

Portugal's Financial Reconstruction

PROFESSOR
OLIVEIRA
SALAZAR'S
RECORD

by

TOMAZ WYLIE FERNANDES

EDITIONS

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LISBON

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N.º 31

Ch. de. ^{Mr} Luchon Duarte Rey Gomes Ulrich,

Portugal's Financial Reconstruction

Com rendadeira admiravel e sincera utilidade

Tomaz Fernandes

PROFESSOR OLIVEIRA
SALAZAR'S RECORD

by

TOMAZ WYLIE FERNANDES

INV.- N 2530

EDITIONS

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CASA DA MOEDA DE PORTUGAL
HOMENAGEM A BARTALHO

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1936

«This is surely a record of which any country might be proud, and which marks Senhor Salazar as one of the greatest Finance Ministers of modern times.»

(THE TIMES, March 13, 1935)

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PART I

LAYING THE BASES OF RECONSTRUCTION

Portuguese finances in the past.

We hear much nowadays about countries in financial difficulties. Less is said about the few States which, amidst the ravages caused by the gravest economic crisis of modern times, have succeeded in keeping their finances in good order. Portugal is to be counted amongst these few, thanks to the energy, perseverance and tenacious work of Professor Oliveira Salazar, President of the Council since 1932 and Minister of Finance since 1928.

Recent events once more show that no country, be it great or small, powerful or feeble, can in the long run resist a state of permanently unbalanced public accounts. Sooner or later a crisis is bound to come, when the evil effects of the State having lived for successive years on borrowed money will reveal themselves under social, political and economic disorderly aspects. If it happens to be a country of the gold-bloc, no matter how technically strong its currency position may be, it will fall an easy prey to a well organised speculator's campaign if the State goes on spending more and more without regard to public revenue; it goes without saying that we do not refer to certain countries which, although nominally still within the gold-bloc,

have long ago ceased for all practical purposes to be on the gold standard. If we take a country which has a managed currency, it is quite obvious that, in order to escape note inflation, it must by all means balance its public revenue and expenditure, at least that which falls within the category of ordinary expenditure.

This was clearly realized by Professor Oliveira Salazar as soon as he took charge of the Ministry of Finance eight years ago. He considered it as a primary condition that the budget be balanced if the country was to lead the new life which the promoters of the coup d'état of May, 1926, had in view.

This military movement had been quite successful; parliament had been closed and the party politicians given an enforced holiday. But as regards financial administration the results of the first two years dictatorship had not been particularly propitious. And as one of the things for which the parliamentary regime had been more strongly and rightly criticized was exactly the piteous state of the nation's finance, it is easy to understand how the continuance of such maladministration was painfully resented.

The necessity of a balanced budget.

Except for a brief spell of two years, 1913 and 1914, the portuguese budget had been unbalanced ever since 1854. During the first half of the nineteenth century, the french invasions, followed by the civil war between absolutists and constitutionalists and subsequent party strife, had financially exhausted the country. New men came into power who honestly tried to pull Portugal out of her difficulties. By drastic reductions in debt charges they sought to establish budget equilibrium, but money was badly needed for the development of the country and more borrowing began again. According to a reliable

portuguese economist from 1852 to 1890 loans were contracted for the amount of 127 million pounds, of which scarcely 68 millions found their way into the Treasury chests, so low were the issue prices and so heavy the commissions paid to middlemen. Of these 68 millions three fifths went to cover budget deficiencies and only about 27 million pounds were used for public works.

In 1891 a grave financial crisis brought things to a climax. For a long time before, the adverse visible trade balance had been growing larger until, in 1890, foreign trade returns had shown an excess of imports over exports of £ 5,118,700, (Imports for consumption £ 9,916,200, exports £ 4,797,500); large amounts of money had been spent on colonial military operations and development schemes undertaken some years before for the vindication of our just claims in Africa; the increase of public debt charges in foreign currencies had imposed too heavy a strain on the country's exchange resources, which were suffering already from such serious drains as those caused by the payment of the Royal Railway Company's coupons, extravagant buying of spanish lottery tickets and large scale speculative operations on brazilian and argentine stocks. The unsound conditions of some of the private national banks and the increasing immobilization of the Bank of Portugal's capital added to the perplexity of the situation.

On the political side things were looking bad too. The colonial dispute with Great Britain which arose in 1890 about portuguese rights of occupation in East Africa had given origin to strong public opinion resentment that was not at all placated by the settlement arrived at between the two Governments. The success of the brazilian conspiracy for the establishment of a republic in that country in 1889 stimulated the republicans in Portugal to profit by the anti-british sentiment to stir up agitation, culminating on a military rising in January 1891,

which, though easily defeated by the Government, left an unquestionable malaise as its sequel.

When, finally, the Portuguese Government's London bankers, Baring Brothers, being in temporary difficulties through having too large a proportion of their assets locked up in South-American securities, were forced to call in their credits at a moment's notice, and the simultaneous heavy depreciation of the Brazilian mil-reis in the London market practically stopped remittances from Brazil to Portugal, the shock proved too violent for the debile finances of the country.

A decree of May 7, 1891, authorized an increase in the note issue and at the same time allowed the Bank, for a period of three months, to cash its notes, which represented gold, in silver money. These measures proved ineffective, the Bank of Portugal suffered a «run» and its resources were heavily depleted. Drastic action had to be taken and on May 10th another decree was published introducing a moratorium for 60 days, suspending the maturity and payment of promissory notes, bills of exchange, etc. The Bank's notes thus became forced currency. On the expiry of the moratorium, the inconvertibility of the notes was maintained until, the decree said, a new monetary system should be put into force. No one thought then that this regime of legal inconvertibility was to last for 40 years.

Meanwhile sovereigns, which were abundantly used as legal tender in Portugal, (£ 1 equal Esc. 4\$50), disappeared from the market, £ 6.600.000 having left the country during 1891. The London rate of exchange went down but nothing to be compared with the spectacular depreciations we have seen since 1918. In 1891 the sovereign was worth Esc. 4\$832; between that year and 1913 the largest depreciation took place in 1898 when the £'s value attained Esc. 7\$108, and in 1906 it had gone back to its parity of Esc. 4\$582. This relative stability is so much more remarkable when we consider that the note cir-

ulation had in the mean time increased by 4.6 times, as bank notes had to be substituted for the gold sovereigns.

The exchange crisis brought the Government into difficulties with the foreign creditors. The question of how to finish once for all with the budget disequilibrium was taken up again, but once more party politics had the upper hand and so when in 1910 the Republic was proclaimed, one of the grievances raised against the monarchist regime had been the disastrous administration of public monies. A republican Government had to make good their propaganda promises and indeed the public accounts for the financial years 1912-13 and 1913-14 showed surpluses respectively of £ 2,650 and £ 976,785. The war dashed such hopes as might have been entertained that a new era had begun for the portuguese finances, the financial year 1914-15 having closed with a deficit of £ 5,650,000.

During the war the State's expenditure went on augmenting and as the revenue, for want of courage on the Government's part to increase taxation, did not keep pace with it, deficits piled up and were covered by the easy process of printing batches of bank-notes. The State debt to the Bank of Portugal, which in 1913 amounted to about 71.000 *contos* ⁽¹⁾, had risen, through the working of the printing press, to 228.000 *contos* ⁽²⁾ in 1918 and to about 1.700.000 *contos* ⁽³⁾ in 1924.

After 1924 budget deficiencies were covered in two different ways: by the issue of Treasury Bills, bearing interest at a rate between 7 and 8 per cent, of which the amount in circulation

⁽¹⁾ 1 *conto* is equivalent to 1.000 Escudos. In 1913 the rate of exchange was £ 1 equal Esc. 5\$246.

⁽²⁾ The average rate of exchange in 1918 was £ 1 equal Esc. 7\$82.

⁽³⁾ The average rate of exchange in 1924 was £ 1 equal Esc. 131\$563.

increased from 235.000 *contos* in June 1924, to 1.200.000 *contos* ⁽¹⁾ in June 1928, and by utilising the deposits in the Caixa Geral dos Depositos (the Government's General Savings Bank), the State debt to this institution having risen from 90.000 *contos* in June 1924, to 600.000 *contos* in June 1928. The average yearly deficit from 1919-20 to 1927-28 had been about £ 4,725,000.

In 1927 the Portuguese Government decided to appeal to the League of Nations for assistance in the floating of a 12 million pounds loan for economic development, financial reconstruction and monetary stabilisation. The Financial Committee of the League suggested that, as a condition for the League's assistance in the floating of the loan, a foreign «dialison officer» should be appointed by the Trustees of the loan with the approval of the Council, who would reside in Lisbon during the first years, acting as an agent for the Trustees and informer to the Financial Committee. This condition, the Government, acting on the unanimous opinion of the people, flatly refused to accept, as being humiliating for a country with Portugal's traditions, and so the negociations fell through.

Professor Salazar steps in.

Such was the situation that Professor Salazar had to face when at the end of April, 1928, he was asked to leave the charming quietness of Coimbra to come and apply as Minister the principles he had long taught at the Chair of Finance in the old University of that town.

⁽¹⁾ The average rate of exchange in 1928 was £ 1 equal Esc. 108\$335.

The new Minister had laid down four general principles as prerequisite to his acceptance of the post:

a) Each Ministerial department to limit and organise its services within the lump sum allocated to it by the Ministry of Finance;

b) All measures other Ministers intended to take, which might affect the revenue or the expenditure of the State, to be previously discussed and approved by the Minister of Finance;

c) The Minister of Finance to have the power of vetoing any increase in ordinary or current expenditure as well as any development expenditure for which the indispensable credit operation had not been provided;

d) The Ministry of Finance to cooperate with the other Ministries in the adoption of measures for the reduction of expenditure or the collection of revenue, in order that they be as far as possible of an uniform type.

The other members of the Government having promptly accepted these conditions, he set out working and three months later, on the 31st July, 1928, his first budget was published. The ordinary revenue was estimated at £ 17,511,600 and the extraordinary revenue at £ 211,100; as regards expenditure, the ordinary one was estimated at £ 16,955,700 and the extraordinary one, to be met eventually by a loan, at £ 752,500; there was thus an estimated surplus of £ 14,500.

New taxes imposed.

The guiding rule followed by Professor Salazar in working out his first budget had been that all normal expenditure, including the service of an eventual future reconstruction loan, should be entirely covered by ordinary revenue. This he succeeded in obtaining by adding 200.000 *contos* (£ 1,846.000 at

the prevailing rate of exchange) to the revenue and cutting down expenses by some 140.000 *contos* (£ 1,292,700); but in the report preceding the budget, he said that further savings were necessary in certain Ministerial departments, in order that more money might be spent in other particular provinces of the public administration.

Shortness of time precluding a complete fiscal reform, the method adopted consisted in attacking two or three points capable of producing a certain increase in the revenue. A «National Safety Tax» of 3 gold *centavos* (about 1 ½ d.) per kilogramme was imposed on sugar, of 2 gold *centavos* (about 1 d.) per kilogramme on petrol and of 0,5 *centavos* (about one farthing) per kilogramme on illuminating oils. Reductions in the pay of all civil servants, officers and men of the army and navy and State pensioners were imposed by the application of a progressive tax, «Public Safety Tax», varying from 2 per cent to 8 per cent. Urban property tax was increased by 23 per cent and rural property tax by 20 per cent; the personal income-tax, that had proved a failure, was temporarily replaced by a surtax imposed on the rural and urban property tax, the industrial tax and the tax on application of capital.

Public accounts made clear.

Important measures were also taken to make the public accounts clear and homogeneous. It was provided that the State budget should include as a preamble several tables showing: the amount of the National Debt and its annual charges; the percentages of the taxes collected by the central Government allocated to the local autarchies; as regards, also, local autarchies, a summary of their budgets indicating the revenue and expenditure and discriminating the revenue produced by taxation and that to be obtained from loans, as well as debt state-

ments and debt normal charges; for each of the colonies, a summary of the latest approved budget discriminating, as regards revenue, that secured from taxation and that to be obtained from loans, and also a statement of each colony's debt and the respective annual charges. In this way it is possible for any one interested in Portuguese finance to have a thorough idea, without undue loss of time, of the financial position of the whole Nation.

It had become usual practice to include as extraordinary expenditure many items which were really of a recurrent and permanent nature. To prevent such abuses it was established that the extraordinary State expenditure might only include disbursements resulting from measures of national reconstruction and economic development, repayment of national loans by the issue of others at lower rates of interest, and measures for the defence of public order in exceptional circumstances. The rule of the unity of the budget was to be strictly observed, all special funds and autonomous services being incorporated into the ordinary budget. In no way should any service spend more than the amount granted for it in the budget; departmental chiefs were made responsible and liable to disciplinary action for the inobservance of this rule.

Severe restrictions for a period of 3 years.

A period of three years was set by the Government for the reconstruction of the State's finances, and during this period certain limitations were to be observed; for instance, no money advances were to be made by the Government to private enterprises either in the form of capital or of subsidies, nor would the Government incur any responsibility for loans to such enterprises.

Colonial expenditure.

A decree was published providing that no foreign loans might be contracted directly by the colonies; in the event of any such operation being considered necessary, it shall be contracted by the Central Government for the account of the Colony, which will in no way be responsible to the lenders. It was also provided that, unless in exceptional circumstances, the home budget be closed to the at one time insatiable demands of the colonial governments.

Favouring external trade.

In order to favour the development of external trade, the percentage of 75 per cent of the foreign values of all exports and reexports that should be handed to the Government against the equivalent amount in Escudos was immediately reduced by Professor Salazar to 50 per cent. In November, 1932, this percentage was further reduced to 25 per cent, and since December, 1933, the healthy exchange conditions prevailing allowed of a reduction to the nominal figure of 5 per cent.

So far no measures have been taken to restrict or regulate imports, either by quotas or contingents or by control of currency, a fact worth mentioning for its exceptional character in the post-war world, when international trade is being hampered in all possible ways and barter, once typical of primitive peoples, is becoming the usual process of commerce between highly civilized countries.

Taxpayer's sacrifices.

A financial writer once said — referring to the unsuccessful Geneva negotiations — that the solution of the Portuguese

crisis was not to be found at the banks of a foreign lake but in Lisbon. And so it was, but not without rather heavy sacrifices for the taxpayer. The sudden increase of 200.000 *contos* in the taxpayers' burden was really severe if we consider their scanty resources, and the Finance Minister was the first one to recognise it when he referred to it as heroic. In 1913 the contribution («per capita») for the State revenue was about £ 2-10-0; now it amounted to something like £ 3-4-0, an increase of 28 per cent. As some advised, might this sacrifice not have been spread over two or three years? The method of securing the balance of the budget would thus have seemed less oppressive to the taxpayer. But on following the harsh method, Professor Salazar had shown how well acquainted he was with the psychology of his fellow-citizens, who, while quite capable of momentarily accepting the hardest of sacrifices, find it very difficult to furnish a sustained effort for the attainment of a far-off objective. Subsequent events have shown how fortunate it was for Portugal that the Finance Minister should have insisted in balancing the budget for 1928-29; two years later the country began to be more severely affected by the world-wide economic crisis and it would then have been impossible to ask further sacrifices from a gravely hit taxpayer who could nowhere find a market for his produce. Had it not been for the fact that Portugal's financial conditions were quite sound when the effects of the crisis were more strongly felt, the country's position would have become considerably aggravated and not before a very long time should it have been possible to find a way out the tangled financial situation of 1928.

The financial results of Professor Salazar's first budget

The accounts for the financial year ended June 30, 1929, showed an actual surplus of £ 2,624,000 against the estimated one of £ 14,500. Such an agreeable surprise, Professor Salazar explained, was due to an excess of the receipts over the estimates of £ 2,338,800 and a saving in expenditure of £ 285,000. Indirect taxes provided a surplus of some £ 828,700, other taxes and receipts from various services yielded £ 525,000 more than the estimates, reimbursements and repayments were responsible for an excess of £ 303,800. Now a comparison of the receipts in the financial years 1927-28 and 1928-29 shows that the new taxes created and the rise in those already existing introduced by Professor Salazar produced an increase of revenue of £ 1,823,000 against the £ 1,846,000 he had estimated; a more efficient collection of arrears, the expansion on business and a more active circulation were responsible for an increase of £ 1,473,000. The country had paid in 1928-29 about £ 3,300,000 more than in 1927-28; the people had responded bravely to the appeal of the new Minister of Finance, and the heavy sacrifices demanded had been borne by them with unexampled courage and patience.

Their reward was to be found in the fact that they had provided the Government with the means of saving the country; during the first year of Professor Salazar's administration, the foreign floating debt amounting to £ 1,141,800 had been totally reimbursed; Gold Treasury Bills for the amount of £ 92,300 had been repaid; the credit balance of the Government's account at the Bank of Portugal had increased by £ 923,000. This is how the surplus had been utilised.

Important reforms.

In the mean time the fiscal system had been reorganised in accordance with the following principles: the assessment of taxes to be based on «normal» revenue instead of «actual» revenue, which is considered very difficult to check; certain criteria of taxation were established allowing of a more equitable distribution of the fiscal charges; reduction within reasonable limits of some of the rates of taxation so as to afford a certain uniformity of taxes, with the usual exceptions existing in all civilized countries in favour of revenue derived from the taxpayer's work; reduction to a minimum of the taxpayer's duties towards the fiscal authorities, to save him time and inconvenience; simplification of the operations of assessment and collection.

In January, 1930, the 1923 customs tariff was replaced by a new one. The number of tariff items was increased from 861 to 1092 to keep pace with the progress in industrial conditions; like its predecessor the new tariff in two schedules is of a protectionist character, not exaggerated but sufficient to secure adequate protection for Portuguese industry. The majority of the duties are specific and their ad-valorem incidence varies according to the degree of protection the Government wishes to grant. The major principles embodied in the new tariff are as follows: (1) low duties for raw materials which are not to be found or are scarce in Portugal; (2) low duties for food articles of general use whether produced in the country or not; (3) additional protection for manufactured articles which can be produced in Portugal on fairly good economic conditions; (4) imposition of specially high duties for revenue purposes on a few costly articles which may be considered luxuries in Portugal; (5) the duties specified in the tariff include all additional taxes which were added to the 1923 tariff duties.

The Public Accountancy system was also reformed in May, 1930. Public accounts used to be based on a system under which both receipts and disbursements had to be allocated in detail to the financial year to which they were held to be attributable, which might sometimes be two or three years before the year in which cash was actually received or payment actually made. A much simpler system has now been put in force: to a given financial year are to be allocated all revenue actually received in cash in that year and all expenditure actually paid in cash in the same year, irrespective of the date on which either the receipt was due or the expenditure was payable. The accounts are thus made clear and concise and a dangerous confusion between the receipts of one financial year and the expenditure of another is avoided. In 1935 a decree was published changing the century old practice of beginning the financial year on the first of July; it has now been made to coincide with civil year. The reasons for such change were various. For all departments in charge of public works — road-building, harbour works, irrigation, etc. — it is far better they should know as early as the first of January the amounts they can dispose of, so that from March onwards they might profit of the whole of the fair season for their execution. This was not possible under the previous system, when the works could not begin before September, at the earliest, the months of July and August being spent in asking for tenders and passing contracts.

Besides this altogether practical reason, there was also a constitutional motive. In accordance with the Constitution enacted in 1933, the National Assembly shall, in its annual session, pass a Bill authorizing the raising of revenue and the issue of the necessary money for payment of public expenses during the following financial year. This the Assembly can do without entering into a full discussion of the Estimates which

are prepared by the Government, according to the legislation ruling at the time, and afterwards duly put in force. Only in the event of some important change in the taxation policy or in the major issues of expenditure, and also when sanction is asked for the raising of a loan, is there place for a discussion of some particular budget items, as it then becomes necessary to have the opinion of the Corporative Chamber and the approval of the National Assembly before such changes are introduced in the new budget law.

Such being the procedure, and the ordinary sitting of the National Assembly lasting three months from the 25th of November, the Estimates for the financial year beginning, as it used to be, on the first of July would have to be ready about January, with all the inconvenience inherent to so early a forecast of the expenditure and revenue for the new year. Now the financial year coinciding with the civil year, it is possible to commence preparing the Estimates in September and have the Revenue and Expenditure Authorization Bill ready to be laid before the Assembly at its first meeting. As the Legislative Body must have passed that Bill at the latest on the 15th of December, there is time for the Government to introduce the final retouches in the Budget and have it ready to come into force on New Year's day.

The accounts for the financial year are to be closed on December 31, and all payments attributable to that year and actually made until February 14 next are to be allocated to same; expenditure claims duly authorized, regarding a certain financial year, which have not been presented for payment before February 15th following the end of that year, may only be paid under special authority.

Another important point in Professor Salazar's reconstruction programme is the reorganization of the Caixa Geral dos Depositos (General Saving's Bank), a Government insti-

tution which receives all obligatory deposits and as a savings bank also receives deposits from all classes of society, including commercial banks. Several annexed autonomous departments were established: the Caixa Nacional de Credito (National Credit Bank), with the object of centralizing all the State services and operations relating to industrial and agricultural credit, both in Portugal and in the colonies; the Caixa Geral de Previdencia (National Institute of Pensions), which centralizes all services regarding pensions to be paid either on retirement or death of persons receiving pay from the State.

Between 1928 and 1934, voluntary deposits from private individuals in the Caixa increased by £ 8,545,000. The confidence shown by all classes in the State Savings Bank is revealed by the fact that its private deposits, by June 30, 1934, amounted to £ 18,072,700, which represents more than 50 per cent of the total savings of the country, and about the average note circulation in Portugal. The total expansion of credit granted by that institution, also from 1928 to June 1934, amounted to nearly £ 7,727,000, about 90 per cent of the increase in deposits during the same period.

The Caixa Nacional de Credito lends money to farmers, manufacturers and colonial enterprises. On June 30, 1934, loans granted totalled about £ 4,545,000.

The influence of the Caixa on the money market has been very important, the rates of interest for loans having come down by nearly 50 per cent since 1929. The rate charged by the Caixa for long-term loans is now 6 per cent and will probably be reduced to 5 per cent as soon as conditions make it possible.

As regards farming loans, the Caixa has made it much easier for small peasant land-owners to borrow the money required for cultivation and harvesting; there is no need for them to leave their work and come to town, as loans may be

easily got through the local institution, the Caixa de Credito Agricola Mutuo, of which there are 127 scattered all over the country. These Caixas are farming associations, some of them old established institutions with a fine record of work in the past, whose liability is shared by all their respective members, thus making it possible for the Caixa Nacional de Credito to advance to them large sums of money which they distribute amongst their associates.

The corporative organization, which is an essential part of the Portuguese revival, has favoured credit operations. The new Constitution describes the Portuguese State as a unitary and corporative Republic; through the National Labour Statute and complementary legislation, Winegrowers and Wheat-producers were encouraged to form federations, or guilds, as a means of disciplining and organising their particular businesses. These federations may grant loans to the associate members, using either their own funds or those lent to them by the Caixa Nacional de Credito. As the standing of each member is well known to the guild, assistance is made much easier through such an organization.

There is no doubt that the corporative organization has facilitated the solution of important problems raised by the world economic crisis and general trade depression. The Federation of Wheat Producers, for instance, has been able to finance its members to a maximum of 70 per cent of the value of wheat manifested for sale.

As far as industrial credit is concerned, the Caixa Nacional de Credito pays more attention to the possible importance for the country of a particular industry than to the exact value of the security offered; it is the potential value of the undertaking that minds. Here too the corporative system has had a great influence for good. The Portuguese Sardine Consortium (a federation of sardine packers) has been able to grant

loans to its members under conditions and at rates which it would be impossible to obtain otherwise.

Here we see the influence which the sociological reconstruction of the country, initiated by the Government in 1933, has had in its financial recovery and the impossibility of dissociating one from the other.

Stabilization of the Escudo.

On June, 1931, the period of three years set by the government for the reconstruction of the State finances had ended, and the programme embarked upon having been completed in its entirety, Professor Oliveira Salazar took steps towards the restoration of free convertibility of the Escudo on a gold basis, after a moratorium of forty years.

By a decree published on the 9th of that month, with effect from the first of July, 1931, the Escudo was stabilized at a rate equivalent to Esc. 110 per £1 gold, and British sovereigns and half sovereigns were once more to be legal tender in Portugal at 110 and 55 Escudos respectively. The Bank of Portugal was placed under the obligation to maintain the value of Portuguese currency from the date of the coming into force of the new regime; for this purpose, the Bank was to be exclusively responsible for the note circulation. It was obliged to maintain a reserve of at least 30 per cent against the note issue, deposits and other sight liabilities, in gold, gold bonds of the National Public Debt or easily realisable foreign securities payable in countries, the money of which is either gold or notes convertible into gold. The gold bonds were not to exceed 22 per cent of the reserve and should be converted into foreign assets within a maximum period of 10 years. The maximum note circulation was fixed at 2,200,000 contos (£ 20,000,000), subject to increase by agreement between the

Government and the Bank, in conformity with the economic requirements of the country. The Bank may, however, issue notes above that limit on the understanding that the excess was to be entirely covered by gold. The assets of the Bank, excepting immovables, were valorised on the basis of the new parity of the Escudo, and as a result of this valorisation the debts of the Treasury to the Bank, which stood at £ 14,000,000, were reduced by £ 4,382,000 to £ 9,618,000, this balance to be repaid progressively over subsequent years.

The Escudo linked to sterling.

Unfortunately, something occurred, for which Portugal had no responsibility, that did not allow the full effect of the stabilization decision to be felt. On the 21st September, 1931, as everybody knows, gold payments were suspended in England and, as it happened in several other countries, it was found more convenient for the national interests that the Escudo should also become detached from gold. For the time being, the gold standard gave place to the sterling standard.

Criticism on such decision, based on the supposition that it might imply the risk of an inflation like that of the period 1914-1924, with its consequences on prices, has proved groundless. The note circulation has been kept steady:

| Years | Million Escudos | Years | Million Escudos |
|---------------|-----------------|---------------|-----------------|
| 1930. | 1.932 | 1933. | 1.920 |
| 1931. | 1.901 | 1934. | 1.963 |
| 1932. | 1.924 | 1935. | 2.073 |

At the end of 1935 the note circulation attained 2.204.605.000 Esc., thus exceeding the contractual limit; the

respective legal obligations were, however, fully observed as the excess was entirely covered by gold bullion.

The Bank rate has been reduced from 8 per cent in 1930 to 4 ½ percent on May 11th, 1936.

Prices have remained stable, as can be seen from the index number of wholesale prices compiled by the Bank of Portugal:

| | | | |
|---------------------|--------------|----------------|--------------|
| June 1927 | 100 | 1933 | average 86,8 |
| 1931 | average 88,5 | 1934 | " 93,8 |
| 1932 | " 89,6 | 1935 | " 86,1 |

Cost of living fell considerably until 1933 and is still below the 1931 figure. The index number figures of the Official Statistics Department are:

| | | | |
|----------------|-------|----------------|-------|
| 1914 | 100 | 1933 | 1.948 |
| 1931 | 1.990 | 1934 | 1.968 |
| 1932 | 1.949 | 1935 | 1.982 |

Exports have been favoured by the fall in the gold value of the Escudo, as we shall see further on.

The Bank has followed a policy of strengthening its metallic reserves since the first July, 1931, when the Escudo was stabilised. It has purchased gold to the value of Gold £s 6,347,222. The extent to which the gold reserve has been reinforced is also shown by the following figures in thousand of contos:

| | July 8, 1931 | December 31st, 1935 |
|---|--------------|---------------------|
| Gold coin and bullion | 213 | 910 |
| Gold balances abroad and other reserves. | 512 | 459 |
| | <u>725</u> | <u>1,369</u> |
| Note circulation | 1,889 | 2,205 |
| Other sight liabilities. | 234 | 781 |
| | <u>2,123</u> | <u>2,986</u> |
| Ratio of reserve to circulation and other sight liabilities | 34.15 | 45.76 |
| | per cent | per cent |

In the above accounts, the metallic reserves are written down at the legal rate of 110 Escudos to the £. Those figures show that at the end of 1935 the Bank's metallic reserves were 30.48 per cent in relation to circulation and other sight liabilities; thus they exceeded the legal percentage of 30 per cent required for the whole of the Bank's reserves in relation to circulation and other sight liabilities. If the ratio were calculated at the true value of the gold, instead of 30.48 we would find 50.8 per cent. The figures for December, 1935, also show that the reserves of gold metal, at that date, represented 66.47 of the total reserves, against 29.38 in July, 1931.

PART II

THE RESULTS ACHIEVED

The country's improvement in every direction.

We have given a necessarily very brief account of the measures enacted by Professor Oliveira Salazar to put in effect his plan of reconstruction of Portuguese finances. Now we shall proceed to show succinctly the results of such formidable task, that is, the marvellous improvement recorded in the country since 1928, which, in the words of a british newspaper correspondent in Portugal, «is not only without parallel anywhere else in the world, but is an achievement for which history can show few precedents.»

Seven successive budget surpluses.

We have already referred to the surplus which represented so successful a conclusion of Professor Salazar's first year of administration. The same success has attended every one of his budgetary estimates up to the present. For the last 7 and a half years public accounts have shown that revenue has always exceeded expenditure, the respective amount of the surpluses being as follows, in millions of £'s:

| | | | |
|-------------------------------|------|-------------------|------|
| 1928-29 | 2.60 | 1931-32 | 1.36 |
| 1929-30 | .36 | 1932-33 | .75 |
| 1930-31 | 1.40 | 1933-34 | 1.18 |
| 1933-35 (18 months) | 2.88 | | |

The last surplus refers to a period of eighteen months, the

budget for 1934-35 having been extended for six months up to December 31st, 1935, because of the change in the financial year, which now coincides with the civil year.

The suggestions put forward in some quarters that these surpluses were not genuine because current expenditure was being met out of the proceeds of loans, have not the slightest foundation.

In the first place no loan can be issued unless for any of the four purposes specified in article 67 of the Constitution: economic development, advanced redemption of another loan, indispensable addition to the national patrimony or urgent needs of defense and public safety.

Secondly, only the portion of the loan that is actually required for carrying out the plan for which it was floated, may be written down as revenue.

Thirdly, in accordance with the Budget Law of May 1928, can only be considered extraordinary expenditures the outgoings for the restoration of the national economy and economic development or for the defense of public order under exceptional circumstances.

The criterion for the classification of expenditures as ordinary or extraordinary is certainly more rigid than the standard objectives imposed by the Constitution for the authorisation of loans. As a consequence of this difference of criteria, parallelism has not always existed between the two budgetary items: extraordinary expenditure and loans. Anyhow, the method adopted has always been, if anything, stricter than it was legally necessary. As a matter of fact, it has happened that in ordinary expenditure have been included large outlays for productive development works and acquisitions of a durable character, all of which might most properly have been included as extraordinary expenditures, and at the same time other outgoings — as, for instance, those for the reorganisation of

the navy — have been actually met out of ordinary revenue, although they were classified in the budget as extraordinary expenditure to be covered by borrowing.

The following tables clearly show how this works out.

I

Ordinary revenue and expenditure

(Excluding the fictitious item represented by interest on Government debt bonds held by the Treasury and refundments)

| | Ordinary revenue £000's omitted | Ordinary expenditure £000's omitted | Surplus £000's omitted |
|---------------------|------------------------------------|--|---------------------------|
| 1928-29 | 18,273 | 14,873 | 3,400 |
| 1929-30 | 17,554 | 16,536 | 1,018 |
| 1930-31 | 16,654 | 15,045 | 1,609 |
| 1931-32 | 17,000 | 15,218 | 1,782 |
| 1932-33 | 17,045 | 15,009 | 2,036 |
| 1933-34 | 17,700 | 17,136 | 564 |
| 1934-35 (18 months) | 27,390 | 24,464 | 2,926 |

II

Extraordinary revenue and expenditure

(Excluding refundments)

| | Extraordinary revenue £000's omitted | Extraordinary expenditure £000's omitted | Balance £000's omitted |
|---------------------|---|---|---------------------------|
| 1928-29 | 418 | 1,218 | —800 |
| 1929-30 | 273 | 931 | —658 |
| 1930-31 | 927 | 1,136 | —209 |
| 1931-32 | 1,191 | 1,613 | —422 |
| 1932-33 | 1,200 | 2,486 | —1,286 |
| 1933-34 | 2,145 | 1,529 | +616 |
| 1934-35 (18 months) | 1,609 | 1,655 | —46 |

III

Surpluses — Ordinary and extraordinary revenue and expenditure

| | Surplus, Ordinary revenue over ordinary expenditure £000's omitted | Balance extraordinary revenue over extraordinary expenditure £000's omitted | Surplus, total revenue over total expenditure £000's omitted |
|---------------------|---|--|---|
| 1928-29 | 3,400 | -800 | 2,600 |
| 1929-30 | 1,018 | -658 | 360 |
| 1930-31 | 1,609 | -209 | 1,400 |
| 1931-32 | 1,782 | -422 | 1,360 |
| 1932-33 | 2,037 | -1,286 | 750 |
| 1933-34 | 564 | 616 | 1,180 |
| 1934-35 (18 months) | 2,926 | -46 | 2,880 |
| Total | | | £ 10,530,000 |

The conclusions to be drawn from the three tables above are:

1) From 1928-1929 to 1934-1935 ordinary revenue has largely covered ordinary expenditure;

2) From 1928-1929 to 1932-1933 and in 1934-1935 extraordinary revenue was always below extraordinary expenditure, the excess of the latter having therefore been met out of current revenue;

3) In 1933-1934 extraordinary revenue exceeded extraordinary expenditure and it happened that some ordinary outlays were covered by extraordinary revenue. But the two surpluses, of the ordinary revenue and expenditure and of the extraordinary revenue and expenditure, being practically equivalent, there was really no need of borrowed money to cover current expenses.

The total of the surpluses for the 7 and a half years, from

July 1928 to December 31st, 1935, amounts to £ 10,530,000, of which £ 1,554,500 have been used for the financing of public works of a productive character, that will specially benefit the rural population. The balance, about £ 9,000,000, is partly kept in cash, constituting Treasury assets in Escudos and foreign currencies, and partly was applied to the repayment of the floating debt, internal and external, thus reducing the amount to be borrowed for such purpose. The floating debt having been liquidated in 1934, the depletion caused has by now been made good, and today the accumulated surpluses more or less correspond to the Treasury liquid assets.

A remarkable feature of the accounts for 1934-35 is the buoyancy of revenue, which exceeded the original estimates by £ 1,529,000. The effects of the world-wide depression which had been fully apparent in the fall on revenue from 1928-29 to 1932-33, have now passed away; in 1933-34, on the same basis of taxation of the previous year, the total revenue from taxes had already shown a large increase, and, for the first time since the crisis, was above the level of 1928-29. In 1934-35 this amelioration has been accentuated, the actual revenue being about £ 500,000 higher than in 1933-1934.

The full effects of the reorganisation of the revenue-collecting machinery are now being felt, and contribute for the fine achievements shown above. Outstanding tax arrears on December 31st, 1935, amounted to as little as 0.8 per cent of the 12 months collection. A further proof of how the reforms introduced by Professor Salazar in the accountancy system are being understood and fully appreciated by the people lies in the fact that out of a total of 26 million £s of authorized expenditure claims, only about £ 9,090 had not been presented for payment at the end of the financial year 1934-1935.

The budget for 1936.

The budget estimates for the financial year 1936 are as follows:

Revenue £s

| | | |
|--|------------------|------------------|
| Ordinary revenue | | 17,503,300 |
| Extraordinary revenue: | | |
| Proceeds of the sale of railway material | 15,400 | |
| Proceeds of the sale of bonds for the repayment of loans | 1,631,300 | |
| Proceeds of the sale of bonds or of loans issued for the execution of the National Reconstruction Plan | 2,496,400 | |
| Part of the accumulated surpluses to be spent in the execution of the National Reconstruction Plan | <u>1,890,900</u> | |
| | | <u>6,034,000</u> |
| Total | | £ 23,537,300 |

Expenditure £s

| | | |
|---|---------------|------------------|
| Ordinary expenditure | | 17,485,600 |
| Extraordinary expenditure: | | |
| Ministry of Finance | 1,631,300 | |
| Ministry of War | 1,363,600 | |
| Ministry of Marine | 309,000 | |
| Ministry of Public Works | 2,698,300 | |
| Ministry of Commerce and Industry | 13,600 | |
| Ministry of Agriculture | <u>18,200</u> | |
| | | <u>6,034,000</u> |
| Total | | £ 23,519,600 |
| Estimated surplus | | £ 1,700 |

The extraordinary expenditure is £ 3,825,000 above that of the 1934-35 budget. It includes £ 1,631,300 for the repayment of two loans, the 6 $\frac{3}{4}$ per cent 1930 Port Loan and the 6 per cent Railway Loan, this operation being really a conversion of two high rate loans into a lower rate one. The remaining £ 4,402,700 are the means for putting into effect the first phase of the great Reconstruction Plan approved by the National Assembly in the beginning of 1935.

This Plan provides for the expenditure of £ 60,000,000, over a period of 15 years, upon the reequipment of the army, the reorganization of the navy, education, and development schemes such as port works, irrigation, continuance of the road-building programme, telephones and telegraphs, etc.

The £ 4,402,700 granted in this year's budget are distributed as follows, amongst the various objectives set out in the Plan:

| | £ |
|---|-----------|
| Reequipment of the army | 1,363,600 |
| Reorganization of the navy. | 309,000 |
| Ministry of Public Works : | |
| Irrigation works | 181,900 |
| Port works | 882,000 |
| Telephones and telegraphs. | 136,400 |
| Railways | 218,100 |
| Town planning schemes for Lisbon and Estoril | 136,300 |
| Construction of buildings at the new Arsenal | 90,900 |
| Construction of schools | 181,900 |
| Public edifices | 443,600 |
| School hospitals at Lisbon and Oporto (first instalment). | 45,500 |
| Rural development works. | 90,900 |
| Road building. | 181,800 |
| Minor schemes | 109,000 |
| | 2,698,300 |
| Ministry of Commerce and Industry | 13,600 |
| Ministry of Agriculture. | 18,200 |
| | 4,402,700 |

The first phase of the army's reequipment programme as approved by the Government is calculated to cost £ 4,546,000 ; this outlay is to be spread over five years, and not more than the amount specified above, £ 1,363,600 may be spent this year. In the report which precedes the budget decree, the Finance Minister remarks that the disbursement of such large sums calls for special care as regards the elaboration of the reequipment plans and close attention must also be paid to the repartition of the purchases between the home market and foreign countries. This is a problem, he says, the solution of which may largely depend, with respect to time and value of the acquisitions, on the eventual conclusion of agreements allowing of the placement on foreign markets of national products in greater quantities than those normally exported.

The Ministry of Public Works, on its side, will dispose this year of a total of £ 5,264,000 for its ordinary and extraordinary expenditures, besides £ 364,000 to be supplied by the Unemployment Relief Fund in order that the Ministry may help the financing of useful public works schemes elaborated by the municipalities and similar organizations, and thus assist in finding work for the unemployed.

Taken together, this is certainly a very considerable effort made in view of providing the country with the means of defending itself and of developing to the utmost its national resources. How is it to be financed?

The law which approved the National Reconstruction Plan provides that the necessary outlays, including that for rearmament, are to be covered partly by ordinary revenue, partly by loans and partly met from the accumulated surpluses.

It might perhaps have been simpler to organize each year a special budget for the execution of such Plan, on the expenditure side of which would be inscribed the amount to be spent that year in the various schemes included in the Plan, and on



the revenue side the estimated surplus of the ordinary budget, the proceeds of loans and part of the accumulated surpluses to be used that year. This idea has, however, been abandoned because it would involve sacrificing the principle of the unity of the budget, considered by Professor Salazar absolutely fundamental.

The budget technique followed up to now will be continued ; each year certain parts of the Plan's schemes will be included in the ordinary expenditure section of the budget to be covered by ordinary revenue, although the fact that they consist of new works and acquisitions for the benefit of the national patrimony takes them out of the category of current expenditure properly speaking. The rest, that is the more important works, will be included in the extraordinary expenditure, to be met from non-recurrent revenue, from borrowing and from the accumulated surpluses. In the extraordinary revenue will be set out the proceeds of loans and the part of the accumulated surpluses to be utilised that year.

A distinction has to be made between the expenditure on respect of the National Reconstruction Plan which should be met from borrowing and that which should be paid for from the surpluses.

Up to the present the expenditure incurred with the reorganisation of the Navy has been entirely met out of ordinary revenue, which is tantamount saying that it has been met from the surpluses, as their total would today have been greater if instead of paying the new warships in this way we should have paid them out of borrowed money. And so will it continue to be done for what remains of the reorganisation of the navy, and, at least, for the first phase of the army's reequipment programme. These are no doubt necessary and useful expenses, but, not being directly productive in character, in the opinion

of Professor Oliveira Salazar, we should avoid, as far as possible, meeting them from borrowing.

Of the total of the accumulated surpluses there is still a disposable balance of £ 9,000,000 approximately, more than sufficient to meet the expenditures above referred to: £ 4,546,000 for the army and £ 309,000 for the navy.

This year, from the surpluses an amount of £ 1,890,900 is to be set apart for the payment of:

| | |
|--|-------------|
| Army reequipment | £ 1,363,600 |
| Reorganisation of the navy | 309,000 |
| Construction of medical schools hospitals (first instalment) | 45,500 |
| Construction of the Lisbon Stadium | 36,400 |
| Erection of monuments | 45,500 |
| Rural development works | 90,900 |
| Total. | £ 1,890,900 |

For the current financial year, the rate of the urban property tax was reduced from 15 per cent to 10 $\frac{1}{2}$ per cent, and a reduction from 12 to 8 per cent was also made in the rate of the tax on transfer of urban property. There will be, however, no decrease in the yield of those taxes, because the rateable value assigned to urban properties has been largely increased as a result of the new valuations ordered in 1927 and now concluded. The valuation lists had not been revised since 1903 and were naturally altogether out of date.

In view of the large surplus produced in the last financial year, the Finance Minister has decided to annul the Public Safety Tax levied on all State officials.

Lowering of interest rates.

The first credit operation of Professor Salazar's administration was a 6 $\frac{3}{4}$ per cent redeemable loan for ports construction

issued in 1930. Since then the rate of interest has gone on falling and in 1934 it was found possible to issue at 4 per cent the first 100 thousand contos series of a funded loan of 500 thousand contos. Now, on February last, the National Assembly passed a law authorizing the issue of a consolidated 3 $\frac{3}{4}$ per cent internal loan of 500.000 contos in 5 series of 100.000 contos each.

The fact that the Treasury chests are now full, and not empty as was the case before 1926, that the financial policy followed by the Finance Minister has created confidence in the country, as against the distrust which prevailed 10 years ago and led to capital emigration in large scale, have made it possible that Government credit be put on a 3 $\frac{3}{4}$ per cent basis, as compared with the 6 $\frac{3}{4}$ per cent of 1930.

The old type of loans, in which the rate of interest to be paid was small and without relation to the prevailing market rates, but the loan itself was issued at a large discount, has been abandoned as detrimental to the interests of the country. The average issue price of the loans floated since 1928 is 95.7 per cent.

Profiting of the fall in rates, the Government not only redeemed last year a small debt, the 6 $\frac{1}{2}$ per cent Madeira, 1928, Loan, but has already given notice that it would avail itself of the right of anticipating the redemption of the 6 $\frac{3}{4}$ per cent Ports Loan and the 6 per cent Railway Loan.

Debt conversions.

All financial authorities who in the past had studied the portuguese public debt were unanimous in advocating the urgent necessity of a regularisation of that debt. There was too

large a variety of types of loans, issued under different conditions and enjoying different guarantees, bearing interest at various rates which, most of them, held no relation whatever with the actual price of money. Also, the nominal value of the different bonds was altogether out of proportion with the real value of the Escudo, specially after the depreciation subsequent to the war, the result being that there were hundreds of thousands of bonds in circulation which had a quite negligible value. If we take, for instance, a bond of the 3 per cent 1905 redeemable internal debt, of the nominal value of Esc. 10\$00 (£ 2-2-0 before the war), its price in 1931 was about Esc. 6\$00, representing 13d., and the 6 month's interest represented $\frac{1}{3}$ of a penny.

In 1931, Professor Salazar decided to deal with this loan as with three others, the 4 per cent 1888, the 4 per cent 1890 and the 4 $\frac{1}{2}$ per cent 1888-1889, by inviting the holders to exchange their stock into a 6 $\frac{1}{2}$ per cent Consolidated 1930 Loan. The bondholders were fairly treated, as they profited in the interest rate and now also benefit in the price of the new stock which is above par, whereas the conversion took place at a price below the nominal value.

In 1932, the turn came for the holders of two other loans, the 4 $\frac{1}{2}$ per cent 1903-1905 and the 5 per cent 1909, to be invited to convert their stock into a redeemable 6 per cent Railway Loan 1932-1935.

These two conversions for the regularisation of the public debt, having been accepted by a majority of the holders, became afterwards obligatory. The operation may now be considered as completed; the number of bonds was reduced by 531,054 and the nominal capital, amounting to £ 275,000, by £ 73,000.

In February 1934, the Government decided to undertake

the first great debt conversion in the proper sense of the term, that is, aiming at a reduction of burden. Profiting of the fall in the market rates of interest, the Minister of Finance offered the holders of the 6 $\frac{1}{2}$ cent (gold) Loan of 1923 the option of exchanging their stock for a new ordinary one bearing 4 $\frac{3}{4}$ per cent interest, or of redeeming at the rate of Esc. 1098 per £ 10 bond. The amount involved was £ 8,000,000 and the operation can be considered a perfect success as 90 per cent of the holders accepted to convert into the new issue, the reduction in interest charges representing an economy of about £ 140,000 per annum.

In May 1934, another conversion analogous to those carried out in 1931 and 1932 was announced to deal with the old 3 per cent Consols, of which the total nominal capital outstanding was about £ 4,000,000 and £ 1,310,000 were in the hands of the Treasury. The rate of interest of this debt had been reduced to 2.1 per cent in 1892, as a consequence of the financial crisis. But the major loss inflicted to the unfortunate bondholders resulted from the depreciation of the Escudo to a level 24 times lower. A bond of the nominal value of Esc. 100\$00 (£ 22 before the war) was worth in 1934 Esc. 49\$00 (about 8 sh. 9 d.) and carried an annual interest amounting to 4 $\frac{1}{2}$ d.

The debt in circulation amounted to about £ 2,690,000, nominal value, and the Government's offer consisted in exchanging Esc. 2.000\$00, nominal value, of 2.1 per cent bonds for one bond of Esc. 1.000\$00, nominal value, of the 4 $\frac{1}{2}$ per cent 1933 Consolidated Loan. By accepting the conversion the holders benefit of a slight increase in the interest and do not lose anything as regards the present value of their capital. Those who refused to convert were to be paid cash for their bonds at the rate of Esc. 49\$00 per Esc. 100\$00 nominal. As many charitable institutions had been, in the past, compelled by law to invest their funds in this sort of bonds, the Govern-

ment thought it appropriate to come to their assistance by granting them special conversion conditions. On December 31st, 1935, of the £ 4,000,000 outstanding, £ 1,310,000 held by the Treasury had been annulled, and £ 2,540,000 had been converted, resulting in a decrease of the debt nominal capital of about £ 3,000,000.

Reduction of public debt.

In 1928 the floating debt amounted to £ 18,600,000, of which £ 11,570,000 in Treasury Bills and £ 5,310,000 represented Ways and Means advances from the Caixa Geral dos Depositos. The full amount of this debt has now been repaid and for the first time in the history of Portugal, in June 1934, floating assets exceeded liabilities by £ 2,095,000. On December 31st 1935, the net cash held by the Government at the different Banks amounted to £ 5,886,000, of which £ 3,286,000 represented the balance of its account at the Bank of Portugal and £ 2,418,000 the balance of its accounts at different foreign banks.

The grand total of the Public Debt, exclusive of the amounts kept at the Treasury, has been reduced by some £ 11,800,00 from 1928 to 1935. There has been an increase of the consolidated and redeemable internal debts, but this was more than offset by the repayment of the floating debt, by the reduction of £ 3,600,000 on the debt to the Bank of Portugal and other minor operations.

The following table shows how the nominal amount of the Public Debt outstanding on December 31st, 1935, compares with that on June 30th, 1928. The amount of Debt Bonds held by the Treasury is excluded.

| | June 30 1928 £ | December 31st, 1935 £ |
|--|----------------------|-----------------------------|
| Consolidated | 7,319,000 | 17,820,000 |
| Redeemable internal | 14,978,000 | 17,969,000 |
| » external | 30,730,000 | 29,740,000 |
| Floating debt. | 19,218,000 | — |
| | 72,245,000 | 65,529,000 |
| Credit balance, floating debt. | 618,000 | 5,611,000 |
| Total | 71,627,000 | 59,918,000 |

| | |
|--|--------------|
| | £ 71,627,000 |
| | » 59,918,000 |
| Net decrease | £ 11,704,000 |
| Debts of autonomous bodies not included in the 1928 statement | 130,000 |
| Total reduction | £ 11,834,000 |

The proceeds of the loans floated during the last seven and a half years have been used either for conversion purposes or for financing large public works schemes undertaken to improve conditions in the country. But it must be noted that part of those schemes and others undertaken to provide work for thousands of unemployed, as well as the new 9 warships built in Great Britain and the four built in Portugal, which cost altogether about £ 3,600,000, have been paid out of ordinary revenue.

Amongst the public works carried out, construction of harbours at Setubal, Viana do Castelo, Aveiro, Leixões, etc., restoration of ancient churches and palaces, etc., one of the most important has undoubtedly been the repairing of the roads; six years ago they were impassable and now one can go from one end of the country to the other on roads that compare favourably with those in France or England.

Increase in the quotations of government securities.

The improvement in Portuguese credit which has taken place in the last few years is indicated by the steady rise in the quotations of the 3 per cent External Loan in the London market. The bonds have risen from 45 $\frac{3}{4}$ for the first series and 48 for the third series in June, 1928, to 78 and 80 $\frac{1}{2}$, respectively, on May 12th, 1936. Once in the speculative class, Portuguese bonds are now justly considered good investments. In the home market a similar rise has taken place in the quotations of the internal debt bonds, as shown in the table below.

Bonds of Esc. 1.000\$00

| | | |
|--|-------------------------|----------------|
| 5 $\frac{1}{2}$ per cent : | May 1933 | Esc. 930\$00 |
| | May 1936 | » 1.092\$00 |
| 4 $\frac{3}{4}$ per cent : (replaced the 6 $\frac{1}{2}$ per cent, gold, 1923) | June 1934 | Esc. 1.099\$00 |
| | May 1936 | » 1.160\$00 |
| 4 $\frac{1}{2}$ per cent : | December 1933 | Esc. 922\$50 |
| | May 1936 | » 1.036\$00 |
| 4 per cent : | December 1934 | Esc. 920\$00 |
| | May 1936 | » 986\$00 |

Three are above par, and one has been gradually rising and is now very near parity too.

Foreign trade returns.

The following table shows the Portuguese official statistical figures for imports and exports (special trade), converted into

sterling at the respective yearly average rates of exchange. Gold and silver bullion and coins are excluded.

| Years | Imports | | Exports | |
|------------|------------|------------------|------------|------------------|
| | Value £ | Quantity Tons | Value £ | Quantity Tons |
| 1929 . . . | 24,688,500 | 2,381,000 | 9,880,300 | 1,162,000 |
| 1930 . . . | 22,192,400 | 2,452,000 | 8,729,000 | 1,358,000 |
| 1931 . . . | 15,209,000 | 2,089,000 | 7,372,700 | 1,039,000 |
| 1932 . . . | 15,542,000 | 1,875,000 | 7,202,000 | 1,071,000 |
| 1933 . . . | 17,493,000 | 2,102,000 | 7,364,500 | 1,249,000 |
| 1934 . . . | 17,863,600 | 2,281,000 | 8,263,600 | 1,329,000 |
| 1935 . . . | 20,854,500 | 2,365,000 | 8,390,900 | 1,090,000 |

From 1934 to 1935 imports increased by £ 2,990,900 and exports by £ 127,300. Even if we take into account £ 1,036,300 which represent the value of new warships imported last year, the increase in the importation of trade goods is still £ 1,954,600 against only £ 127,300 in our exports. The excess of imports over exports in 1935, according to the official statistics, amounted to £ 12,463,600, or £ 2,863,600 more than in the previous year, (£ 1,827,300 if we take into account the warships imported).

Such is the toll we are paying for having remained faithful to the standards of a moderate protectionism, commercial freedom and liberty of transfers, instead of sacrificing to the new world-wide prevalent principles of restricting international trade by licence schemes, quotas, discriminations against countries and goods, exchange control, internal taxes and tariff war.

In the report appended to the Statement of Public Accounts for 1934-35, Professor Oliveira Salazar says: «It is true that,

whilst we have managed to get along, the results of experiments in other countries do not seem to have corresponded to their expectations, and therefore we are bound to be rather sceptical about the efficiency of such measures. But it is equally true that as a result of the application of those measures many doors have been closed to our traders whilst ours are large open to everybody, a situation in which we are certainly confronted with difficulties and sometimes find ourselves placed in conditions of inferiority as regards those nations which apply them.

«If things were to continue as they are, — international investment paralysed by political distrust, the economic life distressed by both, and as a consequence of this a marked exaggeration in the setting up of economic autarkies, mainly poor and because poor hostile — we shall have one good reason more, not only to turn to account, when discussing commercial agreements, our double position of a solvent and free market, but also to give a vigorous impetus to the study of some problems of our home and colonial production, sufficient in themselves to change the present physiognomy of our foreign trade».

Cotton, codfish, coal, iron, wool, flax, tobacco and motor vehicles, are goods which weigh heavily in our balance of trade. While some of them may represent good weapons for negotiation or combat, others mean large fields open to our home or colonial production.

We are certainly not defenceless, far from it, but I dare think the Government would still prefer to see a great reversal of the present trend of policy, the lowering of the barriers now imposed, than to be forced to erect them themselves.

Imports of raw materials increased, between 1930 and 1935, from 336,572 tons to 471,282 tons, (40 per cent), whilst those of the chief manufactured articles decreased from 66,219 tons

to 59,347 tons (10 per cent). As regards textiles, the figures for imports are as follows:

| | 1930 Tons | 1935 Tons |
|--------------------------|--------------|--------------|
| Raw wool | 928 | 2,080 |
| Wool fabrics | 134 | 36 |
| Raw cotton | 17,068 | 22,282 |
| Cotton fabrics | 1,248 | 607 |
| Silk Yarn | 521 | 765 |
| Silk fabrics | 31 | 8 |

Larger purchases of raw materials and smaller imports of manufactured articles indicate how the industries are benefiting of the improvement in the financial situation of the country, specially the textile industry which is showing considerable activity.

Imports of machinery have gone up from 8,400 tons to 9,880 tons; iron and steel manufactures from 8,918 tons to 10,076 tons, so many further signs of the revival which is taking place. New factories are being erected and in some old ones machinery is replacing manual labour. The production of cement has gone up from 98,732 tons to 213,756 tons, whilst that of paper rose from 11,280 tons to 14,407 tons.

As far as foodstuffs are concerned, imports have dropped from 497,817 tons in 1930 to 203,950 tons in 1935, owing chiefly to the huge reductions in the purchases of foreign wheat, rice and potatoes.

Government action tending to make the country self-supporting in the matter of wheat and rice, has borne valuable results. Whilst in 1929, Portugal imported 308,497 tons of

wheat at a cost of £ 3,532,000, in 1935 only 10,013 tons came in, their cost being £ 64,038.

The success of the Wheat Campaign has been practically demonstrated by the fact that Portugal, for the first time since 1855, has exported wheat: 23,000 tons in the first quarter of 1936. In the following table a comparison is made of the conditions during the period of the Wheat Campaign and in the past:

| | 1920-1924 | 1925-1929 | 1930-1935 |
|--|-----------|-----------|-----------|
| Average production of wheat, in tons. | 290,545 | 274,545 | 498,993 |
| Area under cultivation, in acres. . . | 1,049,646 | 1,070,326 | 1,321,861 |
| Average yield per acre, in bushels . . | 7.6 | 7.1 | 10.3 |

A more intensive use of fertilizers (70,000 tons imported in 1935 against 35,000 in 1930), as well as a better selection and the introduction of more suited varieties of seeds, coupled with wider credits at cheaper rates of interest — an impossible thing under the previous disorderly financial conditions — are the chief factors of the great increase in wheat production. Weather conditions having been most unfavourable since last November, it is most probable that this year's crop being small, the whole of the present wheat surplus will be absorbed for next year's consumption.

As regards rice, 45,342 tons were imported in 1928 (£ 685,000) against 18,751 tons (£ 151,700) in 1935. The importation of potatoes has also gone down from 67,720 tons in 1930 to 19,637 tons in 1935.

In 1935 exports decreased in weight as compared with 1934: 1,090 thousand tons against 1,329 thousand in 1934. But the value per ton augmented from Esc. 683\$00 to Esc. 846\$00. This is partly due to the new organisation in corporative lines

of some of our most important export trades, which has enabled them to rise the price of their products by improving their quality and preventing underselling.

The following table illustrates the increase in exports, which is rather remarkable if we consider the serious constriction of international trade that has taken place since 1929.

| | | In 1930 | In 1935 |
|-----------------------------------|------------|---------|---------|
| Turpentine oil and rosin. | Tons. | 7,394 | 41,987 |
| Wood | » | 125,049 | 220,239 |
| Cork, unmanufactured | » | 77,032 | 130,221 |
| Cork, manufactured | » | 5,445 | 9,959 |
| Salt | » | 27,236 | 79,051 |
| Ordinary red wine. | 100 litres | 234,131 | 279,387 |
| Ordinary white wine | » | 57,963 | 83,696 |
| Fish, in brine | Tons. | 1,116 | 2,811 |
| Sardine, in brine | » | 3,352 | 4,324 |
| Sardines, tinned. | » | 35,154 | 38,534 |
| Almonds. | » | 2,259 | 2,982 |
| Grapes | » | 3,383 | 4,066 |

Portwine shipments had declined considerably since 1929, but from 1933 onwards, there has been gradual progress; in 1935 they amounted to 40,023 thousand litres, against 35,838 thousand in 1933 and 37,172 thousand in 1934.

Portugal's balance of payments.

It has not yet been possible, for want of statistical data, to present the Portuguese balance of payments. The figures given above of Portugal's external trade show, as they have always done, a great excess of imports over exports. With such an adverse trade balance, how is it that the exchange is not affected?

We have to consider: First, it has been variously estimated that the value of exports given in the statistics should be written up by 70 or 80 per cent to arrive at their true value; secondly, to the value of exports must be added the reexports from the colonies to foreign countries, while reexports of foreign merchandise to the colonies have to be added to the imports; thirdly, tourist expenditure has increased in these last years and can be estimated at £ 700,000 annually; and fourthly, the amount of Portuguese investments in foreign bonds is important, the sole investments in Brazilian bonds being calculated at between 30 and 35 million £s, yielding some £ 600,000 annually.

Emigrant's remittances, evaluated before the present crisis between 3 and 4 million £s per annum, were supposed to supply the means of offsetting the real adverse balance of trade. These remittances having now practically ceased, the country has not, however, suffered the catastrophic consequences predicted by the augurs.

There are certain facts which enable us to affirm in the most positive way, without fear of erring, that the country's balance of payments is in equilibrium and in the past years has even shown a credit balance. Those facts are:

a) Since 1928 no external loans have been contracted neither were any important national enterprises financed, to any appreciable extent, by foreigners;

b) The foreign floating debt amounting to £ 1,250,000 was fully reimbursed;

c) Several public works were entrusted to foreign contractors, who have certainly sent their profits abroad, and the building of new warships has taken place in Great Britain;

d) There has been a large decrease in interests and dividends on Portuguese investments abroad.

And nevertheless:

1) All State and private liabilities abroad have been met without any difficulty or delay;

2) The State now holds deposits in foreign currencies amounting to more than £ 3,000,000;

3) Banks with debit positions in the past, have now credit balances in their money and securities accounts;

4) The Bank of Portugal's reserves in gold have increased by nearly 6 and a half million £s.

A certain amount of Portuguese capital invested abroad has been repatriated, specially during the second half of 1931. This was due partly to the great crash in foreign funds, and partly to the work of reconstruction achieved in Portugal which has served to show the country where its true individual and collective interests laid. But the main point is not so much that there has been a certain repatriation of capital, as that capital has ceased to leave the country, which is most important because it enables us to dispense with foreign loans and to proceed with the reconstruction work utilising our own resources.

By examining the exchange positions of the Treasury, the Bank of Portugal and the private banks, one arrives at the conclusion that the Portuguese balance of payments has shown the following credit balances:

| | |
|-------------------------------|-------------|
| Second half of 1931 | £ 4,055,604 |
| In the year 1932 | £ 2,411,394 |
| In the year 1933 | £ 965,744 |

The figures of the exchange positions in December 1934 and December 1935 seem to point out to a reversal of the trend of the three previous years, but, according to the Minister of Finance, there was still a credit balance of £ 55,000 in 1934. In 1935 a debit balance of £ 650,000 appears resulting partly

from a moderate inflation of credit and of the note circulation in the past year, due to the overproduction of wheat and wine and consequent necessity of bank assistance to the producer, and partly from the impossibility of obtaining the transfer of important sums due for our exports, and that are being retained in Brazil, Spain, Italy, Romania, etc.

Conclusion.

We have completed this summary description of the present conditions of Portuguese finances, and will now ask the reader's permission to quote once more Professor Salazar's own words: «One must not forget that the equilibrium of our public accounts has, in this period of crisis, been more of a financial than of an economical origin. We have succeeded chiefly by saving as much as possible in the expenditures, taking the utmost profit of the fall in interest rates, and even by restricting expenses on services which on the interests of the community should have been developed. These restrictions are being borne by the social body, condemned to a very limited and humble life, in spite of the progress made. In the services of education, hygiene, social assistance and national defense, amongst others, less has been spent than was really necessary».

Thus, the Finance Minister is quite aware that there is still a great task before the nation. Under his able guidance, the nation is ready to proceed to carry it out, only, outside prospectives, which we are forced to take into account as they react on us, cannot be said to look particularly bright. Present political european conditions are anything but favourable, heavy clouds hang over the future, and nobody can say for certain what tomorrow will be made of. Nevertheless, the Portuguese will not lose hope; they will try and make the best of things as they are. We have scored one point: the

foundation stones laid by the National Revolution during the last 10 years are on solid rock — there is nothing fictitious or artificial about our revival, sincerity and clearness being Professor Salazar's motto — and this may help us to build in better conditions than others.

It may be as well to point out that the finances of the colonies have also been placed on a sound basis. Full credit is due for such an achievement to Dr. Armino Monteiro, the present Minister of Foreign Affairs and former Minister of the Colonies, who, through an arduous work and having overcome the strong opposition of many vested interests, did succeed in balancing the budgets of all the colonies.

At a time when Government budget deficits are the rule rather than the exception, it is most heartening for a Portuguese to show what deep change has taken place in his country's economic and financial conditions. Never more will it be possible for an high official of a Foreign Power to set forth in a report to his Minister such ominous suggestion as this: «The time seems to have come for decision as to the policy to be followed in regard to the African Possessions of Portugal. Portugal is in desperate straits for money to meet her ordinary engagements...» That Professor Oliveira Salazar should have by his sound and wise administration made it impossible for such pronouncements to be uttered, is something for which all his fellow-citizens rightly consider him as one of the greatest of their common-stock.





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