

Institutional Infrastructure and Economic Performance in Portugal: 1945-1950s

Abstract

It is well known that the Portuguese economy has never grown as rapidly as during the postwar period (especially from 1960 to 1973). Growth accounting show that Portuguese postwar growth was mainly a story of physical capital accumulation (although the contribution of the total factor productivity (TFP) increased considerably after mid 1960s).

This paper argues that Salazar's regime developed underlying institutions favourable to capital accumulation, which is the proximate cause of economic growth in the 1950s.

Institutions are normally understood as the *incentive structures* or the *rules of the game* in a society. However, in the present paper we will adopt a more strict definition of institutions; we will focus our analysis mainly on those institutions that influence investment directly, namely property rights and enforcement of contracts. Thus, our analysis is going to focus on to what extent did the autocratic regime provide a favourable institutional environment for investment. To put it in another way, whether Salazar's regime provided secure property and contractual rights. This requires us to determine the conditions under which an autocratic regime can provide growth-promoting institutions.

The particularity with dictatorial regimes is that there is no separation between legislative and executive power, since both tend to be concentrated on the autocrat's hands, which creates more scope for arbitrariness hampering investment. Thus, provision of secure property and contractual rights by an autocratic regime requires necessarily restriction of discretionary powers of the autocrat.

Lastly, we will emphasize that underlying institutions provided by Salazar's regime not only promoted capital accumulation in the 50s as supported pro-market reforms that took place in the 60s, increasing the efficiency of capital accumulation and, consequently, TFP.