Ministry of Agriculture. All these have however been taken without a clear definition of the objectives and guidelines for agricultural policy as a whole, on which depended the development of the sector in accordance with the objectives for the general economic policy of the country, which meanwhile, at the time, still remained to be defined also.

It becomes practically impossible, through lack of reliable information, to evaluate the real impact of such measures on the production of the sector; it appears however that from them alone little could be hoped in terms of immediate effects, given the form and the circumstances in which they were taken and the way in which they have been applied.

In fact, in terms of land reform, Decree-Law N° 406A/75 is practically limited to the support of "a fundamental political process of extirpation of the big farmers, of the extirpation of the social classes that have till now dominated the rural areas", as stated in the very preamble to this piece of legislation, which thus constitutes essentially a land expropriation law⁽⁹⁾. In a similar way the measures nationalising the major irrigated zones, integrated "into a logical system of land reform following the fundamental objective of putting an end to the social and economic power of the big farmers"⁽¹⁰⁾, provided only for the nationalisation, with the right of continued partial ownership in certain circumstances such as the foregoing,

(9) Decree-Law N° 406A/75, of 29 July 1975.

(10) Decree-Law N° 407A/75, of 30 July 1975.

of lands situated in zones benefiting from the irrigation schemes that resulted from large-scale public investment. It thus seems legitimate to conclude that the deficient structural conditions of agricultural enterprises situated outside the regions covered by these measures have remained unchanged. On the other hand, in the zones so provided for, which occupy a vast area in the southern half of the country, lack of information does not allow a clear idea of the structural and organisational aspects of the new units of production that exist, nor of the results they have achieved; there are reasons to fear that production decisions there have often been taken either in obedience to slogans or in the fulfilment of orders from some central authority at party or trade union level that have not always coincided with the likely priority objectives of an agricultural policy coherently integrated into an overall economic policy.

The legislation concerning rural land tenure has been very little applied owing to the difficulties encountered, which it was practically impossible to overcome.

The emergency agricultural credit initially intended for small and medium agricultural producers (these being understood as they "that directly work the land, predominantly by their own labour or that of unpaid family workers") so as to allow them "to pay for services intended for the preparation of land, purchase of fertilisers, seed, pesticides and concentrates,

and small pieces of equipment indispensable for obtaining good productivity from agricultural and livestock holdings"⁽¹¹⁾, was later extended to "new units of the cooperative type, and moreover to other bodies of an associative nature, constituted at a social level exclusively of rural wage-earners and small farmers, who are beginning to take their place in the dynamic social process proper to land reform"⁽¹²⁾. It was afterwards extended still further to the collective units of production set up within the scope of the land reform, with the possibility of the former having recourse to this credit for the payment of wages⁽¹³⁾, at the same time as to small and medium farmers was given the possibility of benefiting from it for obtaining funds intended for their own maintenance, to a limit of 10,000 escudos per beneficiary per year⁽¹⁴⁾.

According to data obtained direct from the competent services of the Land Reorganisation Institute (Instituto de Reorganização Agrária), the withdrawals that had taken place up to 30 June 1976, that is, a year after the introduction of this type of credit, represented only 55% of the maximum overall

(11) Decree-Law Nº 251/75, of 23 May 1975.

(12) Decree-Law Nº 406B/75, of 29 July 1975.

(13) Decree-Law Nº 541B/75, of 27 September 1975.

(14) Decree-Law Nº 586/75, of 18 September 1975

amount of 5000m escudos fixed in the first of the abovementioned decrees. On the other hand, of these withdrawals, 2551m escudos were intended for the districts⁽¹⁵⁾ covered by the legislation already referred to regarding land appropriation, while only 178m escudos went to farmers in other administrative districts⁽¹⁶⁾ of the Mainland and 28m escudos to the archipelagos of Madeira and the Azores. If in addition to this it is remembered that a great many of the first of these withdrawals were intended for the payment of wages, it seems legitimate to conclude that those credit measures actually had a very small impact in terms of an increase in overall productivity in the sector.

On the basis of past experience, there was little to hope either from the market intervention measures, essentially with regard to prices, taken in a form generally similar to those previously followed in this field, which by themselves always proved incapable of making a significant contribution to resolving the problems facing the agricultural sector.

On the other hand, with regard to the improvement of marketing networks and the introduction of new, or improvement in existing, aid structures for the marketing of agricultural products, those actions were not taken that the deficiencies felt in this field insistently demanded.

(15) Beja, Castelo Branco, Évora, Faro, Lisbon, Portalegre, Santarém and Setúbal.

(16) Aveiro, Braga, Bragança, Coimbra, Guarda, Leiria, Oporto, Viana do Castelo, Vila Real and Viseu.

Finally, it must be recognised that the actions undertaken towards a restructuring of the bodies dependent on the Ministry of Agriculture, long accepted as highly necessary but never put into effect, fell far short of what was required.

3 - POSSIBILITIES OF INCREASING AGRICULTURAL PRODUCTION

In the circumstances above described it would seem an absolute necessity that the situation in the agricultural sector should be urgently and carefully analysed. The truth is that low productivity continues with most crops, most agricultural enterprises are still of an inadequate size, production processes of low technological level go on being used, and soil utilisation remains badly adjusted to its natural potential. In the southern region of the country covered by the legislation concerning expropriation, the situation is most uncertain both as to the size of the new units of production and to the law that will regulate their operation, and as to their profitability.

On the other hand, the crisis now become general in the non-agricultural sector of the economy, made more serious by the return of Portuguese from the former colonies, which has resulted in a high level of unemployment, has contributed to an increase in demographic pressure on the land and to the existence of underemployment situations in the agricultural sector that has done nothing towards its development.

In addition to this, with the deficit of 27,000m escudos in the 1975 balance of payments, which it is foreseen may come to attain twice this amount in 1976, while about a third of our gold reserves are already mortgaged as a guarantee for external loans, the considerable deficit in the trade balance in foodstuffs has become more marked; moreover, there do not seem very promising possibilities of increasing the exports of products that traditionally make up the positive component of the agricultural trade balance.

In this context strategies must be sought for the development of the sector, and it must be recognised at the outset that the increase of agricultural production is of decisive importance in this process. Thus the question immediately arises of evaluating the viability of such a general objective, that is, of the possibilities that exist to that end in the country.

It has been generally recognised in various studies⁽¹⁷⁾ that, although the quality of its natural resources does not seem so favourable as in other countries, Portugal has

(17) See, for example, EGBERT, Alvin C. and KIM, Hyung - A Development Model for the Agriculture Sectors of Portugal. World Bank Staff Occasional Papers, nº 20, Washington 1975; SILVA, Jorge Vieira da - Relatório Sobre o Desenvolvimento Agrícola em Portugal 19 de Julho-7 de Setembro de 1975. (Report on Agricultural Development in Portugal 19 July-7 September 1975) (Mimeographed); Centro de Estudos Agrónómicos da CUF - Potencialidades do País para a Produção de Cereais (Potentialities in Portugal for the Production of Cereals). C.E.A. Sacavém, November 1975.

possibilities capable of making for significant increases in agricultural production that can contribute not only to the satisfaction of the real needs of the population but also to the solution of other problems important for the development of the country.

According to such studies, it does not appear that the increase in Portuguese agricultural production can depend on increases in the area cultivated, given the maladjustments referred to above between soil utilisation and its natural potentialities, nor on the maintenance of the great quantities of agricultural manpower that now exist. On the contrary, such an increase in production must depend, not only on the more adequate utilisation of the soil in accordance with its potentiality, together with an improvement in the technological level of the productive processes employed, but also on the best use of other natural resources that are at present under-used.

The readjustment referred to would free from the inadequate agricultural use to which they are at present subject areas of the country that are marginal for that purpose and which could with advantage come to be dedicated to forestry, to mixed forest and pasture use, or to other purposes - this without any danger of declines in production, provided, as is obvious, due improvements were made in crop techniques in those areas that continued to be used for agriculture.

In Table 1 are shown the results obtained from three variants of a model of interregional competition and spatial equilibrium used to analyse the development of the agricultural sector in Portugal (18).

Table 1
Overall Production^(a) by Product,
according to the Results of the Models of 1968 (Variant A₁)
and of 1980

Products	1968 Model	1980 Model		
	Variant A1	Variant 1	Variant 2	Variant 3
Wheat	463.1	792.7	787.6	788.4
Rye	129.6	94.9	102.9	98.3
Maize	636.8	421.4	558.6	665.7
Rice	208.0	215.4	172.5	110.0
Barley	36.6	54.4	98.5	77.3
Oats	38.0	21.7	20.8	20.5
Chickpeas	10.2	10.8	10.7	10.7
Potatoes	906.3	618.0	618.0	618.0
Beans (not including broad beans)	45.1	20.8	24.6	21.0
Oranges	106.9	164.3	104.3	164.3
Olive oil ^(b)	55.6	55.4	55.4	54.2
Wine ^(b)	1162.9	1134.4	1123.6	1113.5
Tomatoes	750.0	1087.0	887.3	885.7
Melons	-	30.0	30.0	30.0
Beef	50.5	139.8	159.3	174.9
Pork	104.7	46.3	174.3	188.3
Mutton	23.4	35.9	35.9	54.1
Cow's milk	364.8	658.4	640.5	742.0
Cheese	21.2	31.3	31.3	30.3
Butter	1.9	2.5	2.5	2.9
Wool	10.4	6.4	7.0	8.9

(a) In thousands of tons

(b) Productions in millions of litres; prices in escudos per litre

(18) See EGBERT, Alvin C. and KIM, Hyung, op. cit., and also ESTÁCIO, Fernando, LOBÃO, António Cortez de, and BARROCAS, José Manuel, op. cit.

Despite the limitations proper to this type of analysis, there is no doubt that such results point towards the existence of possibilities for the increase of agricultural production, from an economic point of view interesting in the context of the models prepared. Thus it would be production of wheat and of farm stock products that, according to the solutions of these models, would expand most between 1968 and 1980. The only exception to be mentioned in this respect is that of pork in Variant 1 of the 1980 model, production of which stands below the amount programmed for 1968. The fact can be explained by the limitations imposed in that Variant on the capacity for refrigeration of meat, which would be used above all for beef, which shows the greater interest that in the scope of the model is inherent in the production of this kind of meat than in that of pork.

Still in the same table, falls can be observed between 1968 and 1980 in the production planned for cereals intended essentially for cattle feed, which can be explained by the high percentage of farm stock products obtained by up-to-date methods in the solutions of the variants of the 1980 model, more demanding than traditional methods from the nutritional point of view and therefore requiring feedingstuffs based above all on protein-rich concentrates.

The results of the abovementioned model show also that, on the other hand, the potentialities for increasing agricultural production thereby evidenced would in large measure spring from an improvement in the technological level of productive processes, especially by resource to more balanced rotations where leguminous

crops would assume primary importance, by the more generalised use of selected seed, and by the use of more adequate quantities of fertilisers.

Expressive of this affirmation are the results presented in Table 2, from which can be seen the importance assumed in the solutions of the model by up-to-date methods of production, especially with reference to wheat and to farm stockbreeding.

Table 2

Percentages of the Productions obtained by Traditional and by Up-to-date Techniques, included in the Solution of the Variants of the 1980 Model

Products	Traditional Techniques			Up-to-date Techniques		
	Variant 1	Variant 2	Variant 3	Variant 1	Variant 2	Variant 3
Wheat	7	15	15	93	85	85
Eye	34	100	100	66	0	0
Maize	67	69	55	33	31	45
Rice	100	0	100	0	100	0
Oats	100	100	100	0	0	0
Barley	100	6	14	0	94	86
Chickpeas	26	0	26	74	100	74
Potatoes	79	66	47	21	34	53
Tomatoes	100	80	100	0	20	0
Beef	23	15	13	77	85	87
Pork	28	15	14	72	85	86
Mutton	29	27	24	71	73	76
Cow's milk	39	25	21	71	75	79
Ewe's milk	55	06	66	45	34	34
Wool	65	61	59	37	39	41

As a general conclusion that may also be drawn from the solutions of the three variants of the model in question, it is important to mention the further fact that the total area utilised for the crops considered in it for 1980 is considerably below that used for the same group of crops in 1968. On the other hand, in accordance with such solutions, per capita consumption of agricultural products between 1968 and 1980 would be increased in such a way as to allow the protein enrichment of the average diet, as can easily be concluded from the figures presented in Table 3.

Table 3

Average consumption per capita of Agricultural Products in accordance with the Solution of the 1968 and 1980 Models (in Kilograms or in pounds)

Products	1968	1980		
		Variant 1	Variant 2	Variant 3
Wheat	63.6	79.3	78.8	78.9
Rye	11.4	9.0	9.8	9.4
Maize	27.9	27.8	24.6	24.6
Rice	17.0	20.0	19.8	19.6
Barley	0.2	0.3	0.2	0.2
Chickpeas	1.2	1.3	1.3	1.3
Potatoes	105.7	77.3	77.3	77.3
Beans (not including broad beans)	5.3	2.6	3.1	2.6
Oranges	12.5	20.6	20.6	20.6
Wine	91.9	79.4	78.5	78.5
Beef (1)	8.3	17.6	20.3	21.9
Pork (1)	12.6	20.6	22.7	23.5
Mutton (1)	2.7	4.3	4.3	6.6
Milk	22.6	42.9	42.9	60.6
Cheese	2.5	3.9	3.9	3.8
Butter	0.6	0.3	0.3	0.4

(1)- Carcass weight

It must finally be mentioned that in terms of the trade balance in agricultural products, the solutions of the model point to the possibility of equilibrium. In fact, within the scope of the model and with respect to imports, this would be arrived at essentially through the elimination of cereal and maize imports and an appreciable reduction in beef; on the other hand, there would be increases in imports of rice, of feed concentrates for farm stock and of pork.

With regard to exports, the fact of its being acknowledged that external demand for products considered in the model of possible exports - tomato paste, olive oil, wine and mutton - would certainly show an increase between 1968 and 1980, caused the solutions to indicate increases in the quantities exported of all these products, the composition of the exports programmed remaining however practically the same with respect to 1968. As is obvious, these results need careful revision, being mentioned here only as complementing the other results furnished by the model used, given the limitations which in this respect are certainly to be attributed to them.

So that significant increases may be achieved in agricultural production, the aspects mentioned with respect to a crop adjustment and to the raising of the technological level of productive processes can be further accompanied by an increase in the area under irrigation. In this respect, besides better use being made of the areas benefited by the major schemes of irrigation already built (to be discussed later), the possibility that now exists of achieving a significant increase in the

area under irrigation in this country depends above all on the new irrigated zones being set up through large-scale public investment. In fact, although the existing possibilities are recognised as of numerically great importance for the establishment of small irrigated areas at the level of production units, it must be admitted that little can be expected of them as a whole and in terms of a substantial increase in the area under irrigation.

As to the new major schemes of irrigation, various projects for which are under consideration, past experience advises the greatest prudence in decisions as to their construction, it being indispensable to carry out a correct and careful analysis of the respective costs and benefits evaluated in community terms. The truth is that the comparison with what has happened in this respect in other countries shows that the costs of the undertakings of this type already carried out in the country were very high and that the benefits attained have been until now generally below those forecast.

The due exploitation of national resources at present underutilised constitutes another of the ways in which a significant contribution can be made to an increase in agricultural production. In fact, the utilisation of the areas that have benefited from the major schemes of irrigation constructed by means of huge public investments, besides being far from complete, has been in large part with crops which, in the

absence of policy measures directed at satisfying suitably defined production objectives, were chosen in accordance with criteria that it is necessary to modify. The integral exploitation of these areas with duly selected crops and with a correct utilisation of the available water supplies represents a considerable production potential.

On the other hand the existence is recognised of vast areas of the country partly or almost wholly abandoned, the exploitation of which appears capable of offering important possibilities for livestock production, essentially through the use of the existing natural resources and the improvement of pastures. In this condition are to be found, without going into exhaustive detail, vast areas in the north of the country where the heavy rainfall and the soil conditions are favourable to the formation of mountain pastures; areas of the north and centre capable of being put to good use as non-irrigated pastures sown with mixed gramineous and leguminous crops, and wide areas in the south where improved pastures represent an appreciable potential for livestock production on poor soils covered with cork- and holm-oak, on which cereal cultivation is hopeless.

Finally, still considering possible ways of increasing agricultural production, we must not forget the possibility of introducing new industrial crops of recognised viability for this country, the cultivation of which was for so long hindered by powerful restraints of a legal nature linked to the existence of the ex-colonies. This is the case of the crops of sugar-beet,

cotton and tobacco, capable of giving good yields and at the same time making a favourable contribution towards the equilibrium of the agricultural trade balance.

With regard to the first, "the tests already carried out in Mainland Portugal show , without doubt, the possibility of producing all the sugar the country needs, that is approximately 300,000 tons a year"⁽¹⁹⁾. In addition, the high degree of exploitation as a forage crop of the pulp and leaves of sugar-beet adds to the interest of this crop, since its expansion can be associated with livestock development.

Experiments already carried out in this country have shown that cotton would be a viable irrigation crop in Ribatejo, Alentejo and Algarve; among its advantages as compared with other irrigation crops may be mentioned not only its lower demand in water but also its greater resistance to the salinity of the soil. On the other hand, the fact that together with its fibre it produces oil and oil - cake in quantities no smaller than those of other oil-yielding irrigation crops makes it more necessary that cotton should be recognised as having good potential for the exploitation of the irrigated areas of the south.

With respect to tobacco, already being developed as a crop, it was planned for 1976 to devote 195 hectares to the Virginia

(19) See SILVA, Jorge Vieira, op.cit.

Variety, of which 165 hectares would be distributed among 14 collective units of production included in the exploitation of the Sorraia Valley (Vale do Sorraia) and 30 hectares managed by the Companhia das Lezírias. In addition, together with the development of the crop, a research and development operation covering the study of varieties, fertilisers, planting seasons, etc., in respect of the Virginia, Burley and Oriental varieties, is in progress among those zones of the country which study of the climate and soil has shown to be the most suitable for this crop⁽²⁰⁾.

Since the existence is recognised in this country of potentialities for the increase of agricultural production, the question that must be considered now is that of defining the areas and productive methods that can make an effective contribution to that end. It is natural that in the choice of these attention must at the same time be paid to their possible contribution towards satisfying the major objectives defined as having priority in overall economic policy. And once these questions are clarified it becomes highly necessary for the Government to find and apply the means adequate to guide the decisions of farmers, creating for them favourable opportunities that will motivate them in the most suitable manner in accordance with the overall interests of the community.

(20) See "Fomento da Cultura do Tabaco" ("Development of Tobacco Cultivation"). Documento CFCD - 20/76. Direcção Geral dos Serviços Agrícolas. Ministério da Agricultura e Pescas.

4 - AGRICULTURAL POLICY AND THE MAJOR OBJECTIVES OF OVERALL ECONOMIC POLICY

4.1 Preliminary Considerations

Agricultural policy cannot fail to be considered in Portugal at present as one of the sectorial policies with a place in the overall development model outlined in the Programme of the Government already approved by the Assembly of the Republic.

In accordance with that programme, one of the basic characteristics of the model is "the regulation of the economy by means of planning, without however rejecting the existence of the 'market' as an influence in guiding economic decisions, subordinated nevertheless to major political objectives democratically defined ". The Plan thus comes into being as the "fundamental frame of reference used by the Government", its essential task being the implementation of the new development model, as is stated in the Plan itself.

According to the Constitution, three levels are provided for in the formulation of the Plan - long-term, medium-term and that of annual Plans - to be drawn up by the Government for submission to the approval of the Assembly of the Republic. Meanwhile, with the Programme that it has submitted to the latter, the Government intends to develop "at once the actions and policy measures that will seek to begin without delay a permanent and integrated planning process". By this would seem to be indicated the major objectives considered in the Programme, of interest to us for the purpose of the pre-

sent work, owing to the implications for agricultural policy obviously following from them. Most important are these:

- a) To plan and organise the economy;
- b) To ensure financial stability;
- c) To consolidate the structures of production, to combat unemployment and expand production;
- d) To promote greater justice in the distribution of incomes;
- e) To respond to the basic needs of the population and to promote the quality of life.

The implementation of the Plan at the three levels provided for will thus imply the definition of objectives and measures of agricultural policy not only in the long and medium term but also annually. In its turn, the express recognition of the need for private enterprise in those sectors from which it is not excluded by law, which in large measure applies to the agricultural sector, signifies that the policy of agricultural prices must have a special place among the instruments to be used to guide the correct accommodation of resources to production, in accordance with the objectives fixed for the latter.

On the other hand, one of the partial objectives fixed so as to ensure financial stability consists in achieving an equilibrium in the balance of payments, one of the means naturally to be considered to this end being the expansion of exports and the restriction of imports. As is obvious, from this also result important implications for agricultural policy, which reflect above all on the choice of the productive

methods to be practised and on the criteria to be adopted in the selection of priority investments to be made in the sector.

Something of the same kind occurs with the intended objective of combating unemployment, with its obvious implications for a solution regarding productive activities and of the investments to be made. However, it must be stressed in this respect that it is no way considered viable to attempt to solve the unemployment problem that at present exists only or even chiefly at the cost of the agricultural sector. On the contrary, the solution of the problem will essentially have to be found by means of the development of the nonagricultural sectors of the economy. The truth is that, in order that agricultural wages may attain and continue at suitable levels it is absolutely necessary to reduce the available manpower now employed in agricultural production, and only in the short or at most medium term can the sector be counted on to make its contribution to a solution of this problem.

The consolidation of the structures of production, in the case of the agricultural sector, must be considered as a relatively long-term objective, it being necessary first to act so as to organise the productive system; it does not make sense to consolidate structures of production that are inadequate or of uncertain organisation, such as those that at present exist in this country.

As has already been mentioned, the structure of the majority of agricultural enterprises, above all those situated in the north and centre of the country, is still inadequate through their being of economically insufficient dimensions and through farmers having little capacity for running them efficiently. And in the south, on the pretext of a Land Reform,

long overdue but in essence implemented only by land expropriation laws, we have witnessed the disorganisation of a system of production, certainly inadequate, but not yet replaced by another whose correct organisation demands from the Government not only a show of political goodwill and the technical capacity to define what it should be, but also the authority effectively to put into practice the decisions that come to be taken in this regard.

To expand production is an objective already mentioned as absolutely necessary in the case of the agricultural sector; however, it makes little sense if it is considered indiscriminately and in isolation. Its due implementation will necessarily have to be undertaken in a manner integrated not only with the real food requirements of the population, justice in the distribution of incomes and the remaining objectives fixed for overall economic policy, but also with the correct utilisation of natural resources and the safeguarding of their conservation.

Finally, the neglect to which the rural populations have in general been exposed is well known, so that there is every justification for the improvement of their living conditions being considered as one of the major objectives of agricultural policy. There will be from this point of view no sense in maintaining in their present inadequate conditions the important proportion of the population of the country occupied in the activities of the sector, it being on the contrary most important that they should be guaranteed a minimum of decent living standards so that they can with dignity fulfil the important function that falls to them in the economy of the country.

4.2 The major objectives of agricultural policy

The projects are naturally still in the study stage at the level of government institutions that will define the structures for the preparation and execution of the Plan, together with the projects for its formulation in the medium and long term to be duly submitted to the Assembly of the Republic. At this time, however, no detailed definition is available of the coordinates within which will come to be implemented the new model for the development of the country. Thus, keeping in view that what is here intended is above all to raise questions related to problems central to the Portuguese economy, an attempt will be made in what follows to propose for discussion certain points that in the logical sequence of the foregoing would seem to be of decisive importance for agricultural policy, whatever may come to be the form assumed by those coordinates.

Let us begin by defining the major objectives that must be fixed for agricultural policy, going on to the intermediate objectives to be attained and the measures to be taken so that they may be attained.

We consider as major objectives for agricultural policy the two following:

1. A significant increase in agricultural production,
with particular regard to:
 - satisfying the real needs of the population;
 - contributing to the equilibrium of the balance of trade;

- contributing, although with the reservations already stated, to the resolution of the problem of unemployment.

2. Improvement in the living conditions of rural populations, bringing them closer to those enjoyed by those working in other sectors of the economy, especial attention being paid to:

- greater justice in the personal and regional distribution of income;
- the satisfaction of basic needs and improvement in the quality of life.

4.3 Main intermediate objectives

The possibility of attaining in greater or lesser degree the major objectives referred to above makes it necessary that first and increasingly progress be made in the way of achieving significant contributions for the reaching of intermediate objectives. Among the latter, and with respect to the first of these major objectives, the following are considered as of essential importance:

- 1 - To reorganise the services of the Ministry of Agriculture and Fisheries, giving it the organic structure and material and human means necessary for it to play the decisive part that falls to it in the definition and implementation of agricultural policy measures.
- 2 - To restructure and bring up to date teaching in agriculture at the various levels (especially the

higher), so as to guarantee in the near future the availability of duly trained staff.

- 3 - To organise and structure agricultural enterprises so as to make them economically viable units of production in which shall be guaranteed a just distribution of the results among those that have worked to produce them.
- 4 - To improve the technological level of the productive processes and to adjust soil utilisation to its natural potential.
- 5 - To restructure trade in agricultural products, especially by means of the clear definition of markets, improvements in marketing chains, the creation of structures suitable to the marketing of agricultural products and the definition of adequate price policies.

With respect to the second major objective mentioned, we consider as principal intermediate objectives to keep in mind the following:

- 1 - Improvement in the general educational level of rural populations.
- 2 - Improvement in general living conditions in rural areas, satisfying basic necessities in the fields of health and housing, and making improvements concerning rural electrification, basic sanitation, water distribution and roads.
- 3 - To extend the social security services so that they may benefit all those that work in the sector.

- 4 - To prepare and facilitate the departure for other sectors of the economy of agricultural workers, to the extent that the manpower demand in those sectors will permit this.

4.4 Measures of agricultural policy

With respect to agricultural policy measures necessary for the attainment of the objectives referred to above it is thought preferable, given the purpose of the present work, to submit for discussion those principles above all on which the fixing of these objectives should, in our view, essentially depend. Thus we shall proceed only to an enumeration of the main types of measure to be taken, together with comments that, with respect to each one, may be found indispensable to explain the nature of those principles.

A further reason, on the other hand, justifying the choice of this manner of presenting the problem is the fact that it is admitted that in the field of agricultural policy actions taken haphazard make little sense. The truth is that as a necessary condition for the success of any agricultural policy it is imperative that it be made up of measures grouped together, complementary to one another and adequate for the objectives to be attained. On the other hand, as the latter are legion and as there are measures that can give privileges to some to the disadvantage of others, it is important to mention the need to seek also a correct reconciliation between those measures and the level of satisfaction it is intended to achieve by such objectives.

4.4.1 Measures directed to the structuring of agricultural enterprises

This is a matter of a number of measures that aim at correcting the system of land tenure in the country, long recognised as deficient, so as to bring into operation economically viable units of production.

The fact that there have already been approved the laws of land expropriation and of the nationalisation of the areas benefited by major schemes of irrigation permits two courses to be followed, within the scope of the problems of land tenure, that are normally considered possible for its correction. Thus in the zones covered by those laws a direct course can be followed, by means of which the Government has the possibility through expropriation or nationalisation of transferring private property in land. Outside these zones, an indirect course can be followed which through market mechanisms and recourse to appropriate incentives will be able to make its contribution also to that transference.

So that either of these courses may be followed without losing sight of their purpose of leading to the setting-up on the land of viable units of production, whether they be of a family or a cooperative type or public enterprises (a purpose that by its importance is once again stressed), it becomes imperative to define and implement in clear terms the respective law of land tenure, which is in fact already provided for in the Programme of the Government approved by the Assembly of the Republic.

With regard to the application of the first of the courses referred to above, the direct course, it is necessary to revise the right of continued partial ownership included in the above legislation, for this right is expressed in terms that, based essentially on criteria limiting the level of income from the land, seem to us inadequate in the contribution they make to the necessary creation of viable units of production.

On the other hand, regarding the setting-up of units of production resulting from this direct course of action, it becomes imperative not only to promulgate the statutes on which their operation will depend but also to prepare the respective plans of exploitation in the short and medium term. Those statutes must contain a guarantee of their management on democratic principles, preserving them from subjection to any party or trade union influence. In their turn, those plans of exploitation will serve as the basis for giving correct dimensions to the units in question and to the measures of technical, economic and financial aid necessary to their operation. It is imperative also to normalise the accounting plans to be adopted by the various types of agricultural enterprise, as a way of checking both the results obtained and the efficiency of their management.

It will be above all in the regions where small and indeed tiny holdings are traditional that it will seem right to follow the indirect course of action mentioned above. The measures considered capable of contributing positively towards the results to be attained by this means are those that tend to alleviate the demographic pressure on the land which is generally found in such regions, those regarding the granting of

credit facilities intended for the purchase of land with a view to increasing the area available for agricultural holdings already in existence or to be set up, and those of a fiscal nature capable of resulting in more efficient land utilisation or in the increase of land placed on the market for purchase or rent.

Within the scope of the first of these measures, of fundamental importance is the rise in the educational level of the youngest generations of the rural populations and measures of a social character for the setting-up of acceptable schemes of old-age and disability pensions for farm workers. In the first case the intention is to stimulate the vocational training that would furnish some with increased possibilities of abandoning the sector and others, those duly trained for agriculture, with an increased ability to work more efficiently on the land. In the second case is kept in mind the age structure of Portuguese agricultural enterprises, already referred to above, which makes the application of such measures promising in the sense that they are intended to alleviate demographic pressure - this obviously in addition to the imperative of greater social justice that consists in the improvement of the living conditions of one of the most underprivileged classes of the rural population.

The granting of credit facilities intended to make possible the purchase of land must be based on plans of exploitation specially prepared for the purpose, which will serve also as the basis for the evaluation of the needs for other types of credit to be granted at the same time, and intended especially to permit the correct operation of the holdings that have benefited from them. The widening of access to the credit

facilities in question - not only to small and medium farmers who already own land but also to others who do not but who show themselves interested in such facilities so as to dedicate themselves , on individual or cooperative terms, to the running of enterprises in the sector - becomes imperative so that by this means significant results can possibly be achieved with regard to the restructuring of agricultural holdings in Portugal.

Measures of a fiscal nature would have as a specific purpose the penalisation through tax of the private ownership of insufficiently utilised land, thus stimulating its better utilisation or enforcing its being placed on the market for new opportunities to be created for its exploitation.

Although there appears little to hope from such measures when considered in isolation, and difficulties are recognised in their general application in good time , it is thought nevertheless worth while to mention this type of measure, capable after taking its due place in agricultural policy of constituting in certain cases a useful instrument of it.

The small size of agricultural holdings is generally associated with their excessive dispersion in small parcels of land; the impact of this in the sense of increased costs of production contributes largely to the low incomes obtained. Recourse to projects for the consolidation of these parcels as a direct way of dealing with this difficulty does not appear to have great possibilities of general application. In fact, such projects usually imply such high costs that it becomes

difficult to benefit thereby within a reasonable time a significant proportion of the farmers subject to those conditions, the almost inevitable risk being that the few that thereby obtain benefit will do so precisely at the cost of the majority of those who in fact it is intended to benefit. Thus it seems to be above all the measures of aid to agricultural cooperation, providing especially for the redimensioning of very small holdings, and the group of indirect measures referred to above, that appear to present together the greatest possibilities of contributing to the purposes in view.

The importance traditionally assumed by rent as a form of land exploitation on which depends the operation of a great number of Portuguese agricultural enterprises requires that the problems of rural land tenure be duly faced. It will to this end be necessary to avoid the difficulties that have hindered the general application of the respective legislation, improving it as necessary so that from its application may result the effective and adequate restructuring of agricultural enterprises which it is intended to achieve.

Finally, and owing to the aspects of land ownership concerned in them, we shall refer to the measures to be taken for the return of commons to local communities. These measures will however have true meaning only if integrated into larger groups of measures able to provide for the suitable exploitation of the natural resources in question, which, through being to a large extent underutilised, offer good potential for increasing production in the sector.

4.4.2. Measures tending to improve the technological level of production methods and the adjustment of soil utilisation to its natural potentialities.

The introduction of measures in this field implies, as has been said above, the previous definition of those areas of the country and those productive activities that show the greatest production potential. These measures, in their turn, must necessarily be considered in an integrated form so as to constitute coherent groups to contribute at the same time to the better utilisation of natural resources, especially of the soil (with safeguards for the conservation of its productive potential), and to increasing in a suitable manner the production of the sector.

In the choice of activities to be practised in those soils defined as of use for agriculture there must above all be borne in mind the food requirements of the population of the country and their contribution towards a reduction in the agricultural trade balance, aspects that, as is obvious, are not independent of the prospects for the growth in domestic demand for agricultural products.

Thus there naturally come to mind as of increasing importance the activities of livestock production and those directly related to it, such as maize, forage crops, secondary cereals and oil-yielding crops. In addition to these, fruit and horticultural products, in view of the figures for their respective income elasticities, together with sugar beet, cotton and tobacco, by their positive contribution in terms of

the trade balance, are those that appear of greatest interest. In the field of livestock production the activities important above all are those concerning beef and dairy cattle, without however forgetting sheep, since they constitute an alternative of great interest from the economic point of view for the exploitation of appreciable areas of the country marginal for other types of agricultural utilisation, as has been said above.

On the other hand, there is manifest interest in activities concerning forest products, not only owing to their internal market prospects but also owing to the demands of suitable crop adjustments providing for the recovery of the lost fertility of degraded soils and the protection of natural resources.

It will be within the context of these general guidelines that must be set the measures of agricultural policy necessary to lead to the imperative accommodation of resources to the activities mentioned above, to the detriment of other alternative uses less interesting in comparison with the objectives that we have considered for that policy. Such measures will also have to be accompanied by the whole group of those that will serve as the basis for raising the technological level of methods of production which, as has been said, constitutes an important potential for increasing agricultural production.

While they must be coherent among themselves, the policy measures in question are highly diverse in nature, including actions to be undertaken both at the level of agricultural holdings and at other levels, higher or lower. Worth especial

mention among the first are facilities for technical, economic and financial aid capable of turning the activities referred to and the potential raising of the technological level of the respective methods of production into opportunities that may interest farmers. Selective credit, the existence of adequate technical and economic extension services and, in certain particular cases, recourse to incentives of a fiscal nature can play a decisive part in this.

The aspects of price policy regarding the factors of production, especially fertilisers, pesticides and feed concentrates, and those linked to the making of investments for the creation of infrastructures indispensable to the expansion of the activities abovementioned, together with the improvement in the technological level of the respective methods of production are seen as the most relevant to be considered with respect to the political measures that should operate at a level higher than that of agricultural holdings. In their turn, the group of measures necessary to the establishment of adequate structures for the transformation and marketing of the products of these activities, among which are included those concerning investments intended to augment existing activities and to establish further means for the transformation of such products, as well as those of an institutional nature intended to define and implement the roles to be played by the bodies that will intervene in the market, and those concerning the prices policy for the products, are the ones that in general it is above all

important to mention among those measures that should operate at a level below that of agricultural holdings.

4.4.3 Measures intended for a restructuring of the trade in agricultural products.

Although reference has already been made to the need for measures intended to set up the appropriate structure for the marketing of agricultural products, the importance of this for the development of Portuguese agriculture justifies further considerations.

First, it appears highly necessary to proceed to a definition of those structures in terms of a clear distinction between those in the field of private enterprise and marketing cooperatives and those ~~within~~ the competence of public institutions. Negative past experience in these fields advises that, to guarantee the final coordination necessary for the measures taken to be coherent among themselves, these bodies should become part of the Ministry of Agriculture, constituting special departments of the latter, not only for studying and proposing measures concerning various subsectors made up of the major groups of products (cereals, meat, fruit and vegetables, etc.), but also capable of direct intervention in the market. To these bodies ~~must~~ therefore fall the priority task of defining and aiding in the setting-up of the units to be created for the modernisation of the system of marketing and transformation of agricultural products, as well as of the

functional structure on which their operation will be based; this structure may, in accordance with each case, be that of an enterprise that is public, mixed or of a cooperative type.

The fact that there are agricultural products whose prices will continue to be formed to a large extent in a free market, as will certainly be the case of fruit, of horticultural products and of certain livestock products, for example, requires that measures be taken to improve and define clearly the corresponding marketing chains. These will necessarily include, among others, those regarding the normalisation of products, the creation of central wholesale markets in Lisbon and Oporto run by public enterprises and supplying in good time information regarding the prices in operation; the establishment of packing centres for fruit and horticultural products and the setting-up of a polyvalent refrigeration network, above all for meat, fruit and fish. In this connection attention must be drawn to the existence of detailed studies carried out by OECD technical staff, specialists in these fields who visited this country, studies that can serve as the basis for the implementation of the measures referred to.

On the other hand, recognising the existence of products whose prices will continue to be formed in a free market, it appears advantageous to maintain, by means of the public bodies already referred to, marketing chains alongside those of that free market able to compete with it in terms of

efficiency and prices. To this end it is imperative that such chains should be guaranteed the necessary conditions to permit them to compete, which signifies essentially that the operational units of which they are a part must have adequate means, size and organisation and be efficiently managed.

4.4.4 Prices policy

As has been said above, in the overall development model outlined in the Programme of the Government presented to the Assembly of the Republic, the market and private enterprise will continue to perform a major part of their classical functions in the economic system that will be in operation in Portugal. It must thus be recognised that the prices policy for the agricultural sector constitutes one of the components making up agricultural policy, although it is not considered to be a fundamental part; much less is it believed capable of contributing in isolation to the solution of the most serious problems facing the economy of the sector.

By a prices policy for the agricultural sector is understood intervention with respect to prices, products and the factors of production, planned in such a way that they may contribute effectively to the correct accommodation of resources to production so that the latter is able to attain previously defined objectives. It must therefore be constituted by a group of measures of agricultural policy all intended to contribute to the attainment of the objectives fixed for the sector.

For the implementation of the general objective of attaining the better utilisation of resources by means of market mechanisms recourse must be had to the fixing, at the level of the individual farmer, of price relationships most favourable for the purpose and capable of guiding his decisions, an attempt moreover being made to help towards reducing uncertainty at the level of production and towards making technological progress in productive methods. The establishment of guaranteed prices at a level slightly below the equilibrium price with the purpose of guiding more correctly the utilisation of resources as at the present followed, of support prices, always as a measure of an exceptional character and for limited periods of time, with a view to the development of duly chosen crops in geographically determined areas, and of subsidies on factors of production in accordance with schemes that are well defined and at one with the objectives in view, appear to be the short-term measures to be considered in the prices policy followed for the agricultural sector. In their turn and in the medium term, forward prices will be able to fulfil an important role in guiding agricultural production.

On the other hand, and although they have frequently been adopted here, it appears necessary to avoid as measures to be considered in prices policy for the agricultural sector:

- a) the fixing of prices based on production costs, which are liable to introduce significant distortions with respect to the best utilisation of resources, as for example occurred

in the case of rice; b) excessively high fixed prices with a view to the development of certain crops for the satisfaction at all costs of domestic demand, an example of which is the case of wheat; c) the fixing of guaranteed prices without taking into account the interdependence of various products, as an instance of which may be mentioned the fixing of the price of meat without taking into account the price of milk.

In accordance with the foregoing it may further be inferred that it is considered in general nonsensical to use a pricespolicy for the attainment of objectives of increasing or improving the distribution of the income of farmers. For these specific ends recourse must essentially be had to another more appropriate type of measure.

4.4.5 Measures concerning social problems

From the group of measures to be taken with a view to providing better living conditions for the populations active in the sector, it seems especially important to mention those intended to satisfy their basic needs in the fields of health and housing, necessarily complemented by specific programmes regarding rural electrification, basic sanitation, water distribution and the improvement of roads in rural areas.

The definition and implementation of these measures will have to be based not only on initiatives to be undertaken directly by government bodies but also on those of local origin, at the level of the parish or local council, which will embody the most pressing anxieties of rural communities, which can often be solved individually and quickly provided that they have placed at their disposal the technical and human means necessary to that end.

The programmes to be undertaken directly by the Government in these fields, in which health and housing assume fundamental importance, will necessarily have to be put into practice on a basis of schemes of collaboration to be established with the specialised departments of the Ministries of Social Affairs and of Housing and Town Planning.

The collaboration of the first of these Ministries also becomes indispensable for the setting-up of a suitable system of retirement and disability pensions for the workers in the sector, as well as their inclusion in the general scheme of social security.

4.4.6 Investment policy

The group of aspects previously referred to suggests that in terms of investment at production level priority be given to those intended for expansion in respect of ^{the} activities of livestock production, the afforestation of marginal areas to be withdrawn from agricultural use, the setting-up of economically viable units of production and the technological evolution of methods of production. It is thus a matter of a group of investments of various types to be made in units

of production, especially with regard to projects for agricultural installations, small dams, earth levelling, irrigation and drainage networks, the electrification of farm holdings, and soil conservation and reclamation.

On the other hand, so that due advantage made be obtained from this, it becomes necessary to consider also investments intended for the establishment of infrastructures indispensable to this end, especially with regard to capacity for animal slaughtering, meat refrigeration, the treatment and transformation of milk, the processing of sugar-beet, capacity for the transformation of forest products, the modernisation already referred to of marketing chains for agricultural products, and the expansion of the irrigated areas of the country in addition to that already carried out with irrigated areas at the level of units of production referred to above.

In the model of interregional competition and spatial equilibrium to which reference has already been made were included as investment alternatives on which would depend the development of the agricultural sector: a) the expansion of the area under irrigation by means of major irrigation schemes, b) the increase in the level of mechanisation directly associated with the increase in modernised methods of vegetable production; c) the increase of livestock production, including improvements in herds, as well as the installations and respective equipment indispensable for this; d) the increase of afforestation, especially that of pine and eucalyptus.

With the exception of the first, all these investment alternatives show in the context of the model good economic prospects. The amounts and the respective percentage distribution of the different types of investment programmed in the solutions of the Variants of the model for 1980 are presented in Table 4.

Table 4.

Totals and Respective Percentage
Distribution of Investments Programmed in the Solutions
of the Variants of the Model for 1980

(millions of escudos)

Type of Investment	Variant 1		Variant 2		Variant 3	
	Totals	%	Totals	%	Totals	%
Mechanisation associated with the modernisation of methods of vegetable production	419.1	40.5	477.3	37.6	559.3	37.8
Livestock development: dairy cattle	326.8	31.5	394.8	31.2	481.9	32.5
Livestock development: beef cattle	82.3	7.0	125.7	9.9	130.6	8.8
Livestock development: pigs	20.9	2.0	92.6	7.3	101.4	6.8
Livestock development: sheep	108.7	10.5	98.6	7.8	134.1	9.0
Afforestation	78.9	7.6	77.8	6.2	75.7	5.1
TOTALS	1036.7	100.0	1266.8	100.0	1483.0	100.0

According to the solutions of the model, development in the agricultural sector would depend above all on investments related to the mechanisation and modernisation of methods of vegetable production and to the expansion of modernised methods of dairy cattle production, which represent approximately 70% of the total of investment programmed in the solutions.

With respect to investments related to the expansion of other methods of livestock production is especially to be noted the increase seen in the amounts programmed when we pass from the solution of Variant 1 to that of Variant 3. Such increases result from the fact that from this variant have been eliminated restrictions by which an attempt was made to represent the existing limitations regarding the regional capacity for the slaughtering of cattle, sheep and pigs, for meat refrigeration and for the treatment and transformation of milk, all of which featured in the first.

The expansion in forest production activities was largely conditioned in the three variants by the restrictions of the model intended to represent the existing availabilities with regard to the capacities for transforming the corresponding primary products. The high shadow prices associated with these availabilities, totally utilised in the solutions of the three variants, lead to the conclusion that investment intended to increase the transformation capacities of forest products provides high profitability.

There is no place in the solution of the three variants for investments concerning irrigation schemes it is considered possible to carry out. The fact that the shadow prices associated with the availabilities of the area already under irrigation in the regions where these schemes are situated are lower than the costs per hectare allowed in the model for their respective construction and exploitation explains why this has happened. It must be noted in this respect that, within the scope of the model and owing to the manner in which were characterised the activities corresponding to this type of investment, these shadow prices refer not only to the additional hectares under irrigation but to the groups of areas benefited by each irrigation scheme considered. The inclusion of one of these schemes in the solution of the model would imply the total utilisation of the area benefited by it, from which would result a considerable increase in production together with a reduction in the prices, endogenously determined, of the products making up that production. As is obvious, within the scope of the model, such a reduction depends on the quantities produced of the various products and of the respective demand-price elasticities. It is in this context that must be interpreted the shadow prices associated with the availabilities of the irrigated area, which explains why no investments were included for the expansion of the area under irrigation in the solution of the three variants of the model.

Although they must be considered with the reservations imposed by the limitations inherent in this type of analysis, the results just mentioned cannot fail to suggest important aspects to be kept in mind concerning investment policy for the development of the agricultural sector. We would stress particularly the fact that the expansion of modernised methods of vegetable and animal production, based on non-irrigated lands and those irrigated areas that already exist, has been shown as more likely to make possible the increases in production necessary to meet the levels of demand foreseen for 1980 than the increase in the area under irrigation by means of major irrigation schemes. We must further stress, on the other hand, the restrictions placed on possible increases in the production of meat and milk by existing availabilities in slaughtering capacity, the refrigeration of meat, and the treatment and transformation of milk, which points to the need for investment in this field, although the solutions of the model do not allow of any direct conclusion concerning its profitability. Finally must be noted the need indicated by the model to increase the capacity for the transformation of forest products as a necessary condition for an increase in afforestation.

The incapacity previously referred to to achieve the full utilisation of the areas benefited by ^{major} irrigation schemes financed with public money, and the results of the model with regard to investments of this type, suggest that the necessary precautions must be taken in the planning of projects to be considered in this field so as to achieve the better and more

rapid utilisation of such zones. A great many of the difficulties that must be overcome for this to be attained are found at institutional level, owing above all to the interdisciplinary nature of the problems to be resolved, competence in which is shared among various government departments with no guarantee of the adequate coordination of their activities. Thus, so that from the investments already made or to be made in this field can result the benefits expected of them, it becomes urgent adequately to define and organise the institutional structures so as to ensure coordination between the planning of projects and their subsequent exploitation and also, from the beginning of such planning, the interested participation of the populations to be benefited.

The generally great amount of investment inherent in this type of project suggests on the other hand that especial importance should be accorded to the analysis of the associated costs and benefits based on criteria at one with objectives fixed for agricultural policy. In especial, that an analysis should be undertaken in comparative terms between the new projects and the complementary investments still to be made for the adequate exploitation of those already constructed. In addition, in the case of irrigation schemes intended essentially to constitute infrastructures to aid the expansion of livestock activities, it becomes imperative to evaluate their priority in comparison with other investments with the same objective, especially those concerning undertakings providing for the utilisation of underutilised natural resources of good potential

for livestock production and those necessary for increasing the capacities for slaughter and refrigeration referred to above.

Finally reference must further be made to investments intended for the creation of the infrastructures necessary to improve the living conditions of rural populations, considered in 4.4.5, to be set up with the collaboration of the services of various Ministries.

4.4.7 Measures of an institutional nature

The fact that these measures have been left until last does not indicate any disregard of their importance. Very much to the contrary, the existence of adequate institutional structures for the definition and implementation of agricultural policy is taken as a necessary precondition for the latter to be able to extricate the sector from the difficult situation in which it finds itself and to render it capable of making an effective contribution to the development of the country. In fact, from what has been said above with regard to the various types of agricultural policy measures, we think that such a requirement has shown itself to be evident. On the other hand, if the institutional structures responsible for the economy of the sector have long been considered inadequate at the present moment, when agriculture must be integrated in a new model of development, more urgent become the measures to be taken at an institutional level.

The Programme of the Government approved by the Assembly of the Republic indicates as guidelines for the immediate restructuring of the Ministry of Agriculture the decentralisation

of and regionalisation of services, the creation of an efficient agricultural extension service and the revision of the mechanisms for the control and granting of credit. In addition to these, it also appears imperative to consider as priority measures to be taken in this field those necessary for achieving a sufficient institutional link between the services of that Ministry and the structures for definition and execution of the Plan; it is on this link that will certainly have at last to depend, in its turn, the group of structures to be modernised or newly created for the definition and implementation of agricultural policy that have already been referred to in the particular treatment of each of the other types of measure.

Also of a priority nature are the actions to be undertaken for restructuring and updating teaching in agriculture, a condition necessary to ensure availabilities of staff duly trained to make that group of structures work.

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SOME INDICATORS OF INEQUALITIES IN
INCOME DISTRIBUTION IN PORTUGAL IN
THE PAST FEW YEARS

by

Odete Esteves de Carvalho

Gabinete de Planeamento do Ministério do Trabalho

(Restricted Circulation)

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September 1976

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Foreword

The analysis herein presented was begun with the objective of formulating the basis for an overall policy of distribution aimed at satisfying the essential needs of the population and at reducing inequalities.

However, shortage of time has not even allowed an analysis to be carried out of all the aspects considered indispensable to that overall formulation.

On the contrary, even with respect to those aspects that have been touched on, it has been possible to deal only with certain indicators referring to inequalities and always with the habitual limitation resulting from the insufficiency of the available data.

Finally, the author wishes to acknowledge the valuable collaboration given in the preparation of this text by certain members of the technical staff of the Studies and Planning Office of the Ministry of Labour, especially Drs. Maria Odete Vidal and Maria Luisa Nunes.

SOME INDICATORS OF INEQUALITIES IN INCOME DISTRIBUTION
IN THE PAST FEW YEARS IN PORTUGAL

1 - DISTRIBUTION OF FAMILY INCOMES

1. To evaluate the degree of concentration that exists in the distribution of family incomes, the most recent statistical data is that for 1973/74⁽¹⁾ and consists only of the provisional conclusions of the "Family Spending Survey" of the National Institute of Statistics (Instituto Nacional de Estatística - I.N.E.).

2. Although the number of families investigated was very small - fewer than 1% of the total - it is considered that, at least in terms of structures regarding the type of income of the families it comprises⁽²⁾, the sample has a certain validity⁽³⁾

(1) The survey was carried out between June 1973 and July 1974.

(2) The results are presented by grouping families in accordance with their main source of income: Labour, capital and others. As income must be understood monetary and non-monetary family income of a normal nature, including transfer payments. The group of families whose main source of income is labour also includes the liberal professions. In the group of families whose main source of income is capital are included those working on their own account and small employers, agricultural and non-agricultural. In the third group, "Others", the main sources of income are pensions, benefits of various kinds, help from relatives, and others unspecified.

(3) In fact, comparing the structure of the families covered by the survey as to their main source of income with the estimate for 1970 published in "Distribuição e Redistribuição dos Rendimentos em Portugal - Agricultura e Actividades Não Agrícolas" ("Distribution and Redistribution of Incomes in Portugal - Agriculture and Various Non-agricultural Activities") in the "Studies" Series Nº 32, Studies and Planning Office of the Ministry of Labour, it can be seen that the two are very similar.

The distribution by income groups of families and of their income for 1973/74, in accordance with the abovementioned survey, is shown in Table 1.

3. From this table it may be concluded that in 1973/74 the distribution of family incomes was characterised by a high degree of concentration, for the Gini coefficient was of the order of 0.4⁽¹⁾, while 5% of families (those with the highest incomes) received between 22% and 25% of the income total. It must further be noted that the 11.2% of the families in the highest income groups received 35% to 38% of the total, while the 11.2% in the lowest group had only 2.6%.

4. The degree of concentration of income differs in accordance with the type of income of the family. Thus, it can be seen that concentration is greatest in the group of families whose main source of income is capital (Gini coefficient of 0.55 or 0.46) and much lower for households living on pensions, benefits or other unspecified income (Gini coefficient of 0.25 or 0.26); for those that depend essentially on the product of their labour, the degree of concentration is slightly below the average (the Gini coefficient must be about 0.35).

(1) It must be kept in mind that the index of concentration or Gini coefficient varies between 0 and 1, 0 corresponding to an egalitarian distribution and 1 to maximum concentration. Merely for reference, we give here Gini coefficients calculated for certain Latin-American countries and published in the Revue Internationale du Travail, Vol. 108, N° 2-3, August and September 1973:

1963 - Puerto Rico:	0.049
- Mexico	0.543
1961 - Argentina	0.434

TABLE 1

Percentage Distribution of Families and of Family Income by

Annual Income Groups

June 1973 to July 1974

Mainland Portugal

Annual Income Groups (thousands of escudos)	TOTAL			CAPITAL			LABOUR			OTHERS		
	Family Distri- bution	Family Income Distribution		Family Distri- bution	Family Income Distribution		Family Distri- bution	Family Income Distribution		Family Distri- bution	Family Income Distribution	
		1st Hyp(1)	2nd Hyp(2)		1st Hyp(3)	2nd Hyp(4)		1st Hyp(5)	2nd Hyp(6)		1st Hyp(7)	2nd Hyp(8)
< 18	11.1	2.6	2.7	10.5	2.1	2.5	4.4	1.0	1.0	35.3	15.0	14.7
18 to 30	15.3	5.1	5.3	22.4	6.2	7.5	10.9	3.4	3.5	22.5	13.5	13.2
30 " 48	20.8	11.3	11.8	20.0	9.0	10.8	21.7	11.1	11.2	18.6	20.9	20.5
48 " 60	15.5	12.0	12.6	13.7	8.5	10.2	17.9	12.7	12.8	9.1	12.2	12.0
60 " 90	17.6	18.4	19.2	12.0	10.4	12.4	22.2	21.8	22.0	7.9	14.8	14.6
90 " 120	8.5	12.4	13.0	7.6	9.2	11.1	10.3	14.2	14.3	3.2	8.2	8.1
120 " 180	6.2	13.0	13.5	5.8	10.1	12.1	7.5	14.7	14.8	2.2	8.3	8.2
> 180	5.0	25.2	21.9	8.0	44.5	33.4	5.1	21.1	20.4	1.2	7.1	8.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
		0.402	0.375		0.546	0.455		0.341	0.347		0.249	0.263

SOURCE: Family Spending Surveys, 1973/74, Instituto Nacional de Estatística (National Institute of Statistics - I.N.E.)

- (1) On a hypothesis of 17,000 escudos a year attributed, on average, to the lowest income group, and of 360,000 escudos to the highest income group.
- (2) On a hypothesis of 17,000 escudos a year attributed, on average, to the lowest income group, and of 300,000 escudos to the highest income group. This hypothesis has been calculated on the basis of the data on Imposto Complementar published in the Tax Statistics for 1974.
- (3) On a hypothesis of 17,000 escudos a year attributed, on average, to the lowest income group, and of 480,000 escudos to the highest income group.
- (4) On a hypothesis of 17,000 escudos a year attributed, on average, to the lowest income group, and of 300,000 escudos to the highest income group.
- (5) On a hypothesis of 17,000 escudos a year attributed, on average, to the lowest income group, and of 312,000 escudos to the highest income group.
- (6) On a hypothesis of 17,000 escudos a year attributed, on average, to the lowest income group, and of 300,000 escudos to the highest income group.
- (7) On a hypothesis of 17,000 escudos a year attributed, on average, to the lowest income group, and of 240,000 escudos to the highest income group.
- (8) On a hypothesis of 17,000 escudos a year attributed, on average, to the lowest income group, and of 300,000 escudos to the highest income group.

5. But families whose main source of income is paid employment or capital receive income from other sources also.

Estimates made for 1970⁽¹⁾ put at some 16% the amount which, on average, is represented by income from capital in the total for households whose main source is the product of labour⁽²⁾. It is likely that this percentage increased until 1974 and has fallen in subsequent years. In fact, the widespread euphoria resulting from the application of small savings in the purchase of company shares and debentures (especially those in civil construction⁽³⁾ and those with a Stock Exchange quotation) certainly increased total income from capital between 1970 and 1974. On the other hand, the increase in wages that has taken place in the last three years, together with the fact that the former type of income without doubt suffered a substantial decline after 25 April 1974 (by virtue of the nationalisation of the companies where many of these savings were applied having been carried out without adequate compensation being given to the small savers⁽⁴⁾ and owing to a frankly unfavourable short-term economic situation) most certainly led to a reduction in the relative sum for income from capital in the total income of households whose main source of income was labour. To counter-balance this, for other groups of households (the "capital" and

(1) Published in "Distribution and Redistribution of Income in Portugal", op. cit.

(2) Not including families whose head exercises a liberal profession where the percentage of capital was on average 59%.

(3) J. Pimenta, Torralta, etc.

(4) It was only with Decree-Law Nº 489/76, of 22 June 1976, that a start was made in fixing the compensation provided for in Decrees Nºs. 406-A/75 and 407-A/75, of 29 and 30 July 1975.

"others" groups), especially those of persons working on their own account and of employers, in which the proportion of income from paid employment comprised, in 1970, only 10%⁽¹⁾ of the total, it is probable that in the last few years this percentage has increased.

(1) Excluding families whose head exercises a liberal profession and where labour income represents some 41% of the total.

2 - PROPORTION OF NATIONAL INCOME ATTRIBUTABLE TO LABOUR

1. There is no doubt that labour today constitutes the main source of income for most Portuguese families; thus it comes about that in view of the insufficiency of the available statistical indicators particular importance is set by the analysis of that proportion of the National Income (N.I.) corresponding to the wage total⁽¹⁾.

2. Since April 1974, as a result of various measures that have been taken, especially the establishment of the minimum wage and the strengthening of labour agreements, average wages⁽²⁾ and the wage total have developed in a favourable manner so as to correct the distribution that existed in 1973.

3. In accordance with the estimates that served as base for the preparation of Table 2, the increase in average wages between 1973 and 1974 was of the order of 35% and approximately 29% between 1974 and 1975⁽³⁾. As there is judged to have been a fall in the number of wage-earners of 0.6% and 0.9% in 1974

(1) By wage total is understood the total of wages, salaries, awards, allowances, bonuses, payments in kind, etc., received by all wage-earners in return for their labour.

(2) The per capita wage total.

(3) Estimated figure drawn from the indicators available, namely those published in the Monthly Bulletins of Statistics of the I.N.E. and the results of the 1974 and 1975 Surveys of the Statistical Service (Serviço Estatístico - S.E.) of the Ministry of Labour (Ministério do Trabalho - M.T.)

and 1975 respectively, the result is that the increase in the wage total has been slightly smaller than that indicated for average wages.

On the other hand, the increase in the Net National Product at current prices was 22.5% between 1973 and 1974, and 11% in 1974/75 (according to the estimates of the I.N.E. and of the D.C.P.⁽¹⁾), while the product per worker rose in the first period by 23% and by only 12% in the second.

Since, in 1974 as in 1975, the increase that occurred in wages per capita was far greater than that in product per worker, the percentage represented in the N.I. by the wage total showed a significant increase, from 44.5% in 1973 to 48.9% in 1974 and some 56% in 1975⁽²⁾ (Table 2).

4. There would be great interest in determining the proportion of the N.I. attributable to labour income and not only that corresponding to the wage total, which is only in respect of wage-earners. For that purpose it would be necessary to estimate at least the proportion corresponding to the income of persons working on their own account⁽³⁾ that must be regarded as a return on their labour, but there are practically no statistics available in this regard.

(1) Departamento Central de Planeamento - Central Planning Department.

(2) The estimates of the D.C.P. in "Situação Económica Portuguesa" ("The Portuguese Economic Situation"), May 1976, are as follows

1973:	43.4%
1974:	47.2%
1975:	51.4%

(3) The economically active population includes wage-earners, persons working on their own account, employers and unpaid family workers.

TABLE 2

Percentage of Wage Total in the National Income (Net National Product-NMP)
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Mainland Portugal

Males and Females

YEARS	Wage Total not including employers' social security discounts	Wage Total including employers' social security discounts
1973	44.5%	49.1%
1974	48.9%	53.5%
1975 ⁽¹⁾		
1st Hypothesis	56.8%	62.2%
2nd Hypothesis	56.4%	61.8%

SOURCE: National Accounts: I.N.E. and estimates of the Central Planning Department;
wages: Industrial and Company Statistics for 1973 and 1974; wage-earners:
estimates of the Forecasting Team of the Study and Planning Office of the
Ministry of Labour.

- (1) The two hypotheses correspond to the consideration of two alternatives in the growth of wages estimated for certain sectors, which would result in an overall increase of 30% and 20% respectively.

Assuming, however, that the labour of persons working on their own account was rewarded exactly as was that of wage-earners in the respective sector, labour income would represent some 53% in 1973, 59% in 1974 and 68% in 1975⁽¹⁾.

5. There is a certain difficulty in making a valid judgment as to whether the 1975 percentages are acceptable or not.

One of the means to be used could be the comparison of these percentages with those ruling in other countries.

However, according to Jacques Lecaillon and Dimitrios Germidis, "the wages proportion tends to increase with economic development, together with the increase in the ^{wage-earners/}active population rate, that is, with the proportion of wage-earners in the active population; its magnitude is thus an indication of the level of development reached by a given country"⁽²⁾.

Thus, since the proportion of the wage total in the N.I. varies with the wage-earners/active population rate, and considering this in its turn as an indicator of the level of economic development of a country, there appears to be no validity in a simple comparison of the percentages for Portugal with those in other countries with different levels of economic development.

(1) Not including the proportion of employers' social security discounts; including this proportion the percentages rise to 68% for 1973, 63% for 1974 and some 73% for 1975.

(2) "Part des salaires dans le revenu national et développement économique" ("Proportion of wages in the national income and economic development"), published in Revue Internationale du Travail, Vol. 111 - 1975, p. 427.

It must moreover be remembered that the sectorial structure of employment also has an influence on overall distribution⁽¹⁾, for the expansion of the modern, secondary and tertiary sectors, to the detriment of the traditional sector, influences the type of distribution⁽²⁾ and may falsify comparisons as between countries.

6. With a view to determining the nature of the relationship that exists between the wage-earners/active population rate⁽³⁾ and the proportion of wage income⁽⁴⁾, Lecaillon and Germidis⁽⁵⁾ analysed the behaviour of these two relationships for 35 countries with widely differing levels of development⁽⁶⁾; the result of their estimates allowed them to arrive at the following parabolic equation:

$$\frac{W}{Y} = 0.0033 \left(\frac{N}{L} \right)^2 + 37.1$$

According to its authors, this equation "indicates that the long-term changes in employment structure shown by the growth in the wage-earners/active population rate constitute an essential factor in the increase of the proportion of wage income."

(1) Percentage of the wage total compared with the N.I.

(2) The distribution may vary from sector to sector by the simple fact that the combination of productive factors of labour and capital are different. For example, in Public Services, in Portugal, the percentage attributable to the workers is as a rule above 90%; in other services (excluding Commerce, Banking, Insurance, Transport and Communications), the 1974 percentage was above 60%, while in Manufacturing Industry it was some 40%; this despite the average wage in the services sector being lower than that in industry.

(3) Number of wage-earners (N) over the worker total (L).

(4) "Proportion of wage income" is defined by the comparison: Wage Total (W) over National Income at market prices (Y).

(5) Op. cit.

(6) Portugal was not one of the countries investigated.

From this it is deduced that when the wage-earners/active population rate is stable, which would probably presuppose economic stagnation, the proportion of wage income itself will also be stable, except for temporary fluctuations having to do with the conjuncture⁽¹⁾.

7. Since the relationship between the proportion of wage income and ^{the} wage-earners/active population rate is equal to the average wage⁽²⁾/average income⁽³⁾ relationship, or

$$\frac{W/Y}{N/L} = \frac{w}{y}$$

and this, in its turn, expresses the relative position of wage-earners from the pay point of view in a given economy - it has been possible to calculate from this parabolic equation the value of the average wage/average income⁽⁴⁾ relationship for all values of the wage-earners/active population rate⁽⁵⁾; the results are shown in Table 3. It will be noticed that for wage-earners/active population rates varying between 10 and 100 the proportion of wage income shows an increasing tendency that varies between 37.4 and 70.1, while the relative wage has a falling tendency the limits of which are 3.74 for a rate of 10% and 0.70 for one of 100%.

(1) Op.cit., pp. 429-431. (Author's italics.)

(2) Average wage (w) is equal to the wage total over the number of wage-earners, that is,

$$w = \frac{W}{N}$$

(3) Average income (Y) is the quotient of the N.I. at market prices divided by the worker total, that is, $y = \frac{Y}{L}$

(4) Relative wage.

$$0.0033 \left(\frac{N}{L} \right)^2 + 37.1$$

(5) $\frac{w}{y} = \frac{N}{L}$

TABLE 3

The Average Wage/Average Income Relationship,
in accordance with the wage-earners/active population rate

$\frac{N}{L}$ (Wage-earners/active population rate)	$\frac{W}{Y}$ (Proportion of wage income)	$\frac{W}{Y}$ (Relative wage)
10	37.4	3.74
20	38.4	1.92
30	40.1	1.33
40	42.4	1.06
43.3	43.3	1.00
50	45.3	0.90
60	49.0	0.81
70	53.3	0.76
75	55.7	0.74
80	58.2	0.73
90	63.8	0.71
100	70.1	0.70

SOURCE: "Part des salaires dans le revenu national et développement économique",
("Proportion of Wages in National Income and Economic Development"),
Revue International du Travail, Vol. 111 - 1975, p. 433

8. Despite all the limitations and criticisms that this type of analysis may deserve, we believe there to be a certain interest in comparing the data for Portugal with that obtained by means of these equations.

A difficulty arises when one attempts to determine the wage-earners/active population rate, for the authors are not explicit as to the concept of active population. They speak of "labour force in a wide sense"; from which one might suppose that it would also include the unemployed and those on military service⁽¹⁾; but, on the contrary, they are referring only to employers, persons working on their own account and wage-earners, which may lead to the conclusion that they take into consideration only the economically active population, a hypothesis that one would indeed think more in accord with the objective of the analysis.

Given the importance that in the last few years the unemployed have come to assume in the active population, Table 4 shows the results for the two hypotheses presented.

9. In accordance with the figures arrived at for Portugal, it seems possible to affirm that the proportion of wage income and the relative wage reached in 1975 already stood at levels similar to those ruling in other market-economy countries at the same level of economic development; this provided we admit as valid the presuppositions abovementioned, which were the basis of the relationship used by Lecaillon and Germidis.

(1) This is in fact the concept of active population used in I.L.O. statistics.

Table 4

Wage-earners/active population rate, proportion of wages in the Net National Product at Market

Prices - NNP_{mp} - and the Relative Wage in the case of Portugal

	1973		1974		1975	
	Actual Figures	Theoretical Figures ⁽¹⁾	Actual Figures	Theoretical Figures ⁽¹⁾	Actual Figures	Theoretical Figures ⁽¹⁾
Wage-earners/active population rate						
1st Hypothesis ⁽²⁾	75.4	75.4	75.8	75.8	75.2	75.2
2nd Hypothesis ⁽³⁾	68.7	68.7	69.3	69.3	63.7	63.7
Proportion of wages in the NNP_{mp} ⁽⁴⁾						
1st Hypothesis ⁽²⁾	44.2	55.9	48.7	56.1	(5) { 56.8 56.4	55.8
2nd Hypothesis ⁽³⁾	44.2	52.7	48.7	53.0	(5) { 56.8 56.4	50.5
Relative Wage						
1st Hypothesis ⁽²⁾	0.59	0.74	0.64	0.74	(5) { 0.75 0.74	0.74
2nd Hypothesis ⁽³⁾	0.64	0.77	0.70	0.76	(5) { 0.89 0.88	0.79

- (1) Figures obtained by applying the wage-earners/active population rates (Hypotheses 1 and 2) for Portugal to the equations that relate the wage-earners/active population rate to the proportion of wages and to the relative wage.
- (2) Considering the wage-earners/active population rate as the relation between the total number of wage-earners and the economically active population.
- (3) Considering the wage-earners/active population rate as the relation between the total number of wage-earners and the total active population.
- (4) The wage total includes social security discounts, as this appears to have been the method used in the study on which the present work has been based.
- (5) Two hypotheses for growth in pay rates are considered in the estimates prepared for 1975.

It would seem, however, that this analysis is insufficient to discover if the present overall distribution is the most just and if the wages policy to follow should be to try to increase the proportion of the wage income. For this it is important to have available adequate statistical data so that we can determine correctly the economic and financial position of sectors and firms and to define policy guidelines, especially regarding consumption, savings and investment, as well as the maximum and minimum proportion of value added in each sector or firm that must be attributed to the capital of firms in the public and private sectors respectively.

3 - INDICATORS OF THE RELATIONSHIP BETWEEN LEVEL OF ECONOMIC DEVELOPMENT AND TYPE OF DISTRIBUTION

1. In the article from which we have been quoting the authors moreover present a summary table where they attempt to compare level of economic development, calculated by the indicators of wage-earners/active population rate and GDP per inhabitant, with indicators that, in their interpretation, reveal the type of distribution, namely, the part of the wage total in the national income at market prices, the relative wage and the Gini coefficient.

2. In Table 5 can be seen, for groups of undeveloped, developing and developed countries, the limits of variation of each of the indicators mentioned above and moreover those values arrived at for Portugal in the year 1975, compared with each of them.

3. According to the indicators of wage-earners/active population rate(1) and GDP per inhabitant, Portugal would be found on the threshold of the group of developed countries, and the various indicators of income distribution utilised, including the Gini coefficient itself, are all near the limits given for this group, a fact which was not evident in previous years (2).

(1) Considering the hypothesis of the rate being calculated in comparison with the economically active population.

(2) See Table 4. It may be mentioned that in 1973 and even in 1974 the figures obtained for Portugal by the relative wage indicator were so anomalous that they were situated below the minimum limit of this indicator $(0.70 < \frac{w}{y} < 3.74)$.

TABLE 5

Levels of Development and Changes in Distribution

Criteria employed	Undeveloped countries	Developing countries	Developed countries	Portugal 1975	
Wage-earners/active population rate $\left(\frac{N}{L}\right)$	$\frac{N}{L} < 43.3\%$	$43.3\% < \frac{N}{L} < 75\%$	$\frac{N}{L} > 75\%$	75.2 ⁽²⁾	63.7 ⁽³⁾
Proportion of wages ⁽¹⁾ in the National Income at market prices, N.I. m.p. $\left(\frac{W}{Y}\right)$	$\frac{W}{Y} < 43.3\%$	$43.3\% < \frac{W}{Y} < 55.7\%$	70.1% $\frac{W}{Y} > 55.7\%$	(4) $\begin{cases} 56.6 \\ 56.4 \end{cases}$	(4) $\begin{cases} 56.8 \\ 56.4 \end{cases}$
Relative Wage $\left(\frac{w}{y}\right)$	$\frac{w}{y} > 1$	$0.74 < \frac{w}{y} < 1$	0.70 $\frac{w}{y} < 0.74$	(4) $\begin{cases} 0.75 \\ 0.74 \end{cases}$	(4) $\begin{cases} 0.89 \\ 0.88 \end{cases}$
GDP _{mp} /inhabitant (in dollars)	G.D.P./inh. < 200	200 < G.D.P./inh. < 1.400	G.D.P./inh. > 1,400	≈ 1.500 ⁽⁵⁾	≈ 1.500 ⁽⁵⁾
Gini coefficient (G)	G < 0.47	0.47 < G < 0.60	G < 0.42	0.40 ⁽⁶⁾	0.40 ⁽⁶⁾

SOURCE: "The Proportion of Wages in National Revenue and Economic Development", Revue Internationale du Travail, vol 111 - 1975

- (1) Includes employers' social security discounts
- (2) Considering the wage-earners/active population rate as the relationship between the total of wage-earners and the economically active population.
- (3) Considering the wage-earners/active population rate as the relationship between the total of wage-earners and the total active population.
- (4) As has been said above, two hypotheses for the growth in pay are considered in the estimates drawn up for 1975.
- (5) Using an exchange rate of 28 escudos to the dollar.
- (6) Refers to 1973/74.

4. It seems possible therefore to conclude that with the measures taken during the last few years the type of distribution existing at present approaches what is normal among countries at a similar level of economic development.

The question is however still unresolved whether the type of distribution that already exists is indeed the most desirable and the most just, for it would not appear to be enough merely to reach the level of inequality that exists in market-economy countries at the same level of development; it is important to improve it and guarantee to the whole population the satisfaction of their minimum needs.

4 - DISTRIBUTION OF THE WAGE TOTAL AMONG THE WAGE-EARNERS

1. As has been seen, the wage total has increased favourably in the last few years. But how has this total been distributed among the workers?

2. To reply to this question the only data available is that which will allow a very general analysis of the distribution in the non-agricultural sectors⁽¹⁾.

Using as a starting point "Income Groups" surveys⁽²⁾ carried out by the Statistics Service of the Ministry of Labour with reference to the month of January in the years 1972, 1974, 1975 and 1976, calculations have been made of the distribution of the wage total⁽³⁾ of basic wages by quintiles, of the percentage corresponding to 5% of the best-paid workers and moreover of the Gini coefficients. The results are shown in Table 6.

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- (1) Excluding Public Administration and Defence, Sanitation and Cleansing Services, Social and Recreational Services, Community Services, Warehousing, Communications and Domestic Services, and in addition firms with 5 or fewer workers, whatever their sector of activity.
 - (2) By "income" must be understood, in this case, the sums paid in cash (before the deduction of any discounts), excluding overtime, occasional allowances, bonuses, etc.
 - (3) Given the limitations of the survey for this type of analysis, the wage total refers only to the month of January each year and to basic wages and salaries, not including therefore overtime payments, allowances, bonuses, etc.

Table 6

Distribution of Wage Total in Non-agricultural Activities⁽¹⁾

by Groups of Workers

Mainland

January

Males and Females

YEAR	Percentage of wage total ⁽²⁾ for each quintile ⁽³⁾						5% of highest income	Gini concentration coefficient
	Lowest Quintile	2nd Quintile	3rd Quintile	4th Quintile	Highest Quintile	Total		
1972	7.4	12.1	16.4	21.7	42.4	100.0	18.0	0.225
1974	8.1	12.6	16.9	22.2	40.2	100.0	16.4	0.198
1975	10.3	14.3	18.0	22.2	35.2	100.0	13.3	0.110
1976 ⁽⁴⁾	11.5	15.3	18.9	22.1	32.2	100.0	11.6	0.095

SOURCE: "Income Groups" Surveys of the Statistical Service of the Ministry of Labour.

(1) Does not include Public Administration and Defence, Sanitary and ~~C~~leansing Services, Social and Recreational Services, Community Services, Domestic Services, Warehousing and Communications.

(2) By wage total is understood, in this case, the total of gross salaries and wages paid in the month of January, excluding overtime, allowances, bonuses, etc..

(3) Each quintile comprises 20% of all workers.

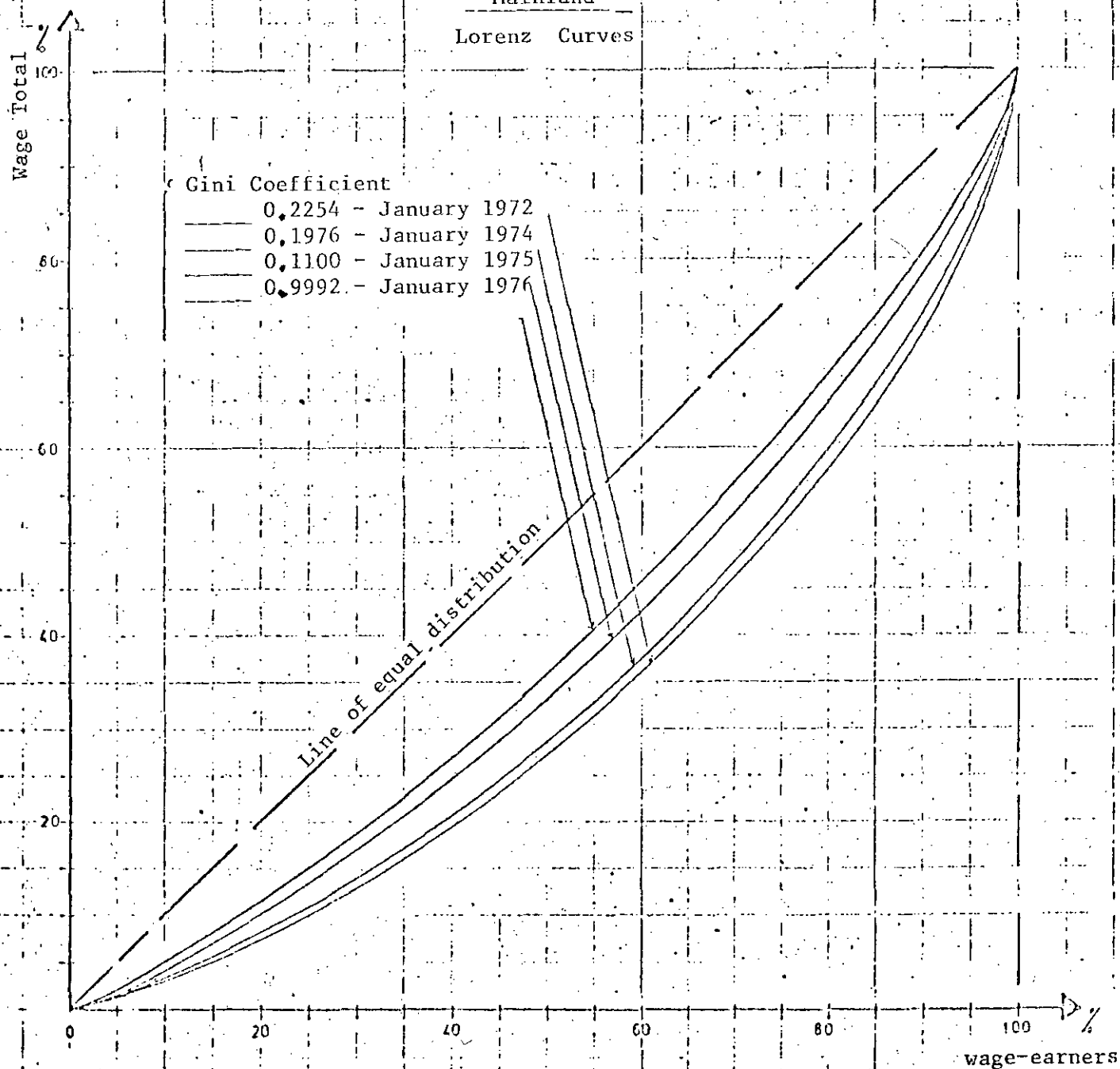
(4) Provisional data.

3. Both by means of the Gini concentration coefficient indicator (Graph 1) and by the changes in the proportion of total wages attributable to the various quintiles, it can be concluded that there has been taking place a correction in the distribution of the wage total in the non-agricultural sectors, and that this correction was particularly significant between January 1974 and January 1975.

In fact, the value of the Gini coefficient in this period shows a reduction of 44%, and between January 1975 and January 1976 of 14%. On the other hand, the percentage of the wage total attributable to the lowest-paid workers (the lowest quintile) rose by 8.1% to 10.3%, while that corresponding to the highest quintile fell from 40.2% to 35.2%. In January 1976 these percentages were 11.5% and 32.2% respectively.

4. The analysis of the distribution of the wage total by quintiles reveals moreover that the inequalities have been reduced, in essence, by the transfer to the 20% group with the lowest wages of an amount equal to the wage total attributable to the 20 percent of workers receiving the highest wage, even though the workers in the second and third quintiles also received significant increases. As to those in the fourth quintile, the percentage of total wages falling to them remained practically unchanged.

GRAPH 1

Distribution of Wage Total⁽¹⁾Mainland
Lorenz Curves

(1) In non-agricultural activities and with reference only to basic wages.

5. The measures that had the greatest impact on the reduction of inequalities in the distribution of the wage total in non-agricultural activities in 1974 and 1975 were those concerning the establishment of the minimum wage and the wage freeze above certain amounts.

In 1974, the minimum wage fixed at 3300 escudos by Decree-Law N° 217/74, of 27 May 1974, raised the wages of the lowest-paid workers in Industry and Services ⁽¹⁾, benefiting some 40% of those 20 years of age and over ⁽²⁾.

At the same time the said Decree-Law froze wages of 7500 escudos or more, this freeze remaining in force until September, when Decree-Law N° 480/74, of 25 September 1974, laid down the conditions for the payment of increases at wage levels beyond 9000 escudos ⁽³⁾.

In 1975, Decree-Law N° 292/75, of 16 June 1975, raised the minimum wage to 4000 escudos (improving the wage situation of some 22% ⁽⁴⁾ of the workers ⁽⁵⁾), froze wages above 12,000 escudos and fixed the national maximum wage at 48,900 escudos.

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- (1) This piece of legislation covered all wage-earners except rural workers, domestic employees and workers under 20 years of age.
 - (2) An estimate taken from the Report on the Conjuncture, 3rd Quarter of 1974, of the Studies, Planning and Organisation Office of the Ministry of Labour.
 - (3) This regulation did not come to be applied in practice, although it was suspended only by Decree-Law N° 824/74, of 31 December 1974. October 1975
 - (4) Estimate published in the Quarterly Report on the Conjuncture, of the Studies, Planning and Organisation Office of the Ministry of Labour.
 - (5) In non-agricultural activities, of 20 years of age and over.

6. The Gini coefficient obtained for January 1976 is only 0.1, which might lead to the conclusion that a correct distribution of the wage total has already almost been arrived at.⁽¹⁾ We believe, however, that strong reservations ought to be set against the validity of this indicator to determine statistically what is the most correct distribution of the wage total, since it has been used essentially for the study of family income distribution. In fact, in the case of the distribution of the wage total it may be questionable if the ultimate objective should be an absolute equalisation between the percentages of workers and the wage total, for one must keep in mind the different degrees of qualification and the value of the work that is done.

7. Despite the fact that the Gini coefficient can scarcely be valid to define what should be the most correct distribution of the wage total, we believe that there is a certain interest in noting the relative positions of activities and administrative districts given by this indicator.

8. In January 1976, the Gini coefficients obtained for the various activities showed considerable variations in comparison with that for the average (Table 7).

(1) At least with reference to the distribution of the wage total with regard only to basic wages.

TABLE 7

Relative Positions of Activities in accordance with the Degree
of Concentration present in the Distribution
of the Wage Total

Mainland	Males and Females
MAJOR SECTORS OF ACTIVITY	Relative Position of the Gini Coefficient
Fisheries	250.5
Banking, Insurance and Real Estate	129.3
Commerce	104.0
TOTAL OF NON-AGRICULTURAL ACTIVITIES	100.0
Electricity, Gas and Water	93.9
Manufacturing Industry	88.9
Personal Services, including Restaurants and Hotels	79.8
Civil Construction	75.8
Extractive Industry	54.5
Transport	38.8

BREAKDOWN OF MANUFACTURING INDUSTRY

Chemicals, Petroleum, Rubber and Plastics	116.4
Paper and Articles thereof; Printing	113.8
Food Industries, Beverages and Tobacco	102.5
TOTAL	100.0
Unspecified Manufacturing Industries	84.2
Wood, Cork and Furniture	79.5
Mineral Products, Machinery and Transport Material Construction	76.2
Basic Metal Industries	73.0
Textiles, Clothing and Footwear	65.2
Non-metallic Mineral Products	65.0

SOURCE: "Income Groups" survey, January 1976, Statistical Service of the
Ministry of Labour.

At the level of major sectors of activity, those that showed a greater degree of concentration in the distribution of the wage total were Fisheries and the group of Banking, Insurance and Real Estate, while Transport

and Extractive Industry were those that showed the greatest equalisation.

In Manufacturing Industry the greatest concentration was found in the group of Chemicals, Petroleum, Rubber and Plastics, and that made up of the Industries of Paper and articles thereof and Printing; and greater equalisation in Non-metallic Mineral Products and Textiles, Clothing and Footwear.

We must continue to believe, however, that the employment structure, with respect to occupational qualification, may justify the existence of different degrees of concentration from sector to sector of activity. It can further be said that, both at the level of major sectors and at that of the various subdivisions of Manufacturing Industry, there seems to be no correspondence between the positions concerning the degree of concentration of the wage total and the average level of wages in the respective activities⁽¹⁾.

9. At regional level also a considerable disparity can be observed in the indices of concentration of the wage total for non-agricultural activities in January 1976, the greatest equalisation being found in Beja, Castelo Branco and Santarém, and an above-average degree of concentration in Bragança and Lisbon (Table 8).

(1) The Spearman correlation coefficient obtained for the major sectors was 0.73 and for the various subdivisions of Manufacturing Industry it was 0.33.

Table 8

Relative Position of Administrative Districts in accordance
with the Degree of Concentration at present in the Wage Total
in Non-agricultural Activities

Mainland January Males and Females

DISTRICTS	Relative Position of the Gini Coefficient
Bragança	134.3
Lisbon	117.2
MAINLAND	100.0
Viana do Castelo	93.9
Oporto	92.9
Coimbra	91.9
Aveiro	84.8
Viseu	80.8
Guarda	80.8
Leiria	76.8
Braga	75.8
Faro	75.8
Setúbal	72.7
Portalegre	69.7
Évora	68.7
Vila Real	68.7
Santarém	66.7
Castelo Branco	65.7
Beja	59.6

SOURCE: "Income Groups" survey, January 1976, of the Statistical Service of the Ministry of Labour.

5 - INCREASE IN NOMINAL AND REAL WAGES

1. As has been said above, the incomes of wage-earners in 1974 and 1975 increased by some 35% and 29% respectively; but in consequence of the steep rise in prices that occurred during these two years⁽¹⁾, the average increase in their purchasing power was only 7.6% in 1974 and about 10% in 1975 (Table 9).

2. Among the major sectors of activity that registered increases above the average stand out, both in 1974 and in 1975, Extractive Industries, Construction, Manufacturing Industries, Personal Services and also Agriculture, this last however only in 1974.

It must be stressed that these sectors were those that had the lowest wages in 1973, a considerable part of those increases being due to the fact that a minimum wage had been established in June 1974^{(2) (3)}. Already in 1975, the impact of the updating of the minimum wage on the average level of wages in these sectors was very small, among the most significant increases being that observed in Manufacturing Industry, which was about 3%⁽⁴⁾.

(1) The estimate for the Mainland for consumer price indices published by the I.N.E. for 6 towns was 26% between 1973 and 1974 and 17.4% between 1974 and 1975.

(2) Excluding Agriculture, which was not affected by the minimum wage.

(3) The effect on average wages of the establishment of a minimum wage has been calculated as 21.5% for Manufacturing Industry, 12.2% for Extractive Industry and 9% for Construction, according to estimates in the Relatório de Conjuntura (Report on the Conjuncture) for the Third Quarter of 1974, of the Studies, Planning and Organisation Office of the Ministry of Labour (Gabinete de Estudos, Planeamento e Organização - G.E.P.O.)

(4) Estimates published in the Relatório Trimestral de Conjuntura (Quarterly Report on the Conjuncture), October 1975, of the G.E.P.O. of the Ministry of Labour.

Table 9

Increase in Workers' Wages⁽¹⁾ and Purchasing Power

Mainland

(Indices)

Males and Females

SECTORS OF ACTIVITY (Arranged in accordance with salary levels in force in 1973)	Nominal Wages				Real Wages ⁽²⁾			
	1973	1974	1975 (3)		1973	1974 ⁽⁴⁾	1975 (5)	
			1st Hyp.	2nd Hyp.			1st Hyp.	2nd Hyp.
Banking, Insurance, Real Estate	100.0	128.8	144.3	141.7	100.0	102.2	97.5	95.7
Electricity	100.0	134.8	167.1	167.1	100.0	107.0	112.9	112.9
Transport and Communications	100.0	128.8	141.6	141.6	100.0	102.2	95.7	95.7
Fisheries	100.0	108.7	125.0	125.0	100.0	86.2	84.4	84.4
Commerce	100.0	132.6	172.3	165.7	100.0	105.2	116.4	111.9
Manufacturing Industries	100.0	141.8	188.6	188.6	100.0	112.5	127.4	127.4
Extractive Industries	100.0	148.4	192.9	192.9	100.0	117.7	130.3	130.3
Construction	100.0	148.1	192.5	192.5	100.0	117.5	130.0	130.0
Private Services	100.0	141.1	190.5	183.4	100.0	112.0	128.7	123.9
Agriculture	100.0	146.3	182.9	182.9	100.0	116.1	123.6	123.6
Total (weighted average)	100.0	135.6	176.6	175.4	100.0	107.6	119.3	118.5

SOURCE: I.N.E., Industrial Statistics, Company Statistics.

(1) Annual average of all gross salaries and wages, overtime pay, premiums, allowances, awards, etc..

(2) Deflated by means of consumer price indices - Mainland.

(3) Estimates based on the Monthly Statistical Buletin of the I.N.E. and the "Occupational Qualifications" surveys of the Statistical Service of the Ministry of Labour.

(4) The price increase used in the deflation was 26%.

(5) The price increase used in the deflation was 48%.

3. The distribution of non-agricultural workers by income groups for January 1976 is shown in Table 10. According to the data of the survey only 0.9% of workers have a basic wage of 20,000 escudos or more and 6.6% have wages below 4000 escudos. The greatest number are found in the following groups; 4000 to 5000, 6000 to 7000 and 7000 to 8000 escudos.

Distribution of Non-agricultural Workers per Income Group⁽¹⁾

January 1976

Mainland

Males and Females

Income Group	Total		Workers 20 years old and over	
	Percentages		Percentages	
	simple	accumulated	simple	accumulated
Less than 1,000escudos	-	-	-	-
1,000 to 1,499 "	0.1	0.1	-	-
1,500 to 1,999 "	0.3	0.4	-	-
2,000 to 2,999 "	1.9	2.3	0.1	0.1
3,000 to 3,999 "	4.3	6.6	1.4	1.5
4,000 to 4,199 "	3.8	10.4	3.4	4.9
4,200 to 4,999 "	16.4	26.8	15.7	20.6
5,000 to 5,499 "	7.8	34.6	7.7	28.3
5,500 to 5,999 "	7.0	41.6	7.4	35.7
6,000 to 6,999 "	19.6	61.2	21.2	56.9
7,000 to 7,999 "	17.2	78.4	19.1	76.0
8,000 to 8,999 "	8.7	87.1	9.7	85.7
9,000 to 9,999 "	4.5	91.6	5.0	90.7
10,000 to 10,999 "	2.6	94.2	2.9	93.6
11,000 to 11,999 "	1.6	95.8	1.8	95.4
12,000 to 12,999 "	1.0	96.8	1.1	96.5
13,000 to 13,999 "	0.7	97.5	0.7	97.2
14,000 to 14,999 "	0.4	97.9	0.4	97.6
15,000 to 15,999 "	0.5	98.4	0.5	98.1
16,000 to 16,999 "	0.3	98.7	0.3	98.4
17,000 to 17,999 "	0.2	98.9	0.2	98.6
18,999 to 18,999 "	0.1	99.0	0.2	98.8
19,000 to 19,999 "	0.1	99.1	0.2	99.0
20,000 and over "	0.9	100.0	1.0	100.0
Total	100.0		100.0	

SOURCE: "Income Groups" Survey, Statistical Service of the Ministry of Labour

(1) Basic incomes, that is, gross salaries and wages.

6 - WAGE DIFFERENTIALS

It has already been seen that in 1974 and 1975 the evolution of the wage pattern in the various sectors of activity appears to have been such as to reduce inter-activity dispersion. But it seems worth while for the evaluation of income distribution to investigate in more detail how the various types of differential have evolved: those among activities, among degrees of qualification, among regions and between males and females.

As this theme has already been the subject of various studies⁽¹⁾, we shall have recourse whenever necessary to their conclusions, without prejudice to the consideration of further statistical data that has meanwhile been obtained.

The statistical data used will be essentially from the "Occupational Qualifications" surveys of the Statistical Service of the Ministry of Labour for the months of January 1973, September 1974 and September 1975, which cover only non-agricultural activities⁽²⁾.

The wages to be analysed will be only gross basic wages, for the normal period of work, excluding therefore all kinds of allowances, bonuses, attendance awards, etc.

(1) Reports on the Conjunction, of the G.E.P.O. of the Ministry of Labour and "Analysis of wage differentials on the Mainland", January 1974/January 1975, by Maria Henriqueta de Almeida e Aida Marcelino, to be published in the "Studies" series of the same Office.

(2) Except Public Administration and Defence, Sanitation and Cleansing Services, Social and Recreational Services, Community and Domestic Services, and in addition firms with 5 or fewer workers, whatever the sector of their activity.

a) Inter-activity differentials.

1. The disparity in basic wages in the major sectors of activity in comparison with the simple arithmetic mean of all non-agricultural activities was reduced considerably between January 1973 and September 1975, the fall being more significant between 1973/74 than between 1974/75 (Table 11).

In fact, the average deviation compared with the mean ⁽¹⁾ was 29.3 in January 1973, 22.0 in September 1974 and 17.7 in September 1975; and the extent of the overall range fell from 103.8 in 1973 to 88.6 and 70.0 in 1974 and 1975 respectively.

Banking and Insurance, despite having reduced the distance separating them from the remaining sectors, continue to benefit from a privileged position; Personal Services and Extractive Industries have come closer to the general average, but they remain low-wage sectors.

Although there has been a narrowing in the overall range of wages in relative terms, it does not seem to have changed appreciably, at least between 1974 and 1975, when measured in absolute terms ⁽²⁾.

It must be emphasised that while the group of activities that in 1975 had wages below 80% of the average (that is, Personal Services, Extractive Industries, Manufacturing Industries and Civil Construction) employed about 60% of non-agricultural workers, those with wages above 120% (that is, Banking and Insurance) represented only some 3%.

(1) Measure of dispersion, calculated by the formula $d = \frac{\sum_{i=1}^n |x_i - \bar{x}|}{N}$,
where \bar{x} = simple arithmetic mean, n=number of observations.

(2) Maria Henriqueta de Almeida e Aida Marcelino - op. cit.

Table 11

Indices of Disparity in Average Basic Monthly Wages in the Major Sectors of
Activity, compared with the Simple Average for Activities

Mainland

Males and Females

SECTORS OF ACTIVITY (arranged in accordance with 1973 indices)	Gross Disparity			After eliminating the influence of differences in qualifications			After eliminating the influence of differences in qualifications and in sex		
	1973	1974	1975	1973	1974	1975	1973	1974	1975
Banking	163.9	158.4	146.0	128.3	130.5	128.5	124.6	128.2	126.3
Insurance	148.1	133.8	132.1	116.3	114.1	113.5	116.3	114.2	112.6
Real Estate	141.7	94.0	99.5	100.6	89.1	89.7	102.1	90.1	93.9
Commerce	103.5	93.2	97.4	100.2	94.0	92.8	100.4	95.0	93.6
Electricity, Gas and Water	102.0	112.9	117.8	97.4	110.9	111.4	95.5	108.7	109.8
Transport and Communications	101.7	106.2	96.9	108.1	105.9	95.0	105.4	104.4	96.2
Civil Construction	73.9	71.4	77.8	95.1	86.3	88.7	91.7	83.3	86.8
Manufacturing Industries	73.3	74.2	78.7	87.4	85.7	87.1	90.1	89.0	89.4
Extractive Industries	68.2	76.4	76.6	87.8	88.3	86.7	85.3	85.6	84.8
Fisheries	63.6	109.6	101.2	74.4	119.2	105.2	75.8	117.2	104.1
Personal Services	60.1	69.8	76.0	72.0	79.8	83.9	76.9	84.2	87.8
Total (simple average)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Average Deviation compared with the mean	29.3	22.0	17.7	12.7	14.3	12.2	12.1	13.2	10.9
Extent of Overall Range	103.8	88.6	70.0	56.3	50.7	44.6	47.7	44.9	41.5

SOURCE: "Occupational Qualifications" Survey, January 1973, September 1974 and September 1975, Statistical Service of the Ministry of Labour.

(1) Not including allowances, awards, etc..

2. To discover the order of magnitude of wage differentials attributable directly to the activity itself, an attempt has been made to eliminate the influence of differences in qualification⁽¹⁾ and in sex; it has not been possible to eliminate the regional influences owing to lack of data.

3. Eliminating the influence of differences in qualification, it can be seen that there has been a substantial reduction in gross inter-activity disparity, whichever year is observed⁽²⁾ (Table 11), which shows that a great part of the inter-activity wage differentials result from differences in qualification⁽³⁾ and that the importance of this influence has tended to become less in the last few years. To the extent that the structure of the distribution of workers in accordance with their degrees of qualification has not changed substantially in the course of the last three years, this reduction is due essentially to a narrowing of the gap among the degrees of inter-activities dispersion that exist at the various degrees of qualification⁽⁴⁾.

(1) Using the method followed by J. Marchal and Lecaillon in "La Repartition du Revenu National" ("National Income Distribution"), vol. I, p. 282, Editions M-Th. Génin, which consists in weighting the indices of dispersion for each degree of qualification in the activity in comparison with the respective average; the weighting coefficient is the number of workers for each degree of qualification in the respective sector of activity.

(2) The average deviation narrowed by 16.6 points in 1973, 7.7 points in 1974 and 5.5 points in 1975. The extent of the maximum range narrowed respectively by 47.5 points, 37.9 points and 25.4 points.

(3) Also at the level of each activity it can be seen that, as a rule, when the influence of the qualification is eliminated, the respective index of disparity comes closer to the average, this movement being particularly significant in the case of Banking and Insurance (sectors with high wage levels).

(4) In fact, as can be seen in Table 12, the evolution of the average deviation compared with the mean, for each degree of qualification, showed a reduction in almost all cases.

The degrees of qualification in which the overall gap among inter-activity wage levels narrowed most between January 1973 and September 1975 were those of chargehands, the semi-skilled and technical staff; as to workshop managers and administrative staff, the gap indeed widened (Table 12).

In 1975 the inter-activity wage disparity for each degree of qualification remained still very marked, particularly in the cases of trainees, directorial staff and office staff⁽¹⁾ (Table 12). The degrees of qualification that showed greatest inter-activity disparities were those of apprentices, technical staff, administrative staff and the semi-skilled⁽²⁾. With respect to the unskilled, their degree of dispersion still remained relatively high.

4. Eliminating the joint influence of the differences in qualification and in sex, the inter-activity disparity is even further reduced (Table 11). In September 1975 the average deviation, which had been 17.7 in the case of gross dispersion, fell to 12.2 after elimination of differences in qualification and to 10.9 when at the same time were eliminated differences in qualification and in sex.

It must however be noted that the influence of the inter-activity differentials by differences in sex is relatively of little significance⁽³⁾, even though this type of influence

- (1) For basic wages the average deviation compared with the mean in September 1973, was 22.1 for trainees, 19.8 for directorial staff, and 19.3 for office staff.
- (2) The average deviation compared with the mean was 7.2, 9.4, 10. and 10.2 respectively.
- (3) This may be explained by the reduced proportion of females in the total (26%).

Table 12

Indices of Gross Disparity in Average Basic Monthly Wages in the Major Sectors of Activity, compared with the Simple Average for Activities, for each Degree of Qualification

Mainland	September 1975							Males and Females					
	Total (weighted average)	Directorial Staff	Technical Staff	Administrative Staff	Office Staff	Workshop Managers	Foremen	Highly- skilled	Skilled	Semi- skilled	Unskilled	Trainees	Apprentices
Banking	146.0	112.4	119.2	127.8	111.5	124.7	130.9	-	134.1	127.1	149.7	155.1	83.1
Insurance	132.1	117.5	87.6	115.3	122.8	103.5	-	-	133.1	112.8	119.3	128.8	126.6
Electricity, Gas and Water	117.8	164.6	118.1	106.5	72.8	119.5	118.4	112.4	107.8	115.6	116.7	92.7	105.7
Fisheries	101.2	75.5	106.3	98.1	155.2	125.5	134.5	149.8	109.4	97.2	89.4	132.7	102.6
Real Estate	99.5	59.7	104.0	104.6	98.7	-	96.3	108.7	98.6	86.5	78.1	65.3	-
Commerce	97.4	98.2	100.7	93.2	88.7	92.0	98.1	94.5	94.5	97.9	95.1	75.8	100.6
Transport and Communications	96.9	100.1	98.8	101.3	98.9	96.9	79.9	96.0	88.7	93.1	103.9	102.8	95.9
Manufacturing Industries	78.7	102.8	96.4	94.3	86.1	88.4	89.9	90.5	81.1	89.2	87.7	82.6	93.4
Civil Construction	77.8	99.0	98.7	90.3	74.4	86.9	81.8	85.5	89.3	98.6	83.8	83.8	99.6
Extractive Industries	76.6	109.2	103.2	83.6	116.7	75.4	80.8	81.4	81.2	92.4	89.7	102.1	94.3
Personal Services	76.0	61.0	66.9	85.1	74.2	87.2	89.5	81.1	82.2	89.3	86.3	78.4	98.0
Simple Average	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Average deviation compared with the mean													
September 1975	17.7	19.8	9.4	10.1	19.3	14.6	16.8	15.8	15.3	10.2	16.3	22.1	7.2
September 1974	22.0	18.9	14.8	11.2	21.6	19.1	21.4	18.8	14.6	14.3	20.0	22.0	18.2
January 1973	29.3	21.7	16.8	9.3	19.7	12.8	24.8	16.4	19.2	17.9	21.4	26.3	13.5

SOURCE: "Occupational Qualifications" Survey, September 1975, Statistical Service of the Ministry of Labour.

appears to have been growing in the last few years compared with that in qualification⁽¹⁾. This increase must have resulted from alterations in the employment structure, especially in Real Estate and Transport and Communications, where according to the results of the surveys used, the percentage of females increased substantially (Table 13).

The inter-activity disparity is more marked in the wages of females than in those of males but, in both cases, there has been a significant narrowing of the gap in the last three years, particularly in 1974 (Table 13).

(1) In fact, on removing the influence of differences in sex, the average deviation compared with the mean narrowed to only 0.6 points in 1973, 1.1 points in 1974 and 1.3 points in 1975.

Table 13

Indices of Gross Disparity in Average Basic Monthly Wages in the
Major Sectors of Activity, compared with the Simple Average for
Activities, for Males and Females

Mainland

September

SECTORS OF ACTIVITY (arranged in accordance with 1973 indices for the total M+F)	1973			1974		1975		Employment Structure (% of females compared with the total for each sector)		
	M and F	M	F	M	F	M	F	1973	1974	1975
Banking	163.9	160.9	159.1	154.5	158.3	141.2	158.3	13.2	13.1	14.5
Insurance	148.1	147.3	149.2	131.5	145.9	130.0	142.2	20.9	23.4	23.9
Real Estate	141.7	136.0	164.2	97.6	82.0	114.6	86.5	16.0	24.3	42.6
Commerce	103.5	109.7	83.1	95.8	88.3	98.5	94.3	25.2	26.2	24.1
Electricity, Gas and Water	102.0	97.9	110.4	108.5	118.1	113.7	117.1	6.3	8.4	8.5
Transport and Communica- tions	101.7	96.0	140.1	100.3	135.2	92.0	118.5	6.4	9.3	17.8
Civil Construction	73.9	70.4	93.6	67.6	88.8	73.9	94.0	1.5	1.7	2.0
Manufacturing Industries	73.3	84.1	51.0	80.6	65.5	82.9	73.7	32.4	33.6	32.2
Extractive Industries	68.2	66.0	56.5	72.3	95.9	73.4	72.7	4.8	4.4	3.4
Fisheries	63.6	66.7	39.2	118.1	51.8	101.9	62.6	16.8	18.2	10.9
Personal Services	60.1	64.7	53.4	73.1	70.2	77.9	80.5	33.1	38.5	38.0
Total (simple average)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	25.5	26.2	26.0
Average deviation compared with the mean	29.3	28.0	40.6	20.5	28.6	18.4	24.7			
Extent of overall range	103.8	96.2	119.9	82.2	106.5	67.8	96.1			

SOURCE: "Occupational Qualifications" Surveys, January 1973, September 1974 and September 1975, Statistical Service of the
Ministry of Labour.

b) Differentials as among qualifications

1. The gross wage disparity at the various degrees of qualification in comparison with the wages received by the unskilled (Table 14) has also narrowed considerably in the last two years, mainly between January 1973 and September 1974. In fact, the extent of the overall range, which had been extremely high in 1973 (656.4), narrowed by 207.1 points in 1974 and 79.8 points between September 1974 and the same month of the following year.

This narrowing was observed not only at the extreme degrees of qualification, that is, in directorial staff and apprentices, but in all the rest in which wages were significantly closer to those of the unskilled⁽¹⁾. Even in these cases the narrowing was as a rule more significant between January 1973 and September 1974 than between 1974/75⁽²⁾.

It can further be observed from Table 14 that in general the decline in the index of dispersion was that much more significant the greater was the increase of wages at the various degrees of qualification compared with the unskilled⁽³⁾. A decisive contribution to this situation came from the freeze in wages above 7500 escudos that operated between June and September 1974, and that in wages of 12,000 escudos or more as from June 1975.

- (1) Exceptions are found in the cases of apprentices for 1974, and of office staff for 1975, which even showed a further increase compared with the unskilled.
- (2) With the exception of the semi-skilled and apprentices.
- (3) An exception is that of office staff who, in 1974, experienced a decline in the index of dispersion to a greater extent than that observed for chargehands and for administrative staff, who in 1974 had relatively higher wages. In 1975 this anomaly was practically eliminated, since the index of dispersion for office staff even showed a slight increase.

Table 14

Indices of Disparity in Average Basic Monthly Wages for those having various Degrees of Qualification, compared with those having None

Mainland

Males and Females

Degrees of Qualification (arranged in accordance with 1973 indices)	Gross Disparity			After eliminating the influence of differences in activity			After eliminating the influence of differences in activity and in sex		
	1973	1974	1975	1973	1974	1975	1973	1974	1975
Directorial Staff	716.2	505.2	432.1	664.3	466.2	409.1	593.7	437.2	386.6
Technical Staff	509.1	355.8	312.7	475.9	323.1	294.4	440.3	307.0	280.2
Workshop Managers and Foremen	282.8	206.3	186.2	287.2	205.4	186.8	256.4	193.1	177.8
Highly-skilled Workers	255.2	180.6	168.4	249.1	178.7	164.9	225.9	166.5	156.1
Administrative Staff	241.5	189.1	173.6	213.7	163.3	153.0	231.7	167.1	154.8
Chargehands	216.8	179.1	160.6	218.0	176.0	158.3	197.6	165.7	151.8
Office Staff	210.2	155.1	156.8	199.8	145.0	148.3	192.2	141.5	143.8
Skilled Workers	144.2	130.7	128.6	147.2	131.3	129.3	139.5	127.3	125.6
Semi-skilled Workers	116.2	115.3	109.2	115.1	118.2	110.1	116.3	117.9	110.6
Unskilled Workers	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Trainees	85.4	87.1	86.9	86.5	89.3	87.7	89.9	89.3	86.2
Apprentices	59.8	55.9	62.6	61.8	57.9	64.0	63.8	57.6	64.0
Extent of overall range	656.4	449.3	369.5	602.5	408.3	345.1	529.9	379.6	322.6

SOURCE: "Occupational Qualifications" Surveys, January 1973, September 1974 and September 1975, Statistical Service of the Ministry of Labour.

It must however be noted that the social hierarchy of the various degrees of qualification did not change; the only exception was in the case of administrative staff, who in 1974 and 1975 came to earn more, in general, than highly-skilled production workers.

2. On eliminating the influence of the differences in activity in gross inter-qualification dispersions it can be seen that these narrowed considerably⁽¹⁾, from which one may conclude that inter-activity differentials have a significant impact on inter-qualification differentials; this impact however has tended to become smaller⁽²⁾.

Also in this respect it appears that the influence of activities has greater significance at degrees of qualification with the highest wages than at those with the lowest in spite of there being certain exceptions such as for example in the case of workshop managers, chargehands and skilled workers, in which, when the influence of the activity is eliminated, the dispersion of the respective wages in comparison with those of the unskilled does not suffer noticeable alteration, or even rises; this means that the disparities in these categories are wider, exactly in those activities where the latter exist in greater numbers.

- (1) The structure of the sample does not guarantee an effective proportionality in the distribution of workers for each degree of qualification in the various sectors of activity, so that it appears less representative for this type of analysis than in the case of inter-activity differentials.
- (2) On eliminating the influence of activities the extent of the overall range of wage indices for the unskilled narrowed by 53.9 points in 1973, 41.0 points in 1974 and 24.4 in 1975.

3. Eliminating at the same time the influence resulting from differences in activity and in sex, it can be seen that the indices of disparity are even smaller; the extent of the overall range for September 1975 was 322.6. It must further be noted that the influence resulting from differences in sex in the inter-qualification differentials is more significant than in the case of inter-activity differentials, even though it has been falling considerably in the last few years⁽³⁾ (Table 14).

It is interesting to observe that while in 1973 the index of dispersion for females was greater than that for males, in the degrees of qualification with the highest wages in 1975 the reverse was true (Table 15). The principal cause of this alteration was the establishment and updating of the minimum wage, which had a much greater impact in the case of females than in that of males⁽⁴⁾.

(3) The extent of the overall range after eliminating the influence of differences in activity and in sex, when compared with what was obtained for the same case after eliminating the activity influence, narrowed by 72.6 points in 1973, 28.7 points in 1974 and 22.5 points in 1975.

(4) In 1974 the establishment of the minimum wage benefited some 20% of males and 77% of females in non-agricultural activities. The updating of June 1975 covered some 9% of male and 61% of female non-agricultural workers.

Table 15

Indices of Disparity in Average Basic Monthly Wages of Males and Females,
for those having Various Degrees of Qualification, compared with those
having None

Mainland

September

Degrees of Qualification (arranged in accordance with 1973 indices)	1973			1974		1975		% of females compared with the total		
	M and F	M	F	M	F	M	F	1973	1974	1975
Directorial Staff	716.2	642.2	679.6	478.3	360.6	415.8	318.7	3.4	3.2	3.7
Technical Staff	509.1	460.6	559.6	336.2	340.4	300.6	289.5	7.4	5.2	6.3
Workshop Managers	282.8	254.6	269.7	195.6	166.5	178.8	158.0	4.5	4.4	4.4
Highly-skilled Workers	255.2	228.0	326.1	169.8	166.2	161.7	140.6	5.3	2.8	4.1
Administrative Staff	241.5	229.5	312.3	188.6	196.7	173.9	177.5	32.2	32.8	35.1
Chargehands	216.8	196.7	206.2	171.6	145.9	155.3	144.1	6.2	7.4	7.9
Office Staff	210.2	202.6	199.0	154.7	145.8	158.1	136.4	19.0	23.2	20.8
Skilled Workers	144.2	142.0	124.3	132.4	106.7	128.9	113.3	20.5	20.7	19.6
Semi-skilled Workers	116.2	120.2	114.2	120.9	110.4	113.1	107.4	31.9	37.0	39.9
Unskilled Workers	100.0	100.0	100.0	100.0	100.0	100.0	100.0	27.2	29.0	30.4
Trainees	85.4	86.3	98.1	87.9	89.8	86.5	86.2	36.1	35.5	27.2
Apprentices	59.8	61.4	66.3	57.1	55.9	61.0	67.0	36.5	35.0	31.1
Extent of overall range	656.4	580.8	613.3	421.2	304.7	354.8	251.7			

SOURCE: "Occupational Qualifications" surveys, January 1973, September 1974 and September 1975, Statistical Service of the Ministry of Labour.

c) Differentials between males and females

1. Differentials between the wages of males and females have also been narrowing in the last three years, this movement being more marked in 1973/74 than in 1974/75 (Table 16).

2. At the level of each sector of activity the order of magnitude of this type of differential varies greatly. It is determined to a considerable extent by the employment structure of females who, in most activities, are concentrated in the degrees of qualification corresponding to the lowest wages (semi-skilled and unskilled).

The percentage of females in non-agricultural activities as a whole is 26%, according to the survey of September 1975, and its importance in the various sectors and degrees of qualification varies greatly (Table 16).

The activities employing most female labour are Personal Services and Manufacturing Industry as a whole⁽¹⁾, sectors where continues to exist a high percentage differential (in Manufacturing Industry the differential is about 31% and in Services 20%). Against this, in Civil Construction and Transport and Communications, the average wage for females is practically identical to that for males; this is due to the fact that in these activities females are concentrated mainly in the administrative staff.

(1) In the case of Real Estate the sample is considered to be of little significance for 1975 (see Table 13).

Table 16

Percentage comparison of the Average Basic Monthly Wage for Females with that for Males

Mainland

In the Major Sectors of Activity				
Activities (arranged in accordance with 1973 percentages)	1973	1974	1975	1975 % of females in the total
TOTAL (weighted average)	52.3	64.0	72.1	26.0
Fisheries	46.5	33.3	47.6	10.9
Manufacturing Industry	47.9	61.7	69.3	32.2
Commerce	59.8	69.9	74.6	24.1
Personal Services	65.1	72.9	80.4	38.0
Extractive Industry	67.6	100.8	77.2	3.4
Banking	78.1	77.8	87.4	14.5
Insurance	80.0	84.2	85.2	23.9
Electricity, Gas and Water	89.0	82.7	80.2	8.5
Real Estate	95.5	63.8	58.8	42.6
Civil Construction	105.0	99.7	99.2	2.0
Transport and Communications	115.2	102.3	100.4	17.8

In each Degree of Qualification					
Degrees of Qualification (arranged in accordance with 1973 percentages)	1973	1974	1975	1975	
				% of fe- males in the total	Distribution of females by degrees of qualification
TOTAL (weighted average)	52.3	64.0	72.1	26.0	100.0
Skilled	50.4	62.2	73.3	19.6	20.9
Semi-skilled	54.9	70.5	79.2	39.9	27.3
Office Staff	56.7	72.8	71.9	20.8	4.8
Unskilled	58.8	77.2	83.3	30.4	21.4
Chargehands	60.6	65.7	77.4	7.9	0.5
Directorial Staff	61.1	58.1	63.9	3.7	0.1
Workshop Managers	61.2	65.8	73.7	4.4	0.5
Apprentices	62.4	75.6	91.6	31.1	5.6
Trainees	65.6	79.0	83.1	27.2	3.0
Technical Staff	70.2	78.2	80.3	6.3	0.7
Administrative Staff	78.6	80.5	85.1	35.1	14.6
Highly-skilled Workers	82.6	75.6	72.5	4.1	0.6

SOURCE: "Occupational Qualifications" Surveys, January 1973, September 1974 and September 1975, Statistical Service of Ministry of Labour.

3. Wage differentials between males and females in the various degrees of qualification are also very wide, varying at present between 36.1% for directorial staff and 8.4% for apprentices.

In all degrees of qualification, except highly-skilled workers, a narrowing has been taking place between the wages of females and those of males; this narrowing has clearly been more significant in degrees of qualification corresponding to the lowest wages (apprentices, the unskilled, semi-skilled and skilled).

Special notice is due to the case of the unskilled, where the narrowing in the wage differential between males and females has been most marked⁽¹⁾. It is likely that the high degree of differentiation that still exists (about 17%) results to a great extent from the wage disparities that exist between activities.

(1) This narrowing is due essentially to the establishment of the same minimum wage for males and females.

d) Inter-Regional Differentials

1. The gross inter-regional disparity in non-agricultural wages is much lower than that observed as among activities - the average deviation was 11.7 in January 1973 and 7.4 in September 1975, while in the same periods the extent of the overall range narrowed from 73.9 to 42.3.

The administrative districts with highest wages continue to be Lisbon and Setúbal, where workers receive 20% above the average; the districts with lowest wages are Guarda and Bragança, with 14% and 15.6% below the average (Table 17).

2. The degree of inter-regional dispersion varies in accordance with the degree of qualification. Thus administrative staff and workshop managers have a relatively small average deviation (about 5 in September 1975), while the inter-regional disparity of directorial staff is about 11 (Table 18).

In a general way inter-regional differentials narrowed between 1973 and 1975 for every degree of qualification.

3. It would be of interest also to evaluate the inter-regional wage dispersion with respect to various activities, but the calculations available in the "Occupational Qualifications" surveys have not made this possible⁽¹⁾.

(1) It must be noted indeed that in this case it has not been possible to calculate the regional differentials after eliminating the influence of differences in activity, qualification and sex.

Table 17

Indices of Gross Disparity in Average Basic Monthly Wages in
Non-agricultural Activities in the 18 Administrative Districts

of Mainland Portugal

Males and Females

Districts	1973	1974	1975
Lisbon	153.7	143.3	126.7
Setúbal	140.2	140.0	120.0
Évora	105.4	106.7	101.3
Coimbra	104.8	93.8	97.3
Bragança	100.8	100.4	113.2
Santarém	100.4	95.5	94.4
Beja	100.1	105.4	100.6
Leiria	99.3	97.3	92.4
Oporto	98.3	97.5	98.5
Castelo Branco	95.1	91.5	103.2
Viana do Castelo	94.6	98.9	98.2
Viseu	92.6	85.5	99.1
Faro	91.0	97.8	94.5
Aveiro	87.5	93.0	90.0
Portalegre	85.9	92.3	101.2
Vila Real	85.8	86.8	98.9
Guarda	84.1	94.0	86.0
Braga	79.8	80.1	84.4
Simple average (Mainland)	100.0	100.0	100.0
Average deviation compared with the mean	11.7	10.6	7.4
Extent of overall range	73.9	63.2	42.3

SOURCE: "Occupational Qualifications" Surveys, January 1973,
September 1974 and September 1975, Statistical Service
of the Ministry of Labour.

Table 18

Gross Regional Dispersion of Average Basic Monthly Wages
in accordance with Degree of Qualification

Mainland		Males and Females		
Degrees of Qualification (arranged in accordance with average deviations for 1973)	Average deviations compared with the simple average for the 18 Administrative Districts of the Mainland			
	1973	1974	1975	
Total	11.7	10.6	7.4	
Highly-skilled Workers	17.6	9.7	10.3	
Directorial Staff	15.5	15.6	11.2	
Skilled Workers	13.3	11.7	6.5	
Foremen and Chargehands	12.1	9.7	9.4	
Office Staff	11.6	11.0	5.8	
Unskilled Workers	10.7	9.2	6.7	
Technical Staff	9.2	8.4	8.5	
Semi-skilled Workers	8.5	10.0	6.7	
Workshop Managers and Foremen	8.4	8.5	5.1	
Administrative Staff	6.1	6.6	5.5	

SOURCE: "Occupational Qualifications" Surveys, January 1973, September 1974
and September 1975, Statistical Service of the Ministry of Labour.

7 - REDISTRIBUTIVE EFFECT OF TAX LIABILITY AND OF SOCIAL SECURITY

Important among the instruments available for obtaining a more equitable distribution are tax liability and social security.

It is thus justifiable that in the context of this analysis, and despite the limitations that have been met with, some considerations, albeit brief, should be presented on these two aspects of the situation in Portugal, with the aim of discovering some of their general characteristics with respect to their corrective effect on distribution.

a) Tax Liability

1. As is known, the Portuguese fiscal system is very complex; there is a multiplicity of taxes, cases of double taxation, and various exemptions.

These facts, to which are added considerable limitations of a statistical nature, hinder, as can be foreseen, an analysis of the corrective effect of the tax system; nevertheless, we present hereunder certain observations concerning the general aspects of the structure of tax revenue and the most recent changes in the taxes that show a greater importance from the point of view of redistribution.

2. Portuguese tax policy has been characterised by the excessive recourse to obtaining revenue by means of indirect taxes⁽¹⁾, which, from the point of view of redistribution, one can consider incorrect⁽²⁾.

On the other hand, the indirect tax structure shows that the fiscal system now in force gives priority to taxation on incomes at the first stage of their formation. In fact, in 1974 payments of Imposto Profissional (first-stage Income Tax), Imposto sobre Capitais (Capital Tax) and the Contribuições Predial e Industrial (Property and Industrial Taxes) together accounted for 61.5% of all direct taxes, while revenue from Imposto Complementar (second-stage Income Tax), Schedule A⁽³⁾ the only tax that falls on the total family income and that therefore may have a greater impact in the correction of irregularities, - represented in 1974 only 10% of revenue from direct taxes and 4.1% of total revenue (Table 19).

(1) In 1973 and 1974, 60% of tax revenue came from indirect taxes (see Table 19).

(2) "(...) in general, direct taxes can be very progressive with regard to the income or wealth to which they are applied; they may attain more effectively the objectives of a redistribution of income; it is thus possible to establish them in accordance with the possibilities of the taxpayers and (...) it is they that "de facto" pay the taxes. Indirect taxes can only indirectly allow us to take into account the situation of those that "de facto" pay them - they are intended to be included in the prices of various goods, thus falling on income by means of the proportion that expenditure on these goods represents in the incomes of the taxpayers" - see Maria Madalena Ramalho, "Redistribuição e Fiscalidade" ("Redistribution and Tax Liability") "Studies" Series Nº 4, of the Planning Office of the Ministry of Corporations and Social Security, p. 18. (This Ministry no longer exists: Translator's note.)

(3) From the point of view that interests us, reference is made only to Imposto Complementar, Schedule A, which falls on overall family income whatever its source (labour, rural and urban property, trade and industry, etc.) after deducting the charges provided for in the law and making certain deductions for compulsory and optional payments.

Table 19

Structure of Revenue from Tax Payments

TAXES	1973		1974	
	% compared with subtotal	% compared with grand total	% compared with subtotal	% compared with grand total
GRAND TOTAL		100.0		100.0
<u>Direct Taxes</u>	100.0	40.1	100.0	39.8
Industry Tax	20.6	8.2	24.2	9.6
First stage Income Tax ("Imposto Profissional")	14.9	6.0	17.5	7.0
Second stage Income Tax { Schedule A	8.9	3.5	10.2	4.1
("Imposto Complementar") { Schedule B	5.4	2.2	5.7	2.2
Property Tax	11.1	4.5	10.0	4.0
Capital Tax	10.9	4.4	9.8	3.9
Others	28.2	11.3	22.6	9.0
<u>Indirect Taxes</u>	100.0	59.9	100.0	60.2
Customs Duties	41.5	24.9	42.1	25.4
Sales Tax	31.6	18.9	33.2	20.0
Others	26.9	16.1	24.7	14.8

SOURCE: I.N.E., Tax Statistics.

Note: Imposto Complementar, Schedule A, is for individuals and Section B for collective entities.

3. With respect to recent alterations concerning certain taxes, an analysis is made here, in general terms, only of what has happened in the case of direct taxes, in particular Imposto Complementar and Imposto Profissional.

4. Graph 2 illustrates the rates of tax applied to taxable family income, in accordance with the tax tables for Imposto Complementar⁽¹⁾ included in Decree-Law Nº 49483, of 30 December 1969, Nº 375/74, of 20 August 1974, and Nº 667/76, of 5 August 1976.

From a perusal of this graph it can be seen that the table for Imposto Complementar for 1976 is the most progressive, even though, considered as indicating a trend, the 1974 table introduced a greater progressiveness in comparison with 1969 than did that of 1976 in relation to the previous year. This is in spite of the affirmation in the preamble to the measure of August 1976 that the 1974 change corresponded "practically and only to the integration of the additional tax that had been in force since 1972" and that the changes now established constituted, in addition to those made in August 1974 in Imposto Profissional, and in December 1975 in the Urban Property Tax and in the Imposto Sucessório⁽²⁾, the "only far-reaching action with regard to the direct taxpayers that has been carried out since 25 April 1974".

(1) The table set out in Decree-Law Nº 718/73, of 31 December 1973, was never applied.

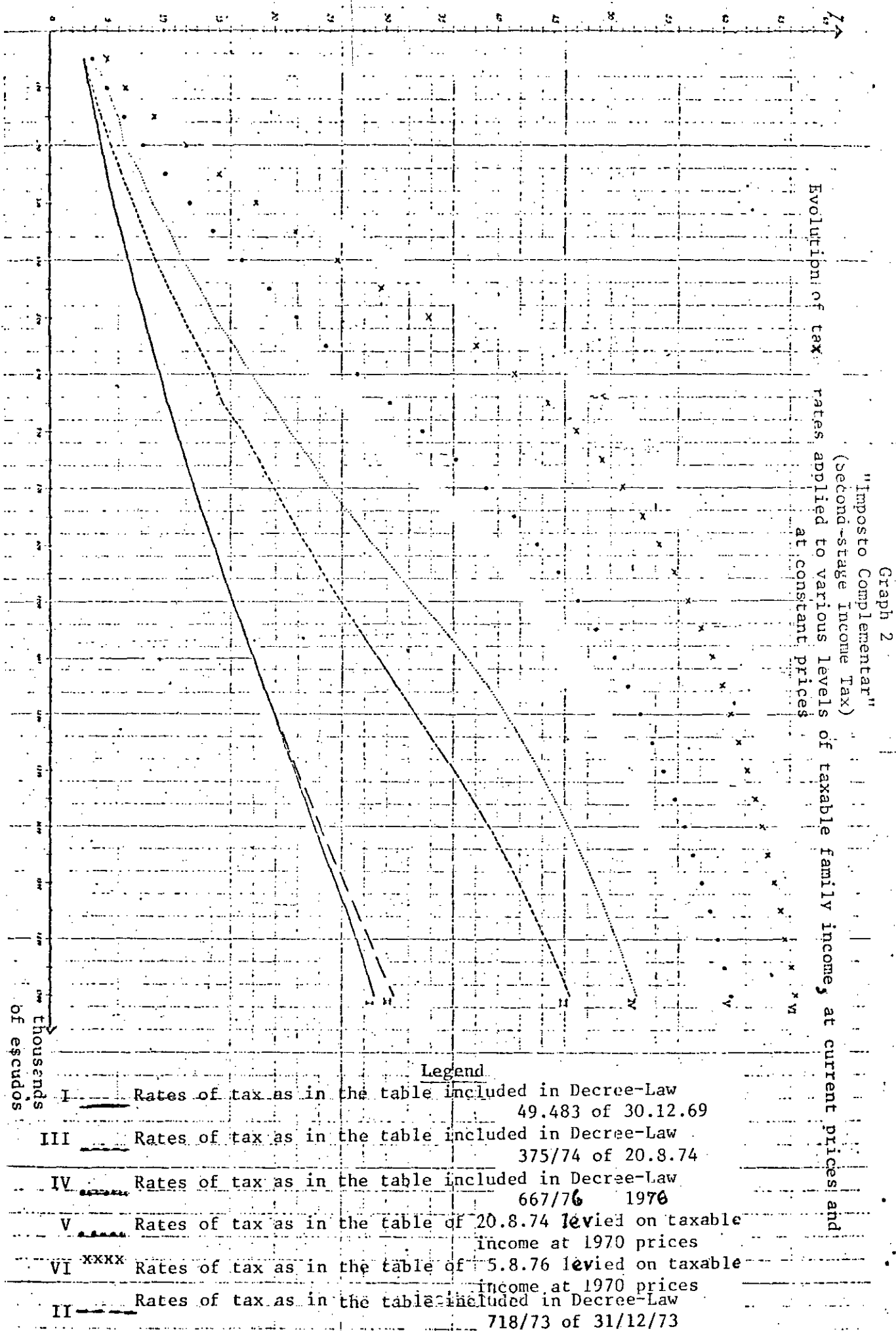
(2) A tax combining the provisions of Death Duties and a tax on gifts to descendants. - Translator's note.

But in order to make a comparison of the progressiveness in fact introduced by the two tax tables subsequent to 1969, it appeared to be of interest to evaluate the rates given in the 1974 and 1976 tables as applied to the income scales for 1970 after inflating them, for the years in which they came into force, with the respective average increase in prices⁽¹⁾. It is thus intended to assess the growth of the effective weight of the tax burden of Imposto Complementar with reference to the purchasing power of taxpayers in 1970.

From Graph 2 it can be seen that, while in the 1969 table the tax increases at a rate that, while always progressive, is slow (Line I), the tables for 1974 and 1976 applied to 1970 incomes after being inflated (Lines V and VI) show a strongly progressive tendency up to about 750 and 500 thousand escudos respectively; thereafter this tendency falls off. It can thus be concluded that there is greater progressiveness right from the lowest scales and until those limits are reached.

A concrete example may help to form an idea of the increase that the last two tables represent for the income group that was at the maximum exemption limit in 1970.

(1) The increase in prices was 174 between 1970 and 1974 and 204 between 1970 and 1975. The 1976 table is already applicable to 1975 incomes.



In 1970 two taxpayers, married and with two children⁽¹⁾, were in principle exempt from Imposto Complementar if they had an income of 107.5 or 87.5 thousand escudos of net annual income if this income came respectively only from labour⁽²⁾ or only from other sources. Now, for an identical purchasing power such taxpayers would already have been subject to rates of approximately 3.4% and 3.3% in 1974, and to rates of the order of 5% and 4.8% under the 1976 table.

5. As to Imposto Profissional, there were also changes in the respective table in August 1974 and August 1976⁽³⁾; these changes are shown in Graph 3.

The 1974 table shows a greater corrective effect in comparison with 1970, since on the one hand it raises the level of exemption, and on the other, increases the rates that fall on labour incomes above 350,000 escudos, in some cases maintaining and in others reducing the rates applicable between 50 and 125 thousand escudos.

In its turn, the 1976 table maintains the level of exemption and increases the rates that fall upon incomes over 100,000 escudos, as well as amalgamating some intermediate scales.

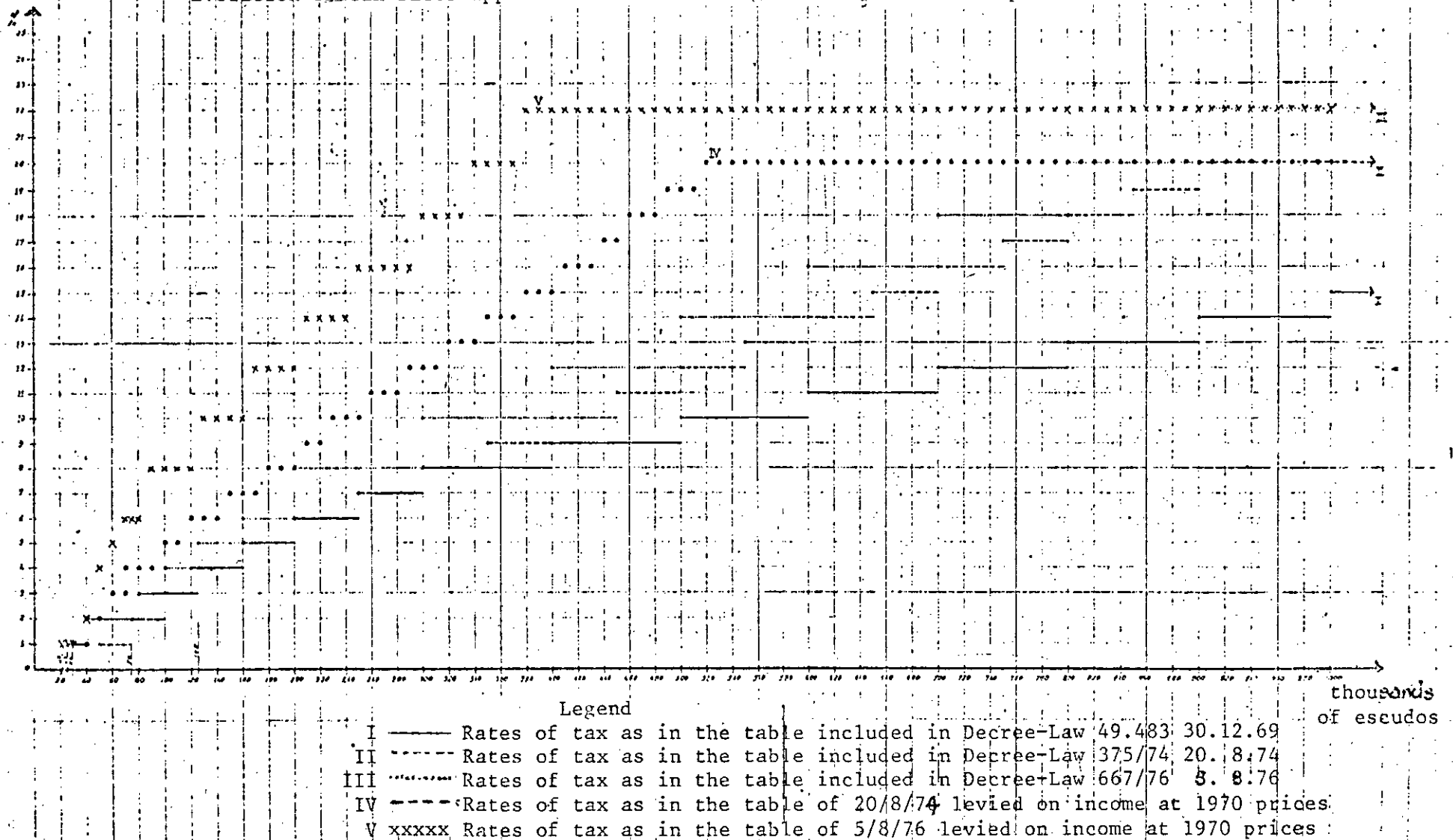
(1) One child under 7 and another over 7 but under 11.

(2) Only the man's wage.

(3) Decree-Laws Nºs. 375/74 and 667/76, already referred to. The table in Decree-Law Nº 718/73, of 31 December 73, was never applied.

Graph 3
"Imposto Profissional"
(First-stage Income Tax)

Evolution of tax rates applied to different wage levels, at current prices and at constant prices



So as to evaluate the corrective effect of the various tables of Imposto Profissional on the degree of concentration existing in labour incomes, use has been made of the distribution of non-agricultural workers by income groups (1) for January 1976; the three tables have been applied and the degree of concentration of incomes measured by means of the Gini coefficient.

It can be shown that that coefficient, which was 0.0992 for gross incomes, falls to 0.0960 after subtracting the amount of tax resulting from the application of the 1969 table, to 0.0948 after subtracting the amount from the 1974 table, and to 0.0935 after subtracting the tax which would result from applying the 1976 table.

This means that the correction brought about by Imposto Profissional is very small⁽²⁾, but, in spite of this, the 1976 table is the one that most reduces the degree of concentration of wage income distribution in the non-agricultural sector⁽³⁾.

As with Imposto Complementar, an attempt has been made to analyse the increase in rates in the Imposto Profissional tables for 1974 and for 1976 applicable to income scales for 1970, when inflated for those years⁽⁴⁾.

-
- (1) Ministry of Labour, Statistical Service, "Incomes" survey.
 - (2) The difference in the Gini coefficient for the distribution of gross wages and that of net wages is at greatest 0.0057.
 - (3) It must be remembered that the data used refers only to basic wages. If it had been possible to work with overall pay (basic wages plus other wage components), it is likely that the corrective effect of the table would be greater by virtue of its progressiveness.
 - (4) More correctly it should have been inflated for 1977, since the 1976 table will be applied only to 1977 labour income.

From inspection of Lines I, IV and V of Graph 3
it seems possible to conclude that the tables for 1974 and
1976, when applied to income levels comparable in terms of
purchasing power to those in force in 1970, are much more
progressive right from the lowest scales up to 520 and 380
thousand escudos respectively, and less progressive there-
after; this therefore does not appear completely valid from
a corrective point of view, for it means that it is those
with the lowest incomes that support a relatively greater
real increase as a result of the alterations introduced.

It must be noted that these changes did not favour
even economically weak classes. For example, in 1970, an
 income of 30,000 escudos was exempt from tax, while in 1974
 and 1976 the same purchasing power is already, ^{subject} in accordance
 with the relative tables, to a tax of 1% ⁽¹⁾.

On the other hand, to the extent that the 1976 table
 has not raised the limit of exemption, if there is an updating
 of the minimum wage (at present 4000 escudos a month) and this
 limit is not altered, we shall without doubt be in the very
 questionable situation of the worker that receives the minimum
 wage being subject to payment of Imposto Profissional ⁽²⁾.

(1) The exemption limits in the 1974 and 1976 tables would
 correspond to 28,700 and 20,800 escudos respectively, at
 1970 prices. On the other hand, 40,000 escudos in 1970
 was subject to a rate of 1% in the 1969 table; this would
 become 2% in the 1976 table.

(2) For this not to happen it would be necessary for the mi-
 nimum wage to rise by only about 4%, which appears un-
 realistic.

6. Still with respect to other direct taxes it is emphasised here only that the progressive principle was introduced in August 1974 in the Contribuição Predial Urbana (Urban Property Tax) and in August 1970 in the Contribuição Industrial (Industrial Tax); that the rate of tax corresponding to the provisions of Death Duties and a tax on gifts to descendants depends on the value of the property transferred; and that the remaining direct taxes continue to ^{be} levied at a single rate.

7. To conclude these considerations of tax liability, an attempt will now be made to give a comparative idea of the main taxes and additional taxes that in 1976 fell on different levels of individual income from various sources.

From Table 20 it can be concluded that at least the fixing of taxes applied to capital income and rural property has not obeyed a corrective principle of income distribution; in fact, it can be seen that the rate of tax to which small incomes are subject is identical to that falling on high incomes.

On the other hand, it can be seen further that up to 75,000 escudos a year the incomes benefiting most are those from labour ⁽¹⁾ and from interest on debentures. From 75 to 100 thousand escudos the incomes that have the lowest tax burdens are those resulting from the application of capital in debentures (9.9%) and term deposits (11.2%) and from labour

(1) Even including those sums to be discounted for social security and for the Unemployment Fund (Fundo de Desemprego).

Table 20
Principal Taxes and Additional Taxes applied in 1976 to Individual Incomes from Various Sources

Income Scales (thousands of escudos)	Labour Income (1)	Income from Capital				Income from Capital	Income from Rural Property
		Interest on loans	Company shareholders' profits	Debenture interest	Interest on term deposits		
30	9	27.1	14.8	9.9	11.2	17.3	15.3
31 to 50	9	27.1	14.8	9.9	11.2	17.3	15.3
51 to 75	10.1	27.1	14.8	9.9	11.2	17.3	15.3
76 to 100	11.2	27.1	14.8	9.9	11.2	17.3	15.3
101 to 125	13.4	27.1	14.8	9.9	11.2	17.3	15.3
126 to 160	14.5	27.1	14.8	9.9	11.2	17.3	15.3
161 to 200	15.6	27.1	14.8	9.9	11.2	17.3	15.3
201 to 240	17.8	27.1	14.8	9.9	11.2	17.3	15.3
241 to 300	17.8	27.1	14.8	9.9	11.2	21.3	15.3
301 to 400	20.0	27.1	14.8	9.9	11.2	21.3	15.3
401 to 500	22.2	27.1	14.8	9.9	11.2	26.6	15.3
501 to 600	24.4	27.1	14.8	9.9	11.2	26.6	15.3
601 to 700	26.6	27.1	14.8	9.9	11.2	26.6	15.3
701 to 800	28.8	27.1	14.8	9.9	11.2	26.6	15.3
801 to 900	31.0	27.1	14.8	9.9	11.2	26.6	15.3
over 900	33.2	27.1	14.8	9.9	11.2	26.6	15.3

(1) Including the rates of Imposto Profissional applicable in 1977 plus the present rates of discount for Social Security and the Unemployment Fund.

income (11.2%). Above 100,000 escudos, a more favourable position is always enjoyed by interest on debentures and term deposits.

It must further be stressed that above 200,000 escudos labour incomes become quite obviously less favoured in comparison with other sources of income, except loans and urban property; however, as from 800,000 escudos the rate applicable to labour income is even more onerous than in those cases.

b) Social Security

1. As to Social Security, this paper will include only a brief note regarding its redistributive effect and a summary of the disparities that exist in the granting of benefits.

2. To this end, we shall follow closely a study that has recently been prepared⁽¹⁾, the principal conclusions of which will be summarised.

In this study, attention is paid only to those two systems that are in operation for the majority of wage-earners - the "agricultural scheme"⁽²⁾ and the "general scheme"⁽³⁾ - although there exist at the same time various social security schemes⁽⁴⁾; beyond this, it is intended only to mention the immediate net benefits⁽⁵⁾ to which workers were entitled in January 1974 and January 1975.

(1) "Distribuição e Redistribuição dos Rendimentos em Portugal - Agricultura e Actividades Não Agrícolas" ("Distribution and Redistribution of Income in Portugal - Agricultural and Non-agricultural Activities"), "Studies" Series, Nº 32, G.E.P.O., Ministry of Labour.

(2) The "Agricultural Scheme" is for casual agricultural workers (who are in fact the great majority in the sector).

(3) The "General Scheme" covers workers in Industry and in Services as well as permanent workers in Agriculture.

(4) An outstanding case is that of Civil Servants.

(5) By immediate net benefits is meant the difference between the annual figure for the immediate payments received by the worker and the total taxes he has paid in the same period. The immediate payments considered were: family allowances, complementary benefits for marriage, birth, nursing mothers, and funeral expenses, assistance of various kinds in sickness (medical attendance, subsidised medicines, sickness benefit, etc.) and maternity benefit.

3. Within these parameters it is concluded that both the "general scheme" and the "agricultural scheme" have a certain redistributive effect, though the first is much more redistributive than the second; in fact, in both systems it happens that the sum of the net benefit, as a percentage, increases if the worker has family financial responsibilities and falls when ^{the} wage increases⁽¹⁾.

In fact, if for the same wage level (the horizontal view) we compare the position of a worker that has no family financial responsibilities with that of another that has them, it would be found that the net benefit for the worker without family financial responsibilities result in a percentage that is quite insignificant, and may even be negative, depending whether he is an agricultural worker or not. But if he has family financial responsibilities, then the net benefit, as a percentage of his wage, takes on significance, although as a rule it will be greater in the case of the non-agricultural worker.

Observing now the variation in the net benefit as the wage level increases (the vertical view), it can be concluded that, under both schemes, the percentages of the benefits vary inversely as the wage level, that is, they fall as the wage rises, independently of whether the worker has or has not family financial responsibilities. And it can further be seen that the reduction in net benefit is more marked in the "general scheme" than in the "agricultural scheme", but that it is also greater for the workers with family financial responsibilities than for those with none.

(1) Op. cit., p. 36, Table 5.

4. Although the changes introduced, mainly in 1975, were in the direction of equalisation of these schemes of benefits, whether immediate or deferred, there still continue to be differentials, in some cases substantial, between the two; even in the "agricultural scheme" itself there exist discriminations depending on whether the worker is male or female, as shown in Table 21. This is the case, for example, with the allowance for older family dependants, which exists in the "general scheme" but is not granted in the "agricultural scheme", or with retirement and disability pensions and the "Pensão de Sobrevivencia" (1), which, as well as being different under the two schemes, are differentiated as between males and females within the "agricultural scheme".

Other disparities exist, however, which fall directly or indirectly into this category; we shall note those that appear more important.

5. With regard to immediate benefits must be mentioned the cases of sickness and maternity benefits, in which is evident the more useful character of those benefits established under the "general scheme", since they are calculated as a percentage of the actual wage and are consequently variable and can be updated, while in the "agricultural scheme" they are of a fixed amount. Moreover, with the establishment and updating of the minimum wage, which does not cover rural workers, these differentials may become greater in practice; they are wider

(1) "Survival Pension": a pension similar in nature to a widow's, paid to one or more surviving members of a family. - Translators' note.

Table 21

Comparison of Amounts of Benefit in the "General Scheme" and the "Agricultural Scheme" (a) of Social Security

	January 1974		January 1975		April 1975		January 1976		July 1976	
	General Scheme	Agricultural Scheme	General Scheme	Agricultural Scheme	General Scheme	Agricultural Scheme	General Scheme	Agricultural Scheme	General Scheme	Agricultural Scheme
	1	2	3	4	5	6	7	8	9	10
IMMEDIATE BENEFITS										
- Family allowances (b) Children	180\$00 1st/2nd ch. 240\$00 3rd & foll.	180\$00 1st/2nd ch. 240\$00 3rd & foll.	240\$00	240\$00	240\$00	240\$00	240\$00	240\$00	240\$00	240\$00
Parents, grandparents etc.	100\$00	(-)	100\$00	(-)	100\$00	(-)	100\$00	(-)	100\$00	(-)
- Complementary payments										
Marriage	2000\$00	2000\$00	2000\$00	2000\$00	2000\$00	2000\$00	2000\$00	2000\$00	2000\$00	2000\$00
Birth	1500\$00	1500\$00	1500\$00	1500\$00	1500\$00	1500\$00	1500\$00	1500\$00	1500\$00	1500\$00
Nursing mothers (b)(c)	250\$00	250\$00	250\$00	250\$00	250\$00	250\$00	250\$00	250\$00	250\$00	250\$00
Funeral expenses (d)	2000\$00	2000\$00	2000\$00	2000\$00	2000\$00	2000\$00	2000\$00	2000\$00	2000\$00	2000\$00
- Sickness										
Financial assistance	60% of wage (F) (a) M: 30\$00/day F: 20\$00/day	60% of wage (F) (a) M: 30\$00/day F: 20\$00/day	60% of wage (F) (e) M: 30\$00/day F: 20\$00/day	60% of wage (F) (e) M: 30\$00/day F: 20\$00/day	60% of wage (G) (e) M: 60\$00/day F: 40\$00/day	60% of wage (G) (e) M: 60\$00/day F: 40\$00/day	60% of wage (G) (e) M: 60\$00/day F: 40\$00/day	60% of wage (G) (e) M: 60\$00/day F: 40\$00/day	60% of wage (G) (e) M: 60\$00/day F: 40\$00/day	60% of wage (G) (e) M: 60\$00/day F: 40\$00/day
Medico-social assistance	(h)	(h)	(h)	(h)	(h)	(h)	(h)	(h)	(h)	(h)
- Maternity benefit	100% of wage (i)	(-)	100% of wage (i)	(-)	100% of wage (i)	70\$00/day (i)	100% of wage (i)	70\$00/day (i)	100% of wage (j)	70\$00/day (j)
DEFERRED BENEFITS										
- Disability and old-age (b) Amount of pension (K)	810\$00 (1) M: 350\$00 F: 300\$00	1650\$00 (1) M: 350\$00 F: 300\$00	1650\$00 (1) M: 350\$00 F: 300\$00	1650\$00 (1) M: 350\$00 F: 300\$00	1650\$00 (1) M: 900\$00 F: 600\$00	2000\$00 (1) M: 900\$00 F: 600\$00	2000\$00 (1) M: 900\$00 F: 600\$00	2000\$00 (1) M: 900\$00 F: 600\$00	2000\$00 (1) M: 900\$00 F: 600\$00	2000\$00 (1) M: 900\$00 F: 600\$00
Period of guaranteed duration	3 years	5 years	3 years	5 years	3 years	3 years	3 years	3 years	3 years	3 years
- Death	6 months' wages	(-)	6 months' wages	(-)	6 months' wages	8000\$00	6 months' wages	8000\$00	6 months' wages	8000\$00
- "Survival" (K)(n)	50% of pension	(-)	60% of pension	(-)	60% of pension	60% of pension	60% of pension	60% of pension	60% of pension	60% of pension

Conventional signs:
M: Males
F: Females
(-): non-existent

- (a) - A bringing-together of the "Special Family Allowances Scheme" ("Regime Especial de Abono de Família") and the "Special Country Social Centre Insurance Scheme" ("Regime Especial de Previdência das Casas do Povo")
- (b) - Monthly
- (c) - For 8 months. This benefit may be replaced by prescribed foods.
- (d) - Granted on the death of an adult member of the beneficiary's family. Reduced to 1000 escudos for the death of a child under 14.
- (e) - In the first year of illness; falls to 30% for the next three years. If the sickness disability continues beyond this period of 4 years, the beneficiary is transferred to the disability scheme.
- (f) - Maximum duration 6 months.
- (g) - For 4 years, at the end of which period, if the sickness disability continues, the beneficiary automatically becomes a disability pensioner; except for tuberculosis, where benefit is granted as long as the beneficiary remains unfit for work.
- (h) - Includes: consultations, via purchase of vouchers, at reduced price; treatment; hospitalisation; 75% contribution towards the cost of medicine etc., both for the beneficiary and members of his family.
- (i) - For 60 days.
- (j) - For 90 days.
- (k) - As from 1974 inclusive, pensioners have received in December a Christmas allowance equal to their pension entitlement on the 1st of that month.
- (l) - Minimum; the amount depends on the beneficiary's wages and on the number of years he has discounted. In November 1974 the maximum limit was laid down as the amount of monthly pay fixed by law for a Government Minister. As from February 1975 was instituted a supplementary payment equal to 20% of the national minimum wage for those pensioners covered by the National Pensioners' (Caixa Nacional de Pensões) "who need the constant attention of another person" (Ministerial Decision 144/75, of 3 March 1975).
- (m) - The percentage applies to the amount of the pension that the deceased beneficiary was receiving or to which he would have been entitled if he had been retired or considered as disabled at the date of his death. The relevant "in that to which the surviving spouse is entitled, percentages lower than the pension being laid down for cases of other members of the family of the deceased beneficiary.
- (n) - The minimum amount of this pension may not be lower than 500 escudos (which would happen if the surviving spouse were a man). It must also be noted that to the similarity in percentage terms between the two schemes which came about in April 1975 correspond quantitatively different minima for the "survival pension" in each of the two schemes, this differentiation having been more marked as from January 1976.

in the case of females, although in 1975 the benefit for rural workers doubled.

6. With respect to deferred benefits, there are in all marked disparities between the two schemes.

With regard to disability and old-age pensions, while in the "general scheme" the amount is linked to wages and may not be less than 50% of the minimum wage in operation (that is, 2000 escudos per month), in the case of rural workers the pension is fixed and differentiated as between males and females (900 escudos for the former and 600 for the latter).

The "pensão de sobrevivência" too, which is granted to the surviving spouse, although identical in percentage terms - 60% of the disability and old-age pensions - is very different indeed in the two schemes as it is applied to very different base amounts.

Death benefit is also different under the two schemes. Introduced in 1975 for the "agricultural scheme", it is fixed at 8000 escudos whenever the wage level, that is, at 1/3 of the minimum granted under the "general scheme" (1).

(1) As the general scheme grants 6 months' wages in the case of the present minimum wage this would be 24,000 escudos.

7. There is another pension that is intended to be a means of guaranteeing a minimum income to the population "aged 70 years or over" that are not covered by any social security schemes and that have incomes not above 650 escudos per month, if they live in urban areas, or 500 escudos if they live in rural areas (1).

8. This pension (the "pensão social") was fixed, as from July 1974, at 1000 escudos or 500 escudos depending on whether the beneficiaries lived in an urban or a rural area.

At present, for reasons of a financial nature, a limit has been set to the number of pensioners, an average of some 25,000 persons per month having received a pension to an average amount of approximately 870 escudos per month in August/September 1976. It is presumed that this number is not as high as 50% of the total that are entitled to this pension under the scheme as in operation at present.

9. Another means used with a view to "contributing towards the institution of systems that will safeguard the purchasing power of the less favoured classes, independently of the occasional contingencies that result from their being employed" (2), was the creation of a scheme of an unemployment benefit on 31 March 1975.

(1) A Regulation of the Secretary of State for Social Security of 25 March 1976; author's italics.

Before this regulation was issued and from 1 July 1974, this pension could be granted to "all persons over 65 years of age or disabled persons enrolled with the Instituto da Família e Acção Social (Institute of the Family and Social Action) and with the Misericórdia de Lisboa (a similar charitable organisation) for purposes of the granting of benefits, not covered by any social security schemes". (See the Regulation of 25.3.1976, as above.)

(2) Para.1 of the Preamble to Decree-Law Nº 169-D/75, of 31 March 1975.

10. Unemployment is one of the most serious problems at present, affecting some 500,000 persons whose main source of income is essentially the reward for their labour. Thus it is that the institution of a true unemployment insurance is of particular importance from the point of view of redistribution. It can be noted however that from this point of view, ^{more} important than unemployment insurance is the elimination⁽¹⁾ of unemployment itself; this, in ^{the} experience of various countries, is recognised as the means that has worked best in reducing inequalities.

11. Unemployment benefit, instituted in March 1975, appears quite obviously insufficient to satisfy the essential needs of the unemployed, both with regard to the amount they receive, and with respect to the scope of the scheme itself⁽²⁾.

12. In fact, the amount of the benefit can never, by law⁽³⁾, be more than 2/3 or 1/2 the national minimum wage of full time wage-earners, respectively for workers with or without dependants. With respect to rural workers and those under 20 years of age⁽⁴⁾ there still remain limits that are lower and without distinction as to whether they have family financial

(1) Or even its reduction to low levels.

(2) Alterations were later introduced by Decree-Laws N° 761/75, of 31 December 1975, N° 269/76, of 10 April 1976, and N° 635/76, of 28 July 1976, which do not affect the conclusion to which the main piece of legislation leads.

(3) Paras. 1 and 2, of Art. 16, of Decree-Law N° 169-D/75 of 31 March 1975.

(4) Who received less than the national minimum wage.

responsibilities or not. From this it results in practice that for the present minimum wage of 4000 escudos the maximum monthly limits of the benefit⁽¹⁾ to which workers are entitled are approximately as follows:

- non-agricultural workers with family financial responsibilities: 2667 escudos
- non-agricultural workers without family financial responsibilities 2000 escudos
- rural workers (with or without family financial responsibilities) and workers under 20 years of age: 1333 escudos

13. As to the scope of the scheme, as well as excluding seasonal and domestic workers, no entitlement is granted to workers⁽²⁾:

- Whose own average monthly incomes from other sources are equal to or greater than the amount of unemployment benefit;
- whose household that lives with them as one economic unit has a total income equal to or greater than the national minimum wage, or to twice the said wage, depending on whether the worker is a rural worker or not;
- certain of those that receive compensation for dismissal from their employment.

(1) According to Para. 2 of Art. 3 of the abovementioned Decree-Law, workers whose incomes are less than the unemployment benefit that they would be annually entitled to shall receive, as unemployment benefit, in the terms of this piece of legislation, the difference between those incomes and that benefit. (See Para. 1 of the same Article.)

(2) Para. 1 of Art. 3 of Decree-Law Nº 169-D/75, of 31 March 1975.

14. From this it results that unemployment benefit
cannot be on average much greater than ^{that} fixed by law for
the "pensão social" (that is, 1000 escudos per month for
residents in urban areas). In addition, the percentage of
unemployed receiving benefit is very small indeed - some
32,000 in April 1976; this figure represents approximately
22% of the unemployed that are seeking new employment and
6% of the total⁽¹⁾ (Table 22).

(1) Including persons returning from the former colonies;
without them the percentage is 10.4%.

Table 22

Percentages of Unemployed Receiving Unemployment Benefit

	June 1975	December 1975	April 1976
Those eligible for unemployment benefit (unemployed and seeking new employment)	88 736	123 593	144 223
Those eligible for and receiving benefit	14 256	22 229	31 582
% receiving benefit compared with those eligible	16.1%	17.1%	21.9%
TOTAL UNEMPLOYMENT	269.500	456 000	493 600
Unemployed, excluding persons returning from former colonies	-	276 000	304 600
% receiving benefit compared with total unemployed	5.3%	4.9%	6.4%
% receiving benefit compared with unemployed, excluding persons returning from former colonies	-	8.1%	10.4%

SOURCE: Employment Services Administration and Forecasting Team of the Planning Office of the Ministry of Labour.

8 - SUMMARY

In accordance with the indicators of inequality available, and which it has been possible to analyse, it can be seen that:

- The type of distribution that exists at present in Portugal - evaluated by means of the wage total in the N.I. , the relative wage and the degree m.p. of concentration of family incomes - stands at levels similar to those in force in other market-economy countries at the same level of economic development.
- The distribution among the workers of the gross wage total (basic wages⁽¹⁾) for non-agricultural activities⁽²⁾ leads us to a Gini coefficient of the order of 0.1. We believe, however, that if it had been possible to calculate it for total pay - basic wages plus complements a higher degree of concentration would have been obtained;
- The activities where the figures show that there at present exists a greater concentration in the distribution of the wage total (basic wages) are: the group consisting of Banking, Insurance and Real Estate; Commerce; the group formed by Chemicals, Petroleum, Rubber and Plastics; and Paper and articles thereof and Printing⁽³⁾.

(1) Not including the payment of overtime, allowances, awards, bonuses and other complementary payments.

(2) Excluding Civil Servants, Warehousing, Communications, Recreational Services and other groups of Services.

(3) No reference is made to Fisheries through the sample used in the survey being considered unrepresentative.

Those that have the lowest indices of concentration are: Transport; Extractive Industries; Non-metallic Mineral Products; and the group of Textiles, Clothing and Footwear;

- At regional level, and also for basic wages in non-agricultural activities, the administrative districts with the greatest concentration are Bragança and Lisbon; those of greatest equalisation are Beja and Castelo Branco;
- There seems to be no relationship between the average wage level and the degree of concentration in the wage total distribution among the workers. This fact is particularly obvious at regional level;
- The growth in nominal wages was 35% between 1973/74 and 29% between 1974/75, but that in real wages was respectively 7.6% and 10%;
- In January 1976 6.6% of non-agricultural workers (including those under 20 years of age) received a basic wage lower than 4000 escudos; 9% had wages of 20,000 escudos or more. The scales where the majority of workers were concentrated were: from 4000 to 5000 escudos, with 20.2%; from 6000 to 7000 escudos, with 19.6%; from 7000 to 8000 escudos, with 17.2%; and from 5000 to 6000 escudos, with 14.8%;

- The gross disparity in basic average monthly wages, for the major sectors of activity, in September 1974, was on average 17.1⁽¹⁾, the range being 70 points between maximum and minimum. After eliminating the influence of differences in qualification, these figures were reduced to 12.2 and 44.6 respectively; falling further to 10.9 and 41.5 when there were eliminated together the difference due to the worker being male or female;
- A great number of the differentials observed between average wages in activities resulted from differences in qualification;
- Inter-activity wage disparity, for each degree of qualification, in September 1975, is seen to have been very marked, particularly in the cases of trainees, directorial staff and office staff;
- The influence of differences in sex in gross inter-activity wage differentials is relatively slight, but the inter-activity disparities that exist in the wages of females are more marked than in those of males;
- The gross disparity as among qualifications that existed in September 1975 in basic wages for various degrees of qualification in comparison with those for the unskilled or unqualified, has a range of the order of 370 points between the maximum index

(1) Average deviation compared with the mean.

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(1) Average deviation compared with the mean.

- The order of magnitude of the differentials as between males and females varies greatly as from sector to sector, and the figures obtained are influenced to a great extent by simple differences in the employment structures of females and males;
- Disparities in wages between males and females also vary greatly as among various degrees of qualification, varying at present from 36% in basic wages for administrative staff to 8% for apprentices;
- The gross inter-regional disparity in average basic non-agricultural wages is much lower than that observed as among activities, the average deviation being 7.4 in September 1975, and the extent of the overall range 42.3. The administrative districts with the highest average wages are Lisbon and Setúbal, where workers receive 20% more than the general average, and those of the lowest wages are Guarda and Bragança with 15% less⁽¹⁾;
- The degree of inter-regional dispersion varies in accordance with the degree of qualification; the highest is seen among directorial staff and the lowest among administrative staff;
- Portuguese tax policy has been characterised by excessive recourse to obtaining revenue by means of indirect taxes, which, from the point of view

(1) In this case also it has not been possible to eliminate the influence due to the differences resulting from activity and qualification, a fact that greatly limits the appreciation of the degree of disparity attributable only to regional differences.

- of redistribution, can be considered as incorrect;
- The direct tax structure shows that the fiscal system now in force gives priority to taxation on incomes at the first stage of their formation;
 - The table for Imposto Complementar for 1976 is very progressive; when compared with the purchasing power of 1970, it can be seen that it falls more heavily on low incomes than the system in force in the former period;
 - The table for Imposto Profissional of August 1976 exercises a corrective influence of relatively little significance in the distribution of the wage total among the workers; and when applied to wage levels comparable in terms of purchasing power with those of 1970, the conclusion is that it falls more unfavourably upon the economically weaker classes than the table that was in force at the beginning of the present decade. In addition, if the exemption limit of 50,000 escudos is maintained when the minimum wage is updated all workers will certainly come to be liable to Imposto Profissional;
 - Comparing the principal taxes and additional taxes which, in accordance with the legislation now in force, fall upon individual levels ^{of} income from various sources, it can be seen that at least the fixing of taxes that fall upon income from capital and from rural property have not been in line with a corrective view of the distribution of income.

Beyond 200,000 escudos per year labour incomes come to be quite obviously at a disadvantage in comparison with those from other sources, except in the cases of interest on loans and income from urban property;

- The "general scheme" of social security and the "agricultural scheme" have a certain redistributive effect, although the former has a more redistributive effect than the latter;
- There still exist wide disparities between the "general scheme" and the "agricultural scheme" concerning the amounts of benefit granted, particularly with reference to deferred benefits. In addition, in the "agricultural scheme" there are also differences depending on whether the benefits are attributable to males or to females;
- The "pensão social" fixed to be in force from July 1974 is intended to be a means of guaranteeing minimum incomes to the population of 70 or more years of age who are not covered by any social security scheme; the amount and the effective range of its application are, however, insufficient;
- As well as being insignificant in amount, the unemployment benefit in force, with limitations imposed by law with regard to its scope, covers only 6% of the total unemployed or, if those returning from the former colonies are excluded, some 10% of that total.

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FINANCIAL INSTRUMENTS AND MARKETS

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(Restricted Circulation.)

FINANCIAL INSTRUMENTS AND MARKETS

I Introduction

Financial instruments can be defined as "evidences of claims against other economic units or of ownership in them" (Goldsmith 1969, p.3). Important characteristics which differentiate one from another include "the basic nature of the contract, the duration, callability, marketability, and security of the instrument, the level and character of stipulated yield, and the nature of owner and issuer" (Goldsmith 1969, p.7). In a broad sense, there must be at least as many financial markets as there are financial instruments. There are, however, two distinct types of market. One is the centralised market such as the stock exchange in which bonds are traded. The other is the decentralised market such as the one for bank deposits. The type of market is itself a differentiating characteristic of the financial instrument. Another important dichotomy is that which divides financial instruments into primary and indirect securities, the former issued by ultimate borrowers, the latter by financial intermediaries. Financial institutions create instruments with characteristics determined in part by the nature of the institutions themselves. There is close interdependence, therefore, between financial institutions,

instruments and markets. This report, however, focuses on financial instruments and markets, since Portuguese financial institutions have been discussed in some detail elsewhere (Fry 1976).

A study of financial instruments and their markets could follow one or more of several alternative approaches. The one adopted here is to analyse the role of financial instruments in the process of domestic resource mobilisation. Financial instruments can be used to finance one unit's consumption in excess of income (dissaving) from another's saving. This is given no more attention. The critical role of financial instruments in the context of economic development is that of facilitating and encouraging both saving and investment by providing efficient means for transferring claims over resources from savers (lenders) to investors (borrowers).

Economic policies in Portugal have halted domestic savings and reduced capital formation to a minuscule level. Concern over financial instruments, or the lack thereof, is pointless unless the deterrents to investment are removed first. In the absence of a demand for investible funds, encouraging saving in part through the promotion of new financial instruments would raise unemployment, even if it improved temporarily the balance of payments position. Capital formation is unlikely to be resumed in Portugal to anything approaching a satisfactory level until the foreign exchange rate and many domestic prices are allowed to find their equilibrium levels. Labour market conditions also warrant reform. The over-valued exchange rate deters investment in the export sector. Price controls, which extended to some 60 per cent of the home market by

the end of 1975, together with the wage explosion and labour tenure discourage capital formation elsewhere. One must hope that price distortions which have decimated investment demand will be removed and that project appraisal expertise will be used extensively to accelerate a recovery in efficient investment activity.

Capital formation can be stimulated by increasing the number of financial instruments and markets through which domestic resources are to be mobilised. It is readily apparent that there is not at present a wide range of financial instruments in Portugal. Indeed, currency, deposits and government bonds constitute virtually the only financial repositories for personal savings. The face value of the original issues of all bonds listed on the Lisbon stock exchange represents little more than 10 per cent of the money stock (M2). Borrowing within the private sector is effected in the main through discounting bills with the financial institutions. Although a greater variety of financial instruments would undoubtedly encourage more financial saving and, under conducive economic conditions, more investment, deliberate proliferation of instruments can soon reach the point of zero marginal return. Elasticities of substitution between alternative financial instruments are generally high. In any search for new instruments, therefore, one criterion for selection will be the extent to which they are bad substitutes for those which already exist. This will also indicate, in some degree, the effect of such innovations on aggregate real demand for financial assets. For this reason, only two new instruments and

one new market are proposed for the first stage of a financial development programme.

The subsequent section of this report analyses the historical legacy of financial restriction in Portugal. It also documents the policy switch to financial repression since the Revolution of 25 April 1974. Financial reform is necessary before financial development can occur. The former is discussed in Section III, the latter in Section IV. It is assumed that Portugal wishes to develop a mixed economy. However, the choice regarding alternative methods of domestic resource mobilisation is largely a political one. Taxation is the most obvious substitute for financial instruments as a method of mobilising resources. As Nurkse put it:

Each country must work out its own mixture in accordance with its own particular needs and opportunities. There can be no standard recipe of universal applicability.
(Nurkse 1947, p.151)

One assumes that domestic resource mobilisation through both financial and fiscal systems is desired in Portugal.

II Financial Repression and Restriction

For many years, government policy has prevented financial development in Portugal. This is by no means unique; financial repression or restriction is encountered in numerous less developed

countries. Financial repression is defined as indiscriminate "distortions of financial prices including interest rates and foreign-exchange rates," which reduce "the real rate of growth and the real size of the financial system relative to nonfinancial magnitudes" (Shaw 1973, p.3). Financial restriction, on the other hand, encourages financial institutions and instruments which can be made to provide a large seigniorage to the public sector and discourages those which cannot (Fry 1973, p.372). Repression is usually a result of erroneous beliefs about the effects of interest rates on investment and/or inflation, restriction of attempts to finance public sector deficits as cheaply as possible.

Lundberg provides a clear description of financial restriction in Portugal:

To finance its deficit, the Government has largely pre-empted the supply of domestic savings by preserving a "sheltered" market for its own bond issues. Recourse of the private sector to the domestic bond market was, moreover, effectively curtailed by maintaining the maximum interest rate for bond issues at 5 percent (Lundberg 1964, p.40)

The ceiling on after-tax returns of private bonds was lower than the rate offered on government bonds. Even with these interest rate ceilings on competitive financial instruments, returns on government securities were so low that virtually no voluntary purchases took place:

In actual fact, the vast majority of the Public debt bonds were taken up by the welfare institutions, the commercial banks, the Caixa Geral de Depósitos and the insurance companies.

(Banco de Portugal 1963, p.52)

This observation was made annually (e.g. Banco de Portugal 1964, p.93; Banco de Portugal 1965, p.108; Banco de Portugal 1966, pp.179-80; etc.).

Since the commercial banks could be persuaded to take up government bond issues, effectively yielding seigniorage, banking was not suppressed. Indeed, velocity of circulation ($Y/M2$) in Portugal has been amongst the lowest anywhere in the world.

The paradoxical aspect of Portuguese financial restriction lies in the fact that the public sector has never absorbed a very large proportion of total domestic credit, i.e. the public sector more or less balanced its budget (current and capital) accounts until 1974. Net absorption of domestic credit has been modest and, as already pointed out, bond issues have been small. On 31 December 1973, for example, net claims on the public sector were 8\$37 billion, which represented only 3 per cent of total domestic credit (248\$49 billion). By March 1976, net claims on the public sector had risen quite dramatically to 57\$29 billion, but this still represented a relatively unsubstantial 15 per cent of the total domestic credit of 373\$10 billion.

Why then did the government pursue a policy of financial restriction? In Victorian fashion, the government was deeply concerned about borrowing and the cost of servicing its debt. Second,

there may have been strong beliefs about what constituted usurious interest. Third, the large family conglomerates succoured by government licences and guarantees benefited from low interest rates produced by financial restriction. For them, cheap credit was available (Lundberg 1964, p.58). Those outside this inner circle found it more difficult to obtain institutional credit precisely because of the interest rate ceilings.

Financial restriction was inherited from the ancien régime. It has been transformed into financial repression by the combination of low interest rate ceilings and high inflation. The rationale is now quite evidently the public sector debt which has increased sevenfold since the Revolution and shows every sign of continued, accelerated growth. There also appears to be considerable misunderstanding over the effect of interest rate ceilings on the supply of institutional credit.

Selective or sectoral credit policies involving special subsidised interest rates for priority sectors or activities are a common component of financial repression. The former necessitates the latter, since financial liberalisation would enable financial channels to develop expressly for rerouting subsidised credit. For selective credit policies to work, financial markets must be kept segmented and repressed. The political popularity of subsidised credit in Portugal at present constitutes another rationale for financial repression. Selectivity, however, is disappearing with each new priority and each new special interest rate. The most bizarre example in the recent proliferation of special credits

must be the new mortgage rate schedule with interest rates starting at 4 per cent!

With around 30 per cent inflation, all institutional interest rates in Portugal have become negative in real terms. The negativity is a subsidy to borrowers, a tax on lenders (depositors). The inflation tax turns out to be regressive. The rich face a wider range of both financial and tangible assets in which to hold their wealth than the poor. Hence, this tax hits hardest the poor whose only assets are the financial instruments yielding negative returns. The tax is considerable - in 1976, for example, it may well represent about 20 per cent of the gross national product.

Allocative efficiency is also adversely affected by financial repression of the kind now found in Portugal. Negative real interest rates give an extraordinary price signal to entrepreneurs. It tells them that capital is a "bad" which society will pay to have collected up and taken away. The result is encouragement of highly capital intensive production techniques for any given product, and of products or processes which, like petrol refining, are necessarily capital intensive. In a country where there is high unemployment and no saving, this effect of financial repression can certainly not be dismissed lightly.

High and variable rates of inflation typically accompany financial repression. Variable - and so necessarily unanticipated - inflation produces portfolio shifts towards short-term instruments, e.g. currency and sight deposits. The liquidity premium rises, so making longer term instruments less attractive (more expensive) to

their issuers (Ness 1972, pp.235-37; Shaw 1975, p.9; Tun Wai and Patrick 1973, p.280).

Monetary policy that adds to the risk of money holding drives risk aversion demand to physical wealth, consumption, or foreign assets.
(Shaw 1973, p.61)

Capital markets disintegrate in times of high and variable inflation. For the same reasons, their establishment under such conditions is ruled out.

One indication of the fact that policy has changed from financial restriction to financial repression in post-Revolution Portugal is that velocity of circulation ($Y/M2$) has started to rise, after falling steadily over the period 1954-73 (Abel et al. 1976, p.31; Fry 1976, pp.00-00 and Table A.2, p.000). Financial repression shows up in domestic private savings too.

It might be argued that demand for money and savings have been affected in the main by noneconomic factors over the past two years. However, the following demand for money and savings functions estimated for the 1960s predict post-1974 events with considerable accuracy:

$$1961-72 \quad \ln \left(\frac{M2}{PN} \right) = -3.378 + 1.382 \ln(y) + 1.430 (dt-i) \quad (1)$$

$$"t" \quad (-11.348)(38.329) \quad (2.502)$$

$$\bar{R}^2 = 0.995 \quad p = 0.093$$

$$1962-72 \quad \frac{Sd_p}{Y} = -259.570 + 0.288 \ln(y) - 1.868 \left(\frac{Sf}{Y}\right) + 4.847 (t-i^*) \quad (2)$$

$$"t" \quad (-4.430) \quad (4.879) \quad (-5.232) \quad (3.135)$$

$$\bar{R}^2 = 0.791 \quad \rho = 0.370$$

M2 represents the average money stock (broadly defined to include currency in circulation, demand and time deposits) in each year, P the GNP implicit deflator, N population, y per capita income at constant 1963 prices, dt the average sight and time deposit rate of interest, t the time deposit rate, i the rate of inflation, i* the expected inflation rate estimated using the Almon polynomial lag technique, $\frac{Sd_p}{Y}$ domestic private savings as a percentage of GNP, and $\frac{Sf}{Y}$ foreign savings also as a percentage of GNP.

The following estimates for expected inflation rates in percentage terms were calculated using the Almon coefficients for 1973-77:

1973	3.71
1974	4.48
1975	7.56
1976	10.42
1977	14.50

These were used in equations (1) and (2) to obtain the following projections:

<u>Year</u>	<u>Velocity of Circulation</u>		<u>Domestic Private Savings</u>	
	Actuals	Predicted	Actuals	Predicted
1973	1.09	1.09	19.95	21.72
1974	1.09	1.09	14.79	11.50
1975	1.05	1.15	9.11	9.34
1976	1.20	1.21	-	2.52
1977	-	1.29	-	-14.55

The projections for 1976 and 1977 are based on the assumption that no change in the present policy of financial repression occurs.

Rising velocity and falling domestic private savings are consistent with one another. With virtually no financial repository for savings other than money, a decline in savings lowers demand for money, hence causing velocity of circulation to rise. Both, it appears, are in large part the result of declining real deposit rates of interest. Negative real deposit rates are an invariable concomitant of financial repression.

III Financial Reform

A fundamental policy change is required before financial development and specific financial innovations can occur. Tinkering with the financial system is pointless unless government shows a clear desire to mobilise domestic resources through this channel. This must be expressed by measures to restore investment incentives,

freeing nominal interest rates (at a minimum freeing loan rates), moderating and stabilising the rate of inflation.

Financial reform can be traumatic. Initially, relative price changes benefit some at the expense of others; abolition of the inflation tax is an obvious example. Then there is the macro-economic issue of whether or not the reform package will increase or reduce aggregate demand. Floating the exchange rate and abolishing price ceilings increase demand for domestic resources. The impact of higher interest rates is ambiguous. Shifts in the composition of money - from currency to deposits - are expansionary. Shifts in the form in which savings are held - from tangible to financial assets - are deflationary. An increase in aggregate savings is also deflationary. Unfortunately, quantification of elasticities and cross elasticities necessary to calculate the overall impact is impossible. One predicts, however, that without these policy changes the Portuguese economy will continue its downward spiral.

Quick response mechanisms are essential to ensure that impact effects of financial reform are not unnecessarily disruptive. Improved information systems are, in turn, prerequisites for these. Perhaps a special statistical team with some expertise in sampling techniques might be formed in advance to monitor key indicators after the reform is initiated. The data to be collected by such a team would include composition of the money stock, loan activity of all groups of financial institutions, foreign exchange and trade movements, sensitive commodity prices, business activity, expectations

and investment plans. The special statistical team responsible for a rapid information system would have to collect data or supervise data collection in an active rather than a passive mode. During transition after reform, one cannot afford to wait for forms to be completed and returned by respondents. The team would of necessity be itinerant.

Smoothing techniques can be devised to counter abrupt impact effects of financial reform. For example, the monetary consequences of an inflow of foreign exchange can be offset by changes in the government deficit or accelerated foreign debt repayment. Special deposits or increased reserve requirement might be used to counter-balance a shift in the composition of money. In the event of a dramatic increase in saving and hence an initial slump in aggregate demand, public works projects should be ready for immediate activation. Much could also be done now to hire or acquire project appraisal expertise so that investment expenditure can pick up rapidly as soon as investment incentives are restored. Commercial banks might be required to extend long term loans for productive investment purposes. This would force them to intensify their search for favourable loan opportunities in the private sector.

The Banco de Portugal would have to be prepared to meet possibly substantial changes in loan and deposit activity of individual banks. The most practical way of doing this might be to pay interest on commercial banks' deposits with the Banco de Portugal and to extend overdraft instead of normal rediscount facilities (Fry 1976, Chapter 5). These two measures would enable sizable transfers of funds between banks with the minimum of administrative

cost and delay. The first measure would also ensure that impact effects would not themselves destroy completely individual banks' earning abilities.

IV Financial Development

Financial development and innovation can occur and may be encouraged once basic financial reform has taken place. Then, focus on improving the efficiency of domestic resource mobilisation is warranted. Without the former, the latter is irrelevant because there will be no investment for which to mobilise efficiently domestic resources. This section discusses the innovations in the financial field which might form the first stage of a financial development programme.

The measures proposed are modest. They do not involve subsidy or high set-up costs, nor do they hinge around the establishment of a capital market, often considered a sine qua non of financial development. In fact, reestablishment of an equity market is the last item on the list of this particular programme. The approach here is gradual, starting with simple, relatively unsophisticated financial instruments and markets, building on sound foundations, learning by doing (but not so rapidly that inevitable mistakes made early in each stage set the process back to its starting point) (Shaw 1973, pp.144-47).

The stock market explosion of 1973 exemplifies well the danger of starting at the wrong end. Since institutional interest rates have been administratively fixed for decades, fundamental understanding of the relationship between returns to productive investment yields and interest rates is lacking. The pre-Revolution Portuguese stock market is far from atypical:

With only a few exceptions (for example, in Brazil, India, Malaysia, and Singapore), markets are thin, with little or no trading and with relatively few and insignificant amounts of new public issues by private corporations. With a somewhat larger amount of issue, the market for government debt may appear to be more developed, but its sales are mainly to captive buyers. Information is poor and manipulation is substantial, especially for private issues. The occasional speculative splurges end in a crash that eliminates the nascent public investors, and the market reverts to its lethargic state. (Tun Wai and Patrick 1973, pp.268-69)

Financial development in Portugal might start with innovation within the banking system. Given their present predominance, the commercial banks are the most obvious institutions to be used as the mainspring of financial development effort. Commercial banks might offer two new instruments. The first is the negotiable certificate of deposit (NCD). It serves two purposes. First, it lengthens banks' liability portfolio maturity, hence enabling them to lengthen the maturity of their asset portfolios without undue risk. Second, trading in NCDs provides experience in market determination of interest rates so evidently lacking at present. NCDs might be issued with maturities of three, four and five years.

There is no doubt that Portugal could benefit greatly from Mexico's experience with a similar type of financial instrument, the financiera. This is a long term, fixed dividend instrument with a competitively high yield. It offers the holder high liquidity because the issuing institution guarantees repurchase at par. The guarantee provides a market price floor, so counteracting any initial lack of confidence (Tun Wai and Patrick 1973, pp.274-76 and 285). On the foundations laid by the financiera, Mexico is one of the very few less developed countries which have managed to develop sound securities exchanges.

Conditions of supply of NCDs or financieras are extremely important. Clearly, if NCDs are issued on tap at a fixed price with the same fixed guaranteed repurchase price they will effectively be indistinguishable from savings deposits. The market price is rigidly tied and no trading will take place. The ideal solution would be sale by auction. Provided the dividend is attractive enough, market price can be kept above the floor at which banks guarantee repurchase. Then assuming supply is regulated in one way or another, market trading at prices above the price floor will occur.

A limited experiment in auctioning NCDs might be made by confining sales to emigrants' remittances. Auctions could be held once a week, for example, with quantities supplied determined by some pre-arranged formula designed to raise per capita remittances to their 1973 level within a year. This implies that at the end of the year quantities supplied will exactly raise 1973 level per

capita remittances. What return has to be offered to produce this inflow is, of course, determined in the market.

One way of creating a market for NCDs without sale by auction would be to ration supplies on some nonprice criteria. Again assuming that the dividend is attractive enough, this could ensure that the market price is kept above its guaranteed redemption floor. NCDs might be rationed on the basis of holdings of other deposits, as a given proportion of income, or simply a fixed amount per person.

The main advantage of starting with limited eligibility for NCD purchases is that cross elasticities are bound to be high. One does not want violent swings between one form of deposit to another, even if they are accompanied by an overall increase in demand for financial instruments. The main point is to introduce a relatively long term financial instrument whose price and hence yield is determined by market forces rather than administrative fiat. The learning process is important and that might best be achieved by starting on a small scale and expanding gradually. Once familiarity with the basic NCDs has developed, some product differentiation can be introduced. For example, the Banco de Fomento might sell special NCDs with an equity element, others might be index-linked.

Financial development along these lines involves successive experiments, each one building on the firm establishment of the other. The different NCDs would be competitive with one another so that savers could diversify their portfolios. Diversification

of financial instruments along these lines is an efficient alternative to the expensive, over-elaborate diversification of financial institutions so commonly found elsewhere (Fry 1976, pp.000-00).

The second financial instrument which might be considered is a compulsory savings deposit. Employers would pay the employees' compulsory savings into the latter's compulsory savings deposits every month. The maturity of the deposit might be four or five years. It may be reduced, but not lengthened, at the government's discretion.

Compulsory savings schemes can range from virtual taxation to near-voluntary participation. The point chosen along this axis will determine the optimal form of the scheme. Clearly, compulsory savings which are almost indistinguishable from taxation should be progressive. Conversely, compulsory savings which offer a better yield than alternative financial assets might best be rationed (imposed) on a poll tax basis.

An important feature of a compulsory savings scheme is that it may make abolition, or at least some liberalisation, of interest rate ceilings easier from the political standpoint. Freeing or a general increase in interest rates can be linked to the introduction of compulsory savings. The near-voluntary scheme provides the most attractive, the near-taxation scheme the least attractive yield vis-à-vis comparable financial instruments. In either case, compulsory savers can be assumed to prefer higher to lower returns on

their savings. A general increase in the structure of interest rates can be used, inter alia, to satisfy this preference.

NCDs and compulsory savings deposits can provide indirect sources of funds to the public sector. With the nationalisation of a large part of the Portuguese economy, mobilising resources for public sector investment must be of top priority. Three main sources are available. The first two - the Budget current account surplus and profits of the nationalised firms themselves - can be ignored only at great peril to long run economic stability and growth. It is the third source - domestic private savings - that is considered here.

The central government raises a derisorily small amount of funds directly through government bond issues. Not only has yield but also the mechanism of supply been unattractive. For example, the actual bonds are not distributed until about nine months after their official issue and sale. During this period, holders (or nonholders to be precise) can sell only to the commercial banks. This delay seems to be caused solely by bureaucratic inefficiencies. Because of this delay factor, it has apparently been impossible to issue short term treasury bills since the 1930s.

Bond ownership has to be registered largely on account of the amortisation procedure. Bonds are redeemed by lottery at the end of the third, fourth and fifth years; all bonds are now issued for a maximum maturity of five years. This method of bond redemption is necessary because it is administratively impossible to pay

off an entire bond issue at maturity. Bonds cannot be repurchased gradually in the market; there is no market.

The risk element created by random redemption constitutes another unattractive characteristic of government bonds. Yields rise with maturity. Hence, the higher yields accruing in the fourth and fifth year will be discounted by this risk factor - these higher yields may never be earned if the bond is withdrawn after only three years.

This redemption procedure is also used by the Istituto Mobiliare Italiano. In a recent study, Schilbred (1973) compared the market prices of the bonds issued by the Istituto Mobiliare with those of treasury bonds with fixed maturities. The comparison indicated that the Istituto Mobiliare was obliged to offer a substantially higher yield simply to compensate for risk which it induced deliberately into its bonds. In other words, there is a market price of risk which is paid, under competitive market conditions, by the creator of the risk.

This particular form of risk and the risk premium it produces could be eliminated by separate offerings of three, four and five year bonds. This, it is claimed by a former Secretary of State in the Ministry of Finance, is beyond the administrative capabilities of the Ministry.

One concludes that the public sector will be relying, in the main, on indirect channels through which to tap domestic private savings. Indeed, thought might be given to abandoning government bond issues altogether. Their retention may well retard rather

than promote financial development. However, as already pointed out, NCDs and compulsory savings deposits can provide funds to the public sector. To facilitate monetary control, the central government might borrow only from the Banco de Portugal. Local authorities and nationalised firms would borrow from the other financial institutions. In other words, the financial institutions might well act as mobilisers of private savings for the public sector. One suspects that the former will perform this function rather more efficiently and effectively than has the Ministry of Finance in the past.

In sum, two new financial instruments have been proposed and one old instrument abolished. The new centralised market now to be discussed is the bill market.

Bill discounting is the normal method of providing institutional credit in Portugal. Bills might be an appropriate instrument in which to establish a centralised market, since the business and financial communities are so familiar with them. Indeed, it is initially surprising that no bill market of this type already exists. The reason seems to lie in the fact that the banks have accommodated prime borrowers at fixed, low interest rates. Other borrowers squeezed out under this system have not had sufficient credit standing to raise funds directly on a bill market. Furthermore, the Banco de Portugal is now providing rediscount facilities on tap, i.e. unlimited quantities at fixed prices and under fixed nonprice conditions.

The simplest way to develop a bill market would be to abolish the rediscount system and substitute for it overdraft facilities with quantitative limits. This would provide the necessary precondition for the successful introduction of a centralised bill market. Now, banks will be unable to satisfy all the customers they want and have an incentive to participate in a bill market.

Bill trading could be organised in the stock exchange on Mondays, Wednesdays and Fridays, for example, starting at 3.30 pm, i.e. at the banks' closing time. New orders might be placed during the trading period, or could initially be restricted as is now the case in the bond market. Commercial banks could offer an acceptance service, accepting bills by adding their signature, thereby reducing risk to the purchaser. Banks might also provide a collection service for matured bills. Fees for these services would automatically be held down by the alternatives of placement of bills without acceptance and direct collection upon maturity. There is therefore no need to fix fees by administrative decision.

The bill market performs four functions. First, it creates a new financial instrument for savers. This will produce some substitution from bank deposits into bills but also, because bills are differentiated from deposits, a net increase in financial savings. Second, it provides a market for relatively riskless, short term financial instruments in which buyers and sellers gain experience and learn about market pricing of something whose price has not been determined this way in the past. Third, it provides a useful indicator for monetary policy. Interest rates in the bill market

can be followed closely by the Banco de Portugal. Finally, the bill market competes with the financial institutions, so encouraging efficiency.

V. Conclusion

This paper has attempted to analyse present policies in Portugal towards financial instruments and markets before outlining strategies of financial reform and development. One cannot be highly optimistic that the preconditions for financial development will be established. They involve radical policy changes which may not be acceptable politically at present. However, one might note that an important feature of recent economic reforms in eastern Europe has been the elimination or modification of planned segmentation of credit markets. Under the old system, not only were interest rates held below their equilibrium levels, but were differentiated on non-market criteria. In Hungary, for example, interest rates on the same term loans with identical risk attributes ranged from 0.5 to 18 per cent (Fekete 1968, p.64). Concern over improved allocative efficiency has resulted in a return to the use of market pricing of capital as well as most other goods and services.

Free markets are prerequisites for the financial developments proposed in this report. A low interest rate policy makes it impossible to develop a viable bond market:.

There is a fundamental conflict between a government's low interest rate policy and a free bond market

The moral is that the development of capital markets requires freedom from government attempts to control interest rates

(Tun Wai and Patrick 1973, p.284)

If Portugal undertakes the necessary financial reforms outlined in Section III, financial development might be initiated along three fronts:

1. Negotiable certificates of deposit
2. Compulsory savings deposits
3. A centralised bill market

After these three innovations, further steps might be taken to lengthen maturities and increase product differentiation. These, however, cannot succeed unless inflation is reduced and stabilised.

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CONFERENCE ON THE PORTUGUESE ECONOMY

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REGIONAL DEVELOPMENT:
PROBLEMS AND GUIDE-LINES
FOR A DEVELOPMENT POLICY IN PORTUGAL

by

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(Restricted Circulation)

1. We are not going to tell the history of regional policy in Portugal. We assume indeed there is no such history to be told.

Most people who have been involved in economic policy in Portugal do not really consider space as an essential factor affecting the functioning of the economy. They do not usually go farther than the analysis stage to consider symptoms and make the usual diagnosis: regional imbalance. They then proceed either to emphasize the evils of the "system" or to make good-will statements on correcting disequilibria and we nearly always suspect them of demagogy. Too few are really aware of the need to bring the spatial factor into economic decision-making. In those cases where space demands consideration the approach has always been partial and sectorial: only very seldom has there been a concern to accept phenomena in an interrelated and integrated way, as they always are. On the national planning scale we may say that there have been little more than mere references to the need of considering inter-industry relationships (though the existing input-output tables have been very little used). As there has been no national/
/regional planning⁽¹⁾ in Portugal, problems of integration at national level and interrelation among regions have not arisen. Again, at regional/local level only very seldom has someone given consideration either to an interdisciplinary approach to planning or to integration among scales (regional/local within national/regional) and interrelation within a given level. Integration, interrelation, interdisciplinary have been no more than words.

(1) We follow Peter Hall's proposal to use "national/
/regional" and "regional/local" expressions to refer to the basic levels of regional and urban planning.

Nevertheless "regional" is a worn-out word when used to qualify almost everything concerning investment decisions. No doubt it has to be in a concrete space, in a definite region, that decisions have to be implemented. Investment projects have to be located in regions. There is no other way. But this should not allow the use of any "regional planning" or "regional policy" expression. There has been none.

2. We stand by what we are sure is a widely acceptable statement: conditions have to be created for progressively achieving a situation of economic justice for everybody. Disequilibrium, whatever its form, is something to fight against.

Economic justice is a concept worth discussing but we are not interested in discussing it as we would not be in discussing welfare, if it were the term we used. We wish to use words to express concrete and objective things and situations, not vague, abstract and arguable concepts. When we speak of economic justice we mean that everyone, wherever he lives, has the right to have access (not only physical access) to the basic goods and services of civilization. Society has to be organized in order to make possible the achievement of this goal. We are above all concerned with spatial organization which certainly is not the least important aspect of general organization.

One basic condition for access is the existence of a convenient network of supply, so that everybody can be provided with any of those basic goods and services within a satisfactory time-distance range. This is the first objective: a network of places, organized in hierarchical order (by definition, in an integrated and interrelated way), so located as to cover the whole country and in such a way that everybody has (at least) physical access to them.

Of course, goods and services to be available have to be

produced and there are such things as location of resources, organization of production, economies of scale, even agglomeration effects, which cannot be ignored. The rationale of economics reminds us that social benefits resulting from a satisfactory spatial organization of distribution generate costs that have to be paid. However, there is room for these costs to be taken into account if the network of places is a hierarchical one, for in such a case a close correspondence may exist - and should exist - between functions of places and sizes.

We do not wish to oversimplify. This question is only in part a question of thresholds. In fact it is a very complex problem since it involves the spatial organization of productive industry in an interrelated and integrated way and the creation of minimal conditions for the economic self-sustaining of communities. However, we would not place the question of organizing production ahead of that concerning the organization of distribution at the present stage of economic development. We know that we cannot go on distributing what we have not produced. But we need a clear and definite pattern of distribution which can immediately be used to remedy too many intolerable situations. The spatial organization of production must follow this pattern and, of course, mesh with it. People cannot wait longer for the basic goods and services which are related to their basic needs.

We have thus stated, very briefly, our approach to regional development. First of all it is development that matters. Development can only be achieved through economic justice by giving everybody similar conditions of access to essential goods and services and this is a very concrete and objective way in which development, as a goal, may be expressed. It implies, among other things, the spatial organization of society.

We started with a widely acceptable statement. Have we ended with an unquestionable approach to regional development?

Before expanding this approach let us consider two basic reasons for putting it forward.

3. First: the Portuguese Constitution.

There is no need to go into details. We have simply to stress that our economic, social and political life must be orientated to ensure change towards socialism. And we must also point out that reading the Portuguese Constitution through we can see clear and definite development goals along with the enunciation of objectives of social and economic justice.

To give only a few examples:

- to bring about conditions for achieving welfare and to improve the quality of life is one of the fundamental tasks of the State (art. 9, 66, 81);
- another fundamental task is the creation of conditions of equality for access to health services (art. 64), to education and culture in general (art. 73, 74, 75), to adequate housing conditions and to all social facilities in general (art. 65);
- still another, and very important, is the need to correct disequilibria among people, between town and country, and among regions (art. 81).

As far as economic organization is concerned the improvement of social and economic welfare, the correction of disequilibria among regions and between town and country are specific priorities. And it is development that always matters. The word "growth" appears only once, but in a clear context of development: one of the priorities the State has to consider is the need "to guide social and economic development in the way of balanced growth for every industry and region" (art. 81, c). Should this article raise any doubts concerning the basic option in favour of development, it would certainly be enough to refer to art. 91 (and also

art. 95) where, dealing with planning matters, one can read:

"the plan must ensure a harmonic development for all sectors and regions, an efficient use of the forces of production, justice in the distribution of wealth among individuals and regions, coordination between economic policy and social, educational and cultural policies, the preservation of the ecological balance, the protection of the environment and the quality of life of the people".

Fortunately, one has only to read the Constitution to realize there can be no alternative to the developmental approach to regional economic policy in Portugal. It only remains to express it in a fully objective way.

It should not be necessary to produce further arguments in favour of "our" approach. Nevertheless we are going to consider, in summary form, some aspects of the Portuguese regional economic picture. It may help to base any discussion on priorities, if necessary. It may give some idea of how the situation has deteriorated and how fast, and accelerated, the process of disequilibrium. It will enable us to introduce some very concrete problems which have to be kept in mind when considering policy guidelines.

4. Second: the regional imbalance.

Each of the following maps gives a clear picture of the regional disequilibria in Portugal.

When we wish to quantify these disequilibria we have to limit ourselves to the available statistical information which most generally refers to "distritos" - in some cases not homogeneous regions at all⁽²⁾. We have to bear this in mind

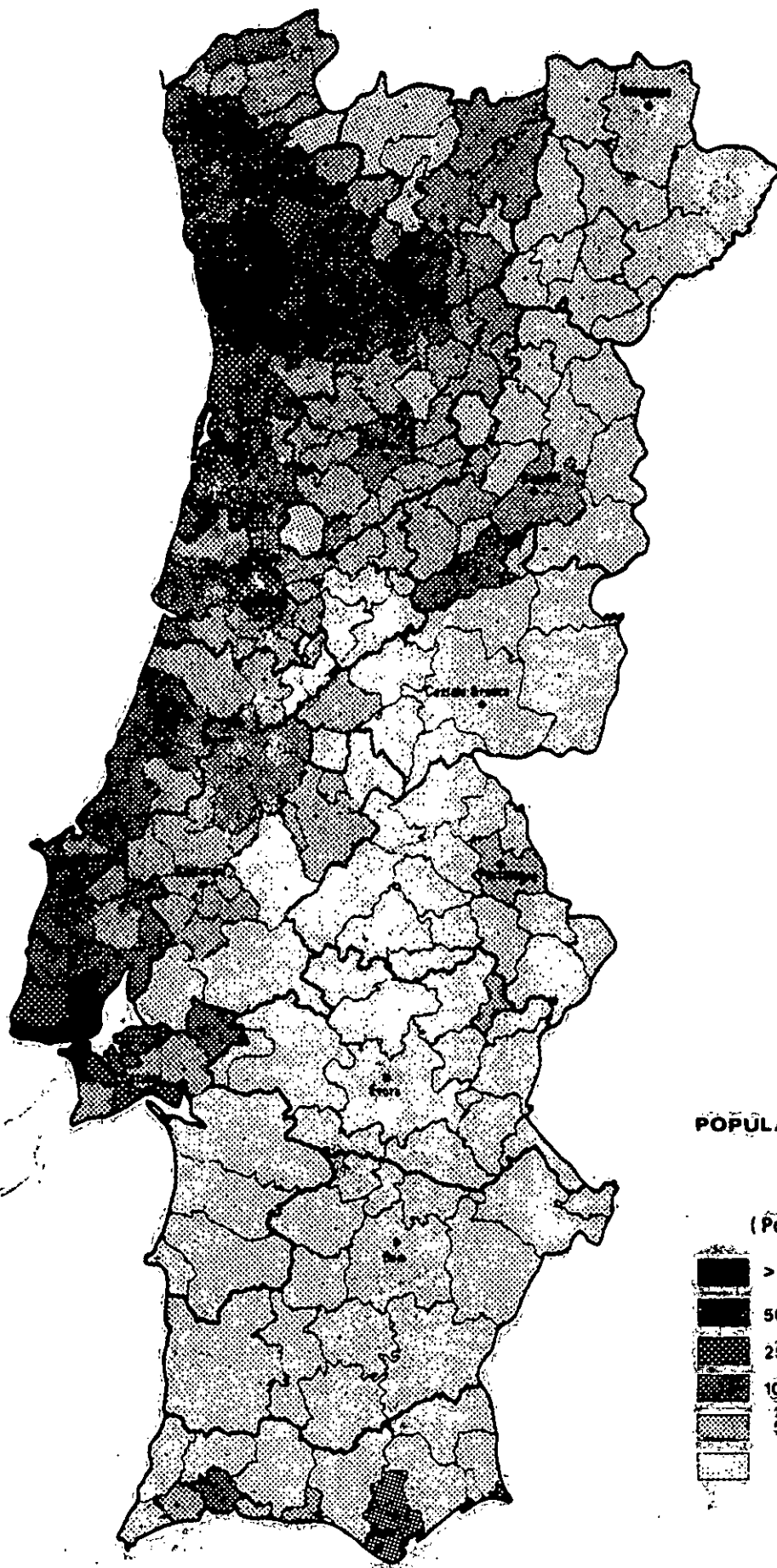
(2) See, at the end, maps A and B: map A shows the administrative and planning regions and map B shows division into homogeneous regions.

and be aware that the actual imbalance is certainly much greater, however impressive may be results of the statistical analysis based on "distritos". The level of aggregation is very high indeed.

If we look at maps 1, 2 and 3, for instance, we notice the general pattern of spatial differentiation. In fact, the strip of land near the coast, running North to South from Braga to Setubal ("distritos" of Braga, Porto, Aveiro, Coimbra, Leiria, Lisboa e Setúbal) corresponding to only a little more than $1/4$ of the total area of Portugal, contains about $2/3$ of the total population, and creates almost $4/5$ of the G.D.P. and $9/10$ of the product of manufacturing industry. Two "distritos" - Lisboa and Porto - covering less than 6% of the whole area have more than $1/3$ of the total population and about $\frac{1}{2}$ of the G.D.P.

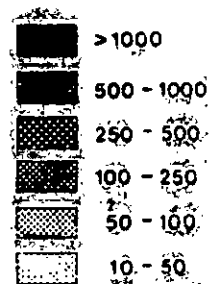
Taking the extreme cases to make very crude comparisons, we can have a clear idea about the enormous gap between "distritos" at the top and bottom of the economic scale and how this gap has evolved. There were 19.6 doctors per 10,000 inhabitants in Lisboa versus 3.2 in Vila Real and Viana do Castelo in 1964; by 1972 the ratio was 23.8 in Lisboa against 3.5 in V. Castelo. Per capita income in Lisboa was 3.3 times that of the lowest "distrito" in 1953, 3.5 times in 1964, almost 4 times in 1970. Differentiation in general tends to increase variability among the elements of the statistical distributions with respect to per capita income: the standard deviation increased from 1.9 in 1953 to 6.6 in 1970, the coefficient of variation rising from 34.9% to 39.6% over the same period. Using this information on per capita income we might say that the 252 thousand people living in V. Castelo in 1970 actually corresponded to only 64 thousand by Lisboa per capita income standards.

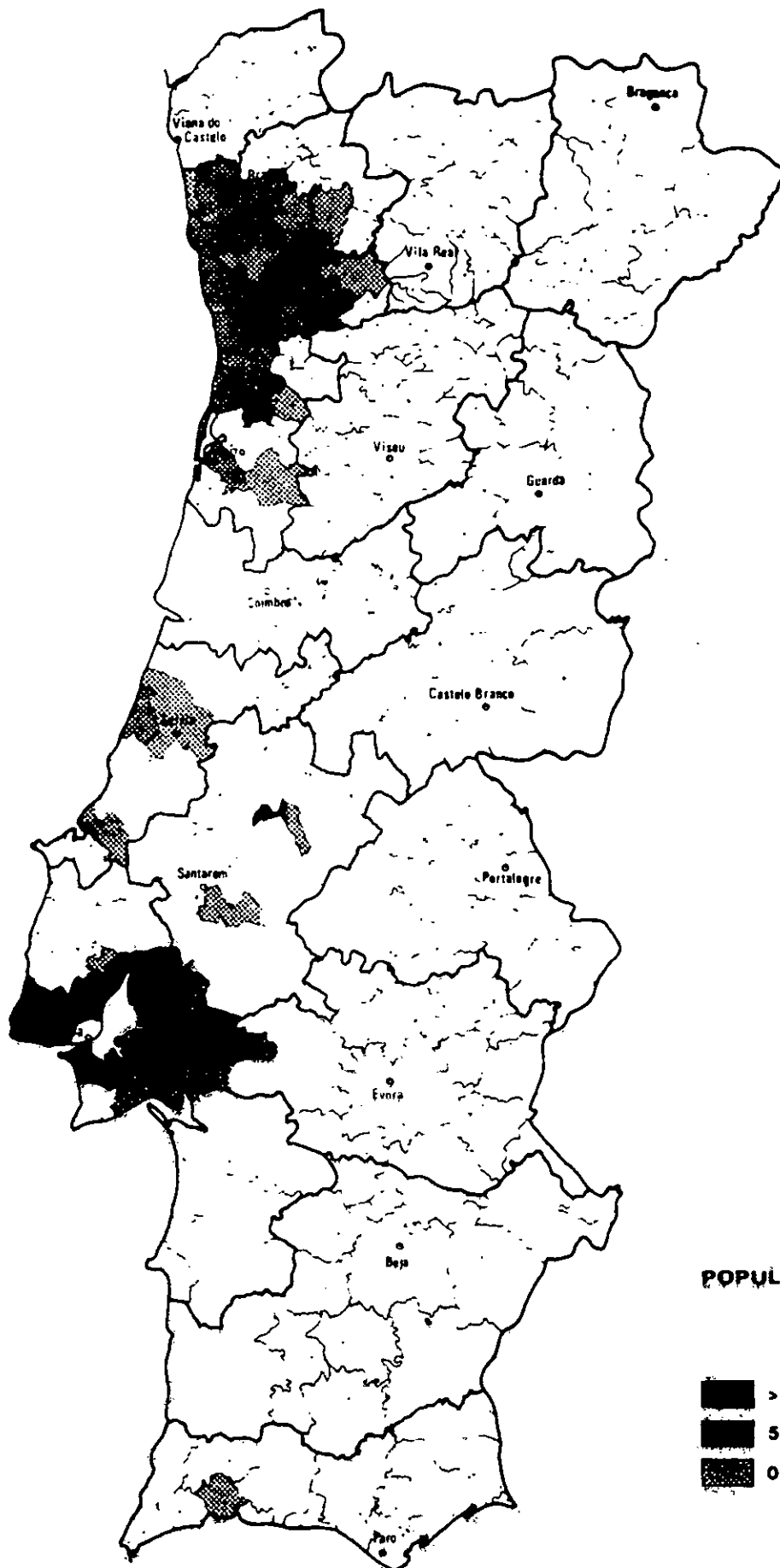
We believe there is no need to add to these comparisons. What we think important is to emphasize the permanency of the general pattern of disequilibrium and the clear trend towards its increase. If we take two groups of "distritos", those with the highest rates of growth in employment in manufacturing



MAP 1
POPULATION DENSITY
1970

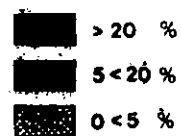
(Pop./Km²)

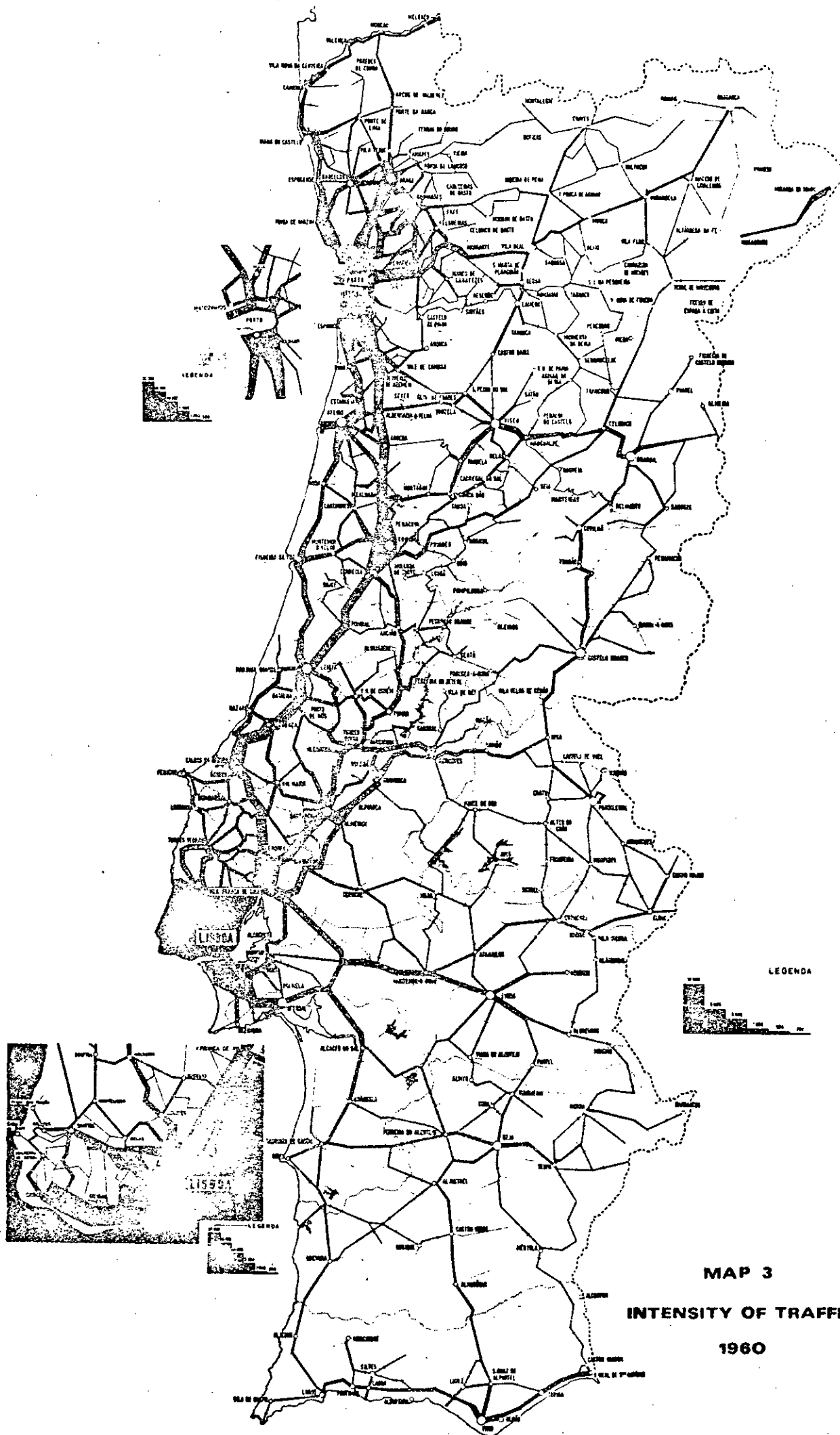




MAP 2

**POPULATION GROWTH
1960-1970**





industry and those with the lowest rates for the periods 1950-60 and 1960-70, we realize that their names may change (also their relative position) but they always make the same pattern. And, as is clearly noticed from the figures, the range has enormously increased⁽³⁾.

"Distritos" with the highest and lowest percentages of growth in employment in manufacturing industry

1950-60				1960-70			
Aveiro	42.8	Guarda	2.1	Setúbal	30.8	Bragança	-44.2
Leiria	33.3	Viseu	6.2	Braga	19.0	Beja	-24.6
Setúbal	31.5	Portalegre	6.7	Aveiro	16.2	Vila Real	-21.4
Lisboa	30.7	Vila Real	12.0	Leiria	13.4	Portalegre	-20.7

The maintenance of the spatial pattern of development may be realized in a synthetic way by computing some correlation coefficients:

1. % employment in manufact. ind. (1950)	1.000				
2. idem (1960)	.990	1.000			
3. idem (1970)	.967	.981	1.000		
4. growth in employment in manufact. ind. (1960-70)	.775	.795	.852	1.000	
5. idem (1950-70)	.778	.828	.858	.942	1.000
	1.	2.	3.	4.	5.

The spatial distribution of employment in manufacturing industry remained almost unchanged between 1950 and 1970. The same happened though to a smaller extent, as would be expected, with the pattern of growth in employment in manufacturing industry. All this meshes with population growth, per capita income distribution, density and percentage of urban population, especially if one takes into account the fact that percentage growth in employment in manufacturing industry tends to slow down as long as the level of

(3) For those who have taken an interest in Portuguese economic and social life for the last few decades this is no matter for surprise and there is a simple explanation for it. We are here only concerned with presenting facts.

industrialization increases (the case of Lisboa, where employment in service industries has been augmented relatively more than employment in manufacturing industry).

1.	1.000							
2.	.697	1.000						
3.	.682	.741	1.000					
4.	-.775	-.795	-.886	1.000				
5.	.978	.787	.751	-.865	1.000			
6.	.446	.470	.854	-.818	.534	1.000		
7.	.410	.437	.792	-.784	.488	.942	1.000	
8.	.535	.835	.816	-.803	.658	.706	.594	1.000

Correlation matrix

1. Density of population (1970)	2. % urban population (1970)	3. Population growth (%) (1960-70)	4. % agricultural population (1970)	5. % employment in manuf. industry (1964)*	6. % growth in employment in manuf.ind.(1950-70)	7. % growth in employment in manuf.ind.(1960-70)	8. Per capita income (1970)
------------------------------------	---------------------------------	---------------------------------------	--	---	---	---	--------------------------------

(*) % employment in manufacturing industry in firms with more than 20 employees.

Using a "shift-share" approach to assess the net gains and losses of "distritos" in total population during 1960-70, we have tried to explain the spatial distribution of population change (P_c) through the behaviour of the following variables, using a regression analysis approach: % of urban population in 1960 (U_p); % of employment in manufacturing industry in 1960 (M_e); net change in employment in manufacturing industry in 1950-60 (M_c); and per capita income in 1953.

It is interesting to note that per capita income in 1953 had no relevant effect on explaining the net change in population distribution. The same does not happen with the other variables, which make for $R^2 = .92$ under reliable auto-correlation tests. Regression coefficients concerning the net change in employment in manufacturing industry are however not satisfactorily supported by T-test coefficients.

This is the regression equation when net change in employment in manufacturing industry in 1950-60 is included (T-test values in brackets):

$$Pc = 3.166 Up + 2.656 Me + 1.561 Mc - 12.4219 \quad R^2 = .924$$

$$(7.1332) \quad (4.4721) \quad (.9651)$$

The regression equation concerning Up and Me only, is

$$Pc = 3.337 Up + 2.712 Me - 12.8797 \quad R^2 = .919$$

$$(8.2264) \quad (4.5984)$$

There is no doubt as to the dependence of population change on concentration of population and employment in manufacturing industry in previous periods.

As concentration of both population and employment in manufacturing industry have increased since 1960, there are additional grounds for concern about the need for intervention if we do not want to see the process of depopulation aggravated in inland areas.

Let us summarize it this way: the spatial pattern of regional imbalance shows an enormous gap between the "distritos" of the western central part of the country and all the others. This gap has widened and the tendency is for it to become even wider. May we now, therefore, consider the spatial functioning of the economy which can help us to understand this trend and, of course, may show the way to correct it?

5. We have no regional accounting in Portugal. We have no statistical information concerning inter-regional economic flows. As an essential instrument of economic policy, we should have some basic knowledge on flows between regions in order to arrive at an input-output flow table, an especially useful tool if we can thereby separate the sales and purchases in a current and in a capital account.

At this stage we are going to attempt to obtain this basic knowledge. To this end we shall develop a simple method of estimating flows or transactions between regions in order to arrive at a general flows or transactions table. This may be done only by making extremely drastic assumptions and at very high levels of regional and industrial aggregation, since there is an almost complete lack of information.

First, for reasons of convenience, we use the division of the country into four regions (planning regions, according to the 1968-73 "Plano de Fomento"). We then take the G.D.P. regional estimates of the Instituto Nacional de Estatística referring to 1970 and assume that transactions among regions depend directly on the regions product and indirectly on the distances between them⁽⁴⁾; that is to say, we assume a gravity-type behaviour of the general form

$$F = k (M_i \cdot M_j)^{\alpha} d_{ij}^{-\beta}$$

where M_i is the product of region i and d_{ij} the physical distance, by road, between the chief economic centres of regions i and j . Coefficients α and β (also k) have been estimated separately for the Northern, Central and Lisboa planning regions based on sample surveys of road traffic and using a regression analysis approach⁽⁵⁾.

(4) Distances between regions are given as distances between their regional capitals.

(5) It is interesting to note that coefficient α is higher in the Northern region and in Lisboa than in the other regions; and that β coefficients, on the other hand, are lower in those regions, especially in Lisboa, which has the highest α . This means that both in importance in terms of production and in accessibility, Lisboa and the North are favoured, compared with the Centre and certainly the South. (Detailed results will be published shortly.)

Making these strict assumptions, we have arrived at the following transactions table (1000 "contos"):

Regions purchasing Regions producing	North	Centre	Lisboa	South	Total
North	14.6	10.3	14.4	1.9	41.2
Centre	10.5	11.0	14.1	2.0	37.6
Lisboa	14.1	14.1	41.9	4.2	74.3
South	2.0	2.2	3.9	3.3	11.4
Total	41.2	37.6	74.3	11.4	164.5

which enables us to calculate the corresponding inter-regional input coefficients

Regions purchasing Regions producing	North	Centre	Lisboa	South
North	.354	.274	.194	.167
Centre	.255	.293	.190	.176
Lisboa	.342	.375	.564	.368
South	.049	.058	.052	.289
	1.000	1.000	1.000	1.000

They show very impressively how all regions are dependent on Lisboa (and, to a smaller extent, on the North), since Lisboa is the most highly developed part of the country. It will certainly be very important to realize that whatever the region, more than 1/3 of its inputs come from Lisboa. The central and southern regions depend more on inputs from Lisboa than from themselves. Even the northern region, where we find the second most highly developed area of Portugal, depends on Lisboa for its inputs almost as much as

on itself (6).

Of course, these are very crude figures which have to be understood bearing in mind the assumptions and restrictions deriving from the very high level of aggregation (by regions and by industries). However, this table fits in very well with the overall results we get from the analysis on spatial imbalance and in this sense it might be taken as another way of discussing the regional pattern. But, still more important, it gives a clear notion of the acceleration of the disequilibrium process and on its multiplicative effects.

We shall return to this later. We find it extremely important to explore the regional dependence relationships it expresses. We could hardly resist using it as an instrument for regional policy simulation - crude as it is.

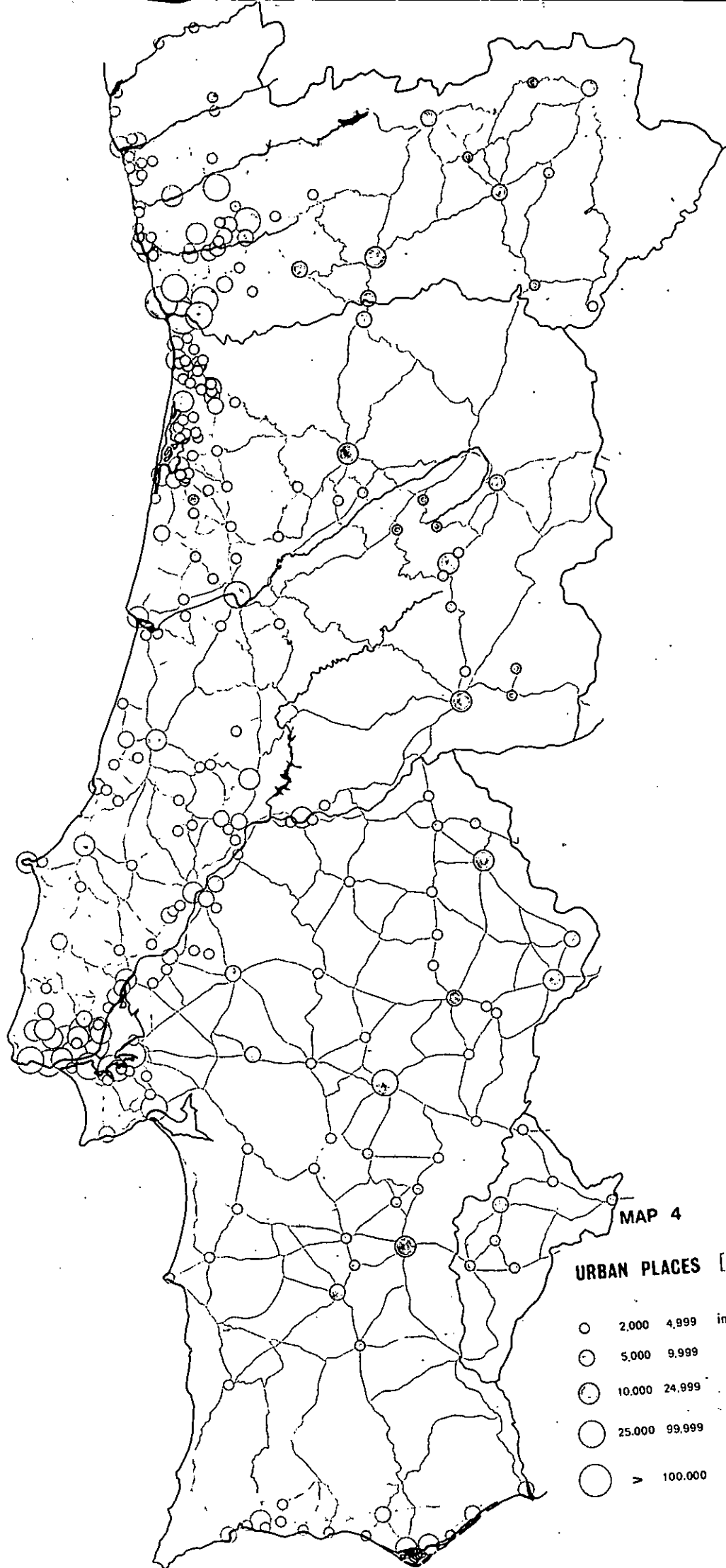
6. Let us now consider our approach to development. There are essential goods and services whose supply should be spread all over the country in such a way that everybody, wherever they live, has access (at least physical access) to them. Of course, there are different degrees of need for those basic goods and services or, as is usually said, goods and services are of different "orders". This means that they must be spread accordingly, concentration of supply being reduced to the extent that the order of importance is reduced. All of them must be available at (central) places so located that the space - the population rather - is properly served.

(6) The level of regional aggregation does not allow to go much farther. Notice in Map A (at the end) that the way planning regions have been formed in fact brings together in the same area subregions with very different levels of development. This is certainly evident in the Northern and Central planning regions, which are very far from being homogeneous (compare with Map B)

Different degrees of need for goods and services (central functions) enable us to consider a hierarchical order for them, the same being true for (central) places where they can be found. The higher the order of importance of a place the larger the range of available goods and services and the larger the region it may supply. This of course makes sense: the higher the order of a good the lower the degree of need for it (or the frequency of the need for it). For goods and services less frequently needed the convenient size of the market is attained at the cost of enlarging the complementary region of the centre; and as they are less frequently needed than others (of lower order), people are going to accept spending longer to get them. Whatever the good or service, one may say there should be a threshold (minimum market size) to be crossed for the good or service to be available. Whatever the good or service there is a maximum convenient distance to cover (range) to gain access to it.

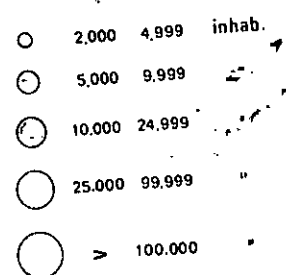
Both threshold and range are useful concepts. However; as we are concerned with basic goods and services - basic central functions - we propose that regional policy must be based first on respect for reasonable ranges (which vary according to the order of the goods or services) and then on the search for convenient thresholds.

Of course, population centres - towns and cities - are places where we expect (central) functions to be performed. They at least favour the search for suitable thresholds. However, their location in Portugal follows the general spatial disequilibrium pattern (Map 4) and this means that we are very far from having a convenient network of centres to base a hierarchical system upon. With such a network it might perhaps be possible to find convenient thresholds but there would not be any chance of organizing space under acceptable range conditions.



MAP 4

URBAN PLACES [1970]



This can be demonstrated by referring to some research in progress at the Centre for Urban Studies (7) in Lisboa.

The analysis of the banking system has shown an enormous concentration of facilities in the most highly developed part of the country. We may say that, in relative terms, there are some over-favoured areas at the cost of too few facilities in other regions. But the most important fact to realize is the blank spaces which appear in the interior after drawing some accessibility lines based on not very demanding standards. In fact, considering two kinds of standards resulting from the combination of frequency of public transport and length of journey

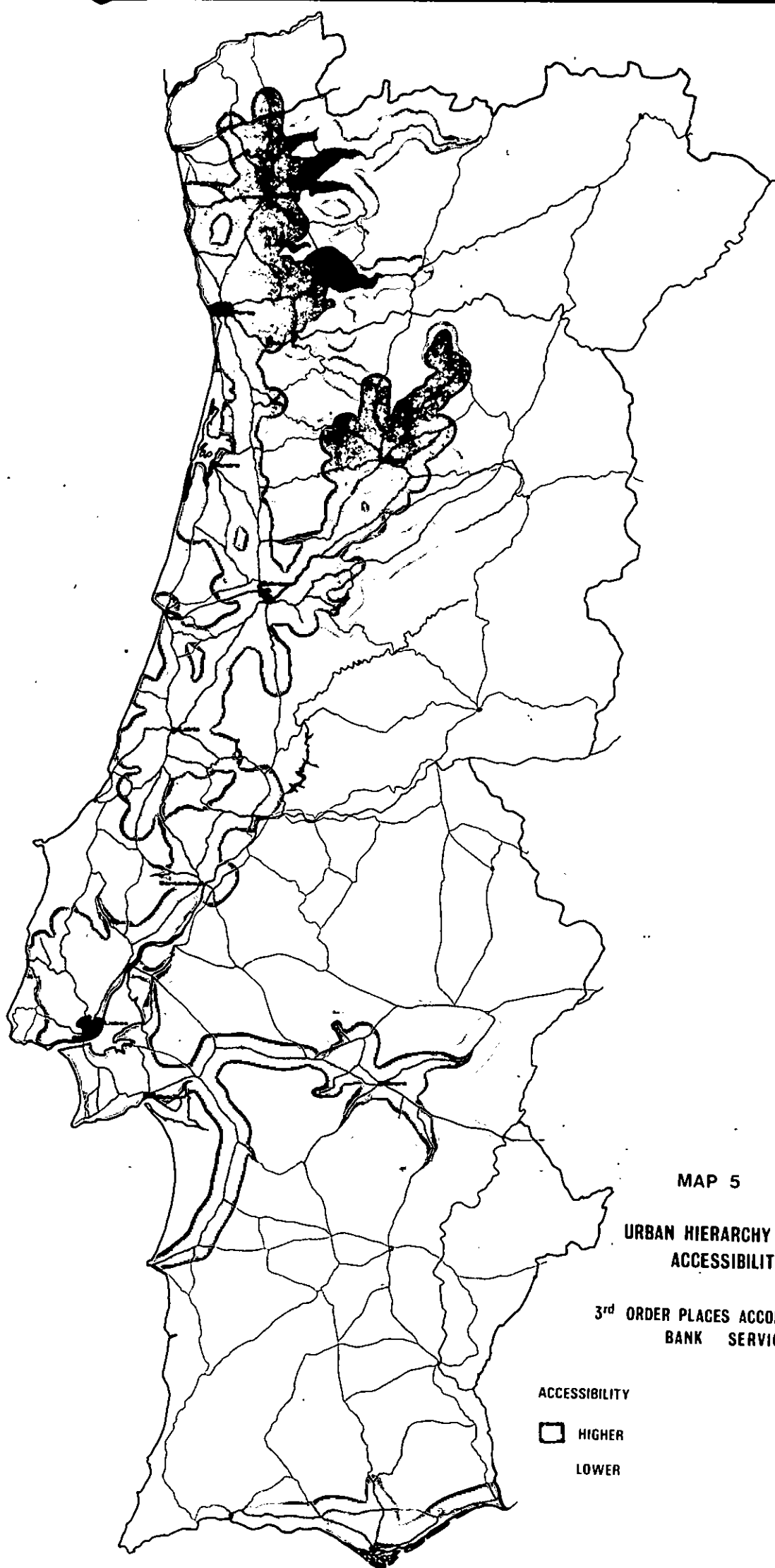
- a) at least two possibilities (a/day) of reaching the centre by public transport spending less than 90 minutes each way;
- b) the same number of possibilities, spending less than 60 minutes;

we may see from Map 5 (also from Map 7) the generally poor coverage furnished by centres of third hierarchical order⁽⁸⁾.

(7) There is some research going on into the Portuguese urban system. It has the Central Places Theory as one basic theoretical framework, the order of the centres being assessed using a principal components approach. The research team started with the analysis of the health services and continued immediately after nationalization of the banks by studying the facilities available in that sector. The team intends to consider also educational, administrative and commercial services and aims to integrate these different sectorial studies in order to arrive at concrete proposals for the urban hierarchy. The main objective, however, is the discussion of accessibility to the basic services in order to create conditions for rational and substantiated regional policy decisions to be taken.

Maps 5, 6 and 7 have been prepared at the Centre for Urban Studies.

(8) According to the theory, second and first order centres are also included since they perform all functions of lower order centres.



MAP 5

URBAN HIERARCHY AND
ACCESSIBILITY

3rd ORDER PLACES ACCORDING TO
BANK SERVICES

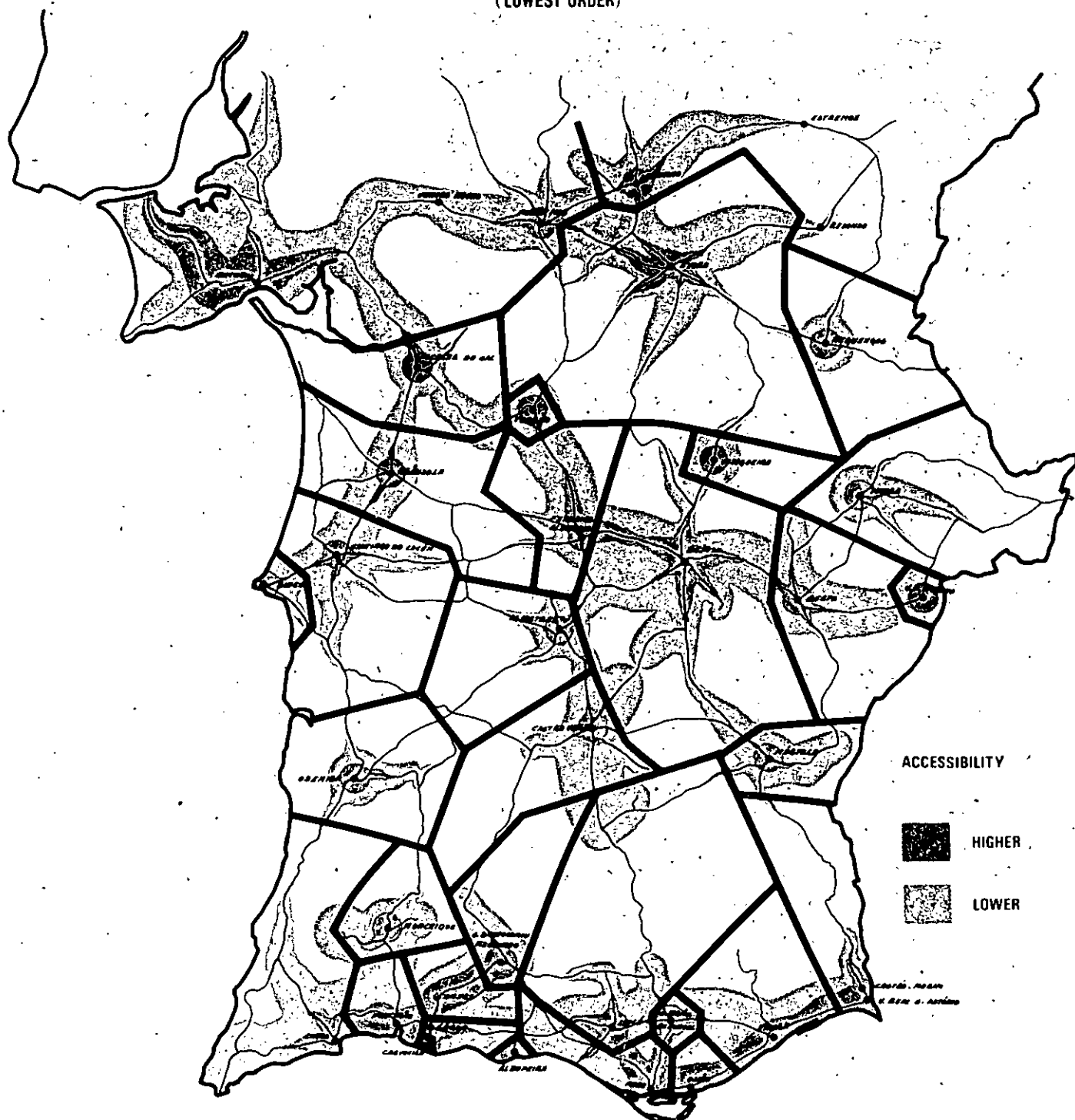
ACCESSIBILITY

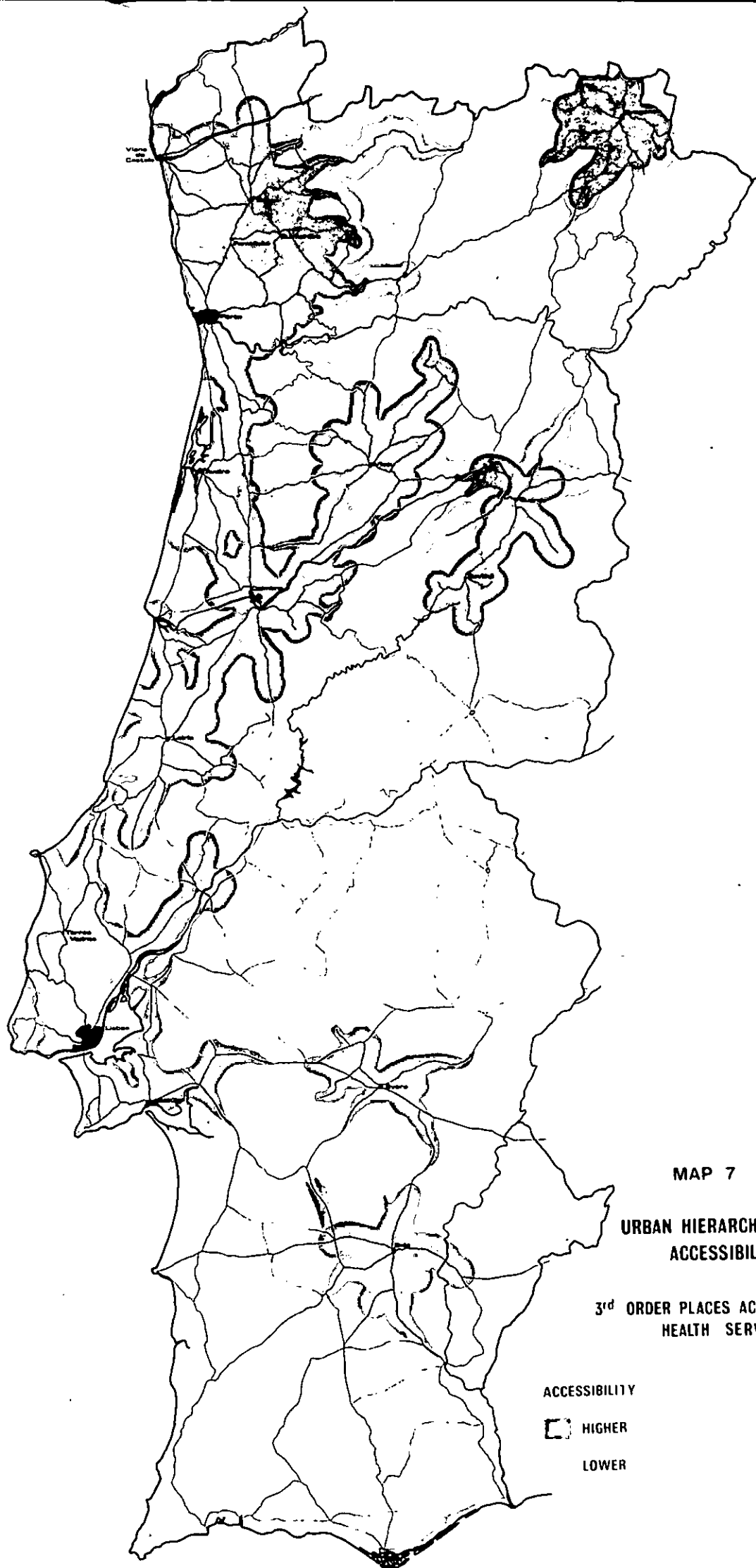
□ HIGHER

□ LOWER

MAP 6

URBAN HIERARCHY AND ACCESSIBILITY
BANK SERVICES
ALL PLACES
(LOWEST ORDER)





MAP 7

URBAN HIERARCHY AND
ACCESSIBILITY

3rd ORDER PLACES ACCORDING TO
HEALTH SERVICES

ACCESSIBILITY

■ HIGHER

□ LOWER

One may see little relevance in the analysis of results concerning one service (banking) which may not be considered as a social basic service. However, the pattern for the health services is not very different (Map 7). Besides, there should be stressed the existence of very high positive correlations between the distribution of banking facilities and health services, and between the importance of centres indicated by their banking facilities and by their size. No one can be surprised if very high positive correlations are found between the location of banking facilities and that of all other "tertiary" and "secondary" industries.

The pattern of accessibility - we must insist - supports very definitely all conclusions on regional imbalance. It happens that merely by looking at Map 7 (for instance) we have a very clear idea of the directions to take to pursue the kind of development policy we have been talking about. It is only a question of considering the various levels of the hierarchy down to the lowest (see Map 6) in order to list all possible lines of action - some of them alternatives - to improve spatial organization. There will be cases where the problem is to reinforce the services in existing centres; in other cases it will be advisable to create new centres; in still others, to improve conditions of access either by building new roads or by augmenting means of transportation.

Perhaps we should stress the importance of this last aspect. The economics of transportation is a matter to consider with urgency. Regional development policy has to be largely based on the improvement of transportation since it will be the most general way of increasing access - and improving coverage - for all existing services, thus reducing the economically undesirable results of too great a dispersion.

7. Once more we must not run the risk of oversimplifying. The exercise we propose is a very complex one.

First of all there is the question of interdependence and in some cases complementariness among services - even social services. It would be too naive to consider the spatial organization for every central function separately. They are interrelated and we should arrive at one spatial organization pattern, not several. So, though we may consider the case of each function, there must come a moment when a synthesis has to be made. Only after that may one have a solid basis for proposing a network of centres and market areas organized on hierarchical principles, this being the second question to take into account: central places are interdependent either "horizontally" (relationships are established among places of the same order and among their complementary regions) or "vertically" (from one rank of the hierarchy to another).

This leads us to a third very important problem: the question of thresholds.

Given the extremely unbalanced regional picture and its process of deterioration it certainly is justifiable that spatial organization in Portugal, which does not yet exist, should be built upon the "reasonable-range" or "accessibility" principle. It must further be said that the longer we wait to adopt and implement such a policy the more we shall have to pay socially and also economically; and, in the end, there will be no alternative for this regional policy if we want to keep some people in the inland areas. However, it certainly is very important that conditions be created for the size of many small centres to increase in order to come closer to suitable thresholds. If the accessibility policy is intended to provide for the satisfaction of the basic needs of the people and induce them not to leave those deprived areas it is then absolutely necessary to take it together with some other fundamental policy lines obviously associated with the increase in the number of jobs. This is one aspect of the

essential question of creating an economic basis for the community to be self-sustained. Moreover, it would not be advisable to provide permanently under-sized communities with social services from which society might expect an intensity of use corresponding to a threshold much higher than their actual size.

This leads us to another extremely important and difficult question: the spatial distribution of productive industries and their interdependence with the service industries and all other tertiary activities.

Of course, every region, every centre, has to develop its productive capacity so that its economic base may ensure a reasonable degree of independence and self-sustaining conditions for growth. This obviously calls for investment. But being independent and self-sustaining does not necessarily make for autonomous and independent economic policies concerning productive industries; the same goes for any policy concerning social services, which, even when designed to give better conditions and "independence", cannot be taken as independent. Interdependence is the general word we used previously when referring to the hierarchical organization. Interdependence is the word we use now to express the need to decide upon the location of industries in an integrated fashion. Interindustry relationships demand such an approach. The same approach is demanded even more strongly by interregional-interindustry relationships.

There should be no room for doubt on this point. Simply, because there has been no sound regional policy in Portugal, investment has been mostly directed to certain regions under the pretence of developing them, with no consideration for inter-regional relationships and little or none for inter-industry relationships.

This brings us to our final points.

On the one hand, even when location of productive industries (especially manufacturing) is market-orientated, it depends

on local markets only in a very restricted number of cases. On the other hand, even when location is resource-orientated industry very seldom depends for its inputs on local sources only. This means that to succeed regional development has to be based on an investment policy which respects the interindustry-interregional relationships (unless these relationships are controlled or changed). In fact, they act as "dependence-relationships" and if they are not controlled or changed it may very well happen that in a very short time all the induced effects of investment in one underdeveloped or depressed region are absorbed by the dominant region or regions.

The Portuguese case is just one such. If we use the highly aggregated input-output table we constructed earlier to simulate the results of an investment policy in the Southern planning region, for instance, we very easily realize that it is the region of Lisboa which is going to benefit from those investments if the "dependence-relationships" are not changed. As a matter of fact one could estimate under the assumption of constant interregional coefficients (i.e. permanence of the "dependence-relationships") the effect resulting from any amount of investments in the South. Every 1000 "contos" would mean the following direct inputs from the several regions (see the interregional coefficients table on page 14):

North	167	"contos"
Centre	176	"
Lisboa	368	"
South	289	"

These direct inputs have to be supplied by the regions. According to our hypothesis they would generate the following "first" induced inputs which, in turn, have to be supplied (and produced):

	North	Centre	Lisboa	South	Outputs (Total)
North	59.1	48.2	71.4	48.3	227
Centre	42.6	51.6	69.9	50.9	215
Lisboa	57.1	66.0	207.6	106.3	437
South	8.2	10.2	19.1	83.5	121
Inputs (Total)	167	176	368	289	1000

Lisboa is the region to benefit most from both direct and induced inputs. And, of course, it would be too easy to realize an almost complete absorption of the induced effects by the most highly developed regions, after a few "rounds" of this iterative process.

This would be the picture after four "rounds":

	North	Centre	Lisboa	South	Outputs (Total)
North	88.1	62.4	87.5	12.0	250.0
Centre	63.5	66.8	85.7	12.7	228.7
Lisboa	85.1	85.5	254.5	26.5	451.6
South	12.2	13.2	23.5	20.8	69.7
Inputs (Total)	248.9	227.9	451.2	72.0	1000

If we present this very simple and elementary calculation it is because we feel most responsible people neglect and indeed are not aware of the possible outcome of decisions taken without any satisfactory basis; also because many underestimate - even ignore - the possible effects of the spatial factor upon the functioning of the economy.

Of course, it was not by mere chance we took the southern region as an example. Sines is an appealing case. Will it be an appalling one?

8. Conclusions.

We are dealing with the human environment and we have no valid alternative but to look at it as a system - a complex system. This means, first of all, that we have to understand the operation of the system as a whole and, when we want to take action to introduce changes or to control it, we have to be aware that if we do not fully understand the system action on one part of it may have unexpected effects elsewhere. We have seen this in a very simple way through the example which concluded the last section.

There is a second point resulting from the first. A complex system has to be controlled in a complex way. We may call planning the total complex operations of control. Among these operations we may say that a preliminary one is to understand the system, to scan the environment thoroughly in order to make judgements based upon the set of values society has adopted. Then it is a question of formulating general goals to be expressed in more precise objectives and finding and discussing possible lines of action - policy lines - to attain the objectives and approach the goals. Such a discussion must include the fundamental stage of evaluation where means, costs and benefits have to be considered. Then, finally, comes action.

Of course, no one would expect a complete and precise understanding of the system to be possible, just as no one could expect given lines of action - even if they were correctly taken and corresponded to the best decision - to produce the necessary and most desired results. Moreover, the definition of precise objectives is not for ever, that is, objectives may change according to the evolution of the system. All this means that planning has to be understood as a cyclic process and as a permanent activity, always comprising the stages just mentioned: analysis, formulation of goals and objectives, listing the possible lines of action, evaluation, action.

Let us now turn to the problems and guide lines for a regional development policy in Portugal.

a) We certainly need to understand the system. However, as it has been mentioned time and again, our statistical information is too poor and inadequate for us fully to understand it. And, as we lack the appropriate information, we are not allowed to construct certain indispensable instruments to permit a synthetic view of its functioning (we may think, for instance, of regional accounts or, at least, of an input-output table, with a satisfactory degree of aggregation by regions and by industries, where we could distinguish between capital and current flows).

b) Even without adequate statistical information we can draw the basic lines of economic and social differentiation in the country so as to formulate in broad terms the goals for our society to achieve. However, if we may accept that goals may be formulated by some central agency or body taking into account the general knowledge of the system and the very broad orientations contained in a basic document such as the Constitution, when it comes to the definition of more precise objectives no one should remain ignorant of the actual will of the population of the regions involved, their true wants and needs. Regions should no longer be mere objects of planning; they must be real subjects of planning. Participation is something to fight for, not only because it is one of the bases for policies to succeed but also because in most cases central agencies are unable to make their views coincide with those of the people concerned. Therefore, we must point out the need for a decentralized organic structure where the interests of the people are represented⁽⁹⁾.

(9) Such an organic structure has recently been proposed in Portugal, and it will certainly be discussed in Parliament very shortly. Some of the preparatory studies, which include a proposal for a new division of the country into regions, have already been published. This means that this field shows better prospects than that concerning the need for detailed regional statistical information. However, we shall have to wait for decisions on the new organic structure and on new division into regions.

The proposal for the new administrative regions cannot be accepted without reserve. Since we cannot afford to have different planning and administrative regions it is essential the proposal give more consideration to the basic aspects of the spatial organization of economic life. After all, no one doubts that any decision on the regional division of the country is a most fundamental decision on regional economic policy.

c) However, there may exist too little doubt about the sort of goals we have to pursue. According to the Constitution development is the basic goal, with the detailed "nuances" we pointed out before. This is extremely important since it establishes definitively the fundamental policy line for the future: it is not growth in itself that matters but development. It could not be otherwise. For the sake of coherence, maximization of growth as an objective in itself⁽¹⁰⁾ has been definitely put aside by the Constitution as a fundamental goal for Portuguese society when the attainment of a "harmonic development for all sectors and regions", "justice in the distribution of wealth among individuals and regions" and the "protection of the environment and the quality of life of the people", for example, are stated as basic principles.

d) Now as to development; not as a vague word meaning everything but as a concrete and precise expression meaning access for all to the more relevant social services of our time. Economies of scale, agglomeration effects, thresholds, are concepts to be taken into account not as dictators but as indicators to consider for the better organization of our economic life. Basic social services have to be distributed throughout the country; they should be located in suitably chosen urban places in order to obtain the most rational coverage for the country as a whole; the logical basis for this may be found in the principles of central places theory.

e) Of course, creation of jobs, full employment, attraction of people to deprived areas are essential, and mostly depend on productive industries. This means that decisions on the location of these activities must accompany those concerning social services. By no means, however, should decisions on social facilities wait on those concerning investment in productive industries. And this question raises two main points:

(10) Of course, growth does not imply development; development certainly implies growth. Maximization of growth, in itself, cannot be - according to the Constitution - the goal of Portuguese society. Even "maximization of growth subject to constraints" (regional balance, justice, or whatever) would always be a dangerous way of expressing it.

First: as we have said, there are regions where people can no longer wait for the basic social facilities whose location need not involve so many discussions and difficulties as happens with manufacturing industries, namely because social services depend mostly on public investment.

Secondly: it certainly is necessary to bring private industry and public infrastructure planning together in a common process. Decisions on the location of manufacturing industries have to be more carefully weighed especially if one accepts the basic principles of a systems approach to planning. And for the location of private industries a system of inducements has to be devised and implemented but no one expects a quick and appropriate response to particular situations⁽¹¹⁾.

All this gives support to the view that in the present situation the location of social services may take priority over the location of other perhaps more important industries that create jobs.

f) And we come back to the systems view of planning. The theoretical framework suggested for spatial organization as far as services (tertiary industries) are concerned ensures an interrelated and integrated approach to the network of central marketing places and complementary regions. If decisions on the location of manufacturing industries go along with the general pattern of service centres, one can accept conformity with a spatial order which, however, has to be reconciled with the need to respect the basic inter-industry relationships which with inter-regional relationships provide two essential

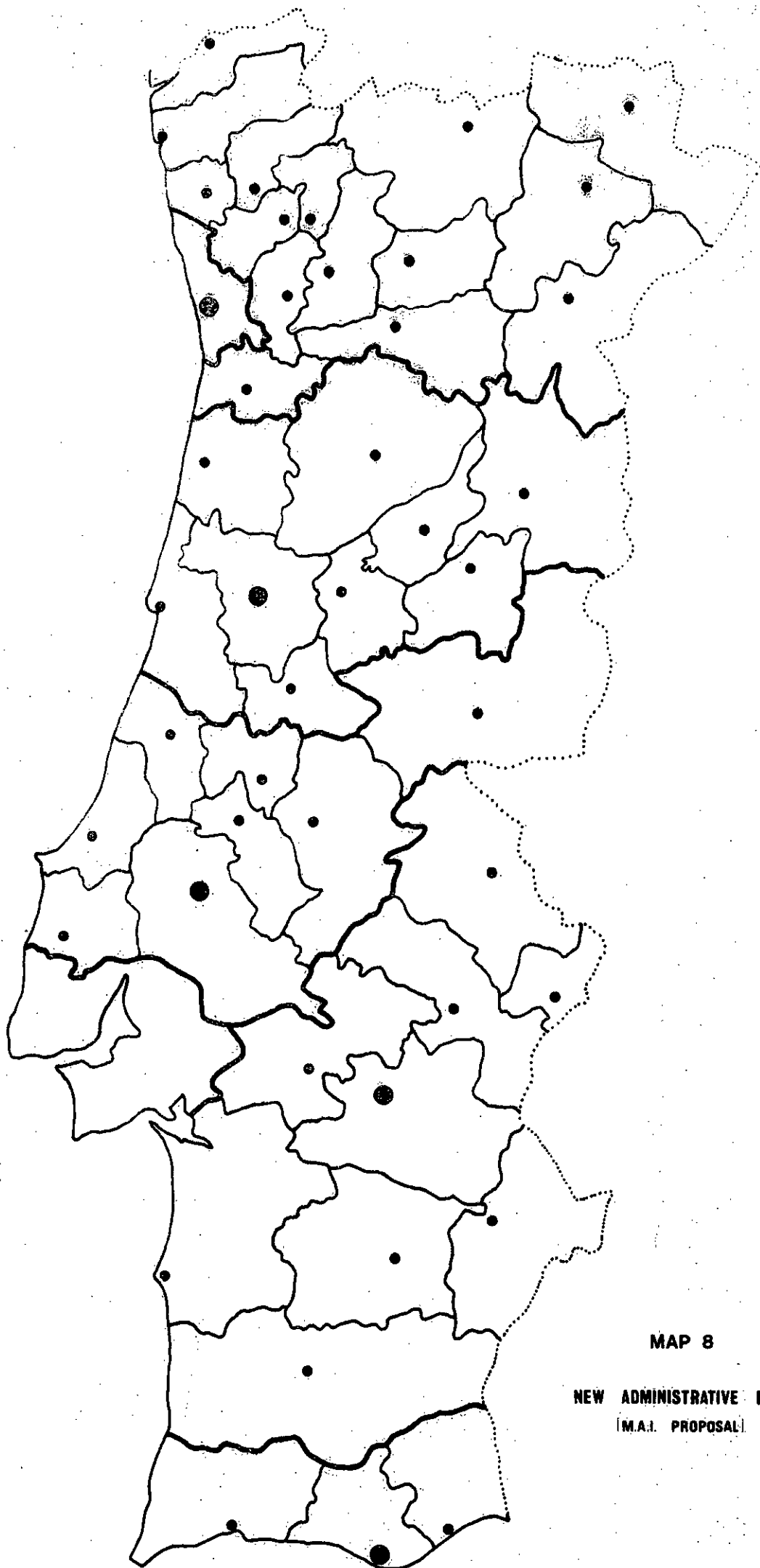
(11) Fortunately, the degree of congestion in our larger urban agglomerations has not yet attained the level of most European large conurbations. This means that we perhaps still have time to avoid all the pernicious situations those countries face as far as congestion is concerned. We should simply learn from them and provide for the positive encouragement of new industry in areas where agglomeration effects (among others) do not attract it (positive fiscal incentives, investment grants, loans, even specially-built factories and factories for occupation at low rents as has been done in Great Britain) and negative encouragements to industry to leave the larger agglomerations (again, fiscal measures possibly accompanied by a strict system of permits).

bases for planning. This means that a complementary theoretical framework has to be considered for the particular case of productive industries, which takes into account spatial needs and explores inter-industry relationships. This framework could be the growth pole theory used in the sense of providing a convenient network of growth centres to mesh with the general pattern of centres.

g) A systems view of planning is still more demanding and the resultant pressures are obviously reflected in the decision-making process.

One may consider three different levels of planning: the national (overall) level; the national/regional and the regional/local levels. They have to be interrelated. We believe it is high time to give priority to the national/regional level over the regional/local level. What has been done in Portugal at the regional/local scale is entirely disconnected from any other scale, in part because there has been no regional planning. The level of the most pressing problems is now the national/regional one, though they may appear at the regional/local level - at which it becomes evident that people do exist. Because we cannot afford "to plan" without basic knowledge, basic tools, basic organisms, basic respect for the need of integration, basic respect for an interdisciplinary approach (what else?), we cannot go on with regional/local planning as it has been; also because it has been no more than physical planning without socio-economic directives or constraints.

The emphasis, now, should be on the national/regional level. Integration of the regional/local level is by definition inherent in the process if spatial organization is based upon the central places theory. The same holds true as far as integration of the national/regional scale is concerned. And this is one fundamental reason why we would support every effort to revise studies of the new administrative and planning regions. The existing proposal may have considered some essential geographical, historical, even sociological



MAP 8

NEW ADMINISTRATIVE REGIONS
[M.A.I. PROPOSAL]

features of the Portuguese people according to the area where they live; but it is far from considering the functioning of the economy and does not seem to allow a further inter-related spatial organization of society (see Map 8).

9. We are not going to summarize yet again what we have tried to bring together in the previous section. We only should like to stress that among the guide lines for a regional policy we have tried to formulate in this paper there are some preliminary problems which have to be considered immediately, with a very high priority: we refer to statistical information on which depends almost everything else; to the indispensable coordination of policies among the various ministerial departments and regions; to the need to decide on certain basic strategies when means are scarce and basic needs overwhelming.

In fact, we have to scan the system thoroughly in order fully to understand it, if we want to take decisions on regional economic policy on a sound basis in a few years' time. We do need statistical information for that. It is enough to have to start now even on a precarious basis.

We have to create a coordinating agency for spatial organization in order to succeed in making regions understand why they are not going to receive all the financial and other means they want and in order to ensure that individual ministerial departments are going to develop their own policies in a well-founded and integrated way.

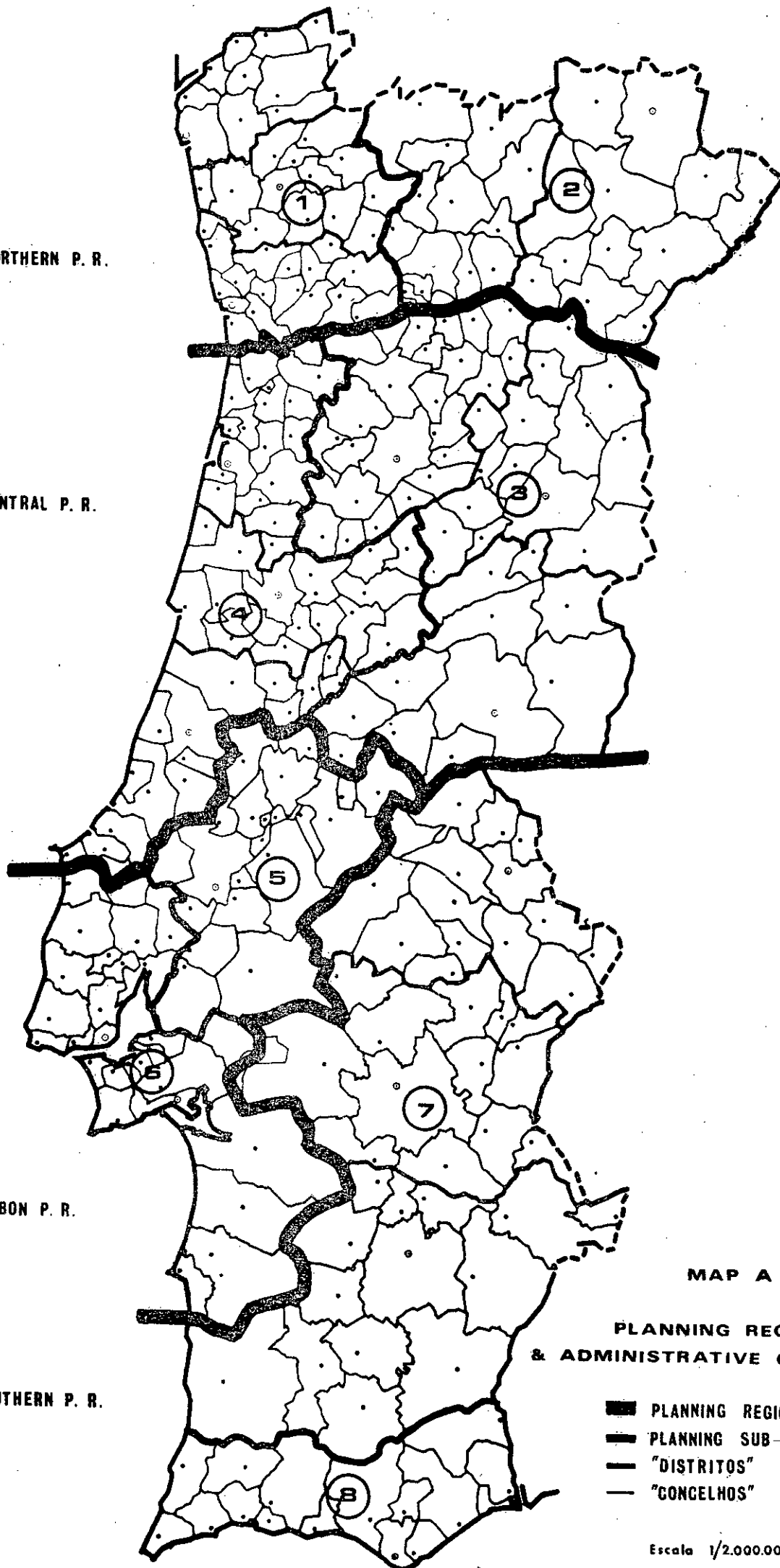
We have to be sure whether we want great and spectacular investment projects or more modest but fundamental initiatives: motorways or secondary roads? Thermo-nuclear energy or the recovery of many dispersed and misused (and unused) means of producing energy, together with increased usage of some natural non-explored resources? Sines, a big new airport at all costs, or the diversification of the economic base for rural areas, or some basic sewage disposal systems, or doctors, or schools?

NORTHERN P. R.

CENTRAL P. R.

LISBON P. R.

SOUTHERN P. R.

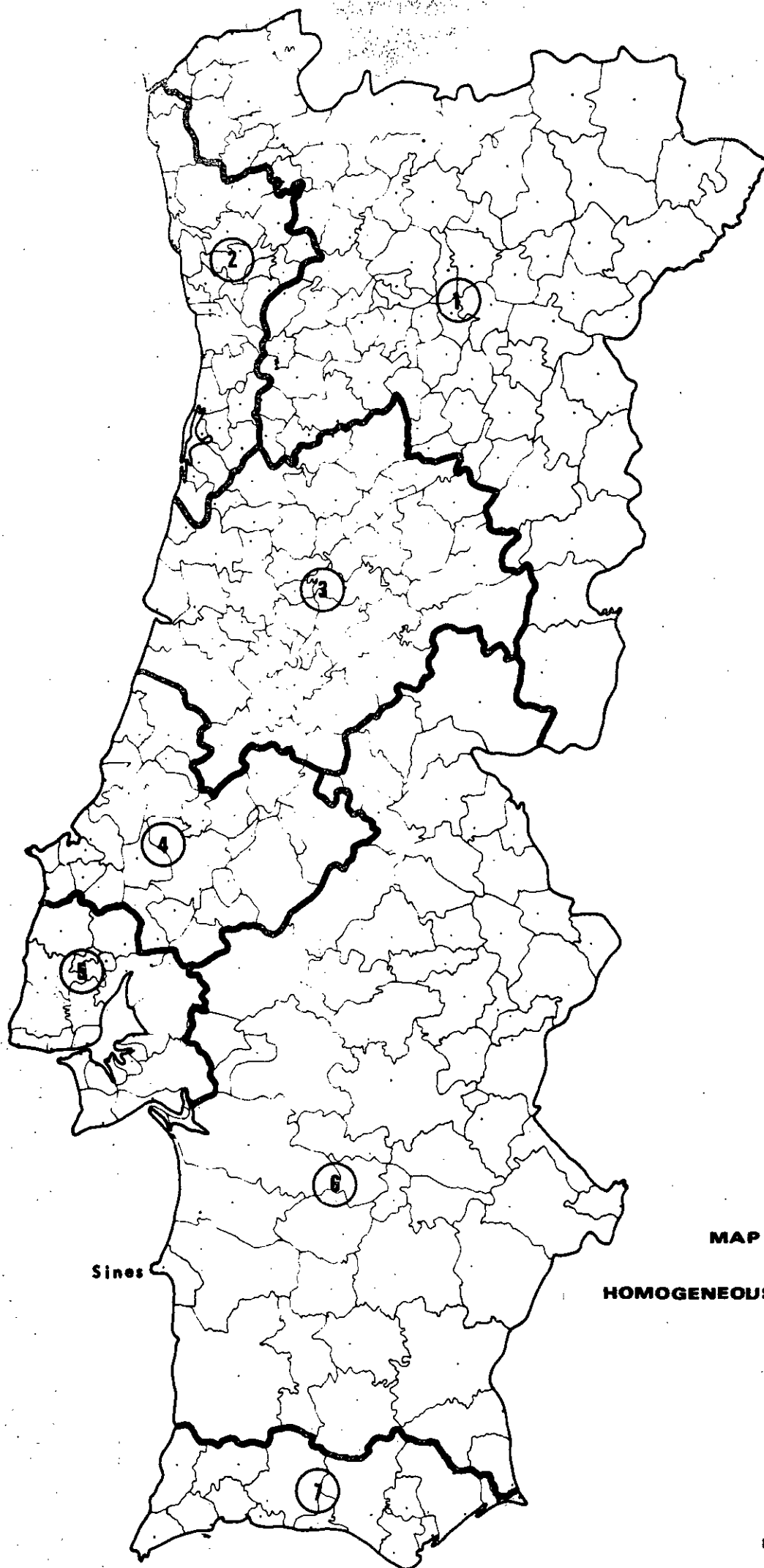


MAP A

PLANNING REGIONS
& ADMINISTRATIVE ORGANISATION

- PLANNING REGIONS
- ▬ PLANNING SUB-REGION
- "DISTRITOS"
- "CONCELHOS"

Escala 1/2.000.000



MAP B

HOMOGENEOUS REGIONS

Escola 1/2000000

NOTE

Maps 1, 2, 4, 5, 6 and 7 were prepared at the Centre for Urban Studies (Ministério da Habitação e Urbanismo)

Sources concerning the remaining maps:

Map 3 - Junta Autónoma das Estradas

Map 8 - Ministério da Administração Interna (Direcção Geral da Acção Regional

Map A - Plano de Fomento 1968-73

Map B - C. Caldas & S. Loureiro, Regiões Homogêneas no Continente Português, F.C.Gulbenkian, Lisboa

CONFERENCE ON THE PORTUGUESE ECONOMY

11th — 13th October

13

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11.03.02

EDUCATION, SKILL SUPPLY, AND REFORM IN THE
PORTUGUESE ECONOMY

by

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and

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Brunel University

LONDON

(Restricted Circulation)

Education, skill supply, and reform in the
Portuguese Economy

by

Lord Vaizey of Greenwich and Dr. David Herbert,
Brunel University, London

1. The relationship between economic growth and education is extremely complex. It can be divided into three parts for analytical purposes (see Vaizey, Norris et al ¹); the effects of informal education on worker and consumer attitudes; the effects of formal education on these attitudes; and the effects of both formal and informal education and training on manpower skill supplies.
2. It is not necessary here to review the analytical base of the position taken in this paper for that has been done elsewhere. Suffice it to say, that even for those who accept the validity of neo-neo-classical capital theory, there is considerable pragmatic difficulty in identifying the residual factor with formal education along (Denison ²). The consequence of this realisation of the empirical problem has been to make previously apparently firmly-based

1. Vaizey; Norris, Sheehan, Lynch & Leite, The Political Economy of Education, Duckworth, 1972

2. Denison, E.F., 'Measuring the contribution of education (and the "residual") to economic growth' in The Residual Factor & Economic Growth, Paris, OECD, 1965

calculations seem self-evidently imprecise. It is assumed in this paper that so-called rate of return calculations can make no contribution to the analysis of the future needs of the Portuguese economy for education and training.

3. It is evident, however, that on several criteria the neo-Keynesian analysis has a substantial series of contributions to make. In the first place, by simple comparison of existing OECD data with other countries (Martins & others), on a simple social demand, or social justice, basis, Portugal needs a substantial investment in education. It would be necessary to extend provision of basic education to the rural areas and to the poorer parts of the cities, and to raise the school leaving age to at least 15, as well as to improve buildings and to train teachers. This is an obvious field for humanitarian overseas support, and the analysis of the cost (see Vaizey, The Economics of Education³) of overseas support shows how complex the matter is. Since education has a low import content in itself its effect on the balance of payments is largely through the import content of teachers' expenditure. Before the Revolution, Portuguese teachers stood relatively high as multiple of average income (as is the case with most poor teachers) and it may be assumed from experience elsewhere that the propensity to import rises with income. It follows, therefore, that the attempt to expand education will require general rather than specific aid for the balance of payments, though for public

3. Vaizey, J., The Economics of Education, Macmillan, 1973

relations purposes this may be earmarked as "educational aid"

4. Portugal is ideally placed to expand its teacher force. It has a relative oversupply of graduates. It will be necessary completely to reform the higher education system so that the division between training for teachers in primary schools and university education is ended; at the moment the system is that which prevailed in the rest of Europe before the post-World War II reforms. This should ensure a flow of graduates - similar to that planned in Spain under the Libro Blanco and accompanying reforms - into a unified primary and secondary school system. There is no manpower constraint on educational expansion, rather there is widespread unemployment and underemployment, specially among women. It may be assumed that many of those returned from Angola and Mozambique are highly technically qualified. They may very well be trained as teachers and instructors and used for the expansion of the education system.

5. It will be necessary to alter the career and salary structure of the teacher force so that the barriers hitherto existing between the lyceums and the elementary schools are eliminated. (On all this see Vaizey, Norris, Sheehan, Lynch, Leite⁴). This restructuring of the profession will presumably form part of a much wider restructuring of professional salaries in the context of substantial moves towards a more democratic

4. The Political Economy of Education, op. cit.

and egalitarian social system, and the necessity to attain substantial economic growth. This restructuring is not the subject of the present paper, but it is assumed as a datum. It will be impossible to plan or arrange for a supply of skills unless the labour market has been systematically reorganised to attract the right people into the right jobs; and this cannot be left to "market forces" in a situation where the great bulk of qualified manpower is working in the public sector. Of course there will be constraints on upper and lower levels of remuneration, imposed by political pressures and by the fact (if Portugal joins the EEC especially) of a strong tradition of international labour mobility in the Portuguese labour force.

6. A major constraint on the development of education will be the shortage of buildings and equipment. Equipment - except for books which need to be indigenous - can be imported and is therefore properly a subject for direct foreign aid. The major domestic constraint on educational expansion, however, is the strain on the building industry, and industry which will be under severe pressure for the programmes for industrialisation, tourism and housing. This will require the most careful planning. There are surplus military installations and it is possible that voluntary effort might be forthcoming on a widespread basis for conversion of possibly suitable buildings. It has to be recalled that the climate of Northern Portugal is wet and inclement.

7. All so far written deals with an attempt to bring formal education at primary and secondary level up to - say - the Spanish or Italian average enrolments per age cohort. There are two further major problems, however, that need to be highlighted. The first is that of adult literacy and education a primary purpose of the democratic régime is the elimination of the backwardness left as a legacy of Salazarism. The other major problem is not social (as the first mainly is) but directly economic. It is the provision of adequate flows of talent and skills in the directions necessary for economic restructuring as part of the process of economic and social development.
8. To take first economic literacy. There has been a tendency to coalesce literacy and similar adult education programmes with skill provision programmes under the concept of éducation permanente. The thesis is that the need to keep different age groups in society roughly parallel in educational attainment requires an upgrading of earlier underprivileged generations (especially important in the Portuguese case) and the continual updating of skills as the economy and the techniques which it uses change over time. Nowhere is this more important than in a country which is going through a period of profound transformation. Emphasis is laid in the analysis on informal education. It must be recalled in the 15 years before the Oil Crisis of the autumn of 1973 the Portuguese economy was profoundly changed,

especially in Lisbon, Oporto and the tourist areas of the Algarve with comparatively little formal training. Many of the skills of the population were picked up on the job, as they moved from a profoundly reactionary and traditional agricultural sector to a modernised economy. The important engineering and managerial skills were often acquired abroad. Also, as a result of the experience of the 2 million or so Portuguese who have worked in other European countries (notably, Germany, France and Switzerland) as gastarbeiter there is a reservoir of experienced manpower with varying degrees of skills, many of them acquired on-the-job. It would be foolishly wasteful to attempt to give those people and their families a basic education without building upon skills and experience of a profoundly important nature. In other words the two aspects of education - education in a school, and education by and through life - have grown out of balance. It does not make sense to attempt a basic education programme without recognizing this basic fact.

9. That is the strength of éducation permanente as a concept, especially when attention is paid to the high wastage rates of formal education which are closely related to its non-functional or even dysfunctional aspects - as it actively discourages its own successes from playing any effective part in the economy. Nevertheless, this much admitted, it has to be said that the conceptual confusion of remedial education

that is, bringing older generations up to the formal level of their children - with the acquisition of skills leads to severe organizational problems (for the first task exists independently of the second). It is not sufficient to compare the acknowledged inefficiency of the formal education system with a hypothetical efficiency of a hypothetical system of éducation permanente. The problems of organisation of a system of adult education are sufficient in themselves without confusing them, conceptually at least, with a different set of problems of skill training.

10. The structure of adult education will require a series of locally based institutions, centred on the village, or street of a town, or place of work, for basic literacy. It is suggested that this is a task for a voluntary organisation, centrally administered, but in essence voluntarist and popular. There is no necessary cost apart from the central administration, the books and the supply mechanism.
11. It will be necessary, however, to ensure that a parallel system of primary and secondary part-time institutions is available for those who wish to pursue their education further. It will also be essential to throw open higher education to older students, on a part-time basis. These two proposals will be substantially cost-raising, though the unit costs of such education can be kept low.

12. It is in this context that new educational technology may be discussed. It has been shown (Vaizey, Hewton and Norris ⁵) that all existing innovations of this kind have been cost-raising, while some have increased productivity and others have left it unaffected or even reduced it. The only feasible technology that might be introduced into Portugal is a TV and radio plus correspondence course operation on the lines of the United Kingdom Open University. This operation is not cheap since it requires air-time, plus sophisticated production units, a central (and perhaps regional) correspondence faculty, and frequent seminars and tutorials, at weekends, in the evenings and at holiday periods. It would probably cost - per student - something like 10 times the cost of educating a student at a Portuguese university in the current fashion.
13. This factor of costs suggests, immediately, two things. The first is that the external cost of support of a substantial attempt to upgrade the Portuguese education system could initially be determined by the maximum feasible rate of growth of the system. Initially this might be by 10%, in the first 2 years, followed by a period of slow growth as the new trained teachers were prepared. This cost figure is of the order of 3 to 4% of the cost of the British or German education system - say \$600m in external support costs over two years. The major step forward, from a cost point of view, would be the opening of the Portuguese Open University, at a current cost (including amortisation of capital) of the

5. The Costs of New Educational Technologies, Gulbenkian Foundation, Lisbon, 1971

order of \$20m a year. Thereafter the domestic cost of the system would tend to double in ten years, and to rise by 50% in the subsequent decade. (See Vaizey, The Costs of Education⁶).

14. The strategy so far envisaged, then is for a big growth in educational outlays in years 1 and 2, followed by a slow growth to year 5, followed by substantial growth (of 10% of total outlays in year 1) per year henceforth. This rate of growth has been achieved throughout Europe, including Portugal, before, in the period 1950-1970. In the Portuguese case, the expansion initially will take place in a period of great economic difficulty. It is for this reason that foreign aid is suggested on a substantial scale. But thereafter the educational reform must be sustained by internal economic growth. To achieve the most economic form of expansion, and to ensure its effectiveness, as well as to derive foreign aid on an adequate scale, an educational plan - incorporating the proposals here - will be necessary.
15. Even more important, however, is a programme for skill developemnt for the economy, to match the new investment which is needed. At this point in the analysis only general considerations can be adduced as the detailed sectoral planning has not taken place. It may be assumed, however, that the fifteen major sectors will be government, commerce,

tourism, heavy industry (including steel and shipbuilding), medium and light industry, retailing, and agriculture - itself divided into arable, livestock, horticulture and viniculture - the armed forces, health and education, and fishing. It will be obvious that in none of these sectors is the economy starting from zero. Indeed, assuming that the policy of pre-1974 governments was to keep demand fairly low, and the ready availability of labour supplies, then with some guarantee of the balance of payments, it should be possible to maintain a fairly high level of investment, which would be highly productive. The question that then arises is whether or not the supply of skills in these particular sectors is adequate for a high rate of investment which is adequately labour-intensive in the circumstances of the Portuguese economy. The shortage of senior experienced skilled executives may well perhaps be the most serious problem which will face the economy. A recent ILO mission has undertaken a survey of skill requirements in the Portuguese economy, and it may be worth while bearing in mind that relationships have been established between various levels of skill which are likely to be constant through time in the Portuguese case. It is therefore worth while in connection with each investment project undertaking a fairly detailed skill requirements investigation which can be tested against the experience of other European countries, notably Spain and Yugoslavia.

16. In summary, then, the opportunities for educational development in connection with economic development, though initially difficult, seem highly favourable in the Portuguese situation. In the second part of this paper, attention is paid to specific instances in the light of the latest available data from Portugal.

PART II

THE CURRENT SITUATION

1. The education system has suffered badly from the political instability of the past two years. The 1974 revolution acted as a release-value for all the frustrations that had been built-up under the previous regime and that, paradoxically, had been exacerbated by Caetano's moderate attempts at liberalisation and modernisation. In the words of the present Government's programme, the whole system became a theatre for excessive political confrontation and the result was "total chaos". Arbitrary purgings and appointments of staff radical and unauthorised modifications to syllabic sit-ins, strikes and takeovers all combined to weaken the authority of the central administration. Accordingly, one of the Government's first priorities is the restoration of the climate of confidence and discipline inside schools, universities and the administration. A more democratic method of running educational establishments must be quickly devised to meet the current demands from staff and students for increased participation and the terms of staff selection and employment and the systems of assessment must also be revised and enforced.
2. The structural defects of the education system will become abundantly clear in the sectoral analysis below. The defects are repeatedly those of lack of buildings, internal inefficiency, archaic teaching methods and programmes, excessive regional disparities and lack of suitably qualified staff. These are all recognised by the Government, however the requirements of the general austerity policy inhibit the size of the reform programmes. (Notwithstanding, the proportion of government expenditure devoted to education has increased from 11% in 1970 to 22,5% in 1976). The emphasis is therefore on increasing the efficiency of existing resource-use and on the employment of pre-fabricated buildings, local government installations, private schools, etc. where necessary. The Government is also obliged to adopt a short-term view because medium- and long-

-term goals have yet to be formulated. The creation of a national education and science council is proposed in order to help in this process.

Pre-primary Education

3. Pre-primary education is practically non-existent in Portugal and this fact accounts for much of the poor performance at primary and secondary levels. What there is of pre-primary education is supplied by expensive private establishments concentrated in the richer zones. Thus children from already-favoured backgrounds are placed a further rung above their lesser-privileged peers. Ultimately an official pre-primary system will be provided. In the meantime the requisite teachers are to be trained and, and in the absence of buildings they could be sent to industrial and agricultural creches. Subsidies could also be given to private schools in return for admitting a proportion of under-privileged children.

Basic Education

Primary: (1st-4th years)

4. There is a chronic lack of capacity in primary schools, especially in urban areas, and operation of a double-shift system is widespread. Average weekly teaching hours are therefore limited to 20 hours instead of the officially prescribed 28 hours which inevitably jeopardises "true" education as opposed to the nuts and bolts of "basic" education. This further retards those who have not had the benefit of pre-primary schooling. In rural areas there is a predominance of schools with only one teacher and one classroom. In general, teaching methods tend to be overly traditional and the incidence of children repeating years is high (25,3% in 1973/74).

5. Regional disparities in class size, are large and unrelated to the distribution of the school population. In 1972/73 there was an average of 40 pupils per classroom, but the dispersion ranged from 48 in Lisbon, 56 in Porto, to 25 in Braganza and Beja. On average

there were 113 school-children per 1000 inhabitants of the appropriate ages and the dispersion ranged from only 82 in Lisbon to 129 in Porto and 152 in Braga. Clearly human and physical resources are maldistributed.

6. The government recognises the need for increasing the efficiency of primary schools and double-shifts are to be phased out as soon as possible. Action will also be taken on the social front to help the less advantaged. Thus a transport system to take children to school is to be organised and boarding facilities are to be expanded for older children (this also applies to secondary schools). In some regions children go to school without adequate sustenance. Indeed it has been estimated that approximately 600,000 out of a total of 900,000 attending primary schools (1974/75) needs some form of supplementary feeding. The government is hoping to tackle this with propaganda and by expanding the provision of refectories.

Preparatory: (5th-6th years)

7. The shift system is also in evidence in the preparatory years but 27 hours per week is generally respected (First group: 8.30-1.30 plus Saturday mornings). A significant minority of the staff (45%) have not undergone any teacher training, and a UNESCO study (Éléments pour une politique de l'éducation au Portugal, UNESCO, Paris 1975) claims that teaching programmes do not give sufficient weight to maths and sciences.

8. Regional disparities are again strong. For example, in Lisbon in 1972/73 there were 30 school children of the relevant age per 1000 inhabitants and an average of 72 pupils per classroom and 16 pupils per teacher. Whereas in Beja, with 16 school children per 1000 inhabitants there was an average of 41 pupils per classroom and 14 pupils per teacher. (The overall averages were 61 pupils per classroom, 16 pupils per teacher, and 24 school children per 1000 inhabitants).

Secondary Education

Lycees (7th-11th years)

Pupil numbers are once again in excess of capacity so the shift system is in operation in both private and public schools. As a result average teaching hours are less than the statutory number - 25 instead of 30 in 1972/73 and working efficiency is further reduced by a lack of scientific equipment and audio-visual aids. 74% of the establishments are private with (in 1972/73) 44% of lycee enrollments and the incidence of repeats is in their favour. Thus in 1973/74 19,6% of the pupils were repeating years in the public lycees and only 10,4% in the private. In 1972/73 the lycees took 53% of secondary enrollments (179,000 children representing 36% of 6th year enrollments) and numbers were growing fast (49% 1969/70-1972/73). However the dispersion of pupils per classroom and per teacher still bore little relation to their distribution in the population.

10. Trained teachers are in minority (20% with university and teacher-training), traditional methods are in general use and teachers are underutilised, working full-time only 22 hours per week.

11. Over the past two years the lycees have been prey to disturbances. When universities stopped first-year entries in 1974/75 many would be students took teaching jobs becoming, according to UNESCO (op. cit.) no more than teaching auxiliaries preoccupied with union and political action. Newly-installed school administrations were often unable to cope. The Government intends to begin appointing qualified teachers immediately and also to help unqualified teachers gain the appropriate qualifications.

Technical Schools

12. These comprise commercial and industrial schools, agricultural schools, social service schools, and nursing and mid-wifery schools. They are mainly public institutions and their enrollments are growing much more slowly (5,3% 1969/70-1972/73) than those of the

lycees. The recruits come essentially from the less-privileged classes with poor educational and cultural backgrounds, and they are not systematically prepared for university. Their workload is heavier than in the lycees (40 hours per week instead of 30) and it is also more practical and vocational. However data on patterns of expenditure and on costs suggests that technical schools have inadequate supplies of teaching materials and equipment. In 1973 90% of expenditure by technical schools went on wages and salaries (roughly the same as in lycees) and costs per pupil were actually less (by 7,4%) than in lycees. Needless to say the great bulk of the technical schools are located in the West of the country North of Lisbon and the disparities in class size and staff/student ratios are considerable.

13. The Government's proposes to make education more available to the less-favoured sections of the community. The focus of policy will therefore be the pre-primary, primary and secondary levels. True freedom of access will however be denied until an expanded system of grants and scholarships is introduced, and this is hardly possible in the present economic climate - though some improvements are envisaged in the programme. At the moment all levels attract charges except for the years of compulsory education. In 1973 State scholarships ranged from a maximum of Esc. 3000 (£57) for preparatory schooling to a maximum of Escs. 15,000 (£283) for further education - the average amounts conceded being Escs 1,730 and Escs. 6750 respectively - and the number of students involved was negligible at preparatory and secondary levels.

Higher Education

14. The university system needs radical restructuring after the years of neglect under the old regime. It has also been severely disrupted since the 1974 revolution. Indeed in 1974/75 enrollments actually had to be stopped in order to avoid a reduction of academic standards in the face of a flood of applicants caused by the newly "democratised" entrance standards. Demand has however always exceeded capacity. Between 1970 and 1974 enrollments increased by

14,4% p.a. at lycees and by only 4,9% at universities. In 1972/73 there were 54,000 students at university - equivalent to 3,4% of the school population.

15. Expansion of higher education is not seen as a first priority by the Government so the budget allocation is unlikely to be increased next year. The emphasis must therefore be in the short-term on rationalising the present system - and there is a good deal of scope for this. Administrative problems are still great specially with regard to the appointment of new staff, the curricula are archaic and there is insufficient full-time staff. There is also an inexplicably wide divergence of costs per student between similar faculties and different universities. Thus in 1975 the Faculty of Letters in Lisbon was 37% and that of Coimbra 151% more expensive than that of Porto.

16. Many teachers are forced by the very low salary levels prevailing to take additional outside jobs and are working less than 12 hours per week at university. The career structure of university teachers is undoubtedly unsatisfactory. The maximum monthly salary for the highest professional grade is Escs. 17700 (£334), and this is not even compensated-for by security of tenure which only becomes operative one grade lower (Professor Extraordinário). Without more positive incentives applicants of the requisite calibre will not be forthcoming and the universities will remain in the academic doldrums.

17. Any expansion of higher education will have to be planned carefully because of the financial and human resource constraints. There also needs to be an overall manpower policy based on the nations' requirements for graduates. Graduate unemployment is already a problem and this may well be compounded by the recent translation of lower-level technological institutes into institutes of higher technology.

Illiteracy

18. It is estimated that approximately 30% of the population have literacy problems. This affects more women than men, and is more of a rural problem than a urban one. Ameliorative measures under the old regime fell far short of an all-out effort and by 1974 only some 15,000 adults were pursuing courses. And the courses themselves were overly-centralised, inefficient, slow and expensive (the estimated cost per adult year of primary education was U.S. \$600).

19. A National Illiteracy Campaign was to have been launched in October 1975 with the somewhat ambitious goal of virtually abolishing illiteracy in 3 years. The present government plans are rather more cautious because the experiences of the last two years - and especially the less than successful Cultural Dynamisation Campaign - have not endeared the central authorities to the people in the North and North-East where much of the problem lies. The aim therefore is the creation of popular literacy associations at parish level (freguesia) under the control of a group of instructors at council level (conselho). The social dimensions of the problem are recognised and it is to be hoped that the various Ministries (Health, Housing, Social Security, etc.) and unions can be induced to co-ordinate their activities in this respect.

CONFERENCE ON THE PORTUGUESE ECONOMY

**Sponsors: German Marshall Fund of the United States
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12.02.04

**A COMPREHENSIVE FRAMEWORK
FOR EMPLOYMENT POLICIES IN PORTUGAL**

by

**Jean Mayer
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International Labour Office

(Restricted Circulation)

A COMPREHENSIVE FRAMEWORK FOR EMPLOYMENT POLICIES
IN PORTUGAL

INTRODUCTION

1. The International Labour Office welcomes the convening of this Conference on the Portuguese economy. In its opinion, there is no doubt that such a gathering represents a significant step towards the elucidation of a wide range of crucial issues and the formulation of numerous policy measures aiming at the achievement of those basic objectives at the heart of the transformation of the Portuguese society, such as full employment, a fairer distribution of income and a larger social justice.

2. However, it should be stated in all fairness that the intervention of the ILO representative cannot be regarded, in any way, as the presentation of policy prescriptions, recommended by an international agency, regarding the cure of those economic and social ills of this country, the symptoms of which are manifold: open unemployment, ill-utilisation of the labour force, mismatching of the labour market, false expectations of the educated, poor labour relations, low productivity, outmigration from rural areas, regional disparities, social marginality, insufficient popular participation, etc.. As a matter of fact, it is only recently that the ILO has been requested by the Portuguese Government to come and assist the State Secretariat for Planning in the preparation of the medium-term development plan 1977-1980, to be submitted to the Parliament by May, 1977. It is the view of policy-makers in Portugal that social objectives, and above all, employment creation and income distribution, should be integrated as priority objectives at the early stages of plan formulation, and they consider that the

ILO can offer a particular experience in these questions, drawn from the numerous field missions that it has mounted since the launching in 1969 of its World Employment Programme.¹

3. Therefore, instead of anticipating the conclusions and recommendations of the mission - which to a large extent are unpredictable - the present paper will be focussed on two major points, which can be considered as prerequisites to a successful operation in this delicate field. In the first section, a review will be made of the scope, dimensions and modalities of a comprehensive approach to the employment problem, and in the second section an attempt will be made to give an overview of the employment situation in Portugal. It is hoped that this can provide both sides - national policy-makers and foreign advisers - with a common base of understanding, and that a dialogue can take place, to start giving effect to the new aspirations of the Portuguese citizens for work and justice.

I. The comprehensive character of employment strategies²

4. It would not be sufficient to justify a global survey of employment problems by the simple fact that each and every sector, branch or social group appears to be deeply affected by the lack of stable jobs or guaranteed incomes. As a matter of fact, the roots of the problems lay much more profound and their solution calls for an inter-related attack on a wide range of fronts.

¹ In Colombia, Sri Lanka, Kenya, Iran, Philippines, Dominican Republic and Sudan respectively.

² This section is partly based on the above-listed mission reports, and partly on the conclusions of an evaluation meeting of the first four missions. All these documents have been published by the ILO.

5. The first, and perhaps most decisive and illuminating conclusion we arrived at, is that economic strategies based on growth per se, with employment obtained as a residual, have been unable to achieve full employment. One can even go as far as to state that unemployment can be considered as a symptom of a country's failure to achieve development. As long as development economists and policy-makers attach more weight to output maximisation than to employment and more equal income distribution, there is little hope that the population left behind will automatically benefit from spontaneous trickle-down effects of growth, which in fact is often concentrated in a few capital-intensive industries and tends to raise productivity rather than employment. Moreover, labour surplus models based on the assumption that an expanding industrial sector would fully absorb the unemployed or underemployed rural labour transferred to the urban areas proved to be grossly unfounded. In other words, economic policies - either planned or not - which imply that a sustained growth would automatically generate full employment and over-all welfare, have given evidences of their failure.

6. It is, therefore, our view that an increase in employment and a more equal income distribution now constitute policy objectives in their own right; in addition to those of increased national production and income, and complementary to, or inter-related with other development goals. Since the attainment of higher levels of productive employment calls for different paths and patterns of economic and social development from those followed hitherto, it would not be possible to attain this objective unless it were made a major separate goal of development strategy. It will, therefore, not suffice that planning efforts, as was done in many countries,

estimate the prospective increase in the labour force and the expected absorption of these increments by the planned rate of economic growth, hoping that this impetus will eventually make a dent in the existing unemployment and underemployment.

7. However, at the same time, it should be stated unequivocally that the objective of increased employment, far from relegating growth, require important over-all growth rates to achieve objectives which might otherwise be mutually conflicting. The crux of the matter is indeed not so much whether to sacrifice growth for employment, or vice-versa, but rather to select both the rate of economic growth and the pattern of development that would offer the most appropriate combination of products, differing both in volume and in composition, with variable structural and temporal conditions. In this connection, only a comprehensive approach at the planning level could provide employment policy-makers with the macro-economic inter-sectoral consistency framework which would enable them to check the internal coherence of output and employment projections from the demand and the supply sides. Therefore, what is required is not just finding job opportunities for a particular sector or group, but to look at the problem of employment as a part of the wider issue of development and transformation, and in particular as part of the problems of poverty and income distribution and the whole social situation of the country concerned.

8. It has become clearer and clearer to the ILO, in the course of its inter-agency employment strategy missions, that an integrated approach aiming at reconciling growth and social justice, places development plans in their proper perspective of structural transformation of a given society. Since unemployment is undoubtedly the visible part of the problem of poverty, economic planners and policy-makers

hand in hand with employment specialists, should see to it that planning, as a technique for a better future, addresses itself to those institutional reforms of a long-term character which have far-reaching implications on employment creation and income generation: land reform, corporate reform, tax, credit and bank reforms, public investment programmes, as well as education, health, sanitation, transport, etc.. Therefore, far from being a single factor abandoned to the play of the market forces at a given moment, and deserving only a limited cure through social subsidies, man should be treated as a full participant in the development process, the ultimate objective of which is to bring about sustained improvement in the well-being of the individual.

9. The second lesson of experience, which also substantiates the need for an integrated approach, is that unemployment represents only the visible part of a wider problem of inappropriate labour utilisation, social dissatisfaction and very often even marginality and destitution. It is clear in our mind that the employment problem is not one problem but three: (a) the shortage of work opportunities; (b) inadequate incomes from work, even if associated with long hours of work; and (c) underutilised labour resources. These three categories culminate in the conclusion that the ultimate object of policy is to provide work which yields enough income for a reasonable standard of living. Far-reaching implications, from a policy viewpoint, stem from this assessment of the situation.

10. Firstly, we have found in some of the countries we visited that a particular type of structural imbalance can exist, in the form of a mismatching between existing employment opportunities and expectations, especially for the young educated generation. This critical situation calls for substantive changes in the structure of

education, of wages and in the process of selection of jobs, but this would not be sufficient to come to grips with the link between education and employment. In countries where disparities are great between groups, sectors and regions, it is likely that an ill-planned expansion of certain types of education can convert non-apparent rural underemployment into visible and often audible urban unemployment, as much as an elitist type of education will reject to lower economic roles, if any at all, those who either have not had access to the system, or have been rejected by it. Be that as it may, it is clear that a full utilisation of all human resources calls for a vigorous dissemination, at each level of the society and in all regions, of an education and training system capable of instilling the skills and attitudes towards work, as well as the cultural values, to all generations that really need to be prepared to have new, or other, chances of getting remunerable and satisfactory jobs.

11. A second segment of the population, to which we have paid increasing attention, is the large number of self-employed people, or heads and members of households, who often can be considered as over-employed, as they work long hours for excessively low incomes. As a matter of fact, they are often missed out in employment statistics generally focussed on paid, modern employment. We have characterised this informal sector by the following criteria: ease of entry, reliance on indigenous resources, family ownership of enterprises, small scale of operation, labour-intensive and adapted technology, skills acquired outside the formal school system and unregulated and competitive markets. Much to our surprise, we have found out that some countries, even those most affected by unemployment, either ignore or harass this sector (e.g., by restrictions to work permits and licences), neglecting thus the positive

contribution to production, employment and income of a relatively self-supporting segment of the labour force which has long demonstrated its aptitude to provide a wide range of low-cost, labour-intensive, competitive goods and services. It is high time policy-makers started paying concrete tribute to the entrepreneurship qualities of the poorest strata of the active population, both in remote rural areas and in urban districts and provide them with appropriate credit, tax and marketing incentives to help them to convert themselves from individual artisans to small-scale employers.

12. A third facet of this problem has been made clear to us in the form of labour underutilisation, especially in agriculture, where it can be a combination of unemployment and underemployment. Possible solutions to these sector-specific issues can be found in package measures aiming at complementing the seasonal labour requirements with the introduction of technological changes which increase or diversify the agricultural production, the promotion of rural non-farm activities and the organisation of rural labour mobility.

13. Another conclusion we arrived at during the course of our employment missions is the paramount importance of income distribution, as seen as a major cause of, and possible source of solution to, employment problems. As a matter of fact, we have diverged from conventional theories assuming that the more unequal the distribution, the higher would be savings, investment, growth and employment. On the contrary, evidence has been given that a concentration of wealth in the higher income brackets usually means transfers of savings abroad, consumption of luxury goods, and considerable local production of capital-intensive and import-intensive goods.

If one links growth and equality, one can immediately hint at the importance, from a job creation viewpoint, of designing a new pattern of growth which would be based on the domestic production, using labour-intensive techniques, of final and intermediate goods of first necessity, that a more egalitarian fiscal and wages system would allow a wider section of the population to purchase. The selection of appropriate technologies - which by no means should be regarded as retarding the required process of industrial development - deserves specific attention with a view to determining the sectors and produces for which changes in the product mix would not hamper competition by lowering productivity and inflating costs.

14. The implicit reference, in our employment mission reports, to the satisfaction of social justice, leads the ILO to the expanded concept of basic needs, which has received the unanimous support of the World Employment Conference of last June. This new dimension brought to the concept of adequate incomes is indeed manifold, since basic needs are defined, on the one hand, as minimum family standards for shelter, clothing, food and other necessities, and on the other as the provision by the society of those indispensable facilities in the field of health, sanitation, education, transport, and the like. Collective participation in decision-making has also been included as a fundamental element of life in society.

15. From a macro-economic point of view, it is without doubt that the adoption of such a basic-needs oriented strategy will imply a careful redefinition, as stressed earlier, of the type and pattern of growth, setting new targets, adapting current instruments, so as to substantially increase the income of the poorest sections of the society significantly faster than the national average. If

they were seen from this angle, increases in production and productivity would have to be looked for, and geared to, those branches and products where the internal demand can be stimulated, whilst an increased mobilisation of public resources, mainly through tax reforms and saving incentives, would allow a larger and wider distribution of investments in physical infrastructure and social services facilities.

16. Moreover, the introduction of equity would not only favour the worse-off occupational groups, but also depressed regions and discriminated social groups, like women, the young, the aged and handicapped people, etc.. Each and every member of the society should have access to the kind of facilities described above, and also have a say in the decision-making process, however humble his status and contribution may appear. From the point of view of the ILO, this approach combines the need for protection of the underprivileged with the rights of association and combination, as stressed in numerous Conventions and Recommendations.

17. If we turn now to the field of policy measures on which our employment missions have laid emphasis, one can point out several, varying of course according to the local situation and specific requirements. Firstly, the importance of agrarian reform and land distribution is unquestionable as a basic prerequisite of a re-assessment of, and changes in, agricultural policies. This is perhaps the most crucial test of willingness for development, since land tenure lies as the key to the solution of the very structural problems affecting rural areas: lack of stable jobs, low incomes, insufficient production and productivity, which in turn have widened the rural-urban gap and deteriorated the external financial balance. However, it has also been noticed that legal

steps to transfer land ownership do not suffice, if not accompanied by specific measures on settlement, credit, prices, taxes, extension services, marketing, etc., and if popular participation and peasants' mobilisation are not secured.

18. A second key area is technology. What is recommended in our reports relates to the selection of appropriate technologies that are adaptable to the labour-abundant factor endowment of the country concerned, whilst at the same time savings of the scarce foreign capital are made possible. Far from being inefficient or obsolete, appropriate technologies should result in raising average productivity of the labour force by making efficient use, and combination at their real cost (i.e., removing factor price distortions), of labour, land, capital and equipment. Another interesting effect of the introduction of those techniques lies in the change in the category of workers, with a greater supply of posts with a lower profile, and hence a wider opportunity for savings, re-investment and consumption of basic items. However, it is admitted that labour-intensity is not an objective which should be pursued at any cost, and that substitution of imported techniques is perhaps best suited to those sectors not competing on external markets, like manufacturers servicing domestic markets, construction, public works and commercial and government services.

19. A third policy instrument worth mentioning is regional development. It can be looked at from many angles. In one country we visited, the emphasis was put on strengthening the small and medium-sized centres by appropriate measures in physical infrastructure, communications and social services inducing accelerated rural colonisation. In another country, the increasing regional disparities had led the authorities to subject public expenditure to quotas,

limiting ceilings in the case of the well-off capital city, and raising floors in the case of disadvantaged locations. In a third geographical context, we suggested a policy of deconcentration and relocation of industrial establishments in outlying regions, where labour and transport costs are cheaper and local markets smaller, so as to promote small-scale, labour-intensive processing industries capable of mopping up part of the rural migration. However, unfortunately, in most cases time has prevented disaggregating national strategies and introducing spatial considerations into macro- and sectoral objectives, instruments and programmes.

20. Another striking factor found during our missions is the effect of legislation on employment, and the need for carefully examining the provisions of the national labour codes, with a view to checking if these do really encourage the growth of employment. As a matter of fact, and sometimes much to our surprise, some provisions of labour laws proved to permit abnormally long working time and discourage shift work, or to deter labour mobility, whilst in another case tripartite agreements aiming at artificially increasing employment, contributed more to raising the number of registrations of job-seekers flocking to towns from rural areas, than of jobs themselves. Labour legislation and labour relations can be regarded as fields where excessive and detailed protection can have adverse effects on the growth of employment, and become self-defeating.

21. Finally, a last group of suggestions derived from our experience in employment missions relates to the strategic importance, for employment policies to have a chance to succeed, of the institutional factors, which again call for an integrated approach of problems to be seen within a radical process of societal transformation. As suggested earlier, an adequate participation of all concerned

groups will not exclusively be met by the involvement of workers' and employers' organisation, and policy-makers will have to see to it that unorganised and informal sectors, like peasants, women, small-scale producers, consumers, students, migrants, etc. are consulted in one way or another. Much more central is undoubtedly the question of political applicability of the proposed package of measures, meant as the extent to which a government is seriously committed to the implementation of an employment-oriented development strategy, what freedom of manoeuvre it possesses vis-à-vis vested interest groups having diverging views on it, and how those who would benefit from such a policy could be made more vocal and more powerful. Moreover, it is the essence of any long-term set of policies that their implementation, which covers a wide variety of subject matters, cannot be thought of before a substantial time-span. These two factors enhance the need for a clear-cut definition of priorities, which might be phased according to considerations of political feasibility.

II. Symptoms and likely causes of the employment crisis in Portugal

22. In a second section an attempt will be made to offer concrete insights to the employment situation prevailing in Portugal, to the improvement of which the comprehensive framework sketched out in the first section could bring a useful contribution. However, instead of repeating or expatiating what has been excellently presented in the two papers by the Central Department for Planning on the economic situation as per May 1976, and by the Ministry of Labour on employment problems and policies, respectively, the following observations will rather concentrate on those facets of the problem that appear to have a close connection with the advocated comprehensive approach to employment, income and basic needs.¹

23. Let us first consider, in gross terms, the manpower supply side of the question, and examine demographic trends. In Portugal the structure and the evolution of the population offer contrasting traits. Admittedly, at first glance, the annual average rate of demographic increase - 1.4 per cent, and more recently 1.0 per cent - is less alarming than in almost all non-European developing countries, whilst at the same time it ensures the renewal of the population and puts a brake on its growing older; two risks now facing several West-European countries. However, this over-all trend conceals several structural imbalances of utmost importance, the socio-economic causes of which are evident.

¹ All figures quoted in this part of the paper are drawn from Government published sources.

24. The first one lies in the fact that the moderate character of natural population increase - called, in Portugal, physiological balance - is more attributable to a crude death rate on the high side (13.2 per thou. on average for the period 1961-1970) than to a moderate crude birth rate (27.4 per thou. on average for the same period). It should be noted, in this connection, that these two rates, already higher than the European average, represent an acceleration over the preceding decade, but that a decrease in both natality and mortality can be observed since 1970. Similarly, one can point out that the infant death rate is still extremely high (58 per thou. against 13.6 per thou. in Spain), a situation that can be partly attributed to the fact that one delivery out of three is still unassisted. It is, therefore, evident that a long overdue social policy, aiming at correcting these deviations, will have a direct bearing on the number of future entrants into the labour market. However, in spite of what can be initiated or expanded to slow down natality and/or infant mortality, an increased sector of the population - those born between 1960 and 1970 - will exert more and more pressure in the years to come to get jobs: according to the calculations of the Labour Ministry, 60,000 at the age of 15 (39,000 boys and 21,000 girls) each year.

25. Much more central to the problem of a proper utilisation of human resources are the migratory movements which, by all accounts, are caused by insufficient job creation. Firstly, it is striking to discover that, in the last twenty-five years, whole provinces such as Minho, Trás-os-Montes and Alentejo, have been literally drained of more than half of their able-bodied male rural population, who have flocked to the coastal cities of Lisbon and Porto, causing both a congestion in the latter, and a large deterioration of the dependency ratios in the rural districts they had

abandoned. However, this drainage has been mainly directed - either legally or in a clandestine way - towards the industrial countries of Western Europe, of which France absorbed the biggest part (Paris is the second Portuguese-speaking city, even before Porto). On the whole, one can estimate that between 1-1.5 million migrants have left the country since 1960, i.e., one third of the current labour force.

26. These two major imbalances have contributed to increasing, within the country, disparities with regard to age and sex distribution, manpower formation and availability. The image of this country, deprived of its best human resources, has long maintained unemployment at the artificially low rate of 2.5-3.0 per cent, since emigration, in spite of a sustained growth rate, was used as a safety valve. It is indeed somewhat paradoxical to observe that during the 1960's and early 1970's, Portugal's GNP grew at an average rate of 8 per cent per annum, whilst at the same time employment decreased. Agriculture, expelling one third of its labour force, could not do more than stagnate, forcing imports of agricultural products to be higher than exports. However, it is in industry and services that the contrasts are sharpest: on one hand between 1963 and 1973, growth rates of 133 and 156 per cent respectively, whilst employment, on the other hand, did not grow more than 7-16 per cent.

27. This insufficient job creation in the modern sector, which most likely corresponds to a deterioration of the situation of the urban population of working age being over-concentrated in two or three big cities, has undoubtedly reinforced the exaggerated large urban base of the economy, increasing thus the infrastructure and social costs to be borne by the State and private entrepreneurs. Instead of bringing jobs to people, no serious efforts were made to

relocate industries closer to rural labour catchment areas. As a matter of fact, the few socio-economic indicators available can provide an explanation of the reluctance of employers to move to outlying regions: apart from the drainage of male manpower, the physical infrastructure of rural districts is inappropriate (50 to 70 per cent of them have no electricity); the cultural level is low (one pupil out of two does not go beyond the primary level, newspapers are read in the proportion of 1 as compared to 10 in towns; vocational training schools are often non-existent, etc.).

28. In addition to this, the revolution staged on 25 April 1974, by putting an end to the colonial war, has indirectly provoked a massive flocking back, from the former overseas provinces, of 200,000 to 300,000 civilians ("retornados") and about 100,000 members of the armed forces. This has made the unemployment rate climb to perhaps 15 per cent, but this deserves a careful discussion. We shall, hereunder, make a distinction between the following categories.

29. Registered unemployment figures can be considered as not giving a true image of the crisis. If records at exchange offices have gone up from 27,000 in January 1974 to 153,000 in January 1976, this can be due to various well-known factors: flows of retornados and soldiers; halt to emigration because of the European recession; internal economic difficulties; and job-seekers over and above those entering the labour market for the first time. However, in spite of the lack of over-all statistics on unemployment, conservative calculations made by the Ministries of Labour and Planning respectively, estimate the open unemployment somewhere between 322,000 and 456,000. This very crude assumption makes conspicuous the need for better data at regular intervals, collected through establishment

enquiries or household surveys, as well as the limitation of any system of employment exchanges, even if it were based on compulsory registration (in spite of the introduction of employment subsidies, only one out of two job seekers goes to register, whilst the ratio of registration/job offers amounts to 52/1). Out of three unemployed - whether registered or not - one is a returnee, one looks for his first job, and another one wants a new job. The first two categories can certainly have a bearing on labour mobility and industrial redeployment, since in both cases this kind of relative well-prepared and adaptable manpower can be easily channelled to the jobs, branches and areas where a demand can be stimulated by vigorous regional planning measures. The very fact that a substantial proportion of registrants of the third group do possess skills - especially in construction and metal work, two sectors which have recently suffered from recession - reinforces this assertion.

30. A second type of unemployment has been called "potential unemployment" by the Ministry of Labour, which has estimated it in the vicinity of one million persons on the basis of a percentage of 11 per cent of the labour force obtained through a sample survey carried out in 1970. As a matter of fact, it appears that this category refers to disguised unemployment (persons without work and who would probably seek it if the prospects of finding a job were brighter), as evidenced by the high proportion of women (80 per cent) in the responses. In addition to a likely tendency for females to seek paid employment in the years to come, one may consider that this category is just a reflection of the wider problem of low incomes, especially in rural areas.

31. Although no reliable information exists on underemployment, one may hint at its paramount importance, either in a visible or disguised form. The crude application, to the Portuguese branches of economic activity, of productivity rates observed in other European countries with higher development, can indeed illustrate the magnitude of the delay to recover, (under this assumption the Ministry of Labour estimates that no less than one million workers are underemployed) but at the same time it can be misleading, as the question from a job creation point of view is not to decelerate the average growth of productivity in all sectors, but to induce a faster rise in employment in labour-intensive units of a given size inside sectors, thus not affecting the output per man-hour, and hence the cost, in modern establishments competing on external markets.

32. It is time now, after having had a look at the symptoms of the employment crisis in Portugal, to hint at its causes. At the risk of paving, grossly, the way for the employment mission that will come soon to participate in the plan preparation, one can suggest the following fields of investigation.

33. The first historical reason lies undoubtedly in the ill-perception of the seriousness and complexity of the employment and income problem, as well as in the lack of an over-all policy. Contrary to what one believes outside Portugal, planning is a well-known practice that dates back to 1953, but in none of the four successive plans was mention made of employment as a priority objective. In one of them the problem was considered negligible and in other emphasis is made on the need to mop up the flow of new entrants by diverting them from the supposedly inflated agricultural sector towards the industries which were in need of them.

Emigration to European countries and colonisation in overseas provinces were considered as safety valves. In addition, the equilibrium of labour market forces was supposed to derive from good economic performances, mainly in the modern industrial sector. The neglect of the employment problem is corroborated by the relative lack of statistical treatment of the phenomenon, be it through census, surveys or ad hoc enquiries.

34. A second and inter-related explanation could be provided by the type of growth aimed at. Whereas agriculture stagnated due to its archaic structure, the low level of investment and productivity, it is clear that industrial development - at the pace of 10 per cent per year between 1963 and 1973 - has been obtained at the expense of social considerations: employment has not increased much, as large enterprises which co-exist with, or gradually substitute, a constellation of small-scale establishments (43,000 manufacturing enterprises, of which about three-quarters have fewer than five works, as against 1,000 factories employing more than five persons each) are found to be largely capital-intensive in character, and concentrated in a few urban districts. Perhaps of more importance than the growth itself is the pattern it has taken: on one hand one can point out the straightforward, non-diversified character of production lines, with inputs and outputs largely coming from, or destined for, abroad, and with few spin-off effects on domestic firms which could play a role in the production or consumption of intermediary goods and services. On the other hand, one would need to examine closely the consumption patterns of the population, and check to what extent the range of products corresponds to the existing or potential demand for basic items, above all in the lowest and medium income brackets.

35. This leads to a third consideration based on a plausible distortion of income distribution and on a less questionable insufficiency of basic facilities and services. From the little information available one can calculate that the average disposable income per capita was five times larger in the capital city than that at the lowest regional echelon, whilst the income disparity between an executive and an agricultural worker was in the proportion of 1 to 10. The fact that the differentials of average wages of non-agricultural workers in provinces and districts are not important, gives contrast to the abnormally low level of rural family incomes, and suggests that many other elements, tied to class and group structures, constitute the hidden part of these discrepancies. It is obvious that the role of the State is instrumental in mobilising financial and personnel resources to alleviate regional disparities, be it in construction (of which the housing deficit is estimated at 500,000 dwellings), transport, sanitation, education, etc., which are each prerequisites of employment creation.

36. Finally, the importance of the socio-political factor cannot be stressed enough. On the one hand Portugal has still to build up, almost from scratch, an effective economic democracy, involving the consultation and participation of all citizens concerned in the management and development of their own affairs. Whether it concerns labour relations, labour legislation, wage systems, training programmes, or more general economic and social planning, it is indispensable that each and every member of the society be entitled to have a say in the decision process, through participation mechanisms that have to be created or stimulated at all echelons. On the other hand, and reciprocally, it will be the role

of this newly mobilised, and hopefully increasing, segment of the population to see to it that the authorities in power do indeed respect, to the best of their possibilities, their rights, as proclaimed by the Constitution, to work and live henceforth a decent life (Art. 51 and 53).

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EMPLOYMENT IN MAINLAND PORTUGAL:

PROBLEMS AND POLICY

by

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(Restricted Circulation)

Employment in Mainland Portugal: Problems and Policy

I

Diagnosis of the Problems

A. Resident Population, Active Population and Employment Demand

1. With the available data it is possible to construct the following table:

TABLE I

Resident Population, Active Population and Employment Demand
(thousands)

	1970			1975			1980		
	MF	M	F	MF	M	F	MF	M	F
Resident Population	8075.0	3835.3	4239.7	8776.2	4146.7	4629.5	8950.9	4212.2	4738.7
Activity rates	39.71	62.33	19.24	38.26	59.44	19.29	40.82	58.81	24.83
Active Population	3206.5	2390.6	815.9	3357.8	2464.8	893.0	3653.4	2477.0	1176.4
Armed forces	135.7	135.7	-	60.0	60.0	-	30.0	30.0	-
Employment Demand (or available manpower resources)	3070.8	2254.9	815.9	3297.8	2404.8	893.0	3623.4	2477.0	1176.4
(% of the resident population)	37.4	57.5	19.3	37.6	58.0	19.3	40.5	58.1	24.8

SOURCES: - 1970-Instituto Nacional de Estatística (National Institute of Statistics - I.N.E.), Eleventh General Census of Population (20% Sample)

- 1975 and 1980 - Ministério do Trabalho (Ministry of Labour-M.T.), Gabinete de Estudos, Planeamento e Organização (Studies, Planning and Organisation Office - G.E.P.O.), Equipa de "Estimativas e Previsões" ("Estimates and Forecasts" Team - E.E.P.)

- The figures for these years have been corrected in accordance with the results of the electoral registration of December 1974 and with the return of Portuguese citizens from the former colonies.

M = Males; F = Females

The estimates for 1975 and the forecasts for 1980 for the active population that appear in the preceding table are the result of activity rates that take into account the disappearance from the active population of the 10-14 age-group (owing to the extension of the period of compulsory education), the ageing of the population and the increase in the active female population (in comparison with the respective activity rates in European countries and a closer approach to them) and the return from the former colonies of Portuguese workers, for whom there may be an activity rate lower than that of the population already resident in Mainland Portugal.

As can be seen from Table 1, employment demand is always rising, a greater increase being noted between 1975 and 1980 owing to the return of Portuguese citizens from the former colonies and the foreseeable increase in the female activity rate.

B. Potential Unemployment

2. The first question to be asked that arises from the analysis carried out in A. is to know if there are not employment problems in the non-active resident population.

3. Overall employment demand referred to above, is equal in practice to the economically active population plus those registered as unemployed.

Now, as to this last factor, it can be seen that the persons who are registered as unemployed are fewer than those

members of the resident population who are interested in obtaining employment. This is because many of the latter, seeing that the country is passing through a crisis period, or simply that it is difficult to find employment, or moreover because they wish to work only under certain conditions (near home, in their own region, with hours of work easily reconcilable with family responsibilities, etc.), do not register themselves as unemployed, but if an opportunity presents itself to them they take advantage of it. It is these persons that make up the potential unemployment which, if it is forgotten, will bring about, as it did in the past, the greatest confusion concerning the execution of programmes intended to resolve only the problem of the registered unemployed.

4. 1974 saw the publication of the first calculation of this potential unemployment in Mainland Portugal⁽¹⁾. This work gathered together certain data that allowed the following table to be constructed:

TABLE 2

Potential Unemployment

	1960			1970			1980		
	MF	M	F	MF	M	F	MF	M	F
TOTAL (thousands)	1000.4	153.5	846.9	947.2	176.4	770.8	903.8	191.5	712.3
% of the resident population	12.1	3.9	19.6	11.73	4.60	18.18	10.1	4.5	15.0

(1) See "População potencialmente activa" ("The Potentially Active Population")-Élia Maria Rodrigues-Nº 28 of the "Studies" Series of G.E.P.O., M.T.

As can be noted, there is a fall in the total, influenced by a fall on the female side, brought about above all by the increase observed and foreseen in female activity rates, which is greater than the increase on the male side; this is explained essentially by the reduction in ~~the~~ male activity rates, particularly in the over-65 age-group.

It is true that in the study referred to no account was taken (as is evident, given the date when it was carried out) either of adjustments following on the electoral registration of December 1974 (some 500,000 persons more than in the resident population indicated by the 1970 Census) or of the return of Portuguese from the former colonies, which became significant only as from 1975. These are two new factors that can only contribute to a rise in the absolute figures given above for the years 1970 and 1980.

In any case, and because they cannot fail to be estimates and forecasts with a reasonable margin of error, what is important to remember is the order of magnitude and the general trend; thus, it would seem possible to conclude that potential unemployment must be about 11% of the resident population (in absolute terms about one million persons) and it showed in 1973 (the year of the study in question) a tendency to fall.

C. Economically Active Population

5. In Table 3 on the following page will be found a more detailed analysis of one of the components of employment demand: the economically active population.

For the years 1976 and 1977 two hypotheses present themselves: in the first, all sectors show the same tendency as in the past; in the second, for three sectors (manufacturing industry, construction, and public administration, personal and unspecified services) a recovery appears possible to the level of the employment indices for 1974. This is because it is known that at the start of an economic recovery it is usually those sectors that are in the forefront.

An analysis of the table shows a progressive reduction in the economically active population, smaller in the second hypothesis, there being differing developments at sector level.

TABLE 3

ECONOMICALLY ACTIVE POPULATION

(thousands)

SECTORS OF ACTIVITY (I.S.I.C.-1964)	1970	1973	1974	1975	1976		1977	
					Hyp. 1	Hyp. 2	Hyp. 1	Hyp. 2
TOTAL	2 985.5	2 929.7	2 903.9	2 841.5	2 790.4	2 815.2	2 767.5	2 817.3
Rates of Variation		-2.0	-0.9	-2.1	-1.8	-0.9	-0.8	+0.1
Agriculture, Forestry & Hunting	894.6	790.7	769.4	752.2	738.5	738.5	726.0	726.0
Fisheries	32.5	30.4	28.5	25.8	24.6	24.6	23.5	23.5
Extractive Industries	12.3	10.3	11.1	11.1	11.0	11.0	11.0	11.0
Manufacturing Industries	766.1	805.6	786.6	789.7	767.7	774.1	767.0	780.0
Construction & Public Works	244.1	256.0	244.8	233.4	231.0	238.0	228.6	243.0
Electricity, Gas, Water & Sanitation	17.6	18.7	18.8	19.4	19.4	19.4	19.5	19.5
Commerce	273.9	289.0	205.0	284.7	284.2	284.2	233.8	283.8
Banking, Insurance & Real Estate	32.8	33.2	44.2	45.7	46.5	46.5	47.4	47.4
Transport	111.6	116.3	123.3	121.8	120.0	120.0	120.3	120.3
Communications	28.2	30.5	36.9	40.1	39.9	39.9	39.8	39.8
Services	470.7	480.2	491.6	477.6	468.6	480.0	462.6	485.0
Insufficiently defined Activities	101.1	63.8	63.7	40.0	39.0	39.0	38.0	38.0

SOURCES: - I.N.E., Eleventh General Census of Population

- M.T., Statistical Service, Quarterly Employment Surveys.

- M.T., G.E.P.O., E.E.P..

6. It is convenient to obtain an idea of the distribution of the economically active population in accordance with their general social and professional categories: salaried employees and wage-earners, persons working on their own account, employers, and unspecified.

TABLE 4

Social and professional categories	(percentages)			
	1970	1973	1974	1975
Salaried employees and wage-earners	74.9	75.4	75.8	75.2
Persons working on their own account	18.3	19.7	20.2	
Employers	2.4	1.5	1.1	
Unspecified	4.4	3.4	2.9	
Economically active population	100.0	100.0	100.0	

SOURCE: M.T., G.E.P.O., E.E.P.

These are overall figures, of value only for obtaining an order of magnitude for the various categories.

The predominant category, on the increase until 1974, is that of salaried employees and wage-earners; next comes the still important and slowly-increasing category (owing fundamentally to primary activities and to services) of persons working on their own account, and the sharp decline in the category (always at a very low level) of employers.

7. It is interesting to see in greater detail what is happening with regard to the chief component of the economically active population, that is, salaried employees and wage-earners.

Table 5 shows a relative stabilisation in the number of salaried employees and wage-earners between 1973 and 1974, since in the latter year the decline in agriculture, manufacturing industries, construction and public works, and commerce was counterbalanced by increases in banking, insurance and real estate, transport, communications, services and insufficiently defined activities.

In 1975 there was a sharp decrease compared with 1974, for small rises in some sectors did not in any way compensate for the decline in agriculture, fisheries, manufacturing industries, construction and public works, services and insufficiently defined activities.

For 1976 there is Hypothesis 1 of a relative stabilisation and Hypothesis 2, more optimistic, based on a recovery in certain sectors, as has already been said above. From this point of view, the indices of employment for April 1976 that are given in Table 6 appear to be on the way to confirming, to a certain extent, hypothesis 2.

As to the indices of employment that appear in this table, they should be treated with some reserve, for the sample that formed the basis for the calculation of these indices covered only firms with more than 10 workers and did not have

to do with the sectors of agriculture, public administration and defence, community and social services (education and health), domestic services, various services and insufficiently defined activities. It is estimated that in 1975 these sectors together included about 31% of all salaried employees and wage-earners and the firms carrying on the activities covered with 10 or fewer workers were responsible in 1969 (the latest year for which information is available) for 21% of the respective volume of employment.

8. Proceeding on the basis of that sample - and thus with the same limitations - it is possible (by means of Table 7) to arrive at an idea of the development in the last few years of the employment structure, by occupational qualifications of salaried employees and wage-earners.

The most significant facts appear to be the improvement in the position of administrative staff and production workers together with the decrease in unskilled workers.

TABLE 5

SALARIED EMPLOYEES AND WAGE-EARNERS

(thousands)

SECTORS OF ACTIVITY (I.S.I.C. - 1964)	1970	1973	1974	1975	1976		1977	
					Hyp. 1	Hyp. 2	Hyp. 1	Hyp. 2
TOTAL	2 236.5	2 208.9	2 201.5	2 137.8	2 129.5	2 153.2	2 120.5	2 169.5
Rates of Variation		-1.2	-0.3	-2.9	-0.4	+0.7	-0.4	+0.8
Agriculture, Forestry & Hunting	444.7	369.8	343.5	338.5	336.5	336.5	334.0	334.0
Fisheries	27.1	21.6	19.7	17.9	17.2	17.2	16.5	16.5
Extractive Industries	11.4	10.7	10.6	10.6	10.6	10.6	10.6	10.6
Manufacturing Industries	676.9	712.8	708.5	691.3	692.7	698.1	694.0	705.0
Construction & Public Works	222.0	241.7	236.2	225.2	222.9	229.8	220.6	234.4
Electricity, Gas, Water & Sanitation	17.1	16.1	16.7	17.2	17.4	17.4	17.7	19.5
Commerce	162.9	167.0	164.5	165.1	165.7	165.7	166.3	166.3
Banking, Insurance & Real Estate	32.1	37.6	43.6	45.2	46.3	46.3	47.2	47.2
Transport	103.1	107.0	116.3	116.5	117.0	117.0	117.5	117.5
Communications	27.8	34.0	36.5	39.7	39.5	39.6	39.5	39.5
Services	426.6	437.8	444.6	435.6	428.6	440.0	422.6	445.0
Insufficiently defined Activities	84.8	52.8	60.8	35.0	35.0	35.0	34.0	34.0

SOURCES: - I.N.E., - Eleventh General Census of Population.

- M.T., Statistical Service, Quarterly Employment Surveys.

- M.T., G.E.P.O., E.E.P..

TABLE 6

INDICES OF EMPLOYMENT, BY ACTIVITIES

(1970/1975)

Base: January 1968 = 100

ISIC	Activities	Periods	1970	1971	1972	1973	1974	1975	1976* April
	TOTAL		101.9	102.0	103.4	105.4	104.5	104.4	104.4
04	Fisheries		115.2	114.3	91.4	91.8	83.8	75.9	73.6
1	Extractive Industries		88.8	84.9	85.3	83.0	84.8	82.7	82.0
2/3	Manufacturing Industries		100.7	100.1	101.4	102.2	101.6	101.5	101.7
20	Food Industries		87.5	83.1	83.5	79.6	77.7	79.8	80.5
21/22	Beverages and Tobacco		145.5	139.9	141.3	152.1	158.0	165.6	166.9
23	Metals		101.0	99.9	101.3	101.8	101.6	99.6	99.5
24	Clothing and Footwear		102.1	105.0	111.4	117.2	114.8	115.8	114.8
25	Wood and Cork		95.1	93.2	91.6	90.7	88.6	87.2	86.5
26	Furniture		104.2	104.6	108.9	112.7	116.5	120.7	120.3
27	Paper		95.3	90.7	88.6	89.2	90.0	89.3	89.7
28	Printing		90.2	90.2	91.4	88.1	67.1	85.3	85.3
29	Leather		104.6	98.3	96.4	92.7	89.8	90.0	89.4
30	Rubber		98.5	98.0	95.0	94.2	93.0	93.5	93.8
31/32	Chemicals and Petroleum		100.6	99.1	97.2	97.8	100.5	101.5	102.1
33	Non-metallic Mineral Products		111.7	107.0	109.6	110.0	109.2	107.6	107.6
34/38	Metallurgy and Engineering		102.5	105.5	107.5	110.4	109.5	109.6	110.4
39	Unspecified Manufacturing Industries		108.9	109.4	114.8	121.8	117.9	117.4	117.9
4	Construction		96.6	97.3	100.2	109.5	102.8	98.0	98.8
5	Electricity, Gas and Water		99.5	97.8	96.1	93.5	96.9	99.7	100.0
6	Commerce, Banking, Insurance and Real Estate		111.0	112.5	116.1	120.1	121.7	123.1	123.6
61	Commerce		105.4	105.7	107.0	108.0	106.4	106.8	106.9
62/64	Banking, Insurance and Real Estate		123.8	130.2	141.9	156.4	168.3	174.3	175.9
7	Transport and Communications		101.8	105.3	105.2	110.5	113.8	119.5	120.5
85	Personal Services (a)		143.3	144.8	148.1	138.0	136.3	132.3	133.2

SOURCE: M.T., Statistical Service, Quarterly Employment Surveys

(a) Not including Domestic Services

x Provisional figures

TABLE 7

STRUCTURE OF EMPLOYMENT BY OCCUPATIONAL QUALIFICATIONS

Occupational Qualifications	1973	1974	1975
Managerial Staff	0.8	0.8	0.7
Technical Staff	2.5	3.0	2.7
Higher	0.9	1.2	1.1
Middle	1.6	1.8	1.6
Administrative Staff	9.6	10.3	10.8
Office Staff	4.4	6.3	6.0
Production Workers	49.3	49.3	54.0
Workshop Managers, Foremen, Chargehands	3.7	4.2	4.4
Highly-Skilled Workers	1.7	3.0	4.1
Skilled Workers	26.5	25.7	27.7
Semi-skilled Workers	17.4	16.4	17.8
Unskilled Workers	22.4	20.0	18.3
Trainees	3.6	4.0	2.8
Apprentices	7.4	6.3	4.7
TOTAL	100.0	100.0	100.0

SOURCE: M.T., Statistical Services "Occupational Qualifications" Surveys

D. Underemployment

9. Do employment problems exist among the economically active population (and thus also among salaried employees and wage-earners), or does the latter have only problems concerning labour relations and working conditions:

10. The existence of high levels of underemployment in various sectors of activity leaves no room for doubt. According to the definition given in a publication of the International Organisation⁽¹⁾ of Labour "underemployment exists when employment is insufficient in comparison with established standards or with other possible employment, taking occupational qualifications into account".

11. The measurement of underemployment presents great difficulties, since it demands statistical information of a kind which is in general not available.

Some years ago an attempt—not the first—was made to arrive at this figure indirectly⁽²⁾, by making a comparison of national productivity with others taken for reference purposes; the results obtained are given in Table 8. The percentages signify that with levels of productivity identical to those of the other countries in the table, it could be theoretically possible to attain in Portugal to the national product actually obtained with ^{X%} fewer of the population in employment.

(1) "Resolutions adopted by the Eleventh International Conference of Labour Statisticians" - Geneva, 1967, p.X.

(2) Labour Statistics - in the Collection "Data for an Employment Policy" of the Fundo de Desemprego de Mão de Obra (Manpower Unemployment Fund - FDMO) - Series A, Nº 1, 1970, p. 29

TABLE 8

ESTIMATES OF UNDEREMPLOYMENT

(percentages)

Activities	Terms of comparison					
	E. E. C.		E. F. T. A.		Other Grouping (1)	
	1960/1	1967/8	1960/1	1967/8	1960/1	1967/8
TOTAL	64.2	58.2	64.6	53.4	65.7	55.9
Agriculture	-	54.6	-	67.7	76.0	65.9
Industry (2)	-	60.8	-	59.7	68.3	64.0
Manufacturing Industry	-	54.6	-	46.9	-	55.8
Construction	-	82.2	-	90.2	-	88.0
Commerce	-	44.2	-	27.2	72.3	42.1
Transport and Communications	-	48.8	-	55.7	68.2	53.8

SOURCES: U.N.O., Statistical Yearbook, 1968

O.E.C.D., Statistics of Active Population, 1968

(1) Including Belgium, France, Great Britain and Norway. For Agriculture it also includes Denmark.

(2) Including Extractive and Manufacturing Industries, Construction, and Electricity, Gas, Water and Sanitation.

It is obvious, as has been said, that this is an indirect means of calculation that can only indicate orders of magnitude of underemployment.

Even with this limitation, it could be seen that there was a high level of underemployment, although it showed a tendency to fall. At sector level, it was ⁱⁿ the Construction Industry that underemployment was at ^{its} highest.

As emigration still continued at a very considerable rate after the date of the above estimate, and as production methods improved, for example, in the Construction Industry, it must be presumed that underemployment has fallen in the past few years to a lower level, perhaps of the order of 35 to 40% of the economically active population (between 1m and 1.2m persons).

12. For 1974 and 1975 we have the indicators of productivity of Tables 9 and 10. As will be noted, after a rise in 1974 there was a fall in 1975.

In this respect and with regard to salaried employees and wage-earners, it must be added that, although productivity per worker has fallen already, the same conclusion cannot be drawn concerning productivity per hour of work, since the length of the working week has been reduced. (See Table 11)

TABLE 9

Gross Domestic Product Per Economically Active Worker

ACTIVITY	Thousands of escudos			Indices		
	1973	1974	1975	1973	1974	1975
TOTAL	69.9	74.1	73.4	100.0	106.0	105.0
Agriculture and Fisheries	34.3	36.3	37.8	100.0	105.8	110.2
Extractive Industries	109.1	128.4	119.3	100.0	117.7	109.3
Manufacturing Industries	96.7	99.9	93.8	100.0	103.3	97.0
Electricity, Gas and Water	311.8	352.9	336.8	100.0	113.2	108.0
Construction	52.0	61.6	58.1	100.0	118.5	111.7
Services and Insufficiently Defined Activities	78.5	82.4	83.4	100.0	105.0	106.2

SOURCES: - Central Planning Department - Gross Domestic Product, at 1970 Prices.

- M.T., G.E.P.O., E.E.P. - Estimate of the Economically Active Population (weighted average)

TABLE 10

GROSS DOMESTIC PRODUCT PER SALARIED EMPLOYEE/WAGE EARNER

ACTIVITY	Thousands of escudos			Indices		
	1973	1974	1975	1973	1974	1975
TOTAL	92.7	98.2	96.6	100.0	105.9	104.2
Agriculture and Fisheries	71.1	78.6	82.4	100.0	110.5	115.9
Extractive Industries	111.1	130.8	122.6	100.0	117.7	110.4
Manufacturing Industries	109.4	110.5	104.5	100.0	101.0	95.5
Electricity, Gas and Water	353.7	397.6	378.7	100.0	112.4	107.1
Construction	54.4	63.9	60.4	100.0	117.5	111.0
Services and Insufficiently Defined Activities	95.3	100.5	99.9	100.0	105.5	104.8

SOURCES - Central Planning Department - Gross Domestic Product, at 1970 Prices.

- M.T., G.E.P.O., E.E.P. - Estimate of Salaried Employees and Wage-Earners (weighted average)

TABLE 11

Average Length of the Working Week

	1973 January	1974 January	1975 January
Office staff	43	42	41
Manual workers	46	46	45

SOURCE: M.T., G.E.P.O., Report for the year 1975

E. Unemployment

13. We shall now proceed to an analysis of the other component of employment demand: unemployment.

In the absence of unemployment statistics, estimates have been formulated based on hypotheses and on the partial statistics available; these estimates, being made by various bodies and ~~in~~ giving different figures, are however in agreement with regard to the increase in unemployment since 1974, which began to reach very high levels from 1975, the year in which were already strongly felt the effects of the return of Portuguese workers from the former colonies.

These estimates, presented in Tables 12 and 13, also confirm our earlier statements. In these two tables are already to be found forecasts for 1976 and 1977 within the two hypotheses with which we have been working.

TABLE 12

UNEMPLOYMENT

(End of December)

(thousands)

	1970			1974			1975			1976						1977	
	MF	M	F	MF	M	F	MF	M	F	Hypothesis 1			Hypothesis 2			Hyp.1	Hyp.2
										MF	M	F	MF	M	F	MF	MF
TOTAL	85.335	58.720	26.615	179.5	-	-	456.0	326.9	129.1	590.1	426.4	163.7	574.0	395.2	158.8	683.0	641.9
Rate of unemployment (% of the active population)	2.5	2.3	3.1				13.6	13.3	14.5								
First-Job Demand	64.855	44.115	20.740	175.7	-	-	141.0	107.0	34.0	204.0	157.1	46.9	204.0	157.1	46.9	274.0	274.0
New-job demand	20.480	14.605	5.875				135.0	93.9	41.1	186.1	129.3	56.8	170.0	118.1	51.9	209.0	167.9
Persons returning from former colonies	-	-	-	3.8	-	-	180.0	126.0	54.0	200.0	140.0	60.0	200.0	140.0	60.0	200.0	200.0

SOURCE: M.T., G.E.P.O., E.E.P.

TABLE 13

UNEMPLOYMENT
(Monthly Figures)

	1975			1976														
	December			March			April			September			December - Hyp.1			December - Hyp.2		
	MF	M	F	MF	M	F	MF	M	F	MF	M	F	MF	M	F	MF	M	F
TOTAL	456.0	326.9	129.1	478.5	342.2	136.3	493.6	355.1	138.5	532.0	382.4	149.6	590.1	426.4	163.7	574.0	395.2	158.8
First-job Demand	141.0	107.0	34.0	157.5	120.0	37.5	162.0	123.9	38.1	177.0	135.9	41.1	204.0	157.1	46.9	204.0	157.1	46.9
New-job Demand	135.0	93.9	41.1	141.0	96.2	44.8	142.6	98.2	44.4	155.0	106.5	48.5	186.1	129.3	56.8	170.0	118.1	51.9
Persons returning from former colonies	100.0	126.0	54.0	180.0	126.0	54.0	189.0	133.0	56.0	200.0	140.0	60.0	200.0	140.0	60.0	200.0	140.0	60.0

SOURCE: M.T., G.E.P.O., E.P.P.

Going on now to analyse the two classes of unemployed - those seeking first employment and those seeking new employment (for which no breakdown is available for 1974) - and at the same time considering the two tables, it can be seen that, starting with closer similar figures at the end of 1975, the number seeking first employment shows a continuous increase, while the number seeking new employment, following a relative stabilisation in March/April 1976, again starts to rise, although it is foreseen for 1977 that the corresponding figure will be considerably lower than for those seeking first employment.

14. A little thought devoted to the causes of these developments indicates the paramount influence, with regard to those seeking first employment, of natural labour access and of the reduction in emigration⁽¹⁾ and in the armed forces; with regard to those seeking new employment, this figure is affected by the reduction in emigration and moreover by withdrawal of employment, though this last is forbidden by legislation against dismissals⁽²⁾.

Nevertheless, unemployment would be higher if only the abovementioned influences operated. Against these, acting to reduce them, reference must be made to job creation and to the replacement of persons in existing jobs. From this point

(1) The reduction in emigration as from 1974 made manifest the employment problems that had always existed in Portugal before that year.

(2) Decree-Law Nº 783/74, of 31 December 1974, and Decree-Law Nº 372-A/75, of 16 July 1975.

of view, attention must be drawn to the impossibility of knowing, in statistical terms, from which categories came the persons who occupied the new jobs and those that replaced others in existing jobs; they must in fact have come not only from those seeking first employment or new employment and from those returning from the former colonies, but also from the potentially unemployed and even from those in situations of underemployment, but in this last case the corresponding jobs with characteristics of underemployment were left vacant.

15. Changes in the numbers in the armed forces as well as in potential unemployment have already been indicated above; emigration, in view of its importance, will be considered under ^aseparate heading.

16. Concerning natural labour access and manpower turnover, we shall begin by presenting the following table:

TABLE 14
Active Population

Age-groups	1970			1975		
	MF	M	F	MF	M	F
10 - 14	109.1	67.4	41.7	-	-	-
15 - 19	448.0	276.9	171.1	410.6	262.5	148.1
20 - 24	428.5	275.8	152.7	459.0	287.2	171.8
...						
60 - 64	177.0	146.1	30.9	185.0	153.6	32.3
over 65	217.2	176.3	40.9	229.3	187.4	41.9

- SOURCES: - I.N.E., Eleventh General Census of Population (figure corrected from a 20% sample)
- M.T., G.E.P.O., E.E.P.
- Figures corrected in accordance with the results of the electoral registration of December 1974 and with the return of persons from the former colonies.

This table serves, in the first place, to give an idea of the order of magnitude of the natural ^{labour} access ~~to work~~. Calculating the difference between 109,100 (the total for the 10/14 age-group in 1970) and 410,600 (the total for the 15/19 age-group in 1975), a figure of 301,500 is obtained, which corresponds fairly closely to that natural access in the years 1971 to 1975; annually, the figure is 60,300 (39,000 males and 21,300 females).

17. The same table further allows a little thought to be given to the phenomenon of manpower turnover, that is, departures owing to disability, old age or death and new arrivals to replace those that depart. A knowledge of the figure for

this turnover is important since, in terms of the existence of jobs necessary to correspond to natural access, it signifies a corresponding reduction in the number of jobs referred to. However, no calculations are known for this turnover.

In principle, one would think that the figure referred to is significant; however, from the above table it can be seen that the numbers in the two age-groups of 60/64 and over 65 rose between 1970 and 1975, which may be an indication that the greater expectation of life (due especially to the advance of medicine) and the need to go on working into old age may in part be reducing turnover.

18. From the replies of firms to the question regarding arrivals and departures of workers that is included in the quarterly employment surveys of the Statistical Service of the Ministry of Labour, it is possible to arrive at the following figures:

TABLE 15
Workers Arriving and Departing
1975
(thousands)

Reason	Arrivals	Departures
Replacement	91.7	
Creation	66.9	
Withdrawal		40.7
Others		123.9
Total	158.6	164.6

SOURCE:-M.T. Statistical Service, Quarterly Employment Surveys.

-G.E.P.O., E.E.P.

One must keep in mind the limitations, already pointed out above, of the surveys in question, especially with regard to the fact that they deal only with salaried employees and wage-earners; to not all sectors being covered (they do not include agriculture or certain services); and to no enquiries having been made of firms with ten or fewer workers.

On the other hand, the nature of certain activities falsifies statistics of this kind; such is the case, for example, with the construction industry, in which can be seen one undertaking after another with successive arrivals and departures in certain categories of workers. This may in part explain the high total for job creation - some 70,000.

In any case, this table gives significant and practically identical figures for workers arriving and departing, indicating that job creation was greater than withdrawal, that replacement affected a very large number of jobs (in this replacement, turnover is certainly included), and that, with regard to the reasons for departure, there are about thirty thousand departures the reason for which is unknown, assuming that the remaining departures are balanced by arrivals for replacement purposes.

With regard to job withdrawal it is also convenient to compare developments among the economically ^{active} population and among salaried staff and wage-earners, which allows the conclusion that - with the exception of 1975, when the fall in the

number of salaried staff and wage-earners was greater than that observed in the economically active population - in all the periods in question the opposite happened; this must mean that there was a reduction in the numbers, not only of the jobs of salaried staff and wage-earners, but also of persons working on their own account and of employers.

19. There is further interest in obtaining an idea of the occupations of the unemployed. To this end data is available compiled by the Direcção de Serviços de Emprego (Employment Services Administration - D.S.E.) ⁽¹⁾:

In the first quarter of 1976 the occupations with the greatest numbers of workers registered as unemployed with the D.S.E. were those ^{of} insufficiently defined occupations (8140), office staff (6397), and those occupations that in general terms cover workers in Civil Construction and in Metallurgy and Engineering (7699).

One fact to emphasise with regard to this aspect of the occupations of the unemployed is that it is the imbalance between the occupational capacity of the demand and the needs of the supply that is behind the fact - so often affirmed to support the thesis that the unemployment figures from time to time presented are excessive - that at a given place and time, there are not the necessary workers with a certain occupation; it would be wrong to conclude from this that there is a general shortage of manpower.

(1) Registration as unemployed is not compulsory - although there has been a greater incentive in this direction with the introduction of unemployment benefit - so that this is in the nature of a sample.

20. It would be of interest to see what is happening, with regard to unemployment, in the so-called special categories: women, young people, the aged and the handicapped.

It is indeed known that when the economic situation deteriorates these are the hardest hit classes. But there is no data to bring the facts to light.

F. Emigration

21. Emigration is a phenomenon directly linked to the problem of living and working conditions; it is thus interesting to analyse it.

TABLE 16
Emigration

Characteristics	(thousands)								1976*
	1960	1965	1970	1971	1972	1973	1974	1975	1st Qtr.
Total (workers and members of their families)	22	85	168	139	94	110	64	35	18 ⁽¹⁾
Legal	20	82	54	39	43	67	27	14	9
Clandestine	2	3	114	100	51	43	37	21	9
Workers						85	23	7	
% of the total						77.3	35.9	20.0	
Host Countries: France	5	60	136	111	69	64	48	23	10
Germany	-	12	20	17	14	31	3	1	0

SOURCES: - Department of State for Emigration

- M.T., Statistical Service

* Provisional figures

(1) In the first six months of 1975 the emigrant total was 25,000.

As can be seen, whereas in 1960 the situation was still one of a traditional type of emigration, that is, for the most part intercontinental (above all to the Americas), and permanent, there later appear much higher figures, but with the host country predominantly European, and, possibly, non-permanent. From 1974 onwards there is a marked and continuous fall in emigration owing to the restrictions imposed by France and Germany. In the first six months of 1976 (provisional data), about 7500 emigrants went to the Americas, while 10,500 chose Europe.

The heavy emigration that took place over a period of years had a decisive influence on the existence in Portugal during this period of a simple friccional unemployment and of a reduction both in underemployment and in potential unemployment, facts already mentioned above. The later decline in the possibilities of emigration contributed to the great number of employment problems that arose, as has also been noted already.

22. The absence of any possibility of encountering normal living and working conditions in Portugal and the prolongation of this situation have led many emigrants to settle down permanently (and even to become naturalised) in other European countries.

In any case, in 1974, emigrant workers in Europe who retained their Portuguese nationality (and were thus perhaps prepared to return provided they could enjoy in this country normal living and working conditions) numbered some 530,000, distributed in the following manner:

TABLE 17

PORTUGUESE EMIGRANT WORKERS BY COUNTRIES OF RESIDENCE

Countries	Number (thousands)
Belgium	3
France	430
Germany	85
Holland	4.5
Sweden	1
Switzerland	4
Great Britain	4
	<hr/> 531,5

SOURCE: O.C.D.E., "Système d'observation permanent des migrations" (Permanent Migration Observation Scheme" (SOPEMI) - September 1975.

G. Employment Supply

23. What employment supply is there for the employment problems that have been discovered?

24. The employment ^{supply} consists of existing jobs, occupied and vacant.

25. With regard to occupied jobs, the respective figures are the same as those for the economically active population.

26. Concerning vacant jobs, it is impossible to obtain information on all of them. The only data available is the D.S.E. series regarding offers of employment that are not taken up by the end of the period in question. It is a sample of unknown magnitude, since firms are not obliged to inform the

D.S.E. of situations vacant nor of those that they wish to fill.

27. As a summary of the foregoing we may construct the following table:

TABLE 18

Employment Supply

(thousands)

	1973	1974	1975	1976 * March
Jobs:				
- occupied	2,929.7	2,903.9	2,841.5	
- vacant ⁽¹⁾	19.9	4.9	2.8	3.3

(1) SOURCE:-D.S.E.

* Provisional figures

The figures have not been added together, since these are quantities that cannot be considered as one. While the figures in the first line, for all their inaccuracies, are totals, those in the second line are not.

But it would seem useful to put the two series side by side to show that the situations vacant figures are of very little significance, as is natural. In any case there must also be noted the strong tendency for these figures to decrease up to the end of 1975. The figure for March 1976 may be taken as one more indication of the resumption of economic activity.

28. Starting from the employment surveys of the Statistical Service of the Ministry of Labour - and thus with the limitations already pointed out - it is still possible to make certain progress with forecasts of employment supply in the short term.

In Tables 19 and 20 are shown the results of recent surveys carried out among firms regarding their forecasts of workers required. It should be remembered that the figures given are percentages in terms of the total of the respective sample, of the volume of ^{employment} in ~~these~~ firms as they foresaw, for the dates mentioned, a smaller, equal or greater number of persons in their employ.

From Table 19 it can be seen that there seems to exist a further indication of economic recovery, for the percentages of "greater" forecasts are clearly much higher than those forecasting the opposite. From Table 20 it can be concluded that it is from the category of firms employing more than 100 persons that this indication comes.

TABLE 19

Employment Forecasts

(percentages)

Dates	Smaller	Equal	Greater
For 30 September 1976 (1)	8.3	74.1	17.6
For 31 December 1976 (2)	4.8	77.2	18.0

SOURCE: M.T., Statistical Service, Quarterly Employment Surveys.

(1) Survey "Employment/April 1976"

(2) Survey "Employment/July 1976" (5% sample)

TABLE 20

Employment Forecasts

For 30 September 1976

Size of firms	Smaller	Equal	Greater
11/20 persons	9.7	87.3	3.0
21/100 persons	7.6	86.5	5.9
over 100 persons	8.4	70.4	21.2

SOURCE: M.T., Statistical Service, Survey "Employment/April 1976".

H. The Outlook for the Regions

29. It is of interest to have an idea of what is happening at regional level with respect to employment problems.

30. Table 21 would seem sufficient to show that living and working conditions are not the same throughout Mainland Portugal. Were such the case it is certain that there would not be evident, in addition to emigration, the rural exodus that the figures reveal.

In fact, only two zones attract population:

- The administrative districts of Lisbon and Setúbal
- the administrative districts of Oporto, Braga, Aveiro and Coimbra (this last, after a steep decline between 1960 and 1970, appears to be recovering, albeit slowly).

The remaining districts, extending from the north to the south of the country, make up a third zone, which is moribund owing to its abandonment by the population.

These overall figures by their stark simplicity surely make other more detailed regional analyses unnecessary.

31. From Table 22 comes an indication of a change in one of the factors that contribute to the attraction or repulsion of population: the salary and wage levels operating in each region. It can in fact be seen through changes in the overall range, and above all in the standard deviation, that disparities in pay as between regions are reducing considerably.

Economically Active Population by Zones and Districts

(thousands)

Zones and Districts		1960	1970	1975	1980
<u>Zones of attraction:</u>					
Zone 1	Lisbon	585.1	640.1	655.4	689.3
	Setúbal	153.4	192.7	217.1	248.9
Zone 2	Porto	447.8	482.9	490.5	507.9
	Braga	210.1	217.5	222.8	229.6
	Aveiro	185.3	194.1	197.6	201.5
	Coimbra	152.9	137.1	137.6	139.3
Total of Zones 1 and 2		1 734.6	1 864.4	1 921.0	2 016.5
Indices		100	107.5	110.7	116.3
% of economically active population		55.5	62.4	65.6	69.0
<u>Zone of repulsion:</u>					
Zone 3	Viana do Castelo	99.7	98.2	97.0	95.8
	Vila Real	115.6	80.8	66.4	52.8
	Bragança	82.6	55.8	40.2	25.9
	Viseu	167.9	134.4	128.4	120.5
	Guarda	95.3	69.3	51.7	34.0
	Castelo Branco	113.5	89.4	76.5	65.0
	Leiria	146.9	130.6	126.8	124.1
	Santarém	172.1	149.8	140.5	131.8
	Portalegre	75.2	59.4	46.5	34.5
	Évora	86.9	72.2	62.1	53.0
	Beja	109.1	78.8	74.3	73.8
	Faro	125.7	102.6	98.2	94.9
Total of Zone 3		1 390.5	1 121.3	1 008.6	906.1
Indices		100	80.6	72.5	65.2
% of economically active population		44.5	37.6	34.4	31.0

SOURCE: "Previsões regionais de emprego (Continente)" ("Regional Employment Forecasts (Mainland)") - José António Sousa Fialho-Nº 14 in the "Studies" Series - M.T., G.E.P.O. 1974

TABLE 22

Average Monthly Pay in Non-agricultural Activities, by Zones and Districts,
and Indicators of Disparity
(Men and Women)

		1973		1974		1975	
		Pay (in escudos)	Indices of disparity	Pay (in escudos)	Indices of disparity	Pay (in escudos)	Indices of disparity
Zone 1	Lisbon	4 186	153.7	6 762	143.3	7 523	126.7
	Setubal	3 813	140.2	6 607	140.0	7 123	120.0
Zone 2	Porto	2 691	98.8	4 604	97.5	5 848	98.5
	Braga	2 172	79.8	3 781	80.1	5 014	84.4
	Aveiro	2 382	87.5	4 390	93.0	5 344	90.0
	Coimbra	2 853	104.8	4 425	93.8	5 779	97.3
Zone 3	Viana do Castelo	2 577	94.6	4 669	98.9	5 830	98.2
	Vila Real	2 336	85.8	4 099	86.8	5 873	98.9
	Bragança	2 745	100.8	4 741	100.4	6 720	113.2
	Viseu	2 521	92.6	4 037	85.5	5 884	99.1
	Guarda	2 290	84.1	4 438	94.0	5 106	86.0
	Castelo Branco	2 589	95.1	4 318	91.5	6 130	103.2
	Leiria	2 705	99.3	4 594	97.3	5 489	92.4
	Santarém	2 734	100.4	4 590	95.5	5 604	94.4
	Portalegre	2 338	85.9	4 356	92.3	6 010	101.2
	Évora	2 871	105.4	5 038	106.7	6 017	101.3
	Beja	2 726	100.1	4 975	105.4	5 976	100.6
	Faro	2 479	91.0	4 616	97.8	5 612	94.5
Simple average		2 723	100.0	4 724	100.0	5 938	100.0
Standard deviation			11.7		10.6		7.4
Extent of overall range			73.9		63.2		42.3

SOURCE: M.T., Statistical Service, "Occupational Qualifications" Surveys

II

EMPLOYMENT POLICY

A. Summary of the Main Employment Problems at the Present Time

32. The foregoing diagnosis indicates the existence of the following problems and their extent up to the end of 1976:

32.1 Potential Unemployment

Given a percentage for this type of unemployment of 11% and with a resident population of 8,840,000, we arrive at a figure of 972,400 persons in a position of potential unemployment, that is, approximately 1,000,000.

This rounding up is in no way extraordinary; indeed, the uncertainty is in knowing whether an even higher figure ought not to be given.

It is true that the tendency foreseen for this variable in our diagnosis is a falling one; but it was defined at a period when, owing above all to emigration, potential unemployment was little by little being satisfied by acceptable employment. In fact, in a crisis period, the tendency is for an increase in the number of people that circumstances discourage from obtaining employment but that do not register as unemployed (they will be found especially among those seeking first employment).

One must keep in mind this aspect to the extent that once the crisis begins to be overcome many of those persons will have a less passive attitude towards the possibility of obtaining the jobs that become available, which they normally succeed to some extent in doing even before the number of regis-

tered unemployed falls appreciably.

32.2 Underemployment

Since there are signs of the beginning of an economic recovery, percentages of 35 and 40% have been applied to the total for the economically active population corresponding to hypothesis 2 (2,815,200), resulting in the following figures respectively: 985,320 and 1,126,080, that is, about 1,000,000.

Reference must moreover be made to the short-term rise in underemployment (a symptom of which in our diagnosis has been pointed out as the fall in productivity), which has been brought about by the economic crisis through which this country is passing and which it is ^{not} possible to measure.

32.3 The Registered Unemployed

Choosing, for the reason already given, Hypothesis 2, we arrive at the following figures:

Those seeking new employment	-	170,000 ⁽¹⁾
Those seeking first employment	-	204,000
Returning from former colonies	-	200,000
Total		<u>574,000</u>

(1) With respect to this heading, it can be added that the figures of the D.S.E. for this type of employment demand show the following rise: January 1975 - 50,891; December 1975 - 123,593; June 1976 - 151,802. It is possible that some 8% of the most recent figures consist of persons returning from the former colonies, few of whom have contacted the D.S.E.

It must be pointed out that the number registered as unemployed at the end of 1970 - which can still be considered frictional through corresponding to 2.5% of the population - was as follows:

Those seeking new employment	-	20,480
Those seeking first employment	-	64,855
Total		<u>85,335</u>

32.4 Emigration (1)

The figure of 531,500 has been given for 1974 for those emigrants who may be waiting for jobs to become available in Portugal in conditions that will enable them to return.

Taking into account the figures for workers emigrating to Europe in 1975 and the first six months of 1976, it may be concluded that the number to take into account by the end of 1976 will be approximately 540,000.

32.5 Exodus of Population

Also owing to the non-existence in their localities of suitable employment, one can observe the continuing phenomenon of populations abandoning the greater part of the national territory to settle in a few relatively small areas - this when they do not choose to go abroad.

33.- To the problems that have just been enumerated statistically (regarding the end of 1976) must also be added as a

(1) With respect to external migrations, only emigration is taken into account, since the number of foreigners authorised to work in Portugal is of little significance (4 513 in 1974).

fundamental component the natural labour access that, from the very beginning of 1977, will cause to seek employment, every year, some 60,000 persons.

34. With respect to employment supply, despite recent indications of recovery, there is no sign of a capacity to correspond to the problems that exist with respect to employment demand and that have been mentioned in 32 and 33.

In a dynamic perspective, one should nevertheless remember that the phenomenon of manpower turnover causes a certain number of situations to become vacant, every year, a number that is presumed to have a certain significance.

B. Definition of Objectives

35. The employment problems that exist at present are unacceptable. For example, from the constitutional point of view, it is stated in Para. 1 of Art. 51 of the Constitution that "everyone has a right to work"; with regard to situations of underemployment special attention must be paid to the declaration in Art. 53 that all workers have the right, among other considerations, to payment for their work such as to guarantee a decent and proper existence, and to the organisation of their work in conditions conducive to human dignity, so as to make possible their personal realisation.

36. Faced with problems of such magnitude - which might be of the order of 100,000 or 500,000 jobs but which, through the analysis carried out, with all the errors possible in its formulation, have been shown to be much greater still - one may be tempted to declare that Portugal has no possibility internal-

ly of resolving such problems in their entirety. We believe that this declaration has not been proved and that no-one can sustain it until it is shown that our resources are being utilised to the full.

37. But, in spite of the evident necessity of solving these problems as quickly as possible, it would not be reasonable to try to solve them all in the short term. Indeed, the very nature of the various problems facilitates the setting-up of priorities among them with a view to establishing a time-scale for their respective solutions.

We therefore believe that priority must be given to the solution of the problems of registered unemployment, of the short-term increase in underemployment and of natural labour access. To the rest - underemployment, potential unemployment and emigration - this first priority is not granted, except when there are special circumstances such as, for example, the enforced return of emigrants.

On this basis, it seems useful to present an outline of objectives on a time-scale which will allow us to consider more realistically the means to attain them. If other outlines are preferred, other means must be used.

37.1 Short-term Objectives

- Elimination of the short-term increase in underemployment.
- Elimination of new-job demand, save with regard to a minimum number corresponding to frictional unemployment ($170,000 - 20,000 = 150,000$).

- Availability of jobs to satisfy first-job demand (204,000) and for those persons returning from the former colonies without jobs (200,000), foreseen for the end of 1976.

37.2 Medium-term Objectives

- Those already stated, to the extent that they may not have been solved in the short term.
- Reduction in underemployment (250,000).
- Reduction in potential unemployment (250,000).

37.3 Long-term Objectives

- Elimination of underemployment (750,000).
- Elimination of potential unemployment (750,000).
- Return of emigrants (540,000).

37.4 Permanent Objectives

- Availability of jobs for annual natural Labour access (60,000).
- Regional distribution of new jobs in accordance with regional employment needs and whenever possible in consultation with the local populations.

38. An employment policy cannot be conceived in isolation without regard to policies in other fields; all must be fitted in one with the other.

A first and fundamental adjustment must be made with respect to objectives. All policies are guided by certain objectives, which must not, therefore, fail to be coordinated, this including the fixing of priorities among them in accordance with the relative importance attributed to each.

Putting the problem in another form, it is after all a matter of knowing what is the position that must in the context of national objectives be given to those concerning employment.

In this aspect one essential point to make clear has to do with the common affirmation that the problems of employment, income etc. will not be solved unless there is economic development, an affirmation the validity of which, in a certain sense, we do not deny. But the practice in many countries in recent decades shows that economic development does not automatically bring with it full employment, a more equal distribution of wealth and income, etc. The truth is that economic development is of interest only insofar as it serves Mankind, and must therefore conform to the objectives that it is required to achieve.

Thus, for example, it is stated in the Final Report of the "World Tripartite Conference on Employment, Distribution of Income, Social Progress and International Division of Labour", held last June by the I.L.O., that "national development strategies, policies and plans should clearly include as a priority objective the provision of employment and the satisfaction of the essential needs of the population of every country"; elsewhere, the document declares that "an increase in productive employment is one of the most effective means of ensuring the just and equitable distribution of income and of improving the living standards of the majority of the population".

That is to say, we believe that employment objectives must take their place among those accorded priority, for economic development is one means of attaining those objectives.

C. Means of Action

39. We believe that the possibilities of are much greater with respect to employment supply, which is the reason that we shall consider it first.

40. Recovery in economic activity, of which the first signs now appear to exist, is a first step, and an essential one, towards the resolution of employment problems, especially with respect to the elimination of the short-term increase in underemployment and of non-frictional new-job demand.

In this prospect of recovery and of expansion (the latter we shall deal with below) there is one aspect that we consider fundamental. We believe that it is justifiable to maintain or create jobs on an artificial basis, that is, concerned with activities that are not economically viable or competitive. Even if protective customs duties were for a short time to make certain products a possibility for the domestic market, the membership of the Common Market now foreseen for Portugal would make it even more imperative to follow the above precept.

It is obvious that on this basis and with the profound transformations that have taken place in economic activity in the last few years, the criterion of viability may cause a greater number of firms to close down, with a consequent increase in new-job demand. But this is a reality that must be faced above all in terms of the greater demands that the increase in new jobs makes upon economic expansion.

41. Only this expansion can in reality make for a solution of most employment problems, through the creation of new productive jobs.

This is an aspect of the problem that has already been widely discussed and debated, but even so it deserves further reflection.

There is no doubt that any action to create jobs in the short term will have to be based on existing projects, since the preparation and evaluation of a project demands a certain minimum of time. Paying heed to this last limitation and further to the traditional small dimensions of projects, even taking account of those concerning the expansion of undertakings that are already functioning, we do not only believe that it will be impossible totally to fulfil the short-term objectives proposed in 37.1 but we are convinced that we must begin to work as quickly as possible and with the maximum effort, in this field of the preparation and evaluation of projects⁽¹⁾, so that the medium- and long-term objectives (plus those as yet unfulfilled among the short-term) may be attained.

(1) Only by this means, which necessarily implies the setting-up of projects departments at central, regional and sectorial levels, can progress be made towards the full utilisation of the country's resources. There are various lines to take (often coincidental) in the definition of new projects (satisfaction of essential needs; adjustment of production to growth in demand; replacement of imports; knowledge of local resources, in which it is essential to contact the local people; increased exports (through a study of external demand) along with a reduction in them of the part taken up by raw materials; necessary infrastructures; etc.)

One problem that always arises, in terms of strategy, is that of the choice between undertakings that use, in the preparation stage, more or less manpower. Putting aside the question of artificial job creation, which has already been rejected as unacceptable, there remain those undertakings that are viable and competitive. Taking into account the size of the employment problems that arise in the short term, we believe this choice must succeed in bringing together (in view of the financial resources available) a maximum of undertakings with high employment coefficients and a minimum number that are highly capital-intensive (this minimum is absolutely necessary to the consolidation and continuance of economic development, but it is in general only in the medium and long term - and owing to its multiplying effect - that it results in an increase in the number of jobs).

In addition to the preparation and evaluation of projects (for which is implicit the existence of project planners, which does not appear to constitute a problem)⁽¹⁾; there is another condition indispensable to expansion; the existence of a sufficient number of capable administrators. This fact is referred to owing to its importance and because they are also traditionally lacking in Portugal.

We must not lose sight of the need for expansion to be decentralised on a regional pattern, so as to correspond to the growth of job demand.

(1) Although there may be a problem regarding the possibility of making a socio-economic evaluation of each project.

42. Finally, it is evident that the number of jobs can be increased by actions such as a prohibition from having more than one job, a reduction in hours of overtime worked to the minimum indispensable for normal production in certain activities, or further, a reduction in the number of working hours per day. The reduction in the last few years in the number of hours of work, considered as a benefit, does not allow, as we believe, further possibilities of action in this respect. The same cannot be said of the other two lines of action, where something must be done to put an end to the present chaos that influences the level of employment.

43. As to the possibilities of action with respect to demand, they are of various kinds.

44. In the first place and with regard to persons put out of work against their will, the maintenance of their income must be assured. In this regard there is something abnormal in the system of unemployment benefit to the extent that there is such a great difference between the unemployment figures, even without taking first-job demand into account, and the number of those receiving benefit (30 to 40 thousand).

45. Raising the school-leaving age is one way of reducing demand; another is lowering of the retirement age. Keeping in mind average household income, still at a low level, there do not seem to exist great possibilities of action in these two fields. With particular reference to retirement age, it

will do little good to lower it if the extremely small average retirement pension continues to oblige people to seek work to complement their pensions.

46. The impossibility of achieving the short-term objectives here presented must lead to another line of action to reduce demand in the short and medium term: the diversion, whenever possible temporary, of part of this demand by means of emigration. This requires a study of the possibilities of emigration followed by the drawing-up of the consequent agreement which must be looked on as one of the possible forms of external cooperation.

47. Those actions, whether in respect of supply or of demand, which tend to achieve as far as possible a balance between the two, and which must be carried out by the employment services, are another essential factor in the resolution of employment problems. Even if it is a question simply of information, this is often the component that is lacking for that balance to be achieved.

The evaluation of projects up to the definition of manpower needs in quantitative, qualitative and geographical terms is a further essential element for the achievement of the balance referred to above. It must be emphasised that, as we believe, it should be accepted that those seeking employment be obliged to change their place of residence or their occupation only when the job supply cannot convenient^{be} adapted to meet this job demand.

48. The various means to be utilised to resolve employment problems must take shape together in a way that can only be achieved through planning. In Art. 52 of the Constitution it is declared: "It shall fall to the State, through the application of plans of economic and social policy, to guarantee the right to work, ensuring: a) The putting into effect of full employment policies ...".

In view of the priority of employment objectives and of the fact that these matters are of concern to many bodies (which may contribute to a lack of coordination in the action to be taken), particular attention must be paid to the formulation of these objectives and the corresponding policy in the Plan and to the putting into effect of the actions programmed.

49. A more correct knowledge of the variables in question is essential to the formulation of these objectives and to following them up when action is taken to achieve them, which implies in particular an improvement in statistical information. In this field of knowledge two aspects must be referred to in particular.

49.1 First, it is considered absolutely necessary to be able to follow developments regarding the workers grouped under the various headings in question - potential unemployment, under employment, first-job demand, new-job demand, the unemployed from the former colonies, emigration, etc. - and this will be possible only provided it is established as a rule that: no-one can take up employment without being registered with the

employment services, which will make it possible to know at any moment the "pressure" of employment problems⁽¹⁾ and their breakdown provided that those services record at least the heading under which each person registered is seeking employment, together with his or her region and occupational category; and that all bodies that engage workers shall forward to the same services (monthly, for instance) a list of persons engaged, with the same information about them, and moreover not only an indication as to whether the jobs taken by them result from creation or replacement, but also the number of jobs that have been withdrawn and the respective reasons.

Other information may be requested which is certainly important (such as age, qualifications, etc.) but we believe that only the data mentioned above should be of immediate concern, so that the results arrive in time to introduce appropriate adjustments in the actions it is planned to take. For example, if in filling the jobs created with a view to reducing registered first-job demand it is found that after all these jobs have been filled by persons in a situation of potential unemployment or underemployment, the need will immediately arise for the creation of more jobs. It is obvious that the problem can be avoided provided there is a preference for and possibility of establishing objective criteria of priority in engaging workers for vacant jobs⁽²⁾, but they are criteria

(1) It must be noted that even underemployment will appear there, at least in part through employees who for that reason are seeking other work.

(2) Which will require the intervention of the employment services and putting the engagement of workers on a really competitive basis.

which, so as not to interfere with the right to work, will have to ^{be} applied to candidates for jobs independently of the heading under which they are seeking employment (a case in point is the degree of economic necessity, to be determined by certain indicators fixed in advanced).

49.2 A second aspect has to do with annual manpower turnover, knowledge of which is considered essential and which should be calculated with the least possible loss of time.

ADDENDUM

Table 22:

Instead of "Standard deviation" it should
be read "average deviation compared with the mean".

CONFERENCE ON THE PORTUGUESE ECONOMY

11th — 13th October

SPONSORS: German Marshall Fund of the United States
Gulbenkian Foundation

12.02.03 C

COMENTÁRIO

ao Relatório de

JOÃO MOURA

por

Mário Murteira

Gabinete de Investigações Sociais

I. S. E.

(Circulação Restricta)

Comentário ao relatório de João Moura

1 - O relatório tem o mérito de fornecer uma avaliação quantificada das dimensões mais significativas do problema emprego na economia portuguesa. Por muito discutíveis que sejam as fontes estatísticas e os métodos de avaliação utilizados, as ordens de grandeza são reveladoras e traduzem uma realidade cuja gravidade não pode disfarçar-se em querelas secundárias.

Neste comentário abordaremos dois pontos que o relatório não trata ou trata insuficientemente, a nosso ver: a capacidade de criação de empregos dos sectores económicos e a estratégia de desenvolvimento mais adequada ao tratamento da problemática do emprego. Naturalmente que farei apenas breves anotações sobre as questões vastas e complexas que estão em causa.

2 - O quadro I traduz resultados dum estudo que se encontrava em curso no Ministério do Planeamento e Coordenação Económica em Julho do ano passado. Trata-se de comparar duas estratégias alternativas de desenvolvimento: a est. A dá primazia a objectivos em matéria de emprego; a est. B visa mais directamente a competitividade externa da economia (maior crescimento das produtividades sectoriais) e a industrialização rápida. Não podemos descrever aqui em detalhe a filosofia subjacente a cada uma delas, e reconhece-se que a dicotomia é simplista e apenas (possivelmente) útil como introdução a análises muito mais aprofundadas.

Consideremos, em todo o caso, o Quadro I como um exercício de reflexão sobre a capacidade de criação de empregos da economia portuguesa. Note-se, quanto à estratégia B, que ela asseguraria praticamente a estacionariedade do emprego, diferentemente do padrão de crescimento em 60/72 que implicou redução do nível global de emprego embora pareça muito optimista supor-se a manutenção do volume de postos de trabalho nas indústrias "tradicionais" no quadro duma política económica de abertura ao exterior. Quanto à estratégia B, é de notar que somente asseguraria a criação de 130 mil postos de trabalho em 3 anos - segundo os cálculos efectuados e nas hipóteses admitidas - das quais a maior parte corresponderia à agricultura e construção, o que significaria apenas um número de empregos compreendido entre 1/3 a 1/4 do actual volume de desemprego.

QUADRO I

TAXAS DE CRESCIMENTO ANUAL %

SECTORES	VAB			PRODUTIVIDADE			EMPREGO		
	EST A 1976/78	EST B 1976/78	1960/72	EST A 1976/78	EST B 1976/78	1960/72	EST A 1976/78	EST B 1976/78	1960/72
AGRICULTURA	3,0	3,0	1,0	1,5	4,2	4,0	1,5	-1,2	-3,0
(1) IND. "TRADICIONAIS"	5,0	7,0	7,7	4,0	7,0	6,7	1,0	0,0	1,0
(2) IND. "MODERNAS"	8,0	10,0	10,0	5,0	8,0	8,5	3,0	2,0	1,5
CONSTRUÇÃO	8,0	8,0	6,1	4,0	6,0	4,1	4,0	2,0	2,0
TRANSPORTES	7,0	7,0	6,4	2,0	4,0	4,1	5,0	3,0	2,3
TOTAL	5,5	7,0	6,5	4,1	6,9	8,3	1,4	0,1	-1,8

(1) Inclui: Alimentares, bebidas, tabaco, têxteis, vestuário, calçado, madeira, cortiça, mobiliário e curtumes.

(2) Inclui: Papel e tipografia, borracha, químicas, petróleo, minerais não metálicos, metalúrgicas de base, produtos metálicos, construção de máquinas, material eléctrico, material de transporte, diversas, electricidade, gás e água.

Não parece arriscada adiantar que a opção por uma estratégia de tipo B estaria associada à vontade política de acelerar a integração económica de Portugal na C.E.E., enquanto a alternativa A, quando muito, só admitiria tal propósito após um período mais ou menos longo de estabilização e consolidação dum sistema económico orientado pelos princípios constitucionais.

Em qualquer caso, julga-se pacífico desaconselhar a reconstituição do "modelo" de crescimento económico que caracteriza Portugal antes de 1974, além do mais, considerando as taxas de variação do emprego que o Quadro I revela para 60/72.

3 - Parece evidente que a política de emprego não pode ser considerada como uma política ao lado doutras políticas horizontais ou sectoriais. Trata-se, antes, de ponderar e articular objectivos e instrumentos em matéria de emprego com diferentes conjuntos de objectivos e instrumentos relevantes noutras perspectivas - equilíbrio da balança de pagamentos, acumulação de capital e repartição do rendimento, estratégias sectoriais, etc..

Julgamos, por isso, que é em grande medida ilusório ou mesmo mistificador compartimentar a discussão da política económica portuguesa antes dum consenso sobre a estratégia global de desenvolvimento a aplicar, em cujo âmbito deverão inserir-se naturalmente as várias áreas da política económica. Parece que tal constatação é particularmente necessária no caso do emprego.

Também julgamos ser inútil ou mistificador ignorar a discussão sobre o sistema económico a refazer na economia portuguesa depois dos profundos sobressaltos de 74/75.

Nem todas as estratégias cabem em dado sistema, nem uma dada estratégia é necessariamente compatível com qualquer sistema. Por exemplo: ter em Portugal um capitalismo de Estado dependente do capitalismo europeu, ou uma economia planificada, não burocrática e descentralizada com sector privado submetido à lógica do Plano, são situações distintas que sugerem, pelo menos, diferentes vias de ataque ao problema do emprego.

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ENSAIOS DE ESTRATÉGIAS DE INVESTIMENTOS

- resultados preliminares dum modelo numérico -

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(Circulação restrita)

1. Introdução

A construção de modelos de programação multisectorial no GEBEI visa estabelecer ferramentas apropriadas para a construção de projecções a médio e longo prazo a um nível de agregação que permita o conhecimento dos principais sectores da indústria transformadora e consistentes do ponto de vista do equilíbrio macroeconómico, multisectorial e intertemporal.

Nesta comunicação relatam-se ensaios preliminares com uma versão simplificada do modelo. Este considera explicitamente balanços de fontes e aplicações de bens e serviços e divisas, e descreve a formação e manutenção de capacidades produtivas através de processos de investimento abrangendo vários períodos. Nesta versão, a formulação do modelo segue muito de perto o trabalho de Eckaus para a Índia [1].

Leitores especializados nunca serão tentados a interpretar este tipo de ferramenta como se se tratasse dum modelo de simulação. A utilização duma função objectivo e de programação linear não podem, por razões óbvias, atribuir ao modelo um carácter normativo. A programação é usada como uma mera técnica para explorar o domínio do possível desenvolvimento económico. Para acelerar esta exploração podem ser cortadas fatias daquele espaço à medida que ele se vai tornando conhecido: versões alternativas do modelo incluem restrições ou metas de emprego, uma restrição de poupança ou, pelo menos, um limite na proporção do produto interno destinado a investimento, e, ainda, restrições à afectação sectorial de divisas.

Outras versões do modelo têm como objectivo o reconhecimento das distorções e do alargamento do domínio das soluções através da integração de grandes projectos ou grupos de projectos investimento [8]. O caminho mais simples consiste na especificação exógena dos recursos criados e mobilizados correspondentes ao projecto. Versões mais elaboradas incluem blocos completamente novos relativos a actividades de investimento e operação além de ligações entre projectos.

Contudo, os resultados que começam a estar disponíveis são bem modestos. Limitam-se a uma primeira exploração do período 1977-1982 distinguindo apenas seis sectores.

Certamente que o "output" não pode melhorar o "input": os dados "input-output" foram envelhecendo [2] e os coeficientes de investimento são ainda mais velhos [3] ou de qualidade mais duvidosa [4,5].

Realizou-se um esforço para aproveitar o melhor possível a informação disponível sobre consumo privado [6] (Anexo 2).

Foi necessária uma boa dose de hipóteses para conciliar aquelas fontes com a contabilidade nacional [7]. No capítulo 2 faz-se uma breve análise do significado das condições iniciais e das metas terminais.

No capítulo 3 tenta-se uma pequena "visita guiada" à região possível. Ao nível de agregação de 6 setores é difícil proporcionar mais do que

- a percepção de que a região possível é limitada, uma evidência a que alguns chamam "pessimismo dos economistas" no contexto das perspectivas de médio e longo prazo da economia portuguesa.
- uma imagem dos "trade-off" entre investimento e consumo.
- uma certa confirmação ou o lançamento de dúvida sobre análises sectoriais ou preconceitos relativos a prioridades de investimento e vantagens comparativas genéricas.

2. Condições iniciais e caracterização do ensaio base

A verosimilhança das projecções depende em larga medida das hipóteses relativas ao consumo privado inicial, capacidade produtiva disponível (produção nominal em 1976) e capital em gestação representado por estimativas de taxas limites de crescimento da produção durante os três primeiros anos. A escolha de hipóteses razoáveis é uma tarefa difícil já que os dados oficiais mais recentes da contabilidade nacional são relativos a 1973 [7] e em 1974-75 o investimento caiu abaixo das tendências anteriores. É opinião generalizada que o investimento tem sido escasso para manter os "stocks" de capital, e simultaneamente pode existir substancial capacidade por utilizar em alguns sectores. Estimativas recentes do Departamento Central de Planeamento prevêm para 1976 um PNB ligeiramente inferior ao nível de 1973 [7]. O produto da agricultura e indústria extractiva poderia ter crescido em 1975 em relação a 1974 a uma taxa comparável à tendência de 1960-1972, o produto da indústria transformadora desceu e o dos serviços admite-se que tenha sido mantido. Outras fontes próximas do Banco de Portugal prevêm um crescimento moderado do

produto em 1976 em relação a 1973.

Partindo destas bases precárias, a produção, em 1973, da indústria transformadora e da construção foi tomada como capacidade produtiva em 1976 (Anexo 3). A capacidade produtiva do sector primário foi acrescida, admitindo uma evolução anual de 1.1% entre 1973 e 1976. A capacidade dos serviços foi ajustada conforme se descreve adiante.

As taxas iniciais de crescimento são comparáveis a tendências observadas no passado cerca do fim da última década e princípio dos anos 70. Admite-se que o crescimento potencial que elas permitem no período 1977-79 reflecte uma combinação de capacidade não utilizada e capital em gestação. As necessidades de investimento para tornar efectivo este crescimento potencial podem ser consideradas, do mesmo modo, como uma combinação da continuação de projectos de investimento e uma recuperação de atrasos na manutenção de capital existente.

Em alternativa a este conjunto de hipóteses tentou-se primeiro realizar uma série de ensaios relativos ao período 1974-1979 a partir da qual se pudessem deduzir condições iniciais para o período 1977-1982. O resultado, contudo, conduz a um crescimento do PNB em 1974-1976. Naturalmente, o modelo não poderia simular uma recessão mundial e um período de perturbação social. Mesmo assim, observou-se um resultado significativo: as estimativas de crescimento do consumo privado em 1974-1976 implicam uma estrutura de procura diferente (menos serviços) ou o funcionamento do sector dos serviços com uma sobre-capacidade da ordem de 16%. É provável que ambos os factores sejam significativos.

A sobre-capacidade de 16% não se limita a 1974. Uma parte importante está já implícita em níveis de consumo anteriores a 1974, período em que a igualização da distribuição de rendimentos não poderia ser invocada como factor de mudança de padrões de consumo. Assim, atribuímos os nossos resultados à degradação da qualidade dos serviços, o que parece justificado pela observação diária:

- congestionamento de serviços telefónicos e de transportes públicos
- serviços postais mais lentos
- abastecimento de água caprichoso
- deterioração da oferta de energia eléctrica em algumas áreas

A média das estimativas das fontes já mencionadas para o consumo privado são as seguintes em milhões de contos (preços de 1970):

1973	1974	1975	1976	1977
142.4	154.8	157.9	169.3	170.1

O montante de 1974 requiere uma produção de serviços de cerca de 116.5, contra 100.8 estimados a partir de 95.8 em 1973 com um crescimento de 5.2%. Até 1976 admitiu-se uma taxa de crescimento de 5%, compatível com o crescimento do PNB 1976-73 de 2 a 3%. O ajustamento do montante em 1974 representa um "brinde" de cerca de 25 milhões de contos de capital. Admite-se que este capital adicional é retirado do sistema entre 1979 e 1983, 20% em cada ano*.

A retirada corresponde a uma simulação aproximada de um desejável restabelecimento da qualidade de serviço, e um reconhecimento das tensões do presente.

As metas de produção para o primeiro ensaio são muito ambiciosas. Correspondem a um crescimento mantido durante 6 anos a taxas com paráveis ao período anterior a 1973**.

As taxas de crescimento terminais pressupõem a duplicação da taxa de crescimento do sector primário, manutenção na indústria transformadora, crescimento nos serviços e declínio na construção.

Considerando a alteração do contexto internacional e preços crescentes das matérias primas, estas metas devem considerar-se hipóteses optimistas. Os dados, contudo, contêm hipóteses favoráveis, incluindo uma redução de coeficientes de depreciação em relações estimativas com dados da contabilidade nacional [4] que pareciam demasiado elevadas, reflectindo possíveis ineficiências que, se esperas, possam ser corrigidas.

As taxas mínimas de crescimento do consumo privado - 1% - são modestas e, em conjunto com as metas de produção implicam um esforço de crescimento muito exigente.

* Um ensaio semelhante com restabelecimento da qualidade de serviço de 1978 a 1982 conduziu a uma impossibilidade no consumo inicial.

** Durante 4 anos para a construção

O aumento da dívida externa terminal (25 milhões de contos) e o limite de utilização anual de empréstimos externos (5 milhões de contos) são generosos mas não parecem desproporcionados.

Os limites máximos de exportação podem caracterizar-se sumariamente como correspondendo a uma duplicação inicial em 1974 dos níveis de 1972, seguindo-se um crescimento máximo anual de 15% no caso dos produtos intermédios e do equipamento. Os máximos para bens de consumo resultam de hipóteses estabelecidas ao nível de desagregação de 18 sectores compreendidas entre 10 e 20% de crescimento anual em relação a níveis do passado.

3. "Visita guiada" na região possível

3.1 O ponto de chegada do "optimista" (Ensaio 1)

Como já foi referido, a imposição de metas ambiciosas obriga a um pequeno crescimento mínimo do consumo privado endógeno (1% por ano). Este mínimo tem o preço de oportunidade elevado no período 1977 a 1979. Mais tarde surge uma pequena folga para maior consumo, mais fácil de conseguir em 1981/1982*.

Considerando também o consumo exógeno (habitação) o consumo terminal corresponde a um crescimento médio de 2.6% por ano.

O crescimento médio do PNP é 6.2%, conseguido com a afectação duma proporção muito ambiciosa para investimento. Após dois anos durante os quais é flagrantemente difícil manter o nível de consumo, a parte de investimento no produto interno bruto teria que ser mantida em cerca de 30%. Considerando entradas líquidas de capital externo, a poupança interna teria que ser da ordem de 29%**.

As taxas médias de crescimento da produção no ano terminal podem calcular-se do Quadro 2 (Ensaio 1) do Anexo 3 e são:

Sector	1	2	3	4	5	6
Taxa média de crescimento	1.8	2.6	8.8	12.1	6.5	5.4

* A redistribuição intertemporal do crescimento potencial do consumo poderia manter uma taxa de 1.5% no período 1980/82. Após esta redistribuição o crescimento médio até ao ano terminal (incluindo habitação) seria 2.3% por ano.

** Ver Anexo 3: Quadro 1, Ensaio 1.

O capital inicial em gestação é totalmente completado em 1977 mas abandonado nos sectores de bens de consumo e intermédios (parcialmente abandonado no sector da construção).

Em 1977 persistem excessos de capacidade no sector do equipamento, o qual recupera mais tarde para se tornar o de crescimento mais rápido ultrapassando a meta terminal de produção*.

O excesso de capacidade na construção persiste até 1978. Isto é um sinal de que um programa de habitação acelerado seria desejável neste período, mas torna-se mais difícil depois de 1978.

O sector de bens de consumo evidencia uma trajectória de produção com irregularidades associadas a diferente escassez relativa de divisas.

Tal como o sector dos bens intermédios não requer investimentos para aumentos de capacidade durante a maior parte do período. Os aumentos de capacidade só são eleitos em 1982, principalmente para satisfazer as metas terminais de stock de capital.

Estes resultados são determinados em grande parte pelo nível de agregação. No sector dos bens de consumo há um peso muito grande dos têxteis, no qual o investimento deveria ser sobretudo dirigido para a inovação tecnológica associada a investimento de substituição. Outros segmentos do sector 2 poderiam presumivelmente revelar-se candidatos sérios a investimento dirigido ao aumento de produção.

No caso do sector de bens intermédios a baixa prioridade de investimento contrasta com as perspectivas actuais de projectos de desenvolvimento**.

A qualidade dos dados, o nível de agregação e a natureza do estudo não permitem julgamentos definitivos. Contudo, os resultados ajustam-se a uma análise mais fina de alguns projectos realizada por outros.

O investimento no sector primário detem a mais alta prioridade no princípio do período, com utilização total do capital em gestação e investimento para aumento de capacidade o mais cedo possível (1980).

* Ver Anexo 3: Quadro 3, Ensaio 1

** O preço reduzido dos aumentos de capacidade do sector de bens intermédios, de 1977 a 1981, situa-se entre 0.2 e 0.4.

Mais tarde, a ambição de crescimento do "stock" de capital noutros sectores desvia deste sector recursos para investimento.

O sector dos serviços, sendo por definição um sector de "bens" não comerciáveis e recebendo impulsos de todas as categorias de procura, evidencia um crescimento regular da produção e da acumulação de capital. Mais uma vez, a agregação esconde problemas específicos de actividades incluídas neste sector: basta lembrar o excesso de capacidade no sector dos transportes marítimos.

As exportações de mercadorias concentram-se em bens do sector 2 com participação ocasional do equipamento. A manutenção do consumo e a produção de bens de consumo exigem pesadas importações competitivas de produtos primários. O exigente esforço de investimento envolve importações competitivas de equipamento com tendência para diminuir por substituição de importações. Os recursos de divisas progressivamente libertados são então reorientados para aumentar as importações competitivas de bens intermédios até ao último período em que o crescimento do sector interno inicia uma segunda fase de substituição de importações.

O Quadro 4 no Anexo 3 regista o balanço de divisas. Os limites de utilização anual de capital externo, dentro dum aumento da dívida externa terminal de 25 milhões de contos, são sempre tocados*. As restrições de reserva mínima de ouro e divisas permitem, contudo, uma afectação flexível com um sacrifício mínimo de consumo. Como se ria de esperar, qualquer aumento da dívida externa terminal tem grande valorização: pode alimentar o consumo com um rendimento de 90%, um quinto do qual poderia ser afectado ao primeiro período.

É interessante notar que o aumento da despesa de turistas em Portugal, 6.2 milhões de contos entre 1977 e 1982, come cerca de 25% do aumento de consumo privado que pode ser atingido**.

* Com preços de oportunidade próximos de 0.5 no período 1977-1979.

** É comum as receitas de turismo serem tratadas como um resultado líquido. Seria interessante explicitar os custos através da especificação duma função de consumo para não-residentes.

Depois desta descrição breve do ponto de chegada do maníaco do crescimento é difícil adivinhar o que pensa o "optimista" da paisagem. Passemos antes ao que poderia ser o primeiro passo do "economista".

3.2 O "primeiro passo do economista" (Ensaio 2)

Os resultados do primeiro ensaio podem certamente ser considerados pouco realistas. Que persuasão, que medidas de política e que instituições financeiras podem mobilizar uma taxa de poupança tão elevada ! Contudo, que o crescimento é desejável com a taxa de desemprego actual não pode ser posto em questão.

Como um primeiro passo, os "stocks" de capital impostos exogenamente podem ser adaptados ao crescimento observado no primeiro ensaio. As taxas terminais de crescimento podem ser ajustadas do mesmo modo:

Ensaio 1

Sector	Metas de produção	Taxas de crescimento implícitas	Crescimento médio observado
1	49.4	1.1	1.8
2	177.0	7.7	2.6
3	81.0	8.0	8.8
4	78.5	10.0	12.1
5	42.7	5.4	6.5
6	155.0	5.0	5.4

Ensaio 2

Sector	Metas de produção	Taxas de crescimento implícitas	Taxas terminais de crescimento
1	52.0	2.0	2.0
2	148.0	4.5	4.5
3	81.0	8.0	8.0
4	77.0	10.0	10.0
5	44.3	6.0	6.0
6	172.0	6.0	6.0

A observação da solução dual do Ensaio 1 sugeriu que poderia atingir-se uma taxa mínima de crescimento do consumo privado de 2% a partir de 1978. Isto mostrou-se impossível. Uma solução muito apertada foi então obtida com a mesma taxa de crescimento mínima (e realizada) de 2% do consumo privado endógeno, mas apenas depois de 78. O potencial de crescimento nos próximos dois anos é seriamente reduzido pelas condições iniciais que não parecem, apesar de tudo, indevidamente pessimistas.

Os resultados do primeiro passo exploratório não são significativamente diferentes dos do primeiro ensaio, revelando pequenos ajustamentos no faseamento dos aumentos de capacidade e capacidades não utilizadas um pouco menores. Portanto, o aumento de consumo resulta duma maior eficiência de afectação.

Persiste o problema inicialmente detectado duma taxa de investimento muito elevada. A análise deste problema poderá no futuro ser simplificada activando uma restrição da proporção do investimento na procura total.

A observação do dual mostra que o consumo crescerá no máximo 16 milhões de contos em todo o período 1977-1982*, ou seja 1.6%, como contrapartida duma perda de 80 a 90 milhões de contos de investimento, (16,7% do total) em resultado duma redução das metas terminais de produção equivalente a um ano inteiro. O PNB decresceria pelo menos 70 milhões de contos (3.9%) e a taxa média de investimento poderia reduzir-se a cerca de 25% do PNB contra 29% no actual ensaio.

Estes números ilustram um "trade-off" apertado entre investimento e consumo e a consequente necessidade de coordenação das políticas de rendimentos e investimento. Por outro lado, explicam os resultados modestos do "primeiro passo do economista".

3.3 O ponto "independência" (Ensaio 3)

No ensaio 3 podem observar-se os ajustamentos qualitativos face a uma redução a longo prazo do endividamento. As hipóteses não são realmente descritivas duma situação de ausência de apoio financeiro externo. Admite-se que as entradas líquidas de capital se po

* Se não fosse constrangida a afectação intertemporal deste montante.

dem concentrar nos primeiros anos com as características duma ajuda de emergência que tem que ser totalmente amortizada até 1982 (não contando entradas que compensem parte do pagamento de juros).

As metas de produção dos sectores 2 e 6 foram ajustadas tendo em consideração o crescimento da produção observado no ensaio 2. A solução foi obrigada a manter o consumo privado até 1979 e a conseguir posteriormente, um crescimento mínimo de 1%. Esta austeridade estrita é recompensada com um crescimento substancial de 15.6 milhões de contos em 1981. A reafectação deste consumo teria permitido uma taxa mínima de crescimento do consumo privado de 1%. Por outras palavras, a afinação das metas (planeamento) poderia poupar 25 milhões de contos de dívida externa ou usar os recursos de divisas com maior eficiência.

Os aspectos salientes do investimento e comércio externo, e as trajectórias da produção mantêm-se como no primeiro ensaio.

Contudo, a reafectação de recursos para o sector primário é significativa, numa tentativa para reduzir a dependência das importações*.

A produção de bens de consumo é mais regular devido à escassez acrescida de divisas. O "stock" de capital do sector do equipamento (baixo coeficiente capital/produto) cresce a ponto das exportações se tornarem comparativamente mais vantajosas que as exportações de bens de consumo.

3.4 O ponto "crédito externo" (Ensaio 4)

O quarto ensaio representa a contrapartida do anterior. Considerando uma dívida externa terminal de 50 milhões de contos e uma utilização máxima anual de 10 milhões de contos de crédito externo, as metas do segundo ensaio são conseguidas com um crescimento razoável do consumo privado endógeno. Os mínimos foram especificados em 012333. Após dois anos de austeridade, mitigados por uma oferta crescente de serviços colectivos, o crescimento é retomado e, no fim do período, é possível atingir um crescimento de 6.7%.

A proporção média de investimento em relação ao PNB é mais plausível tendo em conta a contribuição de entradas líquidas de capital

* Em 1980 é tocado um limite de crescimento.

para complementar a poupança interna.

As disponibilidades acrescidas de divisas alongou um tanto a crise de excesso de capacidade no sector do equipamento.

A eficiência marginal do crédito externo não parece declinar em relação aos níveis mais baixos de dívida externa terminal e de utilização máxima anual dos empréstimos.

3.5 O ponto da "família operária" (Ensaio 5)

A redistribuição de rendimento e a redução da diferenciação salarial que foram conseguidas nos últimos dois anos devem ter modificado necessariamente os padrões de consumo. O assunto já foi mencionado como um factor que, em conjunto com a degradação da qualidade de serviço, pode explicar que tenham sido possíveis os elevados níveis de consumo observados nos últimos anos. Isto constitui uma razão mais para sublinhar a cautela que deve ser tida no tratamento de resultados dum modelo numérico que está a usar dados de orçamentos familiares de 1968.

No último ensaio foi experimentada uma estrutura de consumo diferente. Infelizmente, a fonte de dados é da mesma idade [6]. No quadro seguinte, as funções de consumo globais usadas nos ensaios anteriores comparam-se com a estrutura de consumo da classe de rendimento modal da região litoral que concentra a maior parte da indústria transformadora.

Sector Funções de consumo Estrutura de consumo
da classe modal

	Intersecção		Tangente		β^w	β_M^w
	α	α_M	β	β_M		
1	12.9	0.15	5.8	0.07	17.1	0.20
2	8.1	0.02	26.9	0.08	34.0	0.10
3	-0.8	...	5.0	0.03	4.3	0.02
4	-9.1	0.69	14.0	0.05	6.0	0.13
5	-	-	-	-	-	-
6	-4.1	-	48.3	-	38.6	-

A manutenção e o crescimento do consumo privado com a "família operária" é mais difícil, pelo menos na primeira parte do período, de

vido a um conteúdo mais elevado de bens comerciáveis. Experimentando vários conjuntos de taxas mínimas de crescimento, só a terceira tentativa foi detectada uma solução possível.

Os três ensaios tomaram condições terminais idênticas às do ensaio 2 e as seguintes metas de crescimento do consumo privado:

		1977	1978	1979	1980	1981	1982
Ensaio	5.1	0	0	1	2	2	2
Ensaio	5.2	-1	0	1	2	2	2
Ensaio	5	-1	0	0.5	2	2	2
	Dual	1.5	1.1	0.6	0.2	0.0	-

Na última tentativa obtiveram-se resultados interessantes. Verifica-se um aumento de crescimento da produção (em relação ao ensaio 2) em todos os sectores excepto serviços. O capital inicial em gestação é totalmente completado e a capacidade não utilizável é negligível. O sector dos serviços mostra grandes excessos de capacidade num período de "austeridade" mais longo. Quando se dá o retorno do crescimento do consumo privado, este excedente é rapidamente absorvido. Para além destes aspectos, as prioridades de investimento e as vantagens comparativas são qualitativamente as mesmas.

Estes resultados são, contudo, tão incertos como os observados com as funções de consumo globais: implicam, por exemplo, uma estrutura invariante com um nível crescente de consumo.

A análise da solução dual mostra que o "trade-off" entre o crescimento e o consumo se tornou menos tenso. O atraso de um ano, envolvendo uma redução da parte do investimento na procura total de 30% para cerca de 25% permitiria o aumento de 3.4% do consumo total do período desde que este aumento se concentrasse nos últimos três anos.

3.6 Um comentário sobre necessidades de emprego

A introdução de necessidades de emprego na forma de restrições ou metas de procura merece prioridade para aprofundar as possibilidades do modelo na exploração da região possível. Os dados disponíveis não parecem justificar projectos muito ambiciosos de modelação da mobilidade do trabalho, formação, etc. O confronto das tendências de evolução da produtividade com as trajectórias do produto poderiam permitir vislumbrar movimentos intersectoriais de emprego implícitos.

O tempo limitado de que se dispões para a interpretação dos resultados apenas permite um breve comentário sobre necessidades de emprego.

Projectando a tendência da produtividade do trabalho a partir de séries temporais de emprego (1960-1972) e de dados do produto das contas nacionais, a diferença das necessidades de emprego em relação ao emprego potencial em 1976 é representada no quadro seguinte.

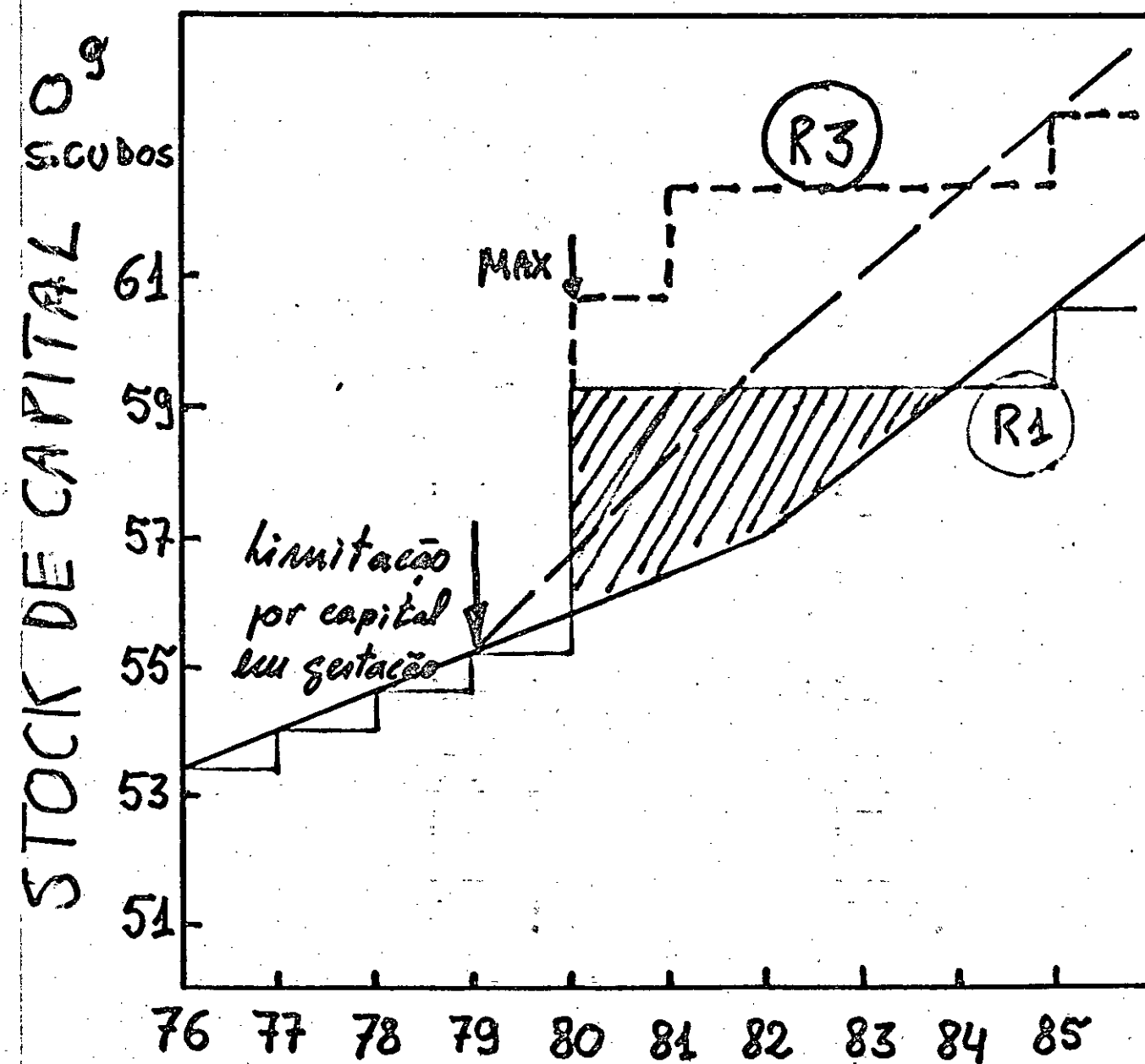
Os valores absolutos carecem de significado e poderiam ser alterados por hipóteses diferentes sobre o crescimento da produtividade; o quadro faz ressaltar muito claramente as dificuldades de absorver a curto prazo o desemprego actual. A deterioração no futuro imediato não é impensável.

Necessidades de emprego em relação à utilização total
da capacidade em 1976 (10^3)

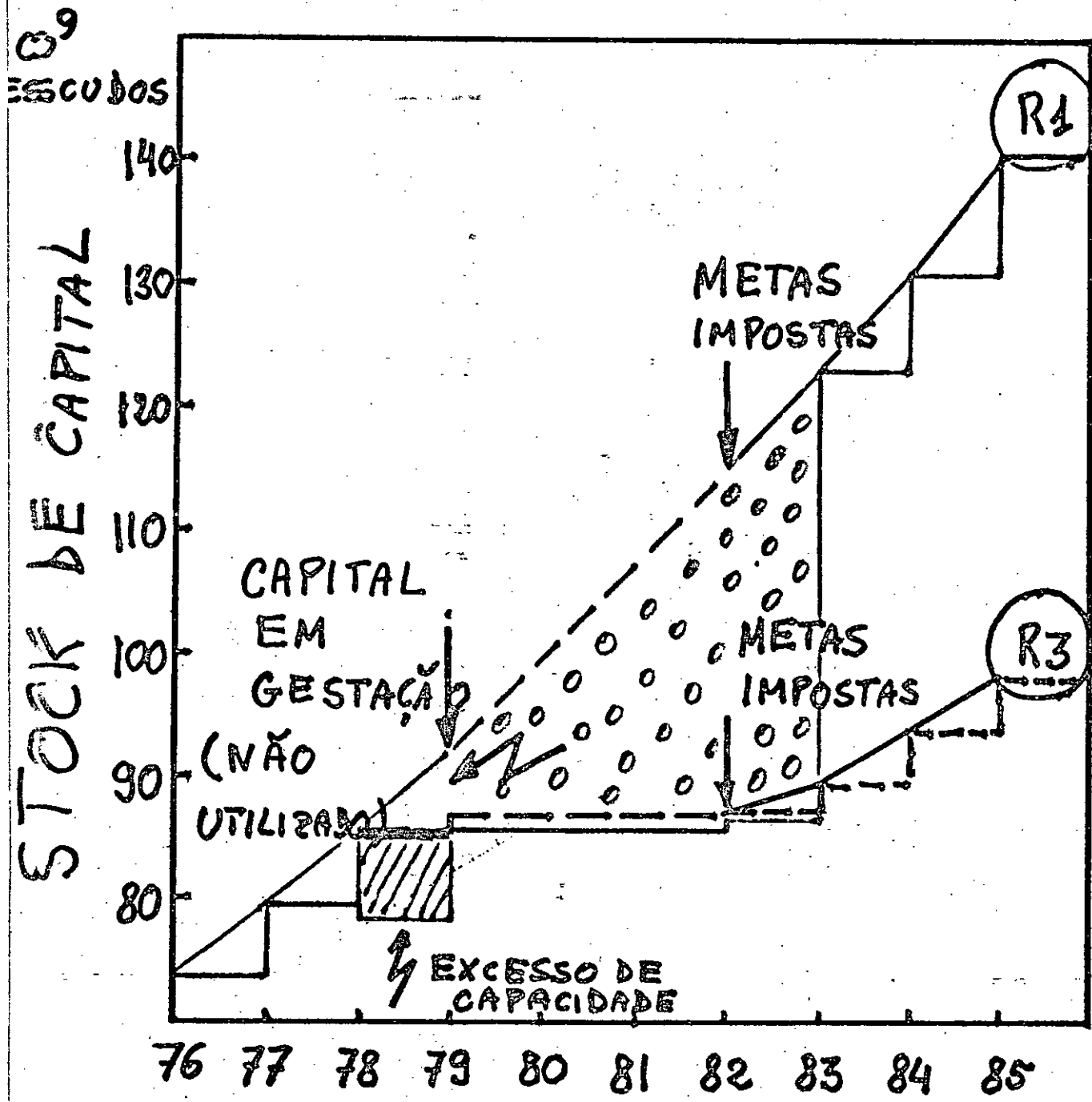
	1977	1978	1979	1980	1981	1982
Ensaio 1	-83	-18	-55	+31	+86	+189
Ensaio 2	-78	+1	-6	+74	+131	+204
Ensaio 3	-80	+1	-6	+74	+126	+191
Ensaio 4	-76	-8	-65	+121	+154	+269
Ensaio 5	-152	-160	-117	+29	+88	+137

A ligeira melhoria do ensaio 1 para o ensaio 2 dá uma ideia dos ganhos resultantes dum melhor conjunto de metas de crescimento. A linha correspondente ao ensaio 4 é sugestiva duma eficiência marginal crescente do crédito externo para sustentar o emprego.

As menores necessidades de emprego no ensaio 5 dependem inteiramente da menor produção do sector trabalho intensivo que são os serviços. Contudo, é tentador associar as necessidades de emprego mais baixas com a necessidade de coordenação dos objectivos de emprego e distribuição do rendimento.



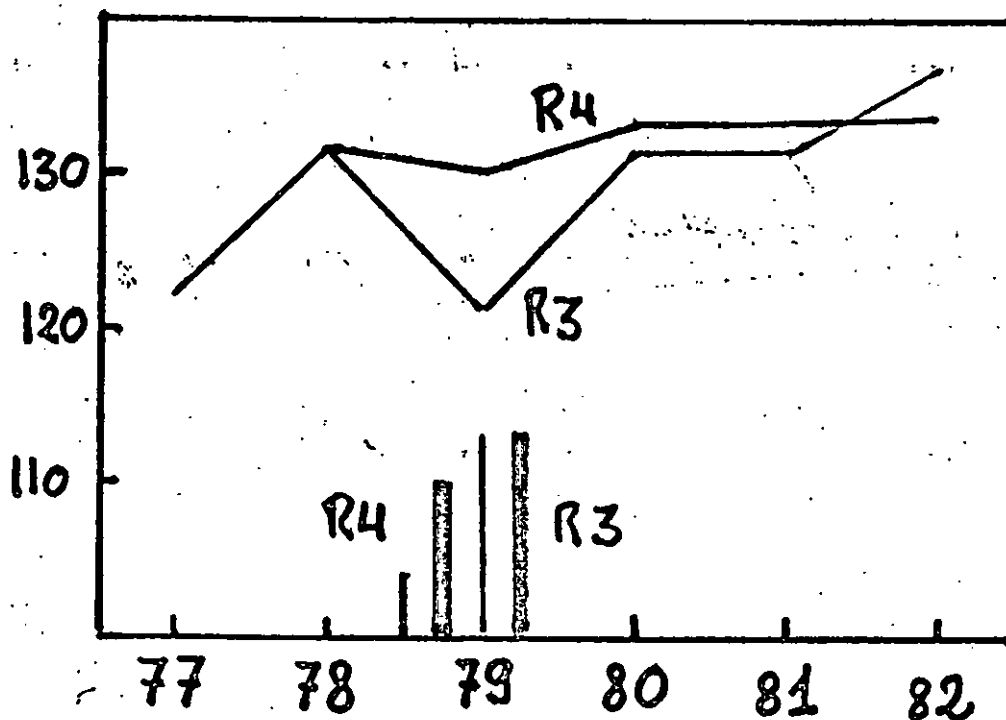
1. PRIORIDADE AO SECTOR
PRIMARIO



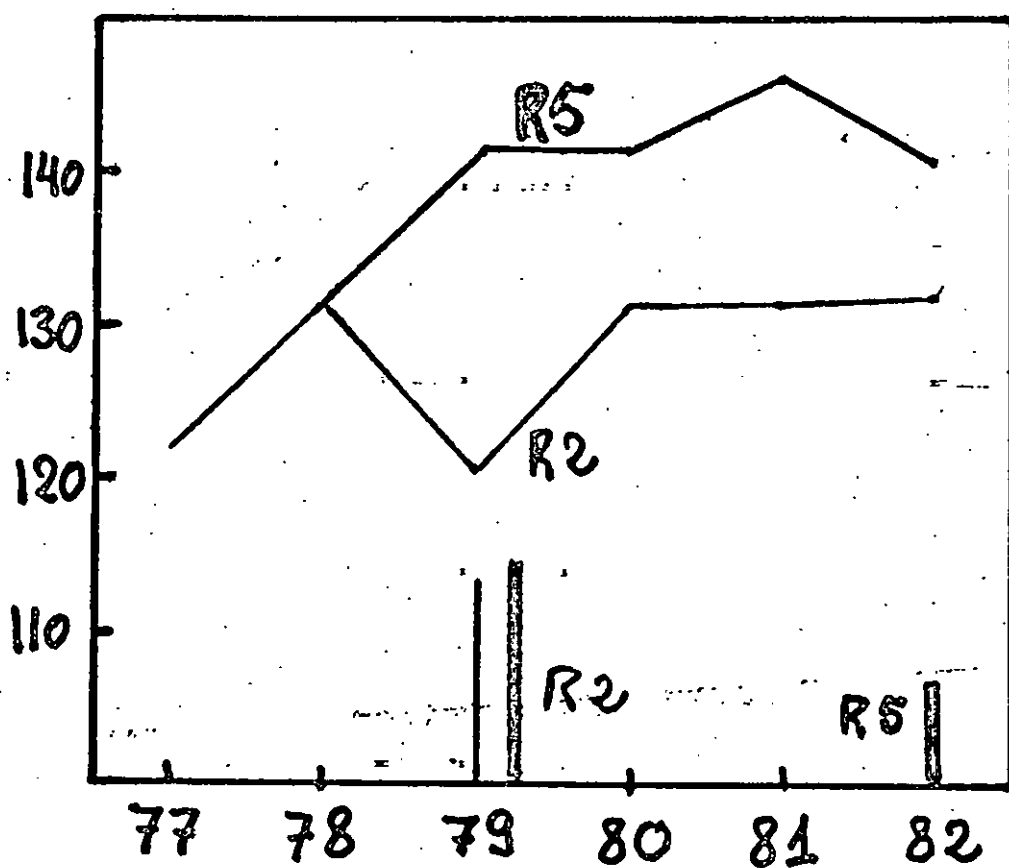
2. RITMO MAIS LENTO NOS BENS DE CONSUMO

⚡ PRESSÕES PARA AFECTAÇÃO MENOS EFICIENTE :- EXCESSO DE CAPACIDADE β
- CAP. EM GEST. NÃO UTILIZADO

10⁹
Esc.



PRODUÇÃO

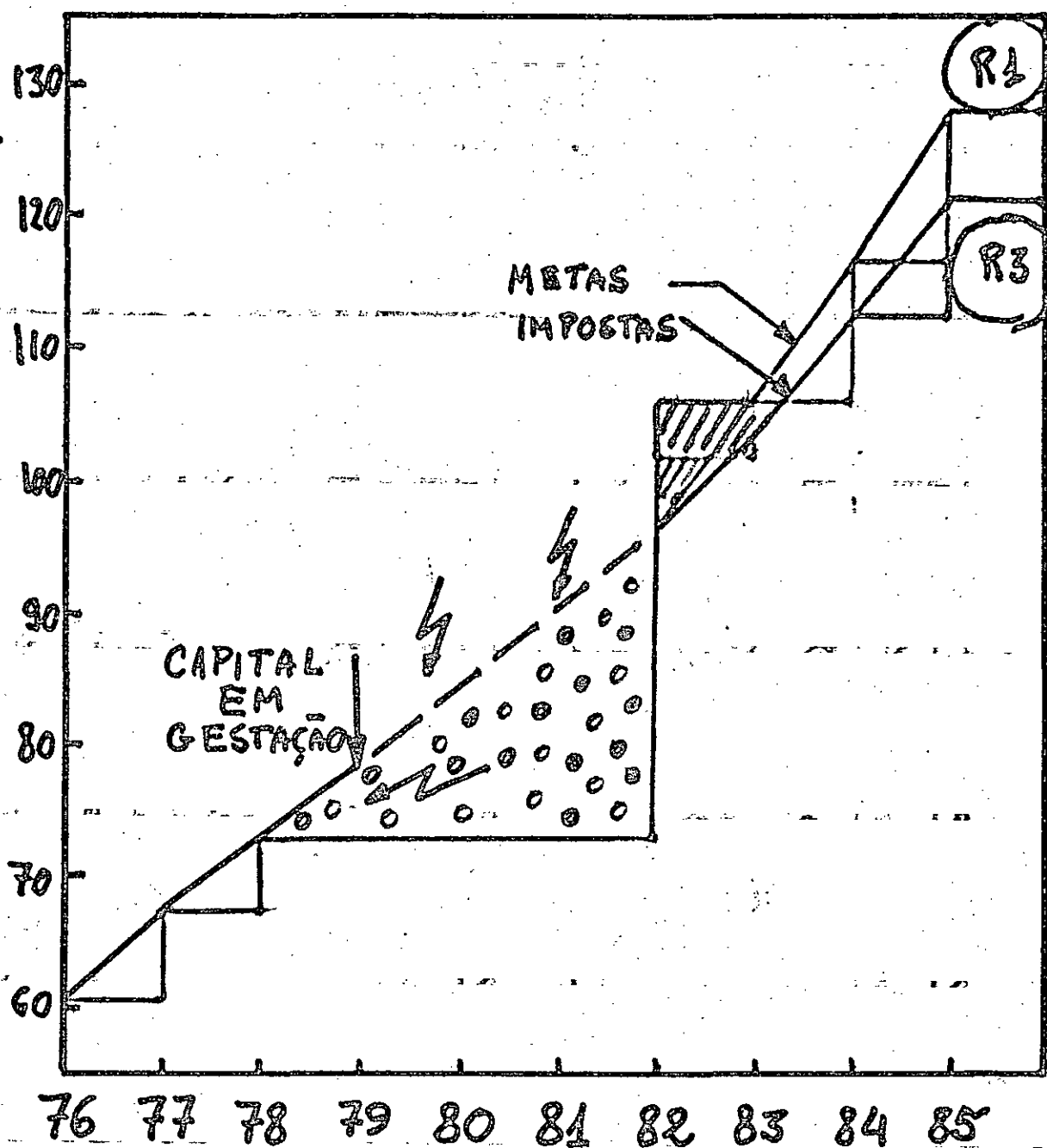


— CAPITAL EM GESTAÇÃO NÃO COMPLETADO
 CAPACIDADE NÃO UTILIZADA

3. IRREGULARIDADE NOS BENS
 DE CONSUMO

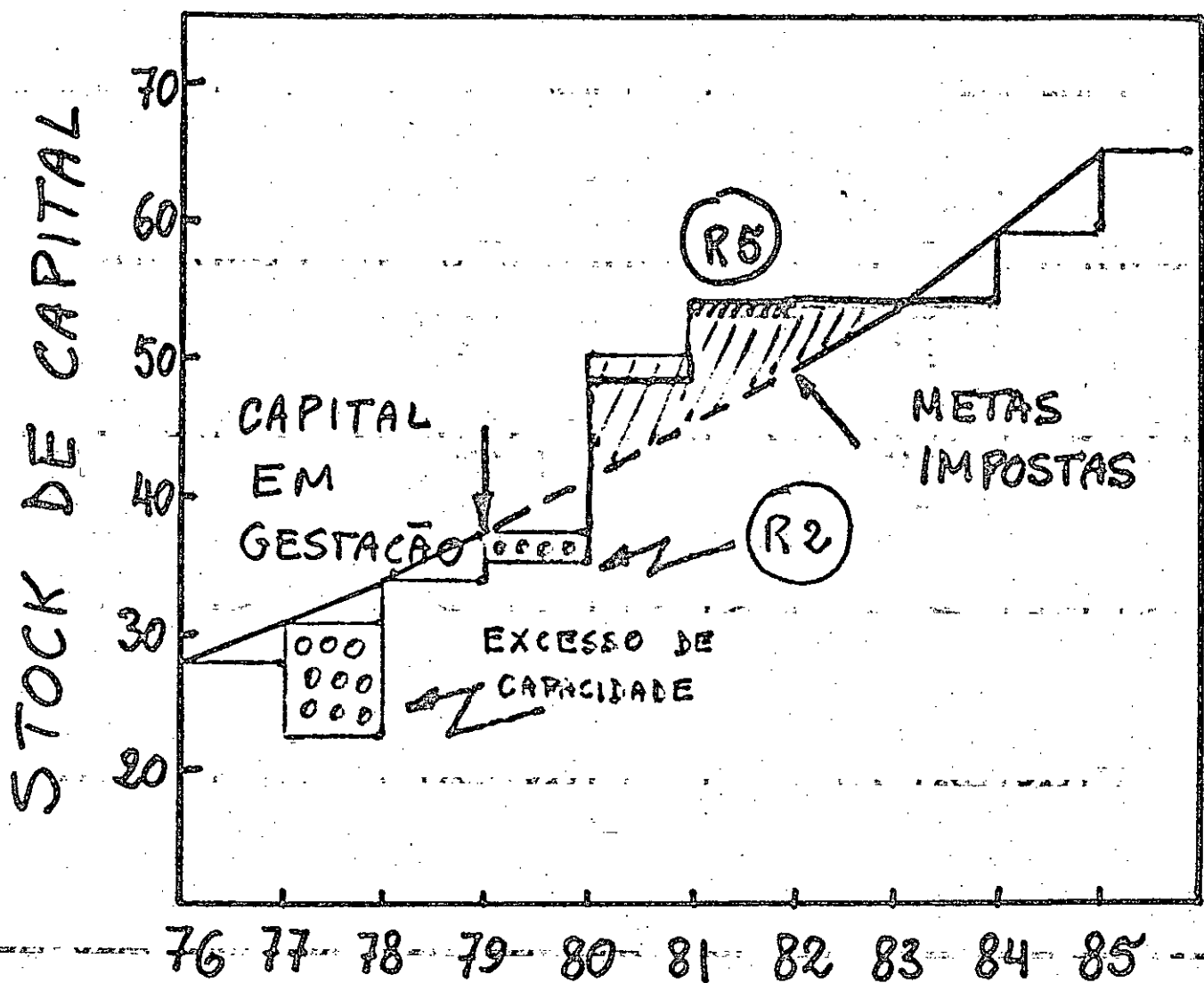
1.109
ESe.

STOCK DE CAPITAL



PRESSÕES PARA AFECTAÇÃO MENOS EFICIENTE

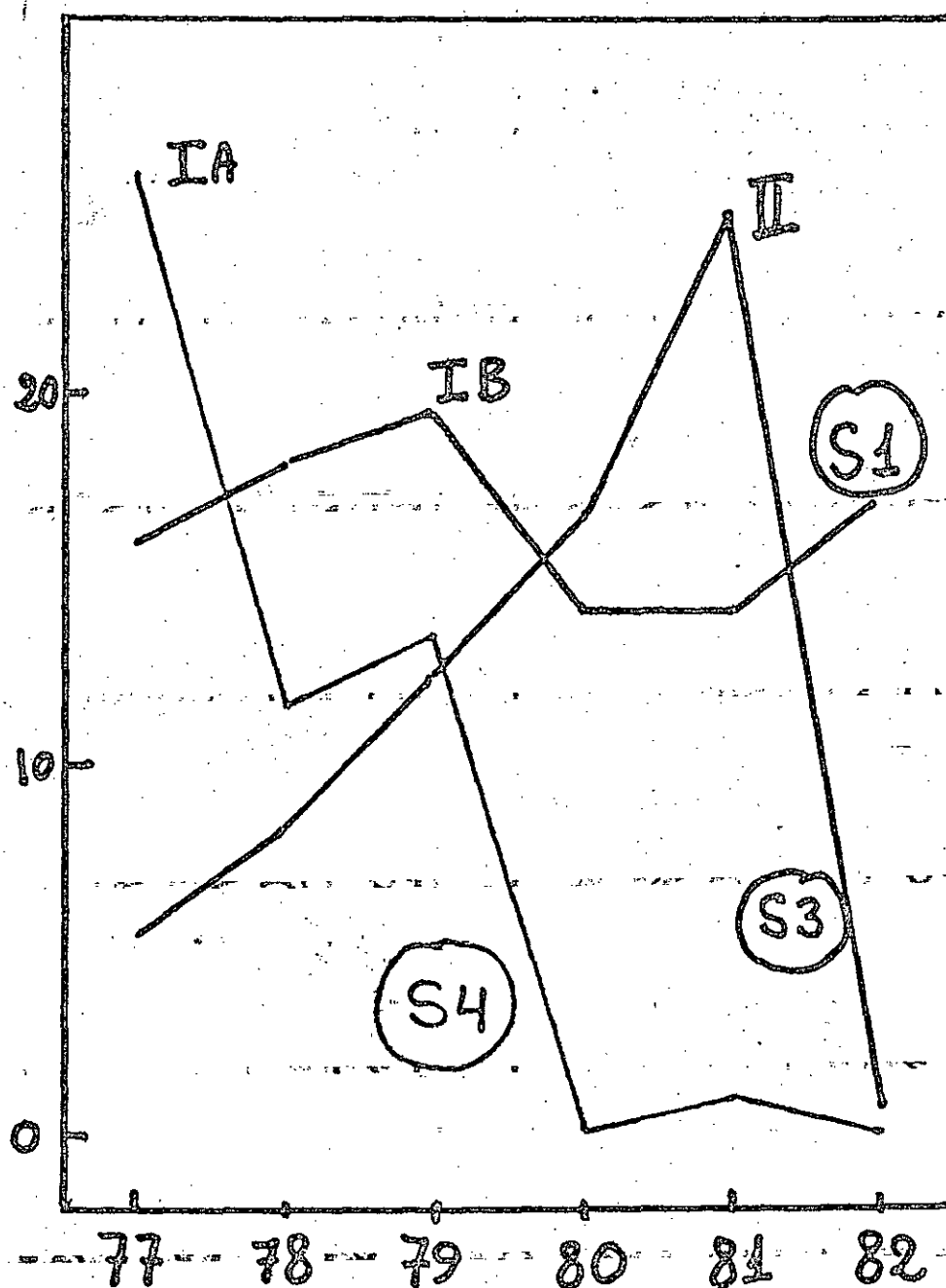
4. INVESTIMENTO EM BENS INTERMEDIOS MAIS TARDE



5. EQUIPAMENTO : CRISE
SEQUIDA DE EXPANSÃO
(EMPURRADA POR METAS
AMBICIOSAS)

10⁹
Esc

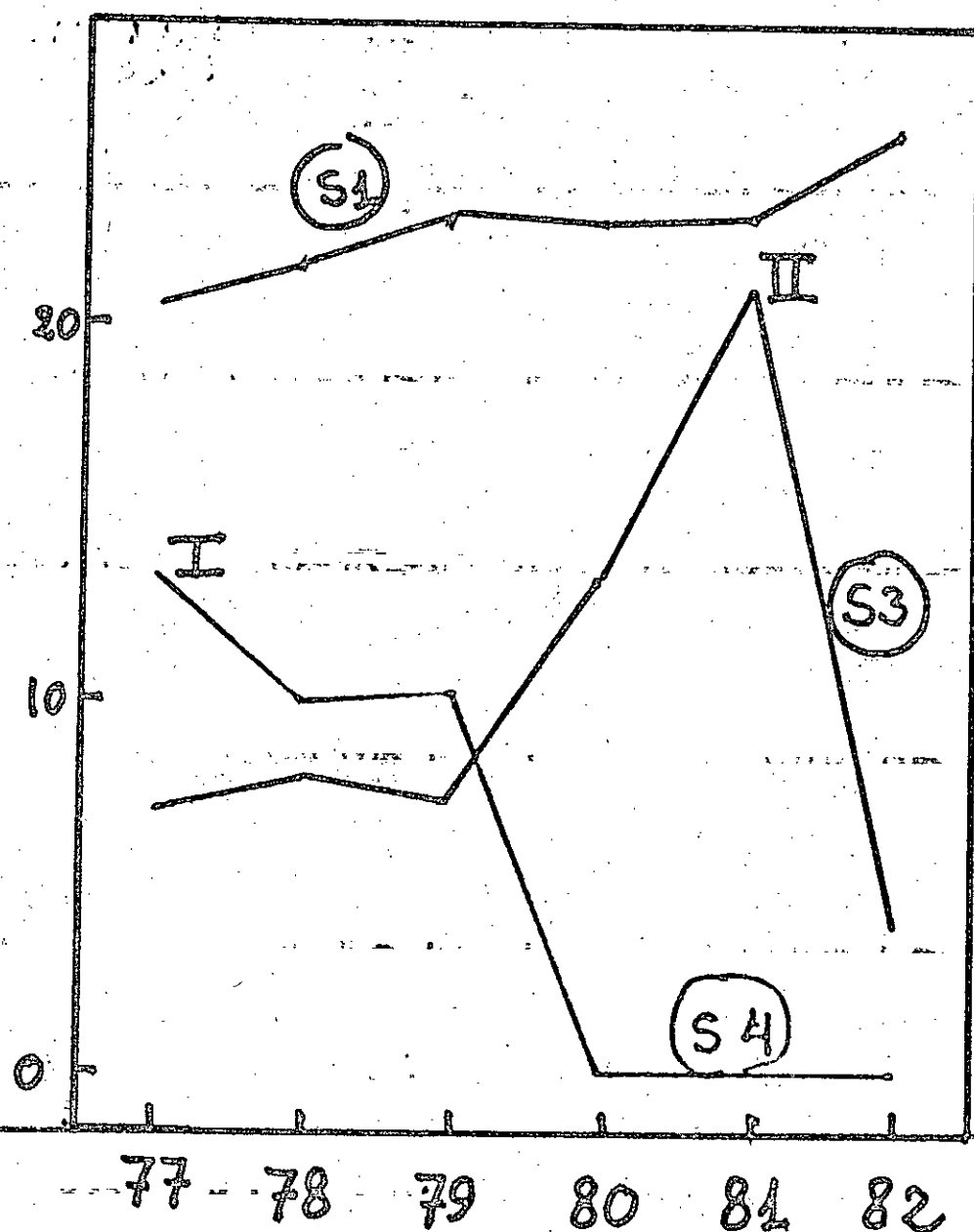
IMPORTAÇÕES COMPETITIVAS



6A. DUAS FASES DE
SUBSTITUIÇÃO DE IMPORTAÇÕES
(ENSAIO 3)

10⁹
ESC

IMPORTAÇÕES COMPETITIVAS



6B DUAS FASES DE
SUBSTITUIÇÃO DE IMPORTAÇÕES
(ENSAIO 5)

CONFERENCE ON THE PORTUGUESE ECONOMY

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D R A F T

EXPERIMENTS WITH INVESTMENT STRATEGIES

- preliminary results of a numerical model -

Rui Sérgio

G.E.B.E.I.

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ACKNOWLEDGEMENTS

The work on multisector programming models started at the GEBEI in 1972 with the assistance of Professor Richard S. Eckaus. The basic formulation used in exploratory runs reported in this paper owes almost everything to his work on planning models applied to India. Professor Eckaus has followed with sympathy the slow progress of our endeavours. We could not benefit from the assistance he offered, in the tuning of the model and the specification of this series of runs, simply because we are reporting fresh results that still smell the computing center.

João Cravinho tempered his natural anxiety for results with friendly encouragement when most needed: many feelings of dismay at the bad quality and inconsistencies of data for a project that aims at exploring consistent projections. His ability to propose new tasks and attractive targets has kept spirits high but can be blamed for the slow sedimentation of sound results.

Thus, Lopes Matias, among other duties un-connected with this project, designed the computer codes to enter LP library programmes and to display the results. In that work, still incomplete, he has assisted at different stages by Manuel Moreira and José Duarte.

For the data base the model relies on other projects pursued at GEBEI. Since the author assumed other professional duties, in 1974, the un-rewarding task of putting all figures together has been carried out by Amado da Silva and Alberto Moreno.

This summer, and more specifically since the beginning of September, Alberto Moreno became a more than full-time model worker, and is now able to develop the model, coordinate data collection and computing. In case he is not diverted to other projects the use of this tools will produce richer and more abundant results in the next few months.

Credit for straightening and polishing of the english manuscript and checking of the typescript can not be awarded. There has been no time for such thing. In other words, much credit is awaiting the sympathetic reader.

1. Introduction

The building of programming multisector models at GEBEI is aimed at establishing appropriate tools to produce medium and long term projections at a level of aggregation that allows the identification of the more significant manufacturing sectors and consistent with macro-economic equilibrium and multisector/multi-period balance.

Preliminary experiments with a simplified version of the model (Annex 1) are reported in this paper. The model considers explicit accounting of the sources and uses of goods and services and foreign exchange and describes the formation and replacement of capacity through multi-period investment processes. In this version the formulation of the model follows very closely Eckaus' work for India [1].

A body of specialized readers will never be tempted to consider this type of tool a simulation model. The use of an objective function and linear programming cannot, for obvious reasons, lend to the model any normative character. The programming feature is used as a mere technique to explore a feasible region for economic development. In order to fasten this exploration un-plausible slices of the feasible region can be cut by additional constraints as it becomes more familiar: alternative versions of the model include employment constraints or targets, a savings constraint or at least some constraint on the proportion of internal product allocated to investment, some restraint on the sectorial allocation of foreign exchange.

Other versions of the model are aimed at identifying the distortions and the widening of the feasible region by explicit insertion of large projects or bunches of investment projects [8]. The simplest way is to consider exogenous creation and drain of resources corresponding to the project. More elaborated versions include complete new blocks with investment and current production activities, and inter-project constraints.

However, the results that are becoming available are quite modest. They are confined to a first exploration of the period 1977-1982 distinguishing no more than six sectors.

Of course, the output is no better than the input: input-output data are ageing [2] and investment coefficients are even older [3] or of more doubtful quality [4,5]. There has been an effort to make the

best of available final consumption data [6] (Annex 2).

A great deal of guess-work was required to reconcile those sources with national accounting [7]. A brief discussion of the meaning of the initial conditions and terminal targets is the theme of section.

On section 3 a "short guided" tour on the feasible region is attempted. At the 6 sector aggregation level it is difficult to offer more than

- a feeling that the feasible region is bounded, a truism that some call the "pessimism of economists" when applied to medium and long-term prospects of the portuguese economy.
- an idea of trade-off between investment and consumption.
- some confirmation or the throwing of doubt over sectorial analysis or preconceived ideas about investment priorities and broad comparative advantage.

2 - The initial conditions and the specification of the base run

The plausibility of the projections depends very much on the assumptions regarding initial private consumption, available capacity (nominal output in 1976) and capital in process represented by forecast limiting growth rates on output during the first three years. The choosing of reasonable assumptions is a difficult task since the more recent official national account data refer to 1973 [7] and in 1974-1975 investment has fallen below previous trends. It is widely accepted that investment has been hardly sufficient to maintain capital stocks, while substantial unused capacity in some sectors may exist. Recent estimates of the Central Planning Department forecast for 1976 a GNP slightly below the 1973 level [7]. Output in agriculture and mining might have grown in 1975 relative to 1974 at a rate comparable to the 1960-1972 trend, output in manufacturing has fallen and the output of services is thought to be stable. Other sources close to the Bank of Portugal forecast a moderate growth of output in 1976 in relation to 1973.

On these precarious basis the 1973 outputs of the manufacturing sectors and civil works were taken as the 1976 capacities (Annex 3). Capacity of the primary sector was increased assuming a growth rate of 1.1% between 1973 and 1976. The capacity of services was adjusted as described below.

The initial growth rates are comparable to past trends observed by the end of the last decade and the early 70s. It is assumed that the potential growth they permit in the period 1977-79 reflect a mix of unused capacity and capital in process. The investment requirements needed for this growth to become effective may be thought, again, as a mixture of completion of investment projects and a catching-up of delayed restoration of existing capital.

As an alternative to this approach it was first attempted to conduct a series of runs covering the period 1974-1979 from which initial conditions for the period 1977-1982 could be derived. The result however has been that GNP grows during 1974-76. Obviously the model could not simulate world recession and a social disturbed period. However, a significant result has been observed: estimated observed growth of household consumption during 1974-1976 implies either a different demand structure (less services) or the operation of the services sector at an over-capacity of the order of 16%. It is probable that both factors are significant.

The 16% over-capacity is not required only in 1974. A substantial portion is implied by consumption levels before 1974 when equalization of income distribution could not be postulated as leading to changing consumption patterns. Thus, we attributed our findings to a degradation of the quality of services that seems well justified by day to day observation:

- congestion of telephone service and public transport
- slower mailing services
- erratic water supply
- degradation of electric power supply in some areas.

The average estimates of the sources already mentioned for household consumption are as follows in billion escudos (1970 prices):

1973	1974	1975	1976	1977
142.4	154.8	157.9	169.3	170.1

The 1974 figure requires an output of services of about 116.5, against 100.8 estimated from 95.8 in 1973 plus a growth of 5.2%. Up to 1976 it was assumed a growth rate of 5% consistent with a GNP growth 1976-73 of 2 to 3%. The adjustment of the 1974 figure means a "free gift" of about 25 billions escudos of capital stock. It is assumed that this extra capital is removed from the system from

1979 to 1983, 20% each year*. The removal is an approximate simulation of a desirable restoration of the quality of services, and a recognition of the stress of the present conditions.

The output target for the first runs are very ambitious. They correspond to sustained growth over the six years at rates comparable to the period before 1973**.

The terminal growth rates assume a duplication of growth rate in the primary sector, maintenance of manufacturing, services growth and a decline of civil works.

Taking into account a different international environment and increased prices of raw materials these should be considered optimistic assumptions. The data, however, contain favourable assumptions, including a reduction of depreciation coefficients relative to estimates with national account data [4] that looked too high, reflecting possible inefficiencies that hopefully may be overcome.

The minimum growth rates of endogenous private consumption - 1% - are modest and, together with output targets imply a demanding growth effort.

The increase in terminal foreign debt (25 billion escudos) and maximum annual utilization of foreign loans (5 billion escudos) are generous but do not seem unrealistic.

The export bounds can be briefly described as implying an initial duplication in 1974 of 1972 levels followed by maximum annual growth of 15% in the case of intermediate goods and equipment. Maxima for consumer goods exports result from assumptions established at the 18-sector aggregation level ranging from 10 to 20% annual growth of past levels.

3 - A "guided tour" in the feasibility region

3.1 The landing point of the "optimist" (RUN 1)

As already stated the setting of ambitious growth targets implies

* A similar run with restoration of the quality of service from 1978 to 1982 produced an un-feasibility of initial consumption.

** Over four years for civil works.

a small minimum growth of endogenous private consumption (1% for year). This minimum growth has a high shadow price during the period 1977 to 1979. Later there is a small margin for increased consumption, easier to achieve in 1981/1982*.

Taking into account exogenous consumption (housing) the terminal consumption represents an average growth of 2.6% per year.

Average growth of GNP is 6.2% achieved with the allocation of a very ambitious proportion to investment. After two years during which it is patently difficult to maintain consumption, the share of investment in gross internal product would have to be maintained at about 30%. Taking into account net foreign capital inflows, domestic saving would have to be of the order of 29%**.

The average growth rates of output at the terminal year can be computed from table 2 (Run 1) of Annex 3 and are:

Sector	1	2	3	4	5	6
Average growth rate	1.8	2.6	8.8	12.1	6.5	5.4

Initial capital in process is fully completed in 1977 but left incomplete in the consumer and intermediate goods sectors (partially incomplete in the civil works sector).

During 1977 there is a persistence of excess capacity in the equipment sector that later recovers and becomes the fastest growing sector, overshooting the terminal output target***.

Excess capacity in civil works persists up to 1978. That is a sign that an accelerated housing programme would be desirable in this period but that would become more costly after 1978.

The consumer goods sector shows an erratic path of output associated with varying relative scarcities of foreign exchange. Together with the intermediate goods sector does not require investment

* Intertemporal redistribution of potential consumption growth could sustain a rate of 1.5% during 1980/82. After this redistribution average growth on the terminal year (with housing) would be 2.3% per year.

** see Annex 3: Table 1, Run 1.

*** see Annex 3: Table 3, Run 1.

for capacity additions during most of the period. Only in 1982 capacity additions are chosen, mainly to meet terminal capital stock targets.

These results are strongly determined by the level of aggregation. In the consumers' goods sector there is a heavy weight of textiles where investment should probably be directed to technical innovation linked with replacement investment. Other segments of sector 2 would presumably prove to be serious candidates for investment aiming at output growth.

In the case of intermediate goods sector the low investment priority contrasts with current prospects of development projects*. The quality of data, the level of aggregation and the nature of the exercise do not permit conclusive judgement. However, the results are in line with a closer analysis of some projects conducted by others.

Investment in the primary sector receives the highest priority at the beginning of the period, with full use of capital in process and investment for capacity additions at the earliest time (1980). The ambition of capital stock growth in other sectors later diverts investment resources from this sector.

The services sector, being by definition, a non-traded "goods" sector receiving demand impulses from all categories of expenditure shows a regular growth of output and capital accumulation. Again, aggregation conceals specific problems of activities included in this sector: it is sufficient to recall excess capacity in sea transport.

Exports of commodities are concentrated in goods originating from sector 2 with an occasional share of equipment. Heavy competitive imports of primary products are required to sustain consumption and the output of the consumers' goods sector. The demanding investment effort requires competitive imports of equipment that tend to decline by import substitution. The foreign exchange resources that

*The reduced price of additions to capacity of the intermediate goods sector from 1979 to 1981 ranges from 0.2 to 0.4.

become free are then diverted to increasing competitive imports of intermediate goods until the last period when output growth of the domestic sector starts a second phase of import substitution.

Table 4 in Annex 3 records the balance of foreign exchange. The upper bounds on foreign capital utilization on each year, within a terminal debt increase of 25 billion escudos, are always constraining*. The minimum foreign exchange restrictions permit, however, a flexible allocation with small sacrifice of consumption. As might be expected, any possible increase of terminal foreign debt is very valuable: it can fuel consumption with an yield of 90%, a fifth of which could be allocated to the first period.

It is interesting to note that increased tourist expenditure in Portugal, 6.2 billion escudos from 1977 to 1982, eats up about 25% of achievable increase in private consumption**.

After this brief description of the landing point of the growth maniac, it is difficult to guess what the "optimist" thinks of the landscape. Let us turn to what the first step of the "economist" would be.

3.2 The "economist's first step" (RUN 2)

The results of the first run can certainly be considered unrealistic. What persuasion, which policies and financial institutions can mobilize such an high rate of savings! However, the desirability of growth with the current unemployment rate can not be put into question.

As a first step the terminal capital stocks imposed exogenously can be brought in line with observed growth in the first run. The terminal growth rates can be similarly adjusted:

* With shadow prices close to 0.5 in the period 1977-1979.

** Very often tourism revenue is treated as a net yield. It would be interesting to make costs explicit through the specification of a consumption function for non-residents.

R U N 1				R U N 2		
Sector	Output targets	Implicit growth rates	Observed average growth	Output targets	Implicit growth rates	Terminal growth rates
1	49.4	1.1	1.8	52.0	2.0	2.0
2	177.0	7.7	2.6	148.0	4.5	4.5
3	81.0	8.0	8.8	81.0	8.0	8.0
4	78.5	10.3	12.1	77.0	10.0	10.0
5	42.7	5.4	6.5	44.3	6.0	6.0
6	155.0	5.0	5.4	172.0	6.0	6.0

Observation of the dual solution of RUN 1 suggested that a minimum 2% growth rate of private consumption might be achievable from 1978 on-wards. This proved un-feasible. A very tight solution was then obtained with the same minimum (and actual) growth rates of endogenous consumption, but only after 78. The potential for increasing (or even maintaining) consumption in the next two years is seriously constrained by initial conditions that do not seem, however, un-duly pessimistic.

The results of this first exploratory step are not significantly different from the first run, showing minor adjustments in the timing of capacity additions, and somewhat smaller excess capacities. The increase in consumption is therefore achieved through a more efficient allocation.

The initially detected problem of a very high investment rate persists. The analysis of this problem can be simplified in future work by activating a constraint on the proportion of investment in total demand.

Observation of the dual shows that private consumption could grow at most 16 billion escudos in the period 1977-1982^{*}, or about 1.6%, against a loss of 80 to 90 billion of investment, (16.7% of

^{*} if interporal allocation of this amount is not constrained.

the total) as a result of a full year reduction* of terminal output targets. Total GNP would decrease at least 70 billion escudos (3.9%) and average investment rate could be reduced to some 25% of GNP against 29% on the present run.

These figures illustrate a very tight trade-off between investment and consumption and the consequent urge for coordination of incomes and investment policy. They explain, again, the meagre results of the "economist's first step".

3.3 The "independence" point (RUN 3)

The qualitative adjustments to a long term reduction of indebtedness can be observed in RUN 3. The assumptions are not really descriptive of no foreign capital assistance. It is assumed that capital inflows can be concentrated in the first years with the character of emergency aid that has to be fully repayed up to 1982 (apart from compensating inflows for part of interest payments).

The output targets have been adjusted for sectors 2 and 6 taking into account observed output growth in run 2. The solution was constrained to sustain private consumption up to 1979 and to achieve a minimum growth of only 1% afterwards. This strict austerity is rewarded by a substantial extra increase of 15.6 billion contos in 1981. The reallocation of this consumption would have permitted a minimum growth rate of private consumption of 1%. In other terms, tailoring of the targets (planning) could save 25 billion escudos of foreign debt or would use foreign exchange resources more efficiently.

The investment and foreign exchange patterns and output growth paths maintain the basic features pointed out for the first run.

However, reallocation of resources to the primary sector is significant in an attempt to reduce dependence on imports**. Output of the consumer's goods sector is more even due to increased

* An alternative objective function to explore maximum growth a long an exogenous path fullfilling minimum consumption targets is being implemented.

** A maximum growth constraint is touched in 1980.

scarcity of foreign exchange. The stock of capital of the equipment sector (low capital/output coefficient) builds-up to a stage where exports become comparatively preferable to exports of consumers' goods.

3.4 The "foreign credit" point (RUN 4)

The fourth run is the counter part of the previous one. Considering a terminal foreign debt of 50 billion Esc. and maximum annual utilization of foreign loans of 10, the targets of the second run (adjusted to output growth) are achieved with a reasonable growth of endogenous private consumption. The minima were specified at 012333. After two austerity years, mitigated by increasing collective services, growth is resumed and at the end of the period a growth of 6.7% can be attained.

The average investment proportion in relation to GNP is more plausible, taking into account the contribution of net capital inflows to complement domestic saving.

The increased foreign exchange availability lengthens somewhat the excess capacity crisis of the equipment sector.

The marginal efficiency of foreign exchange credit does not seem to decline relative to the lower level of foreign debt and loan utilization upper bound.

3.5 The "worker's family" point (RUN 5)

The redistribution of income and the reduction of compensation differentials that have been attained during the last two years are bound to have changed consumption patterns. The subject has already been mentioned as a factor that, together with degradation of the quality of services, may explain the feasibility of the high levels of consumption observed in the last few years. This is an additional reason to emphasize the caution that should be exercised when dealing with the results of a numerical model that is using 1968 family budget data.

A different consumption structure was experimented with in the last run. Unfortunately, the source has the same age [6]. On the following table, the global consumption functions used in previous runs are compared with the structure of consumption of the modal income class of the coastal region that concentrates most of

manufacturing industries.

	Consumption functions				Modal class consumption structure	
	intersept		slope			
Sector	10 ⁹ Esc		%			
	α	α_M	β	β_M	β^W	β_M^W
1	12.9	0.15	5.8	0.07	17.1	0.20
2	8.1	0.02	26.9	0.08	34.0	0.10
3	-0.8	...	5.0	0.03	4.3	0.02
4	-9.1	0.69	14.0	1.05	6.0	0.13
5	-	-	-	-	-	-
6	-4.1	-	48.3	-	38.6	-

Sustaining and increasing private consumption with the "workers' family" is more difficult, at least during the first half of the period, due to higher traded goods content. Experimenting with different patterns of minimum growth rates, only at the third attempt could a feasible solution be detected.

The three runs used terminal conditions identical to run 2 and, the following growth targets for household consumption:

		1977	1978	1979	1980	1981	1982
RUN	5.1	0	0	1	2	2	2
RUN	5.2	-1	0	1	2	2	2
RUN	5	-1	0	0.5	2	2	2
	Dual	1.5	1.1	0.6	0.2	0.0	-

The last attempt produced interesting results. There is an increase in output growth (relative to run 2) in all sectors except services. Initial capital in process is fully completed and excess capacity is negligible. The services sector show large excess capacities during a longer "austerity" period. When consumption growth resumes, this excess is rapidly absorbed. Otherwise, investment priorities and comparative advantage are qualitatively the same.

These results are, however, as uncertain as those observed with

the overall consumption functions: they imply a constant consumption structure with increasing level of consumption.

Analysis of the dual solution shows that the trade-off between growth and consumption has become less stiff. A slowing down of one year, implying a reduction of the investment share in total demand from 30 to about 25%, would allow an increase of 3.4% of the period consumption if concentrated in the last three years.

3.6 A comment on employment requirements

The introduction of employment requirements in the form of constraints or demand targets has a high priority to deepen the model capabilities in exploring the feasibility region. The available data do not seem to justify very ambitious projects at modelling labour mobility, training and the like. Confrontation of labour productivity trends with output growth paths could permit some qualitative insights on implied intersectorial labour movements.

The short time available for the interpretation of the results permits only a brief comment on labour requirements.

Projecting labour productivity trends from employment time series (1960-1972) and from national account output data, the change in employment requirements in relation to total potential employment in 1976 is shown on the following table.

The absolute figures lack significance and might be changed by different assumptions on productivity growth; the table brings out very clearly the difficulties of absorbing current unemployment in the short term. A deterioration in the immediate future is not unlikely.

Employment requirements in relation to 1976 full capacity use (10^3)						
	1977	1978	1979	1980	1981	1982
RUN 1	-83	-18	-55	+31	+86	+189
RUN 2	-78	+1	-6	+74	+131	+204
RUN 3	-80	+1	-6	+74	+126	+191
RUN 4	-76	-8	-65	+121	+154	+269
RUN 5	-152	-160	-117	+29	+88	+137

The slight improvement from RUN 1 to RUN 2 gives an idea of the gains from a better set of growth targets. The line for RUN 4 is su-

ggestive of an increasing marginal efficiency of foreign credit for sustaining employment.

The lower employment requirements of Run 5, depend entirely on lower output of the labour intensive services sector. However, it is tempting to associate the lower employment requirements with the need to coordinate employment and distribution of income goals.

Annex 1

An outline of the model

The annex contains the statement of the model (table I) that can be understood with a patient study of a long list of symbols (table II). However, the basic structure used in the paper, is well known, and follows closely the multisector models developed by Richard Eckaus [1], with whose assistance the work started.

The multiperiod and multisector features of the model make it possible to find temporal paths which are consistent both with initial conditions at the start of a plan period and future plan targets. They also permit to examine the implications of alternative time paths of growth.

The solutions are constrained by exogenous limits on the value of the variables corresponding to major economic targets or representing, even if schematically, institutional constraints and natural resource availabilities; the optimization feature does not allow any normative interpretation and is simply used as a technical device to produce consistent overall projections. The exploration of the domain of feasibility and the trade-offs that can be observed between alternative targets is the main purpose of work in progress.

The balance of sources and uses by type of goods and services may consider more than one source of supply (in addition to imports).

Thus "old" and "new" production capacity can be distinguished accomodating technological change within sectors.

Investment, initial capital in process and end of plan capital in process requirements play a major role in the model. Capacity additions and depreciation determine investment demands through a structure of lags extending over up to four periods.

The allocation of foreign exchange starts from a detailed account of non-competitive imports. Minimum foreign exchange reserves and gold are related to total imports. The model is permitted to borrow foreign exchange and to choose when to repay foreign

loans within a maximum increase of terminal foreign debt.

Upper limits on foreign capital loans, not shown on table I, can also be set.

Upper and lower bounds for exports of goods by sector are also included and used to impose market constraints and traditional exports of sectors when the level of aggregation hides comparative advantage.

Within these limits the model chooses the level of exports and additional competitive imports.

Linear export earning functions may be used to prevent excessive specialization, avoid un-realistic switching of exporting sectors due to degeneracy. The accounting of imports in domestic prices in balances by type of goods, and at c.i.f. prices in the foreign exchange constraint allows the introduction of tariff protection and the study of some implications of external price changes*.

The full specification of the model, not used in this paper, considers the possibility of restricting the maximum fraction of foreign exchange that can be allocated to the imports of each type of goods and services.

Other relations already implemented in input and output computer programmes include employment constraints (or targets), savings constraints and an alternative objective function (maximization of growth along an exogenous path with specified consumption growth).

* At a higher level of disaggregation the introduction of change in oil-prices becomes significant.

Table I - Model Formulation

1 Objective function

$$(1.0) \text{ Max. } \sum_{t=1}^T w'_t U.C. (t)$$

2 Private consumption growth constraints

$$(2.0) \quad U.C. (t) \geq (1+\rho'_t) U.C. (t-1) \quad t=1, \dots, T$$

Initial consumption

$$(2.1) \quad U.C. (0) = \overline{C} (0)$$

3 Production accounting relationships

$$(3.0) \quad A(t) + V(t) + N(t) + R(t) + C(t) + G(t) + \overline{HD}(t) \leq X(t) + Md(t) \quad t=1, \dots, T$$

Intermediate consumption

$$(3.1) \quad A(t) = \overset{*}{a}(t) \overset{*}{X} (t) \quad t=1, \dots, T$$

Inventory requirements

$$(3.2) \quad V(1) = \overset{*}{v} (1) \left[\overset{*}{X} (2) - (I+\alpha_0^0) \overset{*}{X} (0) \right]$$

$$(3.3) \quad V(t) = \overset{*}{v} (t) \left[\overset{*}{X} (t+1) - \overset{*}{X} (t) \right] \quad t=2, \dots, T-1$$

$$(3.4) \quad V(T) = \overset{*}{v} (T) \left[(I+\alpha_T^0) \overset{*}{X} (T) - \overset{*}{X} (T) \right]$$

Investment requirements

$$(3.5) \quad N(t) = \overset{*}{p}' (t) \overset{*}{Z} (t+1) + \overset{*}{p}'' (t) \overset{*}{Z} (t+2) + \overset{*}{p}''' (t) \overset{*}{Z} (t+3) + \overset{*}{p}'''' (t) \overset{*}{Z} (t+4) \quad t=1, \dots, T$$

Replacement requirements

$$(3.6) \quad R(t) = \overset{*}{r}' (t) \overset{*}{D} (t+1) + \overset{*}{r}'' (t) \overset{*}{D} (t+2) + \overset{*}{r}''' (t) \overset{*}{D} (t+3) + \overset{*}{r}'''' (t) \overset{*}{D} (t+4) \quad t=1, \dots, T$$

Private consumption

$$(3.7) \quad C(t) = \alpha(t) + \beta(t) U.C(t) \quad t=1, \dots, T$$

Government consumption

$$(3.8) \quad G(t) = \beta_G(t) \overline{G}(t) \quad t=1, \dots, T$$

Gross domestic output by sector

$$(3.9) \quad X(t) = \text{Unk} \overset{*}{X} (t) \quad t=1, \dots, T$$

4 Investment and capacity

Capacity restraints

$$(4.0) \quad \overset{0}{b}(t) \overset{*}{X}(t) \leq \overset{*}{K}(t) \quad t=1, \dots, T$$

Depreciated capital

$$(4.1) \quad \overset{*}{DD}(t) = \overset{0}{d}(t) \overset{*}{K}(t) \quad t=1, \dots, T+4$$

Depreciated capacity not restored

$$(4.2) \quad \overset{*}{KL}(t) = \overline{\overset{*}{KL}}(t) \quad t=1, \dots, T+4$$

Restored capacity

$$(4.3) \quad \overset{*}{D}(t) = \overset{*}{DD}(t) - \overset{*}{KL}(t) \quad t=1, \dots, T+4$$

Stock of fixed-capital

$$(4.4) \quad \overset{*}{K}(t) = \overset{*}{K}(t-1) + \overset{*}{Z}(t) - \overset{*}{KL}(t) \quad t=2, \dots, T+4$$

5 Exports

Non-tradable goods and services

$$(5.0) \quad E_n(t) = 0, n \in \{n_1, \dots, n_s\} \subset \{1, \dots, n\} \quad t=1, \dots, T$$

Foreign exchange earned by exports

$$(5.1) \quad EE(t) = \alpha_E(t) + \beta_E(t) E(t) \quad t=1, \dots, T$$

6 Imports

$$(6.0) \quad M(t) = M_{NC}(t) + M_V(t) + M_I(t) + M_R(t) + M_C(t) + MG_2(t) + M_{CP}(t) \quad t=1, \dots, T$$

Imports valued in domestic prices

$$(6.1) \quad M_d(t) = (I + \gamma(t)) M(t) \quad t=1, \dots, T$$

Non-competitive imports for intermediate consumption

$$(6.2) \quad M_{NC}(t) = \overset{*}{m}_{NC}(t) \overset{*}{X}(t) \quad t=1, \dots, T$$

Non-competitive imports for inventories

$$(6.3) \quad M_V(1) = \overset{*}{v}_{NC}(1) \left[\overset{*}{X}(2) - (I + \alpha_0) \overline{\overset{*}{X}}(0) \right]$$

$$(6.4) \quad M_V(t) = \overset{*}{v}_{NC}(t) \left[\overset{*}{X}(t+1) - \overset{*}{X}(t) \right] \quad t=1, \dots, T-1$$

$$(6.5) \quad M_V(T) = \overset{*}{v}_{NC}(T) \left[(I + \alpha_T) \overset{*}{X}(T) - \overset{*}{X}(T) \right]$$

Non-competitive imports of investment goods for new capacity additions

$$(6.6) \quad M_I(t) = \overset{*}{\alpha}_I^I(t) \overset{*}{Z}(t+1) + \overset{*}{\alpha}_I^{II}(t) \overset{*}{Z}(t+2) + \overset{*}{\alpha}_I^{III}(t) \overset{*}{Z}(t+3) + \overset{*}{\alpha}_I^{IV}(t) \overset{*}{Z}(t+4) \quad t=1, \dots, T$$

Non-competitive imports of investment goods to restore depreciated capacity

$$(6.7) \quad M_R(t) = \overset{*}{\alpha}_R^I(t) \overset{*}{D}(t+1) + \overset{*}{\alpha}_R^{II}(t) \overset{*}{D}(t+2) + \overset{*}{\alpha}_R^{III}(t) \overset{*}{D}(t+3) + \overset{*}{\alpha}_R^{IV}(t) \overset{*}{D}(t+4) \quad t=1, \dots, T$$

Non-competitive imports for private consumption

$$(6.8) \quad M_C(t) = \alpha_M(t) + \beta_M(t) U.C.(t) \quad t=1, \dots, T$$

Non-competitive imports for government consumption

$$(6.9) \quad MG_2(t) = \beta_{GM}(t) \overline{MG_2(t)} \quad t=1, \dots, T$$

Imports for government consumption (excluded from official statistics)

$$(6.10) \quad U.MG_1(t) = \overline{MG_1(t)} \quad t=1, \dots, T$$

Balance of payments constraints on total competitive imports

$$(6.11) \quad \hat{M}_{CP} = U.EE(t) + NFCI(t) + \overline{\Delta SB(t)} + \overline{ER(t)} + \overline{TE(t)} - \overline{\Delta FERG(t)} - \overline{MG_1(t)} \\ - U. [M_{NC}(t) + M_V(t) + M_I(t) + M_R(t) + M_C(t) + MG_2(t)] \quad t=1, \dots, T$$

Competitive import ceiling

$$(6.12) \quad U.M_{CP}(t) \leq \hat{M}_{CP}(t) \quad t=1, \dots, T$$

Non-tradable goods and services

$$(6.13) \quad M_{CPK}(t) = 0 \quad k \in \{k_i, \dots, k_u\} \subset \{1, \dots, n\} \quad t=1, \dots, T$$

7 Foreign exchange and gold reserves

Initial foreign exchange and gold reserves

$$(7.0) \quad FERG(0) = \overline{FERG(0)} \quad t=1, \dots, T$$

Change in reserves

$$(7.1) \quad \Delta FERG(t) = FERG(t) - FERG(t-1) \quad t=1, \dots, T$$

Minimum reserves

$$(7.2) \quad FERG(t) \leq r_m(t) U.M(t) \quad t=1, \dots, T$$

8 Foreign capital flows

Net foreign capital inflow

$$(8.0) \quad NFCI(t) = FCL(t) - FCR(t) - \overline{FCRA(t)} \quad t=1, \dots, T$$

Limit on terminal foreign debt

$$(8.1) \quad \sum_{t=1}^T (FCL(t) - FCR(t)) \leq \overline{\Delta TFD}$$

9 Natural resource constraints

Maximum production growth rates

$$(9.0) \quad \dot{X}(t) \leq (I + \rho_\ell^0(t)) \dot{X}(t-1) \quad t=1, \dots, T$$

$$(9.1) \quad \dot{X}(0) = \dot{X}^*(0)$$

Maximum production by sector

$$(9.2) \quad \bar{X}(t) \leq \overline{X_\ell(t)}$$

$t=1, \dots, T$

10 Initial conditions

Stock of capital

$$(10.0) \quad \bar{K}(1) = \bar{b}(1) \left[(I+\alpha_0^0) \bar{X}(0) \right]$$

Initial capital-in-process

$$(10.1) \quad \delta'_{\lambda 2} \bar{Z}(2) \leq \bar{b}(2) \alpha_2^0 (I+\alpha_0^0) \bar{X}(0)$$

$$(10.2) \quad \delta'_{\lambda 3} \bar{Z}(3) \leq \bar{b}(3) \alpha_3^0 (I+\alpha_2^0) (I+\alpha_0^0) \bar{X}(0)$$

$$(10.3) \quad \delta'_{\lambda 4} \bar{Z}(4) \leq \bar{b}(4) \alpha_4^0 (I+\alpha_3^0) (I+\alpha_2^0) (I+\alpha_0^0) \bar{X}(0)$$

11 Terminal conditions

$$(11.0) \quad \bar{K}(T+1) \geq \bar{b}(T) (I+\alpha_T^0) \bar{X}(T)$$

$$(11.1) \quad \bar{K}(T+2) \geq \bar{b}(T) (I+\alpha_{T2}^0) (I+\alpha_T^0) \bar{X}(T)$$

$$(11.2) \quad \bar{K}(T+3) \geq \bar{b}(T) (I+\alpha_{T3}^0) (I+\alpha_{T2}^0) (I+\alpha_T^0) \bar{X}(T)$$

TABLE 2 - List of symbols

Variables and Parameters	Dimensions for n sectors and k activities	
w_t'		social discount factor applied to private consumption
$U=\{1, \dots, 1\}$	n	unity row vector
$C(t)$	n	private consumption
ρ_t'		minimum rate of growth of aggregate consumption
$A(t)$	n	deliveries of intermediate inputs
$V(t)$	n	deliveries for inventory accumulation
$N(t)$	n	deliveries of investment goods for new capital formation
$R(t)$	n	deliveries of investment goods to restore depreciated capacity
$G(t)$	n	deliveries for government consumption
$E(t)$	n	exports
$\overline{HD}(t)$	n	exogenous demands of civil works can be specified when Housing is not included as a formal sector
$X(t)$	n	gross domestic output by sector
$Md(t)$	n	total imports (domestic prices)
$\overset{*}{a}(t)$	n x k	matrix of interindustry current flow coefficients
$\overset{*}{X}(t)$	k	gross domestic output by activity
U_{nk}	n x k	aggregation matrix $X(t) = U_{nk} \overset{*}{X}(t)$
$\overset{*}{v}(t)$	n x k	matrix of inventory coefficients

Variables and Parameters	Dimensions for n sectors and k activities	
α_0^0	$k \times k$	diagonal matrix of growth rates assumed in the pre-plan period used in calculating inventory investment and capital stocks in period 1
α_2^0	$k \times k$	diagonal matrix of growth rates limiting capital in process for capacity additions in period 2
α_3^0	$k \times k$	... in period 3
α_4^0	$k \times k$	... in period 4
α_T^0	$k \times k$	diagonal matrix of growth rates used in calculating inventory investment in last period and terminal capital requirements for period T+1 capital additions
α_{T2}^0	$k \times k$	diagonal matrix of growth rates used in calculating investment requirements for period T+2 capital additions
α_{T3}^0	$k \times k$	... period T+3 ...
α_{T4}^0	$k \times k$	... period T+4 ...
I	$k \times k$	identity matrix
$p^*(t)$	$n \times k$	matrix of investment goods proportions for new capital formation
$p'^*(t)$	$n \times k$	investment lag proportions matrices for new capital;
$p''^*(t)$	$n \times k$	
$p'''^*(t)$	$n \times k$	p'^*, p'', p''', p'''' indicate the proportions of investment goods supplied by sector i, 1,2,3,4

Variables and Parameters	Dimensions for n sectors and k activities	
$\overset{*}{p}''''(t)$	$n \times k$	periods ahead, respectively, for new capital additions in activity j
$\overset{*}{z}(t)$	k	new capital additions
$\overset{*}{r}(t)$	$n \times k$	matrix of investment goods proportions for restoring depreciated capital investment lag proportions matrices for restoring new capital;
$\overset{*}{r}'(t)$	$n \times k$	$\overset{*}{r}'_{ij}, \overset{*}{r}''_{ij}, \overset{*}{r}'''_{ij}, \overset{*}{r}''''_{ij}$
$\overset{*}{r}''(t)$	$n \times k$	indicate the proportions of investment goods supplied by sector i, 1, 2, 3, 4
$\overset{*}{r}'''(t)$	$n \times k$	periods ahead, respectively, for restoring depreciated capacity in activity j
$\overset{*}{r}''''(t)$		
$\overset{*}{D}(t)$	k	depreciated capital restored
$\alpha(t), \beta(t)$	n,n	consumption functions coefficients
$\beta_G(t)$	n	government consumption coefficients
$\overset{0}{b}(t)$	$k \times k$	diagonal matrix of capital-output coefficients
$\overset{*}{K}(t)$	k	capital stocks
$\overset{*}{KL}(t)$	k	depreciated capacity not restored
$\overset{*}{KL}(t)$	k	

Variables and Parameters	Dimensions for n sectors and k activities	
$M_R(t)$	n	non-competitive imports of investment goods to restore depreciated capacity (c.i.f.)
$\alpha_R^*(t)$	$n \times k$	diagonal matrix of non-competitive import coefficients for restoring depreciated capacity
$\alpha_R^{*'}(t)$	$n \times k$	lag proportions matrices of non-competitive imports to restore depreciated capacity; the elements indicate the proportion of investment goods imported 1, 2, 3, 4 periods ahead to restore capacity in each activity
$\alpha_R^{*''}(t)$	$n \times k$	
$\alpha_R^{*'''}(t)$	$n \times k$	
$\alpha_R^{*''''}(t)$	$n \times k$	
$M_C(t)$	n	non-competitive imports for private consumption (c.i.f.)
$\alpha_M(t), \beta_M(t)$	n, n	coefficients of private consumption functions for non-competitive imports
$\beta_{GM}(t)$	n	non-competitive import coefficients of government consumption
$\frac{MG_1(t)}{MG_1(t)}$	n	non-competitive imports for government consumption (excluded from official statistics - c.i.f.)
$\frac{MG_2(t)}{MG_2(t)}$	n	
$M(t)$	n	imports ($MG_1(t)$ excluded - c.i.f.)
$M_{CP}(t)$	n	competitive imports (c.i.f.)
$EE(t)$	n	foreign exchange earnings of exports

Variables and Parameters	Dimensions for n sectors and k activities	
$^*DD(t)$	k	total depreciated capacity
$^0_d(t)$	k × k	diagonal matrix of depreciating capacity-total capacity coefficients
$E_s(t)$	<n	non-tradable goods and services
$M_{NC}(t)$	n	non-competitive imports for intermediate consumption (c.i.f.)
$^*_m_{NC}(t)$	n × k	matrix of non-competitive import current flow coefficients
$M_V(t)$	n	non-competitive imports for inventories (c.i.f.)
$^*_m_V(t)$	n × k	matrix of inventory coefficients of non-competitive imports
$M_I(t)$	n	non-competitive imports of investment goods for new capital additions (c.i.f.)
0_Y	n × n	diagonal matrix of domestic and c.i.f. price relations
$^*_\alpha_I(t)$	n × k	diagonal matrix of coefficients of non-competitive import requirements for new capital
$^*_\alpha_I(t)$	n × k	diagonal matrix of non-competitive import coefficients for new capital additions
$^*_\alpha_I^I(t)$	n × k	lag proportions matrices of non-competitive imports for new capital additions; the elements indicate the proportions of investment goods imported
$^*_\alpha_I^{II}(t)$	n × k	1, 2, 3, 4 periods ahead for additions of capacity in each activity
$^*_\alpha_I^{III}(t)$	n × k	
$^*_\alpha_I^{IV}(t)$	n × k	

Variables and Parameters	Dimensions for n sectors and k activities	
$\alpha_E(t)$	n	coefficients of foreign exchange earnings
$\beta_E(t)$	n	
$\hat{M}_{CP}(t)$	-	foreign exchange free for allocation
$M_{CPK}(t)$	<n	non-tradable goods and services
NFCI(t)	-	net foreign capital inflow
FCL(t)	-	foreign capital loan
FCR(t)	-	foreign capital repayment
$\overline{FCRA}(t)$	-	exogenous debt repayment
$\Delta FERG(t)$	-	accumulation of foreign exchange and gold reserve
FERG(t)	-	foreign exchange and gold reserve
$\overline{FERG}(0)$	-	initial foreign exchange and gold reserve
$r_m(t)$	-	minimum foreign exchange reserve as a fraction of imports
\overline{TFD}	-	increase in terminal foreign debt
$\overline{\Delta SB}(t)$	-	balance of external transactions un-accounted endogenously (and corrections)

Variables and Parameters	Dimensions for n sectors and k activities	
$\overline{ER(t)}$	-	emigrant remittances
$\overline{TE(t)}$	-	tourism foreign exchange earnings
$\overset{0}{p}_l(t)$	$k \times k$	maximum growth rates of production
$\overset{*}{x}_l(t)$	k	maximum productions
δ'_2	k	$=0$ if gestation lag $< i-1$; $=1$, gestation lag $\geq i$
δ'_3	k	
δ'_4	k	

Annex 2

Definition of the sectors and basic data

The annex contains a definition of the sectors (Table II) in terms of an 18-sector aggregation (Table I) of the Input-Output Table for 1970 [2].

The 18-sector aggregation is being used on other versions of the model. The use of these versions require much computing time to check data inconsistencies responsible for absurd solutions, and un-plausible bottle-necks on growth.

Tables III and V offer a summary of the more important data common throughout the series of runs. Table III registers input-output data and inventory coefficients, table IV capital coefficients and table V private consumption fuctions and government final consumption structures. Government consumption includes investment in roads, public health and education.

Initial and terminal conditions on capacity and output targets, capital in process, exogenous demands and foreign exchange flows are shown on Annex 3 together with the primal solutions.

Investment in housing is considered exogenously and demand for housing is ignored. This specification results from cross-section and time-series data on the demand for housing difficult to reconcile. The family budget data show a raising proportion of expenditure on housing rents as income raises, while the national accounts reflect a degradation of housing standards through a decreasing proportion of housing in relation to total private consumption.

TABLE I - Definition of sectors

- 18 sector aggregation

N.	18 - sector Model	N.	Input-Output Table [2]
01	Agriculture, Forestry, Fishing	01	Agriculture
		02	Forestry
		03	Cattle Raising
		04	Fishing
02	Mining, Quarring	05	Oil, Coal and Metalic Ore Mining
		06	Non-Metalic Ore Mining
03	Food, Beverages and Tobacco	07	Meat and Canned Meat
		08	Dairy Products
		09	Canned Fruits
		10	Edible Oils
		12	Other Food Products
		13	Beverages
		14	Tobacco
04	Textiles, Clothing	15	Mixed and Wool Textiles
		16	Mixed and Cotten Textiles
		17	Hard Fibre Textile, Ropery and Drapery
		18	Clothing
		19	Footwear
		20	Tannery
05	Wood and Cork	21	Wood
		22	Cork
		23	Furniture
06	Paper and Wood Pulp	24	Wood Pulp
		25	Paper, Cardboard and Pulp, Paper and Cardboard Commodities
07	Construction Materials	35	Glass and Glass Products
		36	Cement
		37	Other non-metalic mineral products
08	Basic Chemicals	29	Basic Chemicals Products
09	Rubber, Plastics and Resins, Dyes	11	Cattle Food
		27	Rubber and Rubber Products
		28	Plastic Products
		30	Resin Products
		31	Non Edible Oils
		32	Dyes, Varnishes and Lakes
		33	Other chemical products
10	Oil Refining	34	Oil and Coal Derivatives

N.	18 - sector Model	N.	Input-Output Table
11	Printing and Other Manufacturing	26	Printing and Publishing
		45	Other Manufacturing
12	Metalurgy	38	Basic Iron and Steel Industries
		39	Basic Non Ferrous Metal Industries
13	Equipment	40	Metalic Products
		41	Non Electrical Machines
		42	Electrical Machines and Other Electrical Materials
		43	Naval Construction and Repairing
		44	Transportation Equipment
14	Civil Works	46	Civil Works
15	Energy, Water Supply and Communications	47	Electricity
		48	Gas
		49	Water Supply and Sanitation
		54	Communications
16	Housing	57	Housing Services
17	Services	50	Trade
		55	Hotels, Restaurants
		56	Education and Health
		58	Other Services
		59	Banking and Insurance
18	Transport	51	Road and Railway Transports
		52	Sea and River Transports
		53	Air Transports

TABLE II - Definition of Sectors
 - 6/7 sector aggregation -

7 - sector disaggregation	18 - sector disaggregation
I - Primary Goods	1 + 2
II - Consumption Goods	3 + 4 + 5 + 11
III - Intermediate Goods	6 + 7 + 8 + 9 + 10 + 12
IV - Equipment	13
V - Civil Works	14
VI - Services	15 + 17 + 18
VII - Housing	16

TABLE III- Input - Output Data

Sector	a - Input-Output matrix %					
	1	2	3	4	5	6
1. Primary	13.70	24.18	14.33	.04	1.14	.15
2. Consumption goods	1.11	29.88	4.83	2.26	7.35	1.80
3. Intermediate goods	14.26	5.17	33.31	19.69	27.06	3.76
4. Equipment	1.52	1.84	1.60	25.29	12.66	1.77
5. Civil works	.24	.05	.07	.10	.02	.16
6. Services	5.32	8.25	10.66	13.84	7.07	10.85
m_{NC} - non-competitive inputs (%)	0.21	6.45	12.69	5.95	1.00	0.17
v - stock production coefficients	0.24	0.22	0.26	0.26	0.10	0.43
v_{NC} - non-competitive imports in inventories	0.00	0.00	0.01	0.00	0.00	0.13

TABLE IV - Consumption Structures

S E C T O R	Household Consumption		Government Consumption (%)					
	α - intersect	β - %	1977	1978	1979	1980	1981	1982
1. Primary	12.9	5.8	0.9	0.8	0.8	0.9	0.9	0.9
2. Consumption goods	8.1	26.9	19.2	18.6	18.1	18.8	18.7	18.6
3. Intermediate goods	-0.8	5.0	9.4	9.3	9.0	9.5	9.5	9.5
4. Equipment	-9.1	14.0	17.1	16.1	15.0	14.3	13.8	13.4
5. Civil Works	-	-	25.4	27.9	30.4	28.9	29.6	30.3
6. Services	-4.1	48.3	28.0	27.3	26.6	27.7	27.5	27.4
Non-competitive imports	-0.5	1.2	2.3	2.4	2.5	2.6	2.6	2.6

TABLE V - Capital Coefficient Data

Sector	b	d	p - Proportions of capital goods for capacity additions $\times 10^2$						r - Proportions of capital goods for replacement $\times 10^2$					
			1	2	3	4	5	6	1	2	3	4	5	6
1. Primary	1.15	0.05	9.48	-	-	-	-	-	15.31					
2. Consumption goods	0.65	0.05	1.47	1.19	0.85	0.65	9.04	8.18	2.43	1.96	1.25	1.19	10.55	21.95
3. Intermediate goods	1.19	0.09	0.18	0.83	0.29	-	-	.20	.29	1.44	.06	-	-	.42
4. Equipment	0.64	0.05	34.10	45.15	54.35	42.74	60.14	27.20	56.72	75.19	77.40	78.12	70.21	54.52
5. Civil works	0.28	0.05	45.81	41.30	20.34	45.75	15.11	55.97	10.41	2.21	1.78	.85	.90	5.07
6. Services	1.61	0.05	8.96	11.53	13.5	10.86	15.71	8.45	14.84	19.20	19.51	19.84	18.34	18.04
α_I Non-competitive imports for capacity additions			0.94	7.83	6.70	7.52	16.09	6.70						
α_R Non-competitive imports for replacements									1.56	13.05	9.54	13.74	18.79	13.43

Annex 3

The solutions of each run are shown in four tables, together with the initial and terminal conditions and other exogenous variables. Given the condensed format of the tables a brief guide is justified.

Table 1 - Gross Internal Product

Household consumption includes endogenous private consumption, for which minimum growth rates are specified in the model and exogenous components: the intercepts of the consumption functions and housing. The housing component is estimated adding, to the base year output of the national accounts housing sector, the contribution of exogenous investment up to the previous year (assuming a capital output coefficient of 10).

Government consumption and value added are exogenous, and result from projections of national account data assuming higher growth rates for public education and health than in the past. Administration and defense grow slower and investment in infrastructure maintain more or less observed growth rates.

Investment (4, 5, 6) - housing apart - and foreign trade are determined endogenously. Taken into account that national account data does not show investment in inventories, aggregate 1+2+3+4 and its growth rate illustrate the "austerity" of the projections if compared with past performance. The share of investment on GNP reflects the growth effort.

Table 2 - Production by sector. Initial and Terminal Conditions

The upper half of the table shows the path of output by sector, giving for each year the volume and growth rate. The first column, for 1976, registers exogenous base year output capacities.

The lower half summarises initial and terminal constraints and associated slacks. The narrow columns for 1976 through 1979 show initial growth rates that constrain additions to capacity in this period and investment in inventories in 1977. The wide columns for 1978 to 1979 show the capital in process not completed through investment in the period 1977 to 1978.

The first column for 1982 shows output targets determining minimum capital stocks in the terminal year. The narrow columns for 1982 through 1984 give the terminal growth rates determining minimum capital in process for capacity additions after the terminal year. The slack on this targets is shown on the wide columns under 1983 to 1985.

Table 3 - Investment and Trade

The upper half of the table shows, after the initial stock of capital, capacity additions and excess capacity year by year (first and second column respectively).

The lower half summarises foreign trade, giving in the first two columns for each year, non-competitive imports and total exports. The last column signal with A exports limited by an upper-bound and with B exports imposed by lower bounds.

Imports and exports of services are exogenous.

Table 4 - Foreign exchange balance

Emigrant remittances and tourism revenue are set exogenously.

Net current outflows, include expenditure abroad by residents a net outflow of foreign exchange associated with transactions of services and private transfers other than transport services.

A star on foreign exchange reserves or net capital inflows point to binding minimum reserve constraints or upper-bounds on foreign loans.

TABLE 1 - Gross Internal Product (10⁹ escudos - 1970 prices)

Run nº 1

items \ year	1977	1978	1979	1980	1981	1982
1. Household consumption	170.1	172.7	175.2	178.0	183.3	193.6
2. Government consumption	20.2	21.0	22.0	24.4	27.1	30.2
3. Government value added	29.5	31.7	34.8	38.2	42.0	46.1
4. Change in stocks	6.6	.7	13.4	6.3	11.0	10.4
Sub - total (1+2+3+4)	226.4	226.1	245.4	246.9	263.4	280.3
- growth rate %	-	-0.1	8.5	0.6	6.7	6.4
5. Replacement	27.3	28.6	30.2	32.7	35.9	38.3
6. Investment for capacity additions	32.1	36.9	45.5	48.2	61.7	58.1
Total investment (4+5+6)	66	66.2	89.1	87.2	108.6	106.8
7. Exports	38.4	48.0	35.8	47.6	61.9	40.6
8. Imports (-)	-63.8	-63.5	-73.0	-64.7	-85.8	-67.7
9. GNP (1+2+3+4+5+6+7-8)	260.4	276.1	283.9	310.7	337.1	349.6
- growth rate %	-	7.1	2.8	9.4	8.5	3.7
Investment rate (total investment/GNP)	25	24.0	31.4	28.1	32.2	30.5

TABLE 2 - Production by Sector. Initial and Terminal Conditions.

Run nº 1

year sector	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Production (10^9 escudos) and annual growth rate (%)										
1. Primary	46.3	46.8	47.3	47.8	51.4	51.4	51.4			
2. Consumption goods	113.4	122.1	131.6	120.4	131.6	132.6	132.2			
3. Intermediate goods	50.9	56.8	59.8	59.8	59.8	84.2	40.8			
4. Equipment	43.6	34.7	53.0	52.7	55.3	86.4	8.3			
5. Civil works	31.2	27.6	31.3	38.5	23.1	35.5	43.3			
6. Services	121.1	127.1	133.1	137.1	146.2	155.1	165.9			
Initial and terminal rates of growth (%), slacks on capital in process constraints (10^9 escudos) and production targets										
1. Primary	1.1	1.1	-	1.1	-	49.4	2	1.2	2	-
2. Consumption goods	7.7	7.7	-	7.7	6.6	177.0	7	-	7	-
3. Intermediate goods	11.6	8.0	-	8.0	5.8	81.0	10	-	10	-
4. Equipment	10.3	10.3	-	10.3	-	78.5	10	-	10	-
5. Civil works	8.1	8.1	-	8.1	0.3	42.7	5	0.2	5	-
6. Services	5	5	-	5	-	155	5	-	5	-

TABLE 3 - Investment and Trade

Run nº 1

years sector	1976	1977			1978			1979			1980			1981			1982			1983	1984	1985
	initial stock	Capacity additions and slacks on capital constraints (10 ⁹ escudos)																				
1. Primary	53.4	0.6	-	0.6	-	0.6	-	4.1	-	-	-	-	-	37.2	-	1.2						
2. Consumption goods	73.8	5.7	-	6.1	-	-	7.2	-	-	-	-	0.4	-	5.8	8.6	9.2						
3. Intermedia- te goods	60.4	7.0	-	5.4	-	-	-	-	-	-	-	29.0	-	-	10.6	11.6						
4. Equipment	27.7	2.9	8.5	3.2	-	3.5	2.0	13.5	-	4.2	-	-	-	-	5.5	6.0						
5. Civil works	8.8	0.7	1.7	0.8	1.5	0.6	-	-	.9	1.4	-	.6	-	-	.4	.7						
6. Services	195.5	9.8	-	10.3	.6	10.8	-	19.8	-	19.3	-	22.3	-	-	13.1	13.8						
7. Housing	*	*	-	9.5	-	10.5	-	11.5	-	13.0	-	14.5	-	16.0	*	*						
Imports and exports (10 ⁹ escudos); A-max B-min																						
	1977			1978			1979			1980			1981			1982						
1. Primary	15.9	2.5	B	17.3	2.6	B	16.6	2.7	B	15.6	3.9	B	15.9	2.9	B	19.0	3.0	B				
2. Consumption goods	-	20.0	-	-	28.6	-	-	15.1	-	-	22.8	-	-	20.5	-	-	15.1	-				
3. Intermediate goods	5.2	5.7	B	7.6	5.7	B	11.2	5.7	B	15.9	5.7	B	24.5	5.7	B	4.5	5.7	B				
4. Equipment	24.6	3.5	B	9.7	3.5	B	15.3	3.5	B	-	5.2	B	1.3	3.5	B	5.2	3.5	B				
5. Civil works	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
6. Services	1.7	6.7	-	1.9	7.6	-	2.1	8.8	-	2.4	10.0	-	2.6	11.7	-	2.9	13.3	-				

TABLE 4 - Foreign exchange balance - (10⁹ escudos - 1970 prices)

Run nº 1

items \ year	1977	1978	1979	1980	1981	1982
1. Exports	35.9	48.0	35.8	47.6	61.9	40.6
2. Emigrant remittances	15.8	17.3	19.1	20.4	21.9	23.5
3. Tourism revenue	7.0	8.2	9.6	10.8	12.0	13.2
4. - Imports	-63.8	-63.5	-73.0	-64.7	-85.8	-67.7
5. - Net current outflows and corrections	-9.0	-10.3	-10.3	-10.0	-10.0	-10.0
6. Surplus on current account	-14.1	-.3	-18.8	+4.1	-9.1	-.4
7. Net capital inflows	+3*	+3*	+3*	+3*	+3*	-2
8. Accumulation of Foreign Exchange Reserves	-11.1	+2.7	-15.8	+7.1	-6.1	-2.4
9. Foreign exchange reser- ves and gold	31.4	34.1	18.3*	25.4	19.3*	16.9*

Initial foreign exchange reserve and gold 42.5

Increase in foreign debt at the end of the period 25

Maximum annual utilization of foreign loans 5

TABLE 1 - Gross Internal Product (10⁹ escudos - 1970 prices)

Run nº 2

items \ year	1977	1978	1979	1980	1981	1982
1. Household consumption	170.1	171.1	175.1	179.5	183.9	187.6
2. Government consumption	20.2	21.0	22.0	24.4	27.1	30.2
3. Government value added	29.5	31.7	34.8	38.2	42.0	46.1
4. Change in stocks	6.3	0.8	14.0	5.7	9.4	9.9
Sub - total (1+2+3+4)	226.1	224.6	245.9	247.8	262.4	273.8
- growth rate %	-	-.1	9.5	.8	5.9	4.3
5. Replacement	27.3	28.7	30.2	32.6	35.9	38.6
6. Investment for capacity additions	32.5	37.4	44.9	49.5	64.4	62.9
Total investment (4+5+6)	66.1	66.9	89.1	87.8	109.7	111.4
7. Exports	38.5	48.3	35.8	48.3	42.2	40.6
8. Imports (-)	-67.0	-63.4	-73.7	-65.2	-75.7	-67.5
9. GNP (1+2+3+4+5+6+7-8)	257.4	275.6	283.5	313.0	329.2	348.4
- growth rate %	-	7.1	2.9	10.4	5.2	5.8
Investment rate (total investment/GNP)	25.7	24.3	31.4	28.1	33.3	32.0

TABLE 2 - Production by Sector. Initial and Terminal Conditions.

Run nº 2

year sector	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985									
Production (10 ⁹ escudos) and annual growth rate (%)																			
1.Primary	46.3	46.8	1.1	47.3	1.1	47.8	1.1	52.6	10.0	53.0	0.8	53.0	0.0						
2.Consumption goods	113.4	122.1	7.7	131.6	7.7	120.5	-8.4	131.6	9.2	131.6	0.0	132.2	0.5						
3.Intermedia te goods	50.9	56.8	11.6	59.8	5.3	59.8	0.0	59.8	0.0	59.8	0.0	81.7	36.6						
4.Equipment	43.6	35.3	-19.1	53.0	50.4	55.1	3.9	78.8	42.9	83.8	6.3	84.7	1.1						
5.Civil works	31.2	28.0	-10.3	31.5	12.4	37.6	19.3	38.8	3.2	46.0	18.8	49.4	7.2						
6.Services	121.1	127.2	5.0	132.4	4.1	137.1	3.5	146.7	7.0	155.0	5.7	162.7	5.0						
Initial and terminal rates of growth (%), slacks on capital in process constraints (10 ⁹ escudos) and production targets																			
1.Primary	1.1	1.1	-	1.1	-							52.0	2.0	-	2.0	-	2.0	-	2.0
2.Consumption goods	7.7	7.7	-	7.7	6.6							148.0	4.5	-	4.5	-	4.5	-	4.5
3.Intermedia te goods	11.6	11.6	-	11.6	5.8							81.0	8.0	-	8.0	-	8.0	-	8.0
4.Equipment	10.3	10.3	-	10.3	-							77.0	10.0	-	10.0	-	10.0	-	10.0
5.Civil works	8.1	8.1	-	8.1	0.2							44.3	6.0	0.7	6.0	-	6.0	-	6.0
6.Services	5	5	-	5	-							172.0	6.0	-	6.0	-	6.0	-	6.0

TABLE 3 - Investment and Trade

Run nº 2

years sector	1976	1977		1978		1979		1980		1981		1982		1983	1984	1985	
	initial stock	Capacity additions and slacks on capital constraints, (10 ⁹ escudos)															
1.Primary	53.4	.6	-	0.6	-	0.6	-	5.5	-	0.5	-	-	-	-	1.2	1.3	
2.Consumption goods	73.8	5.7	-	6.1	-	-	7.2	-	-	-	-	0.4	-	14.6	4.5	4.7	
3.Intermedia- te goods	60.4	7.0	-	5.4	-	-	-	-	-	-	-	26.0	-	6.8	8.3	9.0	
4.Equipment	27.7	2.9	8.2	3.2	-	3.5	2.1	12.9	-	3.2	-	0.6	-	-	5.4	5.9	
5.Civil works	8.8	.7	1.6	0.8	1.4	0.7	0.3	-	-	2.1	-	0.9	-	-	0.1	0.9	
6.Services	195.5	9.8	-	10.3	1.8	10.8	-	20.5	-	18.5	-	17.4	-	36.7	17.7	18.7	
7.Housing	*	*	-	9.5	-	10.5	-	11.5	-	13.0	-	14.5	-	16.0	*	*	
Imports and exports (10 ⁹ escudos); A-max B-min																	
	1977			1978			1979			1980			1981			1982	
1.Primary	15.9	2.5	B	17.3	2.6	B	17.0	2.7	B	13.5	2.8	B	14.1	2.9	B	16.8	3.0 B
2.Consumption goods	-	20.1	-	-	28.9	-	-	15.1	-	-	22.5	-	-	19.2	-	-	15.1 -
3.Intermediate goods	5.4	5.7	B	7.4	5.7	B	11.1	5.7	B	16.8	5.7	B	24.6	5.7	B	6.7	5.7 B
4.Equipment	24.1	3.5	B	9.7	3.5	B	15.6	3.5	B	2.1	7.3	B	2.5	3.5	B	4.9	3.5 B
5.Civil works	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.Services	1.7	6.7	-	1.9	7.6	-	2.1	8.8	-	2.4	10.0	-	2.6	11.7	-	2.9	13.3 -

TABLE 4 - Foreign exchange balance - (10⁹ escudos - 1970 prices)

Run nº 2

items \ year	1977	1978	1979	1980	1981	1982
1. Exports	38.5	48.3	35.8	48.3	42.2	40.6
2. Emigrant remittances	15.8	17.3	19.1	20.4	21.9	23.5
3. Tourism revenue	7.0	8.2	9.6	10.8	12.0	13.2
4. - Imports	-67.0	-63.4	-73.7	-65.2	-75.7	-67.5
5. - Net current outflows and corrections	-9.0	-10.3	-10.3	-10.0	-10.0	-10.0
6. Surplus on current account	-14.7	.1	-19.4	4.3	-9.6	-.2
7. Net capital inflows	3*	3*	3*	3*	3*	-2
8. Accumulation of Foreign Exchange Reserves	-11.7	3.1	-16.5	7.3	-6.6	-2.2
9. Foreign exchange reser- ves and gold	31.8	34.9	18.4*	25.7	19.1*	16.9*

Initial foreign exchange reserve and gold 42.5

Increase in foreign debt at the end of the period 25

Maximum annual utilization of foreign loans 5

TABLE 1 - Gross Internal Product (10⁹ escudos - 1970 prices)

Run nº 3

items \ year	1977	1978	1979	1980	1981	1982
1. Household consumption	170.1	171.1	172.1	175.0	193.3	195.5
2. Government consumption	20.2	21.0	22.0	24.4	27.1	30.2
3. Government value added	29.5	31.7	34.8	38.2	42.0	46.1
4. Change in stocks	6.7	3.7	12.1	6.2	10.0	10.0
Sub - total (1+2+3+4)	226.5	227.5	241.0	243.8	272.5	281.8
- growth rate %	-	0.4	5.9	1.2	11.8	3.4
5. Replacement	27.3	28.8	30.5	33.1	35.7	37.4
6. Investment for capacity additions	33.1	40.2	47.5	49.8	50.9	46.9
Total investment (4+5+6)	67.1	72.7	90.1	89.1	96.7	94.3
7. Exports	38.4	46.8	44.5	53.6	47.4	42.0
8. Imports (-)	67.7	66.8	75.3	66.1	75.8	56.6
9. GNP (1+2+3+4+5+6+7-8)	257.6	276.5	288.2	314.2	330.7	351.5
- growth rate %	-	7.3	4.2	9.0	5.3	6.3
Investment rate (total investment/GNP)	26.0	26.3	31.3	28.4	29.2	26.8

TABLE 2 - Production by Sector. Initial and Terminal Conditions.

Run nº 3

year sector	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Production (10^9 escudos) and annual growth rate (%)										
1. Primary	46.3	46.8 1.1	47.3 1.1	47.8 1.1	52.6* 10.0	54.1 2.8	54.1 .0			
2. Consumption goods	113.4	122.1 7.7	131.6 7.7	130.3 -1.0	133.3 2.4	133.3 0.0	133.8 .3			
3. Intermediate goods	50.9	56.8 11.6	59.8 5.3	59.8 0.0	59.8 0.0	59.8 0.0	87.5 46.3			
4. Equipment	43.6	33.7 -22.6	53.0 57.2	58.5 10.3	84.0 43.7	84.7 0.8	84.7 0.0			
5. Civil works	31.2	28.2 -9.7	33.2 17.7	39.4 18.8	37.0 -6.1	39.5 6.8	42.4 7.3			
6. Services	121.1	127.2 5.6	133.0 4.6	137.0 3.1	145.8 6.4	158.4 8.6	165.1 4.2			
Initial and terminal rates of growth (%), slacks on capital in process constraints (10^9 escudos) and production targets										
1. Primary	1.1	1.1 -	1.1 -				52.0 2	1.2 2	- 2	- 2
2. Consumption goods	7.7	7.7 -	7.7 5.4				132.0 4.5	- 4.5	- 4.5	- 4.5
3. Intermediate goods	11.6	8.0 -	8.0 5.8				81.0 8.0	- 8	- 8	- 8
4. Equipment	10.3	10.3 -	10.3 -				77.0 10.0	- 10	- 10	- 10
5. Civil works	8.1	8.1 -	8.1 -				44.3 6	- 6	- 6	- 6
6. Services	5	5 -	5 -				165.0 6	- 6	- 6	- 6

TABLE 3 - Investment and Trade

Run nº 3

years sector	1976	1977		1978		1979		1980		1981		1982		1983	1984	1985		
	initial stock	Capacity additions and slacks on capital constraints (10 ⁹ escudos)																
1.Primary	53.4	0.6	-	0.6	-	0.6	-	5.5	-	1.7	-	-	-	-	-	1.2		
2.Consumption goods	73.8	5.7	-	6.1	-	1.2	2.0	...	-	-	-	0.3	-	2.7	4.0	4.2		
3.Intermedia- te goods	60.4	7.0	-	5.4	-	-	-	-	-	-	-	32.8	-	-	8.3	8.9		
4.Equipment	27.7	2.9	9.1	3.2	-	3.5	-	16.2	-	0.4	-	-	-	-	5.4	8.9		
5.Civil works	8.8	0.7	1.6	0.8	0.9	0.8	-	-	0.7	...	-	0.8	-	1.3	0.8	0.8		
6.Services	195.5	9.8	-	10.3	0.9	10.8	-	19.1	-	25.3	-	15.8	-	20.8	16.9	18.0		
7.Housing	*	*	-	9.5	-	10.5	-	11.5	-	13.0	-	14.5	-	16.0	*	*		
Imports and exports (10 ⁹ escudos); A-max B-min																		
	1977			1978			1979			1980			1981			1982		
1.Primary	15.9	2.5	B	17.7	2.6	B	18.6	2.7	B	14.1	2.8	B	14.1	2.9	B	17.0	3.0	B
2.Consumption goods	-	20.0	-	-	27.4	-	-	23.8	-	1.5	25.8	-	-	19.3	-	-	15.1	-
3.Intermediate goods	5.3	5.7	B	8.3	5.7	B	12.4	5.7	B	16.7	5.7	B	24.7	5.7	B	0.8	5.7	B
4.Equipment	25.8	3.5	B	11.6	3.5	B	13.5	3.5	B	-	9.3	A	2.4	7.8	-	-	4.9	-
5.Civil works	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.Services	1.7	6.7	-	1.9	7.6	-	2.1	8.8	-	2.3	10.0	-	2.6	11.7	-	2.9	13.3	-

TABLE 4 - Foreign exchange balance - (10⁹ escudos - 1970 prices)

Run nº 3

items \ year	1977	1978	1979	1980	1981	1982
1. Exports	38.4	46.8	44.5	53.6	47.4	42.0
2. Emigrant remittances	15.8	17.3	19.1	20.4	21.9	23.5
3. Tourism revenue	7.0	8.2	9.6	10.8	12.0	13.2
4. - Imports	-67.7	-66.8	-75.3	-66.1	-75.8	-56.6
5. - Net current outflows and corrections	-9.0	-10.3	-10.3	-10.0	-10.0	-10.0
6. Surplus on current account	-15.5	-1.2	-12.4	+8.7	-4.5	-2.8
7. Net capital inflows	3.0*	3.0*	3.0*	3.0*	-7.1	-16.9
8. Accumulation of Foreign Exchange Reserves	-12.5	-1.8	-9.4	+11.7	-11.6	-4.8
9. Foreign exchange reser- ves and gold	30.0	28.3	18.8*	30.5	18.9*	14.1*

Initial foreign exchange reserve and gold 42.5

Increase in foreign debt at the end of the period 0

Maximum annual utilization of foreign loans 5

TABLE 1 - Gross Internal Product (10⁹ escudos - 1970 prices)

Run nº 4

items \ year	1977	1978	1979	1980	1981	1982
1. Household consumption	170.1	172.7	176.8	182.8	188.9	200.8
2. Government consumption	20.2	21.0	22.0	24.4	27.1	30.2
3. Government value added	29.5	31.7	34.8	38.2	42.0	46.1
4. Change in stocks	6.7	-2.1	17.2	5.9	12.6	10.1
Sub - total (1+2+3+4)	226.5	223.3	250.8	251.3	270.6	287.2
- growth rate %	-	-1.4	12.3	0.2	7.7	6.1
5. Replacement	27.3	28.7	30.4	33.1	36.3	38.6
6. Investment for capacity additions	33.1	40.2	47.5	49.8	50.9	16.0
Total investment (4+5+6)	67.1	66.8	95.1	88.8	99.8	95.6
7. Exports	38.3	47.7	35.8	43.2	40.8	40.6
8. Imports (-)	-67.2	-61.8	-85.4	-66.4	-80.0	-68.2
9. GNP (1+2+3+4+5+6+7-8)	258.0	278.1	279.1	311.0	318.6	345.1
- growth rate %	-	7.8	0.4	11.4	2.4	8.3
Investment rate (total investment/GNP)	26.0	24.0	34.1	28.6	31.3	27.7

TABLE 2 - Production by Sector. Initial and Terminal Conditions.

Run nº 4

year sector	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Production (10^9 escudos) and annual growth rate (%)										
1. Primary	46.3	46.8 1.1	47.3 1.1	47.8 1.1	52.6 10.0	53.0 0.8	53.0 .0			
2. Consumption goods	113.4	122.1 7.7	131.6 7.7	121.4 -7.7	131.6 8.3	131.6 0.0	136.7 3.9			
3. Intermediate goods	50.9	56.8 11.6	59.8 5.3	59.8 .0	59.8 .0	59.8 0.0	83.4 39.5			
4. Equipment	43.6	34.1 -21.9	53.0 55.7	44.1 -16.8	77.0 74.5	82.5 7.2	84.7 2.6			
5. Civil works	31.2	28.5 -8.7	32.2 13.0	39.4 22.5	39.6 .6	45.2 14.2	46.3 2.3			
6. Services	121.1	127.2 5.0	133.2 4.7	137.1 2.9	149.0 8.7	157.8 5.9	169.5 7.4			
Initial and terminal rates of growth (%), slacks on capital in process constraints (10^9 escudos) and production targets										
1. Primary	1.1	1.1 -	1.1 -				52.0 2	- 2	- 2	- 2
2. Consumption goods	7.7	7.7 -	7.7 6.6				148.0 4.5	- 4.5	- 4.5	- 4.5
3. Intermediate goods	11.6	8.0 -	8.0 5.8				81.0 8	- 8	- 8	- 8
4. Equipment	10.3	10.3 -	10.3 -				77.0 10	- 10	- 10	- 10
5. Civil works	8.1	8.1 -	8.1 -				44.3 6	- 6	- 6	- 6
6. Services	5.0	5.0 -	5.0 -				172.0 6	- 6	- 6	- 6

TABLE 3 - Investment and Trade

Run nº 4

years sector	1976	1977		1978		1979		1980		1981		1982		1983	1984	1985		
	Initial stock	Capacity additions and slacks on capital constraints (10 ⁹ escudos)																
1.Primary	53.4	0.6	-	0.6	-	0.6	-	5.5	-	0.5	-	-	-	-	1.2	1.3		
2.Consumption goods	73.8	5.7	-	6.1	-	-	6.6	-	-	-	-	3.3	-	11.7	4.5	4.7		
3.Intermediate goods	60.4	7.0	-	5.4	-	-	-	-	-	-	-	28.0	-	4.8	8.3	9.0		
4.Equipment	27.7	2.9	8.9	3.2	-	3.5	9.2	11.7	-	3.5	-	1.4	-	-	5.4	5.9		
5.Civil works	8.8	0.7	1.5	0.8	1.2	0.8	-	...	-	1.6	-	0.3	-	0.2	0.8	0.8		
6.Services	195.5	9.8	-	10.3	0.6	10.8	-	24.2	-	19.2	-	23.9	-	25.7	17.7	18.7		
7.Housing	*	*	-	9.5	-	10.5	-	11.5	-	13.0	-	14.5	-	16.0	*	*		
Imports and exports (10 ⁹ escudos); A-max B-min																		
	1977			1978			1979			1980			1981			1982		
1.Primary	16.0	2.5	B	17.4	2.6	B	17.5	2.7	B	13.7	2.8	B	14.0	2.9	B	18.8	3.0	B
2.Consumption goods	-	20.0	-	-	28.3	-	-	15.1	-	-	21.2	-	-	17.0	-	-	15.1	-
3.Intermediate goods	5.4	5.7	B	7.2	5.7	B	10.4	5.7	B	17.0	5.7	B	24.9	5.7	B	5.7	5.7	B
4.Equipment	25.3	3.5	B	8.7	3.5	B	27.7	3.5	B	2.4	3.5	B	4.4	3.5	B	4.4	3.5	B
5.Civil works	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.Services	1.7	6.7	-	1.9	7.6	-	2.1	8.8	-	2.3	10.0	-	2.6	11.7	-	2.9	13.3	-

TABLE 4 - Foreign exchange balance - (10⁹ escudos - 1970 prices)

Run nº 4

items \ year	1977	1978	1979	1980	1981	1982
1. Exports	38.3	47.7	35.8	43.2	40.8	40.6
2. Emigrant remittances	15.8	17.3	19.1	20.4	21.9	23.5
3. Tourism revenue	7.0	8.2	9.6	10.8	12.0	13.2
4. - Imports	67.2	61.8	85.4	66.4	80.0	68.2
5. - Net current outflows and corrections	-9.0	-10.3	-10.3	-10.0	-10.0	-10.0
6. Surplus on current account	-15.1	1.1	-31.2	-2.0	-15.3	-1.9
7. Net capital inflows	8.*	8.*	8.*	8.*	8.*	-2.
8. Accumulation of Foreign Exchange Reserves	-7.1	+9.1	-23.2	+6.0	-7.3	-2.9
9. Foreign exchange reser- ves and gold	35.4	44.5	21.3*	27.3	20.*	17.1*

Initial foreign exchange reserve and gold 45

Increase in foreign debt at the end of the period 50

Maximum annual utilization of foreign loans 10

TABLE 1 - Gross Internal Product (10⁹ escudos - 1970 prices)

Run nº 5

items \ year	1977	1978	1979	1980	1981	1982
1. Household consumption	168.5	169.5	171.3	175.8	180.2	185.7
2. Government consumption	20.2	21.0	22.0	24.4	27.1	30.2
3. Government value added	29.5	31.7	34.8	38.2	42.0	46.1
4. Change in stocks	2.2	7.7	10.1	7.9	7.5	9.8
Sub - total (1+2+3+4)	220.4	229.9	238.2	246.3	256.8	271.8
- growth rate %	-	4.3	3.6	3.4	4.3	5.8
5. Replacement	27.7	29.1	30.5	32.8	36.0	38.6
6. Investment for capacity additions	36.0	36.4	40.6	52.9	63.5	62.6
Total investment (4+5+6)	63.7	73.2	81.2	93.6	107.0	111.0
7. Exports	34.6	41.3	49.3	46.7	52.1	40.6
8. Imports (-)	-61.4	-69.9	-74.2	-69.0	-79.6	-68.2
9. GNP (1+2+3+4+5+6+7-8)	257.3	266.8	284.4	309.7	328.8	345.4
- growth rate %	-	3.7	6.6	6.2	6.2	5.0
Investment rate (total investment/GNP)	24.8	27.4	28.6	30.2	32.5	32.1

TABLE 2 - Production by Sector. Initial and Terminal Conditions.

Run nº 5

year sector	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985									
	Production (10 ⁹ escudos) and annual growth rate (%)																		
1.Primary	46.3	46.8	1.1	47.3	1.1	47.8	1.1	52.6	10.0	54.1	2.8	54.1	-						
2.Consumption goods	113.4	122.1	7.7	131.6	7.7	141.7	7.7	141.7	-	146.2	3.2	140.8	-3.7						
3.Intermedia te goods	50.9	56.9	11.6	59.8	5.3	64.7	8.2	64.7	-	64.7	-	85.5	32.1						
4.Equipment	43.6	48.1	10.3	53.0	10.3	58.5	10.3	76.2	30.3	85.6	12.2	85.6	-						
5.Civil works	31.2	27.8	10.8	30.0	7.9	35.0	16.6	41.2	17.5	46.6	13.1	50.2	7.8						
6.Services	121.1	119.4	-1.4	123.3	3.2	128.4	4.2	137.1	6.7	145.2	6.0	152.7	5.1						
	Initial and terminal rates of growth (%), slacks on capital in process constraints (10 ⁹ escudos) and production targets																		
1.Primary	1.1	1.1	-	1.1	-							52.0	2	1.2	2	-	2	-	2
2.Consumption goods	7.7	7.7	-	7.7	-							148.0	4.5	-	4.5	-	4.5	-	4.5
3.Intermedia te goods	11.6	11.6	-	11.6	-							81.0	8.0	-	8.0	-	8.0	-	8.0
4.Equipment	10.3	10.3	-	10.3	-							77.0	10.0	0.5	10.0	-	10.0	-	10.0
5.Civil works	8.1	8.1	-	8.1	0.8							44.3	6.0	0.9	6.0	0.1	6.0	-	6.0
6.Services	5.0	5.0	-	5.0	-							172.0	6.0	-	6.0	-	6.0	-	6.0

TABLE 3 - Investment and Trade

Run nº 5

years sector	1976	1977			1978		1979		1980		1981		1982		1983	1984	1985	
	initial stock	Capacity additions and slacks on capital constraints (10 ⁹ escudos)																
1.Primary	53.4	0.6	-	-	0.6	-	-	0.6	-	5.5	-	1.7	-	-	-	-	-	
2.Consumption goods	73.8	5.7	-	-	6.1	-	-	6.6	-	-	-	3.0	-	-	3.5	5.5	5.5 4.5	
3.Intermediate goods	60.4	7.0	-	-	5.4	-	-	5.8	-	-	-	-	-	24.7	-	2.3	2.3 8.3	
4.Equipment	27.7	2.9	-	-	3.1	-	-	3.5	-	11.3	-	5.9	-	-	-	-	4.8	
5.Civil works	8.8	0.7	1.7	-	0.8	1.8	-	0.4	-	1.3	-	1.5	-	1.0	-	-	-	
6.Services	195.5	9.8	12.5	-	10.3	16.5	-	10.8	14.1	4.9	-	18.2	-	17.0	-	52.8	52.8 17.7	
7.Housing	*	*	-	-	9.5	-	-	10.5	-	11.5	-	13.0	-	14.5	-	16.0	* *	
Imports and exports (10 ⁹ escudos); A-max B-min																		
	1977			1978			1979			1980			1981			1982		
1.Primary	21.1	2.5	B	24.1	2.6	B	27.3	2.7	B	22.7	2.8	B	22.9	2.9	B	25.2	3.0 B	
2.Consumption goods	-	16.2	-	-	21.9	-	-	28.6	-	-	24.7	-	-	25.4	-	-	15.1 -	
3.Intermediate goods	7.0	5.7	B	7.9	5.7	B	7.3	5.7	B	13.3	5.7	B	21.1	5.7	B	4.1	5.7 B	
4.Equipment	13.3	3.5	B	9.9	3.5	B	9.2	3.5	B	-	3.5	B	-	6.4	-	-	3.5 B	
5.Civil works	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
6.Services	1.7	6.7	-	1.9	7.6	-	2.1	8.8	-	2.3	10.0	-	2.6	11.7	-	2.9	13.3 -	

TABLE 4 - Foreign exchange balance - (10⁹ escudos - 1970 prices)

Run nº 5

items \ year	1977	1978	1979	1980	1981	1982
1. Exports	34.6	41.3	49.3	46.7	52.1	40.6
2. Emigrant remittances	15.8	17.3	19.1	20.4	21.9	23.5
3. Tourism revenue	7.0	8.2	9.6	10.8	12.0	13.2
4. - Imports	-61.4	-69.9	-74.2	-69.0	-79.6	-68.2
5. - Net current outflows and corrections	-9.0	-10.3	-10.3	-10.0	-10.0	-10.0
6. Surplus on current account	-13.0	-13.4	-6.5	-1.1	-3.6	-.9
7. Net capital inflows	3.*	3.*	3.*	3.*	3.*	-2.0
8. Accumulation of Foreign Exchange Reserves	-10.0	-10.4	-3.5	+1.9	-.6	-2.9
9. Foreign exchange reser- ves and gold	32.5	22.1	18.6*	20.5	19.9*	17.0*

Initial foreign exchange reserve and gold 42.5

Increase in foreign debt at the end of the period 25(5)

Maximum annual utilization of foreign loans

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PRELIMINARY DRAFT

Incomes Policy and Employment Policy

by

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(Restricted Circulation)

SUMMARY

1. Sectors and sub-sectors of economic activity in a partially advanced country.
2. The logic of price variations in agriculture, industry and services.
3. The elasticity of supply of agricultural products and the expansion of demand.
4. Cost and price variations in industry, the variations of profit margins and the determinants of industrial investment.
5. The "optimal" rate of increase of money wages.
6. Different causes of inflation. The so-called "stagflation".
7. The question of the "incomes policy".
8. The role of the trade unions.
9. A few observations on the employment policy.

1 - SECTORS AND SUB-SECTORS OF ECONOMIC ACTIVITY IN A PARTIALLY
ADVANCED COUNTRY

In order to understand the behaviour of prices, wages and productivity, it is well to consider separately the three fundamental sectors of the economy : agriculture, industry and services. In addition, in a country that is half-way between economic back-wardness and a high level of industrialization, it is advisable to distinguish also two sub-sectors and the modern one, the former being constituted by very small firms that often are organized on a family basis and generally employ a limited number of wage earners. These sub-sectors exist in all market economies, but such a distinction is particularly sharp and important in partially advanced economies, like Italy and Portugal. Most of the contemporary discussions on incomes policy and employment policy are concerned mainly with the modern sub-sector of industry. This is understandable in highly industrialized countries, where agriculture represents less than 5% of the labour force and where the traditional sub-sector of industry is not large. On the other hand even in a country not highly industrialized a special emphasis on the modern industrial sub-sector is fully justified, since the development of the whole economy depends principally on investments and innovations carried out in this sub-sector.

Productivity tends to increase most rapidly in industry; less rapidly in agriculture (though this is not true in all countries and in all periods); still less rapidly in tertiary activities, in some of which the very concept of productivity is uncertain. Since money wages tend to increase, at least in the modern sub-sectors, at approximately similar rates, in the long run relative prices tend to vary in directions opposite to the relative speed of productivity.

Productivity is higher and tends to increase more rapidly in the modern sub-sectors of the three sectors. Such a dual behaviour, as we shall see, create problems that are particularly serious in industry.

2 - THE LOGIC OF PRICE VARIATIONS IN AGRICULTURE, INDUSTRY AND SERVICES

The very logic of price formation and price variations in the three sectors is different.

In agriculture competition prevails and, in the short run, price depends on supply and demand. In the long run, price depends on cost of production, since, if price happens to be persistently higher than cost, new firms enter the market, supply increases and price falls or, vice-versa, if price happens

to be less than cost a number of firms go bankrupt and disappear from the market (free entry implies also free exit). In both cases, the outcome is that, in the long run, price tends to vary with cost.

In industry, on the contrary, as a rule we find either imperfect competition - owing to product differentiation -, or oligopoly - owing to high concentration of production units -, or both.

Under such circumstances, price depends on cost both in the long and in the short run. The difference between this situation and a situation of competition is very large indeed, because the increasing power of the firms in the product markets is matched by the increasing power of the trade unions in the labour market. As a consequence, money wages, which in the past were going up and down, in our time are always on the increase, though at different speeds. Often, wages increase at a rate higher than the rate of increase in productivity, that is, the cost of labour increases more frequently than in the past. Given the ability of the firms of shifting on prices the cost increases even in the short run, prices are promptly raised. Considering the behaviour of wages (the market power of the unions implies that of the firms), in our time costs and prices, as a rule, tend to increase, whereas in the past they were often declining.

All this applies to the wholesale prices of industrial commodities. Wholesale prices of agricultural commodities fluctuate much more, but in the long run also tend to rise as

a consequence of the behaviour of both the prices of the means of production (mostly of industrial origin) and of wages. Retail prices of all sort of commodities increase even when wholesale prices remain constant, because wages increase at similar rates all over the economy, but the efficiency of labour in retail trade increases less than the general average. This applies also to prices in other tertiary activities, where market imperfections prevail and where international competition does not work.

Construction, though belonging to the industrial sector, in a partially advanced country is constituted mainly by traditional units, with relatively low and slowly increasing productivity. As a consequence, an increase in wages in such an activity - that is also sheltered with respect to international competition - gives rise to approximately similar increases in the construction costs. As a further consequence of this and of the increasing prices of building sites in the towns, the prices of houses tend continuously to go up.

In conclusion, under modern conditions inflation is a tendency arising from the very structure of the product and service markets, as well as of the labour market. Under modern conditions, the target of price policy cannot be full stability of consumers' prices (commodities, services and rents). In the ideal conditions, the most ambitious target is to have stable prices of commodities at the wholesale level and moderately increasing consumers' prices - say, 2-3%. A more realistic target is to keep the increase in wholesale prices at the rate

prevailing, on the average, in the international markets and to have an additional increase of consumers' prices of only 2-3 %.

3 - THE ELASTICITY OF SUPPLY OF AGRICULTURAL PRODUCTS AND THE EXPANSION OF DEMAND

In agriculture, in the short run (say: year by year), the increase of wages and salaries do not necessarily raise prices. If we admit that the demand for agricultural products depends on total effective demand for consumption goods and that such demand depends principally on the variations of the wages and the salary bills, an increase of wages and salaries (total employment remaining constant or tending to increase) can raise prices if agricultural output does increase or does not increase in the same proportion. Year by year, the failure of the said output to raise, or to raise sufficiently, can depend on climatic conditions; in a longer run, that either on institutional or organizational factors, especially in the traditional sub-sector or on bottlenecks due to monopsonistic situations in the commercial system. When demand increases, the existence of such situations can imply increasing prices at the wholesale level and constant prices for the producers, that, in this way, do not receive the stimulus to expand production.

A sustained increase in the wage and salary bill can raise the demand for agricultural commodities both produced internally and imported from abroad; and this all the more so, the more rigid is the internal supply. This can contribute to create balance

of payment problems. (This type of problems can arise also when the imports of industrial consumers' goods increase quickly as a result of a rapid increase of the wage and salary bill). A final remark with respect to agriculture. Hand in hand with the process of industrialization, a sustained flow of persons leave the countryside and go to the towns. For various reasons, at least in a certain stage of development such an outflow tends to exceed the possibilities of employment in non-agricultural activities in the towns; as a consequence, either an emigration abroad or an increase in precarious employment and in hidden unemployment take place, or both.

4 - COST AND PRICE VARIATIONS IN INDUSTRY, THE VARIATIONS OF PROFIT MARGINS AND THE DETERMINANTS OF INDUSTRIAL INVESTMENT

In industry both the variations in the cost of labour per unit output (given by the ratio between wages and productivity) and the variations in the cost of raw materials, are shifted on to prices even in the short run - say in the course of a year.

After making a series of empirical tests for several industrialized countries (United States, France, Western Germany, United Kingdom, Italy), it appears that the shift of cost changes onto prices is incomplete : on the average, it is of the order of 80%. This means that, when direct costs increase, the gross profit margin per unit of output shrinks, whereas such margin rises when direct costs decrease. More precisely, the shift onto prices is of the order of 90%. When costs increase and considerably

less - between 40 and 75%, depending on countries - when costs decrease. The fact is that, when costs increase, prices, on the average, are not raised on the same proportion owing, first, to the international competition and, second, to the internal competitive pressure, which is limited and imperfect, but not negligible. Such a pressure can induce or compel the price leaders to raise prices less than in proportion not to lose or even to expand their individual market shares. When costs decrease prices, on the average, are not reduced in the same proportion because the international competition does not work (as a rule international prices are either stationary or even rising) and because the internal competitive pressure of the type I have mentioned does not compel all the firms to reduce prices : these are reduced only if the price leaders consider profitable to do so.

Finally, I have tried to estimate, for Italy and the United States, the partial elasticity of the two elements of direct cost, the cost of labour and the cost of raw materials per unit of output. It appears that the shift of the increase in the cost of labour is near unity, whereas the shift of the increase in the cost of the imported raw materials is much less. This is probably due to the fact that wages - differently from imported raw materials - are, at the same time, an element of cost and the most important source of internal effective demand. As a consequence, when wages increase, effective demand increases too (at least effective demand for consumption goods) and this - apart from the pressure of international competition - allow a

potentially complete shift onto prices of the increase in the cost of labour.

The margin over direct costs covers the overhead cost per unit and gives a net profit. The height of such a margin, in each industry and even in each firm, depends on the obstacles to entry - obstacles determined by technology, or by product differentiation, or both. There are three categories of overhead costs :

- 1 - salaries of white collars, technicians and engineers and compensations to managers ;
- 2 - capital consumption allowances and
- 3 - expenses for research and development, including commercial development.

It appears that in the industrialized countries in recent decades overhead costs have been increasing not only in their absolute but also in their relative amount, that is, there is a clear trend of overhead costs per unit of output to rise. This means that the reduction of the net profit margin per unit is even greater than the reduction of the gross margin over direct costs when these costs increase, whereas the increase of the net margin is proportionately less than the increase in the gross margin when direct costs decrease. This also means that even when the increases in direct costs are fully shifted onto prices (and this tends to happen when only the cost of labour increases) the net profit margin decreases.

Industrial investment depends fundamentally on four factors: total profits (needed for self-financing), the expected rate of profit, the volume of loanable funds - depending primarily on total liquidity of the banking system -, the degree of utilized capacity - depending on effective demand and on the stock of capital. In nationalized industries, investment decisions depend also on political factors and on State subsidies. (Private firms also obtain subsidies, though, as a rule, to a lesser extent).

Profit, then, is a fundamental factor in investment decisions in two respects. The increase in demand, that affects the degree of utilized capacity can stimulate investment only if the profit margin is not falling. As for the external loans, neither banks nor firms are inclined to push indebtedness beyond certain limits: self-financing is a necessary basis for investment. (It is also true, however, that high profits due to prices considerably higher than costs become a brake, not an incentive, to investment, since they imply an obstacle to the expansion of demand).

If we consider that the shift of increases in direct costs onto prices is, on the average, incomplete and that overhead costs per unit of output tends gradually to increase anyhow, it follows that an increase of wages greater than the increase in productivity tends to depress profits and investment in industry and, consequently, to reduce the expansion of employment or even its level.

5 - THE "OPTIMAL" RATE OF INCREASE OF MONEY WAGES

If wages are an element of cost, they also constitute an important part of effective demand, particularly for consumption goods. As a matter of fact, the degree of utilized capacity depends on all the elements of effective demand - demand for consumption goods, demand for investment goods and foreign demand. And since the degree of utilized capacity is one of the determinants of investment, an increase of wages - strictly speaking, of the wage and salary bill - can contribute to expansion of investment. Thus, if from one point of view an increase of wages can depress investment, via a profit squeeze, from another point of view it can stimulate investment. Which outcome will prevail will depend on the relative intensity of the two contrasting forces.

There is, then, a problem of the "optimal" rate of increase of money wages : such a rate can be either "too low", i.e. considerably less than the rate of increase of productivity, or "too high", i.e. considerably higher than the increase of productivity. If the rate of increase of wages is "too low", a deficiency of effective demand could arise and, more precisely, a deficiency of demand for consumers' goods. If the rate of increase of wages is "too high", effective demand for consumers' goods expands rapidly, provided total employment increases or at least remains stationary. But investment can be discouraged, because the cost of labour rises and, ceteris paribus, the net profit margins decrease. Since the degree of utilized capacity is, as a rule,

below the maximum, we will observe a rate of increase of consumers' goods more rapid than the rate of increase of producers' goods, when demand for consumers' goods is expanding at a high rate and the net profit margins are falling; after a point, the rate of change in the output of producers' goods becomes negative.

The "optimal" rate of increase of money wages, however, does not necessarily coincide with the rate of increase of productivity. As a matter of fact, the increase of wages can well be less than the increase of productivity without negatively affecting the expansion of national income and of investment, if foreign demand is increasing at such a rate as to allow an increase of income at least equal to the increase of productivity. On the other hand, wages can increase more than productivity without reducing the profit margins if raw material prices tend to fall. In the long run, however, the "optimal" rate of increase of wages is very near the rate of increase of productivity.

Up to now I have implicitly considered as a datum, given exogenously, the increase of productivity, which, on the contrary, depends on economic factors, such as the rate of expansion of output, the rate of growth of investment and (invertedly) the degree of utilized capacity. At the same time, when the rate of increase of wages exceeds the rate of increase of productivity, an incentive arises to modify the composition of investments : labour-saving investments increase relatively to the output - expanding investments and the rate of increase of productivity can be speeded up. On the whole, however, when wages persistently

increase at a rate considerably higher than productivity, profits and, with profits, investment and employment in industry - ceteris paribus - tend to decline. Consequently, the increase of productivity that, though with a delay, is originated by investments, is reduced.

6 - DIFFERENT CAUSES OF INFLATION, THE SO-CALLED "STAGFLATION"

We are now in a position to comment briefly, but systematically, on the different causes of inflation and on that peculiar phenomenon, practically unknown before the second world war, called "stagflation".

In agriculture, the increase of prices can depend on a demand increasing more than supply; in an open market, it can also depend on an increase in international prices. In its turn, the relative scarcity of supply can depend either on factors related to the conditions of production, or on factors related to the conditions of trade (especially, wholesale trade), or on both.

In industry, we may consider an equation of the type (see Appendix) :

$$P_i = a_1 + b_1 \frac{W_i}{i} + c_1 M + d_1 P_{ii}$$

where P_i is the index of industrial wholesale prices, W_i the hourly wage rate and i the output per man-hour, M the index of raw material prices and P_{ii} the index of industrial prices in the international markets (in an open economy, the variations such prices act as a ceiling to the internal variations).

In general, in industry - and, more particularly, in its modern sub-sector - the demand factor is not directly relevant in determining price variations. An increase in the demand for labour, depending on an increase in the demand for commodities or services, can reduce the rate of unemployment and push up wages; if wages increase more than productivity, prices tend to go up. Wages tend to increase also as a consequence of an increase in the cost of living, an increase that does not necessarily depend on a demand pressure.

For instance, if the prices of agricultural commodities go up as a consequence of a bad crop, or as a result of an increase in international prices, wages tend to increase, independently of a pressure of demand. Wages can also go up as a consequence of trade union pressure or of a political action, again, independently of a pressure of demand. (An index of the trade union pressure can be derived from the number of days lost for strikes).

On the other hand, the pressure of demand can affect indirectly the industrial prices not only via the increase of wages due to a rising demand for labour, but also via the increase in the agricultural products that are used as raw materials in the food industry. Such industry has got a strategic position in the economy, since its products represent an important share of the basket of goods bought by the workers : an increase in the prices of such products necessarily brings about, with a lag of variable duration, a general increase of wages; and this

increase affects the costs of all goods.

When the prices of imported raw materials (including oil) or when the prices of imported finished industrial goods increase, the inflation, in both cases, is imported. A special case of imported inflation is that originating from a devaluation of the internal currency in terms of foreign exchange.

In all cases in which the increase of prices is directly or indirectly due to a pressure of demand, an expansion in the quantity of money is a necessary condition, or pre-condition, for allowing such an increase. But it is clearly misleading to concentrate the attention to the variations in the quantity of money rather than on the different channels and mechanisms determining the increase of prices in the different sectors and sub-sectors of the economy.

From the above analysis it appears that it is perfectly possible, under modern conditions, to have, at the same time, an increase of prices and a fall in investment. This can occur when prices go up owing to an upward pressure of costs not due to an expansion of demand (for example : wages increasing more rapidly than productivity as a result of trade union pressure; or raw material prices increasing in the international markets). As we have seen, when costs increase prices tend to increase somewhat less than in proportion; profit margins shrink and investments are discouraged : a situation of stagflation, or of recession with inflation, can be the outcome. Such an outcome can also occur as a consequence of a credit squeeze brought about

by the central bank to reduce a deficit in the balance of payments (see equations 11 and 13 in the Appendix).

7 - THE QUESTION OF THE "INCOMES POLICY"

Under modern conditions, then, a certain amount of inflation is unavoidable: but, for reasons partly explained above, when the inflationary process becomes too rapid, it tends to create obstacles to the process of development of output and employment, either because it determines a profit squeeze, or because it tends to deteriorate the competitiveness of the economy under consideration in the international markets and to create balance-of-payments problems, or for both reasons. (A devaluation might seem to solve both types of problems; but though isolated devaluations can help to overcome for a period the above mentioned hardships, a policy of systematic devaluations create serious economic and social tensions and, in the long run, can derange the whole company).

Two of the most important sources of the problems I have just mentioned are : 1) an increase of money wages systematically more rapid than productivity and 2) an increase in the prices of imported raw materials (including the sources of energy). The first category of problems belong to the problems usually discussed under the heading of the so-called incomes policy.

After considering the experiences of several countries, particularly those of the United Kingdom and of the Netherlands, it is clear by-now that, in a democratic country, with powerful

trade unions, a statutory incomes policy - i.e. an incomes policy enforced by an administrative machinery instituted by law - cannot work. The countries just mentioned abandoned that type of policy to adopt one kind or another of "social contract", or a wage policy based on agreements - not necessarily formal - between the trade unions and the Government, the former accepting to moderate their wage claims, the latter, taking, or promising, certain measures of economic policy : tax reductions, stability of certain prices (including rents), social benefits (low-priced houses, improvements in the health services, measures to promote the expansion of employment; also, in certain countries : the introduction of important social reforms). The abandonment of a statutory incomes policy even in those countries where such a policy had been tried depends not simply on the hostility of the trade unions. It depends first of all, on the extreme difficulty of working out a set of rules capable of taking into account the possible significant changes in the labour market and the consequences of changes in productivity, which differ very much in the different product markets.

To be sure, in periods of emergency the decision to freeze wages and salaries, or strictly to control their increases, can certainly be justified, as well as the decisions to freeze the prices of certain categories of goods and to impose strict limits to the power of firms to dismiss workers. But it is not advisable to rely on such measures for more than relatively short periods. The only exception can be the fixation and the periodic revisions

of the minimum level of wages; but the system of wages normally should not be regulated from the center.

When discussing the incomes policy, great attention has been devoted to the behaviour of wages; much lesser attention has been devoted to the behaviour of salaries. Moreover, it is well to consider carefully the role of profits both in private and public enterprises.

As I said in the previous sections, in the long run the optimal rate of increase of money wages is approximately equal to the increase of productivity; in the short run - year by year -, the actual behaviour can depart from such a rule without serious consequences only if the deviations are not very great. In principle, a similar rule can be extended to the salaries; but in this area there are two special problems to be considered :

- 1) the question of the trend of the number of the so-called white-collars employed in the firms (administrative officers)
- and 2) the question of the relative levels of salaries.

As for the first problem, it appears that the number of the white-collars tends to increase more than in proportion than that of the workers (in certain industries the latter number tends even to decrease) and, often, more than in proportion than the increase in output, so that the incidence of the salaries per unit of output tends to increase, independently of the velocity of the increase in the individual salaries. Given this trend, the problem arises whether the white-collars are really all necessary. In the case of production workers it is relatively easy to establish whether

or not they are all necessary to the production process, given a certain technology; in the case of white-collars, it is not easy to make such a judgement. Yet, it is strongly advisable to avoid having supernumerary or superfluous administrative officers, since they are a burden to the firm and reduce its self-financing capacity. Perhaps, considering the political pressures, a risk of this type is more serious in the case of public than in the case of private firms. As for the second problem - the relative levels of the salaries -, it is well to promote a critical analysis of the situation in the large firms: it can be found, for example, that certain employees, especially qualified technicians and engineers, are underpaid (with the consequence that the best brains avoid certain important jobs), whereas the managers are overpaid, since they influence, or belong to the board of directors and thus are in a position to get exceedingly high salaries, that encroach upon profits and the self-financing ability of the firms. The Government has the responsibility directly to regulate both the salaries of public enterprises and of the central and local administrative officers in such a way as to promote the growth of income and employment and to minimize the inflationary pressure. The Government should also be concerned with the variations of the total wage and salary bill. When such an increase creates troubles in the balance of payments, differentiated fiscal measures are to be considered (such measures are of very limited help when the problems arise out of an increase of wages more rapid than productivity, since here the costs to the firms are involved, and these costs increase

independently of the fiscal measures).

In recent decades, the role of profits in the process of development has been generally under-rated by the economists. Now, the expected rate of profit is relevant as the incentive to invest; the volume of total profits is relevant as the basis for self-financing, that cannot fall for long below certain levels. The Government, then, should help the recovery of profits, when these fall "too much", with appropriate measures : fiscal or quasi-fiscal measures, like, for instance, the shift from the firms' to the State budget or a share of the social security contributions. (Among the fiscal measures, a special consideration should be given to a favourable treatment of re-invested profits).

Contrary to a widespread view, adequate profits are no less important for the public than for the private firms. If profits are inadequate the managers should ask for subsidies from the Government; and such subsidies imply a serious burden to the State budget and reduce the autonomy of the managers, who become more subject to political pressures for special favours.

It is true that if profits can be "too low", they can also be "too high" ("too low" and "too high" from the point of view of the accumulation process : "too high" profits imply relatively high prices, a fact that puts a brake to the growth of the sales; moreover "too high" profits tends to be sterilized in purely speculative operations). Today, however, after the explosion in the price of oil and of several important raw materials, with significant increases in the cost of labour in most countries,

the problem is that, generally speaking, in industry profits are "too low". (1)

In a partially developed country the Government should systematically be concerned with the two sub-sectors of agriculture and industry. In the traditional sub-sectors of both sectors self-employed prevail (heads of the productive units and family aids), but wage-earners are also frequent both on a temporary and on a relatively stable basis. In fixing the minimum wage levels and the contributions for social benefits, special consideration should be given to the traditional sub-sectors, where the level of productivity is lower and increases more slowly than in the modern sub-sectors. Perhaps it is wise not to encourage the propensity to evade public obligations, completely exonerate the very small firms from the payment of the social security contributions, attributing them to the State budget. Naturally, this and similar measures imply a reform of the fiscal system. And probably it is advisable to organize, or to re-organize public agencies, one in agriculture, the other in industry, with the purpose of promoting technical assistance to the small units and for developing activities of various kinds:

(1) It is well to emphasize that the above considerations on the optimum level of profits refer to industry, which is the most dynamic sector of the economy, and to the industrial process of accumulation. The problem is entirely different with references to the other sectors, like trade, banking and services. Here "low profits" can be very low, without serious consequences for the social process of accumulation. The trouble is that often in such sectors, that are protected from foreign competition, profits are "too high".

supply at relatively low prices of durable and non-durable means of production, including fertilizers and machinery for the agricultural units; assistance in obtaining credit and fiscal advantages; supply of technical projects of modernization and expansion; assistance for standardizing and selling the products of the small units both in the home markets and abroad, reducing and possibly eliminating private intermediaries. This last point is particularly important for small agricultural units). Such agencies should organize local units all over the country.

(perhaps by utilizing former institutions); they should also operate, with well equipped research bureaus, as advisors to the Government for the agricultural and the industrial policy, by preparing, at least once every year, detailed surveys of the different branches of production and of the situation and prospects of the internal and international markets. A central Government body should supervise such activities and should publish periodically a detailed analysis of the economic trends, also with the purpose of supplying basic information to the trade unions and to the employers' associations.

8 - THE ROLE OF THE TRADE UNIONS

If the point of view is accepted that a statutory incomes policy is not advisable and a voluntaristic policy is to be preferred, the economic and political responsibility of the trade unions comes out to be of fundamental importance. It is to be hoped that the trade unions leaders will work out and discuss

publicly their strategy. Basically, apart from a strategy aiming at radically changing the economic system in a short period, a strategy that in the present-day Portugal seems to have been ruled out, in principle, two types of strategies are possible :

- 1) a strategy that concentrates all the efforts on wage claims,
- or 2) a strategy that, though given space to wage claims, give at least an equal importance to non-wage claims : hygienic conditions of work, housing, transportation, hospital and medical care; or, taking a longer perspective : the carrying out of certain social reforms, the participation to the investment decisions of the firms, the acquisition of a growing influence on the great decisions of economic policy.

The author of the present paper must state that he decidedly prefers the latter strategy. The former in the long run is apt to undergo what in Italy we call "corporative" or "sectional" degenerations and does not really help the process of civic and political development of the work class. Again, I refer to the Italian experience, where to some extent certain "corporative" degenerations have taken place and where for a number of years the trade union movement has given, in fact, great emphasis on the wage claims as such. The outcome has been a considerable improvement of the economic conditions of the workers employed in the relatively large firms, that, in general, were - or at least have been until recently - in a position to pay high and increasing wages both for their relatively high and increasing productivity and for their relatively high market power. In

principle, the first condition relatively high and increasing productivity - was not enough to allow those firms to pay relatively high and increasing wages : without a certain amount of market power, those firms would have been compelled to pass on to all the consumers, under the form of decreasing prices, their productivity gains. The formation and the expansion of groups of privileged workers are to be related to the formation and the expansion of privileged firms, which are in a position to retain their productivity gain either - in certain periods - in the form of increasing profits or - when the trade union pressure is powerful - mainly in the form of higher and higher wages of their workers. In contrast with the conditions of these workers - who as a rule belong to relatively large firms, those of the other workers has improved much less. Moreover, the large firms, precisely to reduce the fall in their profit margins, to a considerable extent originating in the increasing cost of labour, have - so to say - decentralized a number of their operations, by means of some modern version of the "putting out system" and by means of special forms of sub-contracting with small and very small firms, that are in a position to pay wages lower than the official rates, fixed in collective bargaining, to evade the payment of social security contributions - very high in Italy - and even the payment of certain types of taxes. Hand in hand with the increasing pressure of the trade unions for rapidly increasing wages, shorter hours and other benefits, an area of precarious and irregular employment has thus developed, a tendency that

was known to exist in Italy since long, but that has been analyzed and systematically discussed by Professor Giorgio Fuà in an important essay published recently. (1)

This means that, in a partially advanced country like Italy, too great a concentration of the trade union pressure on wage increases and on other economic benefits to be financed by the individual firms gives rise to a pathological transformation of an increasing fraction of the traditional sub-sector, especially in industry : such a sub-sector, that in a physiological evolution would have gradually to shrink, expands and becomes more and more an appendage of the modern sub-sector. The outcome, then, is an increasing separation between regular and irregular employment and increasing inequalities among workers. The growth of income and of modern employment is slowed down.

The alternative strategy of the trade unions can have as its fundamental objective the management of the productive apparatus by the workers themselves. To implement such a strategy the trade unions should make a great effort to create a large and well equipped research organization - a sort of brain trust of the working class - with two large departments : one for the short run claims, which should be compatible with the maximum rate of growth of income and employment; the second for working out and continuously adjusting the long run strategy of the unions.

(1) G. Fuà, Occupazione e capacità produttive : la realtà italiana, Il Mulino, Bologna, 1976.

Lest this suggestion appears to be too much intellectualistic, let us remember that, on the other side of the battlefield, the multinational corporations have set up, at their center, important research organizations, with two kinds of departments, one dealing with short-run business, the other with their long-run strategy; and, so far as I know, nobody has accused the multinational corporations of being too much interested in purely intellectual affairs.

If it is true that the rapid economic and political progress of the working class is in the public interest, the Government should help the trade unions in various ways to create such an organization. Of course, the "brain trust" is not, in itself, a guarantee of success of the proposed line. But it is a necessary condition : under modern circumstances critical and analytical knowledge is essential not only in the field of technical and economic changes, but also to carry out social and political transformations. Today, much more than in the past, knowledge is power. In particular, today it is an illusion that the working class can grow out of its subordinate position simply by means of elementary and generous struggles. Struggles are necessary, of course, but they must be based on a detailed critical analysis of the forces at work. The process of social change is by no means an idillic one, but it can be made less painful by systematic knowledge of the rapidly changing conditions of society.

9 - A FEW OBSERVATIONS ON THE EMPLOYMENT POLICY

The question of the incomes policy is strictly related to that of the employment policy, in the sense that - referring to an abstract evolution - if the actual rate of increase of money wages do not deviate very significantly and for too long from the "optimal" rate of increase and (what to a good extent, but not entirely, is a consequence) if the average rate of profit in the modern industrial sub-sector is neither "too high" nor "too low", then accumulation of the enterprise would tend to grow in the long-run through fluctuations of various intensity - at the highest possible velocity, given the natural resources and the changes in technology and in the social framework. Such an accumulation, under modern conditions, would imply a considerable public intervention not only in the area of the public enterprise, but also in that of private firms; an intervention directed to influence in various ways the investment decisions of the relatively large firms, that under modern conditions imply a significant degree of discretionary power. At the same time, the said accumulation of the firms would proceed (I am always talking of an abstract evolution) with limited and anyhow not systematically increasing subsidies from the State budget, considering the increasing flow of profits of the firms.

Given such an evolution and assuming - always in abstract

terms - a tolerably efficient fiscal system, with relatively low tax evasion and a relatively high degree of flexibility, the State budget could give a rapidly increasing space to public investment in the traditional sense. The growth of both kinds of investment - the investment of the firms and public investment in the traditional sense - would imply a sustained growth of employment.

Of course, the evolution just described is taken only as an abstract term of reference. Not only fluctuations of income and employment would be unavoidable anyhow (though around a rising trend), but also international relations and political factors would affect and occasionally interrupt such an evolution, even assuming the most favourable circumstances. The above observations, however, can help to illustrate the fact that the employment policy cannot be but an aspect of the general economic policy and of the reform policy (beginning with the reform of the fiscal system).

However, the discussion of the employment policy implies the consideration of particular problems, especially two :

- 1) the problem of the mobility of labour and 2) the problem of the incentives for the promotion of employment in industry.

Here I will not enter into the discussion of the means to enhance the geographical and professional mobility of labour and,

in any case, the mobility of the workers from one production unit to another. I will only devote a few observations on the delicate problem concerning the freedom of the firms to dismiss workers. To be sure, to render practically impossible or very difficult the dismissal - not as an emergency measure but as a matter of a long-run policy - would be wrong not simply from the point of view of the profitability of the firms, but from the point of view of the social process of economic development. But to leave entirely the matter to the spontaneity of market forces would be equally wrong. Probably, a way out consists in set of measures capable of minimizing the risks of the workers to remain unemployed and with practically no income after losing a given job : measures introducing adequate subsidies for the unemployed and allowing a (reduced) wage for a given period, at condition that a new job be actively searched; the organization, in appropriate spots, of special courses for re-training workers who lost their job; the construction, promoted or carried out by public institutions, of low-priced houses in the industrial areas, with a fraction of these houses devoted to workers coming from other areas. All these and similar measures are to be carefully considered. It must be said, however, that the real solution consists in a rapid process of growth, that automatically creates a greater number of jobs than that destroyed by technological and economic changes.

As for the problem of incentives directed to the promotion of employment in industry, I have briefly to recall certain aspects of the Italian experience. After the second world war in Italy a system of incentives has been developed, especially intended to speed up the industrial growth of the Southern regions. Such a system, that it is not peculiar to Italy, puts a great emphasis on capital-intensive investments. The theoretical model behind such a system has never been fully spelled out and it is certainly not obvious, if it is true that in Italy in general and especially in the Southern regions capital is far from being plentiful and the problem number one is to speed up the development of employment in the modern sub-sectors of the economy. Probably, there is the idea that capital-intensive methods are by necessity more advanced and more efficient than labour-intensive methods. There is perhaps also the idea that capital-intensive methods are more apt than the others to speed up an overall process of growth. Finally, there is the consideration that good managers are scarce, so that it is advisable to concentrate investments in very large units. (Political considerations are not absent, since incentives on capital account imply a relatively high degree of discretion). All these considerations cannot be accepted without a careful and critical scrutiny. Personally, I think that a policy directed to favour capital-intensive investment in the above mentioned

circumstances is wrong, since it implies a disproportionate stimulus to certain industries rather than to particularly modern and efficient methods. Moreover, I think that the idea that capital-intensive activities are by necessity more efficient than others is unfounded, witness the so-called Leontief paradox. Consequently, especially in an economy where the problem of promoting the growth of employment is urgent, it is to be recommended a system of incentives giving particular emphasis on labour-intensive, not on capital-intensive, investments. These incentives can consist in the reduction or in the exemption, for a given number of years, of social security payments, or in fiscal exemptions, or even in contributions, to be granted for limited periods, in the payment of wages to new workers. The law should indicate the areas and the type of industries to which such incentives should apply. No doubt, the risk of abuses and wastes does exist. But all types of incentives imply such a risk and, probably, incentives to the employment of workers imply a smaller risk - among other things, they imply a smaller discretion - than the incentives intended to favour capital-intensive investment.

If the development of the country requires a large factory producing steel and its market has reached the minimum size to render such a factory economical; if that development requires

one or more cement factories - to make only two examples -, it should be clear that these decisions have to be taken on their own merits and not because they involve capital-intensive or labour-intensive investments; they have to be taken not simply to create jobs, but in relation to the basic needs of the general process of development. Such key decisions have nothing to do with a policy of incentives that, by the nature of things, are to be addressed to potential small and medium-sized firms.

APPENDIX

Reference equations (1)

1. Agricultural prices (wholesale) $P_a = a + b C - c S + d P_{ai}$
2. Industrial prices (wholesale) $P_i = a_1 + b_1 \frac{W_i}{\pi_i} + c_1 M + d_1 P_{ii}$
3. Idem, rates of change $\dot{P}_i = \alpha \frac{\dot{W}_i}{\pi_i} + \beta \dot{M} + \gamma \dot{P}_{ii} \quad (\alpha + \beta < 1)$
4. Idem, food industry (whole.) $P_{fi} = a_2 + b_2 \frac{W_{fi}}{\pi_{fi}} + c_2 P_a + d_2 P_{fii}$
5. Wholesale prices $P_w = a_a P + b_b P \quad (a_a \text{ and } b_b : \text{weights})$
6. Retail prices (commodities) $P_r = a_3 + b_3 \frac{W_r}{\pi_r} + c_3 P_w$
7. Services $SE = a_4 + b_4 W_i$
8. Cost of living $V = a_v P + b_v SE + c_v R \quad (a_v, b_v \text{ and } c_v : \text{weights})$
9. Wage rates, industry (rate of change) $\dot{W}_i = a_5 + b_5 U^{-1} + c_5 \dot{V} + d_5 TUP$
10. Profit margin, industry $G_i = a_6 + b_6 P_i - c_6 \frac{W_i}{\pi_i} - d_6 M$
11. Industrial investment $I = a_7 + b_7 G_{it} + c_7 G_{ir}^* + d_7 UT + e_7 L + f_7 TP$
12. Degree of utilized capacity, industry $UT = a_8 + b_8 C + c_8 I + d_8 E$
13. Imports (commodities) $IM = a_9 + b_9 C + c_9 I + d_9 M_t + e_9 \frac{P_{wi}}{P_w}$

APPENDIX

2.

14. Exports (com-
modities)

$$E = a_{10} + b_{10} WD - c_{10} UT - d_{10} \frac{P_w i}{P_w}$$

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- (1) These equations are taken, with (modifications), from an econometric model worked out by the author and included in the book "Trade Unions, Inflation and Productivity", Saxon House - Lexington Books, England and USA, 1974.

SYMBOLS

P_a : wholesale agricultural prices
 C : private consumption, current prices (as a proxy for total demand)
 S : supply of agricultural prices
 P_{ai} : wholesale agr. prices in international markets
 P_i : wholesale industrial prices
 W : hourly wage rates in industry
 π_i : productivity (output per man-hour), industry
 M : raw material prices
 P_{ii} : wholesale ind. prices in international markets
 P_w : wholesale prices (general index)
 SE : prices of services
 R : rents
 U : non-agricultural unemployment (%)
 TUP : trade union pressure (index)
 G_i : profit margin in industry; G_{it} : total profits; G_{ir}^* : expected rate of profit
 UT : degree of utilized capacity
 L : total liquidity
 TP : transfer payments (from the State budget to the firms)
 E : exports at current prices
 IM : imports at current prices
 M : total value of imported raw materials
 P_{wi} : wholesale prices in international prices
 WD : index of world demand

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CONFERENCE ON THE PORTUGUESE ECONOMY

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THE PORTUGUESE BALANCE OF PAYMENTS

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THE PORTUGUESE BALANCE OF PAYMENTS

I. Introduction

The balance of payments deficit is perhaps the most urgent of the many problems facing the Portuguese economy. Nonetheless, it is inextricably linked with other macro-economic difficulties, such as low private saving, a large government deficit, and wage inflation. To break out of the web of sorrows now entangling them, Portuguese policy makers will finally have to adopt a package of economic interventions similar to that discussed in this and other papers presented at the conference. Here we concentrate particularly on policies in this package relating to the balance of payments, but the likelihood that the whole program will fail unless all its components are pursued vigorously should always be borne in mind.

The trade deficit lies at the focus of policy debate for the simple reason that Portugal's once large but rapidly dwindling reserves place a limit on how long the present excess of international payments over receipts can be sustained. Well before reserves are run down to zero and the cost of foreign borrowing kinks sharply up, drastic

deflationary measures will be forced on the nation from the outside unless present inaction ceases. A graceful realignment to the current international conjuncture is still possible, but time is running out--an optimistic view does not allow more than 18 months, if current conditions do not worsen in either imports (e.g. petroleum prices) or receipts (e.g. remittances). The apparently well established downward trend in the price of gold (the form in which the bulk of Portuguese reserves are held) is a worrisome complication.

Policies to attack the balance of payments deficit will have to be pursued on several fronts. A step which should have been taken six months ago but is still to be recommended would be conversion of a substantial portion of the reserves from gold to solid foreign currencies, as a hedge against further decline in the gold price. In the medium run, Portugal's export potential will have to be increased through judicious investment, establishment of facilities such as a specialized bank for export finance, and active searches for markets abroad. And in the short run there is no recourse but devaluation to offset wage inflation of the past two or three years and restore Portuguese exports to a competitive position.

The amount by which the escudo should be depreciated is a delicate question, discussed at some length in this paper. On the one hand, the improvements in the economic condition

of the workers which are the real fruits of the Revolution must be maintained; on the other hand, many more attempts at redistribution will finally come to grief in what is after all a relatively poor country. A devaluation there has to be--preferably an open and significant one--but appropriate ancillary policies can cushion its worst impacts on inflation and income distribution. We present the details below, after first reviewing the country's recent balance of payments history.

II. Recent History of the Balance of Payments

The problem of a large balance of payments deficit is relatively new. Historically, Portugal's external current account was nearly balanced or in surplus, with a deficit on the goods and services account offset by emigrants' remittances received from abroad. This situation continued through 1973. However, for a variety of reasons to be discussed in this paper, the external current account deteriorated seriously thereafter. Table I presents the data on exports, imports, and remittances for 1973 to 1975 in both current and constant (1975) prices. Each of these components of the external current account will be analyzed in subsequent subsections.

TABLE I
EXTERNAL CURRENT ACCOUNT
(millions of contos)

<u>Current Prices</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Exports	72.6	87.8	71.9
Imports	93.2	140.2	117.2
Balance on goods and services	-20.6	-52.4	-45.3
Net remittances and interest from abroad	29.2	31.5	24.1
External current account	8.6	-20.9	-21.1
 <u>Constant Prices (1975)</u>			
Exports	102.9	90.7	71.9
Imports	142.3	155.5	117.2
Balance of goods and services	-39.2	-64.8	-45.3
Net remittances and interest from abroad	40.2	36.2	24.1
External current account	0.8	-28.6	-21.1

Source: Bank of Portugal Report, 1975,

Before proceeding with a discussion of the components of the external current account, it is useful to note how it is related to other macroeconomic variables through the savings identity. According to this identity, domestic savings, defined as private savings plus the current surplus of the government, must equal the sum of investment and the external current account. In Table II the components of the savings identity

TABLE II
SOURCES AND USES OF DOMESTIC SAVINGS
(millions of 1975 contos)

	<u>1973</u>	<u>1974</u>	<u>1975</u>
Sources			
Private saving	73.0	61.2	38.8
Government saving	11.3	1.5	-21.7
Domestic saving	84.3	62.7	17.1
Uses			
Investment	83.5	91.3	38.2
External current account	0.8	-28.6	-21.1

are presented in real terms of 1973 to 1975. Note that real domestic saving fell dramatically from 1973 to 1975 with declines in private saving and government saving contributing about equally to the overall decline. Maintaining macroeconomic balance, investment and the external current account both fell precipitously as well. Investment was so low in 1975 that the non-residential capital stock probably shrunk in that year. As mentioned above, the external current account is too low to be sustainable. Hence, two major priorities of policy should be to increase investment and reduce the external current deficit. By the arithmetic of savings-equals-investment, the amount of savings generated within

Portugal will also have to increase. Some of the increment can come from the private sector as long as real economic growth is sustained; the rest will have to come from the government. This point will reappear repeatedly throughout our discussion.

A. Exports

A major factor in the deterioration of the external current account is the poor performance of exports. In 1975, receipts were only slightly above their 1973 level in current prices and real exports actually declined steadily from 1973 to 1975 (in 1975 prices). The real export decrease had at least three causes--the world recession, the loss of colonial markets in Africa, and cost pressures on Portuguese exporters who must largely accept foreign currency prices for their products determined in markets in which they are minor participants. Of these three depressing factors, only the first is likely to disappear by itself. The loss of African markets is probably permanent, and cost pressures will have to be dealt with by devaluation and other commercial policy.

To find appropriate magnitudes for policy intervention, we must assess the quantitative impact of the three factors just mentioned. For countries outside the former escudo zone, one can decompose the decline in Portuguese exports

into that part attributable to the 1973-75 fall in their overall level of aggregate demand, and that part attributable to the loss in Portugal's share of these countries' imports. In practice, the fall in the Portuguese market share can be interpreted as the decline in exports caused by factors peculiar to Portugal. The remainder of the export decrease can be attributed to slack demand resulting from the world recession.

TABLE III
EVIDENCE OF MARKET SHARES
(percentage)

	<u>1973</u>	<u>1974</u>	<u>1975</u>
(1) Portuguese share in industrial country imports	.38	.33	.29
(2) Share of non-industrial Europe in industrial country imports	4.16	3.70	3.69
(3) Hypothetical Portuguese market share	.38	.34	.34
(4) Competitive position: (1)/(3) \times 100	100.0	99.0	87.4

In Table III, the market share of Portuguese exporters is calculated. The reference group for comparison with Portuguese exporters is non-industrial Europe. The purpose of this calculation is to determine how much the Portuguese share of non-industrial European exports to industrial

countries fell from 1973 to 1975. Line 1 presents the share of Portuguese exports in imports of industrial countries and line 2 presents the share of non-industrial European exports in total imports of industrial countries. Line 3 represents the hypothetical Portuguese share in industrial country imports under the assumption that the Portuguese share fell by the same proportion as the non-industrial European share over the period 1973 to 1975. Line 4 presents a measure of Portugal's competitive position, calculated as the ratio of its actual market share to its hypothetical market share if it had had the same experience as other countries in its reference group. Note from line 4 that the Portuguese market share declined by 12.6% from 1973 to 1975. This table and similar calculations point to the conclusion that Portuguese exports to industrial countries would have fallen by 12 to 16 per cent even if world demand had not fallen from its 1973 level. This decline results from factors specific to Portugal, some combination of buyer hesitancy due to the internal turmoil of 1974 and 1975, supply breakdowns and delays and cost pressures on exporting firms due to wage increases. A devaluation will ease cost pressures by raising escudo receipts of exporters who largely take prices as given in world markets.

Portuguese exports to the former escudo zone (A.Z.E.) have fallen more sharply than exports to the rest of the

world, especially in the first quarter of 1976. The special feature at work here is the loss of colonial markets in Africa. Table IV shows the decline in exports to the A.Z.E. relative to total Portuguese exports.

TABLE IV
A.Z.E. SHARE IN PORTUGUESE EXPORTS

<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976I</u>
.18	.16	.15	.03

Table V divides the fall in real exports relative to 1973 into those going to the A.Z.E. and those going to the rest of the world, and partitions each part into two causes. An important point to note is that the decline attributable to internal Portuguese factors is quite substantial.

TABLE V

CUMULATIVE CHANGES IN REAL EXPORTS AS A PERCENTAGE OF
1973 LEVEL AND PARTITIONING AMONG CAUSES

	<u>1974</u>	<u>1975</u>
Total Decline	-11.8%	-30.1%
1. In exports going to rest of world	-8.2%	-22.7%
a. Attributable to internal Portuguese factors	-2.0%	-11.5%
b. Attributable to world recession	-7.9%	-14.8%
2. In exports going to A.Z.E.	-3.6%	-7.4%
a. Attributable to end of colonial status	-1.7%	-2.8%
b. Attributable to recession and internal factors	-1.8%	-5.0%

Source: 1, 2--Banco de Portugal Report pp. 78ff; 1a--Table IV; 1b--Banco de Portugal report, figures for exports to R.O.W.; 2a--Table III; 2b--IMF Direction of Trade, figures for non-industrial Europe's exports.

Note that the partitioned sources of decline add up to more than the total decline, due to interaction effects.

B. Imports

Imports are vital to the Portuguese economy; in recent years the value of imports has exceeded 30% of gross domestic product. Since 1973, total imports fluctuated erratically, first rising sharply in 1974 and then falling even more sharply in 1975. Normally, imports can be expected to be proportional to real final demand, defined as the sum of

private consumption, government consumption, investment, and exports. In Portugal, this aggregate was relatively stable over the period 1973 to 1975, so that other causes for the erratic movement of imports must be sought. The major factor seems to be shifts in the composition of real final demand. The potential importance of compositional changes becomes apparent when one examines the import content coefficients of the different sectors. Based on the 1970 input-output table and normalized on 1975 to give the actual value for 1975 imports, import content coefficients are .225, .068, .450, and .325 for private consumption (at market price, including indirect taxes and subsidies), government consumption, investment in fixed capital, and exports, respectively. These values indicate that investment and exports are highly import-intensive, with both private and government consumption much less so.

TABLE VI
CHANGE IN REAL FINAL DEMAND AND REAL IMPORTS
(percentage)

	<u>1974/1973</u>	<u>1975/1974</u>
(1) Change in real final demand	5.2	-9.0
(2) "Predicted" change in real imports	4.5	-24.3
(3) Actual change in real imports	9.3	-24.6

Source: Figures from GEBEI, Ministry of Industry and Technology.

The effect of changes in the composition of final demand is presented in Table VI. The first line presents the percentage change in real final demand. The second line presents the predicted change in real imports using the import content coefficients from above. This change is calculated using actual imports for a given year and the predicted imports for the previous year, calculated as the sum of the sectors of final demand, weighted by import content. Finally, line 3 presents the actual change in real imports. In interpreting the figures in Table VI, qualitative impacts of changes in inventories should be allowed for. Over the past few years, changes in stocks of imported goods have been substantial, so that overall inventory adjustments have been very import-intensive. In 1973, inventories declined somewhat, which should lower the predicted imports for 1973 and hence raise the predicted growth rate from 1973 to 1974. In 1974 inventories were built up, raising predicted imports and hence increasing the predicted decline from 1974 to 1975. In both columns, the inclusion of changes in inventories would increase the magnitude of predicted changes in imports. This table lends support to the belief that the fluctuations in imports may be largely due to changes in the volume and composition of final demand.

The evidence presented here is not conclusive, but is very suggestive.*

C. Remittances

Remittances from emigrants have traditionally been a major source of foreign exchange for Portugal. Until 1973, these payments were generally large enough to offset the deficit on goods and services account and put the overall external current account in surplus. However, in 1974 and 1975, emigrants' remittances declined sharply in real as well as nominal terms. This decline is due to the recession in destination countries of emigrants and to political and social events in Portugal. It is difficult to untangle the various factors affecting remittances. Table VII presents data which gives some notion of the determinants of the level of remittances.

It should be noted from Table VII that the rate of

*Another explanation for the drop in real imports from 1974 to 1975 is that in May, 1975, a surcharge was levied on about one-third of all imports. The purpose of this surcharge was to discourage consumption of imported goods in favor of domestically produced substitutes. It appears, however, that any substitution of domestic goods for foreign goods in consumption was not large. Previous levels of consumption of foreign goods appear to have been sustained by draw-downs in inventories, so the surcharge reduced imports only insofar as it dissuaded traders from re-stocking. Since the surcharge was ad-valorem, it may also have led to a reduction in over-invoicing of imports.

TABLE VII
REMITTANCES

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Total remittances (excluding those from the former escudo zone) in billions of escudos	14.3	18.8	22.4	26.5	26.8	21.6
Foreign unemployment (weighted average)	2.57	2.96	2.95	2.80	3.28	4.88
Emigration of workers	110,466	80,281	44,187	64,180	23,866	9,000
Real remittances, (deflated by CPI, 1970 escudos) accumulated (since 1960) per worker	25.7	26.5	26.5	25.4	19.9	13.8

emigration is negatively related to the unemployment rate in destination countries. Emigrants generally have a "last hired, first fired" status in destination countries and are often unable to find work in a cyclically depressed economy. Therefore, the world recession may account for the decline in emigration in 1974 and 1975. If recent emigrants have a greater tendency to send remittances back to Portugal than those who left many years ago, the reduction in new emigration may explain part of the decline in remittances.

Note from the fourth line of the table that before 1974, real remittances per worker were very nearly constant. However, in 1974 and 1975, remittances per emigrant worker declined dramatically. It seems reasonable to attribute this decline in the previously constant remittances per worker figure to a loss of confidence in Portugal. This impression is reinforced by the observation that the largest percentage decline was in remittances from apparently more established, conservative emigrants living in the United States. It is important to recognize that some of the recent decline in remittances per worker may be permanent because emigrants have now developed alternative uses for their earnings. Many have developed the habit of putting their foreign exchange earnings in foreign bank accounts or selling them to Portuguese travelers rather than sending their foreign exchange to Portugal. In addition, some of the host countries have indicated a reluctance to allow immigrant workers to enter at the same rate as in the past, even after the recession.

D. Competitive Cost Position

Since 1973 nominal wages have risen more sharply in Portugal than in her trading partners. These large wage increases have substantially depressed profits or surplus in the traded goods sector. Output prices for internationally

traded goods are much more nearly determined by world prices than by domestic costs. Hence, export firms in particular have been unable to pass along higher labor costs in the form of higher prices. The result is a squeeze on profit margins which has undoubtedly led to some decline in production of exportables and goods which compete directly with imports, due to simple lack of producer incentive.

The deterioration of the competitive cost position of Portugal may be measured by the ratio of Portuguese labor costs (used as a proxy for total production costs) to labor costs in Portugal's trading partners. The relevant data for

TABLE VIII
PORTUGUESE AND FOREIGN LABOR COSTS
(1973 = 100)

	<u>1973</u>	<u>1974</u>	<u>1975</u>
(1) Wages of industrial and technical workers, Lisbon	100.0	132.1	157.0
(2) Total compensation of industrial workers	100.0	139.5	174.3
(3) Hourly compensation in trading partners, escudo basis	100.0	117.3	141.0
(4) (2)/(3) × 100	100.0	118.9	123.6

Source: U.S. International Economic Report of the President and Ministry of Labor.

1973 to 1975 are presented in Table VIII. From lines 1 and 2 of the table, it is clear that total compensation of workers has risen more sharply than wages, reflecting large increases in non-wage compensation of labor since 1974. The important figure for the competitive cost position of Portugal is given by line 4. From 1973 to 1975, labor costs in Portugal grew by 23.6% relative to labor costs in her trading partners. This sharp decline in the Portuguese cost position is a major factor behind Portugal's loss of export market shares, discussed in Subsection II-A.

The competitive cost position can be restored by devaluation, which would raise the escudo price of internationally traded goods and increase exporters' profits and presumably incentives in the short run. As of 1975, a devaluation of 23.6% relative to labor costs (i.e., expressed in wage units) would have restored the 1973 competitive position. The currently proper magnitude for devaluation will be discussed in Section IV in light of this figure, subsequent developments, and consideration of the redistributive impacts of currency depreciation.

E. Terms of Trade

A final factor working against Portugal has been the adverse shift in its terms of trade. From 1973 until 1975, Portugal's terms of trade worsened by 8.6%, mostly in the

latter year. Such a decrease in an economy as open as Portugal's means an important loss in real income. The average share of imports in gross domestic product for 1974 and 1975 is 36%, so that the standard calculation gives a drop in real income of about 3.2%.

III. Prospects for the Future without Commercial Policy Changes

The case for devaluation is irrefutable when likely developments in the macroeconomic situation without aggressive government policy are worked out. The decline in remittances, adverse terms of trade shifts and the loss of colonial markets are hard blows with impacts that will not easily be reversed. If policy inaction also permits the recent deterioration in Portuguese export market shares to continue, the whole foreign trade situation will rapidly become untenable. Devaluation is no panacea--in the short run it is inflationary, redistributes income toward profits and its effects in stimulating exports in certain sectors may not be immediate. But unless the step to re-establish export cost competitiveness is taken, Portuguese economic prospects will be very dim indeed.

A quantitative estimate of how bad the balance of payments is likely to be in the absence of policy may be

obtained using a simulation model developed in The Portuguese Economy: Recent Developments and Current Situation prepared for the Banco de Portugal and delivered in the paper on macroeconomic policy presented at this conference. The model is essentially Keynesian, but differs from the standard specification in that the prices of private consumption, investment, and government consumption are made dependent on the price of traded goods (world price times exchange rate) through import content coefficients. Export prices are also determined by the price of traded goods. The model as written does not allow for terms of trade changes but it may easily be modified to include this feature. Imports are treated as entirely non-competitive, adding to total cost in the same way, as primary (non-produced) factors. By allowing relative price changes due to increased import prices, the model takes account of the contractionary effects of a devaluation.

The model was used to produce a simulation for 1976 and two simulations for 1977, in the absence of new policy initiatives, based on the following assumptions:

1. Investment in 1976 rises to 52.6 million 1975 contos due to an end of disinvestment in inventories. Investment in 1977 either remains at 52.6 million 1975 contos (1977A projection) or grows by 10% to 57.9 million 1975 contos (1977B projection).
2. Real exports remain at 68.7 million 1975 contos in 1976 and grow to 80.7 million 1975 contos in 1977 in response to increased world demand, as explained in Appendix IV.

3. Government consumption remains unchanged in real terms through 1977 at 64.7 million 1975 contos.

The simulations produced by the model under the assumptions above are presented in Table IX. These projections may be too optimistic on several counts. The simulations assume that government expenditure will not grow in

TABLE IX
PROJECTED NATIONAL ACCOUNTS
(millions of contos of 1975)

	<u>1976</u>	<u>1977A</u>	<u>1977B</u>
Private consumption	328.4	340.8	345.2
Investment	52.6	52.6	57.9
Government consumption	64.7	64.7	64.7
Exports of goods and services	68.7	80.7	80.7
Imports of goods and services	124.0	130.7	134.1
<hr/>			
Gross domestic product	390.3	408.0	414.4
Net transfers from abroad	25.0	25.0	25.0
Current account balance	-30.3	-25.0	-28.4

real terms, that the rate of private saving is slightly above its 1975 value and that there will be no further deterioration in Portugal's competitive cost position. Even

with these optimistic assumptions, the conclusion is that the balance of payments deficit would be unacceptably large. The sources and uses of domestic saving in millions of 1975 contos are presented in Table X. The figures in parentheses represent the external current account in millions of current contos assuming a rate of wage inflation of 25% in 1976 and 1977. At the projected rates of reserve loss, Portugal's gold reserves would not last through 1977. Some policy action is required now.

TABLE X
SOURCES AND USES OF SAVING
(millions of 1975 contos)

	<u>1976</u>	<u>1977A</u>	<u>1977B</u>
Sources of domestic saving			
Private saving	44.8	46.5	47.1
Government saving	-23.3	-19.7	-18.3
Domestic saving	21.5	26.8	28.7
Uses of domestic saving			
Investment	52.6	52.6	57.9
Current account	-30.3	-25.0	-28.4
	(-37.9)*	(-39.1)*	(-44.4)*
Public transfers and interest paid abroad	-0.8	-0.8	-0.8

*Figures in parentheses are millions of current contos

A few additional points regarding Table X are worth noting. First, because the balance of payments remains deeply in deficit, domestic savings do not grow enough to finance even the moderate increase in investment in the simulations above. This illustrates the dilemma mentioned in Section II; without improvement in the balance of payments domestic savings will remain low as long as investment stagnates.

Secondly, the projected 12.0 million 1975 contos increase in exports from 1976 to 1977A improves the external current account by only 5.3 million 1975 contos. That is, the magnitude of increase in the balance of payments is only 44% of the exogenous increase in exports. The remaining 56% of the increase in exports is dissipated by increased imports. Total imports increase because the production of exports is rather import-intensive. Furthermore, the increased earnings in the export sector will lead to increased income, magnified by the multiplier,* and to increased consumption which require increased imports.

The conclusion of this analysis is that Portugal cannot rely on the world recovery alone to solve its balance of

*The model gives a value of 1.4 for the export multiplier.

payments problem. A policy of waiting for increased world demand to stimulate Portuguese exports would probably exhaust Portugal's reserves before the end of 1977.

IV. The Effects of Policy Changes

Within the country, the two most important factors underlying Portugal's balance of payments problems are cost pressures in export industries and the recent decrease in domestic savings. Last section's analysis showed that these causes must be attacked directly, since expected increases in world demand alone will not suffice to reduce the external deficit to acceptable size.

As has already been argued, devaluation of the escudo is necessary to offset cost pressures on exporters. The alternative policy of export subsidy via exaggerated tax drawbacks, extremely loose credit and so on is a possibility, but not one to be recommended. Export subsidies can leave a country open to retaliation under the rules of the GATT, and once established in support of inefficient industries (which is almost sure to occur, if only for reasons of honest miscalculation) they are not easy to remove. Furthermore, subsidies in the short run would lead to additional drain on the government budget, which is to be avoided.

The emphasis in the preceding paragraph is based on the

assumption that depreciation of the escudo will be more important in stimulating increased exports than in reducing imports. Imports are largely non-competitive in Portugal, entering in proportional fashion to output in the different sectors of the economy. The major exceptions to this generalization are imports of consumer goods, many of them luxury items. Devaluation could usefully be supplemented by quantitative restriction of these imports. We estimate that 5 million contos' worth of foreign exchange (1975 prices) could be saved in this way.

A. Magnitude of the Devaluation

There are many problems in determining the percentage by which the escudo should be depreciated, and we cannot even attempt to do full justice to them. Nonetheless, a number needs to be put on the table, and we can do that here.

Our starting point is consideration of cost increases since 1973. As we have already noted, the exchange rate has depreciated modestly since then, and prices in the world market are largely determined outside Portugal. Hence, an exporter finally receives an escudo price given by the product of the world market price and the exchange rate.

Table VIII already shows that labor costs in Portugal increased by about 23.6% relative to labor costs in its

trading partners from 1973 to 1975. Absolute cost increases both domestically and abroad were of course more than this, but the difference is what matters. Now assume as a first approximation that the prices at which goods are sold in the world market largely reflect labor costs of the major traders. Then since Portugal's labor costs rose significantly more rapidly than its partners, its exporters were penalized to the same extent. A devaluation of 23.6% in 1975 would have restored the 1973 internal Portuguese relationship between export price and labor costs, and presumably have helped competitiveness.

The foregoing reasoning is of course dependent on oversimplified labor cost theory, but we lacked data for more realistic estimates. If we extend the analysis one year further forward in time, we get an estimate of 30% as the lower bound to the depreciation required. A summary calculation goes as follows (further details in Appendix I):

Deterioration of competitive position through 1975 (average over 1973)	23.6%
Plus: Ratio of estimated domestic to foreign compensation through III-1976, escudo basis	3.0%
Equals: Devaluation needed to restore 1973 average cost position	27.4%

To the 27.4% obtained in this way we should add approximately one-half of the difference between domestic and

foreign compensation growth over the next year. This will certainly be no less than the 5.2% implicit in our lower bound for devaluation ($5.2\% = (30\% - 27.4\%) \times .2$).

There are several comments to be made about this calculation.

(i) With the estimate of the import content of consumption of 0.225 made in connection with Table VI, one can see that a 30% devaluation implies an increase of about 6% in consumer goods prices, relative to the wage. In other words, devaluation would imply a real income loss for wage recipients, though one substantially less than the gains since 1974. One should recognize this is a cost associated with devaluation. We think it is a cost that should be paid to assure the balance of payments position in the medium run.

(ii) Export firms will realize a windfall increase in profits as a result of devaluation. This will be in part incentive to exporters, and in part should be used to make up for deterioration in capital which has undoubtedly occurred since the Revolution. Policy measures should be developed to insure that the extra profits go to investment and technical advance in export industries, as they should.

(iii) We have already mentioned that devaluation is preferable to a ramshackle system of export subsidies, because it is "cleaner" and gives equal incentives to all

sectors. Similarly, devaluation should be undertaken at once and in one step. Either delay or gradual depreciation would only fuel speculation against further decreases in the value of the escudo. Even in the absence of foreign exchange markets, such speculative pressure could appear in the form of under-invoicing of exports or over-invoicing of imports. A substantial devaluation coupled with a pledge by the Banco de Portugal to maintain parity for at least a year thereafter are the appropriate policy combination.

B. Savings and Investment

Suppose that a devaluation in the 30-35% range is undertaken, and import restrictions are imposed. What will be the effects on the overall macroeconomic balance in Portugal? To begin to answer the question, refer back to Table IX, in which it is projected that Portuguese exports might be expected to rise to 80.7 million contos in 1977 from 68.7 million contos in 1976 (prices of 1975) on the basis of recovery in industrial country markets alone. If devaluation allows Portuguese exporters to recover half the loss in market share demonstrated in Table III exports would go up an additional 8.2% to 87.3 million contos. The net gain in foreign exchange terms would of course be less, because of the high import content of the country's exports.

If the additional gain of 5 million contos from import

restrictions is factored into the equation, one might expect a gain of 7 or 8 million contos in total (again in prices of 1975). In terms of the estimates of Table X, without a policy package the 1977 payments deficit might be about 44.4 million in prices of that year (assuming an investment recovery in the 1977B projections). With the policy package, this deficit might decline to 32 million contos. For the improvement of 12.4 million to be macroeconomically feasible, national savings would have to go up by an equal amount (as modified for relative price shifts induced by devaluation). What will be the sources of this additional saving?

Some part of the increase might come from the shift in the income distribution from labor payments toward profits which devaluation would induce. We have, however, assumed that this source of additional savings will be unimportant and that most of the new resources will come from a decrease in the government deficit. Part of improvement would be automatic, since tariff receipts and the price-times-quantity base of indirect taxes would increase with devaluation. Another part would have to come from moderate tax increases and holding the line on public expenditure. A plausible package might take the following form during 1977: a) Keep the level of spending constant in real terms, i.e., civil servants' total compensation plus transfers should not grow except to adjust for inflation. b) Increase the average

indirect tax rate (net of subsidies) from about 10.3 to 11.2% of consumption. This could be achieved by outright indirect tax rate increases or by economizing on subsidies; in particular, keeping total subsidies constant in nominal terms, therefore allowing inflation and consumption growth to reduce the average rate of subsidization. c) Raise the average rate of direct taxation from about 14.4 to 16.1% of GDP. This may be achieved in a variety of ways, as long as direct taxes or Social Security contributions are raised. In particular, a reasonable way appears to be to raise payments to Social Security in such a way as to pay for its current estimated deficit; this may be justified with relative ease and would bring the direct tax rate to almost the right value. It would mean, however, large increases in rates of Social Security contributions.*

These measures would lead, according to our simulations, to a decrease in public sector current deficit from 29.1 million contos in 1976 to 12.3 in 1977, in current prices (or a reduction of almost 2/3 in real terms). Any other set of policy measures that would product an equivalent amount of additional savings (slightly under 20 million contos, in 1976 prices) would in principle be just as good. For instance, if it were possible to increase (undistributed)

*See Appendix II for details.

profits of nationalized enterprises by 20 million contos in 1977 (in 1976 prices) no tax increase would be necessary.

It is very important to bear in mind that expenditure-reducing measures, such as the fiscal austerity suggested above, would lead to a contraction in demand, and therefore to a fall in employment, if unaccompanied by expansion in other final demand categories. The fiscal measures called for should therefore be thought of as part of a package including the devaluation and quantitative import restrictions. They also presuppose that a moderate increase in investment will take place in 1977. As Table XI will show below, our program leaves GDP in 1975 prices virtually unchanged, as compared to the 1977B alternative.

C. Results of the Policy Package

The short run effects of our proposed policy package are summarized in Table XI. An average devaluation of 25% with respect to domestic costs is assumed, together with the import restrictions and increased taxes mentioned above. This 25% devaluation figure really means that a devaluation within the 30-35% range is undertaken, given the hypotheses on domestic and foreign relative costs mentioned above. It is also assumed that the effects of these measures would take place in the fourth quarter of 1976 so that their effects are felt in increases in investment and the overall

domestic savings rate would materialize. For details, see the appendix on the model in The Portuguese Economy: Recent Developments and Current Situation, and the appendixes to this paper.

TABLE XI

PROJECTED NATIONAL ACCOUNTS WITH POLICY PACKAGE
(current prices, million contos*)

	<u>1977B</u>	<u>1977</u>
Private consumption	539.4	541.3
Investment	90.5	94.7
Government consumption	101.1	101.9
Exports	126.1	150.7
Minus: Imports	-209.5	-225.9
<hr/>		
GDP	647.5	662.8
Net transfers from abroad	39.1	43.1
Current account balance	-44.4	-32.0

*Due to relative price changes related to devaluation, Investment and Government consumption have different values in current prices under each hypothesis, even though they are the same in 1975 prices. For the same reason, GDP under the policy hypothesis appears higher than 1977B; in 1975 prices we have 414.4 for 1977B and 413.7 for the policy alternative.

Note the relatively large current deficit that is likely to persist, even if the policy package is adopted. The reason is the high degree of openness of Portugal's

economy, in which any expansion of demand and income requires substantial additional imports. Note, finally, that the increase in inflation over the no policy change hypothesis is non-negligible. The 24%* import content of consumption together with a devaluation of 25% will mean an extra 6% in the consumer price index . . . if the assumptions that underly our model are true.

*Note that this is the import content of consumption at factor cost (i.e., before indirect taxes minus subsidies), corrected by the quantitative import restrictions of 5 million contos. See Appendix VI for details.

APPENDIX I

COMPETITIVE COST POSITION BY THE END OF THE
THIRD QUARTER OF 1976

Assumptions: a) Portugal's labor compensation rises through III-76 at the average rate of 1975.

b) Trading partners' weighted (by export shares) labor compensation rises from average 1975 through III-76 at the same rate it did through May, 1976.*

c) The exchange rates of the escudo with respect to major trading partners' currencies are the ratios of cross exchange rates with respect to the U.S. dollar.**

These assumptions imply:

I) Increase of domestic labor costs over average 1975, escudos	32.2%
II) Increase in weighted foreign labor costs over average 1975, foreign currency	14.6%
III) Increase in weighted foreign labor costs over average 1975, escudos	26.3%
IV) Deterioration in competitive position since average 1975	4.6%

*The major partners are U.K., Germany, U.S., France. For Germany the rate of wage increase is through II-76. Source: IFS, September, 1976.

**Sources: Wall Street Journal, October 4, 1976; IFS, September, 1976.

V) Required devaluation to restore 1973 average cost
position 29.3%

APPENDIX II

NET INDIRECT TAX RATE CALCULATION
(million contos of 1975)

I)	Private consumption in 1977 under policy package	334.6
II)	Proposed minus old net indirect tax rate (%)	.9
III)	Additional taxes ($= I \times II$)	<u>3.0</u>
IV)	Total subsidies in 1976*	14.7
V)	Total subsidies in 1977 (equal to 1976's in nominal terms)	11.8
VI)	Reduction in subsidies ($= IV - V$)	<u>2.9</u>
VII)	Difference III-VI	.1

APPENDIX III

DIRECT TAX RATE CALCULATION
(million contos of 1975)

I)	GDP in 1977 under policy package	413.7
II)	Proposed new minus old direct tax rate (%)	1.8
III)	Additional taxes (= I * II)	<u>7.2</u>
IV)	Social Security deficit in 1976	<u>8.8</u>
V)	Difference III-IV	-1.6

APPENDIX IV
PROJECTIONS OF THE EXTERNAL CURRENT ACCOUNT
FOR 1976 AND 1977

In this appendix we give estimates of Portugal's external current account, disaggregated into a few major categories, under the assumption that no strong policy action is taken to improve the balance. These are our estimates, in 1975 prices (billions of escudos); we give actual 1975 figures as a point of reference.

	<u>1975</u>	<u>1976</u>	<u>1977A</u>	<u>1977B</u>
<u>Exports</u>				
Merchandise	49.5	50.5	55.5	55.5
Tourism	9.5	6.9	12.8	12.8
Other services (excl. interest)	<u>14.5</u>	<u>11.3</u>	<u>12.5</u>	<u>12.5</u>
Total exports (X)	73.5	68.7	80.7	80.7
<u>Imports</u>				
Merchandise	90.6	102.6	108.3	111.2
Tourism	5.8	4.0	4.0	4.0
Other services (excl. interest)	<u>22.0</u>	<u>17.4</u>	<u>18.4</u>	<u>18.9</u>
Total imports (M)	118.4	124.0	130.7	134.1

Remittances

Received	25.3	26.0	26.0	26.0
Sent	<u>.9</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>
Net remittances (R)	24.4	25.0	25.0	25.0

Interest Payments
Abroad

Net	.3	0.0	0.0	0.0
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Public Transfers

To A.Z.E.	.8	-	-	-
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Current Account
Balance

Billions 1975 esc.	-21.4	-30.3	-25.0	-28.4
Millions current \$ (assuming 6% U.S. inflation)	837.	1,257.	1,099.	1,248.

Derivation of the Projections

The projections were arrived at in three stages:

(i) Projections of exports of goods and services and of remittances were made, attempting to take account of political stabilization in Portugal, world economic recovery, and the end of special relations with former colonies.

(ii) These estimates of exports and remittances were substituted, along with the other exogenous variables, into our macroeconomic model to derive a projection, along with

the other endogenous variables, of total imports. Under our model imports (M) simultaneously satisfy two equations:

1) The external current account equation $B = X + R - M^*$; the balance B in turn must satisfy the savings-investment identity

$$B = sYD - GDEF - I, **$$

2) The import-content equation

$$M = m_c \cdot C + m_i \cdot I + m_g \cdot G + m_x \cdot X, ***$$

(iii) The composition of the import total was then estimated, again based on special domestic factors and the end of special colonial ties.

Exports

We have found it necessary, in projecting exports of goods and services, to make a distinction between exports to

*where X and R stand for Exports and Remittances, respectively, and

**where s is the savings ratio, YD disposable income, GDEF is governmental current deficit and I investment, and

*** where m_c , m_g , m_i , m_x are direct and indirect import content of private (C) and public (G) consumption, investment (I) and exports (X).

the traditional escudo zone (A.Z.E.) and exports to the rest of the world. Former colonies inflate the export total for 1975 in three ways: through state-related transfers, through transfer and "tourism" associated with retornados, and through protected goods and services exports which will not continue. Thus we produced estimates of exports to the A.Z.E. by assuming that in 1976 state-related transfers and tourism from that area cease; while merchandise exports fall to their first quarter 1976 level and other service exports (largely transportation and insurance) maintain their 1975 ratio to merchandise. For 1977 A.Z.E. exports of merchandise and "other services" are treated the same way as exports to the rest of the world, described below.

EXPORTS TO FORMER ESCUDO ZONE
(billions of escudos of 1975)

	<u>1975</u>	<u>1976</u>	<u>1977</u>
Merchandise	4.1	1.9	2.1
Tourism	2.6	-	-
State	3.3	-	-
Other services (excl. interest)	<u>1.1</u>	<u>0.5</u>	<u>0.6</u>
	11.2	2.4	2.6

For exports to the rest of the world in items other

than tourism, the dominant factor is the world recovery. We assume that this recovery causes a growth of 7% in merchandise and other services in 1976, followed by 10% in 1977. Tourism is a special case; two factors currently discouraging tourists are the political situation and the scarcity of hotel rooms due to the presence of retornados. We assume that in 1976 tourism from non-escudo area countries remains at its 1975 level, but that in 1977 it returns to 1974 real level.

EXPORTS TO FOREIGNERS
(billions of escudos of 1975)

	<u>1975</u>	<u>1976</u>	<u>1977</u>
Merchandise	45.4	48.6	53.4
Tourism	6.9	6.9	12.8
Other services (excluding interest)	<u>10.1</u>	<u>10.8</u>	<u>11.9</u>
	62.4	66.3	78.1

Adding these two tables and placing "State" under "Other services" produces the overall table for exports.

Remittances

Remittances from the former escudo zone are assumed to fall (from a 1975 level of 3.7) to zero in 1976 and 1977.

Remittances from the rest of the world are assumed to recover to 26.0 billion 1975 escudos (almost halfway between the 1974 level of 30.9 and the 1975 level of 21.6) in 1976 and 1977. The recovery is attributed to expected recoveries both of the economies of the host countries and of confidence in Portuguese political stability. It is not expected to be a full recovery because of the small number of recent emigrants, and because emigrants have now learned how to put their foreign exchange earnings in foreign bank accounts (or to sell them to Portuguese tourists) rather than sending them home.

Interest Payments Abroad

Net private interest payments abroad in 1975 were only .3 billion escudos. Setting them equal to zero in 1976 and 1977 is reasonable, and avoids any possible confusion of GNP and GDP, since the two are then equal.

Imports

Our total import figures are derived from the macro-economic model. To allocate the total, we assumed that service imports of the state from the former escudo zone cease, that tourism is reduced by the current government

measures to 4 billion 1975 escudos, and that merchandise and remaining service imports remain in 1975 proportions to each other.

IMPORTS
(billions of escudos of 1975)

	<u>1975</u>	<u>1976</u>	<u>1977A</u>	<u>1977B</u>
Merchandise	90.6	102.6	108.3	111.0
Tourism	5.8	4.0	4.0	4.0
State A.Z.E.	6.6	-	-	-
Other services (excluding interest)	<u>15.4</u>	<u>17.4</u>	<u>18.4</u>	<u>18.0</u>
	118.4	124.0	130.7	134.4

It may seem surprising, at first, that we predict a large increase in merchandise imports in 1976, even though we expect only a moderate increase in GDP. The reason is that the demand for importables last year was partially met by drawing down stocks. These stocks are now reported to be very low; hence an increase in imports seems inevitable.

APPENDIX V

PROJECTION OF THE EXTERNAL CURRENT ACCOUNT
UNDER SAMPLE POLICY PACKAGE

Exports: In connection with Table III we estimated that Portugal has suffered a loss of export market share due to domestic causes of 12 to 16 per cent. For the sample policy package we assume that exchange rates adjustment and other policies allow Portuguese export industries to recover half of a 14 per cent loss in market share. This would increase the baseline estimate of exports of 80.7 million contos to 87.3 million contos.

Imports: Portugal's imports are primarily intermediate and capital goods not produced at home, the demand for which would be little effected by price increases in the short run. Where policies that raise import prices could be effective is on consumer good imports. We have no good estimate of price sensitivity on such imports, but in any case under the assumed policy this is not a problem. It is assumed that those goods which would be affected by import price increases are in any case placed under quantitative restrictions, and that these restrictions remain binding. Specifically, we assume that imports with value in 1976 of 5 million contos are excluded by restrictions. It is further assumed that all of these are consumer goods.

We then revise the import content coefficient of consumption as follows. In our baseline projection for 1976, consumption expenditure net of indirect taxes generates imports of $.250 \times 375.3 = 93.8$. We divide the imports into 5 million contos of other direct and indirect imports. Similarly we divide consumption into 5 million non-essential direct imports and 370.3 million other consumption. The import content of the part of consumption not subject to restriction is thus $88.8/370.3 = .240$. We use this as the overall import content of consumption figure in the policy projection.

Current Account: We assumed that, regardless of any exchange rate change, remittances remain constant in foreign currency (an optimistic assumption for the balance of payments). The estimates of exports, remittances and other exogenous variables for the 1977 policy package case are substituted into our macroeconomic model (with the modified import-content of consumption coefficient) to derive projected imports. The total figures for exports and imports are then disaggregated under the assumption that the components respond equiproportionately to the policy measures, as indicated below. Our 1977B projection is also indicated, in current dollars, for purposes of comparison.

CURRENT ACCOUNT POLICY PROJECTION FOR 1977

	<u>1975 escudos</u>	<u>Current \$ (assuming 6% U.S. inflation)</u>	<u>Baseline projections current \$</u>
<u>Exports</u>			
Merchandise	60.6	2,638	2,440
Tourism	13.8	607	563
Other services	<u>13.5</u>	<u>594</u>	<u>550</u>
Total exports	87.3	3,839	3,550
<u>Imports</u>			
Merchandise	108.5	4,775	4,890
Tourism	3.9	171	176
Other services	<u>18.4</u>	<u>810</u>	<u>831</u>
Total imports	130.8	5,757	5,897
<u>Remittances*</u>			
Received	26.0	1,143	1,143
Sent	<u>1.0</u>	<u>44</u>	<u>44</u>
Net	25.0	1,099	1,099
Current account Balance	-18.5	-814	-1,249

*Implicitly deflated by traded goods prices.

CONFERENCE ON THE PORTUGUESE ECONOMY

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A GESTÃO DO SECTOR PÚBLICO PRODUTIVO

por

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(Circulação Restrita)

A GESTÃO DO SECTOR PÚBLICO PRODUTIVO

A GESTÃO DO SECTOR PÚBLICO PRODUTIVO

0. Objectivo do presente documento
1. O sector público produtivo
2. A política económica e o sector público
3. A organização do sector público produtivo
4. A gestão corrente das empresas e sua apreciação crítica
5. O pessoal, os quadros e os gestores
6. Investimento e seu financiamento

0. OBJECTIVO DO PRESENTE DOCUMENTO

O presente documento tem, por um lado, fins informativos, ao dar a conhecer alguns aspectos que se consideram de maior relevância para compreensão da actual situação do sector público produtivo; por outro lado procura servir de base a uma análise crítica dessa situação e a uma discussão sobre orientações desejáveis, adiantando considerações de ordem interpretativa e perspectivando algumas vias de acção.

1. O SECTOR PÚBLICO PRODUTIVO

Procura-se, neste primeiro capítulo, delimitar o domínio de incidência das considerações que se fazem nos capítulos seguintes, bem como apresentar uma imagem breve e geral da sua importância e composição.

1.1 - Entende-se por sector público o conjunto de entidades sujeitas a uma administração pública. De um ponto de vista económico e analisando a respectiva actividade produtiva é possível, de acordo com o Sistema de Contabilidade Nacional das Nações Unidas (1970) - S.C.N. - distinguir duas modalidades fundamentais:

- produção mercantil (ou comercializável), originando bens e serviços destinados à venda no mercado;
- produção não mercantil, fornecendo os serviços colectivos, incluindo o sistema de segurança social, administrando e aplicando a política económica da colectividade, etc.

Entre nós apenas as entidades com este último tipo de actividade têm sido englobadas no sector público, correspondendo ao Sector Estado do Sistema Normalizado de Contas da OCDE que vigora para as nossas Contas Nacionais(*).

Este conceito restrito de sector público terá de ser ampliado com o conjunto de entidades públicas de produção mercantil, designado sector público produtivo, precisamente o que sofreu substancial incremento post 25 de Abril e que será aqui objecto de análise mais detalhada.

Para que uma unidade se integre neste conjunto terá de preencher dois requisitos:

(*) Com os seguintes sub-sectores: Administração Central (Estado-C.G.E., Serviços Autónomos, Fundos Autónomos), Administração Local (Autarquias Locais e Serviços Autónomos) e Previdência Social.

- os preços praticados serem função da qualidade e quantidade dos bens e serviços vendidos, sendo livre a decisão de compra desses bens e serviços;
- estar essa unidade sujeita a um controle público efectivo, isto é, terem os poderes públicos sobre ela "uma influência eficaz não exclusivamente decorrente do exercício do seu poder regulamentar geral(*)".

Para a delimitação do actual sector público produtivo português é o segundo critério que põe maiores dificuldades. O Instituto das Participações do Estado adoptou como regra provisória considerar que existe controlo de uma empresa sempre que, independentemente da forma jurídica, o sector público detenha a propriedade de mais de 50% do respectivo capital; são ainda consideradas controladas as empresas em que outras empresas controladas, isolada ou conjuntamente com entidades do sector público, detenham mais de 50% do seu capital.

Decorrente da conjugação dos critérios anteriores, ficam incluídas no sector público produtivo:

- (i) os departamentos públicos não dispoendo senão de autonomia reduzida mas tendo uma actividade de produção mercantil(**);
- (ii) as entidades públicas, dotadas de personalidade jurídica e grande autonomia administrativa, financeira e patrimonial, com produção dirigida ao mercado, de que existem vários exemplos ainda antes das nacionalizações;
- (iii) as empresas privadas que foram objecto de nacionalização e que, posteriormente, vieram a perder a forma societária;

(*) Sistema de Contabilidade Nacional das Nações Unidas.

(**) Nas contas nacionais são designadas por "Empresas Públicas não Autónomas".

(iv) as sociedades controladas por via da participação no respectivo capital.

O respectivo estatuto jurídico é, pois, muito diverso ; após a publicação do Decreto-Lei 260/76 de 8 de Abril, anotam-se os seguintes tipos fundamentais:

- Departamentos públicos, como os referidos em (i), dependentes da administração central ou local;
- Empresas públicas, submetidas a um enquadramento jurídico próprio, englobando as entidades (ii) e (iii);
- Empresas controladas, sob forma societária, indicadas em (iv).

São ainda de referir as participações minoritárias em sociedades e que, embora não confirmam controlo efectivo, não deixam de permitir o exercício de uma influência, em maior ou menor grau, consoante o capital detido e a capacidade persuasiva dos poderes públicos na sua gestão.

1.2 - Não sendo possível dispôr já de números para 1975, ano das principais nacionalizações, recorreu-se a uma avaliação da dimensão do sector público para 1973^(*) admitindo que já então se haviam operado aquelas transferências de propriedade.

O peso do sector público no total da actividade económica, medido por três indicadores clássicos é o seguinte:

(*) No que se segue, os dados foram fornecidos pelo Instituto das Participações do Estado. Existem já valores para 1974; todavia, não sendo estes significativamente diferentes, em termos percentuais, dos referentes a 1973, optou-se por estes últimos a fim de permitir algumas comparações internacionais.

	% em relação à actividade total	
	Sector público produtivo	Sector público (total)
Valor acrescentado bruto (VAB)	15,5	24,4
Formação bruta de capital fixo (FBCF)	35,2	45,4
Emprego	9,7	19,3

Nos quadros 1, 2 e 3 anexos efectua-se um desdobramento por sectores de actividade.

O facto de maior realce é o grande peso do sector público na FBCF, consequência de nacionalizações de sectores exigindo uma infraestrutura importante - energia, transportes e comunicações. De acentuar também o relativamente pequeno peso das indústrias transformadoras quanto a VAB e emprego, embora com maior proporção em termos de FBCF dado as nacionalizações terem abrangido indústrias com produção tipo capital - intensivo (v.g. papel, químicas e minerais não metálicos). É importante também notar, sobretudo pelas possibilidades que permite em termos de política económica, a quase completa apropriação da Banca e a grande implantação no conjunto do sector Bancos, Seguros e Operações sobre Imóveis. Espera-se, para 1975 e 1976, um aumento significativo das percentagens relativas à FBCF, dada a quebra notória do investimento privado.

Na lista anexa, dá-se uma súmula da posição do sector público nas indústrias em que tem maior implantação.

1.3 - Em termos de comparações internacionais, apenas se apresentam valores globais para o sector público produtivo por serem os únicos disponíveis com possibilidades de se confrontarem com os números portugueses, não obstante as dificuldades de conceituação.

Da análise do quadro 4 ressalta não ser excepcional a nossa situação no cotejo com outros países europeus, sendo mesmo assinalados valores mais elevados para a Itália, salvo no que respeita ao valor acrescentado.

Os quadros 5 e 6 confirmam a conclusão, sendo apenas de assinalar a importância decisiva do sector público financeiro em Portugal e a posição de destaque que a Itália e Portugal ocupam no que respeita ao sector público industrial, não obstante a relativa modéstia dos respectivos valores.

Quadro 1 - Dimensão do sector público segundo o valor acrescentado bruto ao custo dos factores

(1973 - preços correntes)

(10⁶ escudos)

Sectores	Sector Publico Tradicional (1)		Sector Publico Produtivo				Sector Publico (4)=(1)+(2)+(3)		Total Valor
	Valor	%	Empresas Publicas(*) (2)		Empresas Controladas (3)		Valor	%	
			Valor	%	Valor	%			
1. Agricultura, Pec., Silv. e Caça	202	.5	31	.	.	.	233	6	39291
2. Pesca (**)	.	.	.	.	.	.	.	.	1780
3. Indústrias Extractivas	13	1.1	4	.3	6	.5	23	1.9	1232
4. Indústrias Transformadoras	.	.	7999	8.9	1799	2.0	9798	10.9	90146
5. Alimentação, Bebidas e Tabaco	.	.	1573	16.9	222	2.4	1795	19.3	9299
6. Têxteis, Vestuário e Calçado	.	.	200	1.0	57	.3	257	1.3	19596
7. Madeira, Cortiça e Mobil.	.	.	.	.	150	2.4	150	2.4	6295
8. Papel, Tipografia e Editoriais	.	.	906	24.7	153	4.2	1059	28.8	3673
9. Químicas e Act. Conexas	.	.	2327	21.5	142	1.3	2469	22.8	10821
10. Produtos Minerais não Metál.	.	.	741	10.7	781	11.3	1522	22.0	6919
11. Metalúrgicas de Base	.	.	1307	35.5	.	.	1307	35.5	3678
12. Prod. Metál., Ind. Mecânica e Eléct. e Mat. Transporte	.	.	945	3.7	96	.4	1041	4.1	25283
13. Transformadoras Diversas	.	.	.	.	198	4.3	198	4.3	4582
14. Construção e Obras Públicas	.	.	408	2.5	262	1.6	670	4.1	16222
15. Electricidade, Gás e Água	3	.1	5705	98.5	77	1.3	5785	99.9	5788
16. Comércio	.	.	964	2.8	227	.7	1191	3.5	34413
17. Bancos, Seguros e Op. s/. Imóveis	.	.	10167	63.0	65	.4	10232	63.4	16136
18. Transportes e Comunicações	48	.3	10840	68.4	1093	6.9	11981	75.6	15840
19. Transportes	48	.4	7452	61.1	833	6.8	8333	68.4	12188
20. Comunicações	.	.	3388	92.8	260	7.1	3648	99.9	3652
21. Serviços	22596	60.8	15	0	402	1.0	23013	61.9	37157
22. Administração Púb. e Defesa	15632	100	.	.	.	.	15632	100	15632
23. Educação	4643	88.6	3	.1	.	.	4646	88.6	5241
24. Saúde	2301	68.4	.	.	39	1.2	2340	69.5	3365
25. Outros Serviços	20	.2	12	.1	363	2.8	395	3.1	12919
T O T A L	22862	8.9	36133	14.0	3931	1.5	62926	24.4	258005

(*) Inclui os departamentos públicos produtivos.

(**) Na elaboração deste quadro não foi possível tomar em consideração as nacionalizações no sector da Pesca.

Quadro 2 - Dimensão do sector publico segundo a formação bruta de capital fixo

(10⁶ escudos)

(1973 - preços correntes)

Sectores	Sector Publico Tradicional (1)		Sector Publico Produtivo				Sector Publico (4)=(1)+(2)+(3)		Total
	Empresas Publicas (*) (2)		Empresas Controladas (3)						
	Valor	%	Valor	%	Valor	%	Valor	%	Valor
1. Agricultura, Pec., Silv. e Caça	474	19.9	2	.1	11	.3	487	14.4	2382
2. Pesca (**)	.	.	.	.	.	.	.	.	996
3. Indústrias Extractivas	5	2.9	0	0	6	3.4	11	6.3	173
4. Indústrias Transformadoras	.	.	3917	24.5	429	2.7	4346	27.2	15977
5. Alimentação, Bebidas e Tabaco	.	.	428	N/D	24	N/D	452	N/D	N/D
6. Têxteis, Vestuário e Calçado	.	.	5	N/D	6	N/D	11	N/D	N/D
7. Madeira, Cortiça e Mobil.	.	.	.	.	57	N/D	57	N/D	N/D
8. Papel, Tipografia e Editoriais	.	.	630	N/D	25	N/D	655	N/D	N/D
9. Químicas e Act. Conexas	.	.	825	N/D	34	N/D	859	N/D	N/D
10. Produtos Minerais não Metál.	.	.	1153	N/D	241	N/D	1394	N/D	N/D
11. Metalúrgicas de Base	.	.	284	N/D	20	N/D	304	N/D	N/D
12. Prod. Metál., Ind. Mecânica e Eléct. e Mat. Transporte	.	.	592	N/D	7	N/D	599	N/D	N/D
13. Transformadoras Diversas	.	.	.	.	15	N/D	15	N/D	N/D
14. Construção e Obras Públicas	.	.	94	6.3	15	1.0	109	7.3	1495
15. Electricidade, Gás e Água	112	2.7	3990	96.9	1	0	4103	99.6	4118
16. Comércio	.	.	154	4.7	63	1.9	217	6.6	3286
17. Bancos, Seguros e Op. s/. Imóveis	.	.	3688	33.3	73	.7	3761	34.0	11078
18. Transportes e Comunicações	1935	17.4	7277	65.5	148	1.3	9360	84.2	11114
19. Transportes	181	2.5	5199	72.7	19	.3	5399	75.5	7153
20. Comunicações	.	.	2078	94.2	129	5.8	2207	100	2207
21. Serviços	3270	52.1	2	0	138	2.2	3410	54.4	6272
22. Administração Púb. e Defesa	1779	100	.	.	.	.	1779	100	1779
23. Educação	919	96.9	0	0	.	.	919	96.9	948
24. Saúde	543	92.8	.	.	8	1.4	551	94.2	585
25. Outros Serviços	29	1.0	2	.1	130	4.4	161	5.4	2960
T O T A L	5796	10.2	19124	33.6	884	1.6	25804	45.4	56891

(*) Inclui os departamentos públicos produtivos.

(**) Na elaboração deste quadro não foi possível tomar em consideração as nacionalizações no sector da Pesca.

N/D - Valor desconhecido.

quadro 5 - Dimensão do sector público segundo o emprego (trabalhadores por conta de outrem)

(1973)

(Unidades)

Sectores	Sector Publico Tradicional (1)		Sector Publico Produtivo				Sector Publico (4)=(1)+(2)+(3)		Total
			Empresas Publicas (*) (2)		Empresas Controladas (3)				
	Valor	%	Valor	%	Valor	%	Valor	%	Valor
1. Agricultura, Pec., Silv. e Caça	N/D	N/D	416	.1	.	.	N/D	N/D	405100
2. Pesca (**)	.	.	.	.	.	.	.	.	23600
3. Indústrias Extractivas	N/D	N/D	36	.3	67	.6	103	.9	11800
4. Indústrias Transformadoras	.	.	46805	6.9	11375	1.7	58180	8.5	683000
5. Alimentação, Bebidas e Tabaco	.	.	N/D	N/D	2243	4.4	N/D	N/D	51200
6. Têxteis, Vestuário e Calçado	.	.	N/D	N/D	588	.3	N/D	N/D	219000
7. Madeira, Cortiça e Mobil.	.	.	N/D	N/D	1521	1.7	N/D	N/D	91800
8. Papel, Tipografia e Editoriais	.	.	N/D	N/D	1396	4.8	N/D	N/D	28900
9. Químicas e Act. Conexas	.	.	N/D	N/D	697	2.0	N/D	N/D	35300
10. Produtos Minerais não Metál.	.	.	N/D	N/D	3078	6.5	N/D	N/D	47100
11. Metalúrgicas de Base	.	.	N/D	N/D	2	0	N/D	N/D	42400
12. Prod. Metál., Ind. Mecânica e Eléct. e Mat. Transporte	.	.	N/D	N/D	928	.7	N/D	N/D	129600
13. Transformadoras Diversas	.	.	N/D	N/D	922	2.4	N/D	N/D	37700
14. Construção e Obras Públicas	.	.	4914	1.9	2369	.9	7283	2.8	259100
15. Electricidade, Gás e Água	N/D	N/D	13704	83.1	557	3.4	N/D	N/D	16500
16. Comércio	.	.	4820	2.7	1873	1.1	6693	3.8	176600
17. Bancos, Seguros e Op. s/. Imóveis	.	.	42482	62.2	176	.3	42658	62.5	68300
18. Transportes e Comunicações	N/D	N/D	93665	64.2	2352	1.6	96017	65.8	146000
19. Transportes	N/D	N/D	N/D	N/D	1498	N/D	N/D	N/D	N/D
20. Comunicações	.	.	N/D	N/D	854	N/D	N/D	N/D	N/D
21. Serviços	226100	44.9	141	0	2632	.5	228873	45.4	504000
22. Administração Púb. e Defesa	N/D	N/D	.	.	.	.	N/D	N/D	N/D
23. Educação	N/D	N/D	15	N/D	.	.	N/D	N/D	N/D
24. Saúde	N/D	N/D	.	.	416	N/D	N/D	N/D	N/D
25. Outros Serviços	N/D	N/D	126	N/D	2216	N/D	N/D	N/D	N/D
T O T A L	226100	9.6	206983	8.8	21401	.9	454484	19.3	2355200

(*) Inclui os departamentos públicos produtivos

(**) Na elaboração deste quadro não foi possível tomar em consideração as nacionalizações no sector da Pesca.

N/B - Valor desconhecido.

QUADRO 4

Importância relativa das Empresas Públicas no total da actividade económica
(1973)

	VAB	FBCF	Emprego
Alemanha	10,8	21,0	8,3
Bélgica	6,4 (1)	-	4,5
França	11,5 (1)	23,7	9,3
Holanda	11,9	8,9 (1)	5,2 (1)
Inglaterra	10,2	18,1	7,5 (1)
Itália (2)	13,5	39,7	12,5
Luxemburgo	-	4,9	3,9
Portugal	15,5	35,2	9,7

(1) % no total sem agricultura

(2) valores em 1971

Fonte: L'Impact Économique Actuel des Entreprises Publiques dans la CEE - Centre Européen de l'Entreprise Publique - Maio 1975.

QUADRO 5

Importância relativa das Empresas Públicas no respectivo sector (segundo o emprego)

dados de 1963

Grandes Sectores Económicos	Alemanha	França (63) (73)		Itália	Bélgica	Holanda	Luxemburgo	Portugal (1973)
Energia	45	90	84,4	41	14,5	84,5	76,7	86,5
Indústria	2,2	2,3	4	6,3	-	1,3	0,03	8,6
Transportes e Comunicações	73,3	65	69,9	62	64	46,2	59,7	65,8
Comércio e Serv. Diversos	?	0,5	0,6	0,5	0,1	?	-	3,8
Sector Financeiro	33,6	38	38,5	36,6	11,5	?	29	62,5
TOTAL	8,7	11,2		11,6	8	8,1	5,6	9,7

Fonte: Les Entreprises Publiques dans la CEE, Centre Européen de l'Entreprise Publique - Paris - Dunod - 1967
 - citado em Marie France L'Heriteau - Pourquoi des entreprises publiques - PUF - 1972.

QUADRO 6

Estrutura Sectorial das Empresas Públicas (segundo o emprego)

dados de 1963

Grandes Sectores Económicos	Alemanha	França	Itália	Bélgica	Holanda	Luxemburgo	Portugal (1973)
Energia	18,1	26,2	12,9	9,2	32,7	9	6,3
Indústria	9,6	11,8	25,9	-	9,1	0,3	28,7 (1)
Transportes e Comunicações	61,8	52,0	50,4	85,6	54,5	83,4	42,1
Comércio e Serviços Diversos	2,1	1,2	1,8	0,5	0,4	-	4,2
Sector Financeiro	8,4	8,8	9	4,7	3,3	7,3	18,7
TOTAL	100	100	100	100	100	100	

(1) Incluindo Construção e Obras Públicas.

Fonte: Les Entreprises Publiques dans la CEE, Centre Européen de l'Entreprise Publique - Paris - Dunod - 1967
 - citado em Marie France L'Heriteau - Pourquoi des entreprises publiques - PUF - 1972.

A N E X ORESUMO DA SITUAÇÃO NOS SECTORES COM IMPLANTAÇÃO DO SECTOR PÚBLICO

(não se referem participações minoritárias em-
bora, nalguns casos, sejam significativas)

Sectores	Situação
Agricultura	<ul style="list-style-type: none"> . Nacionalizadas apenas duas empresas, com reduzido peso no sector. . Ao abrigo da legislação que disciplina a Reforma Agrária foram efectuadas e estão em curso expropriações na actual área de intervenção, que na maioria dos casos darão origem a unidades cooperativas.
Pesca	<ul style="list-style-type: none"> . Nacionalizadas 8 empresas ligadas à produção, conservação e comercialização do pescado.
Indústrias extractivas	<ul style="list-style-type: none"> . Nacionalizada uma empresa de prospecção mineira. . Nacionalizado o capital português (90%) da sociedade de extracção de pirites. . 3 sociedades controladas de prospecção petrolífera. . 3 sociedades controladas de extracção de minerais.
Indústrias alimentares	<ul style="list-style-type: none"> . 1 empresa pública já existente antes das nacionalizações. . 8 sociedades controladas.
Cervejas	<ul style="list-style-type: none"> . Nacionalizado todo o sector, com reestruturação em curso.
Tabaco	<ul style="list-style-type: none"> . Nacionalizado todo o sector e criada uma empresa pública (Tabaqueira).
Têxteis e vestuário	<ul style="list-style-type: none"> . 2 empresas públicas já existentes antes das nacionalizações. . 2 sociedades controladas.

Sectores	Situação
Madeira e mobiliário	. 2 sociedades controladas.
Papel	. Nacionalizadas todas as empresas produtoras de pasta de papel, com excepção de uma importante unidade de produção com capital estrangeiro maioritário onde a participação pública é de cerca de 30%. Criada uma empresa pública (PORTUCEL). . Controlada uma fábrica de papel.
Imprensa e artes gráficas	. 1 empresa pública já existente antes das nacionalizações e criação de 2 novas empresas públicas. . Nacionalizadas 4 empresas proprietárias dos jornais diários. . 3 sociedades controladas.
Indústrias químicas (salvo refinação de petróleo)	. 2 empresas públicas já existentes antes das nacionalizações. . Nacionalizadas 4 das principais empresas, estando o sector em reestruturação. . 11 sociedades controladas.
Refinação de petróleo	. Nacionalizadas todas as refinarias. . Constituída uma empresa pública (PETROGAL) que abrange ainda a mais importante distribuidora de gás.
Materiais de construção (excepto cimento e ferro)	. 1 empresa pública já existente antes das nacionalizações . 12 sociedades controladas.
Cimentos	. Nacionalizadas todas as empresas produtoras de cimento, com excepção de uma empresa controlada com apreciável participação de capital estrangeiro, e criada uma empresa pública (CIMPOR)
Ferro e aço	. Nacionalizada a única empresa siderúrgica.

Sectores	Situação
Metais não-ferrosos	. 2 sociedades controladas.
Metalo-mecânicas	. 3 empresas públicas já existentes antes das nacionalizações. . 5 sociedades controladas.
Construção e reparação naval	. 1 empresa pública já existente antes das nacionalizações e criação de uma nova empresa pública. . 2 empresas nacionalizadas. . 1 sociedade controlada. . 1 grande sociedade participada pelo Estado com capitais estrangeiros (LISNAVE).
Electricidade, gás e água	. Nacionalizada a totalidade da produção e distribuição e criadas 2 empresas públicas: EDP - Electricidade de Portugal para a electricidade e gás e EPAL para o abastecimento de água.
Urbanização, construção, obras públicas e operações sobre imóveis	. 1 empresa pública já existente antes das nacionalizações. . 23 sociedades controladas.
Transportes	. Nacionalizadas todas as empresas de transportes rodoviários regulares de passageiros e criação de uma nova empresa pública (RODOVIÁRIA NACIONAL). . Nacionalizada a quase totalidade do transporte por caminho de ferro e criada uma empresa pública (CP). . Nacionalizadas ou controladas as principais sociedades de transporte por água. . Nacionalizada a principal empresa de transportes aéreos e criada uma empresa pública (TAP).
Comunicações	. 2 empresas públicas já existentes antes das nacionalizações. . 1 sociedade controlada.

Sectores	Situação
Bancos e seguros	<ul style="list-style-type: none">. 1 empresa pública já existente antes das nacionalizações.. Nacionalizadas todas as empresas dos dois sectores, salvo o capital estrangeiro.
Comércio	<ul style="list-style-type: none">. 1 empresa pública já existente antes das nacionalizações.. 1 empresa nacionalizada e criadas 2 empresas públicas (cereais).. 22 sociedades controladas.
Turismo	<ul style="list-style-type: none">. 1 empresa pública holding (ENATUR).. 7 sociedades controladas.
Serviços prestados às empresas	<ul style="list-style-type: none">. 16 sociedades controladas.
Saúde	<ul style="list-style-type: none">. 2 sociedades controladas.
Comunicação social	<ul style="list-style-type: none">. 3 empresas públicas.

2. A POLÍTICA ECONÓMICA E O SECTOR PÚBLICO

2.1 - Dos números e considerações contidos no ponto anterior, resulta ser o sector público produtivo um instrumento directo de elevado potencial na implantação da política económica do Governo. De facto, o Estado detém controlo, total ou sobre um número de unidades relativamente elevado, de sectores produtivos que, por uma razão ou por outra, se podem considerar estratégicos; detém ainda controlo completo sobre as entidades que actuam nos circuitos de financiamento, pelo que, por via directa ou indirecta, está em condições de fixar orientações de carácter imperativo em praticamente todos os aspectos fundamentais da vida económica. Apesar de se constatar - como se verificou - que o peso relativo do sector público, medido por critérios clássicos, não é substancialmente diferente de muitos países ocidentais actuando em economia de mercado, a manter-se a actual estrutura de apropriação dos meios de produção não será fácil encontrar uma coligação de interesses económicos privados suficientemente forte para se opor, em proveito próprio, à implantação de medidas de política económica.

Assim, o Governo português dispõe hoje de alavancas de controlo económico que, além de serem extremamente potentes nos tradicionais aspectos monetários e fiscais, abarcam domínios normalmente fora da capacidade de actuação eficaz do Estado naqueles países. São, por exemplo, inúmeras as possibilidades que decorrem de uma correcta utilização de um bom sistema de planeamento, quando se dominam completamente as fontes internas de financiamento e, através das unidades de produção do sector público, existem poderes para comandar grande percentagem do investimento global e orientar, com enorme poder persuasivo, a restante parte.

Todavia as grandes possibilidades referidas constituem também grandes responsabilidades, uma vez que a ausência de meios poderosos fora do sector público transfere para este a inteira responsabilidade, não só da utilização eficaz, no processo de desenvolvimento económico e social, dos meios directamente ao seu dispor, como também de incentivar, com esses mesmos meios, a actividade económica que directamente não controla e que

tem tendência a não ser espontaneamente tão dinamica como eventualmente seria em sistema de predominante apropriação individual dos meios de produção.

As novas possibilidades e responsabilidades que cabem ao Governo português só podem, todavia, ser aceitavelmente assumidas desde que:

- seja minimamente definida a lógica de funcionamento da economia, particularmente, o sistema de objectivos que orientem a actuação das unidades do sector público e os mecanismos que levem à prossecução desses objectivos;
- sejam postos a funcionar, dentro de um esquema coerente, instituições dispendo de competência para enquadrar, controlar e orientar a actuação dessas unidades.

Ora, reconhece-se, quanto ao primeiro aspecto, que praticamente nada se fez, não se tendo passado de declarações de ordem muito geral sobre tais questões; quanto ao segundo, as medidas legislativas já publicadas têm pecado pela falta de um esquema global de enquadramento institucional perfeitamente explicitado (falta a que não é, obviamente, alheia a indefinição relativamente à lógica de funcionamento) e tem havido uma distância razoável entre a decisão e a implantação dos esquemas, por razões que vão desde um muito moroso processo de procura de equilíbrio político até às dificuldades em se conseguir escolher e atrair para o sector público as escassas competências operacionais existentes no nosso país.

2.2 - Um dos aspectos que de maior importância se reveste de definição do sistema económico diz respeito ao papel que, dentro de certo horizonte temporal mínimo, se deseja reservar para o mercado, em relação ao planeamento, na determinação do comportamento das unidades de produção. Actualmente, quase não existe planeamento em Portugal^(*), mesmo que tomado nas suas acepções menos ambiciosas (e nitidamente insuficientes no caso

(*) O programa do 1º Governo Constitucional prevê um conjunto de medidas neste domínio.

português). Não deixa de ser altamente perturbador ouvir-se falar, a cada passo, na obrigatoriedade de reconverter (ou não mais utilizar) critérios económicos e financeiros de cariz exclusivamente empresarial, sem que a essas afirmações venham a corresponder novos objectivos que substituam aqueles e cuja fixação decorre, necessariamente, do funcionamento de um esquema de planeamento. Em consequência, as unidades de produção do sector público não se encontram movidas por sistemas coerentes de objectivos nem especialmente limitadas por políticas definidas em domínios funcionais (por exemplo, no que respeita a política de salários) pelo que rapidamente se tornam altamente deficitárias sob o ponto de vista da rentabilidade empresarial sem que, em compensação, atinjam metas interessantes dentro de uma visão de economia global, além de desenvolverem acção que muitas vezes se revela mutuamente contraditória ou que contribui para o agravar das desigualdades económicas e sociais.

Parecendo pacífico que é de grande necessidade o funcionamento eficaz de um sistema de planeamento em Portugal - que de início terá de ser pouco ambicioso e aceitar muitas insuficiências, para ser operacional nos domínios estratégicos fundamentais - torna-se, complementarmente, imprescindível decidir claramente sobre as características desse sistema, particularmente quais os domínios que prioritariamente irá abordar e o seu grau de imperatividade relativamente aos dois grandes tipos de entidades controladas (empresas públicas e sociedades privadas com controlo do Estado) e às empresas predominantemente privadas (com ou sem participação do Estado).

Com as necessárias gradações que resultam da situação mais ou menos estratégica de cada empresa no processo económico e da correspondente vontade governamental em fazer atribuir às empresas objectivos económicos e sociais globais que de algum modo se oponham a uma actuação do ponto de vista estritamente empresarial, podem resumir-se do seguinte modo as grandes possibilidades de intervenção do Governo, que lhe advêm da disponibilidade de um sector público contratualmente muito forte em relação às entidades privadas:

- orientação quantitativa e qualitativa dos investimentos nos aspectos de:
 - . composição sectorial;
 - . intensidade relativa do capital e do trabalho;
 - . localização regional;
 - . incidência relativa sobre a balança comercial;
- orientação dos consumos, através de uma política de produções e preços;
- coordenação das decisões, ou pelo menos das posições de negociação contratual, quanto a grelhas de salários, situação relativa de especialidades e categorias profissionais, esquemas complementares da previdência básica, etc.;
- distribuição dos recursos financeiros pelas necessidades de financiamento e implantação de um esquema eficaz de selectividade do crédito, particularmente no que respeita às fontes externas e ao mercado interno de médio/longo prazo.

O problema número um consiste em conferir racionalidade à acção, quer do poder político central quando toma decisões de carácter imperativo relativamente ao sector público produtivo, quer das próprias unidades de produção em relação às decisões em que forem autónomas e à execução dessas decisões e das directivas recebidas, sendo impossível construir essa racionalidade antes de se fazerem opções políticas importantes sobre o papel que caberá ao plano e ao mercado.

2.3 - Importa agora apresentar o que dispõe o Decreto-Lei nº 260/76 de 8 de Abril, designado Bases Gerais das Empresas Públicas, que, quer no preâmbulo, quer no articulado, define orientações quanto aos princípios gerais de gestão por que a sua actividade se deve pautar.

Transcrevem-se seguidamente as passagens mais significativas:

" Na fase de transição para o socialismo em que se encontra actualmente a sociedade portuguesa, é da máxima importância o papel que cabe às empresas públicas, não só porque estas detêm posições de exclusivo ou dominantes nos sectores básicos da economia, mas também porque, estando imperativamente sujeitas ao planeamento, permitem que, por seu intermédio, o Governo disponha de um efectivo controlo sobre a execução das políticas de investimento formuladas nos planos económicos nacionais.

Compete-lhes, pois, uma função de natureza qualitativamente diferente e com implicações muito mais profundas do que as inerentes às actividades de exploração de serviços públicos ou da criação de infra-estruturas económicas e sociais que tais empresas, tradicionalmente, têm desempenhado."

(Preâmbulo, 1.).

" ... a sua actividade é regida pelo direito privado e exercida segundo os processos e técnicas de gestão próprias das empresas privadas, sendo os respectivos resultados objecto de tributação, tal como os destas, enquanto o estatuto do seu pessoal é, em princípio, o mesmo do das empresas privadas. Mas, por outro lado, existe entre estas empresas públicas e o Estado uma ligação orgânica que se manifesta no facto de ser o Governo que designa e exonera os titulares do seu órgão de administração e orienta a sua actividade de acordo com o planeamento económico nacional..."

(Preâmbulo, 4.).

" Reconhece-se, por um lado, que o Governo não pode alhear-se do comportamento das empresas públi

cas, não sô pelas consequências do seu mau funcionamento no domínio das finanças do Estado, muitas vezes obrigado a cobrir os seus deficits ou a financiar parte substancial dos investimentos, e pelas incidências desse mau funcionamento na economia nacional, mas, principalmente, pelo facto, já referido, de tais empresas serem um importante instrumento de execução da política económica governamental. Por outro lado, verifica-se que o reconhecimento de uma razoável autonomia às empresas públicas é condição necessária de uma gestão eficiente e dinâmica das mesmas. Este é, aliás, um ponto em que insistem os mais reputados estudos sobre organização e administração de empresas públicas: uma excessiva ingerência do Ministro ou Ministros competentes na administração das empresas públicas destrói a iniciativa e a responsabilidade dos seus gestores, as quais, pelo contrário, importa a todo o custo fomentar.

A melhor solução parece, pois, ser a de fazer intervir o Ministro da Tutela e outros Ministros interessados na definição das grandes linhas de orientação e na autorização ou aprovação dos actos de maior importância na vida da empresa ou cujas implicações claramente a transcendam, deixando à sua administração inteira liberdade para resolver os problemas de gestão corrente.

.....

Um outro aspecto a salientar é o que respeita à inserção da actividade das empresas públicas no processo de planeamento económico nacional, para o qual se encontrou uma solução flexível, mas que permite fazer a indispensável coordenação. As empresas terão de elaborar uma primeira versão dos

planos de produção e investimento a tempo de poderem ser considerados no processo de elaboração do plano nacional, a fim de que as opções que, no âmbito deste, forem tomadas possam tornar-se determinantes para a fixação definitiva dos planos e orçamentos das empresas públicas. Haverá, assim, um enquadramento geral, expresso nas grandes opções e prioridades definidas pelo plano para o desenvolvimento, que se tornará imperativo para as empresas públicas, no seu conjunto, sem que, no entanto, estas se encontrem sujeitas a uma fixação detalhada pelo plano de todos os aspectos da sua actividade."

(Preâmbulo, 7.).

" A fixação às empresas públicas de objectivos exclusiva ou predominantemente baseados em critérios de rentabilidade financeira não é sequer defensável em sistemas económicos caracterizados por uma lógica de funcionamento capitalista, mesmo quando se não trate de unidades desenvolvendo actividades de natureza vincadamente de serviço público. Obviamente, quando existe o propósito de assegurar a transição para uma sociedade socialista, por maioria de razão se terão de pôr sérias reservas à utilização privilegiada daqueles critérios, que, pelo menos, desprezam a consideração de prioridades políticas nos domínios do emprego, da independência nacional e da redistribuição de rendimentos, para já não falar na impossibilidade de os compatibilizar com os objectivos globais prosseguidos pelo planeamento nacional.

Não pode, todavia, deixar de se impor a implantação de um sistema coerente de objectivos relativamente a cada empresa, capazes de orientarem

o planeamento e desenvolvimento das suas actividades, de servirem de critério de aferição dos resultados atingidos e, portanto, de instrumento de responsabilização dos seus gestores. Com efeito torna-se imprescindível que as empresas públicas caminhem rapidamente no sentido de aumentarem substancialmente a sua eficiência, medida em termos de objectivos fixados, sob pena de não cumprirem o importante papel que lhes cabe dentro de um esquema de desenvolvimento económico capaz de conduzir às transformações qualitativas que a caminhada para o socialismo impõe. Uma imagem de uma empresa pública ineficaz, desorganizada e sorvedoura dos dinheiros públicos compromete irremediavelmente essa caminhada, principalmente quando confrontada com a de empresas privadas que eventualmente tenham alcançado níveis de rentabilidade superiores em domínios paralelos.

Embora o citado sistema de objectivos deva ser nitidamente referenciado a cada empresa, não fazendo sentido impor uma uniformização sem qualquer aderência às realidades concretas, não deixam de se adiantar alguns aspectos que devem enquadrar a gestão das empresas públicas em geral. Em todos os casos houve a preocupação de fazer subordinar a actividade das empresas a objectivos económico-sociais globais.

Daí, por exemplo, a preocupação em estabelecer uma correspondência entre a política de subsídios a conceder pelo Governo a cada empresa e a existência de particulares imposições de ordem social ou outras que os venham a justificar, afastando-se a possibilidade de cobertura de deficits económicos decorrentes de ineficiências internas, prã

tica indesejável que consiste, afinal, em fazer suportar pela comunidade as consequências do mau funcionamento de certas unidades económicas. Daí, também, a preocupação em garantir a existência de excedentes que possam servir, na própria empresa, para manter um normal processo de expansão interna através do investimento e, em termos globais, venham a alimentar, pela mesma via, a criação de novas unidades de produção e a execução de projectos em infra-estruturas básicas nos domínios económico e social. Daí, ainda, no domínio da política salarial, a preocupação em evitar que a eliminação do objectivo único da remuneração máxima do capital venha a ditar uma atitude de complacência irresponsável das administrações perante reivindicações não justificadas pelos níveis de produtividade alcançados ou que vão contra o desejável equilíbrio intersectorial e inter-regional em matéria de remunerações.

Paralelamente aos objectivos enunciados impõe-se a utilização de instrumentos previsionais e de controle de gestão universalmente consagrados, minimamente indispensáveis à correcta formulação de políticas e à subsequente avaliação dos seus resultados. De cuidados especiais se pretende rodear as decisões quanto aos investimentos, fazendo-as preceder e acompanhar de análises e avaliações em termos de custos e benefícios económico-sociais, procurando-se uma razoável utilização dos recursos financeiros, os quais, como se sabe, não são abundantes no nosso país."

(Preâmbulo, 8.).

- " 1. Os planos de actividade e financeiros, bem como os orçamentos de exploração e de investimento,

anuais e plurianuais, das empresas públicas devem ser enviados pelo Ministério da Tutela ao órgão central de planeamento, o qual assegurará a sua harmonização e avaliará a sua adequação ao plano económico nacional.

2. As opções e prioridades fixadas nos planos nacionais de médio prazo serão imperativamente consideradas na elaboração dos planos das empresas públicas.

3. Em consequência do exercício das funções referidas no nº 1, o Ministro responsável pelo planeamento poderá propor, anualmente, ao Ministro da Tutela alterações aos planos das empresas, devendo, no caso de não haver acordo, propor a arbitragem ao Conselho de Ministros, no âmbito da apreciação do plano anual."

(artº 14º)

.....

" 2. O Estado só deve conceder subsídios às empresas públicas como contrapartida de especiais encargos que lhes imponha."

(artº 20º)

" 1. A gestão das empresas públicas deve ser conduzida de acordo com os imperativos do planeamento económico nacional e segundo princípios de economicidade que possam ser objectivamente fixados e controlados em relação às diversas funções e actividades por elas desenvolvidas.

2. Na gestão das empresas observar-se-ão, nomeadamente, os seguintes princípios:

- a) Os preços praticados devem assegurar receitas que permitam a cobertura dos custos totais de exploração e assegurem níveis adequados do autofinanciamento e de remuneração do capital investido; nos casos em que, por razões de política económica e social, sejam impostos às empresas preços inferiores, deve o Estado proporcionar-lhes receitas extraordinárias que as compensem daquela imposição;
- b) Devem ser claramente fixados, sempre que possível através de contratos-programa, objectivos económico-financeiros de médio prazo a cada empresa, designadamente no que respeita à remuneração do trabalho e do capital investido ou à obtenção de um adequado autofinanciamento;
- c) A evolução da massa salarial deve respeitar os objectivos enunciados na alínea anterior, bem como a necessidade de adoptar políticas de preços que não acentuem seriamente as tensões inflacionistas, devendo sempre subordinar-se à política nacional de salários e rendimentos;
- d) Na apreciação de projectos de novos investimentos deve procurar obter-se uma adequada taxa de rentabilidade financeira dos capitais investidos, sem prejuízo de, em relação a certos projec-tos, a determinação daquela taxa de

rentabilidade poder basear-se numa análise de custos e benefícios económico-sociais;

- e) Deve ter-se como objectivo a minimização dos custos de produção mediante o melhor aproveitamento dos recursos postos à disposição da empresa, com vista a atingir o máximo de eficácia na sua contribuição para o desenvolvimento económico e social.

3. Em certos casos especiais, os objectivos mencionados na alínea a) poderão entender-se como referidos a um período superior a um ano."

(artº 21º).

Podem sumariar-se do seguinte modo os aspectos mais importantes:

- subordinação absoluta ao plano no que respeita, pelo menos, aos planos gerais de investimentos e de produção;
- necessidade de serem atribuídos objectivos às empresas públicas que evitem o privilégio de critérios de estrita rentabilidade económico-financeira empresarial em detrimento de se atingirem finalidades económicas globais;
- pressuposição de que, dentro das orientações decorrentes do plano e traduzidas em objectivos bem especificados, cabe ainda ao mercado um considerável papel residual na disciplina da actuação da empresa e na determinação da eficácia de que se reveste a sua acção, particularmente do modo como a gestão é conduzida; em correspondência,

- orientação no sentido de ser executado nas empresas públicas um estilo de gestão típico da empresa privada, com renúncia a uma apertada regulamentação das suas actividades e atribuindo grande autonomia aos seus órgãos de gestão, com a correspondente necessidade de uma forte responsabilização pelos resultados obtidos; decorre que,
- a análise dos resultados de cada empresa deverá basear-se na prévia fixação de objectivos precisos em relação às actividades desenvolvidas pela empresa e nos domínios funcionais por que ela se desdobra ou que lhe servem de apoio; e, em particular,
- a análise da rentabilidade económica deverá ser feita de modo a que lhe corresponda um significado o mais objectivo possível relativamente ao modo como globalmente foi conduzida a gestão da empresa, procurando-se sempre traduzir em termos quantitativos os encargos adicionais que decorrem para esta da prossecução de objectivos económicos e sociais mais gerais e a que a mesma não estaria sujeita não fora a sua particular situação de empresa pública (especialmente nos domínios dos investimentos, preços e salários), evitando-se assim o habitual e sistemático recurso a justificações de maus resultados económicos baseadas na existência de imposições especiais que enfraquecem a capacidade relativa da empresa para gerar excedentes económicos.

2.4 - Quanto às sociedades privadas em que o Estado tem poderes de intervenção, o facto de se não encontrarem em sectores considerados suficientemente estratégicos para justificarem a respectiva nacionalização (*),

(*) Relembre-se que as empresas públicas - para além das que já existiam antes do 25 de Abril - foram resultado de nacionalizações que incidiram geralmente sobre sectores considerados básicos (em resultado de algum critério de apreciação) e encontraram a sua razão de ser nesse

aponta no sentido de serem consideradas (conjunta ou isoladamente):

- ou com características que as levem a não serem tomadas como instrumento de execução da política económica do Governo em termos tão directos como as empresas públicas, fazendo-se a subordinação da sua actividade àquela política de modo menos imperativo;
- ou como unidades de produção que se devem inserir na vida económica como qualquer outra empresa privada, com uma actividade dominantemente disciplinada pelos mecanismos de mercado, actuando em regime normal de concorrência, basicamente sujeitas aos mesmos imperativos de política económica que impendem sobre as empresas totalmente controladas por capitais privados.

Nestas condições, pode em geral entender-se que tais empresas se devem subordinar às mesmas regras de gestão que as empresas públicas, no que respeita à necessidade de uma orientação a partir de critérios de eficiência económica e financeira e à correspondente contrapartida que se lhes deve oferecer quando subordinadas a imposições específicas que introduzam enviesamentos nos resultados de gestão; mas também que essas imposições específicas ocorrerão em intensidade e frequência muito inferiores, em graus que variarão naturalmente com a importância económica das empresas

(cont.)

(*) mesmo facto, ao passo que o conjunto de sociedades privadas controla das pelo sector público, são-no quer por consequência das operações de nacionalização já referidas (dispondo os sectores nacionalizados de carteiras volumosas através das quais os seus antigos proprietários exerciam acção de controlo sobre a economia), quer por consequência da nacionalização de holdings puros (destinada explicitamente a desfazer grande concentração de domínio em mãos privadas), quer ainda por consolidação da carteira de participações já anteriormente detida pelo sector público e constituída essencialmente como meio de suporte ao investimento privado. Pode, pois, dizer-se que, grosso modo, as sociedades privadas participadas são resultado de uma operação de transferência de poder económico para o Estado, de grande significado político em termos de caminhada para o socialismo, mas em relação às quais a sua posição sectorial não justifica uma filosofia de gestão substancialmente diferente daquela que o Governo entende vir a ser desejável para as empresas privadas em que o sector público não dispõe de poderes para influenciar, em termos hierárquicos, a respectiva administração.

e o sector em que exercem a sua actividade, consistindo o valor instrumental de tais empresas, em relação ao Governo, essencialmente:

- na capacidade realizadora que as mesmas poderão ter, colmatando as quebras de iniciativa, voluntárias ou não, dos empresários privados, em especial através da dinamização da actividade económica, da utilização de tecnologias evoluídas, da geração de novos empregos, etc., servindo simultaneamente de modelos de actuação, por reflectirem as intenções do Governo quanto ao modo de actuação das empresas privadas;
- na possibilidade de um controlo apertado da conformidade dos procedimentos adoptados por essas empresas em relação à legislação geral a que devem estar subordinadas todas as empresas privadas, especialmente no que respeita ao planeamento;
- na disponibilidade de uma preciosa fonte de informação sobre os problemas de cada sector, a estrutura de custos de produção, as insuficiências de investimento e tecnologia, as capacidades de expansão e desenvolvimento, as dificuldades de gestão corrente, as práticas normais de financiamento, comercialização, etc., capaz de servir de base à elaboração de legislação e à concepção de medidas coerentes e eficazes de política económica sectorial; trata-se, no fundo, de um processo de eliminar a opacidade de que em muitos casos se reveste a actividade económica empresarial em relação aos centros de decisão governamentais.

2.5 - A confirmarem-se as considerações que se acabaram de fazer, pode concluir-se que o funcionamento racional do sector público produtivo depende, em última análise, do sistema político tomado como ponto de referência e da estratégia de transição para tal sistema político. Ora, nenhum desses dois aspectos se encontra ainda suficientemente definido no caso português, utilizando-se, ao abordar as grandes opções políticas (na Constituição, nas declarações dos Governantes e dos porta-vozes dos movi -

mentos políticos) expressões dotadas de grande fluidez de conteúdo e diversidade de conotações possíveis, aspecto aliás característico de uma situação de luta pela preponderância política, exacerbada pelo sentimento, por parte dos diferentes responsáveis políticos, da existência de um equilíbrio instável nos centros de poder, capazes de serem deslocados, a curto prazo, com relativa facilidade.

Sendo assim, a atribuição de sistema de objectivos às empresas, determinando comportamentos coerentes com a lógica de funcionamento da economia, está extremamente dependente de opções políticas que lhe são anteriores, evoluindo de modo altamente dinâmico, pelo que essa atribuição está longe de ser um problema predominantemente técnico.

Consequentemente, os problemas em análise não podem deixar de ser tratados de modo geral, tornando possível uma apreciação crítica dentro de um leque suficientemente amplo de opções políticas (que não incluem, contudo, o retorno a uma situação de domínio do poder político pelo poder económico privado, movido pelo objectivo último da maximização do lucro capitalista) mas exigindo, naturalmente, importante esforço adicional de concretização.

3. A ORGANIZAÇÃO DO SECTOR PÚBLICO PRODUTIVO

3.1 - Refere-se este capítulo ao modo como se estruturam as relações entre o Estado e as unidades de produção controladas pelo sector público (empresas públicas e privadas com participação maioritária do sector público no seu capital) ou em que este detem poderes significativos de orientação, seja por via de propriedade de parte importante do capital social, seja porque assumiu papel desproporcionado no seu financiamento, levando a uma transferência real para si dos riscos inerentes aos empreendimentos.

A Revolução de 25 de Abril de 1974 encontrou o país com uma completa ausência de projectos minimamente trabalhados de reorganização da vida económica nacional, em grande parte fruto de, durante mais de cinquenta anos, não existirem condições para uma livre actuação e desenvolvimento de organizações políticas capazes de proporem projectos alternativos. Isso explica, em parte, o experimentalismo e as dificuldades de proposição de esquemas organizativos concretos, destinados a levarem à prática modelos económicos em correspondência com as posições doutrinárias, de carácter geral, assumidas pelas diversas forças políticas, levando a indecisões e impasses frequentes no processo corrente de decisão por parte das autoridades governamentais. Sabido também que a construção de uma racionalidade económica está muitíssimo dependente da absorção dos ensinamentos proporcionados pela implantação de esquemas teóricos e da capacidade em corrigir as falhas assim detectadas e verificado que não houve nem poder político estável, nem unidade operacional, centrando-se a energia dos partidos exclusivamente na luta por um equilíbrio político que lhes fosse favorável, fica assim explicada a razão por que ainda hoje não existem definidos com suficiente clareza os esquemas organizativos de enquadramento do sector público produtivo.

Sendo assim, muito do que se tem feito (e do que se não tem feito) não resultou senão de um ataque a problemas imediatos - principalmente àqueles que desordenadamente foram sendo trazidos à ordem do dia pelos grupos actuates com voz mais percutante e com maior força de mobilização dos

centros de decisão em cada momento - através de concepções individualistas, quando muito enquadradas por esquemas também individuais de organização e funcionamento da economia, mas que estão longe de merecerem consenso intra partidário ou que nem sequer foram geralmente discutidas no seio dos parti dos. E quase sempre dentro da perniciosa óptica de garantir um progrressivo alargamento de poderes e competências dos ministérios a que, casualmente, pertencem em cada momento os patrocinadores das acções.

Em consequência, torna-se difícil discernir as tendências a médio prazo nesta matéria, tanto mais que se detectam com frequência actuações contraditórias entre si, com declarações de intenção e até com lei recente; do facto se ressentem as considerações que a seguir se fazem.

3.2 - Como se disse, as nacionalizações foram feitas essencialmente sob uma perspectiva sectorial, visando a apropriação colectiva de unidades de produção actuando em domínios considerados economicamente estratégicos. As sim, foram nacionalizados sectores com uma estrutura interna muito dispar e que englobam casos de uma extrema pulverização de pequenas unidades actuando como concessionárias (transportes rodoviários), de monopólio (siderurgia, transportes ferroviários, transportes aéreos) e de oligopólio (cimentos, adubos, celulosas, cervejas). Naturalmente que se pôs como problema prioritário o da reorganização desses sectores, em ordem a conferir-lhes uma estrutura capaz de transformar as empresas que os compõem em instrumentos adequados da execução de uma política económica. A condução dessa reorganização, na ausência de directivas orientadoras de carácter geral quanto à filosofia de funcionamento da economia, não era tarefa fácil, tanto mais que em alguns sectores havia que contemplar situações complexas resultantes da existência de empresas não nacionalizadas por terem, no todo ou em parte, capital estrangeiro e para as quais haveria que manter forma societária independente.

Salvo nos casos em que já havia monopólio sectorial ou subsectorial, em que se admitiu a permanência dessa situação, o estudo e proposição de medidas foi feito através de Comissões de Reorganização, constituí-

das especialmente para o efeito, e que, de caso para caso, tiveram configurações distintas, com incidência desigual no carácter da sua representatividade de interesses ou da sua competência técnico-económica; os resultados dos trabalhos dessas Comissões foram também muito desiguais.

Em paralelo, era decretada a natureza pública de todas as empresas nacionalizadas, que assim perdiam a sua forma societária(*) - decreto-lei 260/76 - e, em consequência, se viam submetidas, na sua actuação e constituição dos seus órgãos, a disposições que, em relação às normas do direito comum das sociedades comerciais, muito acresciam às possibilidades intervencionistas do Governo que decorreriam dos seus direitos como accionista, mesmo maioritário. Nesse decreto-lei estabelecem-se normas importantes a que deverão obedecer os estatutos das novas empresas públicas(**), condicionantes, portanto, das tarefas cometidas às referidas comissões de reorganização sectorial.

As tendências que parece poderem retirar-se dos estatutos já publicados e das declarações de intenções de responsáveis governamentais vão nos seguintes sentidos:

- a) Implantação de uma única empresa pública por sector, efectuando-se a integração dos patrimónios das empresas nacionalizadas na nova empresa; embora não se exclua a possibilidade de criar mais de uma empresa, essencialmente com o móbil de promover formas concorrenciais no sector público, a verdade é que os casos em que com maior acuidade se pôs essa hipótese derivaram das clássicas oposições dos quadros (face à possibilidade de perde

(*) Com excepção, como se disse, das empresas com capitais estrangeiros, em que apenas se considerava transferida para o Estado a propriedade dos capitais privados nacionais.

(**) Com exclusão das que pertencem aos sectores bancário e segurador.

rem estatuto profissional ou verem reduzidas hipóteses de promoção) e dos trabalhadores (face à ameaça que um nivelamento de salários constitui no sentido de um congelamento dos vencimentos das empresas que melhor pagavam).

- b) Desconcentração de poderes nas diversas unidades de produção que integram a empresa, acompanhada da manutenção de sistemas contabilísticos autónomos que permitam adequada análise da produtividade e da contribuição de cada uma dessas unidades para o desenvolvimento e resultados da empresa.
- c) Centralização da função financeira, procurando unidade de negociação na obtenção de capitais, próprios e alheios, com a Administração Central e a Banca; mesma perspectiva quanto ao planeamento a médio e longo prazo, especialmente no que respeita ao investimento e à estratégia de desenvolvimento.
- d) Variabilidade quanto à autonomia a conferir às unidades locais nos domínios das funções pessoal, aprovisionamento e comercial. Relativamente a esta última, soluções diversas se antevêm, em correspondência com a estrutura da produção e as características do mercado da procura, como por exemplo:
 - departamento de comercialização, integrado na própria empresa, com a incumbência de comercializar os fabricos das diferentes unidades de produção (e até, eventualmente, das outras empresas privadas actuando no mesmo sector) no caso de indústrias fornecedoras de matérias primas fundamentais ao desenvolvimento de outros sectores e em que cada produto admite poucas diferenciações e tem aplicações bem determinadas;
 - função comercial em cada unidade de produção (ou por grupos de unidades de produção), devidamente coordenada por um órgão central com o objectivo de se obter adequada distribui-

ção de encomendas e garantir força contratual no acesso aos mercados externos;

- função comercial completamente autonomizada nas unidades de produção, quando se considerar essencial fomentar a capacidade de penetração através de uma concorrência entre essas unidades, justificando os inconvenientes econômicos decorrentes da existência de redes comerciais paralelas e sobrepostas.

Assim, parece estar posta de parte a criação de empresas públicas destinadas a efectuar a comercialização da produção de outras empresas públicas (hipótese que esteve algum tempo de pé, mas sobre a qual recaíram as clássicas críticas da burocratização e da falta de flexibilidade e imaginação de que sofrem as empresas que não se sensibilizam pelos problemas do mercado quando a ele não têm acesso directo), pelo que a estas caberá o encargo da colocação dos seus produtos nos mercados interno e externos.

- e) Unidade de comando hierárquico ao mais alto nível, traduzido na existência de um vínculo directo entre o Conselho de Gerência (através do seu presidente) e apenas um ministro (designado "de tutela") em cada caso explicitamente indicado nos respectivos estatutos. Dada a tendência atrás apontada de constituir apenas uma empresa pública por sector, englobando várias unidades de produção, o conselho de gerência e os seus órgãos de apoio directo terão de agir também como um autêntico organismo intermédio (entre o ministro e as unidades de produção), competindo-lhes importantes funções de coordenação sectorial.
- f) Submissão genérica aos mesmos imperativos legais a que estão sujeitas as empresas privadas, nomeadamente quanto às imposições fiscais, ao direito do trabalho, à regulamentação indus

trial, etc. Estabelecem-se, assim, para além da dependência hierárquica para com o ministro de tutela e de dependências funcionais privilegiadas com o Ministério do Planeamento e o Ministério das Finanças, os normais vínculos de dependência administrativa a que estão sujeitas todas as empresas perante os diversos órgãos da administração pública. As relações que decorrem desses vínculos exercem-se directamente entre a empresa e os diversos departamentos públicos, sem interferência do ministro de tutela, enquanto que para as dependências funcionais privilegiadas essa interferência é, ou sempre obrigatória (caso de financiamento) ou obrigatória em caso de falta de consenso (caso do planeamento).

Quanto ao sector bancário, tendo sido instituído o Ministro das Finanças como ministro de tutela para todas as instituições (Banco de Portugal, Banco de Fomento e Bancos Comerciais) que nele actuam regista-se:

- a) As ligações hierárquicas estabelecem-se directamente entre cada empresa pública e o Ministro (por sua delegação, no Secretário de Estado do Tesouro), embora ao Banco de Portugal caibam atribuições de coordenação funcional em domínios estratégicos que vão muito para além dos inerentes a um banco emissor e que se situam especialmente na coordenação do crédito e no controlo do mercado cambial.
- b) Salvo no que respeita à extinção das empresas cambistas nacionalizadas (por sua integração como departamentos dos principais bancos comerciais) e à integração de algumas pequenas casas bancárias de reduzida dimensão (e de um banco em situação de falência) noutros bancos, não houve quaisquer outras operações efectuadas de reorganização do sector, pelo que se pode afirmar que, grosso modo, existe uma correspondência entre os bancos nacionalizados e as novas empresas públicas bancárias. As esperadas operações de especialização não foram ainda concretamente anunciadas nem se sabe em que sentido se irão dar.

Continuam igualmente em forma embrionária as necessárias operações de gradual aproximação quanto ao estatuto do pessoal e às formas organizativa internas, de coordenação quanto ao desenvolvimento das suas actividades e de aproveitamento da rede para melhorar a eficiência de execução de operações interbancárias - actualmente em situação de alarmante emperramento burocrático - e apoiar o Ministério das Finanças nas operações fiscais e de movimentação de fundos.

No sector segurador a situação é semelhante, observando-se simplesmente a criação de um Instituto Nacional de Seguros a que estão cometidas funções de apoio e coordenação das seguradoras, numa posição de "staff" do respectivo ministro de tutela (Finanças, por delegação no Secretário de Estado do Tesouro). A dispersão de unidades e os poucos passos avançados no domínio da integração e especialização^(*) (com a excepção importante dos Seguros de Crédito) são factos que não permitem por ora perspectivar o futuro do sector.

Uma vez que nos sectores bancário e segurador existem várias empresas públicas com actividade sobreposta e não se exclui que, no processo de reorganização em curso, relativamente a alguns sectores industriais, se venha a ter situação semelhante, põe-se o problema da oportunidade de criação de organismos intermédios entre a tutela ministerial e as diferentes empresas de cada sector. Se tais organismos couberem na lógica de enquadramento que o Governo conta implantar há que tomar decisões importantes quanto às diversas possibilidades que se abrem para eles, nomeadamente quanto:

- a posição que os mesmos terão na orgânica, particularmente se lhes deverão ser atribuídos poderes hierárquicos directos sobre as empresas (caso em que haveria uma delegação parcial das competências atribuídas ao ministro de tutela), se deverão agir em simples posição de "staff" das entidades de tutela ou ainda se se deverão comportar como "uniões de empresas", apenas com funções de coordenação e dando a possibilidade de representação única perante o Governo;

(*) Foram decididas fusões de algumas companhias de seguros que já funcionavam de modo relativamente integrado.

- à constituição e nomeação dos seus órgãos de direcção e ao âmbito dos respectivos poderes;
- à forma jurídica a adoptar (departamentos ministeriais, institutos públicos autónomos, empresas públicas, agrupamentos complementares de empresas, ou alguma nova forma que se julgue útil criar?).

O que parece imprescindível é que seja previamente definida uma orientação geral, que embora comporte flexibilidade necessária a contemplar particularismos eventuais de cada sector, não permita a instituição, ao sabor das circunstâncias, de soluções que pressuponham lógicas de enquadramento e funcionamento contraditórias entre si.

3.3 - A execução directa das funções de tutela de empresas públicas por parte de alguns ministérios levanta um problema de fundo relativamente à organização do aparelho de Estado. Com efeito, muitos dos ministérios deixam de ter uma actividade predominantemente funcional e regulamentar para se dedicarem prioritariamente a actividades de administração económica; em consequência, a sua organização interna, os seus métodos de trabalho e o perfil dos seus colaboradores, terão de sofrer uma profunda remodelação, sem o que não lhes será possível cumprir eficazmente as suas funções tutelares. Essa incapacidade poria inevitavelmente em risco a viabilidade do modelo económico que se pretende adoptar na presente fase de transição.

No caso de não vir a ser possível reunir rapidamente condições que permitam aos ministérios o exercício eficaz da tutela(*), ter-se-ia de encarar a necessidade de criar órgãos intermédios, fora da Administração Central, em que fossem delegados, pelo menos parte dessas funções. De resto, para solução desse tipo se encaminharam alguns países como a Itália e Áustria.

(*) Tal como vem definido nos artºs 12º e 19º do Dec.-Lei 260/76.

3.4 - Considere-se agora o caso das empresas sob forma societária em que o sector público tem poderes especiais, seja pelo facto de deter uma parcela ou a totalidade do respectivo capital, seja porque os financiamentos consentidos (ou garantidos por aval), em ordem a permitir a manutenção da sua actividade e o emprego de mão de obra, atingiram volumes e proporções verdadeiramente anormais.

Embora a grande maioria dessas empresas sejam participadas por uma ou mais empresas públicas (e, em especial, por bancos e seguradoras), mantendo-se ainda os vínculos que caracterizavam a dominância dos grupos económicos privados do pré-25 de Abril, a verdade é que só em reduzidos casos se nota a existência de uma forte complementaridade directa que justifique a continuação de tal situação, em oposição à possibilidade da sua autonomização com a consequente busca de uma racionalidade económica que não fique condicionada a essa anterior dependência. Excluídos esses casos, em que se deverá, naturalmente, assistir à transferência de todas as participações do sector público em cada empresa privada para a empresa pública em que se centram as referidas complementaridades, a resposta ao problema consistiu na criação de empresas públicas de tipo "holding", destinadas a concentrarem os poderes de gestão que se acham dispersos pelas diferentes entidades do sector público (Administração Central, Previdência Social, Empresas Públicas, etc.) que detêm as correspondentes participações.

Assinalam-se desde já dois organismos deste tipo, o Instituto das Participações do Estado (IPE) e a Empresa Nacional de Turismo (ENATUR)(*), o primeiro dos quais criado logo a seguir às nacionalizações da banca e dos seguros, em Abril de 1975, se bem que só muito recentemente tenha visto os seus estatutos aprovados pelo Governo e nem sequer tenha ainda iniciado actividade operacional.

(*) A ENATUR não é um "holding" puro, uma vez que nos seus estatutos estão previstas actividades operacionais, v.g. a exploração dos estabelecimentos do Estado afectos à actividade turística ou à exploração do jogo.

Segundo os referidos estatutos, serão, em princípio, transferidos para o IPE todos os direitos de gestão do sector público em empresas privadas, independentemente do cumprimento de quaisquer formalidades (particularmente a da transferência jurídica da propriedade das correspondentes participações). Ficam excluídas da sua actuação as empresas operando no domínio do turismo (dada a criação da ENATUR) e, como se disse, as que, principalmente por razões associadas à existência de fortes complementaridades com outras empresas públicas, o Governo venha expressamente a decidir a atribuição a estas da respectiva supervisão.

Entretanto, ao IPE fica cometida a obrigatoriedade de se organizar de modo a que facilmente se possam operar progressivos desmembramentos através da criação de "holdings" especializados, a cada um dos quais venham a pertencer conjuntos de empresas com actividade interligada (fases de produção complementares, partilha de mercados de venda, etc.) embora não necessariamente do mesmo sector económico. Pode, pois, considerar-se que se antevê para o IPE uma actuação organizativa do conjunto das empresas privadas participadas pelo Estado, procurando-se através dele implantar instrumentos de apoio à actividade das empresas e de coordenação e adequação dessa actividade aos objectivos do planeamento, bem como lançar e acompanhar acções de fomento e reestruturação; à medida que se vā avançando nesse processo, incumbirá ao próprio IPE patrocinar a criação de novos "holdings" que se venham a ocupar de conjuntos de empresas dele destacadas. Uma tal concepção revela a preocupação dominante em aproveitar recursos organizativos escassos, não atrasando o enquadramento das empresas e permitindo a construção de esquemas de funcionamento relativamente uniformizados.

As atribuições ao IPE no domínio do controlo, coordenação, supervisão e fiscalização das empresas participadas são semelhantes às que cabem a um "holding" privado, notando-se aqui, por maioria de razão, preocupação em não coarctar autonomia às empresas participadas e de, correspondentemente, não diminuir a responsabilidade dos seus órgãos de gestão. A reduzida dimensão de muitas dessas empresas, não lhes permite assegurar a existência permanente de serviços especializados, principalmente no que se refere a operações de organização interna e reformulação de métodos de

trabalho, a actividades de investigação viradas à inovação e reconversão e às tarefas associadas à criação, análise e execução de projectos de investimento. O IPE terá, pois, de agir no sentido de garantir que lhes seja fornecido apoio nesses serviços; certamente que será política dos seus corpos gerentes estimular o aproveitamento da grande diversidade de serviços que podem ser proporcionados por empresas participadas e que actuam nesses domínios, evitando a sobreposição com serviços próprios e correspondente gigantismo, mas deixando grande poder final de decisão às empresas em causa que permita a clara atribuição de responsabilidades pelos resultados obtidos.

Convirá aqui referir que entre as empresas participadas se encontra uma cuja actividade está sendo orientada para a detecção e pré-análise de projectos de investimento, outras dispõem já de prestígio consolidado no ramo do estudo e implantação de projectos industriais e algumas são especializadas no tratamento automático da informação (projectos e processamentos) e em problemas de organização, métodos e contabilidade.

Em paralelo a estas atribuições, cujo âmbito de exercício são as empresas participadas e apenas estas, encontram-se cometidas ao IPE responsabilidades de tipo funcional, particularmente a prestação de serviço de apoio ao Governo na implantação de políticas de interesse estratégico sobre a evolução do sector público. Contam-se, nesse domínio, a intervenção na criação e administração de uma carreira para gestores públicos, o lançamento de acções de formação e aperfeiçoamento dos mesmos, a concepção de instrumentos comuns de gestão previsional e de análise crítica, etc.

Destacam-se a seguir algumas disposições do preâmbulo e corpo do Estatuto do IPE (Decreto-Lei 479/76 de 26 de Junho) que incidem sobre os pontos que temos vindo a tratar.

"... A nacionalização de sectores básicos da economia nacional veio transferir para o sector público um volume significativo de participações em empresas com estatuto de direito privado, uma vez que grande parte das sociedades, actuando nesses secto-

res, desempenharam também importantes funções de controle econômico, quer através da detenção direta de partes de capital, quer através da implantação de uma complexa rede de participações cruzadas. A nacionalização de sociedades holding reforçou essa tendência, acrescentando novas participações àquelas que o sector público detinha.

Essas participações acham-se dispersas por um número muito elevado de entidades, verificando-se em muitos casos que cada uma delas não dispõe isoladamente de direitos suficientes para assumir poderes de orientação; e, mesmo quando tal não acontece, a multiplicação dos centros de decisão torna quase impossível o exercício de uma acção coordenada, quer no que respeita à subordinação a planos globais e sectoriais, quer na acção corrente de compatibilização de soluções para problemas concretos nos domínios do investimento, do financiamento, da produção e da comercialização.

Mantida até agora sem alterações sensíveis a estrutura de relações que neste domínio vigorava antes de 25 de Abril de 1974, passou a competir às entidades detentoras de participações o exercício, em nome do Estado, de poderes de supervisão de gestão em relação a conjuntos quase estanques de empresas interligadas por uma lógica de grupo privado, a maior parte das vezes ditada por imperativos concorrenciais e de conquista de poder económico em relação a grupos rivais. Essa lógica de grupo acha-se fortemente espelhada nas orgânicas e métodos de trabalho, não sendo fácil destruí-la sem um completo reordenamento daquela estrutura de relações.

Só esse reordenamento permitirá enquadrar as actividades de gestão numa política de construção de uma sociedade socialista e fazer sobressair, na

tomada de decisões, os interesses da colectividade sobre os interesses próprios de cada grupo, apesar dos esforços que nesse sentido se reconhece terem vindo a ser desenvolvidos pelos trabalhadores e pelos representantes do Estado nos órgãos de gestão das empresas.

A completa reestruturação das dependências orgânicas e funcionais das entidades de direito privado em que o sector público participa é, assim, uma das tarefas prioritárias a desenvolver pelo Instituto das Participações do Estado. Tal reestruturação deve ser desde já predominantemente orientada para a implantação de esquemas sectoriais de planeamento e coordenação, tendo em atenção complementaridades nas fases de produção e nos mercados, processo mais expedito de avançar para um sistema de planeamento com resultados em prazo curto, permitindo um progressivo aperfeiçoamento dos métodos utilizados e dando tempo à construção de estruturas adequadas à utilização desses métodos.

A organização em departamentos sectoriais bem identificados que se prevê para o IPE visa não só permitir um diálogo fácil com os órgãos dos Ministérios económicos actuando em âmbitos correspondentes como preparar a criação de entidades sectoriais de supervisão da gestão de empresas participadas a dotar de estatuto autónomo logo que tal for julgado conveniente. Por outro lado, o Conselho de Ministros pode decidir que, desde já, a supervisão da gestão de certas empresas com participação pública seja atribuída directamente ao Ministério da Tutela respectivo.

2. Domínio particular em que mais urge executar uma forte acção coordenadora é o do financiamento, tanto no que respeita à distribuição adequa

da dos recursos existentes, como no que se refere à introdução de esquemas de financiamento ao nível de cada empresa, minimamente equilibrados sob os pontos de vista económico e dos poderes e responsabilidades de gestão que conferem.

Quanto ao primeiro aspecto, há que introduzir uma racionalidade distributiva que não esteja directamente relacionada, como actualmente, com a potencialidade financeira dos holdings em que as empresas se inserem e que pouco tem a ver com o interesse económico e social dessas empresas.

Relativamente ao segundo ponto, o caminhar no sentido da gradual eliminação de distorções na estrutura do financiamento é condição necessária para uma coerente tomada de decisões quanto à orientação do investimento e à condução da exploração corrente e para a lúcida apreciação dos resultados económicos obtidos. É também actuação fundamental para estabelecer uma correspondência aceitável entre o poder de supervisão de gestão das empresas e o volume de recursos que por cada entidade é posto à sua disposição, evitando-se que interesses privados, detendo volumes mínimos de capital próprio, controlem a gestão de entidades financiadas quase exclusivamente por fundos públicos.

3. As funções atribuídas ao IPE podem enquadrar-se em dois grandes grupos:

Funções de tipo horizontal, não especialmente associadas a tipos específicos de unidades económicas, justificadas pela própria natureza de coordenação de que se revestem ou pelo objectivo de se conseguir um melhor aproveitamento de recursos relativamente escassos;

Funções de tipo vertical, de incidência di
recta em empresas com estatuto de direi-
to privado em cujo capital o sector pú-
blico participe. Assim, as empresas pú-
blicas e nacionalizadas continuam sob tu-
tela dos Ministérios a cuja actividade
respeitam, sem prejuízo de estes poderem
encarregar o IPE da prestação de servi-
ços, particularmente de acompanhamento
de gestão e de auditoria económica. Ex-
cluem-se também da actuação do IPE as em-
presas com participação do sector públi-
co que exerçam a sua actividade no turis-
mo ou tenham sede nas antigas colónias
portuguesas.

Preconiza-se, quanto a este tipo de funções
verticais, actuação que leve a uma completa respon-
sabilização dos órgãos de gestão e contróle das em-
presas pela condução da sua actividade e pelos re-
sultados obtidos, dentro dos poderes e objectivos
que em cada caso são conferidos aos gestores públi-
cos por mandato expresso. Ainda neste âmbito, atri-
bui-se ao IPE papel de relevo na execução das polí-
ticas globais e sectoriais do Governo, particular-
mente no domínio do planeamento, devendo a sua ac-
tividade ser dirigida no sentido de assegurar a su-
bordinação da actuação das empresas sob sua super-
visão àquelas políticas; trata-se de importante
passo para conferir eficácia ao planeamento, condi-
ção fundamental no caminhar para uma gestão socia-
lista da economia."

(Preâmbulo 1., 2. e 3.)

"1. Constituem atribuições do IPE:

- a) Gerir as participações do sector público no capital de sociedades, com excepção daquelas cuja gestão seja atribuída pelo Conselho de Ministros ao Ministério responsável pelo respectivo sector de actividade, a empresas públicas ou a outras pessoas colectivas de direito público;
- b) Supervisionar, orientar, coordenar e fiscalizar a gestão das sociedades referidas na alínea anterior, de acordo com o planeamento económico nacional e as políticas globais e sectoriais do Governo;
- c) Promover, em coordenação com os Ministérios interessados, a criação de empresas públicas de âmbito sectorial e com funções de supervisão de empresas participadas ou com intervenção do Estado e de empresas públicas;
- d) Exercer os poderes, que lhe venham a ser expressamente confiados pelos Ministérios da Tutela, de supervisão, orientação, coordenação e fiscalização da gestão de empresas com intervenção do Estado ou de empresas públicas;
- e) Assegurar a prestação de serviços de apoio às empresas participadas ou com intervenção do Estado, bem como a empresas públicas e a organismos da administração pública, quando solicitada pelas entidades competentes, nomeadamente nos domínios de formação de gestores e da assistência em estudos económicos, financeiros e contabilísticos, promovendo, tanto quanto possí-

vel, a normalização de instrumentos de gestão e planeamento da actividade daquelas empresas;

f) Promover a reestruturação financeira das empresas sob a sua supervisão, na medida dos poderes que lhe cabem, com vista a um adequado dimensionamento financeiro das empresas e a uma equilibrada proporção entre capitais próprios e alheios;

g) Intervir na regulamentação e estruturação da carreira do gestor público.

2. Para efeitos do disposto neste Estatuto, consideram-se como participações do sector público as participações directas e indirectas do Estado, dos fundos autónomos e institutos públicos, das autarquias locais, das instituições de previdência e das empresas públicas.

3. As atribuições referidas na alínea b) do nº 1 serão exercidas, relativamente a cada empresa, no âmbito dos poderes correspondentes, nos termos legais ou estatutários, às participações do sector público no respectivo capital social ou dos poderes de intervenção conferidos por lei ao Estado."

(artº 4º)

"1. Para cumprimento das atribuições a que se refere o artigo anterior, compete especialmente ao IPE:

a) Organizar e manter actualizado o cadastro das participações do sector público;

- b) Adquirir, a título originário ou derivado, participações no capital de sociedades, bem como alienar ou onerar as participações que se integrem no seu património;
- c) Exercer os direitos sociais inerentes às participações do sector público cuja gestão lhe haja sido confiada ou que venham a integrar-se no seu património a qualquer título;
- d) Propor ao Governo a nomeação de representantes do sector público na administração das empresas submetidas à sua supervisão ou quando tal lhe for solicitado;
- e) Estabelecer normas nos domínios da execução do planeamento, condução e controle de projectos, da apresentação e análise dos projectos de investimentos, da execução e controle de orçamentos e da apresentação do balanço e da demonstração de resultados;
- f) Definir critérios gerais e padrões de gestão nos domínios que entender convenientes, relativamente às empresas submetidas à sua supervisão;
- g) Efectuar a apreciação económica e financeira dos programas e orçamentos anuais e planos plurianuais das empresas supervisionadas, tendo particularmente em atenção a sua coordenação, compatibilização e adequação ao prosseguimento das políticas definidas pelos órgãos de planeamento, bem como acompanhar e controlar a execução desses programas, orçamentos e planos;

- h) Elaborar análises consolidadas no domínio do investimento das empresas e do respectivo financiamento;
- i) Efectuar a coordenação das actividades das empresas supervisionadas e a sua harmonização com as políticas globais e sectoriais, particularmente nos domínios do financiamento do investimento, da produção e dos mercados, sempre que possível através de análises consolidadas;
- j) Efectuar a auditoria contabilística e financeira das empresas supervisionadas, sem prejuízo da competência legalmente atribuída a outras entidades;
- l) Patrocinar, relativamente às empresas submetidas à sua supervisão, a obtenção de empréstimos a médio e longo prazos junto de instituições de crédito nacionais e internacionais, podendo, se for caso disso, prestar garantia;
- m) Promover a criação, reorganização, reconversão, agrupamento, fusão e cisão de empresas, mediante as formas jurídicas adequadas;
- n) Promover a elaboração e execução de projectos, particularmente nos domínios do investimento, da inovação tecnológica, da diversificação da produção e da comercialização;
- o) Apoiar empresas na solução de problemas específicos, designadamente conduzindo estudos-diagnóstico, elaborando programas de acção e colaborando na implementação de soluções;

- p) Organizar e manter actualizado um inventário de gestores;
- q) Organizar programas, cursos, estágios e seminários de formação e aperfeiçoamento na gestão de empresas, designadamente através de um instituto de formação e aperfeiçoamento de gestores;
- r) Promover a uniformização gradual do estatuto das sociedades controladas pelo sector público;
- s) Promover a execução de quaisquer outras tarefas de que seja encarregado pelo Governo no domínio das atribuições que lhe são conferidas."

(artº 5º)

A tutela do IPE está atribuída a um Conselho de Ministros restrito onde têm assento todos os ministros que têm a seu cargo pastas económicas, presidido pelo Ministro responsável pelo planeamento (e, com a actual estrutura governamental, também pela Coordenação). A este último ministro são, contudo, atribuídas competências suficientes para evitar que a actividade corrente do IPE fique em perigo de bloqueio por dificuldades de reunião daquele Conselho.

3.5 - Além das estruturas já mencionadas, importa fazer menção a alguns outros organismos que se podem incluir no domínio da actividade comercial e industrial do Estado, directamente ou como entidades de apoio e coordenação.

- a) Entidades de distribuição, especialmente com o fim de regularizar o abastecimento em bens essenciais e garantir o escoamento das produções a preços adequados - caso dos Cereais, do Açúcar e do Alcool, do Vinho, das Carnes, etc.. Eram considerados organismos intermédios de coordenação económica dentro da anterior estrutura corporativa, mas desenvolvendo todos eles actividades de explora-

ção comercial (e industrial, complementar, alguns deles) como autênticos intermediários, a tendência será por certo em transformá-los em novas empresas públicas (o que já aconteceu nalguns casos)(*) directamente dependentes do Ministro a cujo campo de actividade respeitam.

b) Instituto de Desenvolvimento Industrial, organismo do Ministério da Indústria, com as seguintes atribuições:

- "a) Procurar sistematicamente novos projectos industriais e realizar estudos de viabilidade de novos empreendimentos;
- b) Promover a realização de estudos e projectos de novos empreendimentos;
- c) Promover a constituição de empresas que tenham a seu cargo a realização de empreendimentos industriais;
- d) Colaborar com as empresas industriais do sector público na avaliação, nomeadamente para efeito de apreciação superior, de projectos que integrem os seus programas de desenvolvimento e assegurar o funcionamento de sistemas de programação de investimentos e financiamentos;
- e) Estudar reestruturações e reconversões industriais, nomeadamente com aplicação de contratos de desenvolvimento;
- f) Estudar e promover transferências de tecnologias industriais."

(artº 15º do Dec-Lei 358/76 de 15 de Maio)

(*) embora se deva evitar a criação de empresas públicas com funções características de órgãos de administração central, com o propósito único de ultrapassar as limitações salariais da função pública ou de criar lugares adicionais para clientelas políticas; assim, ao lado de uma "Empresa Pública de Abastecimento de Cereais" foi criado um "Instituto dos Cereais, EP" com atribuições que só por si não justificam tal solução formal.

- c) Organismos industriais especializados em sectores específicos, de criação recente, como sejam o Centro de Coordenação da Indústria Metal-Mecânica Pesada, o Núcleo Técnico de Intervenção na Indústria Corticeira e o Gabinete de Intervenção no Sector Têxtil. As suas funções dirigem-se essencialmente à promoção, fomento, reestruturação, reconversão e coordenação das respectivas indústrias, incidindo a sua actividade sobre todas as unidades do sector sem ou com participação do Estado, embora a acção sobre estas últimas possa ser mais eficaz.

Não se discutindo a necessidade de executar as tarefas que os diplomas que criam tais organismos lhes cometem, anota-se, particularmente em relação ao Centro de Coordenação da Indústria Metal-Mecânica Pesada (CCIMMP), a existência de alguma sobreposição de funções em relação às que o Instituto das Participações do Estado tem atribuídas relativamente às empresas participadas. Isso revela uma certa falta de estratégia global e coordenada, tanto mais que o diploma é completamente omissivo no esclarecimento das intenções perfilhadas quanto à actuação futura do organismo no domínio da supervisão de gestão das referidas participações, nomeadamente se para ele se tenciona reservar funções de "holding" sectorial e, caso afirmativo, a que prazo e por que etapas. (*)

Vejamos alguns aspectos do preâmbulo e articulado do Decreto-Lei 556/76 de 15 de Julho, que criou o CCIMMP:

"A indústria metal-mecânica pesada é considerada um sector básico industrial e tem particular importância no panorama económico do País, quer pelo volume de emprego altamente qualificado que representa e consequente participação no produto nacional, quer por se tratar do sector responsável pela produção de bens de investimento, cuja fabricação no País contribui para aumentar a independência da nossa indústria.

(*) Adicionalmente, é decidida a criação de um agrupamento complementar de algumas empresas do sector, o que põe de novo a questão de saber se se trata de uma solução que se pretenda generalizar ou apenas uma resposta ad-hoc para um caso específico.

Neste sector da indústria não houve nacionalizações, nem se verificou uma intervenção sistematizada do Estado, pelo que as empresas que o constituem são, em certos casos, empresas cem por cento privadas, noutros casos, dominadas por empresas estrangeiras e finalmente, noutros casos, dominadas pelo Estado. Este facto caracteriza de forma muito particular as necessidades de coordenação das actividades respectivas.

A limitação dos nossos mercados e a necessidade de evitar uma concorrência desleal, bem como uma multiplicação de investimentos e especializações tecnológicas, aconselham ainda que se estabeleça uma eficiente coordenação do sector, que, no entanto, não deverá interferir com a capacidade de iniciativa das empresas.

... ..

O Centro de Coordenação da Indústria Metalomecânica Pesada deverá, assim, exercer uma actividade no âmbito deste sector industrial, sendo-lhe atribuídos funções e poderes de coordenação que assegurem que da sua acção resulte uma disciplina e uma expansão controlada das actividades, com as consequentes repercussões favoráveis noutros domínios de interesse vital para o País, nomeadamente o emprego, o equilíbrio da balança de pagamentos e o progresso tecnológico."

(Preâmbulo)

" O Centro tem por atribuições:

- a) Coordenar as informações relativas aos programas de produção e de investimento das empresas abrangidas, tendo em atenção as suas capacidades tecnológicas, as necessidades internas, as possibilidades de ex-

portação, a aquisição e o domínio de novas tecnologias e a participação no planeamento nacional;

- b) Acompanhar os programas de investimento do sector público, incluindo as empresas públicas, mistas e nacionalizadas, com vista a maximizar as suas aquisições à indústria nacional;
- c) Promover a máxima participação da indústria nacional nos investimentos privados, tendo em vista a substituição das importações;
- d) Incentivar a articulação dos programas de produção das empresas abrangidas pelo Centro, em função de uma melhor utilização das capacidades das empresas deste sector e de outros sectores (produtores de matérias-primas, acessórios, peças, subconjuntos, meios de produção disponíveis na construção naval, etc.);
- e) Propor ao Secretário de Estado da Indústria Pesada as medidas adequadas à organização da actividade do sector."

(artº 2º)

"No exercício das suas atribuições, compete ao Centro:

- a) A inventariação dos recursos técnicos, tecnológicos e humanos do sector, incluindo os contratos de licenciamento, complementada com um conhecimento actualizado das empresas de menor dimensão;

- b) O estudo e a definição das qualificações das empresas abrangidas;
- c) O acompanhamento da carga de trabalho das empresas, tendo em vista a optimização da utilização das capacidades existentes nas empresas abrangidas;
- d) A indicação, para alguns tipos de equipamento a serem definidos pelo Centro, de empresas escolhidas em função da sua qualificação e capacidade tecnológica, que actuarão como chefes de fila, a quem competirá a responsabilidade total dos respectivos fornecimentos e correspondentes contratos de venda, para o mercado externo, tendo o Centro poder de intervenção no que respeita à distribuição subsequente dos subcontratos;
- e) A indicação, para os empreendimentos do mercado interno que o justifiquem, da intervenção conjunta das empresas do sector, no sentido de necessariamente utilizar as capacidades produtivas existentes;
- f) A intervenção nas condições contratuais entre comprador e vendedor de equipamento pesado, quando, havendo apenas um fornecedor, as partes o julgarem necessário, tendo em vista a fixação dos preços e condições de venda, para o que o Centro poderá obter as informações necessárias das empresas;
- g) A centralização da prospecção sectorial, em complementaridade com a prospecção específica de cada empresa, no mercado externo, bem como colaborar na fixação de objectivos de exportação de equipamentos em que são especializadas;

- h) O acompanhamento do lançamento dos principais empreendimentos que utilizem equipamentos pesados, desde a fase de projecto conceptual, por forma a salvar a adequada participação da indústria nacional;
- i) A incentivação do desenvolvimento tecnológico com vista à maximização da independência nacional do sector, cabendo, para o efeito, ao Centro sancionar os contratos de licenciamento referentes a novos produtos;
- j) A criação ou a promoção de acções que se venham a revelar como podendo contribuir para um acréscimo da eficiência do sector, designadamente no campo da formação tecnológica, representação sectorial em feiras e exposições nacionais e estrangeiras, bem como em organismos internacionais;
- k) A promoção da capacidade de estudo e projectos de engenharia, congregando meios próprios das empresas e de gabinetes exteriores, com vista ao projecto de equipamentos e sistemas que possam alargar o campo da intervenção da metalomecânica portuguesa, tanto em empreendimentos nacionais como estrangeiros;
- l) A programação do desenvolvimento do sector em conjugação com as entidades interessadas e com os órgãos adequados de planeamento, instituídos ou a instituir;
- m) O exercício dos demais actos necessários à prossecução das suas atribuições."

Refira-se, finalmente, que todos os organismos abarcados nesta alínea estão integrados na estrutura da administração central pelo que, não obstante a autonomia administrativa e financeira que em muitos casos lhes é conferida, ter-se-ão de mover dentro de condicionalismos relativamente apertados, especialmente no que se refere à remuneração do seu pessoal.

3.6 - Outro ponto em que urge definir orientações gerais, diz respeito ao exercício de direitos de gestão sobre empresas participadas pelo Estado e que, por terem capital estrangeiro, não foram nacionalizadas, muito embora desenvolvam actividade em sectores em que todas as restantes empresas o foram. A situação típica, nesses sectores, é a de existir uma empresa pública ao lado de, e em concorrência com, empresas privadas com capital público e capital privado estrangeiro; ainda o facto de, em alguns casos, os estatutos dessas empresas reservarem para os accionistas estrangeiros direitos de gestão mais dilatados dos que decorreriam do capital detido, em contrapartida de transferências de tecnologias operadas, torna a questão mais delicada.

A manter-se a política de não interferência relativamente ao capital estrangeiro e que presidiu à sua não nacionalização, só com aceitação dos accionistas que detêm aquele capital se deveria adoptar como solução a atribuição à empresa pública sectorial dos poderes de supervisão que correspondem às participações do Estado. Caso contrário, a solução não pode deixar de sair de uma das seguintes hipóteses:

- poderes de supervisão atribuídos ao ministro da tutela do sector, com as participações juridicamente atribuídas ao IPE (ou a outro "holding" sectorial);
- poderes de supervisão e propriedade das participações confundidas no IPE ou num "holding" sectorial.

3.7 - O organigrama anexo permite visualizar algumas das relações que têm vindo a ser referidas.

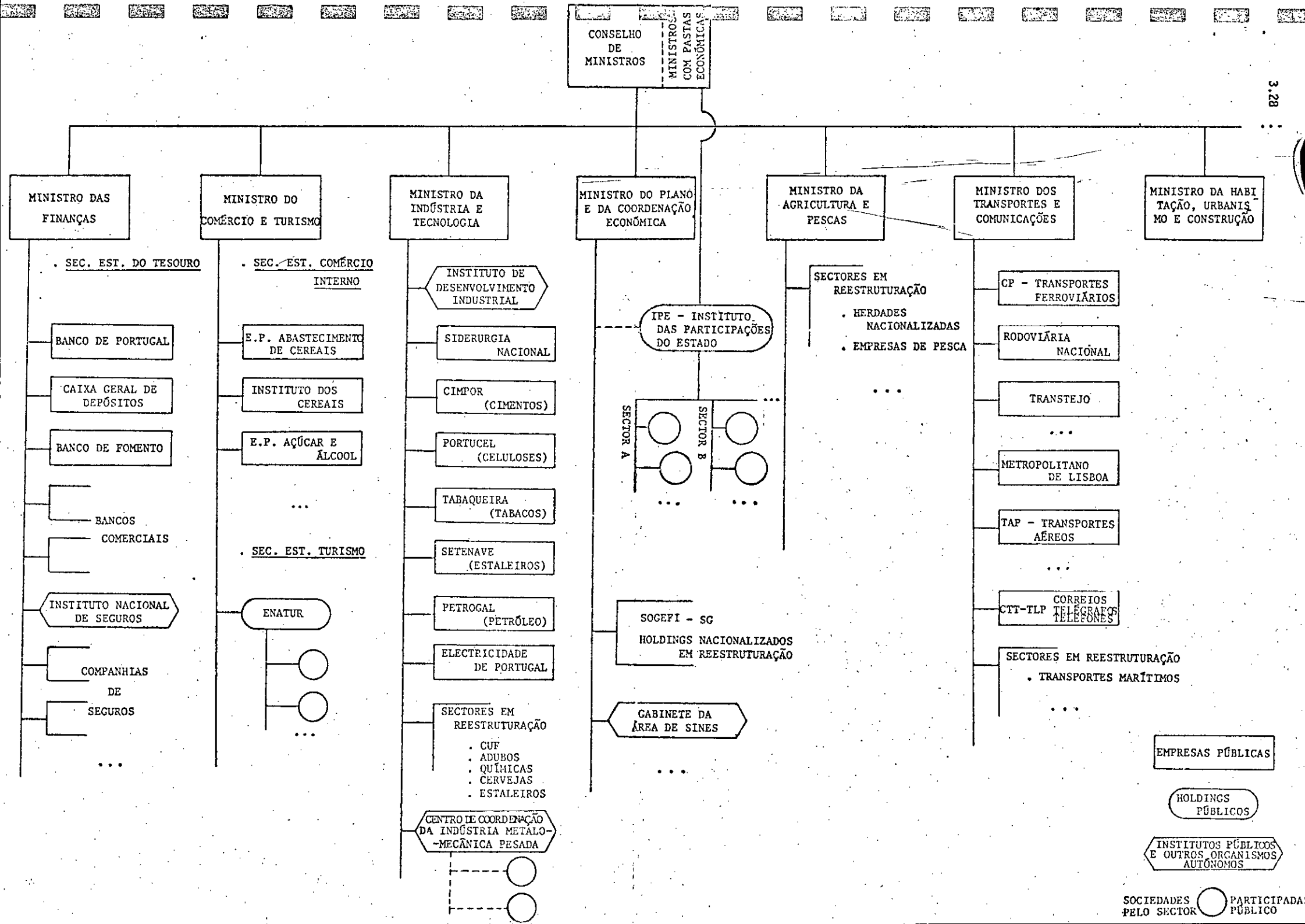
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3.8 - Veja-se agora, em termos sucintos, o modo como se organizam os poderes de gestão no seio das empresas públicas, de acordo com as já citadas "Bases Gerais".

O órgão superior de gestão, responsável pela tomada de decisões correntes, é o Conselho de Gestão. Os seus membros, em número que varia entre 3 e 7^(*), consoante as empresas, são designados administradores, um dos quais assume a presidência do conselho, cabendo-lhe especialmente funções de representação externa e de coordenação geral das actividades da empresa. Para além das funções que devem ser colegialmente exercidas, e que são as que normalmente cabem a um conselho de administração de uma empresa privada, os administradores deverão exercer a primeira linha de gestão executiva (salvo quando das particularidades empresariais decorra impossibilidade) - o que acentua nitidamente a preocupação de lhes atribuir um cariz de gestores profissionais a tempo inteiro. O Conselho de Gestão, nomeado em Conselho de Ministros sob proposta do Ministro de Tutela, responde perante este e dele recebe instruções nos termos genéricos já indicados, a ele deverá apresentar a aprovação os actos que dela careçam nos precisos termos indicados pelos Estatutos.

Outro órgão comum a todas as empresas públicas é a Comissão de Fiscalização, destinado a efectuar a auditoria jurídica, fiscal, contabilística e financeira, se bem que explicitamente tenha sido reconhecida a transitoriedade da solução em favor da criação de um instituto público de auditoria, garantia indubitável de maiores qualificação técnica, profissionalismo e independência de actuação. Nessa Comissão de Fiscalização têm representação os trabalhadores da empresa, o Ministério das Finanças e o próprio Ministério da Tutela; além da obrigatoriedade de pelo menos um dos seus membros dever possuir diploma oficial que lhe confira competência no domínio de verificação de contas, em todos os casos se admite (com um espírito que quase se pode considerar uma recomendação) o recurso regular a empresas e técnicos exteriores especializados na função.

(*) Admitem-se excepções ligadas à dispersão geográfica das unidades de produção; por exemplo, na CIMPOR esse número é de 12.

A solução não é, por si só, suficiente para garantir uma actuação geralmente eficaz, especialmente porque se não encontram garantidas a independência de apreciação, as qualificações profissionais e a disponibilidade de tempo que o trabalho exige a todos os membros da Comissão. Quase inevitável será que todos estes tenham a tarefa como segunda ocupação, em face da inexistência de um estatuto permanente de auditor e da falta de garantia de estabilidade profissional. Tal situação não permitirá a formação que a exigência e especialidade de função exige, nem uma independência de actuação que assente na ineficácia de pressões económicas a que eventualmente possam ser sujeitos. Alguma instituição, pública ou para-pública, com tal actividade exclusiva ou não, deverá gerir um quadro de auditores especialistas com estatuto adequado, no qual se deverá basear, pelo menos em parte, (porque na totalidade também não parece aconselhável - os trabalhadores da empresa deverão sempre ter um seu representante em tais tarefas) o exercício da auditoria.

A disciplina da intervenção dos trabalhadores na vida das empresas é remetida para o diploma que irá regular o "controlo de gestão pelos trabalhadores". Parece pacífico, pelo menos, virem a ser-lhes atribuídos, além de prerrogativas na defesa dos seus interesses profissionais, direitos nos domínios do acesso crítico à informação referente à empresa, da expressão de opinião quanto à maneira como a empresa é conduzida e da gestão das obras de carácter social privativas da empresa.

Sem carácter de obrigatoriedade (salvo para as empresas que explorem serviços públicos) mas que com poucas excepções os estatutos já publicados preveem, há ainda a considerar o Conselho Geral, órgão consultivo superior, destinado a formular pareceres sobre os documentos de gestão previsional e de prestação de contas, sobre propostas relativas a assuntos importantes a serem presentes ao Governo - como seja a aplicação de resultados - e sobre o modo como a gestão corrente é conduzida. Nele se procura assegurar representatividade do colectivo de trabalhadores a cuja actividade a empresa respeita, das autarquias locais em que mais directamente se desenvolve a sua acção, dos órgãos de planeamento central e regional e dos

órgãos superiores de direcção económica dos sectores a que se prende a actividade da empresa e ainda, em casos especiais, dos seus clientes ou utentes. Adiante se referirá a importância que este órgão pode ter na construção e defesa de uma adequada autonomia para a empresa.

Finalmente, alguns estatutos preveem ainda a criação de um Conselho de Directores, com assento dos responsáveis pelas primeiras linhas de gestão executiva, a quem são atribuídas funções consultivas obrigatórias.

3.9 - Quanto às empresas privadas em que o sector público participa, apenas é manifestada a intenção geral de se caminhar para uma progressiva uniformização dos seus estatutos - trabalho que é, aliás, cometido ao Instituto das Participações do Estado - mantendo algumas as particularizações instituídas por esses estatutos e com submissão genérica ao direito privado por que se regem as sociedades em Portugal.

Assim sendo, antevê-se, contudo, a necessidade de modificar a curto prazo tal legislação, de modo a limitar o privilégio de interesses privados em medida superior aos riscos efectivamente assumidos e a facilitar o exercício, pelo sector público, dos seus direitos de gestão e fiscalização, evitando desnecessárias burocratizações nos procedimentos.

Assinalam-se alguns dos pontos carecidos de disciplina legal, a curto prazo:

- Nomeação directa pelo Governo dos representantes do sector público no Conselho de Administração das empresas privadas, sem passar pelo mecanismo das assembleias gerais, e de acordo com critérios precisos que assegurem proporcionalidade tendencial entre a parte de capital detido e o número de lugares a ocupar nesse órgão.
- Desnecessidade de nomeação de um número de gestores igual ao número de lugares a que o Estado tem direito no Conselho de Ad

ministração, conferindo àqueles efectivamente nomeados os direitos totais de representação; assim se procuraria evitar a ocupação de pessoas para além das estritamente necessárias ao desempenho dos cargos.

- Exercício dos direitos de fiscalização através da nomeação da instituição holding para os Conselhos Fiscais, desde que se disponha de pelo menos 10% do capital, ao contrário do que está estabelecido, em que essa nomeação tem de ser individualizada (salvo quando se tratar de uma sociedade revisora de contas).
- Possibilidade de os trabalhadores poderem nomear seus representantes nos conselhos fiscais, à semelhança do que acontece nas empresas públicas.
- Instituição de regras precisas a que deverão obedecer as eventuais conversões de financiamentos bancários e públicos em capitais das empresas, acabando com a incerteza que existe perante as eventuais transferências de propriedade daí resultantes mas não permitindo também que o controle de grandes volumes de recursos se faça através da detenção de importâncias mínimas de capitais próprios e à custa da manutenção dos esquemas de financiamento bancário implantados pelos grupos económicos antes de 25 de Abril de 1974, agravado pelas necessidades a que o Estado teve de acorrer para evitar que muitas empresas fechassem as suas portas.
- Direito a informação, para efeitos de planeamento nacional, sobre as empresas com pelo menos 20% de participação pública; especificação das obrigações perante o sistema de planeamento, para as empresas em que a participação é maioritária.

4. A GESTÃO CORRENTE DAS EMPRESAS E SUA APRECIÇÃO CRÍTICA

4.1 - Como já se afirmou, a tendência quanto à condução da gestão corrente das empresas públicas consiste em conferir largos poderes de decisão aos seus órgãos, condicionados estes por um conjunto de documentos previsionais, que devem merecer aprovação prévia do Ministro de Tutela (e, em aspectos particulares, de ministros funcionais) e por normas de gestão de aplicação generalizada^(*). Aqueles documentos terão apenas o desenvolvimento necessário à apreciação da sua compatibilidade com as políticas gerais do Governo, havendo mesmo, em relação ao orçamento de exploração, a preocupação de exigir uma apresentação somente em grandes rubricas.

Sendo as empresas responsáveis pela colocação da respectiva produção, não se notando em caso algum tendência para a garantia de mercados, é natural que os documentos cuja aprovação se exige e que servem de enquadramento à gestão corrente se debrucem essencialmente sobre:

- as receitas e despesas de exploração para o ano seguinte;
- os programas anuais de investimento e respectivo financiamento;
- as origens e aplicações de fundos para o ano seguinte;

estas previsões são por sua vez determinadas por planos de investimento e financeiros a 5 anos, de carácter móvel, que devem respeitar as opções e prioridades do plano nacional. Acresce que todos estes documentos são elaborados e propostos pela própria empresa e devem merecer parecer do Conselho Geral, quando exista, só sendo depois presentes a aprovação governamental. E, como também já se disse, a imposição de obrigações específicas de verã merecer contrapartida adequada, o que pressupõe prévia negociação entre o Governo e a empresa. Essas negociações darão usualmente origem a contratos, de que existem já exemplos, (v.g. Siderurgia Nacional) sendo na

(*) No Programa do 1º Governo constitucional prevê-se a emissão de normas nos domínios da normalização contabilística, da elaboração dos relatórios e contas de gerência, da determinação de custos, etc.

tural esperar que neles se obrigue a empresa a produzir volumes mínimos de certos artigos que de outro modo não seriam fabricados no país, ou a comercializar em pontos que a mera perspectiva empresarial levaria a desprezar, e que insiram acordos quanto a política de preços, subsídios e meios de financiamento de investimentos que garantam um volume mínimo de produção e emprego a médio/longo prazo.

Assim se poderá reduzir a possibilidade de a empresa colocar o Governo perante déficits consumados e levar este a uma prévia reflexão sobre os encargos decorrentes do prosseguimento de certas políticas - evitando simultaneamente a desresponsabilização dos gestores das empresas, uma vez que aos mesmos cabe importante papel na definição das suas políticas e deverá ser atribuída grande autonomia na consequente implantação.

Vejamos, nalguns pontos essenciais, as responsabilidades conferidas à empresa:

a) No aspecto financeiro, cabe-lhe inteira autonomia:

- . na obtenção de empréstimos de curto/médio prazo, escolha das respectivas fontes, negociação de condições, procura de garantias;
- . na fixação das condições de venda, particularmente crédito de venda, seguro do mesmo e garantias a exigir;
- . na estratégia de pagamentos/recebimentos para regularização da tesouraria e na colocação de excedentes transitórios de caixa;
- . no estabelecimento da estratégia a seguir quanto ao volume e composição do fundo de maneio; etc.

Dispõe ainda de capacidade para negociação de empréstimos internos a mais de sete anos, de empréstimos externos e para emissão de obrigações devendo, contudo, submeter à aprovação prévia do Ministério das Finanças as condições negociadas bem como a oportunidade da sua execução, a fim de ga-

rantir compatibilidade com a política monetária e financeira do Governo. Naturalmente que se está de novo em campo em que pode ter oportunidade a concessão de contrapartidas por encargos anormais impostos à empresa.

- b) No aspecto da produção, e tendo em mente a já referida subordinação ao plano, cabe à empresa a fixação dos respectivos processos, dos volumes a produzir, do calendário de produção e da correspondente distribuição de cargas, da gama de fabrico, da estratégia de existências quanto a produtos acabados e produtos intermédios e ainda a política de obtenção e utilização de novas tecnologias.
- c) Quanto ao aprovisionamento, têm as empresas inteira liberdade na escolha dos seus fornecedores e consequente discussão das condições de venda e entrega, cabendo-lhes o direito de exigirem compensações por incumprimento total ou parcial de contratos, nos mesmos termos que qualquer empresa privada. Os procedimentos de compra deverão ser fixados pelos próprios órgãos da empresa, pelo que a adopção ou não de um regime semelhante ao que é imperativo para a administração central (concursos públicos, consultas obrigatórias a vários fornecedores, etc.) pode considerar-se ser um acto de gestão, cabendo aos respectivos órgãos assumirem a responsabilidade pelas consequências decorrentes da opção assumida.
- d) A comercialização dos produtos também não está submetida a condicionamentos especiais que distingam a actuação das empresas públicas das empresas privadas.

Espera-se, naturalmente, da sua parte, um comportamento comercial com uma preocupação predominantemente virada à divulgação de produtos e serviços em termos positivos no que respeita à educação das preferências dos consumidores e consequente orientação de consumos, tendo em conta objectivos superiores de

política social, em detrimento de actuações correntes das empresas privadas em que a formulação artificial de necessidades, muitas vezes anti-sociais, é feita com utilização de meios altamente deseducativos, quando não degradantes. Isso apenas obrigará a uma imaginação redobrada na utilização das técnicas de "marketing" que se oferecem às empresas públicas, mas não se vê que esteja nas intenções do Governo retirar-lhes qualquer flexibilidade no aproveitamento das suas potencialidades.

De igual modo, a implantação da rede de vendas é um assunto que a empresa diz respeito; as suas características e a possibilidade de subcontratação ou de negociação de acordos conjuntos de distribuição com outras empresas, por exemplo, são aspectos que se pensa virem a ser decididos ao nível de cada empresa pública, cabendo-lhe arcar com as consequências das decisões tomadas.

Deve, entretanto, referir-se a circunstância de as empresas públicas, por força de actuarem em sectores completamente nacionalizados, só estarem sujeitas à concorrência das empresas privadas que, por disporem de capital estrangeiro, se mantêm no mercado da oferta, e das empresas estrangeiras, por via da importação de produtos. Por outro lado, a tendência manifesta para concentrar e especializar as empresas públicas leva a que seja forçosamente muito limitada a concorrência que estas manterão entre si, caminhando-se assim para situações de monopólio nos diversos sectores nacionalizados. Não parece, contudo, adequado atribuir ao facto carga emocional, como já tem sido feito, destinada sobretudo a aproveitar as conotações associadas aos anteriores monopólios privados, fontes de poder político a reverter em proveito próprio pelos detentores desses monopólios. Dada a falta de dimensionamento de que enfermava a grande maioria das empresas em Portugal, retirando-lhes a possibilidade de utilização de tecnologias e metodologias avançadas e, conseqüentemente, não lhes permitindo alcançar produtividade suficiente para poderem competir nos mercados in-

ternacionais, parece mesmo que tais concentração e especialização constituem passo fundamental na reorganização da actividade industrial em Portugal. Por outro lado, e sob o ponto de vista político, torna-se evidente a necessidade de operar uma rápida diluição da individualização das empresas nacionalizadas, sem o que fácil se torna estimular e aproveitar um comportamento corporativista por parte dos trabalhadores que no passado estavam ao serviço das empresas mais prósperas e conferindo melhores condições de trabalho. Nada impedirá que, após conclusão das operações de organização e consolidação interna, outras empresas públicas surjam em cada sector, completamente novas ou por desmembramento parcial de algumas outras, se for julgada a conveniência do estabelecimento de uma situação concorrencial ou se a dimensão atingir ponto crítico que dificulte a respectiva gestão^(*).

Entretanto, existe um delicado problema no domínio da fixação dos preços^(**) procurando-se um sistema que não permita a automática repercussão nestes das ineficiências de gestão (o que seria um forte desincentivo a acções de procura de maior produtividade em todos os domínios), da existência de escalas salariais manifestamente desequilibradas (criando um ambiente de irresponsabilidade na discussão colectiva dos contratos de trabalho) ou da procura imoderada de excedentes para a empresa, mas não deixando de garantir a verdade dos mesmos, de modo a evitar a predominância de preços artificiais, situação de que dificilmente se sai, como a experiência largamente tem mostrado.

(*) Deverão ser cuidadosamente ponderadas muitas das reservas recentemente feitas a uma pseudo-grande dimensão das unidades de produção públicas, uma vez que se detecta tendência para, por efeito de imitação, se assumirem atitudes em Portugal semelhantes às que se anotam no estrangeiro, mas perante condições radicalmente diferentes sob o ponto de vista quantitativo - veja-se, por exemplo, as preocupações de evitar um suposto gigantismo para o IPE, quando o IRI italiano controla um volume de mão de obra cerca de 15 vezes superior ao que poderá caber ao holding nacional.

(**) Que, mesmo com poucas empresas em mercado, em regime de oligopólio, não deixará de se por, ao contrário do que parece decorrer de algumas afirmações públicas e responsáveis, em que o problema se supõe resolvido com a eliminação da situação de monopólio.

O Governo não deixou de chamar a si uma palavra importante neste domínio; arrogando-se o direito de:

- aprovar a política de preços a praticar pelas empresas públicas e que, portanto, lhe deve ser por estas proposta, dispensando-se, no entanto, em geral, a fixação dos preços, caso por caso;
- aprovar a tabela de preços (ou tarifas) das empresas que explorem serviços públicos.

Torna-se, assim, imprescindível que o Governo estabeleça uma política geral de preços, aproveitando o potencial que as empresas públicas constituem para a sua implementação. Com isso se evitará que as decisões tomadas sobre os mesmos o sejam em termos puramente casuísticos, em que prevalece inevitavelmente a oportunidade política, dando origem a graves incongruências e contradições internas e a desfazamentos de acção que tornam completamente inalcançáveis os objectivos de política económica prosseguidos, sem falar nas nefastas consequências sobre a própria empresa e os sectores com ela de alguma forma interdependentes.

Dentro da lógica que temos vindo a descrever, e uma vez mais, é fundamental uma nítida determinação do que é imposto com objectivos de política económica global, retirando à empresa as vantagens ou inconvenientes daí decorrentes,

- e) As relações com o pessoal regem-se por acordos colectivos de trabalho que, à semelhança do que acontece nas empresas privadas, são negociados entre os sindicatos e a administração^(*) (ou associações de entidades patronais), cabendo a esta tomar

(*) Nas empresas que exploram serviços públicos, as relações de trabalho são normalmente regidas por via administrativa, através de um Estatuto privativo de pessoal, mas nem por isso os processos de negociação salarial e de outras condições de trabalho são muito diferentes dos utilizados nas empresas privadas, dado que praticamente não existem restrições sobre o conteúdo e forma das negociações com os sindicatos.

posição sobre a matéria em discussão, com plenos poderes de negociação. Obviamente, devem as administrações ouvir o Ministério do Trabalho e o Ministro de Tutela, a fim de tomarem conhecimento das políticas gerais de trabalho que se pretendem implantar mas, salvo no que respeita às tabelas salariais, não se impõe qualquer homologação superior. E, no que a estas se refere, pensa-se que o preceito tem como objectivo essencial implantar um esquema de consulta prévia que permita evitar distorções muito acentuadas entre os diferentes acordos em que estejam envolvidas empresas públicas, principalmente de sectores afins.

Tal como no que respeita ao problema dos preços, a questão dos salários é das mais difíceis de resolver e ainda está longe de atingir ponto de solução minimamente satisfatória, dada a ausência de uma política de rendimentos bem definida; isso leva, uma vez mais, à tomada de posições e decisões pontuais, com soluções desencontradas, que de modo algum se podem considerar consequência exclusiva de diferenças de produtividade, de qualificação média, de força de negociação relativa das partes e muito menos de estratégia de gestão.

A situação é agravada pela alta politização que é conferida à negociação de contratos de trabalho, sendo muito frequente que os acordos finais sejam quase exclusivamente resultado de acções conduzidas com o objectivo de proporcionarem dividendos políticos, mais particularmente em termos partidários, em que se vêem envolvidos o Ministro da Tutela, o Governo como um todo, a administração da empresa e o sindicato ou sindicatos que enquadram o pessoal, não são directamente mas também, e principalmente, através das forças ou tendências que representam.

Um passo imprescindível para clarificar e tornar a situação abordável consiste em afastar completamente o Governo (ou, pelo menos, tanto quanto possível) das negociações de contratos de trabalho, fazendo recair sobre as administrações a prerrogativa de defesa dos interesses globais e a correspondente respon-

sabilização pelos resultados alcançados. Isso obriga a uma decidida delegação de confiança e ao afastamento da prática, até aqui habitual, de atribuir aos ministros de tutela e ao Governo a última palavra na definição das posições da autoridade pública - a que não é alheio o comportamento dos ministros (que muitas vezes não sô não as evitam como até fazem questão em chamar a si a tomada dessas posições) e das próprias administrações (receosas de assumirem as suas responsabilidades, facto ainda mais agravado por temerem uma ultrapassagem demagógica ou política por parte dos seus superiores, que completamente os desautoriza).

O Governo deve, pois, centrar a sua responsabilidade política, não na discussão de particulares acordos de trabalho, mas na definição dos condicionalismos gerais a que entende dever submeter o clausulado a acordar, a fim de evitar grandes desigualdades relativas em profissões e categorias similares e implantar uma política coerente de trabalho, sendo natural, nessa definição, que tais condicionalismos sejam em maior número, abarcando mais áreas e mais restritivos em relação às empresas públicas que em relação às empresas privadas. Até hoje nada se fez no sentido de criar tal especialidade (*), o que equivale dizer que se encontra por definir uma política de trabalho para o sector público produtivo.

Outros desenvolvimentos tem, obviamente, o tratamento dos aspectos ligados à gestão do pessoal, pelo que um ponto autónomo lhe será mais adiante dedicado. Por ora, parece ser de reter que as insuficiências estão muito mais na falta de uma política que permita fixar claramente a mobilidade dos gestores na definição e implantação das suas estratégias do que em insuficiên-

(*) Com excepção de alguns aspectos pontuais, como sejam a fixação de um salário máximo apenas com eficácia no sector público.

cia de autonomia atribuída "de jure" a esses mesmos gestores. O que não quer dizer que a autonomia seja "de facto" grande. A falta de vontade com que as administrações e os sindicatos se movem em questões de trabalho, derivada de pouca experiência própria (e dos profissionais que estes representam), do desconhecimento de experiências alheias, da desconfiança, natural e alimentada, nas reais intenções de uns e outros e da permanente politização que é conferida aos seus actos, leva a que, na realidade, a margem de manobra na procura de esquemas de remunerações, de incentivos, de promoções, de categorias, etc. seja mínima, estando-se num sistema de quase completo bloqueamento na concepção de estratégias de gestão de pessoal. Assim, só aparentemente é paradoxal o facto de, como já se deixou transparecer, a falta de políticas de enquadramento vir a resultar numa perda de autonomia e independência das administrações.

Mas, ao fixar esse desejável enquadramento, um considerável perigo espreita que, a não ser evitado, poderá vir a burocratizar extraordinariamente o tratamento das questões de pessoal e a tornar inoperantes as tentativas para melhorar a eficácia do sector público e nele manter bom nível de competência. Referimo-nos à tentação que consiste em fazer aproximar o regime e as condições de prestação de trabalho daqueles que vigoram na função pública, o que determinaria, a prazo médio, a sangria dos melhores colaboradores das empresas públicas para o sector privado, à semelhança do que antes aconteceu com a função pública. O perigo é real, tanto mais que a referida tentação pode ser alimentada de vários pontos, com objectivos diversos e arrastando consideráveis forças políticas: pelo menos a dos funcionários públicos que verão nessa acção uma reparação parcial da injustiça a que têm sido submetidos, e a das forças conservadoras, apostadas em mostrar a ineficácia da gestão pública.

- f) Salvo indicações de ordem muito geral, os estatutos das empresas públicas são omissos quanto à organização interna a insti-

tuir e quase omissos quanto aos métodos de trabalho a utilizar, o que parece ser uma opção saudável. De facto, ficando a competência de decisão nessas matérias inteiramente atribuída ao órgão de gestão de cada empresa, a capacidade de acção torna-se completa num domínio que é verdadeira pedra de toque da qualidade de gestão disponível e em que não convém instituir um mínimo de desresponsabilização. A resposta a novas necessidades, a procura de combinações mais convenientes, a rapidez de acção face a situações imprevistas que exijam resposta urgente, não ficam assim dependentes de qualquer autorização prévia, nem limitadas pela necessidade de modificações legislativas, nem sujeitas a aprovações e críticas "a posteriori" que não sejam as decorrentes da análise dos resultados obtidos com as medidas tomadas (ou não tomadas).

Apenas para exemplificar, nos aspectos ligados à contabilidade, exige-se:

- a submissão às regras a que estão ou venham a estar sujeitas todas as empresas privadas;
- a capacidade para, a partir dela, se extraírem os documentos e demais informações de prestação obrigatória;
- a capacidade para permitir controlo orçamental contínuo e eficaz análise de gestão, em particular no domínio dos custos;
- a capacidade para permitir adequado controlo das responsabilidades decorrentes das descentralizações de competências,

mas deixa-se completa liberdade quanto à organização, sistemas e métodos a utilizar.

- g) Outro ponto que interessa analisar refere-se à facilidade de adaptação às realidades que é conferida às empresas, traduzida na possibilidade que as mesmas têm de efectuar alterações aos planos de trabalhos e aos orçamentos, anteriormente apro-

vadas por autoridades superiores, sem que para isso necessitem de autorizações prévias, cuja obtenção poderia determinar atrasos de actuação com consequências irreparáveis. Espera-se que a prática corrente venha a consagrar os princípios que claramente decorrem da legislação já aprovada, no sentido de atribuir uma razoável margem de manobra (e de responsabilidade...) aos conselhos de gestão das empresas.

Quando se preconiza que os orçamentos destinados a aprovação superior devem ser elaborados em grandes rúbricas, tem-se o nítido propósito de dar inteira liberdade às administrações para efectuarem redistribuições de verbas dentro de cada rúbrica - tanto mais que imediatamente a seguir se preconiza a elaboração dos desdobramentos necessários a permitir, internamente, um adequado controlo de gestão e de responsabilidades. Estamos, pois, já aqui, longe dos métodos orçamentais característicos da administração central, manifestamente inadequados à actividade de unidades de produção, mas em relação aos quais se tem notado, com demasiada frequência, uma tentação de aplicação por extensão, por parte de autoridades políticas que confundem manifestamente os conceitos de controlo formal e controlo eficaz.

Mas, mesmo em relação aos orçamentos de exploração elaborados e aprovados naquelas condições, poderão as empresas efectuar, em completa liberdade, as modificações que as novas perspectivas e realidades aconselhem, desde que tais alterações não acarretem diminuições significativas nos resultados anteriormente previstos. A determinação da oportunidade dessas modificações e o julgamento sobre o que se considera uma alteração significativa de resultados é deixado ao julgamento do conselho de gestão - o que só contribui para aumentar a sua responsabilização, tanto mais que tais actos serão necessariamente objecto de apreciação por parte dos ministros de tuteia e dos conselhos gerais, quando os houver. Do comportamento de tais entidades, particularmente no que respeita à obtenção de um equilíbrio razoável entre a confiança a depositar nos gestores e a defesa contra a

instalação de um clima de desresponsabilização e de fuga ao enquadramento na política económica do Governo, depende em muito a construção de relações que não conduzam ao imobilismo dos gestores perante realidades movediças e facilitem a libertação e aproveitamento das potencialidades em criatividade e dinamismo dos gestores públicos.

Considerações semelhantes se podem fazer sobre a adaptação dos orçamentos de investimento, cujas alterações sô necessitam de aprovação "a priori" desde que venham a ser excedidos os limites globais atribuídos a cada grupo de projectos ou de actividades. A limitação decorre naturalmente da preocupação em não permitir distorções consumadas no plano nacional de investimentos, com as correspondentes implicações no domínio da aplicação dos financiamentos disponíveis e da ruptura de equilíbrios intersectoriais ou interempresas desejados pelo Governo.

Finalmente, e a reforçar a necessidade de evitar paralizações burocráticas, consideram-se tacitamente aprovados os orçamentos sobre os quais as autoridades de tutela se não manifestem durante o período de tempo atribuído para o efeito.

Naturalmente que, em última análise, a autonomia real da empresa perante o Governo e, em especial, a sua capacidade de resistência a uma frequente instrumentalização política da sua actuação - caminho certo para uma permanente situação de má gestão com os consequentes déficits incontrolláveis e insuficiências na produção e comercialização - dependem fortemente da possibilidade que os seus gestores tenham em invocar as garantias indicadas e, o que é mais importante, em fazê-las respeitar. Criar um tal hábito de independência sô se antevê possível desde que aos gestores seja conferida suficiente protecção perante os seus superiores hierárquicos imediatos, isto é, os ministros a quem sô atribuídos poderes tutelares.

4.2 - Dentro da óptica de conferir uma relativamente grande autonomia de gestão, torna-se necessário criar as contrapartidas que permitam uma análise crítica aprofundada dos métodos utilizados e resultados alcançados, e que, pelo menos, são as seguintes:

- a) O direito de entidades colocadas num plano hierárquico superior poderem solicitar informações sobre todos os pontos que se prendem com a actividade da empresa, com a correspondente capacidade técnica de que essas entidades se têm de dotar para efectuarem a sua apreciação e discussão críticas. Mais uma vez é imprescindível a construção de um equilíbrio de actuação que exige, de parte a parte, razoável competência técnica e capacidade para superar susceptibilidades pessoais. De facto, é corrente, para quem solicita informação, considerar esta como um objectivo final não dependente das reais capacidades da sua utilização, caindo-se rapidamente no extremo de se obrigarem as empresas a disporem de complicados sistemas burocráticos de obtenção de dados que não são depois utilizados; e, inversamente, é também usual assistir-se a práticas restritivas, por parte das empresas, no fornecimento de informação fundamental, no que respeita à qualidade, quantidade e actualidade da mesma, o que provém quer de uma atitude de autodefesa destinada a ocultar eventuais ineficácias de funcionamento, quer de uma incapacidade administrativa interna para implantar os procedimentos que dão origem a essa informação. Parece, contudo, estar do lado das entidades de supervisão a chave para resolução do problema. Com efeito, a observação do que se passa em países com fortes sectores públicos produtivos mostra que as principais ineficácias dos esquemas de acompanhamento de gestão residem nas desigualdades gritantes que em média se notam entre os agentes da administração central e os agentes empresariais, com vantagem para estes últimos, pelos menos nos seguintes aspectos:
- conhecimentos teóricos e experiência nos domínios da gestão empresarial;

- estatuto económico e social, em face das limitações de vencimentos no funcionalismo público;
- eficácia de actuação, dada a rigidez e falta de autonomia que caracterizam a administração pública nos domínios da organização interna e desconcentração de responsabilidades e poderes.

A utilização do estatuto da requisição, que em Portugal confere grandes possibilidades de utilização pela Administração Central de pessoal das empresas públicas e privadas, apenas resolve parcialmente os dois primeiros problemas (sem deixar de criar outros ...).

De uma maneira geral, tanto em países de economia de mercado como de direcção central, e embora as questões se ponham quantitativa e qualitativamente de modo distinto, a tendência tem sido no sentido de criar organismos intermédios entre a Administração Central e as empresas - as mais das vezes com semelhanças, pelo menos formais, a holdings privados - dispendo de autonomia suficiente para lhes permitir obter boa eficácia para representar o Governo no acompanhamento da gestão corrente destas.

b) A existência de uma auditoria independente capaz de:

- proteger a conformidade dos procedimentos com as instruções imperativas e a legislação a que a empresa está sujeita;
- garantir suficientemente a correspondência entre os valores fornecidos pelo sistema de informação disponível (e, em especial, pela contabilidade) e a realidade empresarial;
- apreciar em termos técnicos a oportunidade de critérios de decisão e análise em domínios particulares (amortizações e provisões, taxas de actualização utilizadas no estudo de projectos, afectação de resultados económicos, etc.),

mas que não constitua um entrave burocrático à gestão da empresa e muito menos um poder paralelo de gestão.

4.3 - A questão já levantada da apreciação crítica dos procedimentos e resultados não é matéria pacífica; reconhece-se a sua necessidade e utilidade para a permanente reformulação de objectivos e aperfeiçoamento de acções, mas também se sabe que a sua condução imprudente pode facilmente subverter os verdadeiros objectivos da empresa em favor da perseguição irracional de valores para índices e parâmetros.

Dentro da filosofia de funcionamento já descrita, parece desejável e possível implantar um esquema de análise de gestão do seguinte tipo:

- a) Apreciação dos objectivos fixados nos programas e orçamentos e posterior comparação destes com os resultados atingidos, tomando como referência um número muito restrito de indicadores que permitam fácil comparação com empresas estrangeiras, com outras empresas nacionais ou com outras unidades de produção dentro da mesma empresa, bem como uma análise consistente da sua evolução no tempo. Tais indicadores poderão não ter a mesma construção para todos os ramos da actividade económica e não deverão, numa primeira análise, considerar muito mais que os resultados do exercício e os níveis de produção e comercialização em termos absolutos e relativos (produtividades).
- b) Utilizar, numa fase posterior e explicatória, outros índices que permitam detectar as razões dos eventuais desvios, sem cair no erro de instituir tais índices em sistemas de objectivos a atingir, os quais poderão ser contraditórios entre si e com as metas fixadas nos domínios fundamentais analisados na fase anterior. Dentro do pressuposto de que os índices são simples instrumentos de análise, poder-se-á então tentar detectar os domínios fracos que carecerão de acção, sempre dentro de um diálogo aberto com a administração e renunciando absolutamente a fazer quaisquer imposições que teriam como inevitável consequência a desresponsabilização dos gestores.

Em ambas as fases adquire grande importância a possibilidade de se efectuarem comparações internacionais, uma vez que em muitos sectores se

disporá de uma única empresa ou de empresas com poucas actividades sobrepostas e, nos casos em que a empresa utiliza várias unidades fabris, não será fácil implantar rapidamente um sistema de individualização de resultados. É aqui, decididamente, um domínio em que a vontade sincera de pôr em funcionamento um sistema de cooperação internacional mais resultados pode trazer. Com efeito, não é sem desenvolver grandes esforços no sentido de vencer os obstáculos que a cada passo se erguem que é possível aceder a informação que ultrapasse o carácter de generalidades em relação a aspectos como sejam a composição dos custos de produção, a estrutura do financiamento, a cobertura das necessidades em stocks, a repartição dos encargos administrativos e tantos outros.

A escolha dos indicadores a utilizar nas duas fases e a implantação do sistema de análise obriga, pois, ao lançamento de acções de fundo e é um processo que carecerá de um prazo razoável de desenvolvimento e de persistente vontade política, porquanto:

- A construção e aperfeiçoamento do sistema de informação de gestão tem de ser feita em termos experimentais, tendo em atenção as particularidades de cada sector, não existindo em Portugal senão experiências isoladas e pouco bem sucedidas, num ou noutro grupo económico privado;
- A recolha e compilação de dados que sirvam de ponto de partida para as comparações a efectuar, no âmbito nacional e internacional, é um trabalho que está praticamente todo por fazer, sendo muito escassos os domínios em que alguma coisa já está disponível;
- A extracção da informação necessária à análise obriga à prévia existência de uma normalização contabilística que conhece os seus primeiros passos em Portugal; de igual modo, em número apreciável de casos será necessário reformular todo o esquema contabilístico interno, geral e de custos, quase sempre orientado dentro de uma perspectiva historicista, não se devendo minimizar as energias necessárias à execução das reconversões;

- A ausência de tradição neste domínio leva a uma acentuada falta de técnicos com experiência, capazes de darem resposta rápida e adequada aos problemas que se vão levantar para além de, o que é bastante mais grave, se ter inevitavelmente que contar com sérias resistências derivadas de conservadorismo, dos hábitos adquiridos, do medo de incapacidade de resposta às novas necessidades e da preocupação em evitar demasiada transparência às insuficiências de gestão.

Não se deve, ainda, deixar de ter presente que a implantação do sistema de acompanhamento e análise de gestão, para além da possibilidade de controlo que proporciona e sobre a qual não deve ser situada a tónica da actuação, tem um alcance didático inestimável, podendo servir de base objectiva a um diálogo construtivo, elemento fundamental da formação dos seus intervenientes em metodologias e práticas de gestão que não são correntes em Portugal.

4.4 - Quanto se disse até aqui sobre as empresas públicas tem cabimento em relação ao sector participado, sabido todavia que nos casos de participação minoritária os direitos de gestão a serem exercidos pelo sector público não vão além daqueles que correspondem à percentagem de capital efectivamente detido, nos mesmos termos a que se submetem os accionistas privados, pelo que muitas vezes haverá necessidade de uma prévia concertação com esses accionistas. A actuação das respectivas administrações em relação aos esquemas propostos estará em elevado grau dependente da capacidade de persuasão da entidade de supervisão em nome do sector público, o que aponta decididamente para a concentração da propriedade das participações em cada sociedade numa só entidade, vocacionada especialmente para o efeito, ultrapassando eventuais divergências de interesses dos organismos participantes e constituindo um corpo de pessoal com competência suficiente para o desempenho da sua missão. Esse o sentido em que se caminha, com a criação de holdings públicos de sociedades com estatuto privado.

4.5 - Abordemos agora a questão da determinação dos resultados do exercício das empresas públicas e sua posterior afectação.

A primeira constatação é a de que, à semelhança aliás do que já acontecia com as antigas empresas públicas em Portugal, se procura fazer uma desejável assimilação dos princípios teóricos e da prática corrente de gestão empresarial, em detrimento dos procedimentos característicos da Contabilidade Pública, salientando-se os seguintes aspectos principais:

- individualização e afectação ao exercício dos custos e proveitos que lhe correspondem e apenas destes;
- lançamento da conta de exploração das amortizações do imobilizado, como processo de repartição temporal dos encargos correspondentes;
- mesmo procedimento em relação às provisões que possam ser consideradas como cobertura de riscos imputáveis à actividade e situação da empresa.

A solução encontrada quanto a provisões e amortizações consistiu em conferir ao Ministro de Tutela poder para fixar os critérios gerais a que as mesmas deverão obedecer, deixando aos gestores liberdade na determinação, dentro desses critérios, dos valores concretos a afectar às respectivas contas. Ao fazê-lo, os gestores terão que entrar em conta com as consequências fiscais dessa decisão, uma vez que a lei equipara as empresas públicas e privadas em tal domínio (*). Quer isto dizer que, embora não existam limites absolutos às taxas a utilizar, a empresa verá tributado como lucros o valor das amortizações que exceder o que decorre das percentagens fixadas na lei fiscal. Movendo-se dentro destes parâmetros, cabe ao Conselho de Gestão a responsabilidade pelas suas opções, que justificará, submetendo-se, eventualmente, à crítica da Comissão de Fiscalização (que não deverá exceder o domínio da avaliação da razoabilidade com que foram determinados os riscos assumidos ou distribuída a desvalorização do imobilizado, renunciando a qualquer interferência nos aspectos de estratégia de gestão) e do Conselho Geral (quando exista). Tal responsabilização só lhe é retirada se, em última instância, o Ministro de Tutela negar a aprovação final, situação em que aquela para este se transfere.

(*) Admitem-se excepções, principalmente em relação a empresas que explorem serviços públicos, mas que deverão ser consignadas em lei especial.

No caso particular das amortizações, os gestores terão ainda de entrar em linha de conta com outra condicionante: a fixação da taxa máxima de autofinanciamento bruto permitida, em que intervêm os Ministros de Tutela, das Finanças e do Planeamento, - uma vez que se consideram, explicitamente, as amortizações como parte integrante do autofinanciamento. O Governo entendeu, pois, reservar essa prerrogativa, como instrumento de política económica destinado a controlar um desenvolvimento equilibrado e conforme ao plano dos diversos sectores e, dentro destes, das empresas que ne les operam.

Vista a flexibilidade que aos gestores é conferida na determinação contabilística do lucro, surge o importante problema da sua afecção que envolve, pelo menos, os seguintes aspectos:

- (i) atribuição à empresa de capacidade para resistir a depressões, crises e outros acontecimentos que não controla;
- (ii) atribuição à empresa de capacidade de desenvolvimento à custa de autofinanciamento;
- (iii) instituição de um esquema de incentivos que estabeleça de algum modo uma correspondência entre os resultados alcançados e a satisfação dos seus agentes;
- (iv) necessidade da empresa contribuir para o financiamento do Orçamento Geral do Estado, como qualquer outra entidade geradora de rendimentos;
- (v) necessidade da empresa remunerar os capitais que a comunidade põe à sua disposição pela via da dotação em capitais pró-prios;
- (vi) capacidade da empresa para gerar excedentes necessários ao lançamento e desenvolvimento de outras actividades produti-vas, no seu ou em outros sectores.

A conciliação dos interesses que se geram à volta dos seis pontos indicados, embora mais fácil nuns casos do que outros, levanta problemas que se podem tornar politicamente muito delicados se a sua solução for en-

carada em termos permanentemente casuísticos - dando ampla margem de manobra aos grupos de pressão que no assunto procurarão intervir e deixando que os resultados finais sejam fundamentalmente consequência da força relativa dos interesses em jogo. Isso quer dizer que se defende a necessidade de, a nível do Governo, se definirem políticas nesta matéria, que complementem as necessariamente pouco concretas orientações que a legislação contempla (*), possibilitando uma actuação relativamente uniforme, em cada período de tempo, dos diversos ministérios em relação às várias empresas e em conformidade com os objectivos do plano nacional.

A resposta à preocupação enunciada na alínea (i) é baseada na obrigatoriedade de constituição da chamada "Reserva Geral". A necessidade de entrar em conta com o fenómeno inflacionário parece-nos, contudo, neste momento, a principal dominante da sua determinação, pelo que o limite mínimo à respectiva constituição deveria residir também(**) na preocupação em manter o valor real do capital estatutário, feitas as necessárias reavaliações do activo.

Relativamente a (ii), está na sua base a "Reserva para Investimentos", de constituição obrigatória(***), mas para que se não fixam orientações quanto a critérios a utilizar na sua determinação. Trata-se, como é natural, de um domínio em que tem especial relevo a política do Governo sobre o desenvolvimento sectorial e respectivo financiamento e a capacidade de negociação de que o Conselho de Gestão disponha na obtenção de meios que lhe permitam expansão autónoma - não esquecendo que, pelo

(*) Não se julga prudente que a legislação vá muito longe neste assunto, dado que a sua grande inércia dificulta respostas rápidas aos problemas.

(**) A lei exige apenas a consignação de 10% dos lucros do exercício, quando os houver.

(***) Note-se que a reserva para investimentos não é financiada exclusivamente à custa dos lucros apurados, podendo haver certas receitas que lhe sejam directamente consignadas pela lei e sendo-lhes obrigatoriamente atribuídos rendimentos de operações feitas sobre os investimentos; isto é, parte da reserva para investimentos poderá ser constituída antes da determinação dos resultados do exercício.

menos em relação aos gestores e quadros médios e superiores, a autonomia disponível quanto ao desenvolvimento da "sua" empresa constitui um poderoso incentivo (e estamos já a entrar na alínea (iii)) à prossecução de uma gestão racional capaz de gerar excedentes. O estabelecimento, por sectores, de limites máximos e mínimos permitidos parece ser, pois, de grande importância. Esses limites poder-se-ão basear, eventualmente, nas produções alcançadas.

O "Fundo para Fins Sociais", também obrigatório, pode constituir um dos instrumentos fundamentais associados à preocupação indicada em (iii) se for possível interessar nele, com suficiente intensidade, os trabalhadores das empresas; para isso julga-se, pelo menos, necessário que:

- o seu volume não seja insignificante;
- os aumentos de produtividade real influenciem o seu montante e os acréscimos de lucros conduzam a contribuições proporcionalmente progressivas para o fundo;
- a gestão do fundo seja entregue aos próprios trabalhadores, embora com alguns condicionantes gerais de aplicação que obstem à sua conversão em consumos imediatos;
- se evite que, de empresa para empresa, os mesmos benefícios estejam nuns casos dependentes da existência de meios afectos ao fundo e noutros sejam direitos adquiridos independentemente dos resultados da empresa.

Matéria, pois, que requiere também uma cuidadosa definição de políticas gerais.

A resposta à alínea (iv) consubstancia-se na aplicação da lei fiscal comum; permitindo uma nítida separação entre o que é contribuição para o Estado independentemente da propriedade do capital e o que advém dessa particular situação, o procedimento possibilita a comparação fácil com outras empresas, submete-as automaticamente e em condições idênticas aos objectivos económicos da política fiscal e estabelece desde o início uma distinção entre a natureza de apropriações que deverão ser submetidas

a diferentes regras de posterior utilização e contabilização.

Para além dos impostos, resta estabelecer a destinação entre a apropriação de excedentes a título de remuneração dos capitais próprios e daquilo que pode ser "grosso modo" declarado lucro puro não retido pela empresa (alíneas (v) e (vi)). Das várias combinações possíveis porque se pode optar, em que o elemento fundamental de diferenciação reside na obrigatoriedade ou não de remuneração efectiva dos capitais próprios, a seguinte hipótese parece enquadrar-se coerentemente dentro do esquema que se tem vindo a desenhar:

- o fixação de uma taxa, ajustável ano a ano, ligeiramente inferior à taxa de empréstimos a longo prazo, a que deverão ser remunerados os capitais próprios^(*) de todas as empresas públicas, independentemente do respectivo sector de actividade;
- os valores dessas contribuições só seriam pagos se, após a constituição das reservas obrigatórias nos seus limites mínimos e a liquidação dos impostos, houvesse remanescente de resultados, e apenas nessa medida;
- a parte não satisfeita, por não haver excedentes, seria escriturada por memória, em contas de ordem, a fim de ser, se possível, liquidada em anos futuros (eventualmente com um período de prescrição);
- os valores atribuídos ao Estado, quer a título de remuneração de capital, quer como "excedente puro" (mas não os correspondentes a impostos), iriam alimentar um fundo especial destinado a servir de suporte a todas as operações financeiras entre o tesouro e as empresas públicas^(**), garantindo a transparência das mesmas e a correspondente possibilidade de efectuar análises globais e consolidadas;

(*) Excluindo o Fundo para Fins Sociais.

(**) Esse fundo, previsto no programa do 1º Governo Constitucional com a designação de Fundo Nacional de Desenvolvimento Económico, terá naturalmente outras receitas e servirá de redistribuidor financeiro geral.

- o "excedente puro" poderá servir de justificação à constituição de direitos especiais destinados a incentivar a criação de excedentes .

4.6 - Para as empresas privadas com participação do sector público, a distribuição dos excedentes é decidida em assembleia geral de accionistas, onde o Governo tem voz através das entidades que detêm o respectivo capital, na maioria dos casos empresas públicas com características de holding. Por outro lado, o respeito pelos direitos dos accionistas privados impõe que se não fixem, por via administrativa, diferentes critérios de participação nos excedentes por parte daqueles e do Estado.

Deste modo, a utilização de critérios semelhantes aos que foram sugeridos para as empresas públicas fica condicionada à possibilidade de os fazer aprovar nas assembleias gerais (por virtude do número de votos disponíveis ou de capacidade de persuasão) e ao respeito pela lei comum das sociedades, devendo ter-se em conta que:

- os holdings públicos surgem perante as empresas como entidades intermédias de redistribuição financeira; esses holdings estarão, por sua vez, perante o Fundo de que falámos, na mesma posição do que quaisquer outras empresas públicas, nomeadamente no que se refere a transferências dos excedentes;
- os holdings públicos deverão estar isentos de impostos sobre lucros, a fim de se evitar dupla tributação^(*);
- não é possível a imposição de direitos especiais quanto à remuneração dos capitais próprios investidos nas empresas; uma vez que os holdings entram na repartição dos excedentes como quaisquer outros accionistas, só "a posteriori" poderão, para efeitos de análise, fazer a destriça entre essa remuneração e o "excedente puro";

(*) Com efeito, tal acontece no caso do Instituto das Participações do Estado; tratando-se de holdings também com actividade produtiva haverá, obviamente, de pensar em disposições especiais.

- a fim de permitir coerência de actuações, e uma vez que não ha
verã disciplina legal uniformizadora, torna-se imprescindível
que os holdings estabeleçam com clareza políticas desejáveis
de determinação de excedentes e de distribuição de dividendos
e as comuniquem aos seus representantes para que estes, na me
dida do possível, as façam aceitar.

5. O PESSOAL, OS QUADROS E OS GESTORES

5.1 - Muito se tem já dito e escrito sobre as nefastas consequências que se fazem sentir sobre a economia nacional, decorrentes do modelo político, social e económico que durante 50 anos foi imposto aos portugueses, principalmente pelo obstáculo que agora constituem ao êxito de medidas destinadas a implantar um esquema de desenvolvimento em termos democráticos e procurando a redução drástica das desigualdades sociais.

O presente capítulo ocupa-se dum dos domínios em que mais trágicas são essas consequências, quer pelas habitações, motivações e quadros de referência que se estabeleceram, quer pela quase completa ausência de formação - principalmente a que deveria decorrer da experiência quotidiana - em domínios fundamentais, com que os trabalhadores portugueses foram deixados quase no fim do século XX.

A falta de formação económica básica generalizada, a completa impossibilidade de estabelecer qualquer discussão política que desse oportunidade à compreensão de fenómenos económicos globais através de uma prática dialéctica corrente, o elitismo e o espírito classista fomentado entre os quadros, a todos os níveis, levando-os a sonegar informação em relação aos subordinados, retirando-lhes o mais possível autonomia de decisão e ocultando-lhes os aspectos fundamentais da vida dos organismos em que se inseriam - empresas ou departamentos governamentais - determinou a existência de uma situação em que cada trabalhador só muito dificilmente pode ter consciência, de forma clara, das consequências das opções e acções em que dia a dia se envolve na medida em que se projectam para fora do seu restrito ambiente de trabalho.

A participação dos trabalhadores na repartição do valor acrescentado era traduzida por uma das percentagens mais baixas da Europa, o que não constituiu grande estímulo nem para a inovação tecnológica nem para a introdução de métodos avançados de organização do trabalho e

de gestão de pessoal. Outra consequência foi a relativamente pouco intensa acção de formação profissional que deixou o país com grande percentagem de mão de obra pouco qualificada e só muito dificilmente convertível.

A acção sindical foram postos inúmeros entraves pelo poder político e, em particular, não era legalmente possível recorrer à greve. O manejo das armas sindicais e a aquisição de experiência de negociação só muito penosamente foram adquiridos e apenas por reduzida percentagem de trabalhadores, dada uma desencorajadora repressão que encontrou os mais fracos completamente desprotegidos. A consciência sindical que só a vivência das lutas e a assumpção responsável das suas consequências permitem obter, generalizou-se, por conseguinte, muito lentamente. No lado dos empresários, gestores e quadros, a ignorância dos mais elementares problemas de trabalho foi fomentada pela desnecessidade da aplicação de tais conhecimentos: tudo se joga em termos de protecção política, as soluções encontram-se fora do quadro de referência da própria empresa^(*).

O ambiente repressivo que necessariamente se instala nas empresas, independentemente até da vontade de alguns quadros progressistas, e que tem a sua origem principalmente na consciência de uma completa desprotecção perante eventuais arbitrariedades de superiores e na mitificação do papel e importância do "chefe", gera inúmeros recalcamientos, interioriza injustiças (e pseudo-injustiças) gritantes, coarctar a libertação da actividade inovadora e criadora dos indivíduos e grupos, desliga o trabalho diário de qualquer possibilidade de realização profissional e humana, cria, por toda a parte, a irresponsabilidade automaticamente justificada.

Nestas condições, a descompressão política que acompanhou o tombar das velhas instituições e o correspondente desfazer das hierarquias e

(*) A muito pequena abertura sindical, que em certo período pré 25 de Abril se procurou timidamente fazer, veio encontrar os quadros e empresários numa situação de maior impreparação técnica que os próprios sindicatos.

do poder e sistema de valores em que as mesmas encontravam suporte, deu origem a todas as esperanças e criou a ilusão da facilidade da construção de um mundo novo e da possibilidade de reparação a curto prazo das injustiças sentidas. Não podem assim constituir surpresa as contradições, os falsos passos e as incompreensões que por toda a parte se assinalam, muitas das quais atribuídas a pessoas sinceramente empenhadas na construção de uma sociedade mais justa.

Absorver o "handicap" legado não é tarefa de poucos anos e a aprendizagem que decorre da experimentação é a única possível e eficaz. Comporta, todavia, o grande perigo de ser passível de graves riscos políticos, na medida em que os adeptos dos sistemas autoritários, paternalistas e elitistas não deixarão de apontar os erros que inevitavelmente estarão associados a essa aprendizagem e deles tirar consequências favoráveis para a conquista do poder.

Os quadros e, dentre estes os responsáveis hierárquicos, a todos os níveis, que procurem assumir uma atitude progressista, não poderão deixar de:

- efectuar a desmontagem e denúncia, pelos meios que com maior eficácia atinjam os centros do poder político, das tentativas de aproveitamento e instrumentalização de erros normais, decorrentes do processo de aprendizagem e adaptação às novas realidades;
- expor claramente e sem ambiguidades a sua opinião sobre as consequências das atitudes tomadas pelos diversos intervenientes na vida da empresa, mesmo com riscos de caírem em posições pouco populares; este aspecto tem relevância especial quando haja oposição entre os interesses materiais imediatos dos trabalhadores da empresa e aquilo que se possa presumir sejam os seus interesses gerais a longo prazo ou os do colectivo nacional de trabalhadores;
- procurar instituir, na sua área de actuação, uma prática de permanente informação dos principais objectivos, realizações e di

ficuldades e seu enquadramento em âmbitos mais gerais, bem como métodos de trabalho que estimulem o diálogo, a capacidade criadora e a realização profissional de cada um, mas sempre com uma nítida definição de responsabilidades que permita evitar oportunismos e demagogias que, a longo prazo, sempre se voltam contra os próprios trabalhadores.

É dentro do quadro acabado de descrever que Governo e administrações terão de conceber e implantar políticas de pessoal.

5.2 - São inúmeros os índices e os testemunhos que referem uma acentuada quebra de produtividade do trabalho, que já de si era extremamente baixa quando comparada com a de outros países europeus. A persistência da situação leva a supor não se tratar de simples fenómeno transitório, explicado pela euforia decorrente da mudança de regime e consequente gasto de tempo em actividades de natureza sindical ou política.

Preocupa especialmente o problema nas empresas públicas e participadas, objecto do presente trabalho, uma vez que as mesmas são consideradas como imagem decisiva para a avaliação pública da capacidade do sistema para resolver os problemas económicos nacionais, além de constituírem, efectivamente, instrumento privilegiado de actuação económica do Governo.

A solução do problema passa inevitavelmente - sempre passou em qualquer regime político - pela criação de um sistema de incentivos, positivos e negativos, que de algum modo faça corresponder o nível de satisfação pessoal de cada trabalhador à contribuição dada no âmbito da sua responsabilidade e competência para se atingirem os objectivos prosseguidos pela empresa. Esses sistemas são baseados na utilização de estímulos materiais e psicológicos, embora a tónica de utilização de uns e outros e a escolha, em concreto, dos mesmos seja muito diferente de contexto para contexto, em função da ideologia política dominante, das concepções operacionais dos responsáveis e do conhecimento e capacidade técnica para a respectiva implantação. Isto porque os estímulos utilizados constituem, simultanea-

mente, um poderoso meio de veicular o sistema de valores que se pretende instituir, desempenhando uma função didática importante.

O que é extraordinariamente perigoso para qualquer sociedade é não dispor realmente, mesmo em termos fragmentários e com reduzida coerência interna, de qualquer instrumento neste domínio. O nosso país não se encontra longe dessa situação, pouco mais subsistindo do que o estímulo que advém do sentimento de cumprimento de dever profissional, enraizado por hábitos adquiridos e pela referência à moral tradicional, todavia com uma completa ausência de acções que decorram de uma vontade política neste domínio.

Assim^(*):

- São poucas as empresas em que existe uma qualificação de funções e postos de trabalho com razoável fundamento técnico, não obstante declarações e promessas, por parte de sindicatos e administrações, da sua desejabilidade e urgência, como fundamento do estabelecimento das carreiras profissionais, níveis de cada carreira, fixação da posição relativa dos salários que lhes correspondem, qualificações profissionais mínimas e desejáveis, etc..
- A estrutura das diferentes categorias profissionais revela a existência sistemática de um número muito reduzido de níveis em cada especialidade (quando não de um único nível) e com diferenciações salariais mínimas entre si; por outro lado, especialidades que requerem qualificações profissionais ou formação académica de base muito diferentes têm grelhas de salários semelhantes ou pouco distanciadas; ainda, postos hierárquicos que exigem competências e têm associadas responsabilidades notavelmente superiores à dos postos executivos inferiores, são

(*) Muitas das afirmações feitas comportam excepções; admite-se que, em conjunto, tenham larga correspondência com a realidade.

remunerados quase de modo idêntico, não sendo pouco usual as pessoas recusarem ou assumirem contrafeitas postos em níveis hierárquicos mais elevados.

- Não existem sistemas de notação profissional, tendo-se assistido à rejeição pura e simples dos que estavam implantados, sem qualquer esforço no sentido da sua completa revisão ou aperfeiçoamento. Nem sequer se executa uma avaliação esporádica da qualidade da actividade profissional desenvolvida, com fins meramente informativos e didáticos, e em cujo processo tenham voz superiores e colegas de trabalho.
- Embora, conforme se considera desejável, todos os contratos colectivos em que estão envolvidos trabalhadores de empresas públicas prevejam a existência de diuturnidades para contemplar o factor antiguidade, as promoções dentro de cada carreira profissional e o acesso aos postos hierárquicos, salvo os de mais alto nível, fazem-se de modo preponderante ou exclusivo (caso mais vulgar) por critérios de antiguidade, sendo muito raros os casos em que é possível premiar (e aproveitar) através da promoção a melhor qualificação profissional. A situação é agravada pelo facto de, não tendo as carreiras técnicas muitos níveis com suficiente diferenciação, a única hipótese de promoção consistir na atribuição de uma chefia hierárquica, o que quase sempre é muito difícil (pela inoportunidade de criar um lugar na estrutura orgânica) ou inadequado (as qualificações disponíveis não apontam nesse sentido).
- Não existem políticas consistentes de formação profissional que permitam recompensar com a aquisição de novos conhecimentos e a atribuição de postos de trabalho mais interessantes aqueles que potencialmente se mostrem mais capazes.
- Não se encontram implantados sistemas destinados a estabelecer alguma correspondência entre resultados alcançados ao nível do posto de trabalho, da oficina, da divisão fabril ou da fá-

brica (ou seus correspondentes administrativos) e complementos de remuneração, individualizados ou não, de atribuição imediata ou diferida ou, sequer, traduzíveis em prioridades na concessão de benefícios sociais. Semelhantemente, não estão previstos esquemas de compensação ou coacção moral em função de resultados atingidos.

- Mais em geral, e salvo a instituição do Fundo para Fins Sociais já referido mas cuja eficácia não foi ainda posta à prova, não existe ligação eficaz entre os resultados globais obtidos pela empresa (sejam os resultados económicos, o modo como os objectivos foram alcançados, ou qualquer outro índice) e o nível médio das remunerações dos seus trabalhadores, nem através de esquemas de comparticipação em resultados nem na latitude de que as administrações dispõem para negociar os contratos colectivos de trabalho. As enormes desigualdades hoje existentes na remuneração de trabalhadores nada têm a ver com a situação real das empresas onde se encontram ou com a eficácia da sua actuação.
- Pelo menos nalgumas empresas, o absentismo é muito dificilmente controlado e a fraude na prova dos seus motivos é corrente, não existindo dissuasores suficientes para combater um e outra.
- Raros são os casos em que funciona uma fiscalização eficaz sobre a qualidade do trabalho; particularmente, e em especial nas empresas que produzem bens e serviços de consumo generalizado e anónimo, deixam muito a desejar, quando existem, os procedimentos destinados a auscultar o modo como evolui a satisfação do consumidor e os índices utilizados para medir a sua qualidade. E, todavia, a divulgação dessa informação podia constituir um razoável meio de consciencialização colectiva dos resultados do trabalho.

5.3 - Graves são também os problemas que se têm de resolver em relação aos quadros médios e superiores. Muitos dos assuntos focados anteriormente dizem-lhes também directamente respeito ou neles se repercutem pela desmotivação que criam. Vale a pena abordar, ainda, alguns aspectos adicionais.

Assim, considera-se tema em que deverão ser desenvolvidas actuações a prazo curto, o da eliminação da extrema ambiguidade em que os quadros se encontram, delimitando claramente quais os níveis que constituem a equipa executiva da administração e que a representam junto dos restantes trabalhadores, tirando daí todas as consequências - das quais se consideram extremamente importantes:

- . o necessário comprometimento dos mesmos na execução da política da administração e que passa pela sua participação na preparação das decisões e pelo seu empenhamento na implantação das mesmas, tendo como contrapartidas uma protecção eficaz que lhes possibilite a denúncia dos actos a que a sua consciência não adira e a possibilidade, sem demasiados onus económicos, da renúncia, por esse motivo, dos cargos que ocupam;
- . a sua capacidade de decisão autónoma sobre quem os represente na negociação das condições de prestação de trabalho e estatuto profissional e sobre o conteúdo a negociar;
- . a assumpção das suas responsabilidades perante os restantes trabalhadores da empresa quanto aos métodos de chefia utilizados e ao respeito dos direitos daqueles;
- . a necessidade de instituir uma prática de gestão participada e por objectivos, que leve a que esses quadros assumam o papel de verdadeiros gestores numa área de actuação bem definida; um quadro sem poder de decisão, simples correia de transmissão de ordens superiores, é um quadro desmotivado, desresponsabilizado e incapaz de se aperfeiçoar pela experiência do dia a dia.

Depois do que se disse, é desnecessário insistir em aspectos como o da formação profissional, envolvendo intenso contacto com experiências estrangeiras diversificadas, aspecto, aliás, que se aplica inteiramente aos membros dos órgãos de gestão.

5.4 - Importa também abordar a questão da participação e responsabilidade do colectivo dos trabalhadores da empresa na sua gestão, assunto em que a tónica doutrinária e de estratégia política é dominante e de consequências decisivas no estabelecimento da lógica de funcionamento da economia e, portanto, na proposição e implantação de soluções concretas para os problemas reais.

Mais uma vez, a consideração do que o poder político consagrou em lei para as empresas públicas tem importância não só como interesse próprio daquele domínio, como pelo facto de daí decorrerem ilações para as empresas de economia mista.

Em termos gerais, pode dizer-se que aos trabalhadores apenas são atribuídos poderes de fiscalização do modo como é conduzida a gestão das empresas e desenvolvidas as suas actividades a todos os níveis, sendo-lhes conferidos os necessários direitos de acesso à informação necessária para tal. Dentro desta óptica, os trabalhadores têm o poder de indicarem um dos elementos da Comissão de Fiscalização e de desenvolverem, através dos órgãos que para tal forem previstos, as actividades que se integrarem dentro do conceito de "controlo de gestão pelos trabalhadores". Embora não esteja ainda promulgada a legislação que regulamenta o correspondente princípio constitucional, pela leitura de uma primeira versão discutida em Conselho de Ministros e pelas declarações das autoridades políticas, poderá dizer-se que tal conceito se materializará no exercício de uma vigilância activa sobre as decisões e acções quotidianamente tomadas e empreendidas, no sentido de rápida e eficazmente se denunciarem desvios às grandes opções acordadas com os trabalhadores, aos princípios políticos constitucionais, às orientações gerais a que a empresa está sujeita (por via dos documentos em que essa orientação deve ser obrigatoriamente explicitada), bem como a

tuações lesivas do interesse da economia nacional ou destinadas a proporcionarem dividendos políticos ilegítimos aos seus autores. Assim, não menosprezando o seu interesse relativamente às empresas públicas, é indiscutível a importância do seu alcance em relação às empresas de direito privado e, em especial, aquelas em que o Estado não dispõe de poderes de gestão ou controlo, confiando-se aí aos trabalhadores da própria empresa uma missão que não pode ser devidamente cumprida apenas pelos órgãos públicos de inspecção.

A responsabilização dos trabalhadores diz respeito pois, exclusivamente, à qualidade e eficácia da fiscalização e controlos efectuados, sendo bastante claras as disposições e declarações dimanadas do Governo no sentido de se excluírem interferências dos trabalhadores na condução da gestão das empresas (evitando-se, em particular, a existência de poderes paralelos de gestão) e, conseqüentemente, de lhes não serem atribuídas responsabilidades nesse campo. Referências adicionais à intervenção dos trabalhadores constam das Bases Gerais das Empresas Públicas, onde se impõe a obrigatoriedade de consulta aos mesmos antes da nomeação dos elementos do Conselho de Gestão - mas libertando o Governo de quaisquer obrigações, que não as decorrentes do livre jogo das forças em presença, em seguir o aviso daqueles - e se instituir a sua participação no Conselho Geral, órgão apenas com atribuições consultivas e cuja obrigatoriedade de existência apenas se refere às empresas que exploram serviços públicos. Estes dois aspectos não são, manifestamente, suficientes para se poder atribuir responsabilidade conjunta de gestão aos colectivos dos trabalhadores, podendo dizer-se que toda ela é dimanada do Governo, situação que se filia nitidamente no argumento de que a acção deste se exerce em representação dos interesses gerais da população, legitimada pelo voto; aos trabalhadores de cada empresa cabe o direito, através dos sindicatos, de defenderem, perante esses interesses gerais, os seus interesses particulares.

A utilização de esquemas de autogestão está, pois, posta de parte, pelo menos nos condicionalismos actuais, em relação às empresas pú-

blicas. Todavia, tal filosofia encontra-se constitucionalmente prevista e até encorajada, essencialmente associada à fórmula jurídica cooperativa, sendo portanto uma solução perfeitamente admissível em relação a unidades controladas pelo Estado, se houver predisposição por parte dos trabalhadores para aceitarem o esquema.

De igual modo se encontram afastados esquemas de co-gestão nas empresas públicas. Mas, com condicionalismos semelhantes, não se exclui, nas empresas participadas, a hipótese de transferência da parte do capital pertencente ao Estado para os trabalhadores da empresa, como colectivo^(*) ou individualmente, o que acabaria por levar à repartição da responsabilidade de gestão com estes. É, todavia, um caso que se não pode qualificar de co-gestão, uma vez que o acesso às responsabilidades de comando não se fez por via da condição de trabalhador. De resto, também não é com muita justeza que se pode qualificar de co-gestão, pelo menos no sentido tradicional, esse acesso em empresas públicas onde se deu apropriação colectiva dos meios de produção, em especial num país onde a percentagem de apropriação das unidades de peso significativo é bastante grande. As posições das diversas forças políticas, particularmente dos partidos no poder e dos sindicatos, relativamente à compatibilidade de participação dos trabalhadores na gestão das empresas públicas com os esquemas doutrinários em que se enquadram e com estratégia política que adoptam, não têm sido objecto de amplos esclarecimento e debate; na prática, apenas se tem revelado a hostilidade ou o desinteresse por parte de sindicatos confrontados ocasionalmente com o problema.

5.5 - Chegamos assim, e de novo, ao problema da determinação da parte do valor acrescentado que é atribuída ao factor trabalho, num contexto con

(*) Esta hipótese necessitaria, contudo, de enquadramento jurídico adicional, para evitar as soluções tortuosas que seriam necessárias em aproveitamento das possibilidades jurídicas existentes.

creto que é o da esmagadora maioria das empresas públicas estarem numa situação economicamente deficitária ou em que o equilíbrio se consegue à custa de aumentos de preços percentualmente equivalentes (ou até superiores) à evolução do salário médio praticado.

Do que se já apresentou, neste e em capítulos anteriores, pode concluir-se que, dentro do enquadramento institucional vigente, a execução de uma política económica coerente que vise, entre outros pontos, o controlo da inflação, a correcção das fortíssimas assimetrias salariais entre empresas, entre sectores e entre regiões e o funcionamento e desenvolvimento do sector público produtivo, obriga a tomar medidas que evitem transferir para a negociação de cada contrato colectivo de trabalho a fixação de todas as regras de jogo e de todos os parâmetros. Doutro modo continuarão a cair-se, como tem vindo a acontecer, na obtenção de soluções arbitrárias e completamente desconexas que derivam da ausência, por parte das administrações, de quaisquer pontos de referência fixados em função de estratégias gerais, e, por parte dos sindicatos, de informação precisa e objectiva que os responsabilize pelas consequências das suas posições em relação ao êxito ou fracasso dessas estratégias.

Essas políticas globais terão, pois, de ser previamente negociadas com os sindicatos. Resta saber se estes estarão dispostos, em número significativo, a entrar nessas negociações, de modo a que as mesmas conduzam a resultados positivos na definição do enquadramento de que falamos. Tudo depende da sua atitude em relação ao actual sistema político, mais em particular em relação ao Governo, e da sua avaliação das consequências que poderão advir de uma eventual atitude de rejeição: de gradação da economia que leve a novo sistema institucional mais conforme às suas aspirações ou que determine, pelo contrário, a vitória das forças que são a sua negação?

5.6 - De uma maneira geral, têm tido certa permanência as declara -

ções de intenção das autoridades políticas quanto à problemática dos membros dos órgãos superiores de gestão de empresas públicas ou privadas, em nome do Estado, que passamos a designar por "gestores públicos". Segue-se uma síntese que abarca os aspectos fundamentais dessas intenções e algumas preocupações adicionais que os complementam:

- Os gestores públicos devem ser profissionais, trabalhando em tempo inteiro, eliminando-se a figura do mero representante de interesses públicos que, em complemento de outra actividade principal, assistia com grau de empenhamento mínimo, a reuniões periódicas do conselho de administração.
- Nas empresas públicas, os gestores devem ter responsabilidades executivas directas, assegurando a primeira linha de direcção, para além das competências que lhes cabem no regular funcionamento do órgão colegial de administração; essa situação exclui a possibilidade da partilha do tempo de cada gestor por mais de uma empresa pública, salvo, naturalmente, os casos em que, por estratégia transitória, se julgue conveniente atribuir a mais de uma empresa órgãos de administração comuns.
- Nas empresas privadas em que o Estado participe, deve-se procurar, por modificação dos seus Estatutos e nos casos em que tal for possível, instituir progressivamente o sistema, salvaguardando os direitos de gestão que caibam aos eventuais acionistas privados. Quando isso não for possível, deve-se concentrar o número de lugares a que o Estado tenha direito na administração no número de gestores estritamente necessário ao desempenho das funções a exercer, atribuindo-lhes, nas decisões, o número de votos que corresponde à participação. Admite-se, então, que em muitos casos seja necessário um único gestor, e nem sempre em tempo inteiro. Neste último caso, haverá que decidir da repartição do seu tempo noutras tarefas, que deverão ser do mesmo tipo ou complementares, para garantir o já referido profissionalismo.

- Dado o atraso das técnicas de gestão correntemente utilizadas em Portugal e a grande escassez de gestores com ampla experiência em muitos dos domínios em que se exerce a actividade das empresas em que o Estado tem responsabilidades, torna-se imprescindível montar e manter um sistema de permanente formação e aperfeiçoamento de gestores públicos (um instituto especializado em Portugal, bolsas de estudo no estrangeiro para frequência de cursos e estágios, apoio directo de entidades estrangeiras e internacionais, etc.) bem como garantir suficiente mobilidade aos mesmos, através de uma avisada constituição das equipas de gestão, com rotação periódica, permitindo a aquisição de conhecimentos aos que se encontram no princípio da carreira pela prática quotidiana em contacto com os mais experientes.
- Necessidade de instituir um esquema de remunerações e de previdência social que evite as actuais situações de gritante desigualdade, em circunstâncias semelhantes, mesmo no seio de cada empresa. Esse esquema deverá ter em conta a experiência do gestor, o lugar ocupado e a categoria da empresa onde as funções se exercem, bem como a necessidade de sustentar uma concorrência com o sector privado na obtenção de um recurso escasso, que é o gestor competente.
- Premência na clara definição dos deveres, direitos, garantias e responsabilidades dos gestores públicos, quer no que respeita às consequências dos seus actos de gestão, perante o Governo e perante terceiros, quer no que respeita às suas relações contratuais de trabalho.
- Desejabilidade em separar, em especial para as empresas privadas com participação do Estado, o recebimento por parte deste das importâncias devidas pelos encargos de gestão assumidos, do pagamento aos gestores das suas remunerações, retirando todas as consequências do facto destes não serem funcionários das

empresas mas sim representantes do sector público nestas. Ao mesmo tempo, ficam possibilitadas soluções para o problema das eventuais desigualdades de remuneração na gestão de empresas públicas e privadas e das acumulações de funções em diferentes empresas.

Até aqui, grande parte das dificuldades em recrutar gestores para o sector público tem sido rodeada através da utilização do estatuto da requisição, permitindo, nomeadamente, ir buscar quadros às empresas públicas com o fim de cumprirem mandatos nos conselhos de gestão de outras empresas, sendo garantido o regresso à situação de origem sem perda de direitos. Contudo, trata-se de um recurso que está longe de ser suficiente para responder às preocupações atrás enunciadas, para além de criar dificuldades adicionais nas empresas a que pertencem os requisitados. Com efeito, há que ter em conta que estão em causa largas centenas de postos de trabalho cujo desguarnecimento se faz por tempo indeterminado (as requisições são renováveis), alguns deles em verdadeiras posições chave, com dificuldades de substituição derivadas da preocupação em garantir ao requisitado lugar equivalente em caso de regresso. Por outro lado, as difíceis condições em que se processa a gestão das empresas, com exposição a pressões políticas de diversa ordem e perante uma prática política corrente que consiste em proceder a remodelações profundas nos órgãos de gestão ao sabor da evolução da composição do Governo, leva, inevitavelmente, a uma atitude de immobilismo ou de extrema prudência de actuação dos gestores, de consequências desastrosas num momento em que o dinamismo e a criatividade são requisitos fundamentais, a menos que estes encontrem suficiente protecção nas leis ou contratos a que a sua prestação de trabalho está sujeita.

A publicação de um Estatuto do Gestor Público, contemplando respostas para as questões postas, afigura-se, assim, de interesse fundamental.

6. O INVESTIMENTO E O SEU FINANCIAMENTO

6.1 - Nos países industrializados vivendo em regime capitalista as empresas preocupam-se sobretudo em fomentar o aparecimento de "novas ideias" de que possam resultar projectos de investimento ou novos "negócios". A capacidade inovadora ou criativa da empresa é considerada como recurso fundamental para a sua expansão ou mesmo para a sua sobrevivência, dada a grande competitividade exigida pelos mercados em que normalmente actua.

Naturalmente que num sistema económico mais justo interessa muito menos o potencial lucrativo de uma nova ideia e muito mais a sua possibilidade de contribuir para a satisfação de necessidades colectivas em termos mais económicos. No entanto o espírito de inovação e criatividade, reorientado nas suas metas, tem de ser estimulado e mantido por variados motivos.

Nos países em regime de transição, há que pensar a reconversão do próprio sistema produtivo e não parece, em face das características próprias de cada caso, que seja possível importar soluções aplicadas em contextos muito diferentes.

Mas, para além disso, é necessário gerar internamente novas ideias para evitar que a sociedade reconvertida se transforme numa sociedade estagnada ou que tenha de desenvolver-se segundo um processo de imitação associado a maciças importações tecnológicas com pesados reflexos na balança de pagamentos e a perda ou enfraquecimento dos objectivos próprios.

As "novas ideias" surgidas por acaso são acontecimentos raros. Por esse facto as empresas viradas para o futuro possuem departamentos especializados para fomentar o aparecimento de "novas ideias", procedendo de forma sistemática ao seu escrutínio e filtragem até chegarem, depois de um longo processo analítico, a estudos preliminares de viabilidade de projectos ou pre-projectos.

Sem deixar de contestar a ênfase exclusiva no móbil do lucro, muito há de aproveitável na forma como se organizam as principais empresas capitalistas para adaptação a um meio muito dinâmico. Pode mesmo dizer -se que a falta de uma tal organização nas empresas portuguesas foi responsável no passado por uma quase completa passividade tecnológica e será no futuro responsável pela incapacidade de "nacionalizar" ideias e projectos.

Poderá certamente argumentar-se que os departamentos de "novas -ideias" ou de investigação aplicada são extremamente onerosos, com produtividade de difícil avaliação, o que torna problemática a sua existência mesmo nas grandes empresas. No entanto, quer através de departamentos especializados, quer por qualquer outra forma organizativa, a actividade criativa das empresas do sector público tem de ser fomentada e apoiada pelo Governo. Podem indicar-se diversas formas de proceder para concretizar esse fomento e apoio.

Desde logo, a atitude das entidades de tutela pode ter relativa importância na medida em que, tendo o direito de exigir todas as informações necessárias ao acompanhamento da actividade da empresa, dê lugar de relevo às acções de inovação e desenvolvimento em estudo, programadas ou empreendidas, nomeadamente as que se referem a novos produtos e a novas técnicas de produção ou de distribuição.

Por outro lado, dados os elevados custos associados com a actividade de R & D, traduzindo-se em investimentos de recuperação sempre muito contingente, impõe-se uma política de subsídios, quer às empresas públicas, quer às empresas participadas com controlo do Estado, acompanhada por uma severa fiscalização por parte das respectivas entidades de tutela. Esses subsídios devem ser feitos de preferência em face de projectos de R & D devidamente identificados e incluídos no orçamento de investimentos, e podem destinar-se a cobrir uma dada percentagem do custo desses projectos, não sendo descabido admitir a sua concessão por parte do Fundo de Desenvolvimento Económico Nacional.

Outra forma de incentivação pode ser obtida consentindo que uma percentagem do custo desses projectos seja adicionada ao montante levado à Reserva para Investimentos, havendo, é claro, resultados que o permitam. A empresa teria na maior retenção de resultados a contra-partida para o seu esforço criativo.

No que se refere a formas de apoio adicionais devem referir-se o Instituto de Desenvolvimento Industrial, na linha de atribuições que já foram referidas, e as empresas de estudos em que o sector público tem hoje participação relevante. A acção destas entidades pode ser no duplo sentido de sugerir às empresas ideias de desenvolvimento ou de estudar e formular pre-projectos a partir de ideias originadas nas empresas.

Evidentemente que o fomento e apoio de acções de R & D passa pela instituição de critérios de prioridade que assegurem tanto quanto possível o aparecimento de projectos económica e socialmente justificáveis no quadro nacional. Nomeadamente pode fazer-se aqui referência ao problema da adaptação das tecnologias ao caso português ou ainda, o que é mais delicado, ao da criação de tecnologias adequadas à exploração dos recursos próprios. Importa ainda estudar em que medida se pode beneficiar da cooperação internacional no importante domínio das transferências tecnológicas.

A recente ampliação do sector público produtivo criou condições para se congregarem e coordenarem os esforços criativos de um importante conjunto de grandes empresas. Esta colaboração, anteriormente pouco possível devido à rivalidade entre os grupos económicos detentores dessas grandes empresas, parece até decisiva para o sector público demonstrar que a iniciativa que dele parte é qualitativa e quantitativamente superior à iniciativa privada. Não é menos importante o papel a desempenhar neste aspecto pelo Instituto de Desenvolvimento Industrial e pelos holdings públicos.

A coordenação dos esforços das empresas no domínio da investigação aplicada não esgota o problema que tem de inserir-se num quadro mais amplo incluindo as instituições não empresariais que se dedicam àquele tipo de investigação. A questão passa pela definição de uma política nacional

de investigação aplicada de que existem agora boas possibilidades de execução em face da grande amplitude do sector público produtivo e do mais fácil contacto entre empresas nacionalizadas e institutos ou faculdades.

Diga-se, de passagem, que essa política nacional de investigação aplicada não deixará de ter em larga medida influência na orientação de investigação pura, o que equivale a afirmar que tem de haver uma política nacional de investigação.

6.2 - Tem-se progredido bastante entre nós no domínio da elaboração dos projectos de investimento. Isso não impede porém que ao nível do sector público produtivo se devam dar alguns passos no sentido de uniformizar a estrutura do estudo de projectos industriais, objectivo que facilitaria a avaliação pelos departamentos governamentais com intervenção no processo, a comparação entre projectos e até o intercâmbio de informação entre as unidades de produção promotoras dos projectos. Nomeadamente, é indispensável que os estudos dos projectos contenham os elementos necessários à aplicação dos critérios de avaliação que venham a ser oficialmente reconhecidos como prioritários.

Nem todas as empresas possuem técnicos especializados na elaboração de projectos. Esta limitação pode ser grandemente atenuada através da criação de estruturas de apoio nas entidades de tutela ou na "holding" do Estado, podendo inclusivamente esse apoio considerar-se como uma das funções horizontais a desempenhar pela "holding". Outra hipótese consiste em criar empresas especializadas na sua dependência e que possam apoiar as restantes sociedades participadas e até as empresas públicas.

No estabelecimento de critérios de avaliação de projectos há duas ópticas possíveis. A óptica empresarial atende apenas aos preços dos produtos e factores de produção no mercado, enquanto a óptica social considera a valorização de produtos e factores do ponto de vista da colectividade. Esta valorização só pode fazer-se com inteira propriedade (preços -sombra) no âmbito do planeamento macro-económico, daí que nas duas ópticas acima se possa ver um dos pontos de choque entre mercado e plano.

Mesmo que se dê a necessária ênfase à óptica social importa não esquecer que a óptica empresarial se refere à realidade dos fluxos financeiros e põe em destaque o impacto do projecto na situação financeira da empresa. Um certo compromisso entre as duas ópticas é sempre necessário.

Nas "Bases Gerais" teve-se plena consciência desta necessidade ao estabelecer que:

"... Na apreciação de projectos de novos investimentos deve procurar obter-se uma adequada taxa de rentabilidade financeira dos capitais investidos, sem prejuízo de, em relação a certos projectos, a determinação daquela taxa de rentabilidade poder basear-se numa análise de custos e benefícios económico - sociais;"

(Alínea d) do nº 2
do artº 21º)

Enquanto a inexistência de um sistema de planeamento eficaz não permita a fixação de critérios sociais globais, haverá que trabalhar com critérios sociais parciais que focam aspectos limitados e exprimem a qualificação do projecto unicamente em relação a esses atributos. Dos critérios parciais parece ser pacífico que na presente conjuntura e em igualdade de condições são fundamentais a criação de emprego e os efeitos sobre a balança de pagamentos. É o que se depreende do critério referido no Programa do 1º Governo Constitucional:

"- Produção de bens ou serviços essenciais destinados a satisfazer necessidades reais de consumo interno em relação ao qual se verifique carência de oferta interna ou dependência do exterior;

- Empreendimentos destinados a ampliar a capacidade produtiva nacional em sector fundamentais da economia;
- Projectos que visem obter meios de troca em mercados externos.

Em particular, quanto às combinações produtivas, é atribuída maior prioridade aos projectos que:

- "- Permitam absorver o desemprego e o subemprego existentes;
- Recorram a tecnologias relativamente menos dependentes do exterior;
- Contribuam para reduzir as importações e/ou aumentar as exportações;
- Concorram pela sua localização para a correcção dos desequilíbrios regionais;
- Aproveitem recursos nacionais subutilizados."

A criação de emprego leva a dar preferência aos projectos mão-de-obra intensivos em detrimento dos capital intensivos. A nossa situação crónica de importadores de tecnologia tem como consequência a escassez de projectos mão-de-obra intensivos em comparação com os projectos capital intensivos e torna extraordinariamente difícil o enunciar claramente uma política de selecção de investimentos sem pôr em causa os projectos em carteira ou em curso, para os quais não se vislumbram alternativas. A situação é particularmente grave na presente conjuntura em que é absolutamente necessário recuperar o ritmo do investimento do baixo nível em que se encontra. Por outro lado chama mais uma vez a atenção para a necessidade de gerar ideias conducentes a projectos adequados à nossa estrutura socio-económica, única forma de quebrar o ciclo vicioso em que o País se encontra.

Já foi dito que os orçamentos de investimento das empresas do sector público carecem da aprovação dos respectivos ministérios ou entidades de tutela os quais, antes de darem a sua aprovação, devem apresentá-los ao órgão central de planeamento tendo em vista a necessária harmonização e integração no plano económico nacional.

Põe-se no entanto o problema de decidir quem deve proceder à avaliação dos projectos tendo em vista evidenciar as suas características à luz dos critérios de prioridade estabelecidos. Parece fora de dúvida que essa função deve caber às entidades de tutela mas só em relação a projectos associados a investimentos acima de certo nível, prática que obriga a fixar para as empresas limites de autonomia adequados. Assim, quando da apresentação do orçamento de investimentos de uma empresa esta deve fazê-lo acompanhar do estudo detalhado (e conforme as normas) dos "grandes" projectos a aprovar, depois de criteriosa avaliação e análise de enquadramento no plano nacional, enquanto os "pequenos" projectos são discutidos e aprovados ou não em função da sua especificação e das verbas orçamentadas. Sem este procedimento selectivo as entidades de tutela são inundadas com projectos, muitos dos quais não possuem dimensão que justifique avaliação por parte de especialistas, na maioria das vezes facilmente justificáveis pelos responsáveis de empresa quando de discussão do orçamento.

É evidente que os limites de autonomia (de proceder a investimentos sem apresentar o respectivo estudo) devem variar relativamente à importância da empresa, não sendo difícil propor critérios em função do capital, do activo imobilizado (bruto ou líquido), das vendas, do volume de emprego, etc. Seja qual for o critério adoptado há que proceder à sua definição oportuna informando as empresas do limite que lhe é atribuído.

6.3 - É frequente suceder que um projecto de investimento, apreciado se veramente à luz de um determinado conjunto de critérios com boa classificação, venha a mostrar-se depois de executado francamente aquém das expectativas.

Assim, muitas empresas a partir do momento em que os projectos são decididos, pouco ou nenhum controle exercem nos três aspectos fundamentais:

- . custo do investimento;
- . prazos de execução (construção, montagem e arranque, por exemplo);
- . rendabilidade.

Por outras palavras, a priori procedem a uma análise, por vezes rigorosa, das características do investimento; a posteriori poucas vezes vêm a saber se o custo do investimento foi ou não superior ao custo definido no projecto, se foram cumpridos os prazos e se nos primeiros períodos de exploração se alcançaram as vendas previstas, se os custos de produção se situaram ao nível estimado e se os objectivos de rendabilidade económica e social foram atingidos, etc.

É certo que existe uma corrente de opinião segundo a qual em face da natureza praticamente irreversível dos investimentos o que verdadeiramente interessa é o controle ex-ante dado que a seu tempo a análise contabilística e económica da empresa fornecerá o controle ex-post.

Essa tese não parece defensável à luz dos modernos princípios de controle de gestão. Com efeito, mesmo nas mais clássicas obras sobre orçamento e controle se encontram referências aos três principais aspectos a considerar em relação às despesas que se destinam a aumentar o imobilizado afecto à exploração. Esses aspectos são os seguintes:

- 1º) O projecto deve ser precedido de uma autorização formal;
- 2º) O projecto autorizado deve ser acompanhado por uma bem organizada contabilização de custos e por um eficaz controle do progresso dos trabalhos de execução;
- 3º) O projecto terminado deve ser seguido, primeiro, de um relatório final, segundo, de uma post-auditoria ou "follow-up".

Torna-se por isso importante levar as empresas do sector público, pelo menos as mais importantes, a adoptar um sistema de controlo interno da execução de projectos. Esse sistema deve resultar de uma adaptação das técnicas modernamente recomendadas ao tipo da empresa e à dimensão dos seus projectos.

O substancial alargamento do sector público produtivo justifica talvez que se desenvolva um esforço para instituir, na medida do possível, um esquema uniforme de controlo de execução de projectos. É também de referir o apoio que neste campo pode ser dado pelas empresas de "engineering" em que o sector público participa.

6.4 - O investimento não pode considerar-se desligado do respectivo financiamento. O equilíbrio financeiro^(*) ou seja o balanceamento da origem e aplicação de fundos pode analisar-se quer a nível das empresas públicas ou participadas, quer a nível mais agregado ou global (sector público produtivo, por exemplo).

Existem disposições nas "Bases Gerais" que visam o equilíbrio financeiro das empresas públicas cujos planos financeiros devem ser aprovados pelas entidades de tutela com audiência do órgão central de planeamento, como aliás já foi referido.

No campo do financiamento dos investimentos das empresas públicas, foram já abordados o autofinanciamento^(**) e a autonomia das empresas na contratação de empréstimos a médio e longo prazo^(***).

(*) Considerando, é claro, a exploração e o investimento.

(**) Controlo das amortizações pelas entidades de tutela e criação da "Reserva para Investimentos".

(***) Com excepção da autorização prévia nos empréstimos internos a mais de 7 anos e nos empréstimos externos.

As "Bases Gerais" são porém omissas sobre a repartição entre capitais próprios e alheios, não referindo qualquer relação que deva verificar-se entre esses dois tipos de capitais.

No entanto, como se diz no nº 4 do Preâmbulo, a actividade das empresas públicas "é regida pelo direito privado e exercida segundo os processos e técnicas de gestão próprias das empresas privadas ...". Logo, em face da referida omissão, deve concluir-se que em princípio as empresas públicas, tal como as empresas privadas, devem apresentar uma estrutura financeira em que se equilibrem os capitais próprios (capital estatutário mais reservas) e os capitais alheios. Para efeitos internos parece ser pacífico que, sendo as empresas públicas pertença do Estado, haja por parte dos credores da empresa (fornecedores ou bancos) uma menor exigência da capacidade de solvência em comparação com o que sucede em relação às empresas privadas e esse facto pode levar a negligenciar um tanto as necessidades de equilíbrio. Para efeitos de crédito externo é natural que haja exigências mais firmes por parte do credor estrangeiro.

No que diz respeito a princípios de gestão financeira, convém atender aos efeitos da estrutura financeira sobre a rentabilidade da empresa. Assim, um peso excessivo dos capitais alheios, normalmente com custos elevados, pode fazer com que os encargos financeiros resultantes absorvam totalmente ou quase o resultado económico de exploração, contribuindo para baixar drasticamente a rentabilidade da empresa ou mesmo para a tornar deficitária.

Dentro desta linha há que prever nos planos financeiros das empresas públicas o adequado financiamento em capitais próprios, sendo a fonte externa mais indicada o Fundo Nacional de Desenvolvimento Económico, cuja criação está prevista. Assim todas as entradas de capital próprio deverão ser canalizadas através deste Fundo, tornando o processo mais transparente e susceptível de análise correcta.

No caso das empresas participadas em que seja necessário recorrer a aumentos de capital para manutenção de níveis adequados de autonomia financeira, não que distinguir dois casos. Se a empresa é controlada, é natu

ral que os accionistas privados não acorram a subscrever qualquer aumento de capital, a menos que haja uma política de dividendos previamente estabelecida ou seja aberta a possibilidade de negociarem as acções. O mais provável é que o Estado, através da entidade participante, fique com o maior encargo no que se refere a aumentos de capital. Se a empresa participada não é controlada, a participação privada nos aumentos de capital dependerá da situação económico-financeira da empresa, devendo ser negociada entre o Estado e os accionistas principais em face de uma clara perspectivação do futuro da empresa. Em qualquer dos casos o financiamento dos capitais próprios na parte que compete ao Estado deverá ser feito pelo Fundo Nacional de Desenvolvimento Económico mas agora através das "holdings" participantes.

No que se refere ao financiamento com capitais alheios não pode naturalmente continuar por muito mais tempo a situação de "salve-se quem puder", em que as empresas concorrem na obtenção de empréstimos, de subsídios, de avales, etc., recorrendo a empréstimos de curto prazo para financiar investimentos em curso. Este procedimento casuístico é contrário à filosofia que põe acima de tudo objectivos sociais e só poderá ser eliminado quando houver sistemática apreciação dos planos financeiros das empresas por parte das entidades de tutela (ministros e "holdings") com respeito pelas prioridades do plano.

6.5 - Cai-se aqui no problema de repartição dos recursos financeiros nacionais, estrangeiros e internacionais, isto é, no equilíbrio financeiro global.

O órgão central de planeamento ao efectuar, como lhe compete, a harmonização dos planos financeiros das empresas do sector público, deverá examinar as necessidades de financiamento dessas empresas e comparar essas necessidades com os recursos financeiros internos e externos de que o país pode dispor no período em questão. Trata-se de uma tarefa extremamente importante em que não deve ignorar-se que além das empresas do sector público produtivo haverá empresas privadas ou de economia mista que igualmente terão necessidade de meios financeiros.

A repartição dos recursos financeiros pelas empresas que concorrem na sua aquisição é uma tarefa prioritária cujo cumprimento necessita da definição de uma política de financiamento e crédito. A selectividade de crédito poderá ser uma das formas mais persuasivas de orientar as empresas privadas na sua política de investimento.

A estimativa dos recursos financeiros globais apresentar-se eivada de grandes dificuldades, uma das quais é a falta de um modelo macroeconómico para a economia portuguesa dada a fase de profundas alterações estruturais que se estão processando. Mas essa estimativa tem de ser feita pelo menos para se ter uma ideia de quais os investimentos que poderão executar-se mesmo que seja impossível de momento proceder à optimização da imputação de recursos financeiros.

No domínio dos meios internos de financiamento importa apurar em que medida o Banco de Portugal pode continuar na sua função de conceder crédito sem ruptura do sistema e na capacidade do sistema bancário nacionalizado para mobilizar a poupança dos portugueses residentes e não residentes, considerando também os efeitos das medidas de poupança forçada anunciadas para breve.

Inscreve-se ainda neste domínio o problema do papel que deve caber às diferentes unidades do sistema bancário nacionalizado e ainda da forma como se estabelecerá a concorrência entre essas unidades. Na hipótese de se estabelecer centralmente um esquema orientador da repartição é lógico inquirir até que ponto será esse esquema compatível com as relações entre bancos e clientes "habituais" ou com a concorrência que porventura se estabeleça entre os diversos bancos. Note-se que se tem neste campo mais um exemplo da contradição entre mercado e plano, de difícil solução.

No domínio do financiamento de instituições internacionais, como o Banco Mundial, é sabido que, exceptuando os casos de financiamento a bancos de fomento, esse financiamento é em geral concedido somente para certos projectos o que de certo modo facilita a repartição desse tipo de recurso. Os financiamentos estrangeiros encontram-se em regra muito ligados ao fornecimento de equipamentos o que pode também facilitar a repartição.